

**MEMORANDUM**

**TO:** Roger L. Stancil, Town Manager

**FROM:** Rae Buckley, Housing and Neighborhood Services Senior Planner  
Loryn Clark, Housing and Neighborhood Services Manager  
CoCo Hall, Purchasing and Contracts Manager  
Amy Oland, Accounting Manager

**SUBJECT:** Response to Orange County Organizing Committee's Living Wage Policy Proposal

**DATE:** April 24, 2009

**PURPOSE**

The purpose of this report is to provide an informational response to the Orange County Organizing Committee (OCOC) proposal that the Town of Chapel Hill adopt a living wage of \$13.00 per hour for all full-time employees.

**REQUEST**

On April 17, 2009, members of the OCOC Living Wage Research Action Team presented a request that the Town establish a living wage policy in the FY 2009-2010 Budget consisting of a baseline wage of \$13.00 per hour for all full-time employees with an index for automatic annual wage increases.

The OCOC living wage rate proposal is based on the North Carolina Justice Center Living Income Standard rate for Orange County which presents an estimate of the costs for a two person household (one adult/one child) for housing, food, childcare, health care, transportation, other necessities, and taxes. For Orange County the estimated wage is \$17.73 per hour/40 hour work week. Please see Attachment 1 for the North Carolina Justice Center's Living Income Standard for Orange County.

The OCOC living wage rate proposal of \$13.00 per hour removes the estimated cost of health care and transportation from the North Carolina Justice Center Living Income Standard rate to reflect the benefits received by Town employees.

## LOCAL COMPARISONS

Below, we present information about local entities surrounding Chapel Hill that currently have a living wage policy.

	<b>Date of Enactment</b>	<b>2008-2009 Living Wage Rate</b>	<b>Annual Increase Index</b>
<b>Durham County</b>	2004	\$10.95	Automatic index. 7.5% above Federal Poverty Guidelines for family of four.
<b>City of Durham</b>	1998	\$10.95	Automatic index. 7.5% above Federal Poverty Guidelines for family of four.
<b>Durham County Board of Education</b>	2004	\$10.95	Automatic index. 7.5% above Federal Poverty Guidelines for family of four.
<b>Orange County</b>	1998	\$10.12	No automatic index. Raises have been based on the Federal Poverty Guidelines for family of four and adjusted for the Raleigh/Durham Area.
<b>Town of Carrboro</b>	2001	\$10.12	No automatic index. Raises have been based on the Federal Poverty Guidelines for family of four and adjusted for the Raleigh/Durham Area.

### Durham County

The Durham County Board of Commissioners adopted a living wage policy in 2004 that set a minimum compensation rate for employees of not less than seven and one-half percent (7.5%) above the Federal Poverty Guidelines, as defined by the Bureau of Census, for a family of four. The rate is calculated by the County Manager and incorporated into the County's pay plan on a yearly basis.

### City of Durham

The Durham City Council adopted a living wage policy in 1998 that set a minimum compensation rate of \$7.55 per hour for all employees except seasonal part-time employees. Since that time, increases to the living wage rate were calculated every other year at 5% above the poverty threshold standards set by the U. S. Department of Health and Human Services (HHS) for a family of four. In January of 2009, the Durham City Council adopted a revision to the living wage policy that follows the methodology of Durham County for living wage determinations and increases, setting a minimum compensation rate for employees of not less than seven and one-half percent (7.5%) above the Federal Poverty Guidelines.

### Durham County Board of Education

The Durham County Board of Education adopted a living wage policy for all full-time employees of the Durham Public Schools in 2004. The policy states that the Durham Public Schools shall use the rate provided by the Durham County Manager and shall be calculated by July 1st of each year.

### Orange County

The Board of Orange County Commissioners adopted a living wage policy in 1998 that set a rate of \$8.00 per hour for all employees. Since that time the Board has approved increases to the living wage based on a determination of the Federal poverty level for a family of four as adjusted for the Raleigh-Durham Region based on the American Chamber of Commerce Research Association's cost of living index.

