SACHI A. HAMAI
Chief Executive Officer

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

"To Enrich Lives Through Effective And Caring Service"

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

December 01, 2015

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

ORDINANCE AMENDING LIVING WAGE PROGRAM
ALL SUPERVISORIAL DISTRICTS
(3 VOTES)

SUBJECT

Approval of the recommendations will introduce and schedule for adoption an ordinance to amend the County's Living Wage Ordinance (LWO). Approval will also include adopting the LWO Implementation Plan (Plan) and delegating authority to department heads to negotiate, finalize and execute contract amendments necessary to implement changes to the LWO.

IT IS RECOMMENDED THAT THE BOARD:

1. Adopt an Ordinance amending Title 2 – Administration of the Los Angeles County Code relating to the LWO to remove the two-tiered rate structure, expand the program to include part-time employees, and set a graduated rate increase to the living wage that employers must pay to employees under certain Proposition A and cafeteria services contracts.

2. Adopt the attached Implementation Plan, which may be revised from time to time in accordance with Section 2.201.050.C., requiring that any new solicitations subject to the LWO reflect the new requirements, that open solicitations be amended to reflect the new requirements, and that the new requirements apply to all Living Wage contract renewals, option years, and amendments involving scope of work, term or cost.

3. Delegate authority to department heads to negotiate, finalize and execute contract amendments to (i) increase contract sums resulting in additional compensation required for contractors to offset any increased contract labor costs; (ii) extend current Living Wage contracts which are expiring and have

no renewal/extension options; (iii) extend current Living Wage contracts that are deemed to no longer be cost effective, each consistent with the attached Plan.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On July 21, 2015, your Board directed our office to work with the Auditor-Controller (A-C), the Director of Internal Services (ISD), the Interim County Counsel (County Counsel), and report back in 90 days with an amendment to the LWO (Attachment I) and a written Plan (Attachment 2) that, at a minimum, addresses the prospective timing of living wage adjustments to current Proposition A contracts and cafeteria services contracts and amendments, or extensions to existing Proposition A contracts and subcontracts, and immediately applies the new wage framework to current Proposition A and cafeteria services solicitations. In directing that an amendment to the LWO be prepared, the Board recognized the County's obligation to ensure that those with whom it contracts pay their workers enough to limit their workforce's reliance on social safety net services that the County provides – a reliance on such services which places an additional burden on the County.

On October 27, 2015, our office submitted an initial report requesting an extension to the 90-day requirement to provide a response to your Board (Attachment 3). In that initial report, our office recommended to your Board that it was necessary to revise the implementation date to March 1, 2016 due to the administrative process required to implement a change to the ordinance as set forth in the Plan and notify impacted contractors. Our office recommended implementing the first Living Wage rate change on March 1, 2016. Additional rate increases would occur every January 1 thereafter.

Pursuant to your Board's directive, County Counsel prepared an analysis and ordinance amending Sections 2.201.020 (Definitions), 2.201.040 (Payment of living wage) and 2.201.050 (Other provisions) of Title 2 – Administration of the Los Angeles County Code relating to the Living Wage Program (Ordinance) as directed by your Board. The Ordinance eliminates the two-tiered wage, establishes a living wage rate for full-time and part-time contract workers who work on Proposition A contracts and cafeteria services, and requires non-exempt contractors and their sub-contractors to pay their employees at least a living wage defined as either the rates set forth in the Ordinance or the County's minimum wage, as set forth in Title 8 – Consumer Protection, Business and Wage Regulations of the County Code commencing with Section 8.100.010, whichever is higher. More specifically, the Ordinance establishes a rate of $13.25 per hour for all full-time and part-time Proposition A and cafeteria service contract workers effective January 1, 2016, with adjustments to $14.25 per hour effective January 1, 2017, $15.00 per hour effective January 1, 2018, $15.79 per hour effective January 1, 2019, and annually thereafter based on changes in the Consumer Price Index.

As requested by your Board, our office also convened a work group to gather data and develop the attached Plan to assist County departments to effectively implement the LWO changes recently approved by the Board. The Plan, which includes guidelines and instructions, cover the actions available to departments in implementing the new living wage requirements for current solicitations, contracts, and contract extensions/renewals and amendments. In accordance with County Code Section 2.201.050.C., our office, in conjunction with ISD, will make appropriate revisions to the Plan as necessary to provide for the ongoing administration of the Living Wage Program in a manner consistent with your Board's action.

In addition to the above directives, your Board also instructed our office, with other applicable departments, to consult with Proposition A contractors and representatives of contract workers

subject to collective bargaining agreements to identify issues associated with group health insurance and the Affordable Care Act compliance. This office has responded to your Board on this matter under a separate report on November 5, 2015.

Implementation of Strategic Plan Goals

Approval of the amended Ordinance will further enhance the County's Strategic Plan Goals of Operational Effectiveness/Fiscal Sustainability by ensuring that service delivery systems are effective and fiscally sustainable.

FISCAL IMPACT/FINANCING

Currently, the County has 187 contracts that must comply with the living wage ordinance. Of those contracts, 15 are paying the lower rate of $9.64 per hour and are providing private health insurance to their employees and their families. The remaining 172 contracts are paying a minimum of $11.84 per hour.

