



MEMORANDUM

TO: Mayor and Council Members

FROM: Joya Hayes, Human Resources and Civil Service Director *JA*
Ed Van Eenoo, Chief Financial Officer *W*

THROUGH: Veronica Briseño, Assistant City Manager

DATE: August 3, 2022

SUBJECT: **Increasing the Living Wage to \$22 per Hour for Fiscal Year 2023 (Resolution 20220616-050)**

The purpose of this memorandum is to respond to the request for the City Manager to develop a plan and timeline to adopt a Living Wage (LW) of \$22.00 per hour and to increase the Living Wage in Fiscal Year 2023 (FY23) by the most significant amount possible.

[Resolution No. 20220616-050](#) directed the City Manager to report back to the Council during the proposed budget, considering the following:

1. Prioritizing staffing needs during the FY23 budget development to provide a Living Wage to employees, mitigate the loss of purchasing power, retain and recruit experienced employees, and reinvest in the entire City workforce.
2. Develop a plan and timeline to adopt a Living Wage of \$22.00 per hour for all regular, sworn, and temporary employees of the City, as well as any workers employed through contracts with the City and excluding employees in the summer youth program.
3. To increase the Living Wage by the most significant amount possible if achieving \$22.00 per hour is not feasible.
4. Provide data to the City Council so Council may increase the Living Wage further in FY23.
5. Provide a report to the Council on the amount of funding required to achieve \$22.00 per hour and what changes to the proposed budget would be needed, along with a timeline for providing \$22.00 per hour as soon as possible.
6. Develop a plan to increase the Living Wage each year to reach \$27.00 per hour.
7. Include compression and experience in any changes to the Living Wage.
8. Include a general wage increase for civilians not included in the Living Wage and provide a competitive labor contract for all sworn staff.
9. Add recruitment and retention as a top indicator in Strategic Direction 2023 and include Living Wage as a metric for this indicator, and develop key metrics around vacancy rates, time to recruitment, and employee tenure.
10. Include a section on the City website that addresses Living Wage in upcoming and future budget proposals.
11. Increase the Living Wage by no less than the cost-of-living adjustment for regular employees and account for pay compression.

Background

In 2014, the City Council passed [Resolution No. 20141016-035](#), which directed the City Manager to provide staff support for a stakeholder process to develop recommendations regarding the City's Living Wage rate and policy. During that process, stakeholders met seven times from January to May 2015, provided their recommendations to Council, and then briefed the Council. After the presentation to Council, the City Manager, in conjunction with the annual budget process, brought forward a plan to increase the Living Wage rate to \$15.00 per hour by 2020.

Like the 2015 process, the Human Resources Department (HRD) provided staff support by convening meetings with the community organizations that participated in the previous Living Wage Stakeholder Group. Other organizations were invited upon the Group's recommendation.

The Group met four times: January 26, February 9 and 23, and March 9, 2022. Like the previous process, the Group recommended a Living Wage.

- The City should acknowledge that it is working toward a Living Wage and that it will take a financial commitment to provide a Living Wage that would meet actual living expenses.
- The City should adopt a wage rate of \$22.00 per hour that accounts for compression to take effect at the beginning of FY23.
- This wage rate should apply to all regular and temporary employees of the City of Austin, excluding employees in the summer youth program, regardless of position or number of hours worked.
- The City should plan to increase the wage rate each year to reach an hourly rate of \$27.00 per hour by FY27.
- Once the City has reached a Living Wage, use the average annual increases in the CPI-U in Texas to increase the rate each year.

Adjustments in the Living Wage will also apply to any contracts the City issues for City work and require those receiving Chapter 380 incentives to pay the new rate.

The Human Resources and Financial Services Departments Office provided a preliminary estimate of costs associated with a \$22.00 per hour Living Wage rate for FY23. The costs to the General Fund budget were estimated between \$18M to \$23M. These costs did not include any sworn employees.

Approximately 5,000 employees, regular, sworn, and temporary, are paid under \$22.00 per hour.

Number of Employees				
Earning:	Sworn	Civilian	Temporary	Part-Time
Up to and including \$15.00	0	0	1,060	124
Up to and including \$16.00	0	21	1,212	7
Up to and including \$17.00	0	137	499	2
Up to and including \$18.00	0	160	132	0
Up to and including \$19.00	0	302	38	0
Up to and including \$20.00	31	359	74	2
Up to and including \$21.00	58	336	82	1
\$21.01 - \$21.99	89	260	51	0
Total	178	1,575	3,148	136

Determining Costs

An increase to the Living Wage of this magnitude may have unintentional or difficult to factor consequences. The following factors contribute to the uncertainty in determining the estimated cost of increasing the Living Wage.

