

**2003 DANE COUNTY BUDGET ISSUE
PURCHASE OF SERVICE COLA AND LIVING WAGE
DANE COUNTY DEPARTMENT OF HUMAN SERVICES**

July 2002

I. ISSUES

1. Should the Department of Human Services provide a 2003 cost of living adjustment (COLA) for POS agencies? If so, at what level?
2. In addition, how much will it cost in 2003 to raise Purchase of Service (POS) agency employee wages to comply with the Dane County Living Wage Ordinance?

II. RECOMMENDATIONS

For the 2003 budget, the Department proposes a 1% COLA for POS agencies (and the Adult DD SDS program), at a cost of \$1,167,300, plus an additional \$250,000 to bring the lowest paid workers of POS agencies and COP/CIP consumers up to \$8.70 per hour in 2003, consistent with the Living Wage Ordinance. *This recommendation totals \$1,417,300.*

III. BACKGROUND

Dane County strives to maximize human services program efficiency and flexibility by contracting with community-based organizations to provide a variety of professional, home care and residential services. Human services are particularly labor intensive: personnel costs typically comprise nearly 70% of agency budgets. Because of this, the maintenance of fair and competitive compensation is dependent on cost of living adjustments to purchase of service (POS) agency contracts. During the past 11 years, annual cost of living adjustments provided to the Department POS agencies have usually lagged behind the Consumer Price Index (CPI) and rising wages in Dane County's tight labor market.

Human service workers, primarily direct care staff, have traditionally earned low wages and modest benefits. The Department has long been aware of this problem and began to address it directly in 1996 and 1997, when direct care workers were specifically targeted for wage improvement. Direct care workers were given priority because they provide essential services that make it possible for low-income aged, blind, or disabled persons to remain safely in their own homes with assistance. Direct care workers spend 90% of their time in face to face contact with the people receiving services. They work in vocational, residential and home care settings providing assistance with cooking, feeding, shopping, bathing, dressing and toileting. Because many consumers need daily assistance, direct care workers must be available day and night, evenings, weekends and holidays. The quality of life for consumers in our service system is critically dependent on the performance of direct care workers.

Living Wage Initiative and County Ordinance

Beginning in 1996, the Department of Human Services began to earmark additional money for POS agency contracts to raise employee wages to a steadily rising and exactly specified minimum “living wage” target. In 1996 and 1997, this effort was focused on home care and residential care workers. In 1998 and 1999, coverage of this designated minimum was expanded to include all POS agency employees as a matter of Department policy. Wages increased substantially, but several hundred workers remained below the target wage established by the 1999 budget.

In March 1999, the Dane County Board of Supervisors enacted a Living Wage Requirement (Ordinance 25.015) that requires all Department of Human Services and POS agency employees to be paid at least 100 percent of the federal poverty guideline for a family of four. The 1998 federal poverty guideline that governed the 1999 living wage was equivalent to \$7.91 per hour. However, prior to passage of the ordinance, Dane County’s 1999 Human Services budget had included funding to increase POS agency employee wages to a minimum of \$8.00 per hour.

The federal poverty guidelines are designated by the year in which they are issued. For example, the guidelines issued in February 2002 are designated the “2002 poverty guidelines”. However, the 2002 poverty guidelines only reflect price changes through the end of calendar year 2001. Per ordinance, the 2002 poverty guideline (based on the 2001 consumer price index) governs the 2003 living wage.

In 2000, the Living Wage ordinance mandated a living wage increase to \$8.03. In 2001, the living wage increased to \$8.20. However, the Executive and the County Board directed that the Department’s POS contractors pay a minimum of \$8.27 per hour in 2001, and funds were included in the budget to make that possible. In 2002, the living wage of \$8.49 was again superceded by the \$8.52 minimum set by the County budget.

The 2002 federal poverty guideline is \$18,100 for a family of four, equivalent to \$8.70 per hour based on full-time employment (2,080 hours per year). Thus, in 2003, the living wage set by ordinance will rise to \$8.70 per hour.

History of DCDHS Wage Initiative and Living Wage

	Target Wage <i>Living Wage</i> (hourly)	Added funds Budgeted (<i>proposed</i>) For POS contracts
1996	\$5.00 / 6.50 ¹	\$403,000
1997	6.50 / 7.00 ¹	296,000
1998	7.50	1,020,000
1999	7.91 ² 8.00 ³	368,000
2000	8.03	461,000
2001	8.20 8.27 ³	215,000 115,000
2002	8.49 8.52 ³	347,800 52,000
2003	8.70	250,000

¹ Home care / residential care

² Living wage ordinance enacted in March 1999 to require a \$7.91 minimum.

³ DCDHS minimum per adopted County budget.

The budgetary impact of the Department’s living wage initiative and the county ordinance during the 7 year period 1996-2002 has been substantial: more than \$3 million in ongoing annual costs in addition to the COLA increases provided to agencies.

