

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Matt Cano

**SUBJECT:** 2021 LIVING WAGE RATES

**DATE:** May 20, 2021

Approved



Date

**5/20/2021**

## INFORMATION

### LIVING WAGE RATES EFFECTIVE JULY 1, 2021

Based on the methodology to adjust living wage rates outlined in Council Policy 3-3 (Living Wage Policy), the living wage rates for City employee classifications that are eligible to receive the living wage and for direct service contracts solicited on and after July 1, 2021 are:

- 1) If health insurance benefits are provided, a wage of no less than **\$24.07** per hour, or
- 2) If health insurance benefits are not provided, a wage of no less than **\$25.31** per hour.

The new rates represent a 3.26% (\$0.76 per hour) increase from July 1, 2020. The average annual percentage change since adoption of the Living Wage Policy is 4.17% (See Attachment).

Per the Policy, the “without benefits” hourly wage rate provides a reasonable benefits differential of \$1.25 per hour for employees not covered by employer-paid health insurance to purchase their own medical insurance.

### BACKGROUND AND METHODOLOGY

The City’s current living wage rates (7/1/20 through 6/30/21) are:

- 1) If health insurance benefits are provided, a wage of no less than **\$23.31** per hour, or
- 2) If health insurance benefits are not provided, a wage of no less than **\$24.56** per hour.

Per the Policy, the Office of Equality Assurance (OEA) has reviewed the US Health and Human Services (HHS) Poverty Guidelines and Economic Research Institute’s Geographic Assessor to determine if any adjustment to the City’s living wage rate for 2021 is necessary.

The adopted methodology used to calculate the living wage rate is:

2021 Federal Poverty Income Standard for Family of 3	x	Geographic Adjustment Factor	=	San Jose Living Wage Rate
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The 2020 poverty standard for a family of 3 increased by \$240 to \$21,960 (\$10.56 per hour) for 2021. The 2021 geographic adjustment factor for a family of three increased 20 points to 143.3; meaning it costs 143.3% more to live in San Jose than the national average for a family of three making \$21,960 per year.

The table in the Attachment shows the history of the living wage adjustments and geographic adjustment factors since adoption of Council Policy 3-3 in November 1998.

Since Fiscal Year (FY) 2011-2012, when the City’s workforce received a wage reduction of approximately 10-12%, the living wage increases have outpaced the general wage increases negotiated by the City’s non-sworn bargaining units. Between FY 2011-2012 and FY 2021-2022, the average increase for the living wage rate has been approximately 5.84% per year, compared to the average general wage increase during this same time period negotiated by the City’s largest bargaining unit, the Municipal Employees’ Federation, AFSCME, Local 101 (MEF), of approximately 1.30% per year as shown in the table below. It should be noted that the table below does not include any wage increases for FY 2021-2022, as negotiations with MEF are currently in process.

Fiscal Year	Municipal Employees’ Federation (MEF) General Wage Increase	Living Wage Increase
2011-2012	-12.01%	5.02%
2012-2013	0.00%	8.39%
2013-2014	2.00%	7.13%
2014-2015	3.00%	12.86%
2015-2016	3.00%	2.86%
2016-2017	3.00%	9.93%
2017-2018	3.00%	2.14%
2018-2019	5.00%	5.64%
	(not pensionable)	
2019-2020	3.00%	4.37%
2020-2021	3.00%	2.78%
2021-2022	TBD	3.26%
<b>Average</b>	<b>1.30%<sup>1</sup></b>	<b>5.84%</b>

As the Living Wage is applied to City employees, and due to living wage increases outpacing general wage increases, many classifications have had their hourly rate ranges partially or fully impacted. In some situations, salary compaction has occurred where unbenefited, entry-level staff have received hourly rates of close to, or in some cases more than, benefited staff in higher

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<sup>1</sup> This does not include any wages increases for FY 2021-2022, as negotiations with MEF are currently in process.