Number of temporary employees

- May increase due to attractiveness of jobs, thus costing more
- May decrease due to closed programs, thus costing less

Number of hours worked by temporary employees

- Temporaries often do not work full-time weekly or for the entire year;
- This analysis captured budgeted weekly hours; the lower range assumes they work half-time or for only six months (1040 in a year for someone budgeted full-time); the upper range assumes full budgeted hours for a full year (2080 hours for someone budgeted full-time)
- If departments adjust the hours of temporary employees (e.g., for budgetary reasons or to address unexpected demand for services), the final costs may go up or down, accordingly

Employee changes

- Employees may opt to take another job with fewer responsibilities but at a higher rate than they're currently earning
- Departments may be forced to reduce their staff
- Normal turnover rates may be altered

Amount of any approved across-the-board (ATB) increase

- This analysis estimated 2%, based on recent history. This analysis was conducted in January to prepare for the stakeholder meetings before the release of the budget proposal.
- A higher ATB would increase the costs since it is applied after any LW increases.

How pay scales impacted

- This analysis estimated the costs of various rates between \$16.83 and \$27.00. Assumptions were made on how jobs would be impacted before any discussion with departments, which were scheduled to begin after the City Manager announced the budget.
- HRD will need to discuss the recommended pay grade with the various impacted departments. Some jobs may be collapsed into similar classifications. Other jobs may need to increase more than the projected pay grades.

- This analysis smoothed the LW increase over other grades beyond those directly impacted by the proposed increase to maintain a compensation system that will endure. The current analysis varies from the initial proposal.
- Compression and experience are considered when the Living Wage is implemented. Any classifications that lead or are a second level from classifications that need to increase in pay grade will be adjusted accordingly to remain at least one grade higher. The across-the-board increases will apply after adjustments to employee pay allowing separation between those tenured employees and new hires.

Cost Estimates

Living Wage	Cost to the General Fund (FY23)
\$19.00	\$6.0M to \$10.1M
\$20.00	\$8.4M to \$14.1M
\$21.00	\$11.5M to \$18.7M

The above chart indicates the costs to increase the Living Wage to \$19.00, \$20.00, and \$21.00 per hour in FY23. This information was also requested in [Council Budget Question 11](#).

Adjusting the Living Wage to \$22.00 would impact approximately 89 classifications. The lowest pay grade would begin at pay grade 8. Currently, we begin at pay grade 2, and the increase to a Living Wage of \$18 will move the lowest pay grade to grade 4. The actual number of classifications may change. The Human Resources Department will meet with departments in the next few weeks to discuss the impact of the \$18.00 Living Wage on pay scales. Some possible results will be reducing classifications, collapsing multiple levels into single classifications, and reducing minimum qualifications to entry-level. Another result could be an increase in affected classifications that may impact the internal alignment of other classifications outside those directly affected.

Implementation Options

The FY23 proposed budget includes an increase in the Living Wage to \$18.00 per hour. The tables below show the projected annual and cumulative costs of increasing the Living Wage to \$22.00 and \$27.00 per hour, respectively, by FY27. These tables offer a static cost based on the implementation of \$18 per hour in FY23, as indicated in the City Manager’s budget. The future year costs are based on the projected increase starting in FY24. The estimate in the table above is a range based on increasing the Living Wage rate above \$18 per hour in FY23.

Option 1

Fiscal Year	Per Hour	Annual New Cost (General Fund)	Cumulative Ongoing Cost
FY23	\$18	<i>Included in FY23 Proposed Budget</i>	
FY24	\$19	\$5.9M	
FY25	\$20	\$3.6M	\$9.5M
FY26	\$21	\$4.6M	\$14.1M
FY27	\$22	\$5.1M	\$19.2M

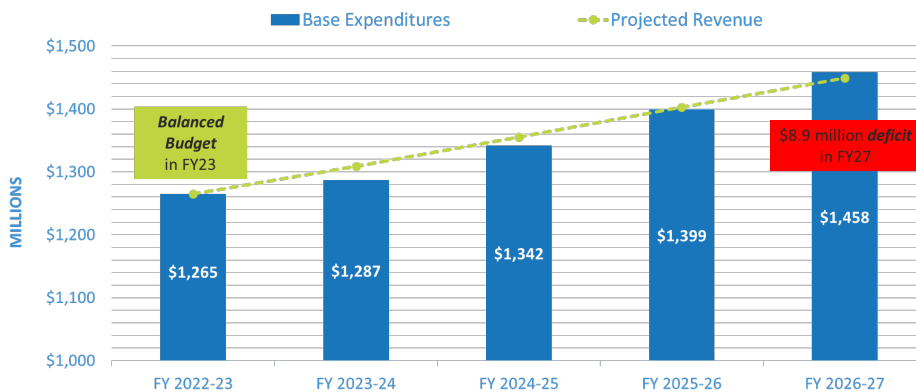
Option 2

Fiscal Year	Per Hour	Annual New Cost (General Fund)	Cumulative Ongoing Cost
FY23	\$18	<i>Included in FY23 Proposed Budget</i>	
FY24	\$20	\$9.5M	
FY25	\$22	\$9.7M	\$19.2M
FY26	\$24	\$10.9M	\$30.1M
FY27	\$27	\$21.3M	\$51.4M

