

**COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION**

DATE : February 5, 2014
TO : Chairwoman Marina Dimitrijevic
FROM : Scott B. Manske, Comptroller
RE : Addendum to Fiscal Analysis of the Proposed Minimum Wage (reflecting 01/30/14 amendment)

On January 30, 2014 the Committee on Finance, Personnel and Audit approved amendment #1 to the proposed minimum wage ordinance. This amendment has an impact on the fiscal analysis previously provided to the County Board. Therefore, my office is submitting the following addendum for your consideration together with the fiscal analysis previously submitted.

ADDENDUM

Summary

On January 30, 2014, the Committee on Finance, Personnel and Audit approved amendment #1 to the proposed Minimum Wage Ordinance (MWO). This amendment changes the proposed ordinance as follows:

- Moves the proposed minimum wage from 110 percent of the poverty income level for a family of four (\$12.45) to 100 percent of the poverty income level for a family of four (\$11.32).
- No longer applies the minimum wage ordinance to land sales.

In examining the fiscal impact of the changes above, the new proposed wage rate lowered the County's financial exposure for contracts, concessions, County wages, and supportive home care employees. Excluding land sales from the minimum wage requirements also limits the County's financial risk with respect to economic development.

The original analysis understated the potential fiscal impact of an annual wage escalator. The summary chart below correctly reflects the fiscal impact for most items due to an annual wage escalator of 2.5 percent. However, the chart also assumes that in most circumstances, these employers would have provided an annual wage increase of 1.25 percent, which reduces the costs actually attributable to the minimum wage ordinance. The 1.25% is 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.

For 2014, few revenue sources are available to offset the increase in expenditures resulting in \$1.0 million in tax levy funding needed to support the costs of the County MWO. Based on the amendment, it is anticipated that Family Care reserves will be available to offset the Family Care portion of the County MWO until 2019, at which time the burden will fall to the tax payer.

| Annual Costs of the Proposed Minimum Wage Ordinance - as amended on January 30, 2014 | | | | | | |
|--|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Expenditures: | | | | | | |
| Food Service | \$ 1,806 | \$ 141,400 | \$ 156,190 | \$ 171,380 | \$ 186,800 | \$ 204,380 |
| Security | \$ 170,609 | \$ 273,460 | \$ 299,470 | \$ 329,430 | \$ 359,390 | \$ 391,120 |
| Janitorial | \$ 612,636 | \$ 659,480 | \$ 706,390 | \$ 756,050 | \$ 805,730 | \$ 858,150 |
| Clerical | \$ 22,386 | \$ 25,940 | \$ 29,720 | \$ 33,700 | \$ 37,500 | \$ 41,530 |
| County Wages ¹ | \$ 78,706 | \$ 98,125 | \$ 141,208 | \$ 203,103 | \$ 264,289 | \$ 328,713 |
| Family Care - Personal & Supportive Home Care | \$ - | \$ 2,624,860 | \$ 3,036,600 | \$ 3,474,080 | \$ 3,885,820 | \$ 4,323,290 |
| Parks Concession Agreements ² | \$ - | \$ 12,332 | \$ 51,421 | \$ 55,336 | \$ 63,305 | \$ 67,972 |
| Airport Concession Agreements | \$ - | \$ 136,619 | \$ 140,021 | \$ 143,508 | \$ 458,790 | \$ 822,859 |
| Zoo Concession Agreements | \$ 4,428 | \$ 10,761 | \$ 21,324 | \$ 21,854 | \$ 22,399 | \$ 22,956 |
| Lease Agreements | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Audit Function ³ | \$ 154,183 | \$ 259,300 | \$ 265,757 | \$ 272,374 | \$ 279,156 | \$ 286,107 |
| Financial Assistance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| SubTotal | \$ 1,044,754 | \$ 4,242,278 | \$ 4,848,101 | \$ 5,460,815 | \$ 6,363,178 | \$ 7,347,078 |
| Minimum Wage Rate | \$ 11.32 | \$ 11.60 | \$ 11.89 | \$ 12.19 | \$ 12.49 | \$ 12.80 |
| Annual Increase Percentage | | 2.49% | 2.49% | 2.49% | 2.49% | 2.49% |
| Revenue: | | | | | | |
| Airlines Rates & Charges | \$ (1,293) | \$ (138,215) | \$ (141,937) | \$ (145,760) | \$ (461,376) | \$ (825,796) |
| Family Care Reserves | \$ - | \$ (2,624,860) | \$ (3,036,600) | \$ (3,474,080) | \$ (3,885,820) | \$ (3,078,640) |
| Other | \$ (16,905) | \$ (20,861) | \$ (25,042) | \$ (29,449) | \$ (33,808) | \$ (38,391) |
| SubTotal | \$ (18,199) | \$ (2,783,936) | \$ (3,203,578) | \$ (3,649,290) | \$ (4,381,004) | \$ (3,942,828) |
| Tax Levy based on Resolution as amended | \$ 1,026,555 | \$ 1,458,342 | \$ 1,644,522 | \$ 1,811,526 | \$ 1,982,174 | \$ 3,404,250 |
| Tax Levy - Original | \$ 1,950,856 | \$ 2,466,035 | \$ 2,698,699 | \$ 2,770,293 | \$ 8,626,435 | \$ 8,846,391 |
| Change | \$ (924,300) | \$ (1,007,693) | \$ (1,054,177) | \$ (958,768) | \$ (6,644,261) | \$ (5,442,141) |

1 - County wages updated to reflect implementation in PP6 (as opposed to new year).

2 - McKinley Marina Roadhouse removed; contract under threshold.

3 - Audit function updated to reflect implementation as of July 7, 2014.

