CITY OF OAKLAND

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IGNACIO De La FUENTE
Vice Mayor

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TO:	Community and Economic Development Committee
FROM:	Ignacio De La Fuente
DATE:	March 5, 1998
RE:	Jobs and Living Wage Ordinance

In response to various suggestions from staff, community based organizations and the business community, I have modified the draft living wage ordinance. Attached for your consideration is a redlined version of the latest draft which shows the changes I have made since initially submitting the draft for staff review.

The three major changes are:

Sec. 2 (c) - I have simplified the definition of when City Financial Assistance Recipients (CFAR) are covered by the ordinance, because of concerns that the initial definition would be difficult to administer. The new definition is that CFARs are covered if they receive $100,000 in a 12 month period. The definition has also been extended to include tenants and leaseholders of CFAR with twenty or more employees.

Sec 7(b) and 10(d) - These sections now include specific penalties for non-compliance as per staff recommendation.

Sec 14 - This section from the original draft has been removed. This section was included in the Los Angeles ordinance which served as our model. However, subsequent research has determined that the U.S. Department of Labor finds these ordinances to be in compliance with federal wage statutes rendering this section unnecessary.

Respectfully Submitted,

IGNACIO DE LA FUENTE
Vice Mayor

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Oakland Jobs and Living Wage Ordinance

Whereas, the City of Oakland awards many contracts to private firms to provide services to the ~~Public~~public and to City Government; and

Whereas, the City of Oakland provides financial assistance and funding to others for the purpose of economic development or job growth; and

Whereas, the City of Oakland has a limited amount of taxpayer resources to expend; and

Whereas, even in promising economic times, far too many working Oakland residents and their families live below or near the poverty line; and

Whereas, the use of taxpayer dollars to promote sustenance and creation of living wage jobs will increase consumer income, decrease levels of poverty, invigorate neighborhood businesses and reduce the need for taxpayer-funded social programs in other areas; and

Whereas, the City of Oakland's payment of prevailing wage rates for public works projects has been tremendously beneficial for working people in Oakland and their families, Oakland neighborhoods, and the area economy; and

Whereas, the experience in the City of Oakland indicates that the procurement by contract of services has all too often resulted in the payment by service contractors to their employees of wages at or slightly above the minimum required by federal and state minimum wage laws. Such minimal compensation tends to inhibit the quantity and quality of services rendered by such employees, to the City and to the public. Underpaying employees in this way fosters high turnover, absenteeism, and lackluster performance. Conversely, adequate compensation ~~promotes amelioration of~~mitigates these undesirable conditions and promotes increased productivity, efficiency and workplace stability; and

Whereas, the inadequate compensation typically paid today also fails to provide service employees with resources sufficient to afford life in the City of Oakland. It is unacceptable that contracting decisions involving the expenditure of City funds should foster conditions placing a burden on limited social services. The City, as a principal provider of social support services, has an interest in promoting an employment environment that protects such limited resources; and

Whereas, financial assistance recipients of the City are engaged in manufacturing or some other line of business that is an integral part of the City of Oakland economy and such entities often pay wages at or slightly above the minimum required by federal and state minimum wage laws. The City as a provider of subsidies to these entities has the same interest in requiring the payment of a higher minimum level of compensation to employees of financial assistance recipients as it does of service contractors; and

Whereas, when the City uses contractors or subsidizes businesses which do not provide health insurance to their employees, this often imposes the costs of their medical care on the County, State and Federal governments. The City has an interest in avoiding such impacts, which the City finds can only be done if the employer provides health insurance in a reasonable form. The City finds that ~~the~~an employer contribution for health benefits ~~avoiding such impacts cost~~of at least $1.25 per hour on average ~~in contributions~~is necessary to provide employee health care sufficient to avoid imposing the public costs described above. The City also has an interest in ensuring that persons delivering City services are healthy, as lack of health care can ~~effect~~affect performance and absenteeism. The City finds that employees are far likelier to be healthy if their employer provides ~~than~~ reasonable health insurance to them and their dependents. In addition, one of the City's reasons for providing financial assistance is to promote the public health, an interest served by having employers receiving such assistance spend a reasonable portion of this money for health purposes.

Whereas, in requiring the payment of a higher minimum level of compensation, this chapter benefits these interests;

BE IT ORDAINED BY THE CITY COUNCIL FOR THE CITY OF OAKLAND:

The Municipal Code of Oakland is hereby amended by inserting a new Chapter ~~XX~~__, as follows:

Section 1. Title and Purpose

(a) Oakland Jobs and Living Wage Ordinance

This Chapter shall be known as the "Oakland Jobs and Living Wage Ordinance." The purpose of this ordinance is to require that nothing less than a prescribed minimum level of compensation (a living wage) be paid to employees of service contractors of the City and employees of City financial assistance recipients.

Section 2. Definitions

The following definitions shall apply throughout this chapter:

(a) "Awarding authority" means that subordinate or component entity or person of the City (such as a department) that awards or is otherwise responsible for the administration of a service contract or the financial assistance ~~recipient~~agreement, or if none~~ than~~, then the City.

(b) "City" means the City of Oakland and all awarding authorities thereof, including all City departments.

(c) "City financial assistance recipient" (CFAR) means any person who receives from the City financial assistance as contrasted with generalized financial assistance such as through tax legislation, in accordance with the following monetary ~~limitations~~limitation. Assistance given in the amount of ~~five~~one hundred thousand dollars (~~$500,000~~$100,000) or more in any twelve-month period shall require compliance with this article for the life of the project or five years ~~from~~in the ~~date~~case of assistance given to purchase real property, tangible property or construct facilities, including but not limited to materials, equipment, fixtures, merchandise, machinery or the like.

~~For assistance in any twelve-month period totaling less than five hundred thousand dollars ($500,000) but at least fifty thousand dollars ($50,000), there shall be compliance for one year if at least fifty thousand dollars ($50,000) of~~

~~such assistance is given in what is reasonably contemplated at the time to be on a continuing basis, with the period of compliance beginning when the accrual during such twelve-month period of such continuing assistance reaches the fifty thousand dollar ($50,000) threshold.~~

~~Categories of such assistance include, but are not limited to, grants, rent subsidies, bond financing, planning assistance, tax increment financing exclusively by the City, and tax credits.~~ Categories of such assistance include, but are not limited to, grants, rent subsidies, bond financing, planning assistance, tax increment financing and tax credits.- City staff assistance shall not be regarded as financial assistance for purposes of this article. A loan shall not be regarded as financial assistance. The forgiveness of a loan shall be regarded as financial assistance. A loan shall be regarded as financial assistance to the extent of any differential between the amount of the loan and the present value of the payments thereunder, discounted over the life of the loan by the applicable federal rate as used in 26 U.S.C. §§ 1274(d), 7872(f).

A ~~recipient shall not be deemed to include lessees and sublessees.~~tenant or leaseholder of a City financial assistance recipient who occupies property or uses equipment or property that is improved or developed as a result of the assistance awarded the City financial assistance recipient and who will employee at least twenty employees for each working day in each of twenty or more calender weeks in the twelve months after occupying or using said property, shall be considered a "City financial assistance recipient" for the purposes of this chapter and shall be covered for the same period as the CFAR of which they are a tenant or leaseholder.

A recipient shall be exempted from application of this article if (a) it employs fewer than five employees for each working day in each of twenty or more calendar weeks in the current or preceding calendar year, or (b) it obtains a waiver as provided herein. The City financial assistance recipient must also demonstrate that the waiver will further the purposes of the financial assistance, ~~iei~~.e. creating training positions which will enable employees to advance into living wage jobs or better. A recipient who provides trainee positions intended to prepare employees for permanent positions, and who claims that compliance with this article would cause an economic hardship -- may apply in writing to the City department or office administering such assistance, which department or office shall forward such application and its recommended action on it to the City Council. ~~creating job for the long term unemployed, creating training positions which will enable employees to advance into living wage jobs or better. A recipient -- who employs the long-term unemployed or provides trainee positions intended to prepare employees for permanent positions, and who claims that compliance with this article would cause an economic hardship -- may apply in writing to the City department or office administering such assistance, which department or office shall forward such application and its recommended action on it to the City Council.~~ Waivers shall be effected by Council resolution only.

A ~~city~~City financial assistance recipient who contends it is unable to pay all or part of the living wage must provide a detailed explanation in writing to the City department or office administering such assistance, which may recommend to the City Council a waiver of this requirement, which waiver may only be granted by a resolution of the Council. A waiver will be granted only if the ~~city~~City financial assistance recipient can show economic hardship and that the waiver of the ordinance will further the interests of the City in ~~creating jobs for the long term unemployed or~~ providing training positions which will enable employees to advance ~~with the employer~~ into permanent living wage jobs or better. However, no waiver will be granted if the effect of the waiver is to replace or displace existing positions or employees or to lower the wages of current employees.

The explanation submitted by the City financial assistance recipient seeking a waiver must set forth the reasons for its inability to comply with the provisions of this ordinance, including a complete cost accounting for the proposed work to be performed with the financial assistance sought, including wages and benefits to be paid all employees, as well as an itemization of the wage and benefits paid to the five highest paid individuals employed by the City financial assistance recipient. The City financial assistance recipient must also demonstrate that the waiver will further the interests of the City in creating ~~jobs for the long term unemployed or providing~~ training positions which will enable employees to advance ~~with the employer~~ into permanent living wage jobs or better and will not be used to replace or displace existing positions or employees or to lower the wages of current employees.

Waivers from the Ordinance are disfavored, and will be granted only where the balance of competing interests weighs clearly in favor of granting the waiver. If waivers are to be granted, partial waivers are favored over blanket waivers. Moreover, any waiver shall be granted for no more than one year. At the end of the year the City financial assistance recipient may reapply for a new waiver which may be granted subject to the same criteria for granting the initial waiver.

(d) "Contractor" means any person that enters into a service contract with the City.

(e) "Employee" means any person -- who is not a managerial, supervisory, or confidential employee who is employed (1) as a service employee of a contractor or subcontractor and under the authority of one or more service contracts and who expends any of his or her time thereon, including but not limited to: hotel employees, restaurant, food service or banquet employees; janitorial employees; security guards; parking attendants; health care employees; gardeners; waste management employees; and clerical employees; or (2) by a City financial assistance recipient who expends at least half of his or her time on the funded project, or (3) by a service contractor of a CFAR and who expends at least half of his or her time on the premises of the CFAR directly involved with the activities funded by the City.

(f) "Employer" means any person who is a City financial assistance recipient, contractor, or subcontractor and who is required to have a business tax registration certificate by Oakland Municipal Code §§ ______ or successor ordinance or, if expressly exempted by the Code from such tax, would otherwise be subject to the tax but for such exemption.

(g) "Person" means any individual, proprietorship, partnership, joint venture, corporation, limited liability company, trust, association, or other entity that may employ individuals or enter into contracts.

(h) "Service contract" means (1) a contract let to a contractor by the City primarily for the furnishing of services to or for the City (as opposed to the purchase of goods or other property or the leasing of property) and that involves an expenditure in excess of twenty-five thousand dollars ($25,000) and a contract term of at least three months or (2) a lease or license under which services are rendered for the City by the lessee or licensee.

(~~i~~l) "Subcontractor" means any person not an employee that enters into a contract (and that employs employees for such purpose) with (a) a contractor to assist the contractor in performing a service contract or (b) a City financial assistance recipient to assist the recipient in performing the work for which the assistance is being given. Vendors, such as service contractors, of City financial assistance recipients shall not be regarded as subcontractors except to the extent provided in subsection (e).

(j) "Contract Compliance" refers to the Office of Contract Compliance of the Public Works Agency of the City of Oakland.

Section 3. Payment of Minimum Compensation to Employees

(a) Wages

Employers shall pay employees a wage to each employee of no less than the hourly rates set under the authority of this Chapter. The initial rate shall be eight dollars ($8.00) per hour worked with health benefits, as described in this Chapter, or otherwise nine dollars and twenty five cents ($9.25) per hour. Such rate shall be adjusted annually, no later than July ~~first~~1 to the sum equal to the increase at the immediately preceding December 31 over the year earlier level of the Bay Region Consumer Price Index as published by the Bureau of Labor Statistics, U.S. Department of Labor, applied to $9.25. The City shall publish a bulletin by April 1 of each year announcing the adjusted rates, which shall take effect upon such publication. Said bulletin will be distributed to all awarding authorities and City contractors upon publication. The contractor shall provide written notification of the rate adjustments to each of its employees and the employees of its subcontractors, if any, and make the necessary payroll adjustments by July 1.

(b) Compensated Days Off

Employers shall provide at least (20) twenty days off per year for sick leave, vacation, or personal necessity at the employee's request. Employees shall accrue one compensated day off per month of full time employment. Part-time employees shall accrue compensated days off in increments proportional to that accrued by full-time employees. The employees shall be eligible to use accrued days off after the first six months of employment or consistent with company policy, whichever is sooner. Paid holidays, consistent with established employer policy, may be counted toward provision of the required 20 compensated days off.

Employers shall also permit employees to take at least an additional (10) ten days a year of uncompensated time to be used for sick leave for the illness of the employee or a member of his or her immediate family where the employee has exhausted his or her compensated days off for that year. This Chapter does not mandate the accrual from year to year of uncompensated days off.

(c) Minimum Hours

The Employer shall offer at least 16 hours per week to each employee. This guarantee of hours shall not apply to any employee engaged only for a special event, such as a holiday event, or any week in which the employer is not operating for at least 40 hours.

If an employee declines to work 16 hours, the Employer shall make a written record of its offer and the employee's declination.

Section 4. Health Benefits

Health benefits required by this Chapter shall consist of the payment of at least one dollar and twenty five ($1.25) per hour towards the provision of health care benefits for employees and their dependents. Proof of the provision of such benefits must be submitted to the awarding authority not later than 30 days after execution of the contract to qualify for the wage rate in Section 3 for employees with health benefits.

Section 5. Notifying Employees of their Potential Right to the Federal Earned Income Credit

Employers shall inform employees making less than twelve dollars ($12.00) per hour of their possible right to the federal Earned Income Credit ("EIC") under §32 of the Internal Revenue Code of 1954, 26 U.S.C. §32, and following procedures:

(1) The awarding authority shall complete the normal and customary process of issuing RFP's and rating all bidders for the contracts in question.

(2) The awarding authority shall make a preliminary determination as to whether a prospective contract or financial assistance agreement meets the term and dollar limitations of this Chapter as provided in Sections ______. For those prospective contracts and financial assistance agreements meeting such term and dollar limitations, the awarding authority shall then submit a request for determination to Contract Compliance as to the applicability of this Chapter pursuant to Section _____.

(3) Contract Compliance will issue a written determination of applicability of this Chapter within five working days of receipt of a written request from the awarding authority. If the prospective contract or financial assistance agreement is determined to be subject to the provisions of this Chapter, the awarding authority shall include compliance language in the RFP or prospective contract and attach a Declaration of Compliance form.

(4) If a bidder is otherwise qualified and is being considered for a contract award, the awarding authority shall review the bid documents for inclusion of the completed Declaration of Compliance. If the declaration is not furnished, the bidder shall be deemed to be non-responsive and shall be disqualified subject to the Appeal Process under Section 6(d) herein.

(5) If the information in possession of the awarding authority indicates that a bidder should be disqualified the awarding authority shall inquire, in its request for a determination from Contract Compliance, whether any of the exemption provisions of this Chapter applies to the prospective contract in question.

(6) If a bidder is disqualified as non-responsive to the requirements of these Rules and Regulations but challenges the applicability of this Chapter, the Appeal Process shall be activated.

(7) Each bidder that has been disqualified under this Chapter

shall be given written notice of such fact.

(d) There shall be a two level appeal process as described below. A contract shall not be executed until there is resolution of the relevant appeal.

(1) The following appeal process shall be available to every bidder who has been disqualified by the awarding authority because the bidder was deemed to be non-responsive to the requirements of this ~~chapter~~Chapter or who disputes the determination of applicability of this Chapter to its business operation which will be involved in the proposed contract.

(a) Within five working days of being notified in writing of the awarding authority's disqualification decision and reasons therefor, or written determination of the applicability of this Chapter, the subject bidder may file an appeal with the awarding authority that made the disqualification and Contract Compliance.

(b) If such appeal is made, the awarding authority shall prepare written findings to support the disqualification and solicit the written findings and recommendations of Contract Compliance. Contract Compliance shall submit the written findings and recommendations within five working days of receipt of the request for consideration by the awarding authority.

(c) As soon as reasonably practical, but not more than ten working days from receipt of the bidder's appeal, the awarding authority shall conduct a hearing on the appeal. The scope of the hearing shall be limited first, as to whether the bidder responded to the bid process as directed relative to this Chapter, and secondly, as to whether the provisions of this Chapter applies to the contract.

(d) The appellant may present oral or documentary evidence, under oath, to rebut the information relied upon by the awarding authority and Contract Compliance.

(e) After reviewing all the evidence and testimony presented, including the written findings and recommendations of Contract Compliance, the awarding authority shall make a written determination as to whether the disqualified bidder was non-responsive. Contract Compliance shall make a written determination as to whether this Chapter applies to the bidder's business operation which will be involved in the proposed contract. If there is sufficient supporting evidence, Contract Compliance may grant an exemption under the terms of this Chapter.

(2) In case of an unfavorable determination to the bidder as to the applicability of this Chapter to its business operation which will be involved in the proposed contract, a bidder may file with Contract Compliance, within five working days, an appeal for a second level review. The second level review panel will consist of the director of Contract Compliance, the general manager or director of the awarding department or Contract Compliance, and the appropriate supervising attorney of the Office of the City Attorney. The Contract Compliance director shall chair the panel.

After review of all evidence, testimony and reports presented, the panel shall make a written determination within ten working days as to the applicability of this Chapter to the bidder's business operation which will be involved in the proposed contract. The determination of the second level review panel as to the applicability of this Chapter to the subject contract performance shall be final, after which action the City contract may be executed.

(e) Contract Compliance shall maintain a listing of all its determinations and a file of all complaints, findings and results, and shall submit a regular report on compliance with these Ordinances no less than annually to the City Council. Special reports and recommendations on significant issues of interest to the Council will be submitted as deemed appropriate.

Section 7. RFP ~~and~~, Contract and Financial Assistance Agreement Language

All RFP's ~~and~~, City contracts and financial assistance agreements subject to this Chapter shall contain the following two paragraphs or substantially equivalent language:

(a) Jobs and Living Wage Policy

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This contract is subject to the Jobs and Living Wage Ordinance, Chapter -- of the Oakland Municipal Code. The Code requires that, unless specific exemptions apply, all employers (as defined) under contracts primarily for the furnishing of services to or for the City and that involves an expenditure or receipt in excess of $25,000 and a contract term of at least three months or certain recipients of City financial assistance, generally shall provide payment of a minimum initial wage rate to employees as defined in the LWO of $8.00 per hour with health benefits of at least $1.25 per hour or otherwise $9.25 per hour. Such rate shall be adjusted annually pursuant to the terms of the Oakland Jobs and Living Wage Ordinance, Chapter -- of the Oakland Municipal Code.

(b) Termination Provisions relating to Jobs and Living Wage Policy

Under the provisions of Section _____ of the Oakland Municipal Code, the City shall have the authority, under appropriate circumstances, to terminate this contract and otherwise ~~pursue legal~~ remedies ~~that may be available~~as detailed in Sec. 10 (d) of the chapter if the City determines that the subject contractor or financial assistance recipient violated the provisions of the referenced Code Sections.

Section 8. Obligations ~~Of~~of Contractors ~~And~~and Financial Assistance Recipients

(a) All proposed contractors and City financial assistance recipients subject to the provisions of this Chapter shall submit a completed Declaration of Compliance form, signed by an authorized representative, along with each proposal. The completed Declaration of Compliance form shall be made a part of the executed contract.

(b) Contractors and City financial assistance recipients shall ~~be responsible for informing~~require their subcontractors~~of the subcontractor's obligation~~ and tenants/leaseholders to comply with the provisions of this Chapter. Language indicating the subcontractor's or tenants/leaseholders intent to comply shall be included in the contract between the contractor and subcontractor or any agreement between a CFAR and tenants/leaseholders. A copy of the subcontract or other such agreement shall be submitted to the awarding authority and made a part of the contract.

(c) Contractors and City financial assistance recipients shall maintain a listing of the name, address, date of hire, occupation classification, rate of pay and benefits paid for each of its employees and the employees of its subcontractors, if any, and submit a copy of the list to Contract Compliance by March 31, June 30, September 30, and December 31 of each year the contract is in effect. Failure to provide this list within five days of the due date will result in a penalty of $500 per day. Contract Compliance shall transmit a copy of the list to the awarding authority immediately upon receipt. Contractors and City financial assistance recipients shall maintain payrolls for all Employees and basic records relating thereto and shall preserve them for a period of three years.

(d) Contractors and City financial assistance recipients shall give written notification to each current employee, and each new employee at time of hire, of his or her rights to receive the benefits under the provisions of this ~~chapter~~Chapter. The notification shall be provided in English, Spanish and other languages spoken by a significant number of the employees, and shall be posted prominently in communal areas at the work site. A copy of said notification shall be forwarded to the awarding authority which must include the following:

(1) Minimum compensation - The initial rates of $8.00 with health benefits or $9.25 without health benefits will be adjusted annually to correspond to adjustments, if any. The Living Wage shall be upwardly adjusted each year no later than April first in proportion to the increase at the immediately preceding December 31 over the year earlier level of the Bay Region Consumer Price Index as published by the Bureau of Labor Statistics, U.S. Department of Labor, applied to $9.25, whichever is greater. The Employer shall offer at least 16 hours per week to each employee. This guarantee of hours shall not apply to any employee engaged only for a special event, such as a holiday event, or any week in which the employer is not operating for at least 40 hours. If an employee declines to work 16 hours, the Employer shall make a written record of its offer and the employee declination.

(2) Health benefits - Proof of the provision of such benefits shall be submitted to the awarding authority not later than 30 days after execution of the contract to qualify for the wage rate in Section 3. Health benefits shall be provided to part-time employees as well as full-time employees.

(3) Twenty compensated days off per year for sick leave, vacation or personal necessity at the employee's request, and ten uncompensated days off per year for sick leave which shall be made available to all covered employees as provided in this chapter. Employees shall accrue one compensated day off per month of full time employment. Part-time employees shall accrue compensated days off in increments proportional to that accrued by full-time employees. The employees shall be eligible to use accrued days off after the first six months of employment or consistent with company policy, whichever is sooner. Paid holidays, consistent with established employer policy, may be counted toward provision of the required 20 compensated days off. Ten uncompensated days off shall be made available, as needed, for personal or immediate family illness after the employee has exhausted his or her accrued compensated days off for that year. This Chapter does not mandate the accrual from year to year of uncompensated days off.

(4) Federal Earned Income Credit (EIC) - Forms to inform employees earning less than $12 per hour of their possible right to EIC and forms to secure advance EIC payments from the employer shall be provided to the eligible employees in English, Spanish and other languages spoken by a significant number of the employees within 30 days of employment under the subject agreement.

(5) Notice that the employers are required to file a Declaration of Compliance form as part of the contract with the City and that the declarations are available for public inspection at the Awarding Authority.

(e) Contractors, City financial assistance recipients and subcontractors shall permit access to work sites and relevant payroll records for authorized City representatives for the purpose of monitoring compliance with this Chapter, investigating employee complaints of non-compliance and evaluating the operation and effects of this Chapter, including the production for inspection and copying of its payroll records for any or all of its employees for the prior three year period.

Section 9. Retaliation ~~And~~and Discrimination Barred

Contractors and City financial assistance recipients shall not discharge, reduce the compensation or otherwise discriminate against any employee for making a complaint to the City, otherwise asserting his or her rights under this Chapter, participating in any of its proceedings or using any civil remedies to enforce his or her rights under the Chapter. Contractors and City financial assistance recipients shall also be in compliance with federal law proscribing retaliation for union organizing.

Section 10. Monitoring ~~And~~, Investigation ~~And~~and Compliance

The provisions of this Chapter will augment the awarding authority's normal and customary procedure for administering its contracts. Contract Compliance shall administer the requirements of this Chapter as follows:

(a) Contract Compliance will be available to review all contract documents in cooperation with the awarding authorities to insure that relevant language and documents are included. It shall be the responsibility of the awarding authority to insure that all required documents are included.

(b) Contract Compliance will monitor the operations of the contractors, subcontractors and financial assistance recipients to insure compliance by conducting random site visits and payroll audits. The provision of wages and benefits by each employer shall be reviewed prior to the contract renewal and no less than annually.

(c) Contract Compliance will perform designated reviews where there is a specific concern or a complaint about the employment practices of a contractor ~~or~~, subcontractor or CFAR relative to this Chapter. In such cases, the awarding authority will be notified and efforts made for a resolution to the problem within 30 days.

(d) Where a violation of any provision of this Chapter has been determined, the contractor will be given a written notice by Contract Compliance to correct the violation within five days. Should the violation continue and/or no resolution is imminent, Contract Compliance, in cooperation with the City Attorney and the awarding authority, shall pursue available legal remedies including but not limited to any or all of the following penalties and relief:

(1) Suspension and/or termination of the contract, subcontract or

financial assistance agreement for cause;

(2) Payback of any or all of the contract or financial assistance award to the City of Oakland;

(3) Ineligibility for future City contracts and/or financial assistance for three years or until all penalties and restitution have been paid in full whichever is longer;

(4) A fine payable to the City of Oakland in the sum of $500 for each week for each employee found not to have been paid in accordance with this chapter;

(5) Wage restitution for each affected employee.

(e) If necessary for the enforcement of this Chapter the City Attorney may issue subpoenas, compel the attendance and testimony of witnesses and production of books, papers, records and documents relating to payroll records necessary for hearings, investigations, and proceedings. In case of disobedience of a subpoena, the City Attorney may apply to a court of appropriate jurisdiction for an order requiring attendance and testimony of witnesses and the productions of books, papers, records and documents. Said court, in the case of the refusal to obey any such subpoena, after notice to the person subpoenaed, and upon finding that the attendance or testimony of such witnesses of the production of such books, papers, records and documents, as the case may be, is relevant or necessary for such hearings, investigations or proceedings, may issue an order requiring the attendance or testimony of such witnesses or the production for such documents and any violation of the court's order may be punishable by the court as contempt thereof.

Section 11. Employee Complaint Process

An employee who alleges violation of any provision of this Chapters by a covered employer may report such acts to Contract Compliance and, at the employee's discretion, exhaust available employer internal remedies. The complaint to the Contract Compliance shall be handled as follows:

(1) The employee shall submit to Contract Compliance a completed complaint form and copies of all documents supporting the allegation. Contract Compliance shall provide the complaint forms in English and Spanish.

(2) Contract Compliance shall notify the awarding authority and the employer of the complaint and seek resolution within five days from receipt of the complaint form. If resolution is not accomplished, Contract Compliance shall initiate an investigation, report the results to the awarding authority and the City Attorney within 30 days and seek appropriate legal remedies.

(3) An employee claiming retaliation (such as, termination, reduction in wages or benefits or adverse changes in working conditions) for alleging non-compliance with this ~~Chapters~~Chapter, may report the alleged retaliation in the same manner as the initial complaint.

(4) The complainant's or witness' identity will not be divulged to the employer without the individual employee's written consent.

