

## Memorandum

To: Mayor Miro Weinberger, Board of Finance, and City Council

City Department Heads

Date: June 17, 2013

Re: Livable Wage Rates for FY 2014

Pursuant to the City of Burlington Code of Ordinances, Chapter 21, Article VI, section 21-82(b), the livable wage rates for covered employers, including the City of Burlington, as of July 1, 2013, are \$13.94 if the employer provides health insurance or \$15.83 if the employer does not.

Attached you will find an analysis by Douglas Hoffer, who has calculated the livable wage rates based on the City's ordinance. His findings would have resulted in wage rates of \$12.94 (with health insurance)/\$14.29 (without health insurance). However, the City's ordinance provides that those rates "shall not become effective until rates meet or exceed the 2010 posted livable wage rates." The 2010 livable wage rates for Burlington were \$13.94/\$15.83, so the FY 2014 rates cannot fall below those levels.

This notice and the new livable wage rate will be posted on the City's web page, circulated to City departments, and available at the Clerk/Treasurer's Office.

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To: Paul Sisson, Chief Administrative Officer, City of Burlington

Date: 3 June 2013

Re: City livable wage

At your request, I have estimated the City's livable wage (LW) using the basic needs budget methodology approved by the legislature for the Joint Fiscal Office (JFO) and adjusted to reflect the City's benefit package. The ordinance now assumes that the household has two adults sharing housing costs in a two-bedroom apartment.

The new LW for City employees is \$12.94, a decline of 3.4% from last year's \$13.39. The figure for contractors that don't provide health insurance is \$14.29, which is a substantial reduction from last year's \$17.71. The difference is attributable primarily to health care costs (see below) and taxes.

As noted last year, the Joint Fiscal Office's methodology for the livable wage calculations has changed slightly. When these figures were calculated in 2012, some changes had been adopted and some were awaiting final approval of the Joint Fiscal Committee. Here is a summary along with comments about minor differences in the approach used here for Burlington.

- Food:
  - Previously, single adults were considered to be women. We now average the food costs for men and women.

- The USDA methodology for the cost of food for an individual assumes a family of four. To determine the cost for an individual in a different size family, one must add 20% for a single person household but only 10% for a two-person household. The JFO assumes a two-person household (as does the City) but further assumes that the individuals are a couple (hence the one bedroom rent priced by JFO). In contrast, the City assumes the household is comprised of two single people sharing a two bedroom apartment. Therefore, we used the single person adjustment rather than the two person figure used by the JFO. This accounts for the modest difference between the two food estimates (i.e., City = \$349 and JFO = \$323).
- Housing: After peaking in 2011, HUD's estimated Fair Market Rent for the Burlington MSA has declined the last two years.
- Transportation: The original methodology was the product of the average miles driven by household size (from the most recent National Household Transportation Survey) and the IRS mileage reimbursement rate. In 2009, JFO began using an AAA's adjusted IRS rate that is intended to reflect the estimated cost per mile at different levels of annual miles driven (e.g., amortizing fixed costs over more miles reduces the cost per mile).
- Health Care:
  - The contribution by City employees for health insurance remains 3.3% of pre-tax wages.
  - Out-of-pocket (OOP) costs: JFO now has access to the Vermont Healthcare Claims Uniform Reporting and Evaluation System (VHCURES) which are Vermont specific-data collected for the Vermont Department of Financial Regulation. The former OOP spending estimates from the national MEPS data has been replaced with the VHCURES data to better reflect actual costs by Vermonters with health insurance. This resulted in slightly lower OOP costs.
  - JFO no longer estimates a livable wage for those without employer-assisted health care. In the past, they used national data from the Medical Expenditure Panel Survey (MEPS). In my view, the most appropriate data source today is from the state's Catamount program. For those with income that is 250% of poverty, the cost of a Catamount premium was \$180.00. To this we added OOP costs. The result is considerably less than before thanks to Catamount.
- Clothing & Household Expenses:

