

Mary H. Talley

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| <b>FROM</b> | NAME & TITLE          | Mary H. Talley, Director & Chief Human Capital Officer                              |
|             | AGENCY NAME & ADDRESS | Department of Human Resources<br>201 E. Baltimore Street, Baltimore, Maryland 21202 |
|             | SUBJECT               | City of Baltimore Council Bill, 17-0018<br>Labor and Employment- City Minimum Wage  |

CITY of  
BALTIMORE  
**MEMO**



**TO** The Honorable Bernard "Jack" Young  
and Members of the Baltimore City Council  
City Hall  
100 N. Holliday Street, Room 409  
Baltimore, Maryland 21202

DATE:  
February 24, 2017

Dear Council President Young and Members of the City Council:

***Recommended Position***

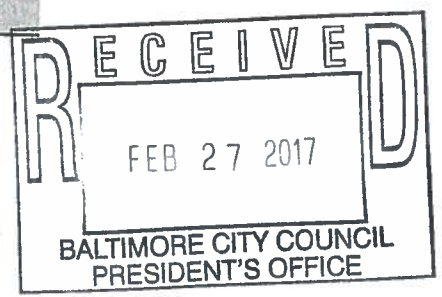
The Department of Human Resources ("DHR") reviewed the above captioned City Council Bill 17-0018 ("Bill") and supports in concept, the Council's desire to raise the wages of the City's least paid employees. However, additional analysis is required to gather a more complete understanding of the impact on the City of raising the minimum wage. Such large increases, over a relatively short period of time will significantly increase the City's budget deficit, as well as affect thousands of Baltimore City government employees who are currently paid at, near or above the minimum wage because salary scales will need to be elevated to ensure appropriate pay differentials amongst the established position classifications and associated pay grades. Accordingly, DHR takes **no position** on the Bill. The comments below highlight some probable unintended consequences of the Bill.

***Comments and Analysis***

Both nationally and locally, there is much ongoing debate regarding the feasibility of raising the wages of the lowest-paid employees. The Bill proposes the minimum wage for City employees be increased to \$15 per hour by 2022. Currently, the City's minimum wage mirrors Maryland State minimum wage of \$8.25 per hour. The increases proposed by the Bill are listed in the chart below.

| Date           | Minimum Wage  |
|----------------|---|
| Until 7/1/2019 | A rate not less than the higher of MD or Federal Minimum Wage |
| 7/1/2019       | \$11.25   |
| 7/1/2020       | \$12.50   |
| 7/1/2021       | \$13.75   |
| 7/1/2022       | \$15.00   |

No position



Of the City's current 13,529 employees,<sup>1</sup> 2,221 employees earn less than \$15 per hour. The job classifications of those positions earning \$15 per hour and less include, Community Aide, Crossing Guard, Library Assistant, Lifeguard, Recreation Instructor, Seasonal Maintenance Aide and Swimming Pool Operator. These positions are entry level and typically do not require prior work experience and have minimal education requirements. Notwithstanding the entry-level nature of these positions, the profile of the City's minimum wage earner varies to include students, retirees and mid-level employees. Given the City's current workforce and financial state, there are several probable unintended consequences of raising the minimum wage at the rate suggested by the Bill.

### Wage Compression

Despite good intentions, the increases proposed in the Bill will have an effect on employees who are currently paid below the minimum, as well as on employees who are paid at or near the minimum. Wage compression occurs when the lower-paid (typically, less skilled) employees' wages rise and the wages of existing (or more experienced) employees do not. The result is lesser skilled employees being paid as much, or nearly as much, as more skilled employees, thus, creating wage compression. Wage compression can assist in creating employee morale issues and can effect employee perceptions regarding pay fairness. When it comes to perceptions of pay fairness, employees judge their relative worth to the organization based on the required competencies (e.g. knowledge, skills, and abilities) to accomplish their job responsibilities in comparison to other positions across the organization. If employees are already earning at or near \$15 per hour and believe their position and skillset warrants more than the minimum wage they will expect that their pay be increased proportionally above those occupying lower job classifications. Essentially, raising the minimum wage will have a ripple effect on the wages of supervisory and other employees who earn above minimum wage. However, it is highly unlikely that the City's budget can provide and sustain the increases necessary to avoid the wage compression that raising the minimum wage will cause. The highly probable result of wage compression is a decrease in employee productivity and engagement, increased complaints and grievances, and thoughts and feelings of being undervalued and depreciated all of which negatively impact employee morale.

### Reduced Opportunities for Current and Future Employees

The City will be forced to make tough decisions to fund the increases proposed by the bill. In times of fiscal restraint, benefits offered to employees, like funding for training and professional development are likely to decrease. Similarly, funding for technological advances that can assist in employee efficiency are likely to be delayed or reduced. It is also not unreasonable to assume that positions deemed as non-essential may be eliminated, and tasks will be reassigned to more highly skilled and/or senior employees. Effectively, the City's workforce will be responsible for providing the same levels of service with fewer human capital resources; and such a practice is linked to diminished morale, increased stress and work errors.

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<sup>1</sup> As of February 17, 2017.

The proposed minimum wage increase is also likely to impede the City's workforce planning strategies. Although an increase to the minimum wage will attract more people to join the City's workforce, the higher minimum wage associated with entry level positions will require the City to provide more competitive wages to attract/retain higher skilled employees; or alternatively, replace higher skilled employees with lower skilled employees. Essentially, if the City is unable to provide wages that more closely align with higher level skillsets those employees will leave the City's employ for more competitive salaries. Resultantly, the City's workforce composition will include lower-skilled employees, which is likely to affect constituent service delivery.

An increase in the minimum wage will have far-reaching effects, considerably more than simply increasing the wages of the City's least paid employees.