COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : September 15, 2014

TO : Chairwoman Marina Dimitrijevic

FROM : Scott B. Manske, Comptroller

RE : Request to Amend Chapter 111 – Minimum Wage Ordinance

Proposed Amendment

The County recently passed a Minimum Wage Ordinance (MWO), which became effective May 28, 2014 with the publication of the Auditor's implementation memo. A new amendment has been proposed to further modify the MWO. This amendment would change the MWO as follows:

- Apply the MWO to contracts for the provision of personal care or supportive home care provided to persons with disabilities or the frail elderly by preferred providers with the minimum wage in effect in 2014, but allow for future increases to the living wage only at the discretion of the Department of Family Care Director.

The Milwaukee County Department of Family Care (MCDFC) is the only department that contracts with preferred providers for personal care or supportive home care for persons with disabilities or the frail elderly; therefore, this amendment will only have a fiscal impact on the MCDFC.

Fiscal Impact and Financial Risk for the Milwaukee County Department of Family Care without Proposed Changes

The Office of the Comptroller previously reported on the financial exposure and risk to MCDFC in the updated fiscal analysis provided to all interested parties on February 5, 2014. The financial exposure documented in this report is slightly higher as the actual minimum wage for 2014 was higher than previously projected.

Table 1 - Prior Fiscal Estimate
Annual Costs of the Minimum Wage Ordinance as Adopted

	2015	2016	2017	2018	2019	Total
Expenditures:						
Total Personal & Supportive Home Care Costs	$ 3,345,405	$ 3,757,147	$ 4,194,623	$ 4,657,833	$ 5,095,309	$ 21,050,319
SubTotal	$ 3,345,405	$ 3,757,147	$ 4,194,623	$ 4,657,833	$ 5,095,309	$ 21,050,319
Revenue:						
Family Care Capitation Rate	$ (334,545)	$ (334,547)	$ (334,543)	$ (360,273)	$ (360,279)	$ (1,724,189)
Family Care Reserves	$ (3,010,860)	$ (3,422,600)	$ (3,860,080)	$ (4,297,560)	$ (1,508,900)	$ (16,100,000)
SubTotal	$ (3,345,405)	$ (3,757,147)	$ (4,194,623)	$ (4,657,833)	$ (1,869,179)	$ (17,824,189)
Tax Levy Required	$ -	$ -	$ -	$ -	$ 3,226,130	$ 3,226,130
Wage Rate - MWO in Effect	$ 11.75	$ 12.04	$ 12.34	$ 12.65	$ 12.96	
Annual Increase Percentage	2.49%	2.49%	2.49%	2.49%	2.49%	
Wage Rate - No MWO in Effect	$ 10.58	$ 10.71	$ 10.84	$ 10.98	$ 11.12	
Annual Increase Percentage	1.25%	1.25%	1.25%	1.25%	1.25%	

Table 1 above reflects the fiscal impact for MCDFC due to an initial increase in the base wage rate from \$10.58 to \$11.75 per hour, upon implementation of the MWO and an annual wage escalator of 2.5 percent, projected for the MWO in future years. The table also assumes that private employers would have provided an annual wage increase of 1.25 percent without a MWO which reduces the cost impact of the minimum wage ordinance. The 1.25 percent is a derived from the six year average wage change for private sector employees in the service industry in Milwaukee County from the U.S. Department of Labor. Therefore, the total cost attributable to the MWO is the difference between the costs associated with the wage rate under the MWO and the wage rate assuming no MWO. It was also assumed that the wage increases of 1.25 percent, under a non-MWO scenario, would be absorbed in the annual capitation rate.

Based on the original calculation, of the $21.0 million in additional wages paid in 2015 through 2019, approximately $1.7 million would be absorbed within the capitation rate as part of an annual cost increase under the non-MWO scenario. The remaining $19.3 million would be attributable to the MWO and would be paid for through reserve funding and then tax levy. The above analysis focuses solely on the effect of the MWO on the MCDFC and the current reserve levels. Other potential cost increases within the program such as other provider rate increases, member utilization increases, County overhead cost increases, and paratransit transportation cost increases are not considered in this analysis but could greatly impact the financial outcomes discussed here if they require additional withdrawals from the reserve.

The current capitation rate would not be sufficient to pay for the additional wage increase under the MWO. In order to continue to provide the same level of service without accessing the reserves, the MCDFC would need to find additional savings or efficiencies elsewhere in the program or it could reduce reimbursement rates to other providers, although most other MCDFC providers have not received a rate increase since 2008. Assuming no additional savings or rate reductions are available to offset the cost of the County MWO, for at least the first year of the County MWO and likely subsequent years, the MCDFC would have to access their reserves. It is estimated that those reserves would be exhausted by 2019, at which time the burden will fall to the tax payer. In this scenario, there is a major financial risk for the MCDFC as its inability to fully absorb the increase in costs for the MWO would eventually result in the depletion of the MCDFC reserves by 2019. At that time, one of two events would likely occur if the reserves were depleted to levels below those required by the State:

- Termination of the Family Care contract by the State, or
- Contribution of County tax levy into the MCDFC annual budget to fund the costs of the MWO if directed by the County Board and approved by the State.