- The JFO now uses Table 5 from the Consumer Expenditure Survey rather than Tables 4 and 2301. As we noted last year, the former approach was not optimal so we used Table 4 (Size of Consumer Unit). In our view, JFO's decision to use Table 5 (Composition of Consumer Unit) is still not optimal. The problem is that the average income for the single person household in Table 5 is \$42,000, which is almost \$15,000 higher than our hypothetical single person. For that reason, we still use Table 4 where the average income was \$34,540, which more closely reflects the income and spending patterns of our hypothetical household.
  - The decline from last year reflects an error in the calculation. The methodology includes expenditures for apparel, household furnishings and equipment, and housekeeping supplies. However, since the hypothetical household rents, we subtract expenditures for major appliances and miscellaneous household equipment. Among other things, the latter category includes lawnmowers and gardening equipment, other hand and power tools, calculators, business equipment for home use, rental of furniture, infants' equipment, outdoor equipment, smoke alarms, etc. In 2012, we subtracted major appliances but did not subtract miscellaneous household equipment. As a result, the 2012 livable wage was about eight cents (\$0.08) higher than it should have been.
  - Telecommunications: The original methodology included a category for phone services but technology and user habits have changed significantly since the 1990s. At one point, JFO combined telephone and personal expenses but has now separated them and redefined telecommunications to better reflect current consumer practices. JFO uses a combination of the average cost of wireless phone service (average for Verizon and AT&T) and a category from the Consumer Expenditure Survey (Table 1500) entitled "computer information services."
- Note: For computer information services, JFO used the figure for "all consumer units." We used the figure for a single person household, which was lower.
- Personal: This category is based on the 1999 estimated expenditure of \$2.00 per day indexed to the CPI (now \$2.79 / day).
  - Renter's Insurance: A modest policy covering furniture, clothing, electronics, personal possessions, etc.

- Term life Insurance: As noted above, JFO assumes the family is a couple so life insurance is included in the budget. On the other hand, we assume the two adults in this household are single and have no children. While there is no familial expectation of support or replacement income at death, the remaining roommate would be left with some financial responsibilities. However, the City's benefit package includes a modest term life policy that would more than cover any such expenses. It is offered by the City at no cost to the employee. However, we include this item in the budget for the roommate who we assume does not have the employer-provided benefit.
- Savings: City retirement = 3% of pre-tax pay.

Budget Categories	City Employee		No Employer Assisted HC
	2012	2013	
Food (moderate cost plan)	340	349	349
Housing (rent & utilities)	562	515	515
Transportation	556	513	513
Health Care	96	86	206
Dental Care	4	10	10
Clothing / Household	153	143	143
Telecommunications	109	78	78
Personal Expenses		85	85
Renter's Insurance	11	11	11
Term Life Insurance	11	0	11
Savings	55	54	96
Total Monthly Expenses	\$1,895	\$1,842	\$2,015
Annual Expenses	\$22,737	\$22,100	\$24,182
Federal & State Taxes	\$5,108	\$4,807	\$5,544
<b>Annual Income</b>	<b>\$27,845</b>	<b>\$26,907</b>	<b>\$29,726</b>
<b>Hourly Livable Wage</b>	<b>\$13.39</b>	<b>\$12.94</b>	<b>\$14.29</b>

Tax calculations			
Standard Deduction	-\$5,800	-5,950	-5,950
Personal Exemption(s)	-3,700	-3,800	-3,800
Taxable Income	18,349	17,161	19,974
Federal Tax	2,327	2,139	2,561
State Tax	651	609	709
FICA / Medicare	2,130	2,059	2,274
<b>Total</b>	<b>\$5,108</b>	<b>\$4,807</b>	<b>\$5,544</b>

## Sources

Food: USDA June 2012 (adjusted for the Northeast)

Housing: HUD FMR 2013

Transportation: 2009 NHTS (Vermont specific) mileage x 2012 IRS mileage reimbursement rate (\$0.555) adjusted using AAA cost per mile estimates; <http://newsroom.aaa.com/wp-content/uploads/2011/08/YourDrivingCosts2011.pdf>

Health Care & Dental: City benefits (3.3% of pre-tax pay for premium) plus Out of Pocket; non-employee premium data from JFO-MEPS and BISHCA; OOP data from VTCURES (from JFO).

Clothing / Household: CEX 2011 (latest available); Table 4, Size of Consumer Unit

Telecommunications: Average of wireless charges from Verizon and AT&T plus CEX figure for "computer information services."

Personal: 1999 \$2.00 per day indexed to the CPI.

Renter's Insurance: Smith Bell & Thompson

Term Life Insurance: Provided at no cost by the City.

Savings: City retirement = 3% of pre-tax pay.