As we have indicated in previous reports to your Board, the County does not have the ability to accurately calculate the potential contract cost increases associated with raising the living wage. Contract costs will increase due to increased labor costs which typically include payroll, payroll taxes, workers' compensation insurance, and employee benefits. In our June 12, 2015 report to your Board, we estimated the costs of a living wage proposal that is substantially similar to the one in the recommended ordinance. The previous report is attached for your reference (Attachment 4). It is important to note that the actual cost related to the living wage rate change may be less since our estimate assumes that contractors are paying the minimum amount required by the living wage ordinance when some contractors might be paying more. It should also be noted that the broad and simple calculations in the June 12, 2015 report do not account for changes in the scope of contracts that could change the number of workers.

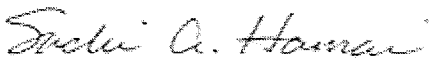
FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Ordinance amendment has been approved as to form by County Counsel.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The Ordinance amendment implements your Board's directive to revise the Living Wage requirements consistent with your Board's motion on July 21, 2015, and the Board's findings set forth in County Code Section 2.201.010.

Respectfully submitted,



SACHI A. HAMAI
Chief Executive Officer

SAH:JJ:SK
KS:ef

Enclosures

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

ANALYSIS

This ordinance amends Title 2 – Administration of the Los Angeles County Code by amending Sections 2.201.020, 2.201.040 and 2.201.050 relating to the Living Wage Program for certain Proposition A and cafeteria services contracts by removing the health benefit requirement and two-tiered wage rate, expanding the program to include part-time employees, and providing a graduated living wage rate increase.

MARY C. WICKHAM
Interim County Counsel

By

KATHY BRAMWELL
Principal Deputy County Counsel
Contracts Division

KB:pt

Requested: 9/25/15
Revised: 9/25/15

ORDINANCE NO. _____

An ordinance amending Title 2 – Administration of the Los Angeles County Code by amending Sections 2.201.020, 2.201.040 and 2.201.050 relating to the Living Wage Program for certain Proposition A and cafeteria services contracts.

The Board of Supervisors of the County of Los Angeles ordains as follows:

SECTION 1. Section 2.201.020 is hereby amended to read as follows:

2.201.020 Definitions.

The general definitions contained in Chapter 2.02 shall be applicable to this ~~c~~Chapter unless inconsistent with the following definitions:

A. "County" includes the ~~c~~County of Los Angeles, any ~~c~~County officer or body, any ~~c~~County department head, and any ~~c~~County employee authorized to enter into a Proposition A contract or a cafeteria services contract with an employer.

B. "Employee" means any individual who is an employee of an employer under the laws of California, and who is providing full- or part-time services to an employer, some or all of which are provided to the ~~c~~County of Los Angeles under a Proposition A contract, or under a cafeteria services contract at a ~~c~~County of Los Angeles owned or leased facility.

C. "Employer" means:

1. An individual or entity who has a contract with the ~~c~~County:

a. For services which is required to be more economical or feasible under Section 44.7 of the Charter of the ~~c~~County of Los Angeles, and is not

listed as an excluded contract in Section 2.121.250 B of the Los Angeles County Code, referred to in this ~~c~~Chapter as a "Proposition A contract," or

b. For cafeteria services, referred to in this ~~c~~Chapter as a "cafeteria services contract," and

c. Who has received or will receive an aggregate sum of $25,000.00 or more in any 12 month period under one or more Proposition A contracts and/or one or more cafeteria services contracts; or

2. An individual or entity that enters into a subcontract with an employer, as defined in subsection C1 and who employs employees to provide services under the employer's contract with the ~~c~~County.

D. "Full time" means a minimum 40 hours worked per week, or a lesser number of hours, if the lesser number is a recognized industry standard and is approved as such by the ~~c~~Chief ~~administrative~~ Executive ~~c~~Officer, but in no event less than 35 hours worked per week.

E. "Part time" means less than 40 hours worked per week, unless a lesser number is a recognized industry standard and is approved as such by the Chief Executive Officer.

~~E~~F. "Proposition A contract" means a contract governed by Title 2, Section 2.121.250 et seq., of this code, entitled Contracting with Private Business.

SECTION 2. Section 2.201.040 is hereby amended to read as follows:

2.201.040 Payment of living wage.

A. Employers shall pay employees a living wage for their services provided to the ~~c~~County of no less than the hourly rate~~s~~ set under this ~~c~~Chapter or in Title 8 – Consumer Protection, Business and Wage Regulations, commencing with Section 8.100.010, whichever is higher. The rate~~s~~ shall be ~~$9.64 per hour with health benefits, or $11.84 per hour without health benefits.~~ as follows:

1. On January 1, 2016, and thereafter the rate shall be $13.25 per hour;

2. On January 1, 2017, and thereafter the rate shall be $14.25 per hour;

3. On January 1, 2018, and thereafter the rate shall be $15.00 per hour;

4. On January 1, 2019, and thereafter the rate shall be $ 15.79 per hour;

5. Beginning January 1, 2020, and thereafter the living wage rate shall increase annually based on the average Consumer Price Index for Urban Wage Earners and Clerical Works (CPI-W) for the Los Angeles metropolitan area (Los Angeles-Riverside-Orange County, CA), which is published by the Bureau of Labor Statistics of the United States Department of Labor.

