

November 7, 2017

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Board of Supervisors
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**Re: Living Wage Ordinance (LWO) Annual Report for FY 2016-17;
Consideration of 2018 LWO Cost of Living (COLA) Adjustment**

RECOMMENDATION

It is recommended that your Board review and accept the Living Wage Ordinance Annual Report for FY 2016-17; including direction regarding a cost of living (COLA) adjustment for 2018.

BACKGROUND

The Living Wage Ordinance (LWO) was implemented effective July 1, 2002. It states that "the County Administrator will provide annual reports to the Board of Supervisors on the implementation and effect of the Living Wage Ordinance." Each year, County departments are surveyed regarding the impact of the LWO, if any, upon their services or operations and the County Administrator reports on these findings. In addition, the County Administrator makes recommendations regarding any LWO wage rate adjustment for the ensuing calendar year. While the LWO requires an automatic COLA increase based upon the October-to-October increase in the Bay Area Consumer Price Index (CPI), it also requires a recommendation from the County Administrator incorporating financial conditions.

The LWO wage rate was last increased effective January 1, 2017 to the current \$13.80 per hour without benefits, and \$12.10 per hour including benefits. The Bay Area Consumer Price Index (CPI) is estimated to increase by 2.50%-3.0% from October 2016 to October 2017. The actual CPI increase will not be known until mid-November. If your Board takes no action to forgo a COLA, rates will be automatically increased to an estimated \$14.20 per hour not including benefits or \$12.45 per hour including benefits, assuming a 3.0% CPI increase. If your Board acts to forgo a COLA in light of financial conditions, rates would remain unchanged.

We also update your Board annually on any statutory, policy or budget changes impacting the In-Home Supportive Services (IHSS) program, which can significantly impact estimated costs for any LWO rate adjustment.

ANNUAL REVIEW

Consistent with previous years, departmental input was solicited as to any impact upon services or operations as a result of the LWO in FY 2016-17. As has become the norm, no material or unexpected cost increases or reductions in level of service were reported. Neither were any complaints filed regarding compliance with the LWO. The County organization continues to do an excellent job of incorporating the LWO into its work processes. Contract managers throughout the County are aware of the requirements and report few issues or negative impacts to the services they provide.

POLICY CONSIDERATIONS

In-Home Supportive Services (IHSS) and the LWO Rate

As reported in previous years, the adjustment of wages for then approximately 1,200 IHSS service providers in 2002 represented by far the most significant impact of the LWO. The IHSS Public Authority has consistently reported that these wage and benefit increases improve recruitment and retention efforts for providers. Today there are approximately 1,550 IHSS providers serving Marin clients.

Per a recent California Association of Public Authorities for IHSS (CAPA) survey of California counties, Marin’s IHSS hourly wage rate remains the highest IHSS provider wage among our comparison counties, due largely to the wage floor established by our LWO since 2002. Among all 58 California counties surveyed, Marin County is currently second highest at \$13.80 per hour, with the City and County of San Francisco the highest at \$14.00 per hour. The chart below summarizes hourly rates for IHSS providers among Marin’s seven comparison counties:

Current IHSS Provider Rates (as of August 2017)	
Comparison Counties	Current Hourly Wage
Marin	\$13.80
Sonoma	\$13.00
San Mateo	\$12.65
Monterey	\$12.25
Napa	\$12.10
Santa Cruz	\$11.90
San Luis Obispo	\$11.85
Santa Barbara	\$11.30

Given the approximately 1,550 IHSS providers impacted by the LWO, the IHSS program has traditionally represented a significant factor for the County when considering the fiscal impact of the LWO. Below is an update regarding recent policy issues impacting the program.

The IHSS Maintenance of Effort (MOE) and the New State Budget

Effective FY 2017-18, County IHSS program costs were re-based to 1) include newly added costs due to State action to increase the State minimum wage and 2) to pay sick leave to IHSS workers, as well as 3) additional costs due to federal action to require overtime pay. These costs now include an ongoing inflation factor of 7% per year starting in FY 2019-20, where previously the program had only a 3.5% annual MOE inflator. By reinstating the previous 35% county share of all nonfederal costs, the State essentially shifted an estimated \$623 million over 5 years in statewide IHSS costs to counties, which we had reported in our January State Proposed Budget summary to your Board.

