

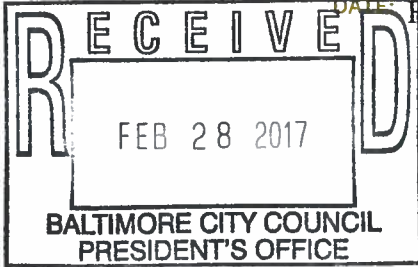
Rhag, City, for:

FROM	NAME & TITLE	Andrew Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410-396-4941)
	SUBJECT	City Council Bill #17-0018 – Minimum Wage

CITY of
BALTIMORE
MEMO



TO
The Honorable President and
Members of the City Council
Room 400, City Hall



DATE: February 27, 2017

Attention: Ms. Natawna Austin

I am herein reporting on City Council bill 17-0018, the purpose of which is to set Baltimore City's minimum wage rate through 2022, set the formula to determine Baltimore City's minimum wage from 2023 onward, and to propose a variety of changes to the Wage Commission's composition, procedures, and enforcement mechanisms.

The proposed bill would set the City's minimum wage equal to the State of Maryland rate until July 1, 2019, and then apply additional increases to \$11.25 (FY20), \$12.50 (FY21), \$13.75 (FY22), and \$15.00 (FY23).

Analysis

We see three potential implications for the City's finances:

Part-Time / Temporary Employees: As of October 1, 2016, the City had 2,023 employees on the payroll that were classified as either part-time or temporary employees. Many of these employees, such as Community Aides, Seasonal Maintenance Aides, and Recreation Arts Instructors, currently earn a wage that is either at or slightly above the current State-mandated minimum wage of \$8.75 per hour. The proposed legislation sets the City's minimum wage equal to the State minimum wage through Fiscal 2019, but thereafter the City minimum wage would exceed the State by an increasing amount per year. For purposes of this analysis, we assumed that the State minimum wage, which is only set through Fiscal 2019, would grow an additional 2% per year:

Minimum Wage	FY17	FY18	FY19	FY20	FY21	FY22	FY23
State	\$8.75	\$9.25	\$10.10	\$10.30	\$10.50	\$10.71	\$10.92
City (proposed)	<u>\$8.75</u>	<u>\$9.25</u>	<u>\$10.10</u>	<u>\$11.25</u>	<u>\$12.50</u>	<u>\$13.75</u>	<u>\$15.00</u>
Difference	\$0.00	\$0.00	\$0.00	\$0.95	\$2.00	\$3.04	\$4.08

As the City minimum wage increases beyond the State minimum, many of the City's part-time and temporary workers' hourly wages would fall below the new City-mandated minimum wage. Bringing these wages up to the new minimum would have a direct cost impact to the City:

opposed w/ comments

Impact	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Employees Affected	0	0	0	941	1,162	1,363	1,554
Cost Impact (\$ millions)	\$0.0	\$0.0	\$0.0	\$0.6	\$1.8	\$3.2	\$4.8

Pay Compression: The proposed legislation would not directly affect the City's full-time employees. The City's lowest-paid full-time employees already earn nearly \$14 per hour. With 2% wage growth per year these employees would already exceed the \$15 minimum wage by Fiscal 2023.

However, the increase in the minimum wage will put upward pressure on overall wages in order to maintain the salary differential between lower-skilled, higher-skilled, and supervisory workers. For example, the legislation would directly raise the wages of Seasonal Maintenance Aides, which in turn would put upward salary pressure on higher-skilled Laborer positions in AFSCME, which would put pressure on Crew Leaders, and then supervisors, and so forth. The same spillover effect would occur in CUB between the lowest-paid Community Aides and progressively higher classifications such as Office Assistants, Office Supervisors, and Administrative Coordinators.

