July 19, 2023

The Honorable Chris R. Holden
Chair, Assembly Appropriations Committee
1021 O Street, Suite 8220
Sacramento, CA 95814

RE: SB 525 (Durazo): Minimum Wage Health Care Workers
As Amended 7/3/23 – OPPOSE

Dear Assemblymember Holden:

On behalf of the California State Association of Counties (CSAC), Urban Counties of California (UCC), and the Rural County Representatives of California (RCRC), we write in respectful opposition to Senate Bill 525 by Senator Durazo.

Even with recent amendments to increase wages in consecutive years, SB 525 will still increase heath care costs and county-wide wages and salaries, potentially resulting in provider closures and cutbacks – jeopardizing access to care for the most vulnerable.

SB 525 proposes to raise the health care minimum wage broadly across the health sector to $21 per hour commencing on June 1, 2024, then raising to $25 per hour after June 1, 2025, and increasing wages by the lesser of 3.5% or by inflation based on the Consumer Price Index (CPI) every year thereafter, for employees working in county agencies – specifically, county health departments, county mental health departments, county correctional health settings, county hospitals, and county owned and operated clinics. Additionally, SB 525 requires exempt/salaried employees to be paid 1.5 times the proposed minimum wage – creating a new salary base of approximately $78,000 per year. The measure also broadly applies the wage requirements to contractors within these facilities. Counties are estimating that the cost to implement the bill statewide across all 58 counties to be in excess of several hundreds of millions of dollars annually. When wage compression and compaction issues are factored in, the cost estimates increase exponentially. The cost estimates are discussed in more detail in the following pages.

The Immense Breadth of County Services and Impact of SB 525
County health departments are the public health experts monitoring and investigating diseases in the community, conducting testing and contact tracing, providing vaccination against disease, providing health education, inspecting restaurants, and addressing health disparities. County behavioral health departments provide mental health and substance use disorder services, primarily to California's low-income populations with serious mental illness and substance use disorders, through Medi-Cal and other programs. County health and mental health departments also prepare for and respond to natural

disasters. Twelve counties own and operate hospitals, which primarily serve Medi-Cal beneficiaries and the remaining uninsured. Those twelve counties and additional counties own and operate health clinics.

County employees are generally represented by local bargaining units and counties negotiate in good faith to set wages and benefits for employees. We work with our labor partners in a variety of settings and recognize the important work of our employees. **SB 525 would undermine the collective bargaining process by requiring counties to raise wages substantially, which will impact county operations beyond the health care field.** Counties provide a vast array of municipal services to residents beyond health and behavioral health, including roads, parks, law enforcement, emergency response services and libraries. Counties also deliver services on behalf of the state for programs such as foster care, CalWORKs, and elections. Setting an hourly wage floor for employees in the health care field will undoubtedly impact the wages of our employees and contracted services in all aspects of county government, making the mandate required by SB 525 cost counties significantly more.

1991 and 2011 Realignment Considerations
County health functions are funded by 1991 Realignment (a combination of state sales tax and vehicle license fees), as well as other state and federal funds; county mental health services are funded by a combination of 1991 and 2011 Realignment, Mental Health Services Act, as well as other state and federal funds. In years where the Realignment revenues grow slowly or decline – as they have done several years since 1991, including during the Great Recession – counties would not have funds to cover this health care minimum wage increase. In addition, counties primarily serve Medi-Cal beneficiaries and reimbursement rates have remained stagnant. The current rate structure cannot absorb the costs proposed in this bill.

Counties have a unique role in providing health care services to low-income Californians. Welfare and Institutions Code section 17000 obligates counties to serve as the provider of "last resort" for indigent Californians who have no other means of support. Because of that requirement, counties focus on serving Medi-Cal beneficiaries and uninsured Californians in their hospitals, health systems, and clinics. Counties are not in the health care business to make a profit, instead they are focused on serving individuals with the fewest means – and the payer mix of patients they care for reflects that. Counties are important state partners in the Medi-Cal program. To the extent that SB 525 will increase costs without accompanying resources, counties may scale back the services they provide, thus impacting Medi-Cal recipients, low income, and uninsured Californians. Additionally, Medi-Cal managed care plans are already hesitant to contract with counties to implement CalAIM because of our costs; SB 525 will exacerbate the gap between health plan rates for enhanced care management and county costs to provide such services.

