



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Matt Cano

SUBJECT: 2019 LIVING WAGE RATES

DATE: June 21, 2019

Approved

Date

6-21-19

INFORMATION

LIVING WAGE RATES EFFECTIVE JULY 1, 2019

Based on the methodology to adjust living wage rates outlined in Council Policy 3-3 (Living Wage Policy), the living wage rates for direct service contracts solicited on and after July 1, 2019 are

- 1) If health insurance benefits are provided, a wage of no less than **\$22.68** per hour, or
- 2) If health insurance benefits are not provided, a wage of no less than **\$23.93** per hour.

The new rates represent a 4.37% (\$0.95 per hour) increase from July 1, 2018. The average annual percentage change since adoption of the Living Wage Policy is 4.51% (See Attachment).

Per the Policy, the “without benefits” hourly wage rate provides a reasonable benefits differential of \$1.25 per hour for employees not covered by employer-paid health insurance to purchase their own medical insurance.

BACKGROUND AND METHODOLOGY

The City's current living wage rates (7/1/18 through 6/30/19) are:

- 1) If health insurance benefits are provided, a wage of no less than **\$21.73** per hour, or
- 2) If health insurance benefits are not provided, a wage of no less than **\$22.98** per hour.

Per the Policy, the Office of Equality Assurance (OEA) has reviewed the US Health and Human Services (HHS) Poverty Guidelines and Economic Research Institute's Geographic Assessor to determine if any adjustment to the City's living wage rate for 2019 is necessary.

The adopted methodology used to calculate the living wage rate is:

2019 Federal Poverty Income Standard for Family of 3	x	Geographic Adjustment Factor	=	San Jose Living Wage Rate
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The 2018 poverty standard for a family of 3 increased by \$550 to \$21,330 (\$10.25 per hour) for 2019. The 2019 geographic adjustment factor for a family of three increased 3.7 points to 121.2; meaning it costs 121.2% more to live in San Jose than the national average for a family of three making \$21,330 per year. The geographic adjustment factor continues to increase due in part to apartment rental rates in San Jose.

The table in the Attachment shows the history of the living wage adjustments and geographic adjustment factors since adoption of Council Policy 3-3 in November 1998.

Since Fiscal Year (FY) 2011-2012, when the City's workforce received a wage reduction of approximately 10-12%, the living wage increases have outpaced the general wage increases negotiated by the City's non-sworn bargaining units. Between FY 2011-2012 and FY 2019-2020, the average increase for the living wage rate has been approximately 6.48% per year, compared to the average general wage increase during this same time period negotiated by the City's largest bargaining unit, the Municipal Employees' Federation, AFSCME, Local 101 (MEF), of approximately 1.11% per year as shown in the table below.

Fiscal Year	Municipal Employees' Federation (MEF) General Wage Increase	Living Wage Increase
2011-2012	-12.01%	5.02%
2012-2013	0.00%	8.39%
2013-2014	2.00%	7.13%
2014-2015	3.00%	12.86%
2015-2016	3.00%	2.86%
2016-2017	3.00%	9.93%
2017-2018	3.00%	2.14%
2018-2019	5.00% (not pensionable)	5.64%
2019-2020	3.00%	4.37%
Average	1.11%	6.48%

As the Living Wage applied to City employees, and due to living wage increases outpacing general wage increases, many classifications have had their hourly rate ranges partially or fully impacted. In some situations, salary compaction has occurred where unbenefted, entry-level staff have received hourly rates of close to, or in some cases more than, benefted staff in higher level classifications. As an example, upon implementation of the FY 2018-2019 Living Wage

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rates an unbefitted employee in the entry-level, unbefitted Zoo Keeper Aide classification (max/hourly rate of \$17.29 per the City's Pay Plan, actually receiving an hourly rate of \$22.98) may receive an hourly rate equal to or greater than that of the benefited higher level Zoo Keeper classification (max/hourly rate \$23.60), as shown in the tables below.

FY 2018-2019 Pay Plan and Living Wage		
Classification	Maximum Hourly Rate Per City's Pay Plan + 5% on-going non- pensionable compensation increase (April 30, 2019)	2018-2019 Hourly Rate Actually Received by Employee
Zoo Keeper Aide (Unbefitted)	\$14.21 – \$17.29	\$22.98 Due to Unbefitted Living Wage
Zoo Keeper (Benefited & Full-Time)	\$19.42 – \$23.60	\$21.73 – \$23.60 Due to Benefited Living Wage and Salary Range

FY 2019-2020 Pay Plan and Living Wage		
Classification	Estimated Maximum Hourly Rate Per City's Pay Plan + 5% on-going non- pensionable compensation increase (April 30, 2019)	2019-2020 Hourly Rate Actually Received by Employee
Zoo Keeper Aide (Unbefitted)	\$14.63 – \$17.81	\$23.93 Due to Unbefitted Living Wage
Zoo Keeper (Benefited & Full-Time)	\$20.01 – \$24.31	\$22.68 – \$24.31 Due to Benefited Living Wage and Salary Range

As a result of the salary compaction issues noted in the above tables, some departments have chosen not to use certain entry-level classifications, such as Zoo Keeper Aide. There are other examples in the City's workforce where it is not operationally possible to bypass the entry-level classification, such as in Library operations.