Since January, extensive efforts commenced among county administrators, the California State Association of Counties (CSAC) and the Governor’s Office to mitigate the impacts of this cost shift to counties. Ultimately, the Governor announced a deal in his May Revision Budget Proposal that would significantly mitigate these new costs in the next two years with a re-based MOE, additional State funding, and a 0% cost inflator in year 1; a 5.0% inflator in year 2; and a 7% annual

inflater beginning year 3 in FY 2019-20. While this agreement significantly mitigated the short-term impacts, our local program costs can be anticipated to increase significantly going forward with the new 7.0% annual inflater beginning FY 2019-20. The Governor's May Revision agreement includes a reopener after two years, for which we and other counties will advocate renegotiation of the 7% annual inflater, which we believe is not sustainable for counties.

On a more positive note, the May Revision deal does include a provision for counties currently at or exceeding the current \$12.10 per hour State participation cap, in which the State will pay 65% of the non-federal costs up to a maximum 10% increase in wages or benefits over 3 years. This provision is beneficial to Marin and other coastal counties, acknowledging our relatively more expensive labor market. Absent this new provision, counties above the State cap – like Marin – would have had to continue to absorb the entire non-federal cost of any COLA increases going forward above the State participation cap.

COST OF LIVING ADJUSTMENT

Your Board has the option to forego a LWO COLA for the ensuing calendar year based upon financial conditions, a determination informed by a recommendation from the County Administrator as a component of the annual report on the living wage. The LWO wage rate was last increased effective January 1, 2017 to the current \$13.80 per hour without benefits or \$12.10 per hour with health benefits.

Staff Recommendation: Based on your Board's past policy direction, and given that the State's revised IHSS funding agreement includes a provision that the State will participate in 65% of non-federal costs up to a maximum 10% increase in wage or benefit costs, we are recommending an automatic LWO rate increase consistent with the October-October change in the Bay Area CPI effective January 1, 2018.

An estimated 3.0% CPI adjustment effective January 1, 2018 would increase rates to an estimated \$14.20 per hour not including benefits, or \$12.45 per hour including benefits. This would result in additional ongoing General Fund costs of approximately \$203,000 annually, which would also increase the County's IHSS MOE subject to the 7.0% annual MOE inflater mentioned earlier. If the actual October-October CPI change is greater or less than the estimated 3.0%, staff would proceed consistent with the Ordinance to implement the actual change rounded to the nearest five cent increment.

Assuming a 3.0% CPI adjustment, we do not expect any County classifications to be impacted by the recommended action. Performance Attendants and County Services Workers are currently compensated at \$14.21 per hour in the County's classification system – slightly above the estimated \$14.20 per hour impact of a 3.0% COLA. Should the October-October CPI be greater than the estimated 3.0%, we are also requesting approval to revise those salary ranges that would be directly impacted.

We will advise contract managers to ensure their LWO-eligible contractors comply with the new rates effective January 1st. Because IHSS providers are paid by the State, staff will work with the California Department of Social Services to implement the change as soon as possible, expected to be no later than February 1st.

Alternative Option/Non-IHSS CPI Adjustment: Take action today to forgo a COLA adjustment to the LWO rate effective January 1, 2017. Rates would remain unchanged at \$13.80 per hour (non-benefitted) and \$12.10 per hour if health benefits are provided.

Fiscal Impact

The fiscal impact of approving staff's recommendation to allow an estimated 3.0% increase to the LWO wage rate effective January 1, 2018 is additional General Fund costs of up to approximately \$101,000 for the balance of FY 2017-18, with estimated annual or ongoing costs of \$203,000.

Without State participation, the local cost would be approximately \$580,000 on an annualized basis. With 65% State participation, the State will fund \$377,000, leaving \$203,000 in local costs. The estimated \$203,000 increase to the County's IHSS MOE would inflate 5.0% per year in 2018-19 and 7.0% annually beginning FY 2019-20. We will coordinate closely with CSAC and our County lobbyist to discuss a reopener of the State IHSS deal to address the fiscally unsustainable 7.0% annual MOE inflator.

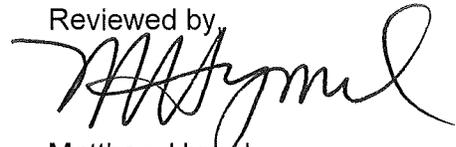
If your Board should have any questions, please feel free to contact Dan Eilerman of my office at 473-6358, or you may contact me directly.

Sincerely,



Daniel Eilerman
Assistant County Administrator

Reviewed by,



Matthew Hymel
County Administrator