Section 12. Private Right ~~Of~~of Action

(a) An employee claiming violation of this article may bring an action in the Municipal Court or Superior Court of the State of California, as appropriate, against an employer and may be awarded:

(1) For failure to pay minimum wages, back pay for each day during which the violation continued.

(2) For failure to pay medical benefits, the difference during the involved period between the minimum wage required herein without benefits and such minimum wage with benefits.

(3) For any violation of this Chapter, including retaliation, the Court may award any appropriate remedy at law or equity, including but not limited to reinstatement, compensatory damages and punitive damages.

(b) The Court shall award reasonable attorney's fees and costs to an employee who prevails in any such enforcement action.

(c) Notwithstanding any provision of this Code or any other ordinance to the contrary, no criminal penalties shall attach for any violation of this article.

(d) No remedy set forth in this Chapter is intended to be exclusive or a prerequisite for asserting a claim for relief to enforce the right under this Chapter in a court of law. This Chapter shall not be construed to limit an employee's right to bring common law cause of action for wrongful termination.

Section 13. Collective Bargaining Agreement Supersession

All of the provisions of this Chapter, or any part hereof, may be waived in a bona fide collective bargaining agreement, but only if the wavier is explicitly set forth in such agreement in clear and unambiguous terms. Unilateral implementation of terms and conditions of employment by either party to a collective bargaining relationship shall not constitute, or be permitted, as a waiver of all or any part of the provisions of this ordinance.

~~Section 14. Expenditures Covered By This Article~~

~~This Chapter shall apply to the expenditure -- whether through aid to City financial assistance recipients, service contracts let by the City, or service contracts let by its financial assistance recipients -- of funds entirely within the City's control and to other funds, such as federal or state grant funds, where the application of this Chapter is consonant with the laws authorizing the City to expend such other funds. As to any grant or similar program, this Chapter shall become applicable to the funds authorized by such program if and only if the City Attorney's Office has obtained from the funding government either an opinion or other determination indicating such consonance or a judgment of compliance from a court of law or other tribunal, which procurement has been reported in writing by such Office to the City Council by a letter to the City Clerk.~~

Section 15. **Chapter Applicable ~~To~~to New Contracts ~~And~~and City Financial Assistance**

The provisions of this Chapter shall apply to (a) a contract entered into and financial assistance provided after the effective date of this Chapter; (b) a contract amendment consummated after the effective date of this Chapter which itself meets the requirement of Section _ above or which extends the duration of the contract; and (c) supplemental financial assistance provided for after the effective date of this Chapter which itself meets the requirements of Section ___________ above.

Section 16. **Implementing Regulations**

Contract Compliance shall promulgate implementing regulations consistent with this Chapter. The proposed regulations shall be subject to public comment and City Council approval before becoming final.

Section 17. **Severability**

In the event any provision of this ordinance shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

Section 18. **Effective Date**

The law shall be effective from the date of July 1, 1998.

CITY OF OAKLAND

DECLARATION OF COMPLIANCE
Living Wage Ordinance

The Oakland Municipal Code Chapter XX provides that all employers (except where specifically exempted) under contracts primarily for the furnishing of services to or for the City and that involve an expenditure or receipt in excess of $25,000 and a contract term of at least three months, or certain recipients of City financial assistance, shall comply with all provisions of this Chapter.

The contractor or City financial assistance recipient further agrees:

(a) To pay employees a wage no less than the minimum initial compensation of $8.00 per hour with health benefits, as described, or otherwise $9.25 per hour, and to provided for the annual increase pursuant to Section 3; To offer at least 16 hours per week to each employee. This guarantee of hours shall not apply to any employee engaged only for a special event, such as a holiday event, or any week in which the employer is not operating for at least 40 hours. If an employee declines to work 16 hours, the Employer shall make a written record of its offer and the employee's declination.

(b) To provide at least 20 compensated days off per year for sick leave, vacation or personal necessity at the employee's request, and at least ten additional days per year of uncompensated time off pursuant to Section 3;

(c) To inform employees making less than $12 per hour of their possible right to the federal Earned Income Credit (EIC) and make available the forms required to secure advance EIC payments from the employer pursuant to Section 5;

(d) To permit access to work sites for authorized City representatives to review the operation, payroll and related documents, and to provide certified copies of the relevant records upon request by the City; and,

(e) Not to retaliate against any employee claiming non-compliance with the provisions of this Chapter and to comply with federal law prohibiting retaliation for union organizing.

The undersigned authorized representative hereby obligates the proposer to the above stated conditions under penalty of perjury.

Company Name	Signature of Officer or Authorized Representative
Company Address and Phone Number	Type or Print Name and Title
Date Bid Number	Type of Service

FOR CITY USE ONLY

Determination: Bidder is Not Exempt_____ Bidder is Exempt_______ Date_________________

Department__________________________ Representative___________

B
C&ED Cmte
2-10-98

CITY OF OAKLAND

AGENDA REPORT

TO: City Manager
ATTN: Robert C. Bobb
FROM: Public Works Agency
DATE: March 10, 1998

RE: REPORT ON A LIVING WAGE POLICY FOR THE CITY OF OAKLAND AND THE REDEVELOPMENT AGENCY

SUMMARY

This is a report and a recommendation on the request from the Association of Community Organizations for Reform Now (ACORN) for the City of Oakland (City) and Redevelopment Agency (Agency) to adopt a living wage policy. This report will also include an analysis performed by the National Economic Development & Law Center (NED&LC), comments from City agencies and ACORN. In addition, included is a proposed draft living wage policy submitted by Vice Mayor De La Fuente, Chair of the Community and Economic Development Committee.

FISCAL IMPACT

The fiscal impact will vary depending on the policy adopted by the City Council. Based on the information received from the Life Enrichment Agency (LEA) an additional $500,000 may be needed to maintain it's current services if the living wage policy applies to these programs. However, LEA will be requesting an exemption of $260,000 for the City's workreation program which would reduce the $500,000 to $240,000. The Community & Economic Development Agency (CEDA) indicated that the policy may result in a $48,000 increase in the annual allocation for the neighborhood improvement program (approximately 890 clients) for the 75 Public Service Programs funded by the Federal Community Development Block Grant (CDBG). The estimated cost for monitoring and enforcement of a living wage policy can range from $10,000 to $200,000 depending on the enforcement requirements of the policy.

DISCUSSION

ACORN requested that the City Council, Community and Economic Development Committee review a living wage policy for City and Agency contracts, projects, subsidies or tax incentives. ACORN is a national organization actively involved in building coalitions made up of grass root community organizations, churches and unions to campaign for a living wage policy.

A living wage policy, as adopted in other communities, is designed to increase wages paid to very low-income workers above the state and federal minimum wage.

Item B
CED Cmte

This is accomplished by requiring state or municipal contractors, recipients of public subsidies or tax breaks, or, in some cases all businesses to pay employees wages significantly above the federal minimum wage.

On October 7, 1997, the City Council passed a living wage policy for the "Kids First" program. The wages established were $7.72 per hour with benefits and $8.50 per hour without benefits. Nationwide, fourteen jurisdictions have adopted a living wage policy. Attachment A lists the jurisdictions that have adopted a policy.

Staff Response to ACORN Request

As a result of ACORN's request, staff met with ACORN and the Oakland Chamber of Commerce (Chamber) to discuss issues relative to the adoption of a living wage policy and requested information from an Oakland-based, national organization, NED&LC. Due to their expertise and knowledge in this area, the Public Works Agency contracted with the NED&LC. In the past, they have provided the City with analysis of wages in the construction, retail and telecommunications areas.

NED&LC is a national organization based in the City of Oakland. NED&LC is in its twenty-seventh year and is a nonprofit, public-interest community and economic development technical assistance provider. They provide assistance to community economic development organizations in the areas of legal, taxation, real estate, strategic planning, housing and business development, employment, organizational development, etc.

NED&LC Living Wage Policies Nationwide Analysis

NED&LC was asked to provide the most current issues regarding living wages and provide information based on data gathered from living wage programs, in other cities, as follows:

- Review the cities/states that have a living wage policy to determine what impacts the living policy has had on the various jurisdictions.
- Evaluate the benefits of a living wage policy.
- Determine the costs impacts of a living wage policy.
- Evaluate the benefits of applying a living wage policy on to certain industries/services.
- Determine if the policies have had an impact on welfare reform.
- Determine if the policies have had an impact on the competitive bidding process.
- Determine if the policies have impact on small, minority and women owned businesses.
- Develop living wage options for the city/agency to consider.
- Determine what would be needed to enforce or monitor a living wage policy and the related costs.

Findings

NED&LC analyzed the living wage policies of Baltimore, Boston and Los Angeles. These cities were chosen because their ordinance had the most detailed reports to respond to the City's request for information. The executive summary pointed out that several common themes emerged out of the analysis. Listed below are the findings. For a detailed report refer to Attachment B, NED&LC complete analysis.

Living wage policies:

- increase the standard of living of impacted individuals, but may not necessarily impact economically disadvantaged individuals or communities;

- have not deterred businesses from initiating contracts, based on the Baltimore study and the Davis-Bacon Act;

- do involve administrative costs to cities at varying levels to monitor and enforce the ordinance, ranging from $84,000 for the City of Baltimore to a projected $600,000 for the City of Los Angeles;

- do not necessarily impact the unemployment rate;

- do not generally create increased cost to cities as a result of bidding price increases based on the Baltimore plan;

- may impact welfare recipients based on a newly released study by the Preamble Center for Public Policy; and

- may target only certain service sectors (several cities have chosen to target the service sector or specific occupations within that sector with the idea of impacting the greatest number of low wage workers and exclude nonprofit organizations such as job training agencies or summer youth employment entities because of the nature of the service they provide).

Comments from City Agencies and ACORN

On January 8, 1998, staff met with the following City agencies, chambers of commerce and ACORN to present NED&LC living wage analysis. Upon completion of NED&LC's assessment and analysis, City agencies and organizations (listed below) were asked to review and comment on their findings.

<u>City Agency</u>	<u>**Chambers /Organizations**</u>
Community Economic Development Agency	Oakland Metropolitan Chamber
Life Enrichment Agency	Oakland Chinatown Chamber
City Manager's Office	Hispanic Chamber
Administrative Services Agency	ACORN
Budget & Finance Agency	

Staff has received comments from two city agencies and ACORN. CEDA reported that the implementation of a living wage policy would have minimal impact on the operation but may result in a $48,000 increase in the annual allocation for the neighborhood improvement program (approximately 890 clients) for the 75 Public Service Programs funded by the Federal Community Development Block Grant (CDBG). LEA reported that an additional cost of $500,000 would be needed to continue at the current level of services for their programs if the living wage policy was applied. However, LEA will be requesting an exemption of $260,000 for the City's workreation program which would reduce the $500,000 to $240,000. Attachment C is a list of responses from the City Agencies.

ACORN was pleased with the NED&LC living wage analysis and based on the analysis urged the City to adopt a living wage policy.

The various chambers of commerce have not provided a response because they have not been able to meet with their various committees that deal with this issue. Once the various chamber committees meet, they will forward the comments to the City.

Draft Proposed Policy

The draft proposed living wage policy submitted by Vice Mayor Ignacio De La Fuente requires employers to pay employees a minimum of $8.00 per hour with benefits and $9.25 without. The policy is intended to promote the use of taxpayer dollars in promoting sustenance and have the creation of living wage jobs to increase consumer income, decrease levels of poverty, invigorate neighborhood businesses and reduce the need for taxpayer-funded social programs. Attachment D is a draft proposed policy.

- The policy would be applicable to the following:

  1. Any business that is required to have a business tax license such as contractors, subcontractors, and non-profit organizations;

  2 Any person (individual, proprietorship, partnership, joint venture, corporation, limited liability company, trust, association, or other entity that may employ individuals or enter into contracts) who receives assistance of $500,000 in any twelve month period shall be required to comply with the living wage ordinance for five years from the date that such assistance reaches the $500,000 threshold;

  3. Any person (individual, proprietorship, partnership, joint venture, corporation, limited liability company, trust, association, or other entity that may employ individuals or enter into contracts) who receives assistance of $50,000 in any twelve-month period shall be required to comply with the living wage ordinance for a period of one year; and

4. Any person (individual, proprietorship, partnership, joint venture, corporation, limited liability company, trust, association, or other entity that may employ individuals or enter into contracts) who receives assistance of $25,000 in any twelve month period shall be required to comply with the living wage ordinance for a three month period.

- The policy would apply to bond financing, planning assistance, tax increment financing exclusively by the City and City tax credits.

- Employers that receive contracts from the City or Agency shall:

  1. Offer at least a minimum of 16 hours of work;

  2. Provide their employees with at least 20 days off per year for sick leave, vacation or personal necessity;

  3. Provide at least 10 days of uncompensated time for sick or personal leave;

  4. Inform employees making less than twelve dollars per hour of their possible right to the federal Earned Income Credit; and

  5. Earned income credit forms are to be supplied to the employees in English, Spanish and other languages spoken by a significant number of employees.

- Program exemptions:

  1. A recipient that employs fewer than five employees for each working day in each of twenty or more calendar weeks in the current or preceding calendar year;

  2. A recipient that employs the long-term unemployed or provides trainee positions intended to prepare employees for permanent positions;

  3. Employers with collective bargaining agreements;

  4. Assistance provided by the Community Development Bank and City staff would not be regarded as financial assistance; and

  5. Vendors, such as suppliers shall not be regarded as contractors or subcontractors.

- Monitoring:

  1. Contract Compliance shall be notified in writing of a proposed RFP, RFQ, contract, lease or financial assistance agreement and shall include the contract amount, term of contract, scope of work, number and classification of full-time and part-time employees and employees rate of pay.

  2. Contract Compliance will issue a written determination of applicability to the ordinance within 5 working days of a written request.

  3. Contract Compliance will monitor the operations of contractors, subcontractors and financial assistance recipients by conducting random site visits and payroll audits.

  4. Contract Compliance will perform designated reviews where there is a specific concern or a complaint about employment practices.

Staff Analysis of Proposed Draft Policy

Below is a list of issues raised by staff regarding the draft living wage policy.

Issue	Recommendation
No allocation of resources for monitoring and enforcement or personal necessity	Staff recommends appropriate resources be allocated to Contract Compliance should it be necessary that complaints be investigated. Staff cost could range from \$10,000 to \$50,000.
No enforcement penalties for non-compliance	Staff recommends that a penalty be assessed of \$500 or \$1,000 per day for non-compliance with the policy.
Sick leave, vacation and personal benefits may be difficult to monitor	Staff needs to develop a monitoring method to indicate that employees are receiving sick leave, vacation and personal benefits
Employers provide Earned Income Credit Tax information in different languages	The City must develop earned income credit tax information in different languages and provide support services for these languages
Employer shall provide at least 20 days off per year for sick leave, vacation and 10 uncompensated	Staff needs to obtain information from employers to determine cost impact to the City and employers.

RECOMMENDATIONS

It is recommended that City Council provide staff with direction regarding the draft proposed policy. Should Council proceed with the draft policy, the policy should be reviewed by the City Attorney's office, community groups and the various chambers of commerce prior to implementation. Additionally, the issues listed above should be addressed.

Should Council choose not to proceed with the proposed draft living wage policy staff recommends that one of the following scenarios be adopted by City Council. NED&LC in their analysis listed five living wage scenarios for the City to consider. Attachment E provides more detail of the living wage scenario. Based on staff's analysis the following three scenarios were deemed to be the most economically feasible.

1. Adopt a living wage ordinance for all service industry occupations to pay a minimum wage of $7.78 per hour.

2. Adopt a living wage ordinance for all service industry occupations to pay a minimum wage of $6.08 per hour (with benefits).

3. Adopt an ordinance that transitions to a $7.78 per hour living wage over a 3 year period. Service occupations would pay a starting wage of $6.26 per hour with an annual increase of $.76 per year.

Upon Council direction to develop one of the above living wage policy, staff will return to Council within 45-60 days with the final implementation package.

Respectfully submitted,

Terry E. Roberts
Director, Public Works Agency

Prepared by:
Roy Cordero
Manager, Contracting &
Employment Services

APPROVED AND FORWARDED TO THE
COMMUNITY & ECONOMIC DEVELOPMENT
COMMITTEE

Robert C. Bobb

Office of the City Manager

LIST OF EXHIBITS

Attachment A	List of Jurisdictions That Have Passed Living Wage Policies
Attachment B	National Economic Development and Law Center Living Wage Policies Nationwide Analysis - An Analysis for the City of Oakland
Attachment C	Matrix of City Agency Responses
Attachment D	Vice Mayor Ignacio De La Fuente's Proposed Oakland Living Wage Ordinance and Policy
Attachment E	National Law Center Living Wage Scenarios

ATTACHMENT A

LIST OF JURISDICTIONS THAT HAVE PASSED LIVING WAGE POLICIES

City/State	DatePassed	TypeOfLegislation	WageSchedule	AppliesTo	Subcontractors?
Baltimore, MD	1994, Dec.	Ordinance	1996 - $6.10 1997 - $6.60 1998 - $7.10 1999 - $7.70	Construction contracts in excess of $5,000. All service contracts.	☑
Boston, MA	1997, July	Ordinance	$7.49 from July 1 and upwardly adjust either by fed'l poverty guideline, the CPI, or 110% of fed'l min. wage, whichever is higher	Any grant, loan, tax incentive, bond financing, subsidy or other assist. over $100,000 of for-profit employer of at least 25 employees or any non-profit with over 100 employees. Leaseholders or renters of a Beneficiary that occupy < 25 sq.ft.	☑
Des Moines, Iowa	1988 original 1994, Nov., update July, 1996	Resolution of '96 replaces policy of '94, which replaced '88	'88 ord. required $7.00/hr. '94 ord. required $8.50/hr '96 res. sets goal of average wage rate of $9.00/hr.	Non-management, full-time employees of companies that receive assistance through urban renewal or loan programs.	☐
Duluth, MN	1997, July	Ordinance which amends the city code	$6.50 with health benefits $7.25 w/out health benefits To be adjusted July 1 each year to reflect change in CPI.	Any person that receives $ for any of these city services: Minnesota investment fund loans, enterprise zone credits, business loans and grants, tax increment financing land write-downs, industrial park land write-downs, lease abatements.	☑
Gary, IN	1989, June	Ordinance	commensing with prevailing wage of the county	Industrial revenue bonds, economic grants, or any economic development incentive	☑
Jersey City, NJ	1996, June	Ordinance to amend and supplement prev. legis., Chapt. 3, Article VII JC, city code	$7.50/hr with 5 days paid vacation for 1st 6 mos. & 5 days for 2nd 6 mos. and $2,000/yr. for health benefits	Contractors that employ clerical workers, food service workers, janitorial workers and unarmed security guards under the contract.	☐

Attachment A

City/State	Exemptions	EmployerRequirements	EnforcementArm	PenaltiesToContractor
Baltimore, MD	Constructio contracts < $5,000.	-post wages -submit 2 copies of project payrolls (for subs too) -pay employees bi-weekly	Wage Commission and Board of Estimates	$50 a day for each employee underpaid, $10/day that the payroll is late
Boston, MA	nonprofit orgs. with less than 100 employees. Construction, prevailing wage and union jobs exempt. Exceptions made for seasonal or pt youth employment progs. and econ. hardship exception	Emps. must use comm based hiring halls or One Stop centers to hire city residents. Must report on job creation, wages and training plans Qtrly reports to the city of employment activities.	Ord. Creates a Citizen Assistance Advisory Committee (CAAC), meets quarterly (one member fr. AFLCIO, one fr. ACORN & 5 appointees by Mayor.	Fines (up to $500/day), wage restitution for employees, suspension of assistance, and debarment from future City assistance.
Des Moines, Iowa	Revolving Loan Fund, Enterprise Community Business Capital Fund and companies in the retail, restaurant & hospitality industries where ave. wage rate standard of $8.50 is a goal	Employers who may be a startup or have other hardships may have the $9.00 wage as a goal.	Community Economic Dev. Office. Though Stricker felt that it would be better for dif office to monitor since his is resp for getting the contracts	Have not found any signif. Impact on the bidding process or the number of companies that present bids.
Duluth, MN	Small employers as def. By Minn. Statutes. Job readiness & training serv. CDBG recipients. Summer youth employ. progs. Recip. of less than $25,000.	Employers shall pay at least 90% of their employees a this living wage. Prov. Payroll reports on biannual basis.	Appropriate city staff.	Termination of contract if emp. violates 3 times.
Gary, IN	NA	Employers must file a schedule of the wages to be paid with the City of Gary's Wage Rate Officer and in the Gary Common Council Office prior to work being done.	Common Council of the City of Gary	Fines ($1,000) for each violation for each day.
Jersey City, NJ	NA	Applies to full and part time (25 hrs+/week).	NA	NA

Attachment A

City/State	DatePassed	TypeOfLegislation	WageSchedule	AppliesTo	Subcontractors?
Los Angeles, CA	1997, March	Ordinance	$7.25 w/health benefits $8.50 w/out health benefits	All service contracts in excess of $25,000 and a contract term of at least 3 months. Bond Financing and Tax Credits	☑
Milwaukee, WI	1995	Substitute Ordinance	$6.05 adjusted each March in accordance w/HHS pov. guidelines for family of 3	All service contracts, subcontracts and agreements let, entered into or mady by the city.	☑
Minneapolis, MN	1997, March	Resolution	110% of fed'l poverty level for family of 4, and 100% w/benefits	economic development contracts -land sales at less than the fair mrkt price -loans -bonds excluding conduit bonds -grants, and city tax incentives.	☐
New Haven, CT	1997, May	Ordinance	97-98--100% of federal poverty standard for fam of 4 98-99--105% 99-00--110% 00-01--115% 01-02--120% City Controller shall calc.	Service Contracts (Food Preparation, Security, Custodial/Maintenance, Clerical, Transportation, & Management of these services.)	☑
New York City, NY	1996, Sept.	local law to amend the administrative code	Employees shall be paid the applicable prevailing wage rate of workers in same trade or occupation, determined by city comptroller. Security-$7.90; Food-$15.50 Cleaning-$14.46	Any contract for security, temporary, cleaning and food services	☑
Portland, OR	1996, June	Ordinance	96/97 - $6.75 97/98 - $7.00 and shall be adjusted by a %age according to cost of living increase given to city employees	All formal service contracts for janitors, security guards, parking attendants, and temporary clerical workers.	☐

Attachment A

City/State	Exemptions	EmployerRequirements	EnforcementArm	PenaltiesToContractor
Los Angeles, CA	Contracts less than $25,000. Employment training orgs that serve homeless, chronically unemp. Or TANF recips. First yr. City financial asst. recip. Employs fewer than 5 employees. Obtains a waiver.	Employer shall provide at least 12 paid days off for sick, vacation or personal. Health benefits shall consist of at least $1.25/hr. Inform employees of their right to EIC	Bureau of Contract Admin. In DPW	City may cancel contract in event of non-compliance.
Milwaukee, WI	Service contracts does not include those that involve the purchase of goods	Applies to part time workers also.	Department of Public Works--Standards and Procurement Division of Administration	City may withold payment on, terminate or suspend the contract, after due process. Deny contractor right to bid in future for one yr.
Minneapolis, MN	-contracts < $100,000 in one FY -small business as defined by state -CDCs and job training and job readiness orgs.	60% of new jobs will be held by City residents and jobs will be advertised to entire community	City of Minneapolis & Minn. Community Dev't Agency	Sanctions for non-compliance.
New Haven, CT	Non-profits whose chief executive earns less than 8 times that of the lowest paid. Does not include carpenters, electricians, glaziers, painters, roofers or other indiv. employed by the city.	Encourage employers to hire and train current or former welfare recipients.	City Controller	$100 fine/day for not meeting wage standard or not posting required documents.
New York City, NY	Non-profit sector.	-Post wages for employees -submit payroll records with each RQ	City Comptroller's Office	After investigation, may withhold any payment due. May issue a disposition which directs payment of wages w/interest.
Portland, OR	The Commissioner-in-Charge of any city Bureau may waive non-monetary compensation, i.e.: training or educational work.	Employers shall consider including in bid other wage and/or benefit criteria ie, vacation, retire-ment, child care, training	NA	NA

City/State	DatePassed	TypeOfLegislation	WageSchedule	AppliesTo	Subcontractors?
San Jose, CA	1988, Oct. 1991 amended 1989, Feb.	Resolution Prevailing wage ordinance	requires prevailing wage	City funded public works construction projects originally. Later extended to city housing projects & direct services: residential st. sweeping, convention cntr food servs., parking lot mng. services, janitorial serv. & other routine contracts over $1,000.	☐
Santa Clara County, CA	1995, Sept.	Tax Rebate Policy	$10/hr w/health benefits or a suitable alternative	Manufacturers that, but for the rebate, would not have otherwise located in SC County & who create & sustain at least 10 f.t., perm manufac. jobs over the rebate period.	☐
St. Paul, MN	1997, Jan.	Resolution	110% of fed'l poverty level for family of 4, and 100% w/benefits	economic development contracts -land sales at less than the fair mrkt price -loans -bonds excluding conduit bonds -grants, and city tax incentives.	☐

Attachment A

City/State	Exemptions	EmployerRequirements	EnforcementArm	PenaltiesToContractor
San Jose, CA	Parperty owned by City Employee Retirement System	Requirements shall be included in RFP	State Dept of Industrial Relations	Rescission of the contract or agreement, or to seek judicial relief for damages
Santa Clara County, CA	NA	Comp looked more fav upon if prov health care for all emps., prov childcare, hire County job trng alum, hire residents, locate near pub transpo, have public giving prog, worker trng, env standards.	County Board of Supervisors and Finance Director	County shall recover the rebate if company commits a willful or negligent act with regard to its business w/in SC County.
St. Paul, MN	Excludes -contract $100,000 -intermediarion such as CDC -small business -1st year business -job training and readiness organization	Administrative guidelines outline all requirements.	Department of Planning and Economic Development	Sanctions for non-compliance.

ATTACHMENT B

NATIONAL ECONOMIC DEVELOPMENT
AND
LAW CENTER LIVING WAGE POLICIES

AN ANALYSIS FOR THE
CITY OF OAKLAND

Attachment B

Living Wage Policies Nationwide: An Analysis for the City of Oakland

Prepared for the Public Works Department of the City of Oakland
by the National Economic Development and Law Center

Selena Spain
Co-Authors: Tse-Ming Tam and Chris Thomas

Living Wage Policies Nationwide: An Analysis for the City of Oakland

Table of Contents

Executive Summary

Background

In October of 1997, the City's Public Works Agency contracted with the National Economic Development & Law Center (the Center), a national nonprofit technical assistance intermediary, to research and analyze the reported benefits and impacts of living wage policies to other cities. The City also posed several questions for the Center to address based on this research, which are outlined in the Introduction of this report.

Summary

There were several common themes that emerged out of the analysis of other living wage policies and studies.

Living wage policies:

- Increase the standard of living of impacted individuals, but may not necessarily impact economically disadvantaged individuals or communities;
- Have not necessarily deterred businesses from initiating contracts with cities, based on the Baltimore study and the Davis-Bacon Act;
- Involve administrative costs to cities at varying levels to monitor and enforce the ordinance, ranging from $84,000 for the City of Baltimore to a projected $600,000 for the City of Los Angeles;
- Do not necessarily impact the unemployment rate;
- Do not necessarily create increased costs to cities as a result of bidding price increases; and
- May impact welfare recipients based on a newly released study by the Preamble Center for Public Policy.