### Town of Carrboro

The Town of Carrboro Board of Aldermen established a living wage policy in 2001, which is currently documented in the Town's pay plan. The Town of Carrboro follows the methodology of Orange County for living wage determinations and increases, using the Federal poverty level for a family of four as adjusted for the Raleigh-Durham Region based on the American Chamber of Commerce Research Association's cost of living index.

## FINANCIAL ANALYSIS

Below, we present a financial analysis of the OCOC living wage policy proposal.

1. Affected Positions: the OCOC presented information obtained from the Town listing 49 full-time employees that earn less than \$13.00 per hour. Please see Attachment 2 for a full description of the positions. Below, we provide a summary description of the positions:

Position Title	Number of Positions	Hours Per Week	Hourly Wage	Annual Salary
<i>OCOC Living Wage Request</i>			\$13.00	\$27,040
Firefighter, Level 1 & Master	34	56	\$11.76 - \$12.82	\$34,256 - \$37,328
Solid Waste Collector	5	40	\$12.29 - \$12.75	\$25,562 - \$26,528
Transit Operator I and Service Attendant	5	40	\$12.43 - \$12.90	\$25,862 - \$26,841
Construction Worker I and II	4	40	\$11.70 - \$12.90	\$24,345 - \$26,841
Lifeguard	1	40	\$12.90	\$26,841
<b>Total Positions</b>	<b>49</b>			

Firefighter Positions: Firefighters work nine or ten 24-hour shifts per 28 days, some of which is spent asleep or "on-call." Some municipalities create different wage rates to reflect the variation of activity throughout a firefighter's shift but the Town does not follow this practice.

Consequently, the hourly wage for a firefighter is based on a 56-hour work week, 2,912 hours per year as opposed to a 40-hour per week, 2,080 hours per year position. This calculation difference results in an hourly wage rate for firefighters that is less than the proposed hourly rate of \$13.00 per hour. However the annual salary for a firefighter is well above the annual salary generated by a \$13.00 per hour position.

We do not believe that the 56-hour per week employees should be considered to make less than \$13.00 per hour, however we have provided information and calculations throughout this memorandum for both 56-hour per week employees and 40-hour per week employees.

2. Cost of Employee Benefits: Below, we provide the average cost and explanation of the Town benefits received by employees earning less than \$13.00 per hour. Please see Attachment 3 for the supporting data and calculations.

<b>Average cost per hour of Town benefits for employees earning less than \$13.00 per hour</b>				
	Retirement	Health (flat rate, no average)	Life and Disability	Total
40- and 56-hour per week employees	\$1.22	\$3.96	\$0.16	\$5.34
40-hour per week employees	\$1.26	\$3.96	\$0.17	\$5.39

- a. Health Insurance: The Town provides health insurance through a Preferred Provider Organization. Below, we provide the cost of healthcare that the Town pays for each employee for Employee/Child coverage above the amount the employee contributes for that coverage.

<b>Annual Cost of Employee/Child Health Care to the Town</b>	<b>Annual Cost of Employee/Child Health Care to the Employee</b>	<b>Value of Health Coverage Above Salary</b>	<b>Hourly Value of Health Coverage Above Hourly Wage (40-hour work week)</b>
\$10,722	\$2,477	\$8,245	\$3.96

- b. Disability Insurance: Disabled employees have the guarantee of up to 50% of their income for long term disabilities at a cost to the Town of 1% of an employee's salary per year for each employee.
- c. Life Insurance: The Town pays in full for \$20,000 of individual term life insurance at a cost to the Town of \$81 per year for each employee.
- d. Retirement: On behalf of every employee, the Town makes a contribution equal to 5% of an employee's salary to the State's 401K program as well as a contribution equal to 5% of an employee's salary to the NC Local Government Employees' Retirement System (10% total retirement contribution).
3. Additional Benefits: In addition to the monetary benefits listed above, there are annual-monetary and non-monetary benefits that are provided to all Town employees. Below, we list these benefits:
- a. Annual Leave: Employees are provided 12-26 vacation days depending on the employee's length of service, 12 days of sick leave, 3 days of funeral leave and 11 paid holidays per year.