SB 525 Fiscal Estimate
A sampling of several counties consisting of approximately 46.2 percent of California's total population estimates a fiscal impact of approximately $241.2 million, annually, if the minimum wage for covered health care employment and work performed on the premises of a covered health care setting is increased to $25/hour. This aggregate estimate of the counties sampled estimates that over 15,000 employees would be impacted. It is important to note that the $241.2 million annual estimate does not factor in other costs for employment, such as pension costs and other overhead. In addition, this estimate does not factor in other significant downstream cost pressures, such as salary compression and compaction and other impacts that reverberate beyond. When wage compression/compaction issues are factored in, the estimated impact is much higher. Extrapolated to all counties throughout the state, the $241.20 estimated annual figure would increase exponentially and would still not include the additional

cost pressures previously referenced.

Compression and Compaction Issues

If the minimum wage for covered health care employment and work performed on the premises of a covered health care setting is raised to $21/hour and subsequently to $25/hour, there would be compression and compaction issues, causing a major impact to counties who would have to also increase the wages for workers in other sectors and for supervisorial employees. This creates significant downstream pressures on county budgets.

First, many counties have signed local labor agreements that will require them to increase wages for other workers outside of the healthcare system because of equal pay extensions. For example, if a custodian who works in a county hospital gets their wages raised to $21/hour, then the county will also need to raise the wages of all custodians who are employed by the county to $21/hour. Failing to do so would put the county in breach of previously agreed to labor contracts.

Second, if a supervisor is making wages at or near $21/hour or $25/hour minimum prior to SB 525 going into effect, there will be additional wage pressures because direct reports or non-supervisory staff wages will be outpacing salary increases for supervisory employees. If the wage difference between supervisor and non-supervisors are too small (or even at matching wages), it may reduce the incentive for employees to accept the additional responsibilities of being a supervisor/manager and can affect recruitment and retention. Addressing the wage differential will dramatically increase costs across all bargaining units.

Finally, if the minimum wage across the healthcare sector is increased to $21/hour and then to $25/hour, it may eliminate differences in factors such as skills, performance, seniority, or tenure between different employees with similar job classifications. For example, the wage increase could result in a new or recent hire making as much as someone that has held the same or similarly classified position for several years – whose wages have increased over time as a result of performance and merit increases, cost of living adjustments, etc., and it would disincentivize retention. To effectively retain an experienced workforce and ensure that the workforce needs of counties are being met to fill positions to support county-administered services, there would need to be consideration to increasing the wages of longstanding employees as well, given that new employees would be making the same wage as a more seasoned employee.

To address the wage compression and compaction issues, counties will likely need a compensation study to evaluate appropriate grade increases across the organization and reopen collective bargaining agreements creating new unfunded administration processes to implement SB 525. Wage increases across a bargaining unit as a result of SB 525 would far exceed the increases for just the health care worker wage minimum proposed in this measure.

SB 525 Would Create Continued Cost Pressures on County Budgets

Given that SB 525 includes an inflator of the lesser of 3.5 percent or inflation, it is unlikely that existing revenue sources available to counties will grow sufficiently to cover the wage requirements in SB 525. Additionally, SB 525 would require implementation to begin next year raising wages by $5.50/hour from the current minimum wage of $15.50/hour, and then increasing by $9.50/hour on June 1, 2025. We estimate the costs to implement SB 525 for counties alone will be in the range of hundreds of millions of dollars annually. With the uncertain state of the economy and anticipated state budget deficit, SB 525 will dramatically and significantly affect county budgets at precisely the time when they are least able to afford it.

Simply put, SB 525 is not sustainable for county government and undermines the local collective bargaining process. Counties will not be able to absorb the additional wage requirements in SB 525 without curtailing services to California's most vulnerable residents or laying off staff in non-health care sectors. The overall impact will be less services provided by county government to the public – and potentially fewer public sector employees to provide that work.

For these reasons, CSAC, UCC and RCRC respectfully oppose SB 525.

Sincerely,

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Cc: The Honorable Maria Elena Durazo, Member, California State Senate District 26
Members and Staff, Assembly Appropriations Committee
Joe Shinstock, Assembly Republican Caucus