Several Cities have chosen to:

- Target the Service sector or specific occupations within that sector with the idea of impacting the greatest number of low wage workers; and

I. Introduction

Living Wage policies have been adopted in cities and counties across the country with the intent of raising wage levels of the working poor. Each of these policies lift wage floors above the state or federal minimum wage levels, with some including benefit stipulations. Wages are increased by requiring municipal contractors, grantees, and/or subsidy recipients to pay those employees working under a city contract a "living" wage.

The City of Oakland (the City) has contracted the National Economic Development and Law Center (the Center) to perform research on the reported impacts that these policies have had on other cities as well as to help the City answer several questions as the City Council begins to consider adopting it's own living wage policy:

1. What are the benefits of a living wage ordinance for other cities?
2. What type of fiscal impacts might a living wage policy have?
3. What are the benefits of applying a living wage policy to certain industries and how do cities go about making that decision?
4. How has competitive bidding in other cities been impacted?
5. How have living wage policies impacted welfare reform?
6. Do living wage policies have an impact on small, minority and women owned businesses?
7. What oversight infrastructure is necessary to enforce or monitor a wage policy and what might be the cost?

Findings

To answer these questions the Center analyzed: city and county ordinances; studies which estimate the impact of proposed living wage ordinances; and an impact analysis of an ordinance that had been in effect for one year at the time of it's writing. Common themes which emerged out of analysis of these ordinances and studies were that a living wage ordinance:

- increases the standard of living of impacted individuals;

- Excluded nonprofit organizations such as job training agencies or summer youth employment entities because of the nature of the services they provide.

Conclusion

This report can serve as a tool for the City of Oakland as it considers implementation of a living wage policy for Oakland. Specifically, this report analyzes prior research on living wage policies, current City of Oakland contracts and grants, self-sufficiency wages for Alameda County, and the Kids First! Initiative. We also present scenarios of various wage levels that the City might refer to as a starting point for discussion. The report also explores possible next steps for the City to consider in implementing a living wage ordinance.

- does not necessarily deter businesses from initiating contracts with cities;
- involves administrative costs to cities at varying levels to enforce the ordinance;
- does not necessarily impact the unemployment rate; and
- does not necessarily create increased costs to cities as a result of bidding price increases.

The majority of this report, Section I, will focus on answering the above questions posed by the City by focusing primarily on three cities where studies have been conducted; Baltimore, Los Angeles and Boston. In Section II, we will examine the contract and grant agreements that the City of Oakland has entered into in fiscal years 1995 and 1996 and the loan agreements for fiscal year 1996. Section III examines the self-sufficiency wage standards as estimated by Wider Opportunities for Women and the California Budget Project for Alameda County and how these wage levels compare to the federal poverty threshold. Section IV looks at the Kids First! Initiative and it's projected impact on nonprofit corporations. Finally, Section V explores possible next steps for the City as discussions begin around implementing a living wage policy based on the examples set by other cities.

The Living Wage Ordinance Across the Country

The Center examined fifteen ordinances or resolutions that are currently in place across the country including: Baltimore, MD; Des Moines, IW; Gary, IN; Milwaukee, WI; Santa Clara County, Los Angeles and San Jose, CA; Boston, MA; Duluth, MN; St. Paul and Minneapolis, MN; New York City, NY; Portland, OR; Jersey City, NJ; and New Haven, CT. Though there are similarities in the wage levels and in the processes used to determine the type of policy to implement, each of these areas has created a policy that is unique to their city or county. Appendix 1 highlights similarities and differences in each of these policies in a matrix format.

We identified fourteen other jurisdictions in addition to Oakland that are considering adopting a living wage ordinance in their area. These cities include St. Louis, MS; Philadelphia and Pittsburgh, PA; Albuquerque, NM; Denver, CO; San Francisco, Pasadena and San Jose[1], CA; Albany County, NY; Montgomery County, MD Missoula, MT; Spokane, WA; Louisville; KY; and Knoxville, TN.

Failures in passing living wage policies have occurred at the state level in Minnesota, where it was vetoed by the Governor, and in Chicago, where there was opposition from the Mayor and, when brought to Council vote, did not have sufficient support.

II. Ordinance Analysis

The Center isolated only three studies where the living wage ordinance has been examined in detail: one for the city of Baltimore and two studies for the city of Los Angeles. We also examined a report done for the City of Boston prior to implementation of that ordinance. In addition, Center research staff conducted interviews with city officials in each of these cities. While these studies were useful in guiding our research, none were written in such a way that would answer the questions as posed to us by City of Oakland staff.

A brief description of the three city ordinances can be found in Table 2.1 below. We will attempt to answer each of the questions shown in the introduction as they might be applicable to these three cities. Other city ordinances will also be drawn on where relevant.

[1] San Jose's first ordinance in 1988, later amended in 1989 and again in 1991, required city contractors to pay union scale wages for direct services, including: street sweeping, convention center food services, parking lot managers, janitorial services and other routine contracts over $1,000, in addition to construction. The city is now considering adding subsidy recipients.

Table 2.1

City	Date Passed	Wage Schedule	Applies To	Excludes
Baltimore	December, 1994	1996 - $6.10 1997 - $6.60 1998 - $7.10 1999 - $7.70	Construction contracts and their subcontractors in excess of $5,000. All service contractors and subcontractors.	Construction contracts < $5,000. Purchase of goods.
Boston	July, 1997	$7.49 from July 1 and upwardly adjusts either by federal poverty threshold for family of four, the CPI or 110% of the federal minimum wage level, whichever is higher.	All service contractors and subcontractors. Any grant, loan, tax incentive, bond financing, subsidy or other assistance over $100,000 for for-profit employers with at least 25 employees, or any non-profit with at least 100 employees, and a contract over $100,000. Leaseholders or renters related to above assistance that occupies > 25 sq. feet.	Nonprofit organizations with less than 100 employees. Contracts under $100,000. Construction, prevailing wage and union jobs exempt. Exceptions can be made for seasonal or part-time youth employment programs (under 21) and City Council or Mayor may grant an economic hardship exception. Purchase of goods.
Los Angeles	March, 1997	$7.25 with health benefits $8.50 without health benefits	All service contracts in excess of $25,000 with a contract term of at least three months. Includes subcontractors.	Contracts less than $25,000. Employment training organizations that serve homeless, chronically unemployed or TANF recipients. Any first year recipient of city financial assistance. Purchase of goods.

2.1 What are the benefits of a living wage ordinance for other cities?

One benefit of a living wage ordinance to low wage workers is obvious. An increase in wages leads to an increased standard of living. However, the studies we examined showed other benefits that are less obvious.

In Los Angeles, two comprehensive studies were done prior to implementing the city's wage ordinance. One study was prepared under contract for the City of Los Angeles by University of California – Los Angeles professors (UCLA study—Appendix 2).[2] The second study was conducted by several professors and researchers from the University of California-Riverside (UC Riverside study —Appendix 3). [3]

The Los Angeles studies estimate the benefits to affected employees. The UC Riverside study states that direct benefits to affected families amount to 33.0 percent in

[2] Sander, Dr. Richard H. (UCLA) and Dr. Douglass Williams (Carleton College), *An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance*, January 2, 1997.
[2] Pollin, Dr. Robert (UC-Riverside), et. al., *Economic Analysis of the Los Angeles Living Wage Ordinance*, October, *1996*.

pretax income, 27.9 percent in after-tax earned income, and 10.6 percent including all taxes and subsidies. The report makes the assumption that as a result of this wage, affected families will have much greater access to bank loans and other forms of credit that can be used to purchase a home or automobile or to finance higher education. The report also projects that effected workers and their families will reduce the amount of government subsidies they receive by 50.4 percent or $33.3 million.

Similarly, the Chicago Institute on Urban Poverty states that minimum wage households require double the government subsidies needed by living wage households. Their report states that a worker earning $7.60 per hour qualifies for $302 per month less in government subsidies than a worker earning $4.25 per hour.[4]

The UCLA study, however, questions this large decrease in government subsidies. Sander's and Williams' study states that for purposes of analysis, the UC Riverside study assumes that all of the workers covered by the living wage ordinance come from low-income families who utilize subsidies. They noted that not only does this assumption increase the "anti-poverty" impact of the proposal, it also projects that there will be a significant decrease in government subsidies. The UCLA study finds that the number of people in poverty affected by the ordinance, and the loss of government benefits as a result of their increase in wages and benefits, are much lower than the UC Riverside study indicates.[5]

The UCLA study further indicates that many low wage workers that are eligible for benefits do not use them. This particularly holds true in Los Angeles where many of the low wage workers are Latino, a population whose participation rate in social welfare benefits is significantly lower than Anglo and African-American populations.

The UC Riverside study also points out that some of the communities in which the affected employees reside will experience increased spending at businesses, higher rates of homeownership, education and entrepreneurship. Researchers estimated

[4] Chicago Institute on Urban Poverty, *The Living Wage: In the Public Interest?*, 1996, p. 4.
[5] The UCLA study bases this finding on the analysis of data from the Current Population Survey, which is an in-depth study of some 65,000 households undertaken by the Census Bureau. For a detailed explanation of their methodology, see page 41 of Appendix 2.

these effects for the areas of Pacoima, Lincoln-Sereno, and Crenshaw-Figueroa. However, we believe that these benefits are not only difficult to measure, but are also based on the assumption that affected workers live in these low-income areas.

Another report that looks at the projected benefits of a living wage ordinance was done by the Policy Development and Research Development Departments of the Boston Redevelopment Authority for that city. This report is significantly less detailed than the other studies and only presents what contractors should be impacted by the ordinance. The overall conclusion of their study is that a living wage of $7.80[6] per hour will not result in a significant increase in the City of Boston's budget.

In the Baltimore impact analysis (Appendix 4), the Preamble Center looked at several areas of concern for opponents to the ordinance including, the costs of city service contracts, the number of bidders applying for city contracts, administrative costs, and the overall business climate of the city. They found that contract costs were down after the living wage ordinance was implemented.

Baltimore's Bureau of Management and Budget Research determined that the total value of contracts that would be affected by the wage requirement was $26,811,544. Preamble obtained full or partial information on 23 contracts for which pre- and post-ordinance costs were available. The value of these contracts was $19,326,066 in 1994, or 72% of the total value of those contracts affected by the ordinance. The study's findings indicate that in real terms, the total cost of city contracts declined by 2.4% from $19,326,066 to $18,860,329 since the ordinance went into affect.[7] Table 2.2 lists these contracts and their value.

[6] This wage is 31 cents higher than the $7.49 wage that was eventually adopted by City Council and was based on the newly released 1996 poverty threshold for a family of four. The $7.49 wage is based on the 1995 threshold, calculated by the Census Bureau.

[7] Sforza-Roderick, *Michelle* and Mark Weisbrot, The Preamble Center for Public Policy, *Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442*, October, 1994, p. 9.

Table 2.2 Baltimore's Contract Costs Before and After a Living Wage Ordinance[8]

	Pre-Living Wage '94		Post-Living Wage '95			
			Cost	Cost		Weighted
Contract Name	Cost ($)	Bids	(current $)	(constant $)[9]	Bids	% Diff.
Public Pupil Bus Transportation	14,137,507.50		14,500,000.00	14,213,263.74		0.4038
Homemaker Services	72,000.00	4	84,528.00	80,170.87	5	0.0482
Carpet Repairs		4			2	
Athletic & Cultural Bus Transportation		23			15	
Homemaker/Personal Care Service	268,400.00	4	258,280.00	246,192.10	5	-0.1080
General Moving & Hauling	118,650.00	5	118,508.20	112,623.18	4	-0.0303
Maintenance & Repairs on Trailers		2			1	
Grass Cutting -- Cluster H	44,604.00	4	31,500.00	30,692.69	4	-0.0508
Janitorial, People's Court Building	21,372.00	15	18,456.00	17,399.96	13	-0.0171
Hauling of Voting Machines		2			2	
Camp Variety Bus Transportation	30,000.00	7	35,440.00	32,653.63	3	0.0153
Janitorial, Library Branches 19 & 21	8,010.00		8,700.00	8,210.39		0.0011
Janitorial, Library Branches 2 & 4	5,939.72		8,736.00	8,244.36		0.0170
Janitorial, Library Branches 30, 36 & 38	10,067.84		12,000.00	11,324.67		0.0075
Janitorial, Library Branches 6 & 18	6,672.00		8,000.00	7,341.63		0.0039
Janitorial, Library Branches 23 & 26	8,100.00		8,400.00	7,363.66		-0.0035
General Charter Bus Service	750,000.00	18	750,000.00	709,916.65	17	-0.2012
Commission on Aging Nutritional Meals	2,523,069.12	3	2,161,391.00	2,047,918.39	2	-2.0449
Summer Foodservice Program for Youth	1,289,500.00	1	1,332,000.00	1,296,569.57	1	0.0377
Janitorial, Dunbar Day Care	9,600.00	1	7,312.56	6,873.52	2	-0.0104
Janitorial, Wyman Park MPC	5,628.00		7,615.86	7,172.93		0.0104
Janitorial, Govans MPC	7,346.21		7,312.56	6,887.27		-0.0023
Janitorial, Arena Garage	9,600.00		10,128.00	9,510.41		-0.0005
Total Costs	**19,326,066.39**		**19,368,308.18**	**18,860,329.62**		
Mean % Difference						**-1.9240**
Standard Deviation						**0.4836**
Total Number of Bids		**93**			**76**	

The last column of the table shows that the average contract price, weighted by its share in the total cost of the sample, also declined, by 1.92%. While this decline is noteworthy, the report indicates that it is not conclusive that the living wage ordinance contributed to this factor. However, based on Preamble's interviews with contractors, some noted the decline may be the result of the practice of trying to underbid previous years contracts, thereby causing contractors to absorb the increased costs of the living

[8] Ibid., p. 8.
[9] These costs were adjusted by the Consumer Price Index for the time that elapsed between each pair of contracts.

wage. The Baltimore study also noted that firms stressed the relationship between higher wages and reduced turnover among their staff. While this may lead to increased efficiency for contractors and possibly lower total costs, as Preamble indicates, there is no conclusive evidence to indicate this is true. One benefit that is commonly raised in the Baltimore and Los Angeles studies is the linkage between high wages and increased efficiency, which the Los Angeles studies indicate may lead to improved services for the city. But, again, there is no direct evidence, other than Baltimore employers' comments during interviews, that this is a specific result of the living wage ordinance.

2.2 What type of fiscal impacts might a living wage policy have?

It is very difficult to measure the fiscal impact to cities as a result of implementing a living wage policy. Though all the studies we reviewed attempted to measure this impact, we find that researchers are often forced to make assumptions about the data without the benefit of very detailed city budget data, in depth and pointed interviews with employers regarding the current wage and benefit levels of their employees, and adequate time and resources to conduct such a study.

With this information in mind, three studies we examined report that the expected or actual (in the case of Baltimore) fiscal impact of the ordinance will be minimal. One study indicated an increase in contract costs of potentially 4-7%.

"Given [the] overall relationship between the $39.4 million in direct wage increases and $3.9 billion in total firm output, we conclude that the living wage ordinance can be implemented while causing no net increase in the City budget, no employment loss and no loss of City services to the residents of Los Angeles."

-the UC Riverside study

"The real cost of [Baltimore's] contracts has actually decreased since the ordinance went into effect."

"The cost to taxpayers of compliance has been minimal, with the City allocating about 17 cents per person annually for this purpose."

"There is no evidence that businesses have responded negatively to the passage of the ordinance. In fact, the value of business investment in the City of Baltimore actually increased substantially in the year after passage of the law."

-the Baltimore Study

"We have concluded that the living wage of $7.80 per hour would not result in a significant increase in the city budget, either directly through wages to city employees or indirectly through wages to contractors with city government."

-the Boston report

As noted in Table 2.2, research by Preamble has shown that the total contract costs before and after implementation of the living wage ordinance actually declined. Again, while this research is noteworthy to some degree, Preamble states: "We cannot, of course, conclude that the living wage ordinance actually contributed to lowering the cost of the average contract."[10]

The Boston report (Appendix 5) estimates the possible increased costs to the various city departments based on fiscal year 1997 to be $136,756. For city employees, the starting pay is already above the living wage level at $8.97 per hour, creating no additional costs for the city as an employer. In addition, interviews with city staff indicate that they expect the ordinance to effect very few occupations, since many people in the City of Boston already receive living wage earnings due to the high cost of living.

The UCLA study estimates the cost of the ordinance to service contractors to be about 4-7% of the total amount of all city service contracts. The report states that the overall increase in labor costs would be between $28 and $42 million, which it predicts the City would eventually pay for through higher costs or a reduction in services.

[10] Sforza-Roderick and Weisbrot, p. 9.

2.3 What are the benefits of applying a living wage policy to certain industries and how do cities go about making that decision?

in many cases, in determining which industries to target, cities will look at those industries that typically have low wages. For this reason, several cities have targeted the Service sector and all the industries within that sector. These cities include Baltimore, Los Angeles, Milwaukee, New Haven and San Jose. Other cities target specific industries or occupations within the Service sector, most often: cleaning, security, parking lot management, clerical and food preparation. Cities which have chosen this option are Jersey City, New York, and Portland.

The benefit of targeting the Service sector and specific service industries is that the city is most likely to impact the largest number of low-wage workers. As we will see in Section III of this report, where we look at the City of Oakland's contracts by industry, Service contracts make up the bulk of contract dollars for the City. If a City's goal is to have the greatest impact on low wage workers, focusing on the Service sector is the area where a living wage policy could have a large impact.

Improving the quality of city services provided by private businesses is another projected benefit of targeting the Service sector. The City of Los Angeles set this as a goal for their ordinance. Again, the three studies we examined indicate that higher wages and benefits could reduce worker turnover. This in turn increases the average level of experience among employees, and therefore may improve the quality of services provided. Likewise, higher wages and benefits enable employers to recruit workers with stronger skills.

2.4 How has competitive bidding in other cities been impacted?

The Baltimore study and interviews with other city enforcement arms indicate that the impact of the living wage ordinance on competitive bidding has been minimal. The Baltimore study found the decrease in bids to the city between 1994 and 1995 to be statistically insignificant. Researchers examined those contracts where the labor costs were immediately impacted by the ordinance. For these contracts, 43% either had more or an unchanged number of bidders as the previous year, and 57% had fewer bidders.

According to the janitorial contract buyer for the city, there had been no decrease in bids outside the normal fluctuations in the companies' bidding practices. The Baltimore study further points out that in two janitorial contracts, where the ordinance created the greatest wage increase among entry-level positions, there was an increase in the number of bidders. Whereas, the contract with the largest decline in bidders was already meeting the living wage standard.[11]

Neither of the Los Angeles studies make projections regarding the effects on the competitive bidding process.

2.5 How have living wage policies impacted welfare reform?

As the City of Oakland considers adopting a living wage policy, it is important to consider how this policy might impact welfare reform. None of the studies we reviewed address this question. And, it is still largely unclear how welfare reform will be shaped for the state of California or what the City's living wage policy will be. However, even without this information, City officials should keep some key points in mind as the living wage and welfare reform debates unfold.

The first key point will be to make clear distinctions between unsubsidized employment, subsidized public and private sector employment, and on-the-job-training.[12] While many cities exempt non-profit training organizations from their living wage policies, it becomes unclear how welfare reform factors into this equation if a private sector employer is providing similar forms of training. For example, consider a TANF recipient who is earning a minimum wage while working 20 hours per week for a private sector company on a job that is covered by the living wage ordinance. This employee, under TANF guidelines, is also receiving on-the-job training by this company. Should this company, in addition to providing the required training under TANF also be required to pay the

[11] Ibid. p. 11.
[12] "The Implications of Applying Federal Minimum Wage Standards to TANF Work Activities," The Center for Law and Social Policy, www.clasp.org.

living wage rate to this employee, or would this company be exempt from the policy because it is providing a training service to the city?

Another key point to consider is the availability of jobs for TANF recipients. On December 10, 1997, Jobs for Justice released a study on the impact of welfare reform, which was conducted by the Preamble Center for Public Policy. According to this study, living wage policies could reduce the number of jobs available to entry-level job seekers. As wages increase, the quality of employee sought could also increase, thereby reducing the low-wage jobs that may be available to individuals coming off of welfare. The study indicates that there will be 97 former welfare recipients for every available job paying a living wage, which they define as $25,907 for a household of three in the Midwest. The report states that jobs that pay this living wage will be nearly impossible to find. The ratio of workers-to-available jobs improves to 22-1 for those seeking to find a job that meets the federal poverty line, which for a household of three is $12,278.[13]

If, however, the City of Oakland were to focus on service sector jobs for its living wage policy, the estimated number of jobs that might be affected by a wage increase is actually fairly small. Therefore, the impact of this policy on welfare reform may not be as great as Preamble predicts in their December study. Likewise, when we look at the other living wage policies based on the size of the city, the numbers of jobs impacted is also minimal. The UCLA study estimates that the number of workers to be affected by the ordinance is 2,500 out of a city of almost 3.5 million residents.[14]

2.6 Do living wage policies have an impact on small, minority and women owned businesses?

The studies we examined did not discuss the impact living wage policies might have on small, minority and women owned businesses. While no ordinance specifically excludes minority or women owned businesses, many do exclude small businesses. Six cities specifically exclude small businesses or indirectly exclude them by stating the minimum number of workers a contractor must employ to be considered subject to the

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[13] Shepard, Paul, *Welfare Recipient Job-Hunt Odds Poor*, Associated Press, December 10, 1997.
[14] 1990 US Census Data

ordinance. If the City of Oakland has specific concerns for these businesses, then this should be kept in mind when drafting the ordinance.

It is also important to note that seven of the fifteen living wage policies we examined exclude non-profit, job training or youth employment programs from their policies. These entities are excluded because they often provide many other support service needs for city residents. Job training organizations offer specific training benefits to workers in addition to wages. Enforcing a living wage on these types of organizations could create undue hardship and reduce the number of individuals able to benefit from their services.

2.7 What oversight infrastructure is necessary to enforce or monitor a wage policy and what might be the cost?

Based on the studies we reviewed and interviews with city staff, we determined that administrative costs to other cities has been minimal. We project that these costs might also be minimal for the City of Oakland. However, determination of enforcement costs is largely dependent on the scope of the ordinance, the reporting requirements and the penalties.

The UCLA study makes a comprehensive recommendation to the City of Los Angeles regarding that city's administrative mechanism. Sander and Williams recommend that this mechanism have the following characteristics:[15]

- a strong educational component to make covered employees aware of the requirements of the ordinance, and a mechanism to gather information from employees regarding employers compliance;
- serious but not disproportionate penalties for non-compliance;
- a two-tiered reporting system with lower reporting requirements for firms with few covered employees; and
- a reporting system that is tied into existing state forms and time-lines to minimize employer burdens and paperwork.

Both Los Angeles studies estimated the administrative costs for enforcement to be approximately $600,000 or less.

According to interviews with the city's administering arm, these cost estimates have proven to be high. The City of Los Angeles formed a new Office of Contract Compliance to serve as the enforcement arm for the ordinance. Since the ordinance passed in July of 1997, these cost figures represent the start-up costs and the salaries for four employees for the first fiscal year. Salary costs totaled $211,203 and indirect costs totaled $43,862, giving the office a total first year budget of $255,065 for a city of almost 3.5 million residents.

Likewise, administrative costs for the City of Baltimore's ordinance have not been significant. The Wage Commission was awarded $121,000 to enforce the ordinance in 1996. According to Wage Commission staff, prior to 1996, there were nine staff members who monitored the city's Minimum Wage Ordinance and the Prevailing Wage Ordinance, both of which had been in place since roughly the mid-1960s. The budget for this office in 1994 was $332,000 for staff and overhead costs. To enforce the Living Wage Ordinance, two additional staff members were hired during 1996, adding an estimated $84,000 to the Wage Commission's budget for salaries and administrative costs, almost $40,000 less than what the office had been awarded. This for a city with a population in 1990 of 736,014.[16]

The Baltimore Wage Commission's efforts were focused on educating employers about implementation of the ordinance in the first half of 1995 and phased in the enforcement of the ordinance after that time. Penalties to contractors and subcontractors for delinquency are $10 for each calendar day the payroll is late and $50 per day for each employee that is underpaid. For fiscal year 1996-1997, the Wage Commission collected $75,523 in late payrolls and restitution fines, some of which may off-set the cost of enforcement.

Administrative costs for the city of Boston are not yet known. According to conversations with the Boston Redevelopment Authority, it has not been determined what the cost will be to the city. There is currently a monitoring office in place that

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[15] Sander and Williams, p. 60.
[16] 1990 US Census data.

reviews affirmative action hiring policies, and it is generally believed that the living wage oversight component will be incorporated into this office.

III. City of Oakland Contracts

The Association of Community Organizations for Reform Now (ACORN) is a grassroots organization composed of community groups made up of low and moderate income families whose goal is to gain a greater voice in their communities, cities, states and nationwide. ACORN has been instrumental in initiating living wage campaigns across the country. For the City of Oakland, ACORN conducted primary research of contract, grant, and loan agreements entered into by the City of Oakland to determine how these agreements might be classified by industry. The data consisted of the company name and address, contract, grant or loan amount, contract description (available only for contracts), and the date the agreement originated. The information was gathered from several different city sources including the Contract Compliance Office within the Department of Public Works, the Budget and Finance Agency, CEDA, the Redevelopment Agency and the Life Enrichment Agency. Most of the data was in database format, with the exception of loan information where data was entered directly from files. All information was based on fiscal years 1995 and 1996, except for loans, which were only supplied for fiscal year 1996.

To the best of ACORN's ability, procurement contracts were not included in the information submitted to the Center. Where certain contracts included line items for both goods and services, ACORN attempted to remove the procurement data.

Based on the data received, ACORN attempted to assign industry sectors to the contracts using Standard Industrial Classification (SIC) codes at the two-digit level. However, the method of assigning codes was somewhat haphazard given the limited information. ACORN assigned industry sectors based on the name of the company and the description, (descriptions were only available for 6.5% of all entries). Many sectors could be reasonably assigned SIC codes by name, however, 21% of the 19,306 contracts were not assigned SIC codes. We labeled these contracts as unclassified.

Other shortcomings in the data received from the City are that it did not include the number of employees hired under the contract, the wages of the workers, or whether the agreement is multi-year. Without this data, it is difficult to determine what specific contracts and occupations under those contracts might be impacted by a living wage ordinance.

Though this data is somewhat imperfect, we believe it will give the City a "ballpark" estimate of current agreements let by the city, thereby giving a starting point upon which to begin discussions around a living wage ordinance.

The Center analyzed the information provided by ACORN to determine which industries might be affected by a living wage ordinance. Based on our analysis and according to ACORN's assignment of SIC codes, the city awards the greatest number of dollars to the Service sector. The charts below show the number of contracts per sector, the average contract size, and the total amount in dollars of those contracts for contracts, grants, and loans.