~~B. To qualify for the living wage rate with health benefits, an employer shall pay at least $2.20 per hour towards the provision of bona fide health care benefits for~~

~~each employee and any dependents during the term of a Proposition A contract or a cafeteria services contract. Proof of the provision of such benefits must be submitted to the county for evaluation during the procurement process to qualify for the lower living wage rate in subsection A of this section. Employers who provide health care benefits to employees through the county department of health services community health plan are deemed to have qualified for the lower living wage rate in subsection A of this section.~~

~~C~~B. The b~~B~~oard of s~~S~~upervisors may, from time to time, adjust the amounts specified in subsections A ~~and B~~ of this s~~S~~ection, above for future contracts. Any adjustments to the living wage rate specified in subsections A ~~and B~~ that are adopted by the ~~b~~Board of s~~S~~upervisors shall be applicable to Proposition A contracts and cafeteria services contracts and their amendments. ~~which become effective three months or more after the effective date of the ordinance that adjusts the living wage rate.~~

SECTION 3. Section 2.201.050 is hereby amended to read as follows:

2.201.050 Other provisions.

A. Full Time Employees. An employer shall assign and use full time employees to provide services under a Proposition A contract or a cafeteria services contract, unless the employer can demonstrate to the ~~c~~County the necessity to use non-full time employees based on staffing efficiency or the ~~c~~County requirements of an individual job.

B. Neutrality in Labor Relations. An employer shall not use any consideration received under a Proposition A contract or a cafeteria services contract to hinder, or to further, organization of, or collective bargaining activities by or on behalf of

an employer's employees, except that this restriction shall not apply to any expenditure made in the course of good faith collective bargaining, or to any expenditure pursuant to obligations incurred under a bona fide collective bargaining agreement, or which would otherwise be permitted under the provisions of the National Labor Relations Act.

C. Administration. The Chief Executive Officer and the ~~i~~Internal ~~s~~Services ~~d~~Department shall be responsible for the administration of this chapter. The Chief Executive Officer and the ~~i~~Internal ~~s~~Services ~~d~~Department may, with the advice of ~~c~~County ~~c~~Counsel, issue interpretations of the provisions of this chapter. The Chief Executive Officer in conjunction with the ~~i~~Internal ~~s~~Services ~~d~~Department shall issue written instructions on the implementation and ongoing administration of this ~~c~~Chapter. Such instructions may provide for the delegation of functions to other ~~c~~County departments.

D. Compliance Certification. An employer shall, during the term of a Proposition A contract, or a cafeteria services contract, report for each employee and certify the hours worked, wages paid, ~~and amounts the employer paid for health benefits,~~ and provide other information deemed relevant to the enforcement of this ~~c~~Chapter by the ~~c~~County. Such reports shall be made at the times and in the manner set forth in instructions issued by the Chief Executive Officer in conjunction with the ~~i~~Internal ~~s~~Services ~~d~~Department. The ~~i~~Internal ~~s~~Services ~~d~~Department in conjunction with the Chief Executive Officer shall report annually to the ~~b~~Board of ~~s~~Supervisors on contractor compliance with the provisions of this ~~c~~Chapter.

E. Contractor Standards. An employer shall demonstrate during the procurement process and for the duration of a Proposition A contract or a cafeteria services contract a history of business stability, integrity in employee relations, and the financial ability to pay a living wage.

[2201010MGCC]

Attachment 2

COUNTY OF LOS ANGELES

AMENDED LIVING WAGE ORDINANCE IMPLEMENTATION PLAN

December 2015

LIVING WAGE IMPLEMENTATION PLAN

I. Introduction

On December 8, 2015 the Los Angeles County Board of Supervisors (Board) adopted an Ordinance amending the Living Wage Ordinance (LWO), Los Angeles County Code Chapter 2.201, applicable to Proposition A and cafeteria services contracts and subcontracts. A copy of the amended LWO is attached.

These guidelines provide departments with the necessary process to implement the new living wage requirements for current (a) solicitations, (b) contracts, (c) contract amendments, and (d) contract renewals/extensions. For detailed Living Wage Program (Program) and monitoring requirements, refer to the Living Wage Program Manual available on the County's Purchasing and Contracts webportal at:

http://purchasingcontracts.co.la.ca.us/Living-Wage-Manual.pdf

II Background

In adopting the LWO in 1999, the Board made a finding that the County of Los Angeles (County) is the principal provider of social and health services within the County, especially to persons who are compelled to turn to the County for such services. The Board also acknowledged that employers' failure to pay a living wage to their employees causes them to use such services thereby placing an additional burden on the County.

In July 2015, the Board noted that the LWO has not kept pace with changes in the economy and does not reflect the basic cost of living without dependence on government benefits. In addition, due to the implementation of the Affordable Care Act and other legislative changes, the LWO framework and methodology should be restructured to reflect current realities including current housing and consumer costs.

III. Changes to the Living Wage Ordinance (LWO)

In December 2015, the Board adopted the following changes to the LWO:

1. Eliminates the Two-Tier Wage Structure

The amended LWO eliminates the two-tier living wage structure and implements a single tier system. As a result, contractors will be required to pay employees subject to the LWO, one hourly rate, regardless of whether medical insurance is provided or not.

2. Identified Adjustments to the Living Wage Rates

The amended LWO identifies annual adjustments to the living wage rates. The following table lists the hourly living wage rates with the corresponding effective dates.

Annual Adjustments to the Living Wage Rates

Effective Date	Hourly Rate
January 1, 2016	$13.25
January 1, 2017	$14.25
January 1, 2018	$15.00
January 1, 2019	$15.79
January 1, 2020 and beyond	See below

Effective January 1, 2020, the living wage rate will be adjusted based on the U.S. Department of Labor, Bureau of Labor Statistics' Consumer Price Index (CPI) for the Los Angeles-Riverside-Orange County Area for the 12-month period preceding July 1 of each year.

The Chief Executive Office (CEO) will issue a memo in August 2019 advising departments of the CPI to be used when determining the living wage rate effective January 1, 2020, and every year thereafter.