To maintain full salary differential, the City would need to provide wage increases for full-time employees in AFSCME and CUB that matches the rapid growth in the minimum wage. The following table shows the significant cost impact to the City of providing these wage increases for these two unions:

Impact (\$ millions)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
AFSCME	\$0.0	\$0.0	\$0.0	\$5.0	\$10.3	\$15.7	\$21.1
CUB	\$0.0	\$0.0	\$0.0	\$7.0	\$15.0	\$22.8	\$30.5
Total	\$0.0	\$0.0	\$0.0	\$12.0	\$25.3	\$38.5	\$51.6

Income Tax: Lastly, we analyzed the potential impact of the legislation on the City's income tax revenues. The City's tax rate is 3.2%, and is budgeted at \$317.6 million in Fiscal 2017, which represents 18% of General Fund revenues.

An increase in the minimum wage will increase wages and income which should in turn boost the City's Income Tax revenue. In tax year 2015, 38,500 tax returns were filed by Baltimore City taxpayers with an Adjusted Gross Income of \$20,000 or less, which roughly equates to workers making at or slightly above the current minimum wage. Note that in Maryland income tax is paid based on where the taxpayer lives regardless of where the income is earned. Of those 38,500 returns only 23,200 earned their income in the City, and so only these taxpayers would be affected by the legislation. If these taxpayers' income were boosted based on the proposed minimum wage schedule, the City's income tax revenues would increase by \$15.7 million above baseline by Fiscal 2023.

Offsetting these gains would be the potential loss of Income Tax revenue due to lower employment levels. A recent survey of hundreds of minimum wage studies indicates that each 10% increase in the minimum wage typically results in a 1-3% reduction in employment levels. In addition, these reductions tend to fall most heavily on lower-skilled jobs and workers. If the City were to

experience a 1% reduction in employment levels each year, Income Tax revenues would decrease by \$4.1 million annually below baseline by Fiscal 2023.

The table below shows the net effect of both of these scenarios on the City's Income Tax revenue:

Impact (\$ millions)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Wage Increase	\$0.0	\$0.0	\$0.0	\$2.8	\$4.9	\$8.7	\$15.7
Reduced Employment	\$0.0	\$0.0	\$0.0	(\$0.9)	(\$2.0)	(\$3.0)	(\$4.1)
Total	\$0.0	\$0.0	\$0.0	\$1.9	\$2.9	\$5.7	\$11.6

Conclusion

City Council Bill 17-0018 would have a direct and costly impact on the City's finances. By Fiscal 2023 the legislation would cost the City \$44.8 million annually above baseline, for a total of \$115.8 million over the next seven years:

Impact (\$ millions)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total
Part-Time Costs	\$0.0	\$0.0	\$0.0	\$0.6	\$1.8	\$3.2	\$4.8	\$10.5
Pay Compression Costs	\$0.0	\$0.0	\$0.0	\$12.0	\$25.3	\$38.5	\$51.6	\$127.4
Income Tax Revenues	\$0.0	\$0.0	\$0.0	(\$1.9)	(\$2.9)	(\$5.7)	(\$11.6)	(\$22.1)
Total	\$0.0	\$0.0	\$0.0	\$10.7	\$24.2	\$36.0	\$44.8	\$115.8

Part-time and temporary worker wages would need to increase to comply with the minimum wage with a direct cost of \$4.8 million annually by Fiscal 2023.

In turn, those higher wages would put upward pressure on wages for more highly-skilled full-time employees in AFSCME and CUB. To maintain the current spacing in the salary scales between unskilled, skilled, and supervisory workers would cost an additional \$51.6 million annually above baseline in Fiscal 2023. To put that cost in perspective, an additional \$51.6 million would require the elimination of 793 full-time positions, which represents 5.6% of the City's workforce.

The City would likely see a net increase in Income Tax revenue due to higher local wages even after accounting for employment losses, but these additional revenues would not come close to offsetting the significant new costs to the City.

For these reasons, the Department of Finance opposes the passage of City Council Bill 17-0018.

cc: Henry Raymond
Angela Gibson

Visit our website @ www.baltimorecity.gov