Contracts – FY 1995

Industry Sector	Number of Contracts	Average Contract Size	Total Amount of Contracts
Agriculture, Forestry, Fishing, Mining	9	$16,647.44	$149,827.00
Durable Manufacturing	3	$3,500.31	$10,500.92
Finance, Insurance, Real Estate	8	$34,949.27	$279,594.13
Government	1	$275.00	$275.00
Non-Durable Manufacturing	2	$270.38	$540.76
Retail Trade	6	$33,585.16	$201,510.94
Services	433	$26,745.97	$11,581,004.08
Transportation, Communications, Utilities	36	$40,972.56	$1,475,012.01
Unclassified[17]	3	$7,541.67	$22,625.00

Contracts – FY 1996

Industry Sector	Number of Contracts	Average Contract Size	Total Amount of Contracts
Agriculture, Forestry, Fishing, Mining	23	$9,359.27	$215,263.25
Durable Manufacturing	1	$4,000.00	$4,000.00
Finance, Insurance, Real Estate	17	$26,346.70	$447,893.90
Government	7	$10,142.86	$71,000.00
Non-Durable Manufacturing	3	$546.58	$1,639.75
Retail Trade	14	$14,568.38	$203,957.31
Services	575	$24,158.34	$13,866,884.39
Transportation, Communications, Utilities	82	$16,277.65	$1,334,767.19
Unclassified	18	$4,274.74	$76,945.38

Grants – FY 1995

Industry Sector	Number of Grants	Average Grant Amount	Total Amount of Grants
Agriculture, Forestry, Fishing, Mining	167	$120.96	$20,200.00
Durable Manufacturing	99	$920.96	$91,174.69
Finance, Insurance, Real Estate	482	$1,318.88	$635,698.44
Government	704	$4,231.46	$2,978,947.52
Non-Durable Manufacturing	55	$987.48	$54,311.27
Retail Trade	199	$488.06	$97,124.81
Services	4064	$5,079.85	$20,644,494.18
Transportation, Communications, Utilities	1018	$643.63	$655,214.14
Unclassified	1649	$848.04	$1,398,421.31

[17] The "Unclassified" category indicates insufficient information to assign an SIC code.

Grants – FY 1996

Industry Sector	Number of Grants	Average Grant Amount	Total Amount of Grants
Agriculture, Forestry, Fishing, Mining	227	$1,888.62	$428,716.60
Durable Manufacturing	31	$558.68	$17,319.06
Finance, Insurance, Real Estate	306	$1,333.78	$408,136.94
Government	629	$3,905.32	$2,456,448.34
Non-Durable Manufacturing	74	$1,019.39	$75,435.04
Retail Trade	245	$787.30	$192,887.57
Services	4611	$5,603.84	$25,839,321.12
Transportation, Communications, Utilities	1031	$671.84	$692,668.61
Unclassified	2186	$929.76	$2,032,462.57

For Loans in fiscal year 1996, like in grants and contracts, the Service sector leads in the number of loans awarded and the dollar amount.

Loans – FY 1996

Industry	Number of Loans	Average Loan Amount	Total Loan Amount
Agriculture, Forestry, Fishing, Mining	1	$25,000.00	$25,000.00
Construction	3	$193,333.33	$580,000.00
Durable Manufacturing	3	$108,333.33	$325,000.00
Finance, Insurance, Real Estate	1	$475,000.00	$475,000.00
Non-Durable Manufacturing	4	$585,000.00	$2,340,000.00
Retail Trade	21	$65,744.76	$1,380,640.00
Services	22	$128,912.95	$2,836,085.00

City of Oakland staff requested that we break down the Service sector further to determine what industries within that sector receive the greatest number of dollars. The two charts below, Breakdown of Service Contracts for fiscal years 1995 and 1996, show that Engineering and Management Services contracts receive the most funding from the City, both in terms of overall dollar amount and for the number of contracts let. According to the California Employment Development Department, the types of services that fall under this industry include Architectural, Accounting, Surveying, Research, Management, Facilities Support, and Business Consulting. While the greatest dollar amount goes to Engineering and Management Services, according to ACORN, the largest average grant size goes to Legal Services, followed by Health Services.

Breakdown of Service Contracts – FY 1995

Industry	Number of Contracts	Average Contract Size	Total Amount of Contracts
Amusement and Recreation	2	$7,713.50	$15,427.00
Auto Repair, Services and Garages	3	$7,773.33	$23,320.00
Business Services	104	$13,409.98	$1,394,637.66
Educational Service	11	$9,506.27	$104,569.00
Engineering and Management Services	189	$39,257.00	$7,419,572.91
Health Services	13	$34,846.00	$452,998.00
Legal Services	22	$28,442.63	$625,737.76
Miscellaneous Repair Services	24	$2,535.56	$60,853.50
Miscellaneous Services	2	$7,750.00	$15,500.00
Museums, Art Galleries, Botanical Gardens	23	$12,361.92	$284,324.25
Personal Services	8	$7,800.00	$62,400.00
Social Services	32	$35,052.00	$1,121,664.00

Breakdown of Service Contracts – FY 1996

Industry	Number of Contracts	Average Contract Size	Total Amount of Contracts
Amusement and Recreation	1	$4,000.00	$4,000.00
Business Services	130	$3,731.50	$485,095.61
Educational Service	45	$6,162.53	$277,313.70
Engineering and Management Services	307	$35,736.23	$10,935,287.65
Health Services	21	$37,317.81	$783,674.00
Legal Services	21	$40,730.57	$855,342.00
Miscellaneous Repair Services	13	$1,999.99	$25,999.84
Miscellaneous Services	6	$3,014.38	$18,086.29
Museums, Art Galleries, Botanical Gardens	12	$14,276.26	$171,315.12
Personal Services	2	$238.09	$476.18
Social Services	17	$18,252.59	$310,294.00

Within the Service sector of the Grants category of city funding we see that an overwhelming majority of dollars for both fiscal years 1995 and 1996 go to the Social Services category. Inclusive in Social Services, according to EDD, is Individual and Family Services, Job Training, Child Day Care, and Residential Care. While the overall dollar amount going to Social Services is high, the average grant size is only $7,573 for 1995 and $10,096 for 1996. The second highest category among grants for 1995 and 1996 is the Engineering and Management Services, however, in 1995 the average grant size was significantly lower in this category than other services.

Breakdown of Grants in Service Industry – FY 1995

Industry	Number of Grants	Average Grant Size	Total Amount of Grants
Amusement and Recreation	49	$3,701.17	$181,357.41
Auto Repair, Services and Garages	12	$1,053.06	$12,636.76
Business Services	402	$564.75	$227,031.23
Educational Service	43	$8,112.15	$348,822.43
Engineering and Management Services	930	$2,463.25	$2,290,825.92
Health Services	329	$1,200.31	$394,902.41
Legal Services	49	$2,125.81	$104,164.64
Membership Organizations	393	$3,256.85	$1,279,943.29
Miscellaneous Repair Services	2	$23,868.00	$47,736.00
Miscellaneous Services	13	$728.01	$9,464.13
Museums, Art Galleries, Botanical	14	$39,250.45	$549,506.23
Personal Services	27	$57,711.07	$1,558,198.99
Social Services	1801	$7,573.52	$13,639,904.74

Breakdown of Grants in Service Industry – FY 1996

Industry	Number of Grants	Average Grant Size	Total Amount of Grants
Amusement and Recreation	181	$5,456.32	$987,593.04
Auto Repair, Services and Garages	1	$275.00	$275.00
Business Services	652	$425.30	$277,295.37
Educational Service	46	$5,055.17	$232,537.94
Engineering and Management Services	677	$3,642.10	$2,465,699.96
Health Services	272	$1,701.63	$462,843.91
Legal Services	85	$1,580.09	$134,307.59
Membership Organizations	676	$2,166.01	$1,464,223.00
Miscellaneous Repair Services	4	$785.38	$3,141.50
Miscellaneous Services	39	$2,535.26	$98,875.22
Museums, Art Galleries, Botanical Gardens	37	$4,406.79	$163,051.30
Personal Services	3	$546.00	$1,638.00
Social Services	1938	$10,086.60	$19,547,839.29

The Center also analyzed contracts based on the size of the contract to give the City a better idea of how many contracts might be impacted if the ordinance applied to only those contracts or loans over a certain size. As shown on the following page, we looked at both grants and contracts in the Service sector by number of contracts/grants, average size and total dollar amounts, that are less than or equal to $25,000 and $50,000. We also looked at those that are greater than $50,000.

Again, while the data this analysis is based on may not be 100% accurate, we believe it could be helpful to the City as it decides what type of policy to implement and at what level it might exclude certain contracts and grants.

Service Contracts – FY 1996

Industry	Less than or equal to $25,000 # of Contracts	Avg. Contract Amount	Total Contract Amount	Less than or equal to $50,000 # of Contracts	Avg. Contract Amount	Total Contract Amount	Greater than $50,000 # of Contracts	Avg. Contract Amount	Total Contract Amount
Amusement and Recreation	1	$4,000	$4,000	1	$4,000	$4,000	0	0	0
Business Services	126	$2,230	$281,026	128	$2,782	$356,096	2	$64,500	$129,000
Educational Service	43	$4,262	$183,264	45	$6,163	$277,314	0	0	0
Engineering and Management Services	225	$8,519	$1,916,832	257	$11,869	$3,050,216	44	$173,524	$7,635,072
Health Services	17	$2,655	$45,134	18	$3,930	$70,734	3	$237,647	$712,940
Legal Services	14	$8,244	$115,421	16	$12,012	$192,187	5	$132,631	$663,155
Miscellaneous Repair Services	13	$2,000	$26,000	13	$2,000	$26,000	0	0	0
Miscellaneous Services	6	$3,014	$18,086	6	$3,014	$18,086	0	0	0
Museums, Art Galleries, Botanical Gardens	10	$5,632	$56,315	11	$8,756	$96,315	1	$75,000	$75,000
Personal Services	2	$238	$476	2	$238	$476	0	0	0
Social Services	15	$3,653	$54,794	15	$3,653	$54,794	2	$127,750	$255,500

Service Related Grants – FY 1996

Industry	Less than or equal to $25,000 # of Contracts	Avg. Contract Amount	Total Contract Amount	Less than or equal to $50,000 # of Contracts	Avg. Contract Amount	Total Contract Amount	Greater than $50,000 # of Contracts	Avg. Contract Amount	Total Contract Amount
Amusement and Recreation	174	$3,112	$541,401	178	$3,868	$688,553	3	$99,680	$299,040
Auto Repair, Services and Garages	1	$275	$275	1	$275	$275	0	0	0
Business Services	652	$425	$277,295	652	$425	$277,295	0	0	0
Educational Service	44	$2,026	$89,141	45	$2,570	$115,638	1	$116,900	$116,900
Engineering and Management Services	656	$2,446	$1,604,550	673	$3,280	$2,207,413	4	$64,572	$258,287
Health Services	271	$1,546	$419,095	272	$1,702	$462,844	0	0	0
Legal Services	85	$1,580	$134,308	85	$1,580	$134,308	0	0	0
Membership Organizations	673	$1,965	$1,322,357	675	$2,073	$1,399,223	1	$65,000	$65,000
Miscellaneous Repair Services	4	$785	$3,142	4	$785	$3,142	0	0	0
Miscellaneous Services	38	$1,624	$61,694	39	$2,535	$98,875	0	0	0
Museums, Art Galleries, Botanical Gardens	35	$2,529	$88,524	37	$4,407	$163,051	0	0	0
Personal Services	3	$546	$1,638	3	$546	$1,638	0	0	0
Social Services	1779	$1,580	$2,811,081	1853	$3,007	$5,572,717	85	$164,413	$13,975,123

IV. Self-Sufficiency Standards for Alameda County

Detailed studies on the wages required for households to attain economic self-sufficiency are surprisingly scarce. We find the following three standards helpful in discussions of self-sufficiency; 1) the Wider Opportunities for Women standard;[18] 2) the California Budget Project standard;[19] and 3) the federal poverty threshold.[20]

Wider Opportunities for Women (WOW) Standard

In 1996, Wider Opportunities for Women, a Washington, D.C. nonprofit organization, estimated the wage level required for various households to maintain economic self-sufficiency for each county in California. WOW defines self-sufficiency as receiving no assistance from family, friends or government. Certainly, a county-wide standard is not completely accurate as costs change significantly even within the county. The WOW standard, however is arguably the most comprehensive.

WOW has run calculations for different household types (Appendix 4). Table 4.1 shows the estimated WOW self-sufficiency wage for a single adult ($6.65/hr.) and a single parent with a pre-schooler and school age child ($15.52/hr.). This is the type of household that occurs with the greatest frequency of all Alameda County households on public assistance.[21]

Table 4.1 WOW Self-Sufficiency Standard

	One Adult	Single Adult with Preschooler & School Age Child
Housing	$615.00	$771.00
Child Care	0.00	794.00
Food	125.00	321.95
Transportation	62.40	62.40
Medicare	77.35	157.68
Miscellaneous	87.97	210.70
Taxes	202.24	494.48
Earned Income Tax Credit (-)	.00	.00
Child Care Tax Credit (-)	.00	(80.00)
Monthly Self-Sufficiency Wage	**$1,169.96**	**$ 2,732.22**
Hourly Self-Sufficiency Wage	**$6.65**	**$15.52**

18 Dr. Diane Pearce, Wider Opportunities for Women, *The Self-Sufficiency Standard for California*, 1996.
19 California Budget Project, *Are There Enough Jobs for all Those Who Must Work*, May 1997.
20 U.S. Census Bureau.
21 Calculated by the National Economic Development and Law Center with 1990 US Census Public Use Microdata.

The California Budget Project Standard

The California Budget Project estimates the income required to maintain a single parent with two children in Alameda County, as shown in Table 4.2.

Table 4.2 WHAT DOES IT TAKE TO LIVE IN ALAMEDA COUNTY?[22]

Family Budget For A Single Parent With Two Children

Expenditures	Monthly	Annual	**Bare Bones Monthly	**Bare Bones Annual
Housing/Utilities	$794	$9,528	$633	$7,596
Basic Phone Service	17	204	17	204
Food at Home	342	4,104	342	4,104
Food away Home	80	960		
Clothing	25	300	15	180
Medical	196	2,354	196	2,354
Savings, Emergency	60	720		
Transportation	70	840	70	840
Child Care	943	11,321	861	10,329
Recreation, Reading	20	240		
Personal Care	25	300	25	300
Miscellaneous	70	840	50	600
Total:	**$2,643**	**$31,711**	**$2,209**	**$26,507**
			Standard	**Bare Bones**
Hourly wage needed based on full time work:			$15.27	$12.76

Sample Earnings and Taxes	Monthly	Annual
Earnings for full-time worker earning $8.63/hr.	$1,496	$17,950
Payroll Tax (FICA/SDI) full-time wrk. @ $8.63/hr	($122)	($1,463)
Federal Earned Income Tax Credit for full-time Worker earning $6.00/hr. with 2 children	$185	$2,221
Total:	**$1,559**	**$14,836**

** Bare bones budget eliminates some expenditures, assumes a 1-bedroom apartment, and child care in family day care home.

The Federal Poverty Standard

The poverty standard cited most frequently in many of the ordinances is the federal poverty threshold that was developed by the U.S. Department of Agriculture, and since adapted by the Census Bureau. The Department of Health and Human Services uses

[22] California Budget Project, "Who In Alameda County Will Be Affected by the California Legislature's Welfare Reform Decisions?", August 1997.

this threshold to establish its yearly poverty guidelines. It is a national standard that was developed based primarily on the cost of food and is now adjusted by changes in the consumer price index. The poverty threshold for a few household types is given in Table 4.3 below.

Table 4.3

Weighted Average Poverty Thresholds for Families of Specified Size: Families of 2 persons or more (in unadjusted dollars)

Year	3 people	4 people	5 people	6 people	7 people
1990	$10,419	$13,359	$15,792	$17,839	$20,241
1991	10,860	13,924	16,456	18,587	21,058
1992	11,186	14,335	16,952	19,137	21,594
1993	11,522	14,763	17,449	19,718	22,383
1994	11,821	15,141	17,900	20,235	22,923
1995	12,158	15,569	18,408	20,804	23,552
1995 Hourly Wage Standard	**$6.08**	**$7.78**	**$9.20**	**$1040**	**$11.78**

V. The Kids First! Initiative

The City of Oakland adopted Measure K or the Kids First! Initiative in November of 1997, setting aside 2.5% (almost $5.3 million in fiscal year 1997-98) of the City's general fund for direct services to children and youth under the age of 21. It is a 12-year initiative that calls for the development of a "Strategic Plan" every four years to guide in the allocation of funds. Funds can be allocated to private non-profit organizations and public agencies through a competitive request for proposal (RFP) process.

The general fiscal eligibility requirements in the RFP mandate that all employees (18 years and older) of the organization that are working on a project funded by the Kids First! Initiative receive a livable wage of $7.72 per hour with health benefits and $8.50 per hour without health benefits.

Since this is a newly adopted initiative, it is extremely difficult to determine the costs and benefits that it might have to employers, recipients and the city. Preliminary research with nonprofit organizations that provide youth services and youth employment indicate that it will limit the number of individuals they will be able to serve, or that they will attempt to circumvent the wage requirement by only serving youth under 18 years old.

The Center's research of living wage ordinances, as noted elsewhere in this report, indicate that many cities have exempted nonprofit and job training organizations from their living wage requirements. In interviews with City of Boston staff, the consensus was that human service organizations should be exempt from a wage requirement because of the undue hardship it would cause. Their report to the Director of the Boston Redevelopment Authority indicates that:

> *"Human Service agencies operate on very tight budgets, particularly in this era of human service budget cuts. It would be an unreasonable burden on these agencies to require the application of a Living Wage.[23]"*

[23] Memo from researchers within the Boston Redevelopment Authority to their Acting Director, January 31, 1997.

It should also be noted that job training organizations provide many services such as GED tutoring, Job placement services and soft skills training. These are benefits that actually cost far more than the traditional health and vacation benefits provided by private sector employers, because they require staff and facilities to implement. Providing these types of services or "benefits" are in large part these organizations' sole reason for being.

Other cities that have exempted job training or other types of human service organizations as outlined in their city ordinances include Duluth, Los Angeles, Minneapolis, New Haven and New York City.

The Kids First! Initiative will have a significant impact on the City of Oakland's decision making process as it begins to address the living wage question. Should the city decide that it wants to follow the lead of these other cities mentioned above by exempting nonprofit organizations, it will first have to grapple with the wage mandate within the Kids First! Initiative.

VI. Recommended Next Steps for the City of Oakland

Each city that has adopted a living wage ordinance is unique, just as the City of Oakland is unique. While there may be certain similarities between these cities in terms of population or infrastructural elements, there are many factors that should be taken into consideration when designing such a policy. From the matrix in Appendix 1 we see some of the differences between the various city ordinances. Whether the City decides to apply its policy to the Service sector, to a particular industry within the service sector or to all sectors and industries, there are some fundamental issues to address in terms of wage levels.

Rather than give recommendations of how the City might proceed, the Center will provide examples of various wage levels as well as address some basic living wage "issues" City staff and the Council might consider as they make their decision.

It is important to remember that while the examples below may give city officials a general idea of how certain wage levels might impact the City, the actual dollar amounts of the contract and grant levels are based on imperfect information, such as: lack of access to full grants and contract data, limited information with which to apply SIC codes to contracts, and estimates of numbers of low-wage employees that might be employed under the contracts.

Examples

1. The City could adopt a Self-Sufficiency Wage Policy, which mirrors the actual cost to live in the City of Oakland for a single earned income with the average household size of three, at $12.74/hr. Wider Opportunities For Women (WOW), a national intermediary that provides research, technical assistance and planning to promote economic self-sufficiency strategies for economically disadvantaged and low-income communities, has developed an Economic Self-Sufficiency matrix for all cities and counties throughout the State of California. Section IV of this report explains their matrix, which can be found in detail across all household sizes in Appendix 4.

   This policy would have a sizable impact on raising the standard of living of effected employees but also might have a large fiscal impact on employers.

2. The City could adopt a Prevailing Wage Policy. This policy could apply to all occupations which pay below an established self-sufficiency wage standard. A useful standard could be the WOW standard for a household of three (again focusing on the average household size for City of Oakland residents), which is $12.74 per hour. Using this standard as a benchmark, the City could mandate that employers pay a prevailing wage for all those occupations in which the median wage in the county is below $12.74 per hour.

   The prevailing wage could simply be the median wage paid in the County for that occupation. Median wages for Contra Costa County were compiled for the following occupations:

Occupation	Wage Range	Median Wage
Adjustment Clerk	$6.00 - $12.00/hr.	$10.40/hr.
Order Clerks	$7.00 - $14.50/hr.	$8.00/hr.
Janitors (union)	$6.50 - $11.75/hr.	$7.48/hr.
Hotel Desk Clerks	$5.00 - $9.00/hr.	$8.00/hr.

In addition to the above, there are numerous other occupational categories that fall below the $12.74/hr. wage level.

Currently, the City of Oakland enforces the Davis-Bacon Act, which governs the monitoring and implementation of a Prevailing Wage Law for the construction industry. Various reports indicate that the Prevailing Wage Policy does not deter employers from conducting business with cities and counties.

3. A third option that the City might consider is to follow the lead of many of the other cities that were analyzed for this study by adopting a wage level that is based on the federal poverty threshold for a household of *four*. This wage level is $7.78/hr., based on a forty-hour work week and fifty weeks. As is evident from the matrix of ordinances, some cities calculate this wage level differently. The wage levels can range from $7.49, (Boston, who considers a work year to contain 52 weeks) to $8.56. Some cities apply a wage level that is 110% of the federal poverty threshold for a household of four, (Minneapolis and St. Paul with Boston and New Haven eventually adjusting theirs to this level).

4. The City of Oakland could adopt a Livable Wage Policy based upon the federal poverty guidelines applied to the average household for the City of Oakland.

In a separate research study for the City of Oakland, the Center conducted a population analysis that revealed that the average household in Oakland[24] is composed of three individuals (two adults, and one school age child). Additionally, the average AFDC recipient household in Oakland is one adult with two children.

[24] Figures from 1990 U.S. Census.

The federal poverty threshold based on the U.S. Census Bureau Historical Poverty Tables for a household size of three individuals in 1995 is $12,158.[25]

Assuming that an individual wage earner would need to earn $12,158 a year to support a household of three to minimally meet the federal poverty threshold, this head of household must earn at least $6.08 an hour ($6.08/hour x 40 hours/week x 50 weeks/year = $12,158.) If the City of Oakland chooses to adopt a Living Wage Policy based upon the federal poverty threshold applied to the City of Oakland's average household size, this wage would be $6.08 per hour.

If this wage were applicable to all industries, analysis of the grants and contract data collected, the Oakland sectors most inspected would be the service and retail sectors. The Alameda County Projected Job Growth report from the Employment Development Department shows that 75% of the occupations in these two industries are low wage.

The City of Oakland awarded a total of $396,845 to the retail industry, and $39,706,205 to the service industry in grants and contracts, or a total of $40,103,049 for both industries. If we *assume* that 50% of the total dollars, or $20,051,524, is directed towards low wage salaries, and that the individuals work 40 hour weeks and 50 weeks per year, the $20,051,524 would translate into 206 jobs. This assumes that the ordinance would apply to employees working under the City contract as is the case implemented for all other cities that have living wage ordinances.

5. Lastly, the City of Oakland could choose wage levels that are phased in slowly over a three year period, like the City of Baltimore. That city's goal was to phase in an hourly wage rate of $7.70 by fiscal year 1999, increasing the wage by approximately 50 cents each year. Oakland's goal might be to reach the federal poverty guideline for a household of four ($7.78 per hour) in three years. The first year the wage level

[25] The Department of Health and Human Services uses the federal poverty threshold to determine their federal poverty guidelines. The guidelines are calculated by multiplying the previous year threshold level by the projected increase in consumer price index for the current year. The two numbers are quite similar with the guideline being slightly higher that the threshold.

begins at $6.26 and increases by 76 cents per year, until the $7.78 wage level is reached.

The benefit of this type of an ordinance is that wage increases are gradual, creating less of a burden for employers. Implementing a staggered wage increase for a living wage policy might require the City to award contracts and grants on an annual basis without multi-year contracts or at least might require more vigilant monitoring practices.

Potential Costs

The cost to monitor and enforce a Prevailing Wage Policy can be minimized by using the City's existing monitoring and enforcement arm. This unit currently houses the reporting, tracking, analysis, monitoring and enforcement capacity. Depending on the type of ordinance the city chose, actual costs may range from $109,000 for one full-time equivalency staff member to $204,000 for three FTE of different job classifications. These figures include benefits and the City's administrative costs.

The following matrix outlines the above examples with an estimation of what the administrative costs *might* be to implement an ordinance with such a wage level. These examples assume that the City will utilize the Department of Publics Works to monitor and enforce the ordinance and we have based these figures on their administrative costs, which include benefits and administrative costs.

Next Steps

It is possible that these steps could take place within a three (3) month time frame.

1. The City Council might clearly define the mission and objectives of implementing a living wage policy. The policy's mission and objectives could help shape and establish the implementation guidelines in the formulation of the policy. Some potential questions that might be addressed in formulating the mission and objectives of a living wage policy might include (but are not limited to) the following:

- Is the living wage policy an *anti-poverty* tool?
- Is the policy's mission to *raise the standard of living* for all Oakland residents?
- Is the policy's mission to *level the playing field* between high wage employers and low wage employers?
- Is the policy's mission to *leverage city resources and transfer it back to benefit the community?*

2. The City Council might then request that the Department of Public Works, the Community Economic Development Department, the City Managers office, the Finance Department, the City Attorney's Office and other relevant entities collaborate to craft a *draft living wage policy*. This could take place within one month of the drafting of the mission and objectives of the policy.

3. The City Council might then establish a *Review Committee* comprised of a City Council designated representative from business, labor, interfaith organizations, community-based organizations, the Chamber of Commerce, and ACORN. This *Review Committee* could be charged with reviewing the draft policy and making recommended changes to the City Council. The review could take place within 30 days of the submission of the *draft policy* to City Council.

SCENARIOS	REASONING	ESTIMATED ADMINISTRATIVE COST
1. Adopt an Economic Self Sufficiency Policy for all service industry occupations to pay a minimum of $12.74/hr..	• Average household size in the city of Oakland is three. • This is based on actual cost to live in the City of Oakland, based on W.O.W.'s economic self-sufficiency study.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).
2. Adopt a Prevailing Wage Ordinance for all service industry occupations that falls below $12.74/hr..	• Using W.O.W.'s economic self-sufficiency standard as the cut-off benchmark. • Setting occupational wage rates based on the county's median market rate.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1 FTE administrative support staff to input and track reports ($45,000). • 1 FTE researcher to research median market rate for all service industry occupations, with annual adjustments ($50,000). • Total administrative cost ($204,000).
3. Adopt a Living Wage Ordinance for all service industry occupations to pay a minimum wage of $7.78/hr..	• This is using 110% of the federal poverty threshold guideline for a household size of four, (a figure that several other cities have chosen). Assuming they are working 40 hrs./wk., and 50 wks./yr..	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).
4. Adopt a Living Wage Ordinance for all service industry occupations to pay a minimum wage of $6.08/hr..	• This is using 110% of the federal poverty threshold guideline for a household size of three. Assuming they are working 40 hrs./wk., and 50 wks./yr.. • The average household size in the City of Oakland is three.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).
5. Adopt a Living Wage Policy that staggers in a wage over 3 year period, to achieve $7.78/hr. by end of 3rd year. Service occupations must pay a starting wage of $6.26/hr, and increase by $.76 each year.	• This is using 110% of the federal poverty threshold guideline for a household size of four. • To lessen the impact on employers employing low wage workers.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).