3. Expanded the LWO to include Part-Time Employees

The amended LWO requires contractors to pay all employees working on the County's living wage contracts and subcontracts the living wage rate regardless of the number of hours worked or part-time/full-time status.

4. Required Non-Exempt Contractors and Subcontractors to pay the Living Wage Rate or County's Minimum Wage

The amended LWO requires non-exempt contractors and subcontracts to pay employees working on the County's living wage contracts and subcontracts at least the living wage rate or the County's Minimum Wage, as defined in Title 8 (Consumer Protection, Business and Wage Regulations) commencing with Section 8.100.010 of the County Code, whichever is higher.

IV. Implementation Guidelines

Living wage contracts submitted for the Board's approval on or after January 1, 2016 must comply with the amended LWO.

As a result of changes to the LWO approved by the Board, department heads have been granted delegated authority to:

1. Negotiate, finalize, and execute contract amendments to increase the contract amounts resulting from additional compensation required for contractors to offset any increased contract labor costs, as a result of an available renewal or extension options. The contract amount increases are limited to increased labor costs which typically include, but are not limited to, payroll, payroll taxes, workers' compensation insurance, and employee benefits.

2. Negotiate, finalize, and execute contract amendments to extend current living wage contracts which are expiring and have renewal/extension options. The extensions will be in compliance with the revised LWO requirements, for a maximum of twelve (12) months, on a month-to-month basis, to provide departments with necessary time to solicit new contracts in the event the current contractors are unwilling or unable to adhere to the new living wage requirements.

3. Negotiate, finalize, and execute contract amendments to extend current living wage contracts that are deemed to no longer be cost effective. The extensions will be in compliance with the revised LWO requirements for a maximum of six (6) months, on a month-to-month basis, to provide departments with necessary time to develop and submit to the Board a plan to transition contracted services to County employees.

4. Negotiate, finalize and execute contract amendments to extend current living wage contracts which are expiring and have no renewal/extension options. The extensions will be in compliance with the revised LWO requirements for a maximum of twelve (12) months, on a month-to-month basis, to provide departments with necessary time to complete a pending solicitation or solicit new contracts.

V. County Department Responsibilities

Solicitations with Current LWO Requirements:

Review the status of Proposition A and cafeteria services contract solicitations in progress at the time the Board adopts the LWO changes to determine next steps.

1. If proposals have not been received, issue addendum to revise the living

wage requirements and consider extending proposal due date.

2. If select/non-select notifications to proposers have not been released, request all proposers to revise their cost proposals to comply with the new living wage requirements. Provide a firm deadline for responses.

3. If select/non-select notifications to proposers have been released, negotiate a revised cost with the highest rated proposer to ensure compliance with the new living wage requirements. Consult with County Counsel.

   A. Negotiate additional compensation, if necessary, for the contractor(s) to offset the increased contract costs, and accordingly increase the contract amount, limiting the increase, if any, to the increased labor cost. Labor costs typically include, but are not limited to, payroll, payroll taxes, workers' compensation insurance, and employee benefits.

   B. Conduct a cost analysis using the revised proposed contract costs for the remaining contract term to ensure that the contracted services are cost effective in accordance with Proposition A guidelines. If contracting the service is not cost effective, see "Cost Effectiveness" section below.

4. Respond to semi-annual survey, conducted by ISD, of all Proposition A and cafeteria services contracts on cost and workforce data.

5. Report quarterly to the CEO on all contracts amended or extended in compliance with the revised Living Wage ordinance. Departments will be responsible for reporting changes in the contract cost, scope, and term for each impacted contract.

Existing Living Wage Contracts:

Review existing Proposition A and cafeteria services contracts and proceed as follows:

A. Existing contracts without upcoming renewals or amendments will not require any action and will continue with the current living wage requirements.

B. Renewals/extensions or amendments to existing contracts involving scope of work, term, or compensation must include the appropriate living wage requirements identified in the Living Wage Ordinance for the remainder of the contract term.

   Negotiate additional compensation, if necessary, for contractor(s) to offset

the increased contract costs, and accordingly increase the contract amount, limiting the increase, if any, to the increased labor cost. Labor costs typically include, but are not limited to, payroll, payroll taxes, workers' compensation insurance, and employee benefits.

In the event the current contractors are unwilling or unable to adhere to the new living wage rates, negotiate, finalize, and execute contract amendments in compliance with the revised LWO requirements, for a maximum of twelve (12) months, on a month-to-month basis, to provide departments with necessary time to solicit new contracts.

C. Where solicitations for Proposition A and cafeteria services are pending and the time for completion of the solicitation has been extended to implement the LWO changes, negotiate, finalize, and execute contract amendments to extend current living wage contracts which are expiring and have no renewal/extension options. The extensions will be in compliance with the revised LWO requirements for a maximum of twelve (12) months, on a month-to-month basis, to provide departments with necessary time to complete a pending solicitation or solicit new contracts.

Cost Effectiveness:

If a contract continues to be cost effective, negotiate additional compensation, if necessary, for contractor(s) to offset the increased contract costs, and accordingly increase the contract amount, limiting the increase, if any, to the increased labor cost. Labor costs typically include, but are not limited to, payroll, payroll taxes, workers' compensation insurance, and employee benefits.

If contract does not demonstrate cost-effectiveness, the department shall provide immediate notification to the Board which will include the department's implementation plan with timeframes to transition the contracted services to County employees.

The department head shall have the authority, after consultation with and approval by the CEO, to extend the existing contract on a month-to-month basis for up to six (6) months to provide departments with necessary time to develop and submit an implementation plan to transition contracted services to County.

