County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

REVISED

September 20, 2013

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

LIVING WAGE ORDINANCE

On August 27, 2013, on the motion by Supervisor Ridley-Thomas, the Chief Executive Office (CEO) was directed, in consultation with the Auditor-Controller (A-C) to study and report back to the Board in thirty days on the impact of the following options:

1. Review of the methodological options for a Living Wage Ordinance (LWO) presented by the Chief Administrative Officer (CAO) in his 2004 report to the Board and report back on the consequences the adoption of each would have had on wage rates and County budgets;

2. Identify what the current wage rate would be if annually adjusted for the cost of living within the Los Angeles metropolitan area using the Bureau of Labor statistics; and

3. Development of a mechanism to make periodic adjustments to the Living Wage Ordinance to reflect changes in the cost of living.

Our Office convened a workgroup consisting of representatives from CEO, A-C, County Counsel, Internal Services Department (ISD), and Department of Public Works (DPW) to review previously identified methodological options and to examine new options to consider for potential changes to the living wage rate specified in the LWO.

Review of the Living Wage Rate Based on the Methodological Options Identified in the CAO 2004 Report

The CAO's 2004 report reviewed the appropriateness of the following three methodological options for amending the living wage rate:

- Adoption of a revised LWO, modeled after State Government Code Section 19134, which provides that personal services contracts for "persons providing janitorial and housekeeping services, custodians, food service workers, laundry workers, window cleaners, and security guard services shall include provisions for employee wages and benefits that are valued at least 85 percent of the State employer cost of wages and benefits provided to State employees for performing similar duties."

- Negotiation of a contract, similar to the five-year janitorial maintenance contract negotiated by private sector building owners and contractors in Los Angeles with the Service Employees International Union (SEIU) Local 1877 which provides for annual wage and benefit increases.

- Amend the LWO to provide an updated living wage rate utilizing the same formula employed to determine the existing County adopted living wage.

The CAO's report noted that the first methodological option noted above included costs to cover extensive benefits beyond health care benefits which your Board originally intended to ensure when you enacted the LWO in 1999. As a result, this approach would have added substantially higher costs for Proposition A services. Additionally, this approach would have added significant administrative complexity to the program, further increasing County cost, by requiring that separate estimates, analyses and tracking be performed for each type of Proposition A service contract.

For the second methodological option noted above, County Counsel and CAO Employee Relations noted that this type of negotiated agreement with a Union representing non-County employees is inappropriate. County Counsel also questioned its legality and noted that it should not be considered as a viable option.

As a result, the report recommended continuing to utilize the same approach used by the A-C in calculating the living wage that the Board adopted in 1999. Specifically, the living wage is calculated based on the minimum gross earnings an individual, living in a household of three, would need to earn to become ineligible for cash assistance under the CalWORKs program, and adds health benefits of the lowest cost HMO provider based on a survey of HMOs.

Calculating the Living Wage Rate Based on Various Methodological Options

We examined four options to consider potential changes to the living wage rate and what the current wage rate would be if adjusted based on each one of the options identified. Regardless of the "Option" selected from the list below, the wage selected and paid must still remain cost effective in order to continue contracting out the respective services and comply with Proposition A.

Option 1

Utilize the same approach used by the A-C in calculating the living wage rate that the Board adopted in 1999. The A-C calculates the living wage rate based on the minimum gross earnings an individual, living in a household of three, would need to earn to become ineligible for cash assistance under the CalWORKs program.

Option 2

Uses the cost of living within the Los Angeles metropolitan area applying the Bureau of Labor statistics Consumer Price Index (CPI) to adjust the living wage rate.

In July 2012, the A-C surveyed 21 jurisdictions in the State with a Living Wage Program to evaluate the methodologies they use to adjust their living wage. It was noted that 19 (90%) of the 21 jurisdictions adjust their living wage based on changes in the CPI. The remaining two jurisdictions adjust their living wage based on changes in the amount paid to members of their retirement systems.

Option 3

Adjusts the living wage rate using the CPI only for those years which the County provided general salary movement for its employees.