APPENDIX 1

Appendices

1. Living Wage Ordinance Matrix
2. UCLA Study – "An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance."
3. UC Riverside Study – "Economic Analysis of the Los Angeles Living Wage Ordinance."
4. Baltimore Study – "Baltimore's Living Wage Law: An Analysis of the Fiscal and Ecomonic Costs of Baltimore city Ordinance 442."
5. Boston report – Memo to the Directro of the Boston Redevelopment Authority on the Boston Living Wage Campaign.
6. Wider Opportunities for Women Self-Sufficiency Standards for Oakland/Alameda County.

City/State	DatePassed	TypeOfLegislation	WageSchedule	AppliesTo	Subcontractors?
Baltimore, MD	1994, Dec.	Ordinance	1996 - $6.10 1997 - $6.60 1998 - $7.10 1999 - $7.70	Construction contracts in excess of $5,000. All service contracts.	☑
Boston, MA	1997, July	Ordinance	$7.49 from July 1 and upwardly adjust either by fed'l poverty guideline, the CPI, or 110% of fed'l min. wage, whichever is higher	Any grant, loan, tax incentive, bond financing, subsidy or other assist. over $100,000 of for-profit employer of at least 25 employees or any non-profit with over 100 employees. Leaseholders or renters of a Beneficiary that occupy < 25 sq.ft.	☑
Des Moines, Iowa	1988 original 1994, Nov., update July, 1996	Resolution of '96 replaces policy of '94, which replaced '88	'88 ord. required $7.00/hr. '94 ord. required $8.50/hr '96 res. sets goal of average wage rate of $9.00/hr.	Non-management, full-time employees of companies that receive assistance through urban renewal or loan programs.	☐
Duluth, MN	1997, July	Ordinance which amends the city code	$6.50 with health benefits $7.25 w/out health benefits To be adjusted July 1 each year to reflect change in CPI.	Any person that receives $ for any of these city services: Minnesota investment fund loans, enterprise zone credits, business loans and grants, tax increment financing land write-downs, industrial park land write-downs, lease abatements.	☑
Gary, IN	1989, June	Ordinance	commensing with prevailing wage of the county	Industrial revenue bonds, economic grants, or any economic development incentive	☑
Jersey City, NJ	1996, June	Ordinance to amend and supplement prev. legis., Chapt. 3, Article VII JC, city code	$7.50/hr with 5 days paid vacation for 1st 6 mos. & 5 days for 2nd 6 mos. and $2,000/yr. for health benefits	Contractors that employ clerical workers, food service workers, janitorial workers and unarmed security guards under the contract.	☐

City/State	Exemptions	EmployerRequirements	EnforcementArm	PenaltiesToContractor
Baltimore, MD	Constructio contracts < $5,000.	-post wages -submit 2 copies of project payrolls (for subs too) -pay employees bi-weekly	Wage Commission and Board of Estimates	$50 a day for each employee underpaid, $10/day that the payroll is late
Boston, MA	nonprofit orgs. with less than 100 employees. Construction, prevailing wage and union jobs exempt. Exceptions made for seasonal or pt youth employment progs. and econ. hardship exception	Emps. must use comm based hiring halls or One Stop centers to hire city residents. Must report on job creation, wages and training plans Qtrly reports to the city of employment activities.	Ord. Creates a Citizen Assistance Advisory Committee (CAAC), meets quarterly (one member fr. AFLCIO, one fr. ACORN & 5 appointees by Mayor.	Fines (up to $500/day), wage restitution for employees, suspension of assistance, and debarment from future City assistance.
Des Moines, Iowa	Revolving Loan Fund, Enterprise Community Business Capital Fund and companies in the retail, restaurant & hospitality industries where ave. wage rate standard of $8.50 is a goal	Employers who may be a startup or have other hardships may have the $9.00 wage as a goal.	Community Economic Dev. Office. Though Stricker felt that it would be better for dif office to monitor since his is resp for getting the contracts	Have not found any signif. Impact on the bidding process or the number of companies that present bids.
Duluth, MN	Small employers as def. By Minn. Statutes. Job readiness & training serv. CDBG recipients. Summer youth employ. progs. Recip. of less than $25,000.	Employers shall pay at least 90% of their employees a this living wage. Prov. Payroll reports on biannual basis.	Appropriate city staff.	Termination of contract if emp. violates 3 times.
Gary, IN	NA	Employers must file a schedule of the wages to be paid with the City of Gary's Wage Rate Officer and in the Gary Common Council Office prior to work being done.	Common Council of the City of Gary	Fines ($1,000) for each violation for each day.
Jersey City, NJ	NA	Applies to full and part time (25 hrs+/week).	NA	NA

City/State	DatePassed	TypeOfLegislation	WageSchedule	AppliesTo	Subcontractors?
Los Angeles, CA	1997, March	Ordinance	$7.25 w/health benefits $8.50 w/out health benefits	All service contracts in excess of $25,000 and a contract term of at least 3 months. Bond Financing and Tax Credits	☑
Milwaukee, WI	1995	Substitute Ordinance	$6.05 adjusted each March in accordance w/HHS pov. guidelines for family of 3	All service contracts, subcontracts and agreements let, entered into or mady by the city.	☑
Minneapolis, MN	1997, March	Resolution	110% of fed'l poverty level for family of 4, and 100% w/benefits	economic development contracts -land sales at less than the fair mrkt price -loans -bonds excluding conduit bonds -grants, and city tax incentives.	☐
New Haven, CT	1997, May	Ordinance	97-98--100% of federal poverty standard for fam of 4 98-99--105% 99-00--110% 00-01--115% 01-02--120% City Controller shall calc.	Service Contracts (Food Preparation, Security, Custodial/Maintenance, Clerical, Transportation, & Management of these services.)	☑
New York City, NY	1996, Sept.	local law to amend the administrative code	Employees shall be paid the applicable prevailing wage rate of workers in same trade or occupation, determined by city comptroller. Security-$7.90; Food-$15.50 Cleaning-$14.46	Any contract for security, temporary, cleaning and food services	☑
Portland, OR	1996, June	Ordinance	96/97 - $6.75 97/98 - $7.00 and shall be adjusted by a %age according to cost of living increase given to city employees	All formal service contracts for janitors, security guards, parking attendants, and temporary clerical workers.	☐

City/State	Exemptions	EmployerRequirements	EnforcementArm	PenaltiesToContractor
Los Angeles, CA	Contracts less than $25,000. Employment training orgs that serve homeless, chronically unemp. Or TANF recips. First yr. City financial asst. recip. Employs fewer than 5 employees. Obtains a waiver.	Employer shall provide at least 12 paid days off for sick, vacation or personal. Health benefits shall consist of at least $1.25/hr. Inform employees of their right to EIC	Bureau of Contract Admin. In DPW	City may cancel contract in event of non-compliance.
Milwaukee, WI	Service contracts does not include those that involve the purchase of goods	Applies to part time workers also.	Department of Public Works--Standards and Procurement Division of Administration	City may withold payment on, terminate or suspend the contract, after due process. Deny contractor right to bid in future for one yr.
Minneapolis, MN	-contracts < $100,000 in one FY -small business as defined by state -CDCs and job training and job readiness orgs.	60% of new jobs will be held by City residents and jobs will be advertised to entire community	City of Minneapolis & Minn. Community Dev't Agency	Sanctions for non-compliance.
New Haven, CT	Non-profits whose chief executive earns less than 8 times that of the lowest paid. Does not include carpenters, electricians, glaziers, painters, roofers or other indiv. employed by the city.	Encourage employers to hire and train current or former welfare recipients.	City Controller	$100 fine/day for not meeting wage standard or not posting required documents.
New York City, NY	Non-profit sector.	-Post wages for employees -submit payroll records with each RQ	City Comptroller's Office	After investigation, may withhold any payment due. May issue a disposition which directs payment of wages w/interest.
Portland, OR	The Commissioner-in-Charge of any city Bureau may waive non-monetary compensation, i.e.: training or educational work.	Employers shall consider including in bid other wage and/or benefit criteria ie, vacation, retire-ment, child care, training	NA	NA

City/State	DatePassed	TypeOfLegislation	WageSchedule	AppliesTo	Subcontractors?
San Jose, CA	1988, Oct. 1991 amended 1989, Feb.	Resolution Prevailing wage ordinance	requires prevailing wage	City funded public works construction projects originally. Later extended to city housing projects & direct services: residential st. sweeping, convention cntr food servs., parking lot mng. services, janitorial serv. & other routine contracts over $1,000.	☐
Santa Clara County, CA	1995, Sept.	Tax Rebate Policy	$10/hr w/health benefits or a suitable alternative	Manufacturers that, but for the rebate, would not have otherwise located in SC County & who create & sustain at least 10 f.t., perm manufac. jobs over the rebate period.	☐
St. Paul, MN	1997, Jan.	Resolution	110% of fed'l poverty level for family of 4, and 100% w/benefits	economic development contracts -land sales at less than the fair mrkt price -loans -bonds excluding conduit bonds -grants, and city tax incentives.	☐

City/State	Exemptions	EmployerRequirements	EnforcementArm	PenaltiesToContractor
San Jose, CA	Parperty owned by City Employee Retirement System	Requirements shall be included in RFP	State Dept of Industrial Relations	Rescission of the contract or agreement, or to seek judicial relief for damages
Santa Clara County, CA	NA	Comp looked more fav upon if prov health care for all emps., prov childcare, hire County job trng alum, hire residents, locate near pub transpo, have public giving prog, worker trng, env standards.	County Board of Supervisors and Finance Director	County shall recover the rebate if company commits a willful or negligent act with regard to its business w/in SC County.
St. Paul, MN	Excludes -contract $100,000 -intermediarion such as CDC -small business -1st year business -job training and readiness organization	Administrative guidelines outline all requirements.	Department of Planning and Economic Development	Sanctions for non-compliance.

An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance

Draft Final Report

January 2, 1997

Prepared Under Contract for the City of Los Angeles

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APPENDIX 2

Table of Contents

Preface and Acknowledgements

This report was commissioned by vote of the Los Angeles City Council on November 15, 1996. Planning for the study had begun some two weeks before. It would not have been possible to conduct a respectable analysis under these time constraints without the generous cooperation of many people on all sides of the "Living Wage" issue. We would like to thank Councilmember Jackie Goldberg and her chief of staff, Sharon Delugach, for meeting with us to discuss the background and goals of the ordinance; Mario Mendoza, of the City Administrative Office, who conducted a substantial preliminary survey of city service contractors, made all of his data available to us, and facilitated our own survey; Assistant Deputy Mayor Steve Rubin, who helped us interpret the survey data and provided helpful feedback on drafts; Fred Merkin, of the City Attorney's office, who provided us with written and oral feedback on the legal interpretation of the proposed ordinance; Laura Sainz, of the Mayor's Office of Economic Development, who assisted us in developing information on economic subsidy recipients; June Gibson, of the City Administrative Office, for making as painless as possible the execution and modification of the study contract; and dozens of department heads and other city officials and who took time to help gather data on firms doing business with the City. Finally, we are grateful to several hundred business operators who do work with the City and who took the time to answer our questions and fill out our survey forms.

This is a "draft final report." If you have corrections or comments, please direct them to Richard Sander at (310)206-7300 (phone); (310)825-6023 (fax); or sander@law.ucla.edu (email).

The project was administered by the Fair Housing Institute, a California non-profit corporation. Most of the project staff interrupted other work to devote themselves to this project, and worked long hours to see it to completion. The authors are grateful for their efforts.

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Summary and Recommendations

The proposed Living Wage Ordinance (hereinafter "the Ordinance") would require about twelve hundred firms that lease from, or provide serivces for the City of Los Angeles to to pay their workers (if engaged in the City-funded or City-based work) a "living wage" ($7.50 an hour, or enough to raise a family of three above the poverty line), provide health benefits, and provide compensated time off for illness, holidays, and vacations. The goals of the Ordinance, as described by its Council sponsors, are threefold: (a) to set, by example, a standard of what the City considers to be fair and appropriate terms of employment; (b) to improve the quality of City services provided by private businesses; and (c) to reduce poverty and improve the living conditions of the affected workers.

The City Council commissioned this study of the Ordinance. Broadly speaking, the study had four purposes: (a) to estimate the direct scope, cost and coverage of the Ordinance as proposed; (b) to evaluate the likely success of the Ordinance in achieving its goals; (c) to assess the indirect economic effects of the Ordinance; and (d) to make recommendations, including alternate ways of approaching the Ordinance's goals while minimizing costs and adverse side-effects. The study has provided some fairly clear answers to each of these questions, and identifies important ambiguities that remain. Our key findings are summarized below.

Scope, Cost, and Coverage of the Ordinance: City Service Contracts

The Ordinance, in its current version (City Attorney's November 27th edition, reflecting changes through November 13th), covers three groups of employers: firms contracting with the City to provide services; some firms that conduct business on City property (e.g., LAX concessionaires); and firms that receive substantial economic development incentives from the City. Over these three categories, we have the most complete information about the first, and less about the last; there is also more ambiguity about the scope of coverage in the second and third categories. Section 2 of the main text, and Appendix A, describe the methods behind each of the following estimates. Note that with each of these estimates, we describe current businesses as being "covered" by the Ordinance, although only future contractors would in fact be covered.

--The City currently has roughly 1,000 service contracts that exceed the $25,000 threshold at a total annual cost of roughly $350 million. Only about 350 of these contracts, worth $100 million, actually involve workers earning less than $7.50 per hour. If the Ordinance applied to all of these firms:

- 2,500 workers would get an average wage increase of $1.25 an hour to $7.50;

- 1,800 workers would receive health benefits;

- At least 3,500 workers would receive more paid days off for sick leave, vacation, and holidays;

- The total cost of these changes would be around $16-24 million, depending on how the Ordinance's health insurance mandate is interpreted. Only a little over $5 million of this total would go into actual wage increases.

- The principal uncertainty in our estimate of costs to service contractors concerns the reach of the "time off" provisions. In the Ordinance's current form, these requirements extend to all employees of the covered firm who work on City-funded activities, regardless of their rate of pay. Our data only covered hourly employees; this provision could have significant coverage effects in firms that have mostly salaried employees or employees making more than $10 per hour.

- These estimates do not include any figures for subcontractors. Out of two hundred sixty firms contacted on this issue, only eleven of the firms reported subcontractors engaged in City-related work. Inclusion of subcontractors would increase our estimates of coverage, but not significantly.

--The total cost of the Ordinance to service contractors thus represents about 4-7% of the total amount of all City servicve contracts, although most of the cost is concentrated among a relatively small number of contractors. These costs could be covered in one of three ways:

- The City could decide to absorb the cost, and find higher revenues or offsetting spending reductions to pay for it. If the City did absorb the cost, the increase in City expenses would take several years to be fully felt, since many of the contracts are for several years and only new contracts are covered.

- The City could make case-by-case judgments about the ability of contractors to absorb the cost, increasing contract amounts where it concluded that the firm could not absorb the cost. We have seen no evidence on the question of whether City service contractors have, in some cases, above-average profit margins that would make it possible for them to absorb the higher costs. Even if such profits existed, however, the City will have difficulty making contractors absorb costs in the absence of changes in methods of awarding contracts.

- The City could allow the coverage of the new expense to be worked out by individual contracting departments. We predict that under this policy, the cost will eventually be borne by the City in the form of higher contracting costs (when departments are able to secure higher appropriations) or lower services.

Scope, Cost, and Coverage: City-Authorized Concessions

--Over a thousand businesses operate on City property with leases and permits. The Ordinance covers some but not all of these; the exact line of coverage is unclear. We defined the coverage to include businesses that provide services (mostly public services) that the City could and would probably provide if the lessee or permit-holder did not. We studied three City operations that would include most of the possible coverage: LAX, LA Harbor, and the City's parks and outdoor recreational facilities. We did not study the Convention Center or the Sports Arena. In the three major operations we studied, about 250 businesses were potentially covered by the Ordinance; most of whom did have workers earning less than $7.50 per hour. If the Ordinance applied to all of these firms:

- 2,300 workers (about 1,900 FTEs) would get an average wage increase of $1.38 an hour to $7.50;
- 670 additional workers would receive health benefits;
- 3,200 workers would receive additional time off;
- The total cost of these changes would be between $12 and $18 million, depending on how the Ordinance's health insurance mandate is interpreted. Only about $5.5 million of this total would go into actual wage increases.
- The major uncertainties in these estimates stems from the "time-off" provision (see the previous section) and the lack of information on two major City operations.

--Because the concessions generally support themselves by selling goods and services to the public, and not through City payments, the allocation of the higher labor costs is more complex. The City would probably bear some of the cost through lower lease payments.

Scope, Cost, and Coverage: Financial Assistance Recipients

--We found no hard evidence that any of the current recipients of financial assistance from the City will be affected by the Ordinance. The Ordinance covers firms receiving assistance from the City (for economic or jobs development) if the net subsidy in the assistance is over $100,000 annually or over $1 million at any one time. We surveyed a number of the City's assistance programs, and none of those surveyed met the threshold provided for in the Ordinance. This implies that the Ordinance's impact here will be small; but if any firm does pass this threshold, the size of the subsidy will be large enough so that each covered firm might have a sizeable effect on the total impact.

Overall Reach of the Ordinance

Across the three areas of coverage, the Ordinance would provide pay increases to nearly five thousand workers (about 4,000 full-time-equivalent employees, or FTEs) and would provide added benefits to about seven thousand workers (including those receiving pay raises). The total increase in labor costs would be between $28 and $42 million. The City would eventually pay for most of that increase through higher costs or lower services.

Success of the Ordinance in Meeting Its Goals

--Setting a standard, by example, of what the City considers fair and appropriate terms of employment. The Ordinance is very effective in meeting this goal. By creating widely-applied, uniform standards to the covered contractors and concessionaires, the Ordinance sends a clear message about the City's labor goals.

--Improving the quality of City services. When the City contracts out for services, it is difficult to compare bidders on grounds other than price. Bidders may thus have an undue incentive to minimize on labor costs and provide lower quality services so that they have the lowest bid. Bidders that plan to use more or better quality labor may thus be frozen out of the competitive process. These situations are hard to correct if the City has poor information about service quality. Setting a minimum wage for service contract workers is thus a plausible strategy for setting service standards.

--It is very likely that the Ordinance would improve quality-adjusted worker productivity in two ways:

- Higher wages and benefits reduce worker turnover. This increases the average level of experience among workers, and therefore should improve the quality of services provided.
- Higher wages and benefits enable employers to recruit workers with stronger skills to the jobs affected by the Ordinance.

--However, a more narrowly-tailored Ordinance could probably capture many of these benefits at lower cost. There are probably areas where performance is easy to observe (e.g., landscaping) or where particular types of work are done well by low-wage workers. It is also difficult to know whether the City is getting it's money's worth -- exactly because productivity gains in many areas are hard to observe. A more narrowly-tailored Ordinance, by focusing on fewer areas, might make it feasible for overseers to assess improvements in quality.

--*Reduce poverty and improve the living conditions of affected workers.* It has been well-established by labor economists that raising the minimum wage is a very blunt instrument for fighting poverty, since low-wage workers are not always from low-income families. In Los Angeles, we estimated that about 20% of service workers earning less than $7.50 per hour are from families below the poverty line (i.e., $16,000 for a family of four), and another 20% are in "near-poor" families (those with incomes between 100% and 150% of the poverty line, or $16 - 24,000 for a family of four). At the other extreme, 33% of the low-wage workers in Los Angeles live in families with incomes over $45,000 per year. Of the four thousand workers receiving pay raises under the Ordinance, we estimate that about eight hundred would be lifted above the poverty line. Some of the indirect economic effects of the Ordinance could partially offset this achievement (see below).

--Other analysts of this Ordinance, or of similar proposals, have concluded that most of the higher labor costs the Ordinance mandates would be "lost" to the state and federal governments, as workers paid higher taxes and received fewer welfare benefits. Our analysis suggests that these conclusions are overstated. Since most of the covered workers are not poor, and even those who are have less than complete participation rates in many benefit programs, we estimate that only about 5% of the higher labor costs will be offset by lower worker benefits. Moreover, since most of the Ordinance's labor costs are in the form of benefits, rather than wages, only about 15% of the higher labor costs will be offset by higher worker taxes. Thus, most of the mandated wage and benefit increases will translate into better living standards for the recipients.

Indirect Economic Effects of the Ordinance

It is difficult for an individual City operating in a regional and national economy -- even for a City as large as Los Angeles -- to unilaterally influence wage and labor standards. An individual city cannot capture many of the benefits (e.g., lower welfare) or control many of the side effects (e.g., secondary labor market effects) that flow from a geographically and administratively limited standard. These constraints, along with some intrinsic consequences of a substantial mandated wage increase, contribute to several indirect economic effects:

--The Ordinance would produce some loss of jobs. Contractors and concessionaires facing higher costs will try to raise prices (higher contract amounts, lower lease payments and higher concession prices) and cut costs (by reducing the number of workers). How much this happens will depend on a number of factors discussed in the main text. Most crucially, it depends on the willingness of the City to absorb the higher labor costs mandated by the Ordinance. If the City responds to an increase in costs in the way cities studied in the economic literature typically do, the Ordinance would produce an overall loss of about three hundred and fifty jobs. The job loss among low wage workers will depend on whether the City allows cost pass-throughs for affected contracts.

--The size of the job loss resulting from the Ordinance will determine the size of the "secondary market effects" in non-covered markets. Workers displaced by the Ordinance will seek jobs in the 99% of the Los Angeles labor market that is unaffected by the Ordinance's provisions. Since these workers generally have a strong need or desire for jobs, they will often accept lower wages in the uncovered market. Microeconomic theory predicts, as a consequence, a slight decline in wages in the secondary market. In effect, displacement of workers sets in motion a sort of domino process, in which the displaced workers will displace other workers by accepting lower wages, and these workers will repeat the phenomenon. This process ends of absorbing back into the labor force most of the workers displaced from city contract work, but the process could also lower enough workers' wages to offset, from an aggregate point of view, a significant part of the higher payments going to low-wage workers under the Ordinance. However, the empirical literature on these secondary market effects is too weak to permit us to reliably estimate its size.

Nonetheless, these secondary market effects give us an important added reason to be concerned about how many workers are displaced by the Ordinance. That number, in turn, depends on how the City responds to increases in contractor costs.

--The Ordinance could foster unionization of low-wage workers in other sectors, or stimulate the adoption of higher wage and benefit standards by other employers. Results like this have often followed the introduction of a "covered market" in the form of union entry into a new industry or regional economy. We know of no analyzed precedent for this type of effect from the creation of a small, high-wage "covered" market by a City.

--As we noted earlier, about 20% of the increased labor costs mandated by the Ordinance is "lost" from the regional economy, due to declines in the receipt of benefits and increases in taxes. This has beneficial social effects, but it contributes to a slight net loss in aggregate income for the regional economy as a whole. If, however, corporate profits are lowered, this loss in aggregate income will be offset to some degree by a decline in corporate taxes. The Ordinance will produce an "inflow" of income if some of the costs are borne by businesses whose owners live outside the Los Angeles area (and thus "remove" lower profits from the region). The net "inflow" is almost certainly smaller than the net outflow, so the total direct effect of the Ordinance on the Los Angeles economy is slightly negative -- though small relative to the scope of the Ordinance and very, very small relative to the overall economy.

--Some of the City's economic development activities (especially those in "enterprise zones") aim to reduce long-term unemployment by creating new, entry-level jobs. If these activites carried a higher mandated wage and benefits, fewer of these new jobs will be created. As a practical matter, the current coverage thresholds in the Ordinance appear to exempt all current economic assistance recipients. However, the potential is there for a direct conflict between the mechanisms of the Ordinance and the goal and operation of some of these economic assistance programs.

--Within the Los Angeles economy, the Ordinance will produce some redistribution from areas where taxes are paid and business owners live to areas where covered workers live. Our empirical research suggests that the locational differences between these populations are not very great, so the redistribution would be very modest.

Recommendations

In the debate over the Living Wage concept, an important option that has been overlooked is the federal Earned Income Tax Credit (EITC). The EITC was begun in the late 1970s and was greatly expanded by the Clinton Administration in 1993. The EITC works as a sort of "negative income tax" for low-income families with job earnings. A worker who is the sole support for her family, has two children and worked full-time in 1996 at an hourly wage of $5.75 (the statewide minimum wage that will be in effect in a year) would be eligible for an EITC of roughly $3,500 -- enough, in other words, to make her effective wage $7.50 per hour. There is thus a mechanism already in place to achieve one of the Ordinance's central goals.

The problem is that a majority of the Los Angeles residents who are eligible for the EITC do not know about it or do not use it. Even those who use it tend to receive the EITC in a lump sum when they file a tax return, even though the program now makes it relatively easy for employers to pass the benefit on to workers in the form of regular "wage subsidy" payments. We estimate that the total value of unused EITC benefits in the City is $100 million per year.

From the City's standpoint, the enormous advantage of an EITC over a Living Wage is that the EITC brings more outside funds into the metropolitan area, while a Living Wage tends to reduce the inflow of outside benefits and increases the outflow of taxes. Moreover, from a policy standpoint, the EITC is perfectly targeted at the neediest population: all of its benefits go to low-income families, and none of the EITC income is taken into account in determining the recipient's eligibility for other means-tested benefits.

If the City takes steps to increase the use of the EITC by City service contractors, it can help achieve some of the other goals of the Ordinance. For example, if City contractors offer year-round wage supplements from the EITC to their qualified low-wage workers, they will presumably secure lower turnover from their workers and some of the other productivity benefits that the Ordinance seeks to achieve.

The EITC cannot achieve all of the goals of the Ordinance, such as the provision of health insurance to contract workers, or the establishment of "model employer" criteria. Moreover, many of the weaknesses of the Ordinance can be greatly migitaged by carefully targeting its provisions. There is good reason to think that a scaled-down version of the Ordinance would cost-effectively meet many of its goals. The more targeted Ordinance would also be easier to administer and to evaluate.

We therefore conclude that the following steps would be an effective strategy for advancing the goals of the Living Wage Ordinance:

1) Implement a targeted Living Wage Ordinance. The Ordinance would cover approximately 100 City service contracts and concessions, in areas selected on the basis of these criteria: (a) a concentration of low-wage workers in the contracts; (b) covered work in which poor performance is a documented or suspected concern; (c) work in which the low-wage workers tend to belong predominantly to low-income families. These 100 contracts would reach about 75% of the workers who would be covered by the service contracts provisions currently in the Ordinance. The office administering the Ordinance should monitor these contracts carefully, to investigate the competitiveness of the bidding process, and the changes in employer bidding and employment practices that result from implementation of the Ordinance. Where the administering office is persuaded that the higher labor costs will lead to more than a 5% loss in jobs under the contract, the office should provide recommendations on cost pass-throughs to appropriate City officials.

2) The wage and benefit package mandated by the Ordinance should be modified to provide the following:

- A minimum wage of $7.25 per hour;

- Health benefits that are either (a) comparable to those being provided to City workers engaged in similar work, or (b) involve an average employer cost of $2,000 per covered employee. The employer should bear the entire cost of the policy, though policy co-payments and modest deductibles should be permitted. The $2,000 figure reflects the average amount per worker spent on health insurance by service contractors who currently provide health benefits to their workers. Employers not providing these health benefits would be required to pay workers at least $8.50 per hour.

- The provisions for holidays, sick days and vacation days should be modified to permit workers a total of twelve days off annually, which can be used in any of these three categories at the worker's discretion.

These provisions should also only apply to workers making less than $8.50 per hour.