VI. County Department Responsibilities

Chief Executive Office Responsibilities:

Administer the County's Living Wage Program.

Internal Services Department Responsibilities

Maintain a compliance program to ensure that Proposition A and cafeteria services contracts awarded and administered by the County comply with

the LWO.

County Counsel/Auditor-Controller Responsibilities

Provide legal and auditing assistance to County departments to ensure that Proposition A and cafeteria services contracts comply with the LWO.

County of Los Angeles
CHIEF EXECUTIVE OFFICE
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SACHI A. HAMAI
Chief Executive Officer

Board of Supervisors
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DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

October 27, 2015

To: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Sachi A. Hamai
Chief Executive Officer

REQUEST FOR EXTENSION TO AMEND THE LIVING WAGE ORDINANCE (ITEM NO. 4, AGENDA OF JULY 21, 2015)

On July 21, 2015, the Board directed the Interim Chief Executive Officer to work with the Auditor-Controller, Director of Internal Services Department, and County Counsel to amend the Living Wage Ordinance (LWO) to: a) Eliminate the two-tiered wage; b) Establish a living wage rate of $13.25 per hour for full-time and part-time Proposition A contract and cafeteria service workers effective January 1, 2016, with adjustments to $14.25 per hour effective January 1, 2017, $15.00 per hour effective January 1, 2018, $15.79 per hour effective January 1, 2019, and annually thereafter based on changes in the Consumer Price Index; c) Require non-exempt contractors and their sub-contractors to pay their employees at least a living wage defined as either the approved amount or the County's minimum wage, whichever is higher; d) Develop a written Implementation Plan within 90 days that, at a minimum, addresses the prospective timing of living wage adjustments to current Proposition A contracts, cafeteria services contracts and amendments or extensions to existing Proposition A contracts and subcontracts, and immediately applies the new wage framework to current Proposition A and cafeteria services solicitations up to the date of receipt by departments; e) Draft amendment language to the Living Wage Ordinance for consideration by the Board of Supervisors within 90 days.

The amended Living Wage Ordinance and Implementation Plan have been drafted. We are collaborating with the Board on some outstanding issues that require direction.

We therefore are requesting an extension to November 24, 2015, to submit the ordinance and implementation plan to the Board. This is based on a revised implementation date of March 1, 2016. The revised implementation date is necessary because it takes a minimum of 60 days to familiarize contractors and County staff on the revised ordinance.

If you have any questions regarding the request, please contact Jim Jones of my staff at (213) 974-8355.

SAH:JJ:GS
CL:ef

c: Executive Office, Board of Supervisors
County Counsel
Auditor Controller
Internal Services Department

County of Los Angeles
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SACHI A. HAMAI
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DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

June 12, 2015

To: Mayor Michael D. Antonovich
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Sachi A. Hamai
Interim Chief Executive Officer

REQUESTED DATA AND ANALYSIS RELATED TO THE LIVING WAGE ORDINANCE (ITEM NO. 6, AGENDA OF OCTOBER 14, 2014)

On October 14, 2014, the Board of Supervisors instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C) and the Director of the Department of Health Services (DHS), to report back on addressing the issues and components of updating the Living Wage Ordinance.

In response to this motion, the CEO convened a workgroup consisting of staff from A-C, County Counsel, DHS, and the Internal Services Department (ISD) to review the effectiveness of the current living wage, as well as to address potentially updating the Living Wage Ordinance (LWO).

Updating the Living Wage Ordinance

The attached analysis (see Attachment 1) responds to the Board instruction and includes background and information on: (1) the current living wage rate, (2) a determination of the least costly price of unsubsidized health care insurance available to contract employees, (3) the impact of the Affordable Care Act (ACA) on employees of County contractors, and (4) summary information from studies that estimate the wage rate individuals and families would need to make to meet basic subsistence needs.

The analysis indicates that the cost of unsubsidized health care insurance has increased beyond the $2.20 per hour adopted by the Board in 2006. With the implementation of the Affordable Care Act (ACA), it is likely that individuals and families earning the County's living wage rate would qualify for other types of health insurance, such as employer-sponsored health care insurance, heavily subsidized insurance available in the State's health insurance exchange, or Medi-Cal.

In addition, the wages paid by many County contractors will be impacted in those municipalities that increase their minimum wages. The City of Los Angeles has enacted an increase to its minimum wage to $15 an hour by 2020, with future annual increases determined by the city's Bureau of Contract Administration. It was recently reported in the *Los Angeles Times* that the cities of West Hollywood and Santa Monica may also pursue raising their minimum wages.

Attachment 2 reflects our rough estimate of the impact of adjusting the hourly living wage to a range of potential wage levels ranging from $10.50 to $15.79 an hour. This range is based on the City of Los Angeles minimum wage levels, plus the rate of $15.79, a figure cited in the self-sufficiency chart contained in the analysis.

Conclusion

In light of the information presented in the analysis, it appears appropriate to change the County's existing dual-tiered living wage system (including both wages and health benefits) to a single-tier living wage rate, as the ACA essentially renders the dual tiered system obsolete.

If the Board makes a determination to modify the LWO, it is recommended that the revised rate(s) 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 198 existing contracts subject to the living wage.

If you have any questions or need additional information regarding this matter, please contact Sid Kikkawa at (213) 974-6872, or at skikkawa@ceo.lacounty.gov.