Board Policy No. 5.070, Multi-Year Services Contract Cost of Living Adjustments (COLA), states that a COLA, if incorporated in service contracts be increased annually based on:

- The most recently published percentage change in the Bureau of Labor Statistics' CPI for the Los Angeles-Riverside-Orange County area for the 12-month period preceding the contract anniversary date; however

- Any increase shall not exceed the general salary movement granted to County employees as determined by the CEO as of each July 1 for the prior 12-month period.

Since the last increase of the living wage approved by the Board ~~2006~~, there have been two general salary movements for County employees. A three percent general salary movement was approved on both January 1, ~~2007~~ 2008 and January 1, ~~2008~~ 2009.

Option 4

Apply the same general salary movement granted to County employees.

The hourly cost of medical insurance for all options is based on the cheapest actual monthly premium cost for HMO coverage for a family of three. The benefits provided are comparable to the medical benefits offered to County employees.

On December 5, 2006, the Board approved the increase of the living wage and directed the CAO, A-C and ISD, working in concert with County Counsel to adopt the proposed update to the rate structure for the LWO, Los Angeles County code 2.201.040 "Payment of Living Wage," increasing the living wage to:

- $9.64 per hour with health benefits of at least $2.20 per hour, or
- $11.84 per hour without health benefits.

To evaluate the appropriateness of the various methodological options reviewed, the following chart compares the current living wage, with the updated rate for the four options identified by the workgroup:

Description	LIVING WAGE RATE				
	Current	Using Existing Methodology (Option 1)	Using CPI Annually (Option 2)	Using CPI for Years General Salary Movement wasApproved (Option 3)	Using General Salary Movement (Option 4)
Hourly rate **with** insurance provided by contractor	$9.64	$8.01	$11.18	$10.39	$10.23
Cost of health insurance	$2.20	$4.81	$4.81	$4.81	$4.81
Hourly rate **without** insurance provided by the contractor	$11.84	$12.82	$15.99	$15.20	$15.04

In addition, Attachment I identifies the living wage rates for each year from 2007 through 2012 if they were adjusted respectively using the four methodological options identified above.

Proposed Amendment to the Living Wage Ordinance

If your Board determines that it is appropriate to increase the living wage utilizing one of the methodologies identified by the workgroup, it should be effectuated by an amendment to the LWO.

Furthermore, should your Board make a determination to enact the increase in the living wage rate, it is our recommendation that the increase would apply prospectively only to new Proposition A and/or cafeteria contracts executed after the effective date of the LWO change. This would prevent the County from reviewing and performing a new cost analysis to determine the cost effectiveness (required by the LWO) of the 222 existing contracts subject to the living wage.

As we have indicated in previous reports to your Board, and as underscored in this report, we do not have the ability to accurately calculate the potential contract cost increases associated with raising the living wage. The Estimated Increases in Contract Cost chart (Attachment II) reflects our rough estimate of the impact associated with increasing the living wage for each one of the options identified by the workgroup.

It is important to note that the actual cost related to the living wage rate change may be less since our estimates assume that contractors would be paying the new living wage rate without health benefits to their employees, when some of them might be paying more. Also, it should be noted that the calculations in the attachment do not account for changes in scope of work that may change the number of employees subject to the LWO, and are broad and simple calculations.

We also would like to bring to your attention the implementation of the Affordable Care Act (ACA) and the subsequent creation of Covered California, the State's health insurance marketplace, have created a very new and changed environment regarding the future costs of health care. In addition, the true cost of health care as the ACA becomes fully implemented will also be impacted by the potential availability of tax credits, subsidies, etc. as well as an increase to the number of businesses becoming subject to the ACA. Due to those uncertainties and unknown impacts to future health care costs, your Board may want to temporarily defer making changes to the living wage until more data is available to enable making short and long-term forecasts on future health care costs.

As a matter of policy rather than part of the Ordinance, it is our recommendation that your Board instruct the A-C to provide an annual review and update of the living wage labor calculation based on the four options identified and the appropriate health component as part of the County's Living Wage Annual Report. This will provide your Board with information to review and consider further adjustments to the living wage rate.

If you have any questions or require additional information, please contact Santos H. Kreimann at (213) 974-1186 or at skreimann@ceo.lacounty.gov.