Furthermore, the State sets the capitation rate in late fall for the upcoming year using data from two years prior for the entire State. Therefore, if the increase in costs due to the County MWO were to have a difference on the capitation rate, it would have no impact for at least two years following the enactment of the ordinance. Moreover, in the past, the State has exercised its authority to dismiss a rate increase the MCDFC has given to a provider if they believe it to be "too high". Because the County's costs with respect to supportive home healthcare employees would be substantially higher than other programs, they will likely "throw out" the cost data resulting in the amounts spent on this increase being excluded from the capitation rate calculation for that year and subsequent years. This determination is solely at the discretion of the State. For purposes of this analysis, it was assumed that rate increases due to the County MWO would not be part of the capitation rate calculation in future years.

Fiscal Impact of the Proposed Amendment

The proposed amendment delays the estimated depletion of the reserves by approximately two years by reducing the costs of the MWO. It does not fully mitigate the financial risk attributable to the MWO.

Table 2
Annual Costs of the Minimum Wage Ordinance with Proposed Changes

	2015	2016	2017	2018	2019	Total
Expenditures:						
Personal & Supportive Home Care Costs	$ 2,624,856	$ 2,624,856	$ 2,624,856	$ 2,624,856	$ 2,624,856	$ 13,124,282
SubTotal	$ 2,624,856	$ 2,624,856	$ 2,624,856	$ 2,624,856	$ 2,624,856	$ 13,124,282
Revenue:						
Family Care Capitation Rate	$ -	$ -	$ -	$ -	$ -	$ -
Family Care Reserves	$ (2,624,856)	$ (2,624,856)	$ (2,624,856)	$ (2,624,856)	$ (2,624,856)	$ (13,124,282)
SubTotal	$ (2,624,856)	$ (2,624,856)	$ (2,624,856)	$ (2,624,856)	$ (2,624,856)	$ (13,124,282)
Tax Levy as Proposed	$ -	$ -	$ -	$ -	$ -	$ -
Wage Rate - MWO as Proposed	$ 11.47	$ 11.47	$ 11.47	$ 11.47	$ 11.47	
Annual Increase Percentage	0.00%	0.00%	0.00%	0.00%	0.00%	
Wage Rate - No MWO in Effect	$ 10.58	$ 10.71	$ 10.84	$ 10.98	$ 11.12	
Annual Increase Percentage	1.25%	1.25%	1.25%	1.25%	1.25%	

Table 2 above reflects the fiscal impact for MCDFC due to the amendment. The 2014 minimum wage rate established by Chapter 111 of County Ordinance is $11.47. The amendment would require a guaranteed minimum wage of $11.47 for all supportive home care employees effective with the 2015 contracts. Because the minimum wage set in 2014 is higher than what these employers would have paid even under annual wage increases of 1.25 percent, it is assumed that there will be no future increases to the minimum wage under the amendment in the period shown. As noted in the table above, the base wage rate, without the MWO, in 2019 would be only $11.12, compared to the $11.47, established under the proposal.

Table 2 has also been updated from the prior report to reflect that although a 1.25 percent wage increase is assumed under no MWO, the cost associated with that increase would be paid for with reserve funding. Previously, the fiscal analysis had assumed that any non-MWO wage increase would be absorbed within the annual capitation rate. Based on further discussions with MCDFC, it is unlikely that capitation rates will be raised in the period shown. Rather, cost increases to the program will need to be paid through reserves, absorbed under current capitation rates through other efficiencies or through reduced reimbursement rates to other providers.

Therefore, although the table assumes that these employers would have provided an annual wage increase of 1.25 percent, all costs associated with both wage increases will be paid for through reserve funding. Of the $13.1 million in additional wages paid in 2015 through 2019, the full $13.1 million would be paid for through reserve funding.

Under the assumptions noted above, the MCDFC would not exhaust their reserves due to the MWO alone until 2021. It is important to note that although the proposed change to the MWO mitigates a small portion of the financial risk to the program by extending the time until the reserve levels are depleted, it does not take into account any other potential costs increases that result in additional withdrawals from the reserve. Should any other withdrawals occur, the reserves will likely be depleted much sooner. When the reserves reach a level below that required by the State, the Family Care program would either be terminated by the State or the County would have to contribute tax levy. Therefore, the amendment effectively delays the estimated depletion of the reserves by approximately two years by reducing the annual costs of the MWO during the period shown. It does not fully mitigate the financial risk attributable to the MWO.

Scott B. Manske
Comptroller

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