3) We estimate that the total cost of this trial program to the City would be $3-5 million annually, including administrative and evaluation costs. The exact amount would depend on the degree of cost pass-throughs. This amount would be lower during the first few years, until all of the covered contracts came up for renewal and coverage.

4) This targeted Living Wage Ordinance should be subjected to a clearly specified evaluation mechanism which will provide clear answers on the following issues: (a) is the Ordinance being enforced; (b) how many workers are displaced; (c) are there productivity gains in the covered contracts; and (d) what is the added cost to the City? The City should set targets on each of these criteria, annually review the Ordinance's success in achieving these criteria, and discontinue the mandate if the program does not measure up.

5) The City should adopt legislation requiring parties that engage in City business to take the following steps to encourage use of the EITC among their low-wage workers:

- Inform all workers making less than $12 per hour of their potential eligibility for the EITC;
- Make available to workers the necessary forms to secure year-round EITC wage supplements from the employer.
- Parties certifying that less than 5% of their workers engaged on City work make less than $7.50 per hour would be exempt from the above requirements in (2).

6) The City should implement a program aimed at increasing participation in the EITC. The program would have four components:

- Overseeing compliance by employers doing business with the City with the provisions of (5), above;
- Conducting outreach in communities with a concentration of low-wage, low-income workers to increase familiarity with and participation in the EITC program;
- Conduct a media-based information project on EITC, to disseminate information on eligibility and usage to the general Los Angeles community;
- Maintain a technical assistance office to help workers and employers use

the EITC effectively.

7) The total cost of this program would be $1 million annually. If the program is successful in increasing citywide participation rates in the EITC from 48% to 60%, however, the program will generate roughly $50 million for the local economy, including some $2 million in additional tax revenues for the City.

8) At least some parts of this program should be temporary. If the program is successful, knowledge and usage of the EITC by employers and workers will increase, making the program less necessary. If the program is unsuccessful, of course, the argument for making it "temporary" is even stronger. The City should therefore evaluate, by a variety of statistical means, the annual change in EITC usage among eligible parties in Los Angeles. The program should be subject to annual review and should be reduced or eliminated when the demonstrable annual increase is EITC usage in Los Angeles falls below $5 million.

An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance

Section One. Introduction

The authors of this report, along with a staff of ten research associates, have spent the past six weeks on an intensive analysis of the Proposed Living Wage Ordinance ("the Ordinance"). Our charge from the City of Los Angeles was to determine, as effectively as we could within the short time frame, the likely and significant consequences of enacting the Ordinance. The preceding Summary distills our principal findings; this main report explains our methods, research, reasoning, and presents more detailed findings.

The dramatic erosion of the federal minimum wage over the past fifteen years, the increase in income inequality in the United States over the same period, and the widely-noted failure of wages to rise substantially during the present economic growth cycle, have all generated wide interest in minimum wage legislation. In August, the United States Congress enacted the first increase in the minimum wage since 1991, raising it from $4.25 to $4.75 as of October 1, 1996, and to $5.15 as of September 1, 1997.[1] In November, California voters passed Proposition 210, which will raise the minimum wage in California to $5.75 by March 1, 1998.[2] Over the past two years, legislators in some two dozen local jurisdictions across the country have introduced "Living Wage" bills, which generally seek to set a floor on the wages paid on publicly-funded contracts.[3] Baltimore and Milwaukee both adopted, in 1995, proposals setting wage floors for workers on city contracts. A larger number of cities and states have linked wage floors to economic subsidy programs of various sorts.

The Ordinance examined in this study is a classic embodiment of the "Living Wage" approach and philosophy. If passed, it would require a wide group of employers that do business with the City of Los Angeles ("the City") to pay workers engaged in that business a wage of at least $7.50 an hour and to provide them with health insurance, paid holidays, up to twelve paid sick days per year, and seven days annual vacation. The health insurance requirement would be waived for employees earning at least $9.50 per hour. Under the latest

[1] Paul Richter and James Gerstenzang, "Clinton Signs Minimum Wage Hike," *Los Angeles Times*, 21 Aug. 1996, Part A, p. 1.

[2] "Elections '96; Other State Measures," *Los Angeles Times*, 7 Nov. 1996, Part A, p. 1.

[3] Los Angeles Living Wage Coalition, "National Living Wage Campaigns: A Look at Corporate Accountability and Living Wage Legislation Across the Nation" (June, 1996).

(November 13th) draft of the Ordinance, as interpreted by the City Attorney, the Ordinance would extend to the following workers:

--Those who do work on city service contracts of $25,000 or more, including those who perform only incidental work on the contracts and those who work for subcontractors.

--Those who are employed by lessees or licensees of the City that provide services on City property, if the service is one intrinsic to the accomplishment of the City's goals at that site and the service would probably be provided by the City if it was not provided by a lessee or licensee.[4]

--Those who are working more than half-time on a project funded or subsidized by economic development programs operated by the City, if the subsidy is either a one-time grant of $1 million or more or an ongoing subsidy that amounts to over $100,000 on an annualized basis.

With the emergence of "Living Wage" proposals around the country, studies have begun to appear assessing its consequences and costs. Although no research has yet appeared in academic journals, four unpublished analyses have come out: (1) a study by an economic consulting firm in Chicago (the "Chicago" study), which, on commission by the City of Chicago, produced a highly critical evaluation of a "Living Wage" proposal there that was quite similar to the Los Angeles proposal;[5] (2) a study by a team of economists at the University of California at Riverside (the "Riverside" study), which analyzed an earlier version of the Ordinance considered in this study, was funded by mostly private sources, and produced a report strongly supportive of the Ordinance;[6] (3) a highly critical review of the Riverside study written by Richard Carlson of Spectrum Economics, and commissioned by the Los Angeles Chamber of Commerce; and (4) a narrower study by a public policy institute in Washington, D.C., which was coauthored by one of the Riverside coauthors and which examined the first year effects of the Baltimore Living Wage Ordinance and found no negative

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[4] The Ordinance itself is quite ambiguous about which lessees and permit-holders might be covered. Sec. 10.37.1(h) provides "A City tenant or concessionaire shall be deemed to be rendering services for the City for purposes of this article if included in a regulation to such effect promulgated under the authority of section 10.37.5." Our interpretation is based on discussions with the sponsors and the City Attorney's office.

Even in the terms we have suggested, the distinction between what is covered and what is not covered is often ambiguous. Two examples offered by the City Attorney's office are these: at LAX, a food concession operated in a terminal would be covered, while a car rental operation would not. At a municipal golf course, a licensed golf "pro" giving lesson would be covered but a pro shop would not.

[5] George Tolley, Peter Bernstein, and Michael Lesage, *Economic Analysis of Living Wage Ordinance* (RCF Economic and Financial Consulting, Inc.), 24 Jun. 1996.

[6] Robert Pollin, proj. dir., *Economic Analysis of the Los Angeles Living Wage Ordinance*, Oct. 1996.

side-effects from its operation (the "Baltimore" study).[7]

We have studied these reports carefully and learned much from them. Each undertook some imaginative analyses and produced some intriguing results. Together these studies, which drew sharply opposing conclusions on most of the issues they collectively took up, have set in clear relief a number of key issues that we explore here. The Riverside study also made a very significant effort to compile data on the range of possibly affected City contracts, and this provided a good benchmark against which to measure our own efforts (we compare our results in detail in Section 2). We wish to acknowledge that, as in all research efforts, investigators benefit greatly from a careful consideration of earlier work.

Our study is different from these predecessors in three respects. First, we had the benefit of direct access to City officials and to the data collected by the City. We could approach current contractors and lessees of the City as "official" representatives, and received much helpful cooperation as a result. Second, we were not writing an "advocacy" piece in the sense that the other studies were (though their authors might disagree with this characterization). We began the study without definite views on the merits of the proposed Ordinance, and we saw -- and continue to see -- many of the questions raised by the proposal as close ones, with complex answers. Third, we did not see our mission as consisting only of delivering a "verdict" on the proposal, but on identifying ways that the Ordinance could be improved and better attain its goals.

Our study does share with its predecessors an important limitation: time. We began planning this study two months ago and began executing it six weeks ago. A longer study could have collected much richer and more complete data on the issues we examine, might have looked closely at the experiences of cities that have adopted similar laws, and probably would have answered some of the questions that we leave open here. More time would also have smoothed some of the rough edges in what we have done. But even this brief analysis has generated quite a bit of information and knowledge about the workings and dynamic effects of the Ordinance, and suggests clear ways in which it can be strengthened. We doubt that a longer study would substantially change any of our recommendations.

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[7] Mark Weisbrot and Michelle Sforza-Roderick, *Baltimore's Living Wage Law* (The Preamble Center for Public Policy, Wash., D.C.), Oct. 1996.

Section Two: The Coverage and Direct Impact of the Ordinance

The most difficult question our study faced -- and perhaps the most important one, since estimates of indirect effects in the other sections of our report flow from our conclusions here -- concerns the practical scope of the Ordinance: how many businesses and workers would its provisions directly affect? Although a large survey conducted by the Office of the City Administration Officer during the summer and early fall gathered valuable data on a large percentage of the firms most obviously covered by the Ordinance, the survey had very modest goals, seeking to get general information on the contracting firms that would most obviously be affected by the Ordinance. When we began our study, we therefore had worker information on only about 20% of the total population of city service contractors, no information about some major departments (e.g., DWP and the Harbor), and limited data on lessees, permit holders operating on city property, and economic subsidy recipients. We also had no information about administrative support personnel or subcontractors used by city service contractors and possibly covered by the Ordinance.

The largest component of our study was a brief but intense survey effort aimed at filling the gaps in our knowledge about the Ordinance's coverage. Our survey had four components. First, we developed a fairly complete census of all the businesses potentially affected by the Ordinance, including over 1100 service contracts, well over one thousand lessees and permit holders (which we will collectively describe as the "concessionaires"), and dozens of firms receiving economic subsidies from the City. Second, for the service contractors, we supplemented the City's focused survey with a longer survey of a random sample of the entire universe of covered contracts. Our sample, which is described more fully in Appendix A, collected information from over 300 firms. Third, for the concessionaires, we determined that the number of firms that were probably intended to be covered by the Ordinance (see our interpretation in Section 1, above) was about 250. The City had provided us with information on over half of these firms, and we attempted to contact the remainder. For three major sites of concessionaires -- LAX, the Harbor, and the public parks and golf courses -- we secured data from most of those covered, and had enough information on those that we did not reach that we could generalize from our sample. A significant failing of this part of our analysis, however, was the absence of a good census, or any direct data, on two city-owned sites of concessions: the Sports Arena and the Convention Center. Fourth, we contacted officials at all of the principal economic development programs and secured enough data to allow us to determine whether any of the beneficiaires of those programs met the thresholds of coverage specified in the Ordinance.

For each of the covered firms we contacted, we sought information on the number of workers within specified wage ranges who did some work on the City contract or concession, the average wage rates of affected workers, the degree to which these workers recieved health benefits and the cost of those benefits, and the current allowances these workers received for sick days, holidays, and vacation days. We specifically asked about administrative support personnel who worked on the contract or concession, and about the employers' use of subcontractors.[8]

Reliability. How accurate is the information collected through the methods we have just described? There are three ways that errors can creep in. First, if our "universe" of firms doing business with the City had significant gaps, all of our other analyses would reflect those gaps. There are undoubtedly some gaps of this sort, since the process of compiling the universe relied on the responsiveness of many different people across different City departments who used a variety of methods to assemble their own lists. However, the close cooperation of the Office of the City Administrative Officer allowed us to collect information from all major departments and virtually all of the smaller departments. Moreover, we were able to compare our lists of service contracts with a similar "census" of contracts conducted last year, and performed other checks to satisfy ourselves that our universe was reasonably complete.[9] Second, our sample of responding firms could be skewed in a variety of ways. To examine this possibility, we have checked our sample against our universe of firms and established that, by a variety of measures, our sample seems to fairly represent the entire population. Third, our procedure could produce mistaken estimates if many responding firms gave us inaccurate information. It seems likely that some respondents overlooked some employees (esepcially those working only indirectly on a service contract). Some respondents might have been embarassed to admit, even in a confidential survey, how little they paid some employees; others might have wanted to exaggerate the number of low-wage workers to emphasize how severely their operation would be affected by the Ordinance. We took some comfort from the general consistency of the responses to our survey with those the City had obtained in its own survey (it seemed less likely to us that respondents would misrepresent facts on an official, mandatory survey). In general, however, we had to rely on our sense that the data we were receiving hung together in ways that seemed credible and consistent.

Overall, we feel confident that all of these potential problems did not detract substantially from the accuracy of our estimates.[10]

Number of Affected Workers. The first three tables in this section (2.1 through 2.3) show our estimates of the number of workers affected by the Ordinance. We have broken this

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[8] We gathered this information with a survey instrument that was faxed to firms. We did not include in our final analysis data on subcontractors, because of a lack of available information. However, because only 11 out of 260 firms we spoke to on this issue had subcontractors working on City projects, we do not think that inclusion of subcontractors would significantly affect our estimates.

[9] The two notable exceptions are the Sports Arena and Convention Center as concessionaire sites, as noted above.

[10] As we will discuss more fully below, our estimates are in most respects quite consistent with those obtained by the Rivserside study through a very different methodology, which provides another helpful check.

data down by individual department or operation (when that would not jeopardize any respondent's anonymity), to provide as detailed a picture as possible. Overall, we estimate that about 4,800 people working for covered firms currently earn less than $7.50 per hour. An additional 2,500 covered workers earn more than $7.50 per hour, but receive no health care benefits -- or benefits that probably fail to meet the Ordinance's requirements -- and would be eligible for some increase in health benefits under the Ordinance. In both of these cases, the number of affected workers is a relatively small proportion of the total number of persons engaged in covered work -- the great majority of the employees on city service contracts, in particular, are receiving wages and/or health benefits above the thresholds set by the Ordinance.

The third benefit mandated by the Ordinance -- the provision of paid holidays, twelve paid sick days, and seven paid vacation days -- could apply to a much larger population. Relatively few of the firms we surveyed provided as many paid days off as the Ordinance mandated, and since there is no "wage limit" governing the reach of this benefit (i.e., all employees are eligible for this benefit regardless of their wage), it is possible that this provision reaches most of the employees who work on City "business" at most of the covered firms -- potentially tens of thousands of workers. Our database did not permit an estimate of how many people that might be. We do know that the number of affected employees is at least ten thousand; but in this one instance, our estimate is intended as a minimum figure rather than a fairly reliable measurement.

Over a third of the low-wage employees covered by the Ordinance work part-time, so we have provided in our tables estimates of "full-time equivalent" (FTE) workers (computed by multiplying the number of workers by their average weekly hours, and then dividing by forty). Both "real" and "FTE" counts have their uses; our FTE estimates are generally about 20% less than our head counts.

As we have noted, the current language of the Ordinance covers persons who work on service contracts regardless of what proportion of their time is spent on the City-related work. This means, in theory, that the Ordinance would cover not only a low-wage security worker stationed at a City facility, but also a low-wage clerk who spends a small fraction of his or her time processing the security worker's paycheck. This language could potentially greatly expand the reach of the Ordinance, but our survey respondents identified relatively few "administrative support" workers who spent time on city contracts. The numbers were lower than expected for three reasons: first, many respondents probably overlooked administrative workers who spent very little time on the City contracts; second, many of the administrative workers earn more than $7.50 per hour; and third, many of the contracting businesses are small operations in which the owners do their own administrative work.[11] Important

[11] Only fifteen firms in our sample of 375 reported having administrative workers covered by the Ordinance.

exceptions are firms that process data for the city and administrative support personnel for social service agencies, mostly non-profits. Based on the firms reporting in our survey, we estimate that there are between 200 and 250 administrative support workers making less than $7.50 per hour and spending some time working on City service contracts. We estimate that there are between 500 to 600 administrative support workers who (a) make between $7.50 and $9.50, (b) do not have health insurance, and (c) spend some time working on City service contracts. We are somewhat skeptical of these numbers, however, because these figures seem particularly vulnerable to underreporting by firms.

To recap, we estimate that about 4,800 workers would receive pay raises under the Ordinance; about 2,500 more would receive health insurance; and at least 10,000 workers (but probably a much larger number) would receive more paid days off.

Table 2.1
Service Contractors
Workers Making Less Than $7.50 Per Hour

Type Of Contract	Number of Workers Under $7.50	Number of FTE Under $7.50	Mean Wage	Percentage With Some Health Benefits	Mean Days Off
Landscape	84	61	$6.48	0.40	12
Laborer	31	22	$6.14	0.20	3.3
Transit	37	34	$6.46	0.90	13.3
Food Service	206	55	$6.84	1.0	N/A
Other*	57	47	$6.76	0.6	29.3
Janitorial	501	461	$5.87	0.6	18.3
Security	526	498	$6.67	0.00	0.00
Parking	249	206	$5.39	0.2	7
Social Services	508	305	$6.43	0.49	21
Child Care	52	43	$6.40	0.50	32
Subtotal	2250	1732	$6.25	0.36	11.7
Admin. Support	227	155	N/A	N/A	N/A
Grand Total	2477	1887	$6.25	0.36	11.7

*Category unnamed to preserve anonymity

Table 2.2
Service Contractors
Workers Making $7.50 - $9.50 Per Hour

Type of Contract	Number of Affected Workers $7.50 - $9.50	Number of Affected FTE $7.50 - $9.50	Total Workers $7.50-$9.50	Mean Wage	Percent With Health Benefits	Mean Days Off
Landscape	77	39	77	$8.47	0.1	12.8
Laborer	38	31	51	$8.22	0.6	19.4
Transit	55	50	59	$8.55	0.8	23.5
Food Service	372	105	372	$8.39	1.0	N/A
Other*	65	63	65	$7.50	1.0	22.6
Janitorial	6	6	6	$8.28	0.3	0.00
Security	59	83	58	$7.99	0.00	0.00
Parking	47	35	47	$8.25	0.00	0.00
Social Services	450	240	532	$9.00	0.47	15.25
Child Care	35	35	35	$8.92	1.0	32
Subtotal	1204	687	1302	$8.59	0.62	10.8
Admin. Support	568	503	568	N/A	N/A	N/A
Grand Total	1772	1190	1870	$8.59	0.62	10.8

* Category unnamed to preserve anonymity

Table 2.3
Concessionaires
Workers Making Less Than $7.50 Per Hour
& Workers Making Between $7.50 and $9.50 Per Hour
(Expanded Definition of Coverage: See Text for Discussion)

Type Of Contract	Number of Workers Under $7.50	Number of FTE Under $7.50		Mean Wage	Percent With Some Health Benefits	Mean Days Off
Airport	1650	1532				
Harbor	306	185				
Recreation & Parks	313	208				
Total	2269	1925		$6.12	84%	14.6
	Number of Affected Workers $7.50 - $9.50	Number of Affected FTE $7.50 - $9.50	Total Workers $7.50-$9.50	Mean Wage	Percent With Health Benefits	Mean Days Off
Airport	596	586	810			
Harbor	47	39	47			
Recreation & Parks	28	26	28			
Total	671	651	885	$8.44	85%	16.6

Costs. To determine the total cost of the added wages and benefits for the covered workers, it was important to understand what workers currently received. Very few of those affected by the Ordinance currently receive the minimum wage and no benefits workers. The average worker who made less than $7.50 per hour earned about $6.25 per hour, so the cost of increasing compensation to $7.50 for this group was $1.25 x 2,080 (the number of work hours in a full year) x 4800 (the number of covered FTEs), or only about $11 million. Similarly, close to half of the low-wage workers already have some form of health benefit, although usually with significant gaps in coverage and only partial payment by the employer. We calculated the cost of the health provisions by determining what it would cost contractors and lessees to bring their health insurance contribution up to full coverage. Finally, most of the workers -- particularly those working full-time -- already received some paid days off. We calculated the added cost by assuming an additional eight hours at the relevant hourly wage for each additional day that each worker would be entitled to receive.

Because our surveys gave us quite specific data about the number, earnings, and benefits of a large sample of covered workers, most of our cost analysis was straightforward. The main area of ambiguity arose from health care costs under the Ordinance. Since the Ordinance provides that employers can choose between giving their low-wage workers full health insurance or paying them an additional $2 per hour ($9.50 instead of $7.50), one could estimate the cost of health insurance as $2 * 2,080 hours per year, or roughly $4,000 per worker per year. However, we found in the course of our survey that when employers provided what they regarded as full health care coverage, the total cost was typically around $2,000 per worker per year. Because the Ordinance itself is vague about the exact amount of benefits to be provided, we decided to calculate the medical insurance cost using both a $2,000 per worker assumption and a $4,000 per worker assumption. Because, as it turns out, the medical insurance is the largest cost item in the proposal, these alternate assumptions have a powerful effect on the total cost.

The final element in our cost analysis is the "ripple effect" -- the amount by which we anticipate wages of other, uncovered workers will go up as a result of the wage increases to those directly covered. We explain our method for determining these estimates in Section 4.

Tables 2.4 and 2.5 show our overall cost estimates. The combined cost of the mandated wages and benefits for service contracts and concessionaires is between $28 and $42 million, depending on the medical insurance cost assumption. Of this total, only about $11 million goes directly to workers in the form of increased compensation. The reader should note that we have included a number of workers employed by non-profits (i.e. social service and childcare workers) in our estimates. We included these workers because our interpretation of the current version of the ordinance is that these workers are covered. However, the sponsors of the ordinance have told us that non-profits were meant in most cases to be exempted. Exclusion of these persons would reduce our overall cost estimates by between 10% to 15%.

Table 2.4
Total Increase In Labor Costs For Service Contractors

Type Of Cost	Amount of Increase	
	Mandated Health Plan Valued At $2,000	Mandated Health Plan Valued At $4,000
Increased Labor Cost to $7.50 Per Hour	$5,240,557	$5,240,557
Increased Days Off for Workers Earning less than $7.50/hour	$1,630,611	$1,630,611
Increased Health Benefits to Workers Under $7.50	$3,551,214	$8,237,425
Increased Days Off For Workers Above $7.50	$1,696,084	$1,696,084
Increased Health Benefits For Workers earning from $7.50 to $9.50	$2,869,124	$6,659,840
Ripple Effect	$531,304	$531,304
Total Costs	$15,520,894	$23,995,821

Table 2.5
Total Increase In Labor Costs For Concessionaires

Type Of Cost	Amount of Increase	
	Mandated Health Plan Valued At $2,000	Mandated Health Plan Valued At $4,000
Increased Labor Cost to $7.50 Per Hour	$5,401,974	$5,401,974
Increased Days Off for Workers Earning less than $7.50/hour	$1,952,360	$1,952,360
Increased Health Benefits to Workers Under $7.50	$2,753,755	$7,270,200
Increased Days Off For Workers Above $7.50	$578,321	$578,321
Increased Health Benefits For Workers earning from $7.50 to $9.50	$915,892	$2,684,763
Ripple Effect	$373,177	$373,177
Total Costs	$11,975,479	$18,260,795

Finally, we include more lessees and concessionaires in our analysis than are included in the City Attorney's working definition of coverage by the ordinance. Under the City Attorney's present interpretation of the ordinance, covered concessionaires include: Airport food and beverage concessionaires; Rec and Parks snack concessions, driving ranges, golf cart rentals, golf and tennis pros; and Harbor tugs and tours. Because this definition is still in flux, we broadened the City Attorney's working definition above to include the following : Airport gift concessions; Harbor marina operations, restaurants and gift shops;and Recs and Parks restaurants and amusement concessions. We decided not to include some categories like Airport car rentals because the sponsors told us that they did not intend for the ordinance to cover these lessees. Because the bulk of the covered workers work in the Airport food and beverage category -- a category included in the City Attorney's working definition -- the cost estimates for the City Attorney's "narrow" interpretation and our "broad" interpretation do not vary greatly. Using the narrow interpretation of coverage of concessionaires reduces the cost estimates for lessees and concessionaires by about 20% and the overall cost estimates by about 10%.

Discussion. What may be most striking to many readers is the substantial disparity between these cost figures and those published in other studies: the Riverside study, for example, came up with a total cost estimate of $93.3 million, and the Carlson rejoinder, which used the $93.3 million as a base before making adjustments, argued that this figure should be even larger. It is quite helpful to examine the sources of these differences.

The Riverside analysis estimated that firms covered by the Ordinance employed about 10,600 workers earning less than $7.50 per hour. Our estimate is about half that size. There are two easily identified reasons why the Riverside estimate was higher. First, the Riverside authors concluded that several large economic assistance recipients were covered (the Ordinance, at the time the Riverside study was done, had a somewhat lower threshold for coverage as an economic assistance recipient.[12] Second, the Riverside study apparently assumed (again, perhaps because of more inclusive language in the proposal they studied) that the Ordinance reached all low-wage employees of the covered firms, rather than just employees engaged in City-related work. If account is taken of these two differences, the Riverside estimate of covered workers would actually be significantly less than our estimate, though it is not possible to say exactly how much less.

Riverside's method of determining the number of low-wage workers at covered firms was quite different than our own method. The Riverside study did not rely on surveys of employers, but instead classified covered firms by industrial type and then used government data to analyze the distribution of worker wages at firms of that type. This approach had the advantage of not relying on the accuracy or completeness of employer-provided information on low-wage workers. It had the disadvantage of dealing with industry-wide averages, rather than the actual population of covered firms. The rough similarity of both of our estimates, when account is taken of changes in the Ordinance's coverage, bolsters our confidence that our estimate is roughly accurate and is certainly not (as the raw cost numbers might suggest) a substantial underestimate.

Aside from differences in the number of affected workers counted, the Riverside study also had three significant differences from our analysis in cost calculations. First, the Riverside study (again relying on government data) found that the "under $7.50/hour" workers

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[12] We are not certain that the Ordinance's language changes accounts for Riverside's inclusion of some economic subsidy beneficiaries. Our reading of the study suggests that they found some of these firms received large enough subsidies to be covered even under the current language of the Ordinance (see our section, below on economic assistance recipients).

had average earnings of $5.64 per hour; our employer-derived data showed an average wage of $6.25 per hour. Riverside's lower wage estimate produced a higher Ordinance cost estimate.[13] Second, the Riverside study estimated a dramatically larger "ripple" effect on higher-wage employees than we did. Although Riverside's method for calculating the "ripple" effect was similar to ours in some ways, we believe that the authors applied the method erroneously. Third, the Riverside study assumed that health insurance coverage would cost $4,000 if the employee did not currently have health insurance, and $0 if the employee did have some coverage. They estimated that only 28% of the covered employees lacked health insurance, based on statewide statistics. Our method looked not only at who currently had health coverage, but how much the employer currently paid, and then measured the gap between current payments and the cost of either $2,000 annual coverage or $4,000 annual coverage.

The point of this discussion is twofold. First, there are concrete reasons for the differences in cost estimates between the Riverside study and our own; each estimate is based on a systematic methodology. Second, most of the difference in our estimates disappears if changes made to the Ordinance's proposed provisions, after the Riverside study was begun, are taken into account. Third, nothing in the detailed differences of specific cost-estimating methods or results persuades us that our estimates are significantly off-target; on balance, our review of Riverside's methods and findings strengthens our confidence in the estimates we have given in this section.

Economic subsidy recipients. One of the most controversial aspects of the Ordinance has been its inclusion of firms that receive economic assistance from the City of Los Angeles. The Mayor's Office of Economc Development contends that this provision will make the City's economic assistance programs deterrents rather than stimulants to new business entry and formation. Business leaders who oppose the bill have made similar arguments. As noted above, we concluded in our analysis that probably none of the current recipients of economic assistance from the City would be covered by the Ordinance as it is now written. The purpose of this section is to explain how we reached that conclusion.