WTF:BC:SK
GS:cg

Attachments

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Internal Services
Public Works

K:\Board Memos\CEO Board Memos Word\09.20.13 Living Wage Ordinance.Docx

Attachment II

ESTIMATED INCREASE IN CONTRACT COST
BASED ON THE METODOLOGIES IDENTIFIED

FY 2012-13 Estimated Salaries & EBs Based on Number of LW Contracts*	Current Hourly Rate without Insurance Provided by Contractor	Proposed Hourly Rate without Insurance Provided by Contractor Using Existing Methodology (Option 1)	Proposed Hourly Rate without Insurance Provided by Contractor Using CPI Annually (Option 2)	Proposed Hourly Rate without Insurance Provided by Contractor Using CPI for Years General Salary Movement was Approved (Option 3)	Proposed Hourly Rate without Insurance Provided by Contractor Using General Salary Movement (Option 4)	LW % Increase	Estimated Increase in Contract Cost
$71,023,304	$11.84	$12.82				8.28%	$5,878,618
			$15.99			35.05%	$24,894,148
				$15.20		28.38%	$20,155,262
					$15.04	27.03%	$19,195,487

* Total Prop A expenditures of $163,648,165 for 222 living wage contracts reported in the Living Wage Annual Report issued in February 2013, multiplied by the estimated percentage of S&EBs of 43.3% reported in the CEO Living Wage Contractor Survey in June 2004.

ALTERNATIVE LIVING WAGE RATE METHODOLOGIES

Description	USING EXISTING METHODOLOGY (Option 1)			USING CPI ANNUALLY (Option 2)				USING CPI FOR YEARS GENERAL SALARY MOVEMENT WAS APPROVED (Option 3)			USING GENERAL SALARY MOVEMENT (Option 4)			
	Hourly Rate with Insurance Provided by Contractor	Hourly Cost of Medical Insurance Based on Actual**	Hourly Rate without Insurance Provided by Contractor	Annual CPI***	Hourly Rate with Insurance Provided by Contractor	Hourly Cost of Medical Insurance Based on Actual**	Hourly Rate without Insurance Provided by Contractor	Hourly Rate with Insurance Provided by Contractor	Hourly Cost of Medical Insurance Based on Actual**	Hourly Rate without Insurance Provided by Contractor	General Salary Movement	Hourly Rate with Insurance Provided by Contractor	Hourly Cost of Medical Insurance Based on Actual**	Hourly Rate without Insurance Provided by Contractor
Current Living Wage Rate*	**$9.64**	**$2.20**	**$11.84**		**$9.64**	**$2.20**	**$11.84**	**$9.64**	**$2.20**	**$11.84**		**$9.64**	**$2.20**	**$11.84**
2007	$9.64	$2.65	$12.29	4.3	$10.06	$2.65	$12.71	$9.64	$2.65	$12.29	3.0****	$9.64	$2.65	$12.29
2008	$10.63	$2.89	$13.52	3.3	$10.39	$2.89	$13.28	$10.06	$2.89	$12.95	3.0	$9.93	$2.89	$12.82
2009	$9.31	$3.09	$12.40	3.6	$10.76	$3.09	$13.85	$10.39	$3.09	$13.48	3.0	$10.23	$3.09	$13.32
2010	$9.31	$3.42	$12.73	-0.8	$10.76	$3.42	$14.18	$10.39	$3.42	$13.81	0.0	$10.23	$3.42	$13.65
2011	$8.01	$4.24	$12.25	1.2	$10.89	$4.24	$15.13	$10.39	$4.24	$14.63	0.0	$10.23	$4.24	$14.47
2012	$8.01	$4.81	$12.82	2.7	$11.18	$4.81	$15.99	$10.39	$4.81	$15.20	0.0	$10.23	$4.81	$15.04

* Approved by the Board on December 5, 2006

** Hourly cost of medical insurance is based on the actual monthly premium cost to cover a family of three.

*** As reported by The Bureau of Labor Statistics (Los Angeles-Riverside-Orange county area)

**** January 1, 2007 3.0% general salary movement was considered within the current living wage rate.