SAH:JJ:SK:
GS:MV:alc

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Health Services
Internal Services Department

K:\Board Memos\CEO Board Memos Word\2015 Chron\06.12.15 Requested Data And Analysis Related To LWO.Docx

REQUESTED DATA AND ANALYSIS RELATED TO THE LIVING WAGE ORDINANCE

On October 14, 2014, on a motion by Supervisor Mark Ridley-Thomas, amended by Supervisor Zev Yaroslavsky, the Board of Supervisors (Board) instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C) and the Director of the Department of Health Services (DHS), to report back on the following components to address updating the Living Wage Ordinance (LWO):

1. Directed the A-C to report back to the Board in 120 days with the Living Wage Annual Report, an annual review and update of the living wage labor calculation based on the four methodological options proposed by the Chief Administrative Officer in his 2004 report to the Board for a LWO and updated in the CEO's September 20, 2013, revised report on the LWO;

2. Directed the CEO, in consultation with the A-C and the Director of Health Services, to determine the least costly price of unsubsidized health care insurance available to contract employees; and to analyze and report back to the Board in three weeks on the impact of the Affordable Care Act (ACA) on employees of County contractors subject to the provisions of the LWO, and include an evaluation of eliminating the dual-tiered system; and

3. Directed the CEO to estimate the hourly wage a worker who resides in the County needs to earn to meet the basic subsistence needs for a single adult, a single parent family with one dependent child, a two parent family with one parent working and with one and two dependent children, and a two working parent family with one and two dependent children in the Los Angeles region, and report back in 60 days.

Supervisor Molina made a motion to instruct the County Counsel to present a modified LWO to eliminate the dual-tiered wage structure due to the changes mandated by the ACA and to establish a single tier for all new contracts of $11.84 per hour.

Supervisor Ridley-Thomas requested the CEO's report to also include an evaluation of Supervisor Molina's motion.

Additionally, on November 5, 2014, on the motion of Supervisor Michael Antonovich, the Board directed the CEO and A-C to analyze and report back on the complete fiscal impact to the County's budget of increasing the living wage for contract employees.

Our office convened a workgroup consisting of staff from A-C, County Counsel, DHS, and the Internal Services Department (ISD) to gather and produce information requested by the Board to review the effectiveness of the current living wage.

BACKGROUND

On June 22, 1999, the Board adopted the LWO applicable to Proposition A and cafeteria services contracts. In adopting the LWO, the Board made a finding that the County of Los Angeles is the principal provider of social and health services within the County, especially to persons who are compelled to turn to the County for such services. The Board also acknowledged that employers' failure to pay a living wage to their employees causes them to use such services, thereby placing an additional burden on the County.

The LWO requires employers with Proposition A or cafeteria contracts with the County to pay their employees a living wage in order to help reduce the burden on the County's social and health services. Under the LWO, all employers must pay their employees either a living wage of $11.84 per hour without health benefits, or $9.64 per hour plus not less than $2.20 per hour per employee toward health benefits.

Currently, there are 198 County contracts subject to the LWO. Only 14 contracts pay $9.64 per hour and contribute at least $2.20 per hour toward health benefits. The remaining contracts pay the living wage of at least $11.84 per hour.

UPDATING THE LIVING WAGE

Since 2006, the A-C provided the Board with annual updates to the living wage using the same methodology they used in calculating the living wage that the Board adopted in 1999. The living wage is based on the minimum gross earnings an individual, living in a household of three (two adults and a child), would need to earn to become ineligible for cash assistance under the CalWORKs program.

On September 20, 2013, the CEO provided a report to the Board that included three additional methodologies to update the living wage rate. As directed by the Board, the A-C updated the current living wage using the four methodological options noted in that report.

It is important to note that under the ACA, a single income family of three (the methodology used to calculate the living wage rate under the original LWO) will receive medical insurance at no cost since the employee and family members will be eligible to receive Medi-Cal. Further, individuals or a family of two would qualify for employer-sponsored insurance, or heavily subsidized insurance available in the State's health insurance exchange if their employer does not offer insurance.

It should be noted that prior to the ACA, the cost of unsubsidized health care coverage covered by the Living Wage Program increased beyond the $2.20 per hour adopted by the Board in 2006. Using the same methodology used to calculate the $2.20 per hour figure, it is estimated that the current cost of unsubsidized health care coverage is $3.87 per hour.

The chart on the next page compares the current living wage, with updated rates for the four options.

Description	LIVING WAGE RATE				
	Current	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	$9.64	$9.03	$11.71	$10.18	$10.64
Cost of health insurance**	$2.20	$3.87	$3.87	$3.87	$3.87
Hourly rate **without** insurance provided by the contractor	$11.84	$12.90	$15.58	$14.05	$14.51

* The decrease in hourly rate is due to the State's reduction in the amount of public assistance paid to individuals.

** The cost of health insurance may no longer be applicable, given a single income family of three being paid the County living wage would be eligible for Medi-Cal insurance or employer-sponsored insurance.

DETERMINING LEAST COSTLY HEALTH CARE INSURANCE

To determine the least costly price of unsubsidized health care insurance, the workgroup reviewed the monthly premium costs for bronze, silver, and gold Health Maintenance Organization (HMO) plans that can be purchased via the State's health care exchange website. The gold HMO plans generally cover 80% of the average annual health care cost and are comparable to the health insurance coverage offered to County employees. Although the monthly premiums for the gold plans are higher, a family's annual out-of-pocket health care expenses are generally lower. For example, according to the State's health care exchange, a healthy family of three, with two adults 35 years of age and a child less than 12 years of age, could have annual estimated out-of-pocket health care expenses of $1,800 per year under the gold plan. The same family could have annual estimated out-of-pocket health care expenses totaling $2,412 under the silver plan, and $5,400 under the bronze plan.