Total Fiscal Impact

The Comptroller did not intend to report on the maximum financial risk for the universe of contracts within the County, only for the contracts and services identified within this report. The impact of a minimum wage on the universe of contracts will change the financial exposure identified in this report.

The report clearly states that this ordinance will likely have unintended consequences as agreements are negotiated and become subject to the provisions of the County MWO. These consequences may be financial in nature, also affecting the financial risk identified in this report.

Impact on Family Care in Milwaukee County

By reducing the minimum wage from \$12.45 to \$11.32 per hour, the expenditure impact on MCDFC in 2015 is approximately \$2.7 million. Due to the wage escalator, each subsequent year's costs will increase approximately \$750,000 based on an annual increase. While this amendment lessens the expenditure impact in MCDFC, the same concerns remain with respect to the financial risks of MCDFC capitation rates and reserves. The major risk is that the MCDFC is unable to fully absorb the increase in costs for the County MWO over time and continues to draw on reserves to cover shortfalls. Based on our calculations, the reserves would be out of funds in 2019. This is only a projection of the impact on reserves, but in the event that reserves are exhausted, one of two results may occur:

- Termination by the State of the Department of Family Care contract, or

- Supplement of MCDFC losses with County tax levy if selected by the County Board and approved by the State.

Since the wage increase will be fully paid by the MCDFC, the costs would have to be absorbed within the current and future capitation rates (per member per month rate) received by the MCDFC. The State sets the capitation rate in late summer for the upcoming year using data from two years prior. 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.

In the past, the State has exercised its authority to dismiss a rate increase the MCO has given to a provider if they believe it to be “too high”. If they do so again with respect to a County MWO increase, they will “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 is solely up to the State’s discretion. If this occurs, the MCDFC would have to draw on reserves or find other savings or efficiencies to fund the County MWO and the built in wage escalators. 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.

Because the full cost of the County MWO will be passed through the MCDFC, the current capitation rate will not be sufficient to pay for the wage increase. 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 rates to other providers. 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 possibly subsequent years, the MCDFC will likely have to access their reserves.

The MCDFC currently has excess reserves of \$21 million, plus required reserves of \$12.1 million. For 2014, the State has recognized the MCDFC excess reserves, and has provided a preliminary capitation rate decrease from 2013 to specifically draw down these reserves. This decrease results in MCDFC budgeting \$4.9 million of excess reserves for its 2014 operations. Any subsequent draw from reserves necessitated from the MWO will be in addition to the \$4.9 million. Therefore, excess reserves will be reduced by at least \$7.6 million by the end of 2015 with implementation of the County MWO (*\$4.9 million draw on the reserve in 2014 for State-mandated capitation rate decrease plus an additional \$2.7 million draw on the reserve in 2015 for County MWO expenditures*), leaving approximately \$13.4 million in excess reserves. Assuming no other draws on the excess reserves, no adjustment to capitation rates and no other savings available to offset the County MWO, approximately three full years of excess reserves would be available to fund minimum wages, with depletion of the excess reserves occurring some time in 2019.

As stated in testimony provided by MCDFC, other fiscal pressures are anticipated that will impact the overall financial health of the organization, making provisions such as the County MWO more difficult to manage. These fiscal pressures include:

- Additional provider costs related to the Affordable Care Act (ACA). It is inevitable that the ACA will impact many of the 1,100 providers within the Family Care network. This increase in costs will likely be, at a minimum, shared with the MCDFC to maintain its current network or risk the loss of providers and possibly the enrollees that they serve.
- Costs for over-the-counter medications. The Wisconsin Department of Health Services is now requiring MCDFC to provide over-the-counter medications to its members. MCDFC has

received cost feedback from other MCO's and this requirement is estimated to cost MCDFC between \$500,000 and \$1 million annually.

- Providing rate increases to other providers within the network. The network consists of approximately 1,100 providers that deliver a range of services. Many of these providers have not received rate increases in years.

Impact on Economic Development

The County MWO would no longer be applicable to land sales, but would cover other economic development tools which provide assistance over \$1 million. These tools are less commonly used by the County. Land sales have the greatest potential for directly impacting both the County finances (through revenue received) and the County's economy through the creation of jobs and additional tax base, and carried the greatest financial risk with respect to the County MWO. Due to the limited use of the other economic development tools, the County's financial exposure due to the County MWO is limited. In addition, by removing the applicability of the County MWO to land sales, the financial risk within economic development is also significantly minimized.

Impact on County Wages

Due the reduction in the proposed minimum wage under the amendment, the wage compression issues prevalent under the higher wage amount are mostly eliminated. With the compression issues under the original proposal, 12 pay grades would have been impacted and 347 employees would have had salary adjustments. Under the modified proposal, only pay grades 07F, 07G and 10Z are affected in 2014 and only at the first and second steps where applicable. In 2014, this affects only 16 current employees and any future employees hired at the first or second steps of these pay grades. This adjustment results in a minimal annual cost increase compared to the original proposal.

This addendum also estimates the impact of the wage escalator on compression in future. As the minimum wage rises, the increase in costs in future years will likely impact more pay ranges than in 2014. For example, only the first and/or second steps were changed for 2014 in three pay ranges. It is likely that in 2015 with a 2.5 percent increase for the County MWO, assuming only a 1.25% cost of living increase is given to all employees that all the steps will change, impacting 64 employees instead of just 16 employees. In addition, other pay grades will become affected over time again assuming general County increases do not keep pace with the MWO, increasing the number of employees impacted and the final costs. The final costs of this provision with respect to County salaries will not be known until the new minimum wage is calculated annually.



Scott B. Manske
Comptroller

cc: County Board Supervisors
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