SB 600

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 600 (Senator Gladden, *et al.*)
Finance

Employment - Pay Rates - Maryland Self-Sufficiency Standard

This bill requires the Secretary of Budget and Management to consider a Maryland Self-Sufficiency Standard when amending or setting a pay rate. The Department of Business and Economic Development (DBED) is required to develop the Maryland Self-Sufficiency Standard. State employees earning less than the standard must receive twice the amount of any percentage increase given to State employees whose pay rate is least equal to the standard.

Fiscal Summary

State Effect: Significant increase in general, special, and federal fund expenditures to pay the required wage difference and for increased administrative costs beginning in FY 2006. Expenditures for public assistance programs could decrease to the extent that the self-sufficiency standard provides wages and counseling that reduce individuals' needs for public assistance. General fund expenditures, if any, could increase for the development of the self-sufficiency standard in FY 2006. Revenues would not be affected.

Local Effect: None.

Small Business Effect: None.

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 needs, including housing, food, dependent care, transportation, and medical costs. DBED must develop this standard by January 1, 2006. The self-sufficiency standard must be used to determine the number of employed adults who are "at-risk" and "underemployed" workers.

By March 1, 2006, DBED 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.

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 2005 is $8.85. 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.

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. See **Exhibit 1** for examples of the wages required to meet the standard for selected counties.

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.

The Maryland Department of Human Resources (DHR) also publishes the annual Minimum Living Levels (MLL). This figure represents the minimal standard of living for a family in Maryland whose only source of financial income is public assistance. The components of MLL are:

- food;
- housing;
- utilities;
- household furnishings;
- clothing and cleaning;
- personal care;
- transportation;
- other family consumption; and
- medical care.

The fiscal 2005 MLL is $1,460 per month, or $17,520 annually, for a family of three; and $1,738 monthly or $20,856 annually for a family of four. By statute DHR must adjust Temporary Cash Assistance (TCA) and food stamp payments to cover 60% of MLL. The fiscal 2005 maximum monthly TCA and food stamp levels are $393 and $482 respectively.

Exhibit 1 shows a comparison of self-sufficiency standards for certain counties and various federal and State wage and living standards.

Exhibit 1
Comparison of Wage and Living Standards

	Wage for Adult		**Wage for Adult with Infant and Preschooler**	
	Annual	**Hourly**	**Annual**	**Hourly**
Regionalized Self-sufficiency Standards				
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

	Wage for Adult		Wage for Adult with Infant and Preschooler	
	Annual	**Hourly**	**Annual**	**Hourly**
Other Federal and State Wage and Living Standards				
Federal Poverty (2004)	$9,310	N/A	$15,670	N/A
2005 DHR Minimum Living Level	9,864	N/A	17,520	N/A
Minimum Wage	10,877	5.15	10,877	5.15
130% Federal Poverty (2004)	12,103	N/A	20,371	N/A
Baltimore City Living Wage ($8.85/hr)	18,694	8.85	18,694	8.85
Montgomery County Living Wage ($10.50/hr)	22,179	10.50	22,179	10.50

State Fiscal Effect: This bill will increase general, special, and federal fund expenditures as a result of higher personnel and administrative costs.

The self-sufficiency standard would not apply until it has been developed by DBED and/or the consultant and distributed to the agencies in March 2006. The Department of Legislative Services (DLS) assumes a fiscal 2007 beginning date for implementation of the standard to allow agencies time to administer the standard.

Personnel Costs

The cost of implementing a self-sufficiency standard cannot be reliably estimated at this time. First, it is unknown exactly what the self-sufficiency standard will be. Second, the salary increase required for any employee whose salary is below the standard will vary considerably depending on other employees' salaries and the employee family status and residence. In each subsequent year, after enhanced cost-of-living adjustments (COLAs) are given, the number of employees that fall below the self-sufficiency standard would change, as salaries and employee demographics change. Finally, the self-sufficiency standard also accounts for dependent care, which is different for families of different sizes. None of these factors can be determined at this time.

For purposes of illustration, 130% of federal poverty is used to determine a potential fiscal impact on the State personnel system. The Department of Budget and Management (DBM) advises that approximately 2,250 employees earn less than 130% of federal poverty for a family of four ($24,505). A 2% COLA would require an additional $1 million ($520,000 in general funds) to pay the enhanced benefit (4%) for employees below the standard. This figure does not include contractual employees.

Actual costs are dependent on the amount of any COLAs given, after the standard is developed. The fiscal 2006 allowance includes a 2% COLA for State employees effective July 1, 2005. However, the standard would not be applied until fiscal 2007, which may or may not include an adjustment. The fiscal 2005 budget was introduced with a 1.6% COLA for State employees, but the final version included a flat $752 per employee adjustment. This results in a different percentage increase at every salary level. DLS notes that it will be difficult to apply a variable percentage to employees below the standard.

The Maryland Department of Transportation (MDOT), which has an independent personnel system, observes that, in 2001 advocates for the self-sufficiency standard estimated a figure of $43,224 for a family of three. Indexed for inflation, this equates to $48,649 in 2005. There are 5,594 MDOT employees at a salary below this $48,649 level, at an average salary of $35,641, but the size of employees' families is not known. Assuming a 2% COLA, it would require an additional $4 million in Transportation Trust Fund expenditures to provide a 4% COLA for all employees below the standard. This figure does not include contractual employees. DLS notes that the median Baltimore income is higher and, therefore, the costs could increase accordingly because MDOT is headquartered near Baltimore.

Administrative Costs

DBED historically has not been engaged in research on wage levels for State employees and citizens. This has traditionally fallen under the purview of DHR. DBED advises that it would contract out the development of a self-sufficiency standard, but did not provide a cost estimate for this contract. As an example, DBM estimated a cost of $250,000 for this same task under HB 1290 of 2004, and the Maryland State Department of Education spent just under $200,000 to develop the Geographic Cost of Education Index in 2001. It is assumed that developing a Maryland self-sufficiency standard would fall in the $200,000-$250,000 range. However, DBED noted that adapting part of the 2001 self-sufficiency standard may reduce costs.

As mentioned, DHR is engaged in the annual production and distribution of the Minimum Living Level standard, which measures living standards when the only income source is public assistance. Advocacy groups have also developed regional self-sufficiency standards for Maryland counties. Additionally, living wage standards have been developed for Montgomery and Prince George's counties and Baltimore City.

Aspects of these different standards may be adapted by DBED in order to develop the self-sufficiency standard before an outside consultant would be required.

DBM advises that it will incur administrative costs to develop new pay scales and processes; an estimate is not available at this time. Independent personnel systems will incur similar administrative expenses.

The Department of Labor, Licensing, and Regulation, which administers employee counseling and training programs, noted that it could absorb the counseling requirements of the bill with existing resources. DLS concurs with this assessment, and notes that other agencies may also have expenses associated with employee counseling aspects of the bill. It is assumed that these could be handled with existing resources.

Additional Information

Prior Introductions: A similar bill, HB 1290 of 2004, was not reported by the Appropriations Committee.

Cross File: HB 226 (Delegate Marriott, *et al.*) – Appropriations.

Information Source(s): *The Self-Sufficiency Standard for Maryland, 2001*; Prepared for Advocates for Children and Youth and the Center for Poverty Solutions, Department of Human Resources; Department of Business and Economic Development; Maryland State Department of Education; Department of Housing and Community Development; Department of Health and Mental Hygiene; Maryland Department of Transportation; Department of Labor, Licensing, and Regulation; Department of Budget and Management; Department of Legislative Services

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