Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 871 (Senator Conway)
Finance

Self-Sufficiency Standard - Establishment

This bill requires the Secretary of Budget and Management to consider a self-sufficiency standard when setting or amending pay rates for State employees. An employee whose pay rate is less than the self-sufficiency standard must receive a pay increase at a percentage that is at least twice the percentage increase for employees whose pay rate is at least equal to the standard. The bill also applies the self-sufficiency standard to certain businesses that have State contracts or receive job creation tax credits.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: Significant increase in general, special, and federal fund expenditures to pay the required wage difference and for increased administrative and contract costs beginning in FY 2006. General fund expenditures will also increase by approximately $250,000 or more in FY 2005 for a consultant. Revenues will not be affected.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill defines a self-sufficiency standard as a calculation of the income an employed adult requires to meet that individual's family's needs, including housing, food, dependent care, transportation, and medical costs. The Department of Budget and Management (DBM) must contract with a private consultant to develop this standard by January 1, 2005. The standard must take the following factors into account: (1) geographical variations in costs; (2) the age and number of children in a family; and (3) any State or federal public assistance benefits received by a family. The self-sufficiency standard must be used to determine employed adults who are "at-risk workers" and "underemployed workers."

By March 1, 2005, DBM must distribute the self-sufficiency standard to State agencies that counsel individuals seeking education, training, or employment. Agencies are to use the self-sufficiency standard to help an individual establish personal financial goals and estimate the amount of income needed to support the individual's family.

A business that receives the State job creation tax credit that is not covered by the prevailing wage law must pay its employees at a wage that is at least an amount above the minimum wage comparable to the percentage increase for State employees earning less than the self-sufficiency standard. The bill imposes identical requirements for any business that contracts with the State and is not covered by the prevailing wage law.

Current Law: In setting or amending a pay rate, the Secretary of Budget and Management must consider the following factors:

- the prevailing pay rates for comparable services in private and public employment;
- experience;
- living costs;
- benefits; and
- the financial condition and policies of this State.

Background: In Maryland, Baltimore City and Montgomery and Prince George's counties have passed living wage laws. In Baltimore City, Ordinance 442 requires the payment of a living wage set by the Board of Estimates. The hourly wage rate in effect for fiscal 2004 is $8.70. The board revises the living wage level annually. Montgomery and Prince George's counties each have living wage rates set at $10.50. The federal and State minimum wage is $5.15 per hour.

The Job Creation Tax Credit Program, established by Chapter 84 of 1996, provides an income tax credit to businesses that expand or establish a facility in Maryland that results in the creation of new jobs. The amount of the credit depends on the number of jobs created and wages paid.

In 2001, advocates of the self-sufficiency standard sponsored a report that describes the standard as the point where a family has sufficient income and resources to meet their needs without public or private assistance. It differs from the federal poverty threshold, which is based on the cost of food and a fixed ratio between food and other needs such as housing. The poverty measure is updated annually for inflation but does not account for regional variations in the cost of living and expenses such as child care. The consultants calculated the standard for families of varying sizes in several states, including Maryland. Examples of the wages required to meet the standard for selected counties are shown below.

	Wage for Adult		Wage for Adult with Infant and Preschooler	
County	**Annual**	**Hourly**	**Annual**	**Hourly**
Allegany	$16,159	$7.65	$31,569	$14.95
Baltimore City	19,280	9.13	40,316	19.09
Calvert	21,571	10.21	42,044	19.91
Montgomery (without Rockville)	24,292	11.50	53,927	25.53

The Illinois Mayor's Office of Workforce Development and Women Employed, a nonprofit organization, developed an online budget calculator for counselors to provide clients that incorporates the self-sufficiency standard for Illinois. The Illinois Department of Employment Security adapted the calculator for use by any workforce investment board statewide.

State Effect: This bill will increase general, special, and federal fund expenditures as a result of higher personnel, administrative, and contract costs. DBM advises that a consultant will cost at least $250,000 in fiscal 2005 to develop the standard.

Personnel Costs: The self-sufficiency standard would not apply until it has been developed by the consultant and distributed to the agencies in March 2005. The Department of Legislative Services (DLS) assumes a fiscal 2006 beginning date to allow agencies time to administer the standard. The salary increase required for any employee whose salary is below the standard will vary considerably according to other employees' salaries and the employee's family status and residence. None of these factors can be determined at this time. The fiscal 2005 budget authorizes 78,152 full-time equivalent positions in State government; consequently, the impact of the standard will be significant.

DBM estimates that salary increases will cost $1,466,000 in general funds and $861,000 in special funds for 36,913 State Personnel Management System employees only for one year. The estimate is based on calculations for legislative proposals in recent years to require a living wage for State employees and adds 30% to the federal poverty threshold for a family of four, adjusted for the county median income. This estimate does not include independent personnel systems (including the universities) or Judicial or Legislative branches.

The Maryland Department of Transportation (MDOT) which has an independent personnel system, observes that the Maryland median self sufficiency wage for a family of three is $43,224, compared to the minimum wage of $10,712 and the federal poverty guideline of $13,615. The average salary for an MDOT employee is $42,461. Accordingly, Transportation Trust Fund (TTF) expenditures to make up the salary difference could be significant. Assuming 10% of MDOT employees (7,787) are given a raise to reach the standard, TTF expenditures would be $594,148. DLS notes that the median Baltimore income is higher and, therefore, the costs could increase accordingly because MDOT is headquartered in Baltimore.

Administrative Costs: DBM advises that it will incur administrative costs for reprogramming to allow for the pay differential; an estimate is not available at this time. Independent personnel systems will incur similar administrative expenses. The Department of Labor, Licensing, and Regulation (DLLR) administers the workforce investment program and is one of the key agencies (along with the Department of Human Resources) that will be required to use the standards to assist clients. This will result in training for counselors and other administrative expenses that will likely not be significant.

Contract Costs: To the extent that employees of State contractors and subcontractors covered by the bill currently earn less than the self-sufficiency standard, this bill could cause payroll costs and, consequently, State procurement contract costs to increase. The total number of State contracts affected by the bill and the payroll costs for the contracts affected are not known. The State appropriated $889 million in fiscal 2004 for service contracts related to housekeeping, security, food services, cleaning, groundskeeping, and office assistance. If, *for illustrative purposes only*, the bill resulted in a 5% wage increase for contractor employees, the contract costs would rise by $44 million annually. DLS notes that this is a fairly conservative estimate; the actual costs may be significantly higher in central counties such as Prince George’s and Montgomery.

State Revenues: The impact on revenues by applying the standard to companies who claim the job creation tax credit is not expected to be significant. The Department of Business and Economic Development has a policy to require recipients of financial assistance to pay their employees at least 150% of federal minimum wage, as well as benefits. The small amount of empirical evidence that does exist (from sources and studies mentioned above) suggests that job losses may be offset by increased worker retention and tax collections. Moreover, because the Job Creation Tax Credit Program has created relatively few jobs, it is likely there is minimal impact if fewer jobs are eligible for the credit because of their wage level.

Small Business Effect: To the extent that small businesses that do business with the State and that do not pay wages meeting the self-sufficiency standard would be required to increase wages or risk losing State business, such firms would be meaningfully affected.

Additional Information

Prior Introductions: None.

Cross File: HB 1290 (Delegate Marriott, *et al.*) – Appropriations.

Information Source(s): Department of Labor, Licensing, and Regulation; Maryland Department of Transportation; Department of Budget and Management; Department of Legislative Services

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