

# Agenda Report

**TO:** CITY COUNCIL **DATE:** December 16, 2002

**FROM:** CITY MANAGER

**SUBJECT:** DIRECT THE CITY ATTORNEY TO PREPARE AN AMENDMENT TO THE LIVING WAGE ORDINANCE, P.M.C. CHAPTER 4.11, INCREASING THE LIVING WAGE RATE TO \$8.20 PER HOUR WITH \$1.41 PER HOUR FOR MEDICAL BENEFITS OR \$9.61 PER HOUR WITHOUT MEDICAL BENEFITS AND TO ESTABLISH ANNUAL INCREASES IN RATE BASED ON CHANGES IN THE CONSUMER PRICE INDEX

## RECOMMENDATION

It is recommended that the City Council direct the City Attorney to prepare an amendment to the Living Wage Ordinance, P.M.C. Chapter 4.11, increasing the Living Wage rate to \$8.20 per hour with \$1.41 per hour for medical benefits or \$9.61 per hour without medical benefits and to establish annual increases in the living wage rate based on changes in the consumer price index.

## BACKGROUND

The Pasadena Living Wage Ordinance became effective September 17, 1998. The Ordinance requires firms providing labor or services to the City, under contract in excess of \$25,000, to pay those employees assigned to the contract no less than \$7.25 per hour with \$1.25 for medical benefits or \$8.50 per hour if no medical benefits are provided.

In February 2000, a status report on the Living Wage Ordinance was presented to the City Council. As indicated in the report, the Ordinance resulted in pay increases for sixty-one people employed under five services contracts, twenty of whom were Pasadena residents. The additional cost to the City as a result of the Living Wage Ordinance was determined to be approximately \$134,000 for fiscal years 1999 and 2000 combined.

A total of one hundred and six service contract workers are at present impacted by the Living Wage Ordinance and being paid the Living Wage rate or better. Of this total, forty-nine are Pasadena residents. Assessing the current cost of the Living Wage Ordinance becomes more complex as time goes by, however, it is

estimated that the current annual cost of the Living Wage Ordinance, i.e., the incremental amount the City would otherwise not pay, but for the Living Wage Ordinance, is \$240,000.

Recently, a brief survey of current contractors holding service contracts subject to the Living Wage Ordinance was conducted. Based on the results it was determined that the City's policy had been effective in reducing turnover of the contractors' workforce and had a positive impact on the level of services received by the City. The contractors also confirmed that they are making their employees aware of the Earned Income Tax Credit, which can boost a low-wage earners salary through tax credits. Comments provided by the contractors were also generally positive.

Nevertheless, there is concern that the Living Wage rate, which has been fixed at \$8.50 per hour since 1998, may no longer be sufficient to provide those working on City service contracts a minimum compensation level to afford a modest standard of living and to provide for basic needs. Since the adoption of the Living Wage Ordinance and the establishment of \$8.50 per hour as the Living Wage rate, the state of California has raised the minimum wage twice, from \$5.75 per hour to \$6.25 per hour and then to \$6.75, effective January 2002. Additionally, the Consumer Price Index, a standard guide of inflation, for the Los Angeles-Riverside-Orange County area, all urban consumers, has increased 13% over this same period. Such an increase represents a corresponding reduction in the buying power of the Living Wage rate.

Accordingly, it is recommended that the City adjust the Living Wage rate by an amount equal to the change in the CPI from the time the Ordinance became effective through the current period. Such an adjustment would make the Living Wage rate \$9.61 per hour (\$8.20 per hour with \$1.41 per hour for medical benefits, or \$9.61 if no medical benefits are provided). With the benefit of the Earned Income Tax Credit, the effective hourly wage would be \$10.25 for an individual with one dependant child and \$10.84 for a person with two children.

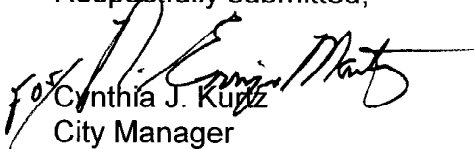
Further, in order to keep the Living Wage rate in-line with inflation, it is recommended that the rate be adjusted annually, starting in January 2004, by an amount equal to the change in the CPI for the then most current twelve-month period.

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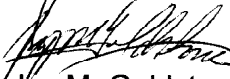
FISCAL IMPACT

It is estimated that the Living Wage Ordinance adds approximately \$240,000 to the annual cost of City service contracts. The proposed increase to the Living Wage rate would increase this cost to approximately \$270,000.

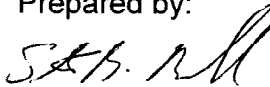
Respectfully submitted,

  
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