

Andrew Klein

FROM	NAME & TITLE	Andrew W. Klein, Chief Henry Raymond, Chief Revenue Collections
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 469, City Hall (396-4941)
	SUBJECT	City Council Bill 10-0505 Minimum Wage – Living Wage for Major Retailer Employees

CITY of
BALTIMORE
MEMO



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

DATE: July 22, 2010

City Council Bill 10-0505 would require retail establishments in the City of Baltimore with annual gross volume of sales exceeding \$10,000,000 to pay their employees the City's living wage. Any franchise or branch of a parent company would be included and covered under the ordinance.

The Finance Department is deeply concerned about this bill's potential impact on the City's economy and tax revenues. The Department also foresees major implementation and enforcement challenges.

Economic Impact

Understanding the full consequences of this legislation would require significant study. We know that the City's unemployment rate has nearly doubled during the current recession, and the City is now experiencing the full effects of the housing market collapse. It is safe to say that by imposing a large premium on the cost of employing low-skilled workers in the City, a broad living wage requirement would likely result in additional job loss and business failure or flight. It would also impair the City's ability to attract major retailers, which is critical to economic recovery.

Although data on business revenue and ownership are not readily available, the ordinance would potentially cover many businesses in the City and do significant harm to a fragile economy that is already burdened with disproportionately high taxes – many of which were just increased to close the Fiscal 2011 budget gap.

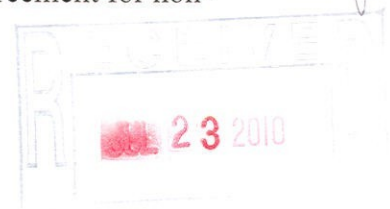
This economic impact of this legislation would translate into lost tax revenue for the City and the possibility of eliminating many of the services that the Mayor and City Council worked hard to restore.

Implementation Challenges

The bill would add new responsibilities for the Wage Commission:

- The bill would require that each retail establishment file a certificate of compliance with the Wage Commission on a yearly basis. Regulation and enforcement for non-compliance would have to be established.

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- Retail establishments may apply a fringe benefit credit up to \$2 per hour with the requirement that an accounting and explanation be provided to the Wage Commission every two years. The Commission would be required to audit these reports when an employee makes an inquiry regarding the credit. If the Commission finds the credit to be inaccurate or unreasonable, it must then take action to revoke the benefit credit until it is corrected.

Impact on the Wage Commission:

- Funding for wage enforcement was reduced in the Fiscal 2011 budget. Wage enforcement and community relations staff have merged into the new Office of Civil Rights and Wage Enforcement. Three positions are fully dedicated to wage enforcement and additional staff will be cross-trained to assist with wage cases as needed. Three filled wage enforcement positions were abolished as the result of budget cuts.
- Due to the reduced staffing, the Wage Commission is currently assessing and cutting back service to the construction prevailing wage program. The backlog of Minimum Wage cases is growing. Given this situation, it would not be possible for the agency to add a fourth program to enforce with the current staffing levels.
- Effectively implementing and enforcing the proposed ordinance would be virtually impossible, because the revenue and ownership information needed to determine which businesses are covered is not readily available.
- Because the scope of businesses covered cannot be determined from available data, estimating the cost of enforcement is guesswork. To provide some perspective, two additional compliance officers with clerical support to handle audits, violations and violation notifications, hearings and correspondence would cost approximately \$160,000.

Given the potential harm to the City's economy and revenues, along with the implementation challenges, the Finance Department opposes Council Bill 10-0505.

Cc: Edward J. Gallagher
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