Dane County has been a leader in the national debate about the adequacy of compensation for low-wage workers. Many county and municipal jurisdictions have enacted living wage laws. What sets Dane County apart is that it passed broad legislation (without significant “loopholes”) *and* also appropriated significant sums of money to raise wages for low paid direct service workers.

POS Cost of Living Adjustment (COLA)

The purpose of annual Cost of Living Adjustments (COLA) is to prevent price inflation from eroding employee wages and retirement benefits. Each year, the Social Security Administration announces an increase in the Social Security COLA, based on the increase in the preceding year’s Consumer Price Index (CPI). The CPI is the most widely used statistical measure of price inflation, and is produced monthly by the Bureau of Labor Statistics. It is sometimes called the “cost-of-living index”, and is an economic indicator that purports to measure the average change in the prices of urban consumer goods and services over time. During the past decade, inflation has ranged from 1.6% to 3.4%. As of May 2002, inflation is running 1.2% versus one year ago. The purpose of applying a COLA to POS agency contracts is to prevent the erosion by price inflation of agency finances, including employee wages. However, during the 11-year period 1992-2002 inclusive, the CPI increased 32.0% while the Department’s annual POS COLAs amounted to only 21.5%, a funding gap that has averaged just short of 1% (.91%) annually.

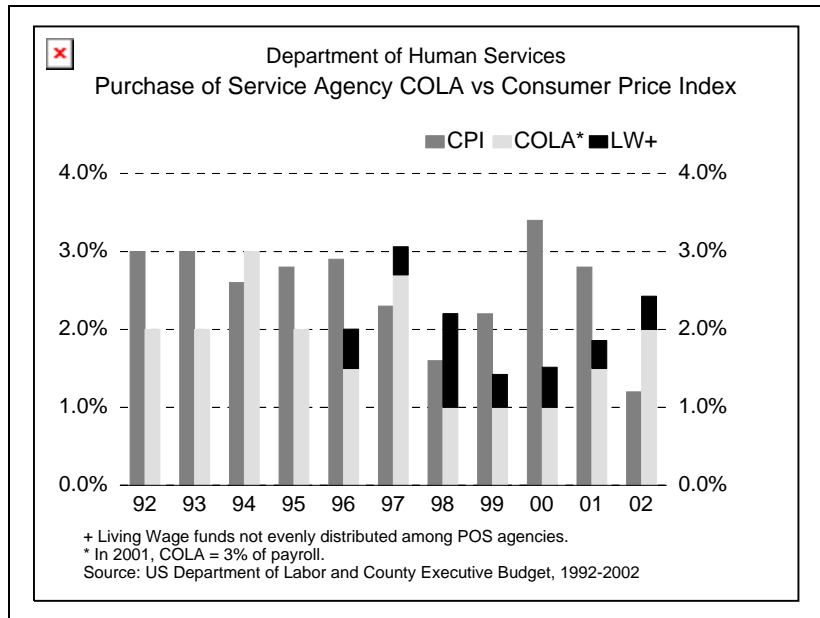
History of Inflation and POS Agency COLA

	CPI vs. previous year	POS contract COLA (proposed)
1992	+3.0%	+2.0%
1993	+3.0%	+2.0%
1994	+2.6%	+3.0%
1995	+2.8%	+2.0%
1996	+2.9%	+1.5%
1997	+2.3%	+2.7%
1998	+1.6%	+1.0%
1999	+2.2%	+1.0%
2000	+3.4%	+1.0%
2001	+2.8%	+1.5%
2002	+1.2% ¹	+2.0% ²
11-year Total	+32.0%	+21.5%
2003		+1.0%

¹ May 2002 versus May 2001. ² Calculated as 3% of payroll.

Impact of Living Wage

Since 1996, the addition of Living Wage funds has narrowed the gap between inflation and the POS COLA. During each of the past 4 years, Living Wage expenditures have amounted to a .4% increase in addition to COLA. However, this additional expenditure was not evenly distributed across POS agencies, but was concentrated among direct service agencies that employ low wage workers.



The Department's annual recommendation for the POS COLA has been one of its most contentious budgetary proposals. The annual dilemma that the Department must resolve is the gap between the rate of inflation and the general stagnation of state and federal revenues. The human service programs that employ low-wage workers depend heavily on revenue from the federal/state Medical Assistance program and state Community Aids; the balance is county tax levy. For the past 6 years, POS agency COLA's have been financed very heavily from the county levy due to stagnant levels of federal and state revenue. For 2003, the Department faces the additional uncertainty of State shared revenue reductions resulting from the Legislature's impending "repair" of the \$1+ billion deficit in the 2001-03 State budget.