In this realm of economic subsidies, the City did not provide us with the kind of survey data it compiled for a core of service contractors and lessees, and we did not try to conduct our own survey. What we gathered in this area, instead, was data on the types of economic subsidy programs that exist within the City, lists of recipients, and the likely applicability of the Ordinance to each program.

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[13] There is something to be said for each finding. Our wage estimate fits better with well-documented patterns of general wage distributions for low-wage workers (i.e., the average wage of all U.S. workers earning between the minimum wage and $7.50 per hour is close to $6.25) and popped up consistently across a wide range of respondents; the Riverside estimate is not susceptible to misreporting by employers and is more consistent with data gathered by the Living Wage Coalition through interviews with a small sample of covered workers.

As discussed in Section 1, firms receiving economic assistance are not covered under the Ordinance unless they receive a subsidy of at least $100,000 annually or over $1 million at one time. Note that the amount to be measured is the net subsidy, not the gross level of assistance. Thus, firm receiving a $3 million loan from the City with a ten years repayment schedule and an interest rate 2% below market would not be reached by the ordinance, because the subsidy is no more than $600,000 (or $60,000 per year, if measured as a flow over the life of the loan). Thus, by the standards of most city economic development programs, this is a fairly high standard. As the examples in Table 2.6 illustrate, none of the programs we examined had any beneficiaries who were clearly above these thresholds.

Other aspects of this provision also limit its reach. The Ordinance apparently[14] only applies to programs where the purpose of the economic assistance is economic development or job creation. This probably eliminates the City's substantial housing development programs, although economic development is arguably an ancillary purpose. The Ordinance is also cast in terms of financial assistance coming from the City itself. Read literally, this would imply that a corporation that receives the proceeds from an industrial revenue bond would not be covered, since the "subsidy" in such a bond is the lower interest rate that results from the bond's exemption from federal or state taxation. Similarly, a variety of City economic programs are largely pass-throughs of federal money. It is not only unclear whether such funds are considered city subsidies under the Ordinance; it is also possible that, for some programs at least, federal regulations would restrict the sorts of conditions placed on this assistance by the Ordinance.[15]

We thus conclude that few, if any current economic subsidy programs operated by the City would be covered by the Ordinance. It is certainly possible that future economic development efforts in Los Angeles could occur on a larger scale and be covered by the Ordinance. In later sections of this report (in particular, Section 9), we discuss the merits of retaining a largely theoretical coverage of economic assistance recipients in the Ordinance.

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[14] Sec. 10.37.1 (c). This limitation seems clear enough in the second paragraph of this subsection, but the subsection as a whole is somewhat ambiguous on this point.

[15] The authors of the Ordinance are well aware of these issues, but no final interpretation of the Ordinance's reach has been determined yet.

Table 2.6

Summary of Some Key Economic Assistance Programs
And The Likely Reach of the Ordinance to Recipients

Program	Mechanism	Reach of Ordinance
Department of Water & Power (DWP): Enterprise Zone discount	Firms that move or expand operations within designated enterprise zones recieve 25% off some DWP charges	Hundreds of firms receive subsidies under this program, but according to DWP, the largest current participant in this program receives an annual subsidy of less than $60,000.[16]
Community Development Bank	Provides loans and technical assistance to businesses in targeted geographic zones.	Only a handful of firms have yet borrowed funds under this new program, and only a portion of the assistance comes from the City. None of the loans to date are above the Ordinance thresholds. The only probable area of coverage would be the bank itself -- that is, the Ordinance might well apply to the staff of the bank.
Job Training Partnership Act	With federal funds, provides wage subsidies to displaced workers to help a prospective new employer cover the cost of retraining.	According to program administrtors, JTPA participants are predominantly coming from relatively high skill jobs that pay more than $10 per hour, and their wages under the program are generally at or above that level.
Industrial Development Authority bond program	Floats tax-free bonds under municipal immunity from federal or state taxation, and loans proceeds for private economic development projects	The subsidy in the bonds floated over the past year is below the Ordinance thresholds; in any case, subsidy is hard to characterize as City-based, rather than state or federal.

[16] It should be noted, however, that the Riverside study secured DWP data earlier this year; according to the study, this data shows four firms over the $100,000 annual threshold.

Table 2.6
(continued)

Program	Mechanism	Reach of Ordinance
Section 108 Program	Similar to the IDA bond program; has specific job-creation requirements (one job for each $30,000 in funding).	The subsidy in the bonds floated over the past year is below the Ordinance thresholds; in any case, subsidy is hard to characterize as City-based, rather than state or federal.

Section Three: Productivity Effects of the Ordinance and the "Labor-Labor" Substitution Effect

One of the principal goals of the Ordinance is to increase the productivity of workers engaged in City business, and the quality of work performed for the City. There are four ways that such an improvement might occur: (a) if workers receiving the higher pay and better benefits increase work effort and become better employees; (b) if the pay and benefit increases, by reducing worker turnover, increase the average level of worker experience and cause the employer to invest more in worker productivity by providing more training; (c) if the pay and benefit increases, by making the jobs relatively more attractive to the labor force generally, enable employers to hire "better" workers; or (d) if, at higher wages, employers require more effort from employees.

There has been some research suggesting that each of these effects occurs when pay goes up, at least to some degree. However, we believe that only (b) and (c) have really been firmly established by that research. Worker turnover does decline when wages go up,[17] largely for the common-sense reason that when workers get a raise, they have a greater stake in their job. Lower turnover helps productivity primarily by reducing the number of unexperienced workers.[18]

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[17] Richard Freeman and James Medoff, *What Do Unions Do?* (New York: Basic Books, 1984), Chapter 11.

[18] Lower turnover also helps to persuade employers to invest in training, since it gives employers a greater expectation that training they provide to their workers will not "disappear" quickly through turnover. However, most labor economists believe that employers generally make employees "pay" for some of their training in the form of lower wages. A wage floor can eliminate this possibility, and thus

It is also well-established that employers gradually change the composition of their workforce when wages go up.[19] This, again, is common-sensical: if a job suddenly pays more, then when employers advertise an opening, they will get more applicants and applicants with stronger "credentials" -- more years of schooling, more relevant experience, and so on. What is hard to measure is the rate at which this "substitution" of new workers for old workers will occur; much depends on the size of the wage change, the rate of attrition of old workers (recall that turnover has fallen), and the nature of the job. Usually, this effect -- known as the "labor-labor substitution effect" in the literature -- takes place gradually, but over the long-term has a significant impact on the human capital makeup of the workforce.[20]

There is good reason for the City to take these productivity changes seriously. When the City contracts out for services, it is difficult to compare bidders on grounds other than price. Bidders may thus have an undue incentive to minimize on labor costs and provide lower quality services so that they have the lowest bid. Bidders that plan to use more or better quality labor may thus be frozen out of the competitive process. These situations are hard to correct if the City has poor information about service quality. Setting a minimum wage for service contract workers is thus a plausible strategy for setting service standards.

There are a few of disadvantages to this strategy. First, an all-inclusive Ordinance probably reaches further than it needs to in pursuit of better productivity and higher quality. There may be areas where performance is easy to observe (e.g., landscaping) or where particular types of work are done well by low-wage workers. Second, it is difficult to know whether the City is getting it's money's worth -- exactly because productivity gains in many areas are hard to observe, and there is reason to be skeptical of how much productivity could go up in jobs that inherently involve little training (e.g., parking attendants). Third, the labor-labor substitution effect can gradually displace many of the very workers that the Ordinance is trying to assist.

We conclude that the Ordinance is likely to produce tangible benefits for the City in higher productivity on service contracts. A more targeted Ordinance would probably reap these benefits more efficiently, however, while minimizing unintended side effects.

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could offset the other incentive for training. It is unclear how these two effects "net out" on the training issue.

[19] *See. e.g.*, Daniel S. Hamermesh, *Labor Demand* (Princeton: Princeton University Press, 1993), Chapter 3.

[20] Charles Brown, Curtis Gilroy, and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," *20 Journal of Economic Literature* 524 (June 1982).

Section Four: "Ripple" Effects of the Ordinance

Economists who have analyzed the effects of minimum wages have noted that mandated increases tend to increase earnings not only of persons directly covered by the increase, but of those just above the new minimum.[21] If we think about this a moment, we can see why this is. If a group of workers who are currently paid $5.50 per hour is supervised by someone who is paid $7.50 per hour, then a mandate increasing all the workers' wages to $7.50 per hour will probably produce a demand by the supervisor for a raise. If the job that used to be paid more highly is actually "harder" in some way, then that worker may not have an incentive anymore to take the more demanding position.

This "ripple" effect undoubtedly exists, and adds to the cost of the Ordinance. The interesting and more difficult question concerns the size of the ripple effect. The Riverside study (which called this the "wage contour" effect) assumed that the wage increases for workers earning under $7.50 would have sizeable ripple effects: an average 15% increase for workers earning between $7.50 and $9.49 (about $1.25 per hour),[22] and an average 7.5% increase for workers earning between $9.50 per hour and $11.50 per hour (about 80 cents per hour). These large effects substantially increased the Riverside study's estimate of the Ordinance's cost.

Our analysis suggests a much smaller ripple effect. The available labor market research suggests that when a new minimum wage increase goes into effect, the wages of those just above the new minimum tend to experience an increase no more than half the size of the increase received by workers at the bottom.[23] We can thus imagine a series of ripple effects, each half as large as the one before it, radiating up from the new minimum wage.

As we noted in the last section, the average wage of workers below the Ordinance's $7.50 living wage threshold is currently $6.25 per hour; so the average increase for the workers actually covered by the ordinance is $1.25. We assumed, therefore, that workers currently at a $7.50 wage would see a wage boost, on average, that was half as large -- 62 cents -- to $8.12 per hour. The employees that these workers "catch up" with would, in turn, see increases of 31 cents per hours, to $8.43. Modeled in this way, the ripple effect peters out at about $8.75 per hour. The average wage increase for workers in the $7.50 to $9.50 range,

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[21] David Card and Alan B. Krueger, *Myth and Measurement* (Princeton: Princeton University Press, 1995), chapter 9.

[22] Pollin at 8-9.

[23] Card and Krueger report that in the 1990-91 increase in the minimum from $3.25 to $3.80, workers in the 5th percentile of hourly wage workers (essentially, those covered by the increase) experienced a rise in wages averaging 18% (roughly the amount of the increase), while workers at the 10th percentile (just above the new minimum) experienced a 7% increase in wages.

if this model is accurate, would be only 2.5%, rather than Riverside's 15%.[24] Moreover, unlike the Riverside analysis, our analysis includes no increase for those in the $9.50 to $11.50 range. This is consistent with the Card & Krueger analysis showing that ripple effects only affect a small part of the wage distribution.

Our surveys of employers also give us a good handle on how many workers are in the wage range affected by the ripple effect. Combining these numbers with the analysis conducted in the last section, the model we just described would predict a ripple wage effect of about seven cents for every dollar in mandated wage increases (see Tables 2.4 and 2.5).

More complex models. The analysis we have just described is too simplistic in several ways. Let's briefly consider three complications:

1) Counting benefits in the ripple effect. Suppose that in our example above, the $5.50 workers didn't have health benefits and the $7.50 worker did. The Ordinance will give the $5.50 workers both a wage increase and more benefits. This would make the ripple effect bigger, because the low-wage workers are getting a bigger increase. A bigger ripple will also extend further up the wage ladder before it peters out. On the other hand, workers tend to pay more attention to their absolute and relative money wages than to their benefit packages, which would tend to make this factor less important.

2) Counting workers not engaged on the city contract. We have assumed in our model that the only workers directly affected by the ripple effect are other workers engaged on the same contract as the covered workers. This may be unrealistic. Employers may find it difficult to pay workers engaged in city business no less than $7.50 per hour, while paying other workers $5.75 per hour, or to have dual benefit systems. Of course, since much of the covered employment occurs on city property (e.g., a cashier at a LAX concession, or a janitor in the Central Library), and is thus physically separate from the employer's other operations, it might not be so difficult to maintain a distinct wage structure on the city contract; it's hard to say.

3) The labor substitution effect. As we discussed above, higher mandated wages will lead employers to gradually change the makeup and the nature of the covered jobs. Workers will probably be given more responsibilities, and perhaps more training; new hires will come to the jobs with higher skill levels. This will tend to reduce the ripple effect, because it reduces the substantive gap in skills and job demands between covered workers and uncovered workers, and thus reduces the need or justification for preserving a wage gap.

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[24] The Riverside study's methodology was not dramatically different from ours, but produced large differences in cost estimates because (a) the authors found an average wage of covered workers of $5.64 rather than $6.25, thus producing a much larger "ripple," and (b) the authors assumed that the "ripple" would affect a much broader swath of workers in a fairly homogenous way.

end market studied by Card and Krueger are less applicable.[30]

The size of the Ordinance's wage increases therefore suggests that, as a general matter, the unusually low unemployment effects found in Card and Krueger's reserach will probably not apply here. But are there other special circumstances that make the context of this Ordinance different? Yes, there are. The reason these employment losses happen is because when wages go up, three things tend to happen: employers try to get each employee to do more work than before; employers substitute machinery for labor; and the overall demand for the employer's product goes down (as prices increase), reducing the need for workers. Before directly transferring the general economic finding about employment effects to the specific contexts covered by the Ordinance, one should think about these contexts. Are these work sites where machinery can be substituted for labor, or where a few higher-skilled workers can do the work previously done by more lower-skilled employees? Is the demand for city services going to decline if prices go up? The first question is an empirical one on which we have no original information. One can imagine that in some types of covered jobs, such as janitorial work, there are ways to increase the ratio of capital to labor (better cleaning machines) or hire fewer, more productive workers. In other types of covered work, such as a newsstand cashier, there may be very little substitution opportunity. What this means is that the unemployment effects are likely to vary across different work settings. Our assumption, however, is that on average, the work settings covered by the Ordinance will approximate the general market. The second question is still more difficult to answer, since it is largely a political question: would the City provide funding if the contracts cost more, or would it hold funding constant and, if necessary, accept declines in service? This turns out to be quite important. If the City "passes through" all increases in contractor costs to its own budget, employers would not have to make any tradeoffs to economize on costs, and the unemployment effects would be much smaller.[31] If the City holds contracting costs constant and is accepts some declines in service, the unemployment effects would be relatively large. In this analysis, we will develop estimates corresponding to each of these assumptions.

The Secondary Market. The Ordinance only applies, of course, to a small part of the Los Angeles labor market. In this sense it is fundamentally different from conventional minimum wage legislation, which typically applies to 85% or more of the labor market and tends to cover all labor markets within particular industrial or service categories. This distinction between "partial" and "predominant" coverage has important practical implications for the effects of the Ordinance. If nearly all of a labor market is covered by the minimum wage, then persons who lose their jobs because of the higher wage simply remain unemployed.

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[30] Card and Kreuger agree; they note more than once in *Myth and Measurement* that they "suspect that, at sufficiently high levels of the minimum wage, the predicted employment losses of the standard model will be borne out." (p. 355)

[31] Employers paying the higher wage would still have an incentive to substitute capital for the now higher-paid labor, so there might still be unemployment effects.

If only part of a labor market is covered, however, workers who are displaced by the higher minimum look for jobs in the rest of the economy -- the secondary market.[32]

If workers displaced by the Ordinance look for work in the secondary market, it is obvious from a theoretical point of view what the general effects will be. With the number of workers competing for jobs in the secondary market going up, wages paid to workers (aside from those already at the statewide minimum) will go slightly down (very slightly, if, as here, the secondary market is far larger than the covered market). The lower wages cut two ways. First, they produce somewhat higher employment in the uncovered market (just as higher wages in the covered market produce less employment). This means that most of the displaced workers find other jobs, though sometimes these new hires displace existing workers. Second, the even slightly lower wages in the uncovered market could offset some of the gains to workers in the covered market and affect the overall income transfers to low-wage workers.

One possible twist to the account above is if some displaced workers choose to "wait" in the covered market for a job opening at the minimum wage. If these "wait-unemployment" effects are important then there will be less pressure downward on wages in the uncovered market but net displacement will be higher because some workers wait for the better paying jobs to open up rather than choose to become absorbed into the uncovered market. An important assumption of the wait-unemployment model, which is controversial, is that it assumes that a worker cannot look for a job in the covered market while working in the uncovered market. In any case, both the "pure spillover" account and the "wait unemployment" account predict less employment overall but have different predictions about what happens to the wage in the uncovered market.

Estimating the Unemployment Effect. How do these complexities translate into actual, concrete estimates of the unemployment effects of the Ordinance?

- Because the size of the wage and benefit increases mandated by the Ordinance is large, and pushes workers significantly up the income distribution, the conventional assumptions about displacement effects of a minimum wage apply here.

- There is enough variation in estimates about the elasticity of labor demand and labor supply to justify using several different estimates. By using a range of empirically derived estimates of these elasticities, we can produce as in Table 5.1, "high", "low" and "best" estimates of these effects. These elasticities are the best estimates of experts who have carefully reviewed the empirical

[32] Neither the Chicago nor the Riverside studies mentioned this effect, but there is a significant literature on secondary market effects in areas where part, but not all, of an occupation is unionized.

literature.[33]

- Because the Ordinance only covers a tiny fraction of the market, however, one must apply these same elasticities to the uncovered, "secondary" market, where most of the displaced workers are hired by uncovered firms.

- The response of the City to increased costs experienced by contractors is quite important in determining the overall unemployment effects.

- The cost of health insurance under the Ordinance (which we provided two estimates of in Section 2) is also important in determining unemployment effects; more workers will be displaced if the costs are higher.

Table 5.1 shows how these factors interact to produce particular unemployment effects under the Ordinance. We first show the unemployment effects if the City responds to these contracts the way a private business or consumer would respond to an increase in the cost of a particular service -- partly by paying more, and partly by buying less. Under this assumption, our best guess is that the Ordinance would displace 956 workers if the a $2,000 health insurance policy satisfies the Ordinance (see Section 2 for an exaplanation of this figure), and 1,316 workers if a ($4,000 health insurance policy is effectively required by the Ordinance). Of these workers initially displaced, about 275 workers would not regain employment in the uncovered sector under the modest health plan and about 375 workers would not regain employment under the more generous health plan. The reader should keep in mind two caveats. These numbers could be higher if some of the displaced workers choose to "wait" in the covered sector for a position to open up and will be lower if the city "pays" for the higher costs either by raising additional revenues or reducing the amount spent on other contracts that do not involve low wage workers.

A crucial assumption in the upper part of Table 5.1, which we now relax, is that the

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[33] Ehrenberg , in his widely used labor economics text, reports that the conditional elasticity of demand is probably in the range of -.15 to -.5 and that the unconditional elasticity of demand (which is the appropriate measure in this case) may be as high as -.75(See Ronald G. Ehrenberg and Robert S. Smith, *Modern Labor Economics* (New York: Harper Collins, 1991), chapter 4 at 115). We, therefore, use -.25 to -.75 as the range of possibilities and use -.50 -- the midpoint -- as our "best" estimate of the unconditional elasticity of demand. Studies of the elasticity of labor supply consistently find that the supply of labor is very inelastic. Prior to 1990, a conscensus estimate was probably .1 (See John Pencavel, "Labor Supply of Men: A Survey" in *Handbook of Labor Economics, Volume I* (New York: North Holland, 1986)). An influential 1991 study of the labor supply of low wage men found a labor supply elasticity of .30 (See Chinhui Juhn, Kevin M. Murphy and Robert H. Topel, "Why Has the Natural Rate of Unemployment Increased Over Time?", *Brookings Papers on Economic Activity*, 2:1991). The likely figure is somewhere between the old (.1) estimate and the Juhn et al estimate of .3. Therefore, we use an elasticity of supply of .20 throughout.

City's response to the increase in contracting costs is concentrated on the firms utilizing low wage labor. Such an assumption is reasonable for profit-maximizing entities but may not carry over to not-for-profit entities like municipal governments. Instead, the increase in costs may get spread over a greater range of City contracts, or the City might decide as a matter of policy to absorb most of the higher costs. In this case, the disemployment effects for low wage workers will be considerably smaller. In the bottom row of table 5.1, we assume that the increase in contracting costs are spread over the entire range of city contracts. In this case, the overall reduction in employment of low wage workers is considerably smaller, about 58 for the modest health plan and about 75 for the more generous health plan. The reader should keep in mind that although the spreading of contracting costs reduces the reduction in employment for low wage workers, the overall disemployment effects, taking into account the effects on higher paid workers, will be similar to what has been discussed above. In other words, unless revenues increase or transfer programs are reduced, workers either directly or indirectly employed by the City will lose their jobs in the approximate numbers specified in our first scenario.

Table 5.1
Predicted Employment Effects of Living Wage Ordinance

				Displaced Workers in the Covered Market		Net Reduction in Employment (Displaced Workers Not Absorbed Into the Uncovered Market)	
	Elasticity of Demand in the Covered Market	Elasticity of Demand in the Uncov'ed Market	Elasticity of Supply	Modest Health Plan	Generous Health Plan	Modest Health Plan	Generous Health Plan
Predicted Effects if the City's Response to Increase Contract Costs Focuses on Covered Firms							
Low	0.25	0.25	0.2	478	658	210	290
Best	0.5	0.5	0.2	956	1316	275	375
High	0.75	0.75	0.2	1,434	1974	301	414
Predicted Effects on Low Wage Workers if Costs Are Spread Across All City Contracts							
Best	0.1	0.5	0.2	192	263	58	75

Income Effects in the Secondary Market. Given the limited coverage of the Ordinance, the secondary market effect is quite powerful in offsetting direct unemployment effects. However, there is a negative side-effect: in order to absorb these additional workers, average wages in the secondary market must decline very slightly. We think it likely that this reduction will nontrivially offset the wage gain to covered workers. To see why, assume for illustration an elasticity of labor demand equal to one in the secondary market, so that a 1% increase in employment occurs if the wage decreases by 1%. With this assumption, the total wages paid in the uncovered low labor market must remain constant to absorb any additional workers and, therefore, average wages must decline slightly. This slight decline in average wages, under the assumption that the elasticity of labor demand equals one, would reduce the net transfer to low wage labor by an amount equal to the the payments made previously to displaced workers.

We used a two-sector model of labor markets, a variety of elasticity parameters and different assumptions about costs spreading to see if there were any clear patterns of the magnitude of this offset, and found that that there was not: the results varied from almost no offset to complete offset. Given the sensitivity of the outcome to the actual parameters, including the City's response to higher contracting costs, we think it is simply too speculative to estimate how large the offset will be. However, this analysis is a reminder that the amount of income transferred to low wage workers by the proposed ordinance depends importantly on how the City responds to an increase in contracting costs. If the City allows cost pass-throughs on affected contracts, then both the reduction in employment will be low and the transfers to low wage labor will be high. If, however, the City does not allow cost pass-throughs, then the employment reduction will be significantly higher and the transfer to low wage labor will be significantly lower.

Section Six: The Income and Poverty Effects of the Ordinance

Both the Chicago and the Riverside studies assumed, for purposes of their analysis, that all of the workers covered by the Living Wage proposals would be low-income workers. This assumption had the effect of increasing the "anti-poverty" impact of the proposals, but also produced a powerful side-effect: the loss of other government benefits. Both studies predicted that this side-effect would be large -- approximately 30 or 40 cents in lost benefits (including in-kind benefits like food stamps and Medicaid) for every dollar in higher wages. The Carlson study argued that, because of both benefit losses and tax increases, workers would only receive 15 cents for every dollar of mandated wage and benefit increases.

We believe these analyses are wrong in two important respects. If the statistical analysis described in this section is correct, most of the low-wage workers covered by the Ordinance are not living in poverty households, and the participation rate of these workers in social programs is less than complete. As a result, both the number of people in poverty affected by the Ordinance, and the loss of government benefits resulting from its higher mandated wages and benefits, are much lower than prior analysts have assumed.

We base these conclusions on the analysis of data from the Current Population Survey (CPS), an in-depth study of some 65,000 households undertaken by the Census Bureau on a continuous, rotating basis. The CPS uses in-person interviews to collect a wide range of data on individual wages, other sources of household incomes, taxes paid, and personal demographic characteristics. We secured data from the March 1996 CPS for the entire United States, and analyzed low-wage workers in the United States generally, and in Los Angeles County in particular. The principal reason for including national as well as local data is the relatively small sample sizes involved in purely local analyses. The number of Los Angeles workers in the 1996 CPS with hourly wages under $7.50 is only around two hundred. Tables 6.1 and 6.2 show this data for these two populations.

What these tables show is that a majority of low-wage workers are not the sole or even principal source income in their household or family. Of those low-wage workers who do not live alone, less than one-quarter are the only wage earner in their family. The average low-wage worker's earnings make up less than one-third of the family's total income. As a result, most low-wage workers do not live in families that are below the poverty line. In Los Angeles County this year, about 22% of the low-wage workers lived in poor families (e.g., less than $16,000 for a family of four); another 22% lived in near-poor families (e.g., between $16,000 and $24,000 for a family of four). The data does also suggests that this incidence of poverty is higher in Los Angeles than in the nation as a whole -- nationally, only 32% of the low-wage workers are part of poor or near-poor families. This is not surprising, because there is a higher-than-average concentration of low-wage jobs in Los Angeles, many of them filled by recent immigrants. In other words, fewer of the low-wage jobs in Los Angeles are taken by suburban teenagers; more are taken by inner-city heads of households.

Tables 6.3 and 6.4 show more precisely the family income distribution of low-wage workers in the United States and Los Angeles County. These tables break the family income distribution into ten equal deciles; families in the first decile have incomes that place them in the bottom ten percent of the total distribution; families in the tenth decile have incomes that place them in the top ten percent of all families. This data shows that, while low-wage workers are more heavily lumped near the bottom of the income distribution than other workers are, they are nonetheless spread across all income levels. Essentially, low-wage workers in high-income families are "secondary" workers in their families, whereas in low-income families they are the principal earner.