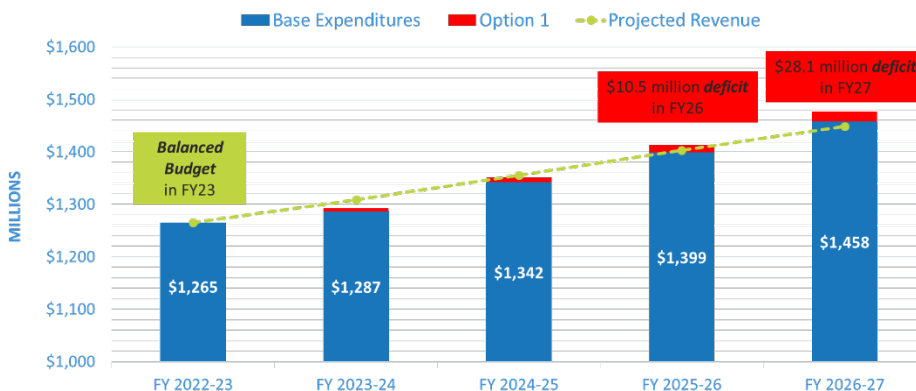
Enterprise costs will be provided at a later date.

Budget Analysis

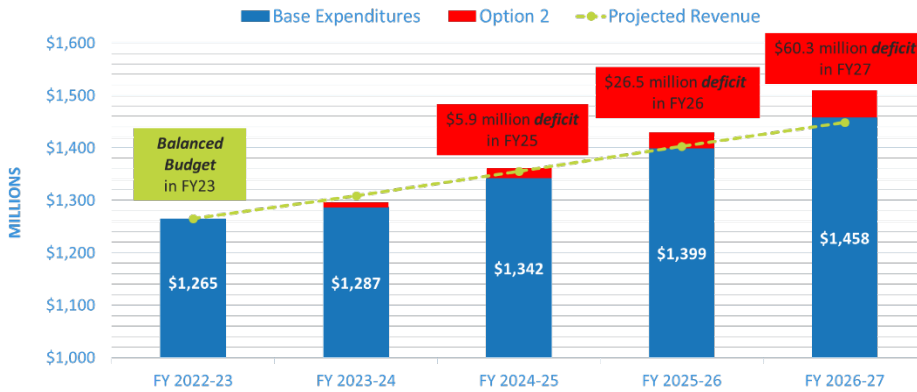
The FY23 Proposed Budget, released on July 15, includes an updated financial forecast showing projected revenue and expenditures for the General Fund through FY27. Expenditure projections reflect all known and anticipated baseline cost increases, such as wages, health insurance, fuel, and utilities, as well as the addition of 135 sworn police officer positions in the latter years of the forecast period to address the Austin Police Department’s approved staffing plan. Revenue projections are informed by economic and demographic analysis and are conservatively estimated. As illustrated in the chart below, while small surpluses are anticipated in the intervening years, a General Fund deficit of \$8.9 million is currently anticipated by FY27.



Instituting Option 1, increasing the Living Wage to \$22.00 per hour by FY27, would lead to a projected \$10.5 million deficit in FY26 and increase the anticipated FY27 deficit to \$28.1 million.



Instituting Option 2, increasing the Living Wage to \$27.00 per hour by FY27, would lead to a projected \$5.9 million deficit in FY25 and increase the anticipated FY27 deficit to \$60.3 million.



It is also important to remember that this forecast reflects only base expenditures and a small increase in public safety staffing; it does not include funding for any service expansions or enhancements or any other previously identified but as-yet unfunded Council priorities. Closing the General Fund deficit and securing funding for initiatives such as an expanded Living Wage will require the identification of new revenue sources, voter approval of higher property taxes, stronger-than-anticipated growth in sales taxes, or other general revenue sources, or the re-prioritization of existing resources. The above projections are for the General Fund only. Increases in the Living Wage would likewise impact enterprise department budgets, and rate increases could be required to cover the higher staffing costs.

Strategic Direction Metrics

As the City is embarking on a refresh of Strategic Direction 2023 early next year, staff will design recruitment and retention metrics during that process. This additional time will allow the Financial Services Department and HRD to develop the appropriate indicator as well as the goals and metrics to support the indicator.

Living Wage and City Website

The “[What is the City’s Living Wage](#)” webpage on the City’s website will be updated following adoption of the Fiscal Year 2023 budget to include historical City employee Living Wage rates and the most current wage rate.

If there are additional questions on this topic, please reach out to Joya Hayes, Human Resources and Civil Service Director, at Joya.Hayes@austintexas.gov, or Ed Van Eenoo, Chief Financial Officer, at Ed.VanEenoo@austintexas.gov.

cc: Spencer Cronk, City Manager
Anne Morgan, Acting City Manager