Out of this dilemma has emerged an uneasy compromise: the levy commitment to POS agencies has risen faster than inflation, even as POS contract COLA's have trailed the rate of inflation. Although this levy-COLA-revenue gap may be manageable in any given year, the accumulation over the years has placed stress on both the Department's budget and POS agency operations.

IV. ANALYSIS

2003 POS COLA

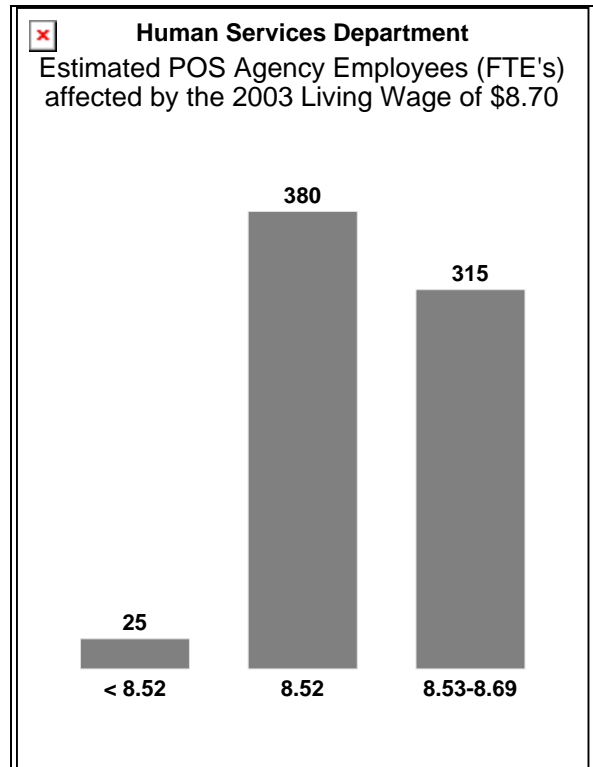
In 2002, the Department has a total of \$93.7 million in POS contracts subject to COLA and \$23.0 million budgeted for the Adult DD SDS and other client services payrolls. Thus, each 1% of COLA budgeted for 2003 will have an impact of approximately +\$1,167,300 on expense.

2003 Living Wage

To estimate the impact of the 2003 living wage, the department relied on detailed wage information collected from its POS agencies in 2001. A full-scale POS agency wage survey will be completed during the fall of 2002 in order to allocate 2003 Living Wage funds.

In 2003, approximately 720 full-time equivalent (FTE) workers will be affected by the Living Wage. They are concentrated in two dozen agencies that provide in-home and residential care to disabled and elderly people, and respite childcare for families.

Only a small number of recently hired employees earn below the \$8.52 minimum. Prior to 2000, several hundred FTE's consistently lagged behind the Department-set living wage. However, by 2000 this problem had been virtually eliminated. A May 2001 wage survey found only a small number of sub-living wage employees. Most of these had simply not yet received their scheduled 2001 wage increase and were still earning the 2000 minimum of \$8.03. A small number were family members caring for a relative, and a handful were disabled employees in special employment programs, two situations specifically exempted by the living wage ordinance.



The establishment of a Living Wage as a matter of county ordinance appears to have produced nearly universal compliance based on agency-reported data.

The cost of raising employee wages includes fringe benefits that vary directly with wages: Social Security and Medicare (7.65% employer share), federal and state unemployment taxes (up to 3.85%) and workers' compensation insurance (4.0-5.0%). Unemployment and workers' compensation expense will vary with an employer's experience. A fair estimate of these expenses, reached in consultation with POS agencies, is 15%. This increment has been added to the raw wage costs.

Prior to 2001, the annual COLA was applied to wages prior to calculation of the living wage cost. This had the effect of implicitly raising wages by the COLA amount and reducing the cost of the living wage. In 2001, an 11th hour budget compromise severed the link between COLA and living wage. For 2003, the Department will continue to maintain this separation; as a result, the estimated cost of the Living Wage does not include a COLA increase.

V. OPTIONS

The choice faced by the Department depends on the recommended level of 2003 COLA for POS contracts.

Option 1

Provide no COLA and fully fund the \$8.70 living wage set by county ordinance. This option would cost \$250,000.

Option 2

Provide a 1% COLA and fully fund the \$8.70 living wage set by county ordinance. This option would cost a total of \$1,417,300 (\$1,167,300 COLA plus \$250,000 Living Wage).

Option 3

Provide a 1.5% COLA and fully fund the \$8.70 living wage set by county ordinance. This option would cost a total of \$2,001,000 (\$1,751,000 COLA plus \$250,000 Living Wage).

The Department recommends *Option 2* as a workable balance between the financial needs of POS agencies and prospect of continued stagnation of federal and state revenue in 2003.

**IF YOU HAVE QUESTION REGARDING THIS ISSUE PAPER, PLEASE CONTACT
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