



**MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Chris Thomas, Director of Human Resources  
Doug Honma-Crane, Budget Analyst  
Lynn Zwaagstra, Director of Parks & Community Services

**Date:** September 26, 2018

**Subject:** IMPACTS OF STATE LEGISLATION ON EMPLOYEE WAGE AND BENEFIT COSTS

The purpose of this memo is to alert Council to the impacts to the City's wages and benefits resulting from Initiative 1433, passed by the voters in 2016, and legislation passed in 2017.

**Paid Family Medical Leave** (RCW 50A.01.220, passed in 2017) – This legislation creates a state-run insurance program funded by employers and employees that will provide employees with a portion of their wages if they miss work for a qualified family or medical event requiring leave. Collections from employers toward the fund will begin on January 1, 2019. State-provided paid leave to employees begins on January 1, 2020.

**Minimum Wage and Paid Sick Leave** (Initiative 1433, RCW 49.46.210, passed in 2016) – This law increased the minimum wage incrementally beginning in 2017 and will affect rates in 2019 and 2020. It also entitles all employees to accrue one hour of paid sick leave for every 40 hours worked beginning in January 2018.

**PAID FAMILY MEDICAL LEAVE LAW** (RCW 50A.01.220)

The City currently provides leave for employees with a serious ongoing medical condition and for employees caring for family members with such a condition, as required for employers with 50 or more employees. Such leave applies:

- To employees who have worked one year;
- For a period of up to 12 weeks;
- As paid leave using the employee's accrued sick or vacation leave; or
- As unpaid leave for those with no leave balances.

The new Washington law will require all employers, regardless of size, to provide paid leave to qualifying employees for this kind of leave (businesses with fewer than 50 employees are not required to pay the employer portion of the premium).

Important impacts of the new law for the City include:

- Employees will now qualify for this leave after working 820 hours (20.5 weeks) rather than 12 months.
- Premium amounts will equal 0.4% of gross wages paid, shared by the employer (37%) and the employee (63%). For example: For a paycheck with \$2,000 in gross wages, the

premium paid to the state would be \$8.00. The employee amount would be \$5.06 and the employer would pay \$2.94.

- Premium collection for the insurance fund begins in 2019, and must be remitted quarterly by the employer, along with reports on employee data. (Claims for leave benefits by employees may start in 2020.)
- Workers can take leave for qualified events for up to 12 weeks generally, and up to 18 weeks under exceptional circumstances.

#### Fiscal Impact Estimates for the City:

The employer's share of the premiums are considered as a benefit expenditure in the coming years' budget. Implementation of the Paid Family and Medical Leave Act is estimated to incur expenditures in the 2019-2020 biennium from each fund listed below as follows:

Fund	Estimated City Share of Premium		
	2019	2020	19-20 Total
General Fund	71,443	72,890	144,333
Lodging Tax Fund	139	139	278
Street Operating Fund	2,271	2,531	4,802
Cemetery Operating Fund	25	26	51
Parks Maintenance Fund	935	959	1,894
Parks Levy Fund	1,418	1,459	2,877
Water/Sewer Operating Fund	2,320	2,412	4,732
Surface Water Management Fund	4,455	4,532	8,987
Solid Waste Fund	406	406	812
Equipment Rental Fund	971	993	1,964
Information Technology Fund	4,582	4,394	8,976
Facilities Maintenance Fund	936	957	1,893
<b>Total</b>	<b>89,901</b>	<b>91,698</b>	<b>181,599</b>

Forecasts beyond 2020 are difficult to make as the state has indicated that the amount required for the program may change in 2021 depending on the solvency of the fund.

#### **MINIMUM WAGE AND PAID SICK LEAVE LAW** (Initiative 1433, RCW 49.46.210)

Initiative 1433 legislation resulted in two significant changes -- minimum wage increases beginning in 2017 and paid sick leave accrual for all employees, starting January 1, 2018.

#### **Paid Sick Leave**

Prior to the new law, the City policy and Collective Bargaining Agreements (CBA's) provided sick leave accruals for benefitted staff at the rate of 4 hours per pay period. Interns, seasonal, and on-call employees were excluded. Under the new law, all employees, regardless of their status, accrue paid sick leave at the rate of one hour for every 40 hours worked and have been able to use it after 90 days starting on January 1, 2018.<sup>1</sup> Because the City's accrual rates are more generous for benefitted employees, this law will only affect benefits for interns, seasonal, and on-call employees.

<sup>1</sup> Some variations may occur in the Public Safety positions and are reflected in the appropriate CBA.

Fiscal Impact Estimates for the City:

If all leave were to be used in the same year in which it was earned by the eligible employees, it would amount to an increase of 2.5 percent of wages paid. Many of these employees may work fewer than 90 days and may not be able to use their accrued sick leave. However, if an employee is rehired within 12 months, their accrued sick leave must be reinstated.