level classifications. Some departments have chosen not to utilize certain entry-level classifications due to the salary compaction issues; however, bypassing entry-level classifications is not operationally possible for some departments. For example, entry level Library Pages, which are part-time unbenefited employees, perform clerical work that is integral to the Library’s day-to-day operations. An unbenefited Library Page, whose current salary range in the City’s Pay Plan is \$18.70 – \$22.74<sup>2</sup>, will actually earn the unbenefited living wage rate of \$25.31 per hour because the classification’s entire salary range is less than the unbenefited living wage. As such, an unbenefited Library Page may receive an hourly rate of pay equal to or greater than that of an employee in the higher level benefited Library Clerk classification, whose current salary range in the City’s Pay Plan is \$23.15 – \$28.14<sup>3</sup>. Employees toward the bottom of the salary range of the Library Clerk classification will earn the benefited living wage rate of \$24.07 until they reach a salary step that is compensated at an hourly rate of pay that is greater than the benefited living wage rate.

As of February 20, 2021, a total of 1,341 part-time unbenefited employees, and 73 part-time benefited and full-time employees are currently receiving the 2020-2021 Living Wage. Based on the data from February 20, 2021, this would increase to 1,351 part-time unbenefited employees, and 100 part-time benefited and full-time employees when the 2021-2022 Living Wage becomes effective. The number and overall percentage of full-time (FT), part-time benefited (PT-B), and part-time unbenefited (PT-U) City employees receiving the Living Wage has increased since FY 2015-2016, as shown in the table below:

	<b>FY 15-16<sup>4</sup></b>	<b>FY 18-19<sup>1</sup></b>	<b>FY 19-20<sup>1</sup></b>	<b>FY 20-21<sup>1</sup></b>	<b>FY 21-22 Estimate<sup>1</sup></b>
# of FT, PT-B, and PT-U Employees Receiving the Living Wage	1,129	1,466	1,403	1,414	1,451
Total # of FT, PT-B, and PT-U Employees Citywide	7,119	7,718	7,559	7,476	7,476
Percentage of Citywide FT, PT-B, and PT-U Employees Receiving the Living Wage	15.86%	18.99%	18.56%	18.94%	19.41%

It should be noted that this is merely a snapshot of the City’s workforce on February 20, 2021, and does not account for employees who separate from City service, who are hired into City service, or who receive wage increases or step increases that would bring their hourly rate above the Living Wage after that date. It should be noted that the City anticipates beginning negotiations

<sup>2</sup> Inclusive of the 5% ongoing non-pensionable compensation increase that the Library Page receives because this classification is represented by the Municipal Employees’ Federation (MEF).

<sup>3</sup> Inclusive of the 5% ongoing non-pensionable compensation increase that the Library Clerk receives because this classification is represented by MEF.

<sup>4</sup> FY 15-16 data per the City’s PeopleSoft records as of April 5, 2016. FY 18-19 data per the City’s PeopleSoft records as of February 26, 2019. FY 19-20 data per the City’s PeopleSoft records as of February 5, 2020. FY 20-21 estimation based on the City’s PeopleSoft records as of February 20, 2021.

with bargaining units that represent classifications subject to the Living Wage, which may impact the hourly rates of those classifications.

*Future Impacts*

The annual Living Wage Calculations, specifically the “geographical factor” in which the calculation is based, has become and will continue to be an obstacle for the City staff. The geographical factor includes City of San Jose specific cost of living aspects, such as, but not limited to, average rental costs of a 2- Bedroom apartment, consumables, and utilities. OEA has used Economic Research Institute (ERI) to provide this report since 1999. Until 2018 the report was simplified and consistent, however, ERI has since expanded its reporting capabilities and calculation formulas. For example, the new report contains average rental costs of a 2-Bedroom, consumables and utilities, but also includes transportation, health services, insurance, income + payrolls taxes, and “miscellaneous.” The additional factors increase the geographical factor, thus increasing the City’s Living Wage at a greater speed and inconsistent with years past. OEA staff spent approximately five (5) hours with ERI discussing the calculations and numerous hours reverse calculating the report to include only the factors previously used.

As stated in a previous section, the Administration has been monitoring ongoing salary compaction issues associated with the City’s Living Wage Policy requirements and will be continuing to review options to resolve these issues for City Council consideration at a later date. It should also be noted that the 2020-2021 Operating Budget includes the living wage rate increases and it is anticipated that no further budget adjustments will be necessary.