- b. Longevity Pay: Beginning with five years of service, employees are provided annual longevity payment of \$500-\$1,200 depending on the employee's length of service.
  - c. Access to Group Rates for Short-Term Disability Insurance: Employees are provided the opportunity to purchase supplemental short-term disability insurance at Town negotiated group rates.
  - d. Access to Group Rates for Supplemental Life Insurance: Employees are provided the opportunity to purchase an additional \$20,000 of Life Insurance a cost of \$1.57 per week.
  - e. Access to Group Rates for Dental Insurance: Employees are provided the opportunity to enroll in the Town's Dental Insurance Plan at Town negotiated group rates.
  - f. Flexible Compensation (IRS 125): Employees are provided the opportunity to pay health and medical costs with pre-tax dollars.
  - g. Parking: Employees are provided free parking at Town facilities.
  - h. Tuition Assistance: Employees are provided up to \$500 per year of reimbursement for tuition costs for courses taken during an employee's non-working hours.
  - i. Employee Assistance Program: Employees are provided free and confidential counseling sessions about any personal or work related issue and access to on-line resources.
  - j. Health and Wellness: Employees are provided the opportunity to participate in health and wellness programs that financially reward healthy lifestyle choices. Employees are also provided a reduced membership rate for the Chapel Hill-Carrboro YMCA.
4. \$13.00 per Hour Budgetary Impact: Below, we present the FY 2009-2010 budgetary impact of the OCOC living wage rate proposal of \$13.00 per hour that includes the impact of salary and benefits both 56-hour per week employees and 40-hour per week employees that currently earn less than \$13.00 per hour. Please see Attachment 4 for a description of this analysis.

<b>Number of Employees</b>	<b>Hours per week</b>	<b>Budget Impact</b>
49	56 and 40 hours per week (including firefighter positions)	\$137,077
15	40 hours per week (not including firefighter positions)	\$13,583

5. **\$15.31 per Hour Budgetary Impact:** The National Low Income Housing Coalition has determined that the housing wage rate for Orange County is \$15.31 per hour. On April 15, 2009, the Council requested information about the budgetary impact of a \$15.31 per hour living wage rate as well as the OCOC living wage rate proposal of \$13.00 per hour.

Below, we present the FY 2009-2010 budgetary impact of the National Low Income Housing Coalition housing wage that includes the cost of salary and benefits both 56-hour per week employees and 40-hour per week employees that currently earn less than \$15.31 per hour. Please see Attachments 5 and 6 for a description of this analysis.

<b>Number of Employees</b>	<b>Hours per week</b>	<b>Budget Impact</b>
155	56 and 40 hours per week (including firefighter positions)	\$796,929
107	37.5 and 40 hours per week (not including firefighter positions)	\$340,273

### **DISCUSSION**

Below, we present a discussion of the OCOC living wage policy proposal that addresses the value of Town employee benefits and the issue of wage compression.

1. **Proposed Living Wage Rate:** The OCOC used information provided by the North Carolina Justice Center to develop its proposal for a living wage of \$13.00 per hour. The organization developed an estimate of monthly expenses for a two person family (one adult, one child) living in Orange County in the following areas: housing, food, childcare, health care, transportation, other necessities and taxes, totaling \$3,072, or \$36,868 per year, and \$17.73 per hour based on a 40-hour work week.

In an effort to make this information more specific to Town of Chapel Hill, the OCOC subtracted the cost of transportation, assuming that an employee living in Chapel Hill would not have transportation expenses because of the Town's fare-free transportation system. To better represent healthcare costs for Town of Chapel Hill employees, the cost of healthcare that was estimated for a two person (one adult, one child) household was also subtracted from this figure because of the Town's benefits package. These modifications result in an hourly wage of \$13.69. Because of the other benefits the Town provides, the OCOC reduced the wage calculation to \$13.00.