The cost comparisons between the HMO plans reviewed were based on using a three person household, which is also the household size used to calculate the insurance component of the County's living wage.

Based on the cost information provided by the State's health care exchange, Molina Healthcare HMO had the least costly bronze plan, and HealthNet Community Care HMO had the least costly silver and gold plans. The chart below provides the estimated monthly unsubsidized cost

for each plan by age range. The monthly premium costs were calculated based on using the mid-point of each age range for the two adults, with a child less than 12 years of age.

Age Range	ESTIMATED MONTHLY INSURANCE COST		
	Molina Healthcare HMO Bronze Plan	HealthNet Community Care HMO Silver Plan	HealthNet Community Care HMO Gold Plan
20-29	$438	$510	$574
30-39	$510	$595	$669
40-49	$584	$680	$765
50-59	$844	$984	$1,106
60-65	$1,099	$1,281	$1,440

It is important to note that due to the implementation of the ACA, a contract worker earning the County's current living wage of $11.84 would be eligible for Medi-Cal or highly subsidized health care and would not have to pay the monthly insurance rates listed above.

WAGE RATE IN LOS ANGELES COUNTY TO MEET BASIC SUBSISTENCE NEEDS

In order to determine the income that an individual or family would require to meet their basic subsistence needs in Los Angeles County, we reviewed a number of studies conducted by various organizations. We also consulted with the UCLA Anderson School of Management. As the chart on Page 6 shows, there is a tremendous variation between suggested self-sufficiency standards among each study. The methodology suggested by UCLA Anderson School of Management is based on the size of the family unit without regard to the number of earned incomes, while the Massachusetts Institute of Technology study assumes one sole provider. The remaining studies assume that each parent works. The hourly wage is based on an adult (or two adults) working 2,080 hours per year. A brief description of each study is discussed below.

The 2013 U.S. Census Bureau's Poverty Threshold was used in conjunction with the Cost of Living index from the Council for Community and Economic Research to account for Los Angeles County's higher cost of living. This index considered the cost of housing, utilities, transportation, health care, groceries, as well as miscellaneous goods and services for the Los Angeles area.

The Living Wage Calculator was developed by Dr. Amy K. Glasmeier of the Massachusetts Institute of Technology and allows a user to search for results based on county or city jurisdiction. This calculation for Los Angeles County is what an individual must earn to support himself/herself or their family, if they are a sole provider. Typical expenses include food, child care, medical, housing, transportation, other, and taxes.

The 2014 Self-Sufficiency Standard for California was prepared for the Insight Center for Community Economic Development. According to the study, the Self-Sufficiency Standard takes "a real world approach to measuring need." The standard assumes that each adult works and that each adult uses a car to commute to work. Costs include housing, child care, food, health care, transportation, miscellaneous items, taxes, as well as an emergency savings fund.

According to the Economic Policy Institute (EPI), the 2013 Family Budget Calculator determines the income a family needs in order to live modestly, and factors such costs as housing, food, child care, transportation, health care, taxes, and other necessities. In a two parent household, EPI assumes that both parents work. Families with one child are assumed to have a four year old, and families with two children are assumed to have a four year old and an eight year old.

Published in 2013 by the California Budget Project, *"Making Ends Meet: How Much Does It Cost To Raise a Family in California?"* estimates the amount families and individuals need to earn to achieve a modest standard of living without assistance from public programs. The report factors such costs as housing, food, and child care.

Studies	SELF-SUFFICIENCY INCOME STANDARDS			
	Single Adult	Single Parent Family with One Child	Two Parent Family with One Child	Two Parent Family with Two Children
U.S. Census Poverty Threshold & Cost of Living Adjustment (UCLA School of Business)*	$16,239/ $7.81 per hour	$21,516/ $10.34 per hour	$25,126/ $12.08 per hour	$31,656/ $15.22 per hour
Living Wage Calculator (Massachusetts Institute of Technology)**	$23,650/ $11.37 per hour	$48,942/ $23.53 per hour	$44,970/ $21.62 per hour	$47,736/ $22.95 per hour
Self-Sufficiency Standard (Insight Center for Community Economic Development)***	$29,167/ $14.02 per hour	$48,011/ $23.08 per hour	$56,893/ $27.35 per hour	$65,901/ $31.68 per hour
Family Budget Calculator (Economic Policy Institute)****	N/A	$61,037/ $29.34 per hour	$69,991/ $33.65 per hour	$74,605/ $35.87 per hour
Making Ends Meet (California Budget Project)*****	$32,844/ $15.79 per hour	N/A	N/A	$83,561/ $40.17 per hour

* 2013 U.S. Census Bureau's Poverty Threshold adjusted by 2014 Council for Community and Economic Research's Cost of Living Index.

** http://livingwage.mit.edu/counties/06037

*** http://www.insightcced.org/calculator.html

**** http://www.epi.org/resources/budget/

***** http://www.cbp.org/pdfs/2013/131212_Making_Ends_Meet.pdf

FISCAL IMPACT OF THE LIVING WAGE INCREASE TO THE COUNTY'S BUDGET

As we have indicated in previous reports to the 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 Contract Cost chart (Attachment 2) reflects our rough estimate of the impact associated with adjusting the hourly wage.

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 the contract scope of work that may increase the number of employees subject to the LWO, and are broad and simple calculations.

