



Date: September 6, 2016

To: Thomas J. Bonfield, City Manager

Through: Wanda S. Page, Deputy City Manager

From: Regina Youngblood, Director of Human Resources
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Subject: Durham Livable Wage Methodology

Executive Summary

The City of Durham strives to provide fair, equitable and competitive compensation in its efforts to attract, retain, develop and reward our employee workforce. These efforts support the Innovative and High Performing Organization City goal. This agenda item recommends changes to the City of Durham's methodology for determining a Durham Livable Wage (DLW).

Human Resources proposes revising the Durham Minimum Livable Wage (DMLW) Ordinance to adopt a new methodology for establishing the Durham Livable Wage Rate. The recommendation includes a graduated approach to obtaining a \$15.00 minimum wage, thereafter using a calculation aligned with the Universal Living Wage (ULW) methodology.

The Non-Exempt Pay Structure was adjusted effective July 1, 2016, increasing the lowest full time hourly wage rate from \$12.53 to \$13.35 (\$27,768 annually) for compensating full time classifications. This \$13.35 hourly rate also applies to part time employees who are performing work that is commensurate to that of full time classifications. The annual salary for sworn police officers and sworn fire employees, and for employees that have recruit status for either of those positions, will be equal to or greater than the minimum livable rate set for full time employees.

Subsequently, Human Resources recommends increasing that rate by 6% for the upcoming two years to reach \$14.15 per hour by FY2017-2018, and \$15.00 per hour by FY2018-2019. Thereafter, the rate will be calculated utilizing a new methodology incorporating data from the U.S. Department of Housing and Urban Development's (HUD) calculation of Fair Market Rents (FMR).

Recommendation

It is recommended that the language in the City's DMLW Ordinance be revised to reflect a new methodology for calculating the livable wage. Attachment 1, Durham Livable Wage Ordinance, includes the recommended methodology and language changes. The language indicates that the initial change was to increase the livable wage rate from the current \$12.53 per hour to \$13.35 per hour (\$27,768 annually), which was implemented via the July 1, 2016 approval of the Non-Exempt Pay Structure. Subsequently, Human Resources will increase that rate by 6% for the following two fiscal years to reach \$14.15 per hour by FY2017-2018, and \$15.00 per hour by FY2018-2019, along with the direction that thereafter, the Durham Livable Wage (DLW) would be determined to be the greater of \$15.00 or the amount derived by following this formula: $([4 \text{ year blended FMR (1BR)}/.30] \times 12)/2080$.

The formula instructs that the DLW is calculated by averaging the cost of fair market rents for a one bedroom apartment over the most recent four full years of available data according to the rates reflected in the Durham-Chapel Hill, NC HUD Metro FMR Area, thereby determining the annual salary required to allot 30% of a person's monthly gross income to housing. That monthly salary is then multiplied by 12 to find the annualized salary and divided by 2080 to find the living wage as an hourly rate. Annual hours of 2080 assumes 40 hours worked per week over 52 weeks in a year.

Beginning on July 1, 2019, the livable wage rate shall be determined once per year, before the beginning of the fiscal year to which it will apply. The rate for the upcoming fiscal year shall be whichever is the greatest of the following: (i) \$15.00 per hour, (ii) the amount derived from the modified Universal Living Wage (ULW) methodology, or (iii) the livable wage rate that applied to the fiscal year that is about to end.

Background

To maintain the City's market-based pay plan and remain competitive with changing market rates, the Human Resources Department researched the impact of changing the methodology for setting the Durham Livable Wage.

The current methodology for determining the City of Durham's Livable Wage is guided by City Ordinance #11333 requiring the rate be set at seven and a half percent (7.5%) above the federal poverty rate for a family of four as established by the United States Department of Health and Human Services (HHS). Human Resources proposes revising the Minimum Livable Wage Ordinance to use a different methodology for establishing the livable wage rate, with a graduated approach to obtaining a \$15.00 minimum wage, thereafter using a calculation aligned with the Universal Living Wage (ULW) methodology.

This new methodology will provide the City with a consistent, ongoing benchmark against which to calculate the DLW. The approach also parallels the calculation

methods being adopted by surrounding municipalities; Wake and Orange Counties have adopted the ULW methodology, Chapel Hill has committed to using the ULW if it pays higher than their current policy, and Raleigh is exploring living wage policy options. Through adoption of this new strategy, we are proactively responding to nearby market drivers for our hiring rates.

Issues and Analysis

The compensation recommendations in this agenda item are based on information gathered from the Universal Living Wage methodology and the US Department of Housing and Urban Development (HUD) calculation of Fair Market Rents (FMR). While the proposed Living Wage Rates for the next two fiscal years are planned to lead us to a \$15.00 per hour salary floor by FY2018-2019, an analysis of the FRMs over the past 4 years was conducted to determine the potential ongoing impact of the recommended methodology. The calculations indicate that by applying the proposed methodology, and assuming the average 4.03% rate increase that occurred over the referenced period, the projected FY2019-2020 DLW would be \$16.26.

The recommended formula averages the most recent four full years of rental costs in an effort to normalize the data for potential market fluctuations. The one-bedroom cost is used for determining the expense borne by a City employee. The Durham-Chapel Hill, NC HUD Metro FMR Area is used as there is no HUD area designation that strictly calculates FRM for Durham City or Durham County. This HUD area designation includes the somewhat higher cost area of Chapel Hill and parts of Orange County thereby recognizing that not all employees live in Durham City or Durham County.

Human Resources will be working throughout this year to research the impacts of considering including part time employees under the DLW Ordinance.

Alternatives

Some organizations who have adopted the ULW philosophy factor in an offset to their calculation of a livable wage rate to recognize the value of health insurance provided to their employees. Orange and Wake Counties have factored in a \$1.50 offset when determining their livable wage rate.

While this offset is not recommended to be included in Durham's Livable Wage calculation, the average value of our totally employer paid health insurance plan for employee only coverage is \$554.75 per month. This equates to an additional \$6657 annually. For an employee working a 40 hour workweek, this translates to an extra \$3.20 per hour.

Financial Impact

There is no financial impact as this recommendation is focused on the methodology for determining the Durham Livable Wage as part of our pay philosophy.

SDBE Summary

There are no SBDE requirements.

Attachments

Attachment 1 – Durham Livable Wage Ordinance