*Staff Comment:* Below, we present a comparison of the OCOC living wage rate proposal and a comparable Town wage that reflects the monetary value of the Town's benefits for a forty-hour a week employee who earns less than \$13.00 per hour.

	<b>OCOC Proposal</b>	<b>Town Comparison</b>
NC Justice Center Living Income Standard	\$17.73	\$17.73
Subtract Transportation	\$1.28	\$1.28
Subtract Health	\$2.76	\$3.96
Subtract Estimate of Town Benefits	\$0.69	

Subtract Town Benefits		\$1.43
	\$13.00	\$11.06

We have not conducted an analysis of the North Carolina Justice Center's cost estimates that comprise the organization's determination of a Living Income Wage rate for Orange County. However, we believe that the Town's compensation package of both wages and benefits exceeds the value of the OCOC living wage rate proposal of \$13.00 per hour.

Regarding the cost of healthcare, we believe that the quality of the Town's employee healthcare coverage could be valued on the private market at a much higher rate than the cost the Town is able to negotiate with its Preferred Provider Organization.

2. Wage Compression: Because the Town pay plan is based on positions that are classified by grade and step bands, an increase in the lowest wage positions could create pressure on the immediate steps and grades above those positions.

*Staff Response:* We believe the issue of wage compression will be most relevant to those employees who earn the same amount or just above the OCOC living wage rate proposal. Employees clustered in this wage group with more experience, seniority, or supervisory responsibility could resent a pay increase that removes the significance of these attributes. This issue would be particularly relevant to departments with large numbers of employees that are clustered in the same wage group.

In the City of Durham, living wage increases also include increases to the wages for employees that are clustered in the same wage group. Doing so increases the budgetary impact of a living wage policy.

3. Index of Automatic Annual Living Wage Increases: The OCOC includes an index of automatic annual increases to the living wage rate in its living wage policy request. Such an index would not require annual review and approval by the Council. The OCOC has indicated that they are in favor of indexes that are based on the Federal Poverty Guidelines or the Consumer Price Index.

The OCOC living wage rate proposal is based on a wage determined by the North Carolina Justice Center. This amount could be increased by following the Consumer Price Index. Below, we present the Consumer Price Index increases for 2002-2008.

2002	2003	2004	2005	2006	2007	2008
2.4%	1.9%	3.3%	3.4%	2.5%	4.1%	0.1%

*Staff Response:* We believe an automatic annual increase to the living wage rate could create additional wage compression issues, especially in flat budget cycles such as FY 2009-2010. Since the employee pay plan is evaluated on an annual basis by the Council, we believe a living wage should be evaluated on an annual basis as part of the employee pay plan.

4. Choice of Location to Live: Representatives of the OCOC obtained information from the Town documenting that a high number of Town employees live outside of Chapel Hill.

The OCOC asserts that if the Town established a living wage, some of these employees currently living outside of Town would have the option of moving into Chapel Hill.

*Staff Comment:* We believe that the connection drawn by the OCOC between an employee's choice of where to live and the Town's wages is an assumption that leaves out many other relevant factors that affect an employee's choice of where to live.

### **RECOMMENDATION**

We recommend that the Manager consider a Council recommendation to adopt a living wage policy of \$11.06 an hour that would establish a living wage for all full-time employees and that the living wage rate be evaluated on an annual basis as part of the employee pay plan.

### **ATTACHMENTS**

1. North Carolina Justice Center Living Income Standard, by County
2. Employees Currently Earning Less than \$13.00 per Hour
3. 2009-2010 Hourly Cost of Benefits
4. 2009-2010 Budgetary Impact < \$13.00 per hour for 40 and 56 hour per week employees as well as just 40 hour per week employees
5. 2009-2010 Budgetary Impact < \$15.31 per hour for 40 and 56 hour per week employees
6. 2009-2010 Budgetary Impact < \$15.31 per hour for 40 hour per week employees