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As of February 26, 2019, a total of 1,417 part-time unbefitted employees, and 49 part-time benefited and full-time employees are currently receiving the FY 2018-2019 Living Wage. Based on the data from February 26, 2019, this would increase to 1,419 part-time unbefitted employees, and 53 part-time benefited and full-time employees when the 2019-2020 Living Wage becomes effective. The number and overall percentage of full-time (FT), part-time benefited (PT-B), and part-time unbefitted (PT-U) City employees receiving the Living Wage has increased since FY 2015-2016, as shown in the table below:

	FY 15-16 ¹	FY 18-19 ¹	FY 19-20 Estimated ¹
# of FT, PT-B, and PT-U Employees Receiving the Living Wage	1,129	1,466	1,472
Total # of FT, PT-B, and PT-U Employees Citywide	7,119	7,718	7,718
Percentage of Citywide FT, PT-B, and PT-U Employees Receiving the Living Wage	15.86%	18.99%	19.07%

It should be noted that this is merely a snapshot of the City's workforce on February 26, 2019, and does not account for employees who separate from City service, who are hired into City service, or who receive step increases that would bring their hourly rate above the Living Wage after that date.

The Administration has been monitoring the ongoing salary compaction issues and will be developing options to resolve these issues for City Council consideration in FY 2019-2020. It should also be noted that the FY 2019-2020 Operating Budget includes the living wage rate increases and it is anticipated that no further budget adjustments will be necessary.

COORDINATION

This memorandum has been coordinated with the City Manager's Office, the Office of Employee Relations, the Budget Office, and the Human Resources Department.

/s/
MATT CANO
Director of Public Works

For questions, please contact Christopher Hickey, Division Manager, at (408) 535-8455.

Attachment

¹ FY 15-16 data per the City's PeopleSoft records as of April 5, 2016. FY 18-19 data per the City's PeopleSoft records as of February 26, 2019. FY 19-20 estimation based on the City's PeopleSoft records as of February 26, 2019.

ATTACHMENT

San José Living Wage Rate Adjustment Table

The City of San José's living wage rates are subject to adjustment on July 1st of each year.

The living wage is reviewed each year to determine if an adjustment should be made based on any changes as of December 31 of the previous year in the federal poverty level standard for a family of three established by the US Department of Health and Human Services or the geographic cost of living differential used by the City to measure the difference between the poverty level standard for the City compared to the federal poverty level standard. If either standard has changed, the City recalibrates the wages using the original methodology with the new values. If neither standard has changed, the CPI for all Urban Consumers (CPI-U) in the San Francisco-Oakland-San Jose area (US Department of Labor/Bureau of Labor Statistics) is reviewed. If the CPI has increased by at least 1%, the wage rate shall be adjusted by the same percentage change in the CPI but not to exceed 3%. The CPI-U increase history is shown in the table below.

The table below shows the rate adjustments and geographic adjustment factors since adoption of the Policy in November 1998. The average annual percentage change to the Rate with Health Benefits since adoption of the Living Wage Policy is 4.51% as shown in the table below.

Effective Dates	Rate W/Health Benefits	Rate W/O Health Benefits	Geographic Adjustment Factor	% Change (Rate W/Health Benefits)	CPI-U Increase (SF-OAK-SJ)
July 1, 2018 – June 30, 2019	\$21.73	\$22.98	117.5%	5.64%	3.9%
July 1, 2017 – June 30, 2018	\$20.57	\$21.82	109.5%	2.14%	3.2%
July 1, 2016 - June 30, 2017	\$20.14	\$21.39	107.9%	9.93%	3.0%
July 1, 2015 – June 30, 2016	\$18.32	\$19.57	89.6%	2.86%	2.6%
July 1, 2014 – June 30, 2015	\$17.81	\$19.06	87.3%	12.86%	2.8%
July 1, 2013 – June 30, 2014	\$15.78	\$17.03	68%	7.13%	2.2%
July 1, 2012 – June 30, 2013	\$14.73	\$15.98	60.5%	8.39%	2.7%
July 1, 2011 – June 30, 2012	\$13.59	\$14.84	52.7%	5.02%	2.6%
July 1, 2010 – June 30, 2011	\$12.94	\$14.19	47%	0.86%	1.4%
July 1, 2009 – June 30, 2010	\$12.83	\$14.08	19.7%	0.00%	0.7%
July 1, 2008 – June 30, 2009	\$12.83	\$14.08	51.7%	1.34%	3.1%
July 1, 2007 – June 30, 2008	\$12.66	\$13.91	53.4%	3.18%	3.3%
July 1, 2006 – June 30, 2007	\$12.27	\$13.52	53.8%	5.68%	3.2%
July 1, 2005 – June 30, 2006	\$11.61	\$12.86	50%	8.30%	2.0%
July 1, 2004 – June 30, 2005	\$10.72	\$11.97	42.4%	3.98%	1.2%
July 1, 2003 – June 30, 2004	\$10.31	\$11.56	40.5%	2.08%	1.8%
July 1, 2002 – June 30, 2003	\$10.10	\$11.35	24.6%	0.00%	1.6%
July 1, 2001 – June 30, 2002	\$10.10	\$11.35	41.6%	0.00%	5.4%
July 1, 2000 – June 30, 2001	\$10.10	\$11.35	48.6%	6.32%	4.5%
November 17, 1998 – June 30, 2000	\$9.50	\$10.75	45.2%	-	4.2%
Average			60.58%	4.51%	2.77%