Table 6.1: Characteristics of Los Angeles Workers with Low-Wage Jobs, March 1996

	Characteristics of Los Angeles Workers		
	All Workers	Workers with Wages Below 7.50	Workers with Wages Below 9.50
Individual Characteristics			
Female (%)	47.7	50.1	48.4
Nonwhite (%)	25.0	22.5	22.8
Hispanic (%)	45.1	60.7	59.3
Aged 16-19 (%)	4.2	9.4	7.5
Aged 20-24 (%)	15.5	25.3	23.9
Less Than H.S. Education	24.4	40.8	36.9
Family Characteristics			
Living Alone (%)	25.6	23.5	24.0
[illegible]ily Wage Earner (%)	42.4	40.4	40.7
Family Income Last Year	$40,616	$27,316	$29,315
Family Received Welfare Last Year (%)	3.3	6.4	5.4
Family Received Food Stamps Last Year (%)	4.1	8.4	6.8
Family Poor (%)	10.2	21.6	18.7
Family Near Poor (%)	11.6	22.2	20.1
Labor Market Characteristics			
Employed in Retail Trade	21.2	31.4	29.5
Average Hourly Wage	$10.60	$4.99	$5.80
Average Weekly Hours	37.7	36.2	36.3
Average Weekly Earnings	$405.30	$178.90	$210.00
Share of Weekly Family Earnings	0.55	0.47	0.50
Average Earnings Last Year	$20,279	$8,528	$10,184
Share of Total Family Earnings Last Year	0.66	0.58	0.60

Table 6.2: Characteristics of U.S. Workers with Low-Wage Jobs, March 1996

	Characteristics of U.S. Workers		
	All Workers	Workers with Wages Below 7.50	Workers with Wages Below 9.50
Individual Characteristics			
Female (%)	52.5	66.5	59.6
Nonwhite (%)	17.5	19.7	19.3
Hispanic (%)	10.3	13.4	12.5
Aged 16-19 (%)	7.8	16.2	7.9
Aged 20-24 (%)	13.7	21.7	19.8
Less Than H.S. Education	15.5	25.7	22.2
Family Characteristics			
Living Alone (%)	20.0	20.2	20.3
.ly Wage Earner (%)	36.1	35.8	35.9
Family Income Last Year	$43,511	$33,325	$34,723
Family Received Welfare Last Year (%)	2.5	4.2	3.7
Family Received Food Stamps Last Year (%)	5.0	9.0	7.7
Family Poor (%)	8.0	16.5	13.2
Family Near Poor (%)	8.3	15.0	13.1
Labor Market Characteristics			
Employed in Retail Trade	22.8	36.4	32.1
Average Hourly Wage	$10.29	$5.10	$5.99
Average Weekly Hours	37.57	34.8	35.74
Average Weekly Earnings	$385.14	$174.03	$212.26
Share of Weekly Family Earnings	0.50	0.40	0.43
Average Earnings Last Year	$19,492	$8,554	$10,494
Share of Total Family Earnings Last Year	0.61	0.52	0.55

Table 6.3: Distribution of Low-Wage Workers Across the U.S. Family Income Distribution

	Status of U.S Workers By Family Income Decile			Percentage of U.S. Workers in Each Decile By Wage Rate	
	All Workers	Workers Making Below $7.50/hr.	Workers Making Below $9.50/hr.	Workers Making Below $7.50/hr.	Workers Making Below $9.50/hr.
Family Income Decile					
1	4.5	8.4	6.6	63	69
2	6.8	12.5	10.7	63	75
3	8.4	12.0	11.9	49	68
4	10.2	12.9	12.8	43	60
5	11.4	11.9	12.5	36	52
6	12.4	11.0	12.3	31	47
7	12.7	9.6	10.4	26	39
8	12.8	8.4	9.1	22	34
9	11.9	7.7	7.9	22	32
10	8.8	5.7	5.7	22	31

Table 6.4: Distribution of Low-Wage Workers Across the Los Angeles Family Income Distribution

	Status of Los Angeles Workers By Family Income Decile			Percentage of LA. Workers in Each Decile By Wage Rate	
	All Workers	Workers Making Below $7.50/hr.	Workers Making Below $9.50/hr.	Workers Making Below $7.50/hr.	Workers Making Below $9.50/hr.
Family Income Decile					
1	6.8	11.7	9.3	55	61
2	8.2	17.9	14.8	69	80
3	8.1	9.4	10.1	37	55
4	11.7	11.4	13.1	31	50
5	11.9	16.7	16.0	45	60
6	8.6	8.4	8.6	31	44
7	10.4	7.5	8.0	23	34
8	11.5	7.5	7.4	21	28
9	14.8	4.9	6.6	11	20
10	8.1	4.6	6.2	18	34

Since most low-wage workers are not poor, it is also the case that the government benefits lost by workers (and saved by other units of government) are much smaller than the other analyses suggest. This is an important result, since the net "drain" on the local economy caused by this loss of benefits was perhaps the most important criticism leveled by the Chicago study against the Living Wage proposal advanced there. In fact, our analysis of CPS data, which includes data on each surveyed workers' government benefits, suggests that the loss of benefits is still smaller. The Chicago and Riverside studies both assumed[34] that every worker currently in poverty received the full benefits to which he or she was legally entitled, and that benefits would fall according to the

[34]A.George Tolley, Peter Bernstein, and Michael Lesage, *Economic Analysis of Living Wage Ordinance* (RCF Economic and Financial Consulting, Inc.) 24 Jun. 1996, at 27-28; Robert Pollin, proj. dir., *Economic Analysis of the Los Angeles Living Wage Ordinance*, Oct. 1996, at 51-52. Our impression is that the Riverside study apparently did this to play devil's advocate, and didn't embrace this assumption as firmly as the Chicago study did.

schedules of each program (which generally have high marginal tax rates). This assumption is not true; even many of those workers whose families are eligible for social benefits do not participate in the programs. This may be particularly true in Southern California, since many of the low-wage workers here are Latino, and Latino participation rates in social welfare programs tend to be substantially lower than participation rates among Anglos and African-Americans.

To develop precise estimates of how wage increases would affect the receipt of welfare benefits and the payment of taxes, we again used 1996 CPS data. We measured the average benefit and tax amounts in the households of workers whose hourly wages fell in specific intervals: $4 to $6 per hour; $6 to $8 per hour, and so on. The results are shown in Table 6.5.

Table 6.5
Average Means-Tested Benefits Received and Taxes Paid By Low-Wage Workers
(California CPS, March 1996)

Benefit/Taxes	**Wage Interval**			
	$4.00 - $5.99	$6.00 - $7.99	$8.00 - $9.99	$10.00 - $11.99
EITC	$312	$258	$179	$84
Food Stamps	$183	$97	$59	$34
Medicaid	$426	$363	$271	$210
Energy	$5	$4	$2	$2
Educational	$389	$326	$251	$238
Housing	$7	$5	$2	$2
School Lunch	$110	$85	$68	$52
Federal Taxes	$1127	$1814	$2622	$3610
State Taxes	$157	$285	$440	$641
Total Average Benefits	$1,433	$1199	$832	$624
Total Average Taxes	$1,284	$2099	$2862	$3609

What do these data imply about the effect higher wages and benefits will have on the net income of low-wage workers? From the table, we can calculate the marginal loss in benefits and increase in taxes for each added dollar of income workers receive. For example, if an individual moves from the midpoint of the first wage category ($5 per hour) to the midpoint of the second wage category ($7 per hour), then, on average, that person's benefits will decline $234 (i.e., $1,433 - $1,199) and that person's taxes will increase by $815 (i.e., $2,099 - $1,284). Since the person's income is going up $2 per hour, or roughly $4,000 per year, our prototypical worker is losing about 6% of the increased income to benefit losses, and is losing about 21% of the increased income to higher taxes -- a total marginal loss of 27%. This would suggest that workers receiving wage increases under the Ordinance would, on average, lose about 27% of the increase to lower benefits and higher wages, and would keep 73%.

This oversimplifies the total picture, however, because much of the increased compensation received by workers under the Ordinance is in the form of benefits -- health insurance and time off -- which are not taxed or counted in determining eligibility for government benefits (except for Medicaid). For the typical worker covered by the Ordinance who is earning less than $7.50, the total compensation provided by the Ordinance comes to about $2,000 in higher wages and about $2,500 in benefits.[35] Since most of the increased compensation comes in the form of untaxed benefits, the net loss of higher compensation to other levels of government is only about 20%.[36]

If one also considers that more than half of the workers who are covered by the Ordinance do not receive any wage increase at all, but only increases in benefits (health insurance and time off), the net loss of mandated compensation under the Ordinance to other levels of government is still lower. If one takes our estimates of total compensation costs from Section 2, and applies the analysis we have outlined here, it follows that of the total $26.5 million in increased compensation expenditures by employers, about $3.8 million, or 13%, would go to reducing government benefits of workers and increased taxes.

The fact that a program contributes to workers receiving fewer government benefits and paying higher taxes is, of course, a good thing from the standpoint of national well-being. In a federal program, such indirect revenue effects are an important offsetting revenue benefit to contemplated economic or social welfare initiatives. The problem with a similar initiative launched at the local level is that an individual city can only recapture a fraction of the increased revenue and cost savings its efforts generate. The findings in this section are therefore quite important in assessing the overall effects of the Ordinance. Because a relatively small portion of the expenditures under the Ordinance are "lost" to other levels of government, the direct and indirect economic impact of these losses is also much smaller than earlier studies have suggested.

In summary, we find that the Ordinance would have only a modest impact on poverty among covered workers, chiefly because most of these workers are already above the poverty line. If one counts only the cash income received by workers, the Ordinance would reduce the poverty rate

[35] This assumes that the cost of health insurance mandated by the Ordinance will be $2,000 per worker, not $4,000; if the higher figure applies, of course, then the marginal "loss rate" on mandated wages and benefits is even lower.

[36] This assumes that the provision of health insurance by employers results in a loss of Medicaid to those persons who are currently receiving it.

among covered workers earning less than $7.50 per hour from around 20% to 5-10%,[37] thus raising several hundred workers above the poverty line. If one "imputes" the value of benefits to workers, the reduction in poverty is somewhat larger.

Targeting the anti-poverty effect. The incidence of poverty among low-wage workers varies substantially across occupations. The low-wage "suburban teenager" is likely to work in a fast-food chain; the low-wage child care worker is more likely to be the primary breadwinner for her family. Table 6.6 shows the poverty and "near-poverty" rate among workers in Los Angeles who have low wages and work in some of the principal occupations covered by the Ordinance.

Table 6.6
Los Angeles Poverty Rates by Occupation For Those
With Wages Less Than $7.50 Per Hour

Occupation	% Below Poverty Line ($16,000 for a family of four)	% Below 150% of the Poverty Line ($24,000 for a family of four)
Janitors	26%	49%
Landscaping Workers	28%	48%
Security Officers	20%	36%
Parking Attendants	26%	51%
Child Care Workers	38%	57%
Cashiers	19%	32%
Food Service Workers	18%	30%
Receptionist	18%	31%

Source: 1990 PUMS data, adjusted for inflation to 1996 dollars.

This data confirms that poverty rates do vary substantially among those covered by the Ordinance. It would be possible to increase the anti-poverty effects of the Ordinance (per dollar spent) by targeting coverage towards contracts employing workers with a higher incidence of poverty.

[37] Not all covered workers would rise above the poverty line because many of the workers are employed part-time and others are in large households with higher poverty thresholds.

Section Seven: Paying The Costs of the Ordinance

Previous studies have sharply divided on the question of who would end up paying the higher labor costs mandated by the Ordinance. The Chicago study, relying on microeconomic theory, found that the City of Chicago would end up absorbing the full cost of the higher wages paid by service contractors.[38] The Riverside study argued that very little of the higher wages in the Los Angeles Ordinance would be passed on to the City,[39] for two reasons: (a) the more highly-paid workers would be more efficient, thus offsetting some of the cost of their higher wages; and (b) for most of the firms covered by the Ordinance, the City contract represents a small part of their total operations and the added costs could thus be easily absorbed. The Riverside study therefore recommended allowing cost pass-throughs only for firms for which the City contract represented a large proportion of the firm's total revenues,[40] amounting to a total pass-through equal to about one-fifth of the wage and benefit increases.

In the only direct empirical research generated on this question, the Baltimore study examined the contracting costs of many of the covered firms in Baltimore the year after that city's Living Wage Ordinance was adopted.[41] The Baltimore authors found no net increase in contracting costs.

We have not conducted any new empirical research on this issue, but have instead reviewed these studies and other economic research to assess what is likely to happen. We cannot claim any startling insights on this question, but we can suggest some tentative conclusions, which can be perhaps best conveyed by commenting on the three analyses we just summarized.

The Chicago study has its microeconomic theory right. In theory, firms that are contracting with the City do so only because they can earn a market-rate profit on the contract. If costs go up, then firms will be, at the margin, indifferent between passing the costs on to the City or abandoning the contract. Of course, firms that are earning higher-than-average profits on their contracts or that have sunk costs linked to the contracts will have an incentive to keep the contracts despite the higher costs; but these firms will still try hard to pass the costs through to the City, and if they were successful in the past in capturing above-market profits, there is no *a priori* reason to think they won't be successful again. Thus, economic theory predicts that there will be some immediate pass-through in costs, and, over the long-term, a nearly complete pass-through to the City.

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[38] Tolley et al at 22.

[39] Pollin et al at 35.

[40] More exactly, firms for whom the City contract represented more than 10% of the firm's total business, with the percentage pass-through increasing with the "share of business" percentage.

[41] Mark Weisbrot and Michelle Sforza-Roderick, *Baltimore's Living Wage Law* (The Preamble Center for Public Policy, Wash., D.C.), Oct. 1996, at 7-10.

One of the Riverside responses to this theory -- the idea that firms will simply absorb the higher costs if the City contract and/or the higher costs are a small part of their total operation -- seems to us wrong. If a city contract is a small part of a firm's business, the firm is not going to transfer productivity savings from other parts of its business to subsidize the city contract. Big firms analyze the profitability of each segment of their operations and jettison those that are unprofitable. If anything, firms that derive a large portion of their revenue from a city contract are more likely to try to find ways to avoid a pass-through of costs, since more of their overhead and sunk costs are likely to be dependent on retaining that contract. But of course, even these firms will need to find some way, over the long term, of offsetting those costs: through an eventual rise in the contract amount, by lowering the quality of performance, or by increased efficiencies.

This brings us to the second Riverside argument, that high labor costs will bring greater efficiency.[42] We think this is undoubtedly true, at least to some extent, as discussed in Section 3; higher pay is likely to lead to more productive workers. The critical question is how large this effect will be. Unfortunately, very little is known about this issue. There has been much interest by labor economists in "efficiency wage" theory -- the notion that higher wages lead to greater effort by workers and higher productivity -- but no empirical research showing that firms that could benefit from higher wages are not, in fact, paying such wages. The lack of research is partly due to the rarity of scenarios in which a large exogenous wage increase is suddenly given to a large group of workers. One can at least say, then, that the Ordinance would provide an excellent opportunity to test the efficiency wage theory.

However, few proponents of efficiency wage theory believe that it will offset all of the costs of higher wages.[43] How, then, can one account for the Baltimore study results, which found no change in the City's contract costs during the first year of the living wage's operation? We think that the Baltimore study is an example of the kind of primary research that should be used to determine the effects of policies like living wage ordinances, and we think their findings are sufficiently intriguing for pause. Still, we do not think they are sufficiently strong to rebut a presumption that employment will decline and city contracting costs will increase because of the ordinance. In several respects, as the authors acknowledge, their data is incomplete (mostly, it seems, because of unavailability of much data at the time of their study). They had no information on how many workers actually received higher wages as a result of the ordinance (though they said the number was "fairly small"), and thus had no estimate on the total cost increase that needed to be absorbed.[44] Some of the contracts declined sharply in price, suggesting that there may have been changes in the composition of services provided by the contract. And 80% of the total contract value covered by the study was accounted for by a single contract (for school bus services). Finally, the study looked at contracting cost only a year after enactment of the ordinance; the employment

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[42] Pollin et al at 37, 38.

[43] Assuming that the costs could be fully offset this way would suggest, among other things, that employers generally set wages at irrationally low levels.

[44] This, of course, is essential to determine what "cost increase" pressure was potentially created in given contracts by the new law.

effects are likely to take longer than that to be fully felt.

The most puzzling aspect of the Baltimore study, however, is the authors' finding that employment did not decline among any of the contractors as a result of the Living Wage law.[45] If contracting costs are contained because of increased efficiencies among workers,[46] then the cost savings imply employment losses -- fewer, more highly-paid workers doing the same work done by more, lower-paid workers before. (Such a tradeoff, of course, increases the secondary market effects we discussed in Section 5.) But if there are no employment losses, where are the cost savings realized? The only remaining possibility is that contractor profits are lower.

We noted above that economic theory would predict some decline in contractor profits in the short term. However, the size of the Baltimore effect suggests that something else could be going on. One possibility is that contracting inefficiencies by the government are large enough -- and the average amount of above-market profits are great enough -- so that there is "room" in contractor profits to absorb the extra costs of the proposal. This change, in the direction of increased efficiency in the contracting process, could occur if two conditions are met: (a) existing contract procedures do not do a good job of minimizing contract costs; and (b) some change occurs in the contracting process at the same time the "living wage" provisions go into effect so that contracting becomes more efficient. We have no knowledge that either of these conditions were met in the Baltimore case.

Could contracting efficiencies be achieved in Los Angeles? We have no concrete evidence that they can be. The City is currently engaged in efforts to streamline its methods of procuring goods -- an analogous activity -- and the premise of this effort is that significant economies can be realized through this process. It seems possible that similar economies could be realized in the service contracting process. An analysis of this issue was beyond the scope of the study, but it seems well worth examing regardless of whether the Ordinance is adopted.[47]

We conclude, then, that the service contractors covered by the Ordinance might absorb some of its cost in the short-term, but will not do so in the long-term unless (a) the current contracting process is inefficient enough to permit contractors excessive profits and (b) the contracting process is reformed when the Ordinance is adopted. It is certainly worth finding out if these conditions can be met, but the City should not count on them. It is more likely that the City will face the burden of meeting the costs created by the Ordinance. It can do so in three ways: by finding increased revenues; by spreading the costs across all service contracts (that is, slightly reducing services across

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[45] As noted earlier, this might simply be a misleading result, because of the lack of controls on covered workers or the timing of the study. In the discussion that follows, we take the finding at face value and explore its possible implications.

[46] The Baltimore authors join the Riverside authors in believing this will happen, and the Baltimore study quotes a contractor who observes this effect in his own firm (though this contractor had unilaterally raised wages before the Living Wage ordinance went into effect).

[47] We were struck in doing our research by the decentralized nature of service contracting. There is, for example, no central place where data on all contracts is gathered.

the board) or substantially reducing services in the covered contracts.

All of this discussion has focused on service contractors. Most of what we have said applies to concessionaires as well, but with an important added complication: higher costs facing concessionaires could be partially passed to consumers. It is reasonable to think that in these contexts, consumers will bear a substantial fraction of the cost, some concessionaires will close because consumers will not bear the costs, and the City will absorb some of the cost in lower leases and permit fees.

Section Eight: Multiplier and Community Effects

We have already discussed how the Ordinance could have indirect effects on the general Los Angeles labor market. An important, and still broader question, concerns the extent to which the Ordinance, in providing higher wages and benefits to covered workers, may produce overall increases or decreases in economic activity in Los Angeles, and the degree to which these changes might be concentrated in particular neighborhoods. These effects are generally referred to by economists as regional or neighborhood "multiplier" effects.

It is worth initially noting that any multiplier effect from the Ordinance will be, as a practical matter, too small to be picked up by even the most sensitive economic seismograph. As documented earlier, the total reach of the Ordinance appears to affect fewer workers than the Riverside study estimated. Moreover, since the Ordinance essentially creates a transfer program, with the City and local businesses paying more funds to local workers, most of the money paid to local workers comes from local sources -- a sort of "zero-sum" process that tends to negate any net economic stimulus or drag on the economy. There are, indeed, significant transfers among workers themselves, as our discussion of unemployment and secondary market effects in Section Five suggests.

The principal way that the Ordinance could help or hurt the general regional economy is if it affects the flow of resources to and from the region. The main way this could happen is through changes in the volume of benefits received or taxes paid to the state or federal government. As we discussed in Section Seven, the Ordinance as currently structured would cause produce, among workers receiving higher compensation, a total loss of state and federal benefits and an increase in state and federal taxes in the neighborhood of $4 million. This outflow might suggest that the net effect of the Ordinance on the economy is slightly negative. However, this outflow may be offset in two ways. If some of the cost of the Ordinance is borne by businesses, rather than the City government, the higher expenses they incur will reduce company profits and, thus, corporate or sole proprietorship taxes. Similarly, if some of the businesses are partly owned by out-of-state parties, the business-borne costs would reduce the flow of profits to those individuals. Measuring either of these effects would be highly speculative, and we decline the temptation to make a guess. It is certainly conceivable, however, that these reductions in outflows from the region (lower business taxes paid and lower profits to out-of-state parties) could approximate, overall, the $4 million loss noted above. In all likelihood, these factors significantly offset one another.

Our conclusion, then, is that the Ordinance is unlikely to have either a significant positive or significant negative effect on the economy of either Los Angeles or the broader metropolitan region. Any net effects would be too small to take very seriously as a reason to support or oppose the Ordinance.

The "Community" Effect. Can we expect that any positive or negative "multiplier" effects from the Ordinance would be concentrated in particular Los Angeles neighborhoods? Overall, we think that any such effects will be extremely small. We have three reasons for reaching this conclusion:

1) The net income transfers to low-wage workers under the Ordinance are quite modest. As we have noted elsewhere, most of the higher compensation going to workers is in the form of benefits, not wages (about $11 million is in the form of wages). A fifth of the wages is lost in lower benefits and higher taxes. Some low-wage workers are displaced, and although most find other jobs, the effect of increased competition in the low-wage secondary market probably slightly depresses wages. After these effects are taken into account, the net money income transfer to low-wage workers as a class is probably less than $5 million.

2) Low-wage workers are not heavily concentrated in low-income neighborhoods of Los Angeles. This seems very counterintuitive until one recalls our earlier finding that only one-sixth of workers with wages below $7.50 per hour are from families below the poverty line. Since these workers are not heavily concentrated at the bottom of the family income distribution, we should not expect them to be heavily concentrated in low-income communities. (Unemployment and joblessness, in contrast, ***are*** heavily concentrated in low-income communities.)

Tables 8.1 and 8.2 show the distribution of low-wage workers across Los Angeles neighborhoods, broken into five quintiles based on mean family income. We developed this table from the 1990 Census' Public Use Microdata Sample, which has detailed data on worker earnings and is available for moderate-sized geographic areas (Los Angeles County is divided into 56 such areas). This data is far from perfect, since it is six years old, the areas (called Public Use Microdata Areas, or PUMAs) are larger than neighborhoods and often internally diverse, and since one must impute hourly wages from the earnings data.[48] Nonetheless, it is probably the best available measure of how low-wage workers are distributed across the Los Angeles metropolitan area. The first PUMA quintile roughly represents the poorest fifth of neighborhoods in Los Angeles County -- areas where the average wage of workers is less than $10 per hour. However, this "fifth" of the county is home to only 26% of the Los Angeles workers earning less than $7.50 per hour. Nineteen percent of these workers live in the most affluent quintile. In other words, the beneficiaries of the Ordinance are not heavily concentrated in low-income parts of the City.

3) Just as the multiplier effect in a metropolitan area is smaller than it is in a large nation,

[48] We did this by dividing total wage and salary earnings for individual workers by their total "weeks worked" the year before multiplied by "usual hours worked per week". This produces a rough hourly wage.

the multiplier effect is smaller yet in a neighborhood. Most of what an individual buys does not translate into wage gains for the consumer's neighbors. This is obviously true for housing expenditures; the vast majority of housing expenses go to owners and financial institutions outside the community. Even grocery purchases at a local store have a limited economic impact on the immediate community, since most of each dollar spent at the store pays for the products the grocer buys from producers outside the community; only the fraction of the dollar that goes to employee wages is likely to come back to the community.[49]

Each of these three considerations should make us skeptical of the potential of the Ordinance to disproportionately benefit particular communities.

[49] This is not intended as a crtique of the general theory of local economic multipliers. Such multipliers clearly can exist at the level of "neighborhood reinvestment" -- where, for example, a new commercial development spurs other commercial development. Our point is that increases in the income of an individual resident has only a very small additional effect on the aggregated income of the resident's community.

Table 8.1
Distribution of Workers Earning Less Than $7.50 Per Hour
Across Los Angeles Neighborhoods, 1990

PUMA Quintile	Mean Hourly Wage and Salary Earnings	Pecentage of Workers In Affected Sectors Whose Mean Hourly Earnings Are Less Than $7.50	Percentage of Covered Workers in Each Region	Number of Workers Affected By Possible Increase (per 1,000 Workers)
1	$9.95	32%	26%	2.14
2	$10.94	26%	19%	1.79
3	$12.50	24%	18%	1.53
4	$13.86	22%	18%	1.48
5	$17.10	18%	19%	1.19

Table 8.2
Geographic Distribution of Workers Earning $7.50 - $9.50

PUMA Quintile	Mean Hourly Wage and Salary Earnings	Pecentage of Workers In Affected Sectors Whose Mean Hourly Earnings Are Less Than $9.50 (but More than $7.50)	Percentage of Covered Workers in Each Region	Number of workers Affected By Possible Increase (per 1,000 Workers)
1	$9.95	7%	18%	1.48
2	$10.94	8%	18%	1.70
3	$12.50	8%	21%	1.78
4	$13.87	8%	20%	1.65
5	$17.10	7%	23%	1.44

Source: 1990 Public Use Microdata Sample

Section Nine: The Effect of the Proposed Ordinance on the Los Angeles "Business Climate"

Perhaps the single greatest concern expressed by organizations that have spoken out against the Proposed Ordinance is its putative effect on the regional business climate. This really breaks into two distinct types of arguments. The first argument is that businesses will incur greater costs because of the ordinance, and will therefore reduce their investment and economic activity in Los Angeles. The second argument is that business investment will be deterred, not by the direct effects of the ordinance but instead by the "signal" the ordinance will send that Los Angeles is hostile to business, and that other, more onerous measures will follow in the future. These are two very different arguments, and we will address them separately.

Direct Incentive Effects of the Proposed Ordinance. Under what conditions would a contractor with the City of Los Angeles, who was faced with the requirements of the Proposed Ordinance, decide to reduce its business operations in Los Angeles? Very few, we think. As we noted in Section 7, the increased labor bill resulting from the proposal will be absorbed in several different ways: somewhat higher productivity among workers, some reduction in workforces, absorption of costs by contractors in situations where the contractor has been collecting economic rents, and, over the long term, the pass-through of the residual costs to the City. All contractors, we think, will continue to receive at least a market-rate profit on their city contracts since, if they do not, they will rationally choose not to do the contract and the City will contract with someone else (perhaps at a higher rate). The only way a "reduction" in economic activity can occur is if cost pass-throughs to the City run up against budget constraints, and lead the City to conclude that some particular service cannot be provided.[50] It is highly unlikely that such scenarios will produce a net decrease in City spending, however, since other alternatives will be found. So while it is likely that the Proposed Ordinance would cause some changes in the composition of city contractors, it does not seem at all plausible that the total amount of city spending on contracts, or the economic activity of contractors, will decline. Nor is there any reason to fear a net migration of contracting firms out of the City, since nothing in the Ordinance provides direct incentives or disincentives to operate in a Los Angeles suburb rather than in the City itself.

Much the same story applies to licensees and lessees of the City, such as airport concessionaires. As we have discussed, it seems even more likely that in these cases, costs that are created by the Ordinance would be passed on -- partly to consumers in the form of higher service prices, partly to some laid off workers, partly to businesses capturing economic rents, and partly to the City in the form of lower lease payments. The net effect on total economic activity at these sites is unlikely to decline measurably.

The situation is different with economic subsidy recipients, however. The point of economic subsidies is to encourage new investment and job formation in the City. The theory behind these

[50] Here we are talking about "direct" reductions in economic activity from the Ordinance. Given the secondary effects we have discussed elsewhere, there could be a net overall reduction in economic activity in the local economy, though it would be fairly small -- even relative to the program.

subsidies is that if investors are trying to decide whether to locate in central Los Angeles or in, say, Carson (or is trying to decide whether to start up a firm at all), the economic subsidy provided through a city program can tip the balance towards creating a business in the City. The added cost of higher wages can tip the balance the other way, especially since, unlike contractors, economic subsidy recipients will ordinarily not have the same ability