**COORDINATION**

This memorandum has been coordinated with the City Manager’s Office of Employee Relations, the City Manager’s Budget Office, and the Human Resources Department.

/s/  
MATT CANO  
Director of Public Works

For questions, please contact Christopher Hickey, Division Manager, at (408) 535-8455.

Attachment

### San José Living Wage Rate Adjustment Table

The City of San José's living wage rates are subject to adjustment on July 1<sup>st</sup> of each year.

The living wage is reviewed each year to determine if an adjustment should be made based on any changes as of December 31 of the previous year in the federal poverty level standard for a family of three established by the US Department of Health and Human Services or the geographic cost of living differential used by the City to measure the difference between the poverty level standard for the City compared to the federal poverty level standard. If either standard has changed, the City recalibrates the wages using the original methodology with the new values. If neither standard has changed, the CPI for all Urban Consumers (CPI-U) in the San Francisco-Oakland-San Jose area (US Department of Labor/Bureau of Labor Statistics) is reviewed. If the CPI has increased by at least 1%, the wage rate shall be adjusted by the same percentage change in the CPI but not to exceed 3%. The CPI-U increase history is shown in the table below.

The table below shows the rate adjustments and geographic adjustment factors since adoption of the Policy in November 1998. The average annual percentage change to the Rate with Health Benefits since adoption of the Living Wage Policy is 4.17% as shown in the table below.

Effective Dates	Rate W/Health Benefits	Rate W/O Health Benefits	Geographic Adjustment Factor	% Change (Rate W/Health Benefits)	CPI-U Increase (SF-OAK-SJ)
July 1, 2021- June 30, 2022	\$24.07	\$25.32	143.3%	3.26%	2.0%
July 1, 2020 – June 30, 2021	\$23.31	\$24.56	123.3%	2.63%	2.5%
July 1, 2019 – June 30, 2020	\$22.68	\$23.93	121.2%	4.37%	3.3%
July 1, 2018 – June 30, 2019	\$21.73	\$22.98	117.5%	5.64%	3.9%
July 1, 2017 – June 30, 2018	\$20.57	\$21.82	109.5%	2.14%	3.2%
July 1, 2016 - June 30, 2017	\$20.14	\$21.39	107.9%	9.93%	3.0%
July 1, 2015 – June 30, 2016	\$18.32	\$19.57	89.6%	2.86%	2.6%
July 1, 2014 – June 30, 2015	\$17.81	\$19.06	87.3%	12.86%	2.8%
July 1, 2013 – June 30, 2014	\$15.78	\$17.03	68%	7.13%	2.2%
July 1, 2012 – June 30, 2013	\$14.73	\$15.98	60.5%	8.39%	2.7%
July 1, 2011 – June 30, 2012	\$13.59	\$14.84	52.7%	5.02%	2.6%
July 1, 2010 – June 30, 2011	\$12.94	\$14.19	47%	0.86%	1.4%
July 1, 2009 – June 30, 2010	\$12.83	\$14.08	19.7%	0.00%	0.7%
July 1, 2008 – June 30, 2009	\$12.83	\$14.08	51.7%	1.34%	3.1%
July 1, 2007 – June 30, 2008	\$12.66	\$13.91	53.4%	3.18%	3.3%
July 1, 2006 – June 30, 2007	\$12.27	\$13.52	53.8%	5.68%	3.2%
July 1, 2005 – June 30, 2006	\$11.61	\$12.86	50%	8.30%	2.0%
July 1, 2004 – June 30, 2005	\$10.72	\$11.97	42.4%	3.98%	1.2%
July 1, 2003 – June 30, 2004	\$10.31	\$11.56	40.5%	2.08%	1.8%
July 1, 2002 – June 30, 2003	\$10.10	\$11.35	24.6%	0.00%	1.6%
July 1, 2001 – June 30, 2002	\$10.10	\$11.35	41.6%	0.00%	5.4%
July 1, 2000 – June 30, 2001	\$10.10	\$11.35	48.6%	6.32%	4.5%
November 17, 1998 – June 30, 2000	\$9.50	\$10.75	45.2%	-	4.2%
<b>Average</b>			<b>69.53%</b>	<b>4.17%</b>	<b>2.75%</b>