



Mayor Orders Wage Hikes

Recently Pittsburgh's Mayor issued an Executive Order to raise the minimum wage paid to all City workers to \$15 per hour. According to the Mayor's news release, it will cover 300 employees currently paid less than \$15 and will be phased in over five years, beginning in 2017, to comply with Act 47 oversight. Furthermore, the Mayor is calling for City Council to pass legislation "early next year" to require all City contractors to follow suit, or "face penalties."

There are many problems with this diktat. First is whether the Mayor has the authority to issue an Executive Order to raise wages. According to Pittsburgh's Home Rule Charter, the duties of the Mayor are enumerated in Article 2, Section 204. There are eight basic powers given to the Mayor including; "to inform council at least once a year concerning the finances and general conditions of the City; to provide council with information concerning the administration and conditions of the City as requested by council;" and to "submit proposed legislation to any member of council for introduction." Other powers revolve around a supervisory role, promoting intergovernmental relations and to defend and uphold the Charter itself. This Executive Order, if not challenged, could establish a bad precedent.

The Mayor could have asked a member of City Council (many share his views on the subject) to introduce legislation imposing a wage mandate for City employees. Keep in mind imposing a living wage has been tried twice before (2001 and 2010). In 2001, a living wage passed City Council, but when Allegheny County Council failed to follow suit, the Mayor at the time shelved the idea. In 2010 another try at a living wage expired in City Council. At that time the City was grappling with the effects of the nationwide recession and subsequent sluggish recovery and, of course, the City was under the financial oversight of the Act 47 team and the Intergovernmental Cooperation Authority (ICA). Importantly, the City remains under their oversight.

The press release does not provide any detailed financial consequences the City will incur as a result of the higher wages—which will be of great interest to both financial overseers. For example, assuming 300 workers are now at, say, \$10 per hour, the increase to \$15 per hour will cost the City an additional \$3.12 million in wages per year and additional hundreds of thousands of dollars in higher benefits attendant to the higher wages.

And there are several other interesting questions. With City employees being covered by a multitude of unions, how did these 300 slip through the cracks? Or are these 300 part-time employees, not eligible for full-time pay and benefits? If they are in a union, why is the Mayor demanding they be paid more than their collective bargaining unit is willing to accept?

And of course if these 300 employees in question receive wage boosts, this will undoubtedly have a “trickle-up effect” on the rest of pay rates within City government. Employees and their unions will not be willing to see their substantially higher pay levels and the gap with the lower wage employees that reflect experience, productivity and bargaining gains over the years be greatly diminished without demanding major pay increases to maintain workplace wage hierarchy. Otherwise there will be a great leveling of pay scales.

How much this will cost taxpayers cannot be known for sure until the process plays out, but it will be a lot of money. If this Executive Order is successful, and not challenged and overturned by one or both of the oversight boards, the Mayor may well be creating a feel good policy that will come back to haunt the City in a big way in two or three years as the need for more revenue rises sharply. In the meantime it’s a great vote buying gambit as far as City employees are concerned as they foresee getting higher pay with no additional work effort or union negotiations.

The second part of this Order, to seek legislation to impose the \$15 minimum on City contractors or have them “face penalties”, is fraught with unintended problems. The Mayor expects this to be taken up early in 2016. In the first place, it is unlikely the City will be able to mandate higher than market driven wages paid by firms under existing contracts as forcing them to pay higher wages without being able to adjust to the new conditions, e.g., obtain a boost in the price of the contract or reduce the necessary amount of labor and possibly the amount work product to cover the higher costs, will likely be met with breach of contract lawsuits.

Thus, it will likely only apply to new contracts written after the mandate goes into effect. This will allow bidders time to take the higher wages into account and make the necessary adjustments—either passing the increased cost to City taxpayers, reducing the number of workers or taking on a smaller amount of work per dollar of the contract. Contractors might choose to reduce non-wage compensation unless the ordinance precludes that as well.

It is a virtual certainty that cost of contracted services will rise. This amount cannot be known without having information on contracts, the number of workers employed by contractors and their wage rates. It can be assumed the Mayor believes some contractors are paying less than \$15, otherwise why ask for the legislation? In that case, costs for contract services will rise.

The bottom line is that this policy and Executive Order cannot be put into place without costing the City a lot more money. Pittsburgh is still operating under financial oversight from Act 47 and the ICA. Pledging to spend more money than approved in the five year plan might be another argument for keeping the City under such oversight. For sure, it is unlikely the Mayor will offer other offsetting cost reductions for these inevitable spending increases. Perhaps one of the oversight groups will challenge the Mayor’s authority to issue the wage edict in the first place—or maybe a concerned taxpayer organization will do so.

This Executive Order is arbitrary income redistribution by government edict. Does anyone believe that unearned pay increases will make the City’s work force more productive?

Jake Haulk, Ph.D., President

Frank Gamrat Ph.D., Sr. Research Assoc.

*Policy Briefs may be reprinted as long as proper attribution is given.
For more information about this and other topics, please visit our website:
www.alleghenyinstitute.org*

<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