Based on hours budgeted in the 2017-2018 biennium, the estimated value of leave accrued in 2019 and 2020 is as follows by fund:

Fund	Value of Accrued Paid Leave		
	2019	2020	19-20 Total
General Fund	15,994	15,960	31,954
Street Operating Fund	348	284	632
Parks Maintenance Fund	1,366	1,366	2,732
Parks Levy Fund	4,466	4,466	8,932
Water/Sewer Operating Fund	25	25	50
Surface Water Management Fund	92	92	184
Solid Waste Fund	201	201	402
Information Technology Fund	790	801	1,591
<b>Total</b>	<b>23,282</b>	<b>23,195</b>	<b>46,477</b>

However, the use of leave only has fiscal impact when an absent employee is replaced by another for their scheduled shift. Otherwise, the use of leave can be absorbed as a sunk cost. While the value of accrued paid leave can be quantified, the fiscal impact is indeterminate without experience and guidance to identify which positions would be backfilled in the instance that an employee uses their accrued leave.

**Minimum Wage**

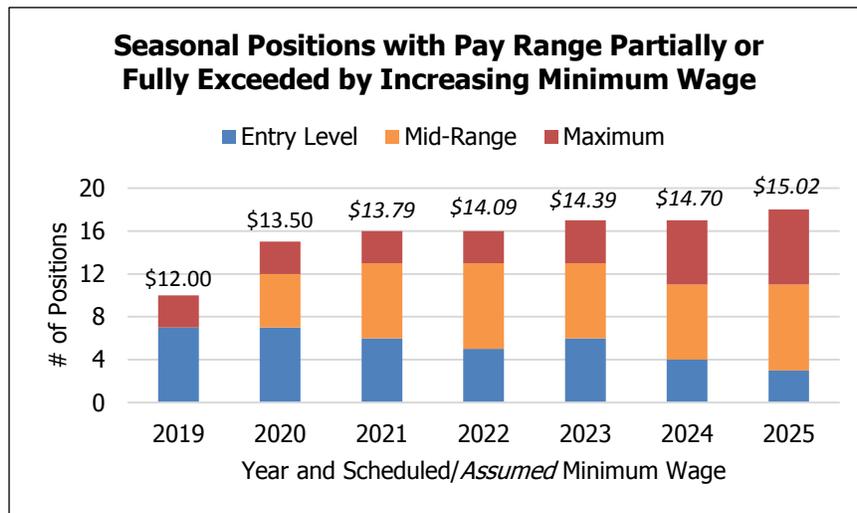
Under the new Minimum Wage law, the current minimum wage is \$11.50 per hour and is set to increase to \$12.00 per hour in 2019 and \$13.50 in 2020. In each year following, the minimum wage will continue to increase annually based on a measure of inflation, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Fiscal Impact Estimates for the City:

At this time, all positions impacted by minimum wage increases during the 2019-2020 biennium are seasonal employees in the Parks and Community Services Department, largely in the Recreation Services Division. Only a few positions will be subject to a minimum wage increase in 2019 and these have been budgeted at levels above which the increase will have an impact. In 2020, a greater number of budgeted positions are subject to a larger increase. The amounts in the table below represent estimates based on positions budgeted in the preliminary 2019-20 budget and include adjustments up to minimum wage only. The estimated wage increase impact in 2020 is as follows by fund:

Fund	Program	2020
General Fund	Recreation - Aquatics	8,253
	Recreation - All Others	8,143
	<i>Subtotal General Fund</i>	<i>16,396</i>
Parks Maintenance Fund	Operations & Maintenance	1,089
Parks Levy Fund	Recreation - Aquatics	3,663
<b>Total All Funds</b>		<b>21,148</b>

It should be noted that although seasonal positions are budgeted by classification and step, actual hiring practice and fiscal impacts may differ based on the characteristics of the labor market and applicant pool.



Future budgetary considerations involve the impact of rising minimum wages on the next level of wages in the position, with lower position wages bumping into those of the more senior level above it, and the impact on adjacent positions, with skilled positions suddenly being paid an equivalent amount to unskilled positions. Further staff time will be spent analyzing impacts to salary tables and researching trends with surrounding municipalities on wage impacts. Depending on the analysis, the outcome may or may not require additional Council action.<sup>2</sup>

### **SUMMARY**

In summary, the estimated known cost for wages and benefits required by new Washington State legislation impacting the 2019-2020 biennial budget is \$202,747. Of those costs, \$160,729 would be General Fund costs.

Fund	Est. Fiscal Impacts of Legislation		
	Paid FMLA	Min. Wage	Total
General Fund	144,333	16,396	160,729
Other Operating Funds	37,266	4,752	42,018
<b>Total</b>	<b>181,599</b>	<b>21,148</b>	<b>202,747</b>

<sup>2</sup> Minimum wages shown beyond 2020 are estimates for illustrative purposes only. Actual annual CPI-W growth since 2000, when Washington first began to index minimum wage growth to this measure of inflation, has ranged between -1.68% and 5.42%. The rate of growth used above is 2.16%, the mean of annual CPI-W growth since 2000.