Of the 198 contracts, 14 contracts are paying the lower rate of $9.64 per hour, but are also providing private health insurance to their employees and their families. The remaining contracts are paying the higher wage of $11.84 per hour. Under the ACA, those remaining contractors will be required to pay for private insurance or pay a penalty. The County living wage does not take into account this additional cost of insurance for the contractors that are presently paying the higher wage, or the subsidized cost of insurance.

CONCLUSION

As noted in this report, under the ACA, a single income family of three (the methodology used to calculate the living wage rate under the original LWO) would be eligible for Medi-Cal. Individuals and families of two earning the County's living wage rate would qualify for employer-sponsored insurance, or heavily subsidized insurance available in the State's health insurance exchange. As a result, these facts combined with the implementation of the ACA, essentially render the dual tiered system obsolete.

Based on the information presented, it appears the best solution is to change the dual-tiered system to a single-tier living wage rate.

If the Board makes a determination to modify the LWO, it is recommended the changes be effectuated through an amendment to the ordinance and that the Board instruct the CEO, A-C, and ISD to work with County Counsel to revise the ordinance and implementation guidelines.

Furthermore, should the Board make a determination to modify the living wage rate, it is our recommendation that the revised rate 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 198 existing contracts subject to the living wage.

Attachment II

LIVING WAGE/PROP A CONTRACTS						
			GROSS		NCC	
FY	Effective Date	Hourly Rate	Incremental Cost	Cumulative Cost	Incremental Cost	Cumulative Cost
FY 16/17	7/1/16	$10.50	N/A	N/A	N/A	N/A
FY 17/18	7/1/17	$12.00	$1.4 million	$1.4 million	$624,006	$624,006
FY 18/19	7/1/18	$13.25	$11.1 million	$12.5 million	$4.9 million	$5.5 million
FY 19/20	7/1/19	$14.25	$8.9 million	$21.4 million	$3.9 million	$9.4 million
FY 20/21	7/1/20	$15.00	$6.7 million	$28.0 million	$2.9 million	$12.3 million
FY 21/22	7/1/21	$15.79	$7.0 million	$35.0 million	$3.1 million	$15.4 million

- ***Based on LA City proposed min wage schedule.***
- Assumes all workers are full-time and earn $11.84 per hour, which is the current County Living Wage (if no health benefits are provided).
- Represents the total cost per FY to raise contract employee wages based on incremental hourly minimum wage increases from $11.84 to $12.00, from $12.00 to $13.25, etc.
- NCC is based on FY 15-16 Recommended Budget rates for impacted departments.
- Number of current contract workers was provided by ISD.
- LAEDC will issue a separate report on the estimated cost impact of a minimum wage increase for non-Prop A contracts.

PROPOSAL 1: LIVING WAGE/PROP A CONTRACTS						
			GROSS		NCC	
FY	Effective Date	Hourly Rate	Incremental Cost	Cumulative Cost	Incremental Cost	Cumulative Cost
FY 15/16	1/1/16	$12.00	$709,696	$709,696	$312,003	$312,003
FY 16/17	1/1/17	$13.25	$6.3 million	$7.0 million	$2.7 million	$3.1 million
FY 17/18	1/1/18	$14.25	$10.0 million	$16.9 million	$4.4 million	$7.4 million
FY 18/19	1/1/19	$15.00	$7.8 million	$24.7 million	$3.4 million	$10.9 million
FY 19/20	1/1/20	$15.79	$6.8 million	$ 31.5 million	$3.0 million	$13.9 million
FY 20/21	~	$15.79	$3.5 million	$35.0 million	$1.5 million	$15.4 million

- *New proposed min wage schedule based on calendar year.*
- *Costs are based on Fiscal Year.*
- Assumes all workers are full-time and earn $11.84 per hour, which is the current County Living Wage (if no health benefits are provided).
- Represents the total cost per FY to raise contract employee wages based on incremental hourly minimum wage increases from $11.84 to $12.00, from $12.00 to $13.25, etc.
- NCC is based on FY 15-16 Recommended Budget rates for impacted departments.
- Number of current contract workers was provided by ISD.
- LAEDC will issue a separate report on the estimated cost impact of a minimum wage increase for non-Prop A contracts.

PROPOSAL 2: LIVING WAGE/PROP A CONTRACTS						
			GROSS		NCC	
FY	Effective Date	Hourly Rate	Incremental Cost	Cumulative Cost	Incremental Cost	Cumulative Cost
FY 15/16	1/1/16	$13.25	$6.3 million	$6.3 million	$2.7 million	$2.7 million
FY 16/17	1/1/17	$14.25	$10.7 million	$16.9 million	$4.7 million	$7.4 million
FY 17/18	1/1/18	$15.00	$7.8 million	$24.7 million	$3.4 million	$10.9 million
FY 18/19	1/1/19	$15.79	$6.8 million	$31.5 million	$3.0 million	$13.9 million
FY 19/20	~	$15.79	$3.5 million	$ 35.0 million	$1.5 million	$15.4 million

- *Proposed min wage implementation beginning with $13.25.*
- *Costs are based on Fiscal Year.*
- Assumes all workers are full-time and earn $11.84 per hour, which is the current County Living Wage (if no health benefits are provided).
- Represents the total cost per FY to raise contract employee wages based on incremental hourly minimum wage increases from $11.84 to $13.25, from $13.25 to $14.25, etc.
- NCC is based on FY 15-16 Recommended Budget rates for impacted departments.
- Number of current contract workers was provided by ISD.
- LAEDC will issue a separate report on the estimated cost impact of a minimum wage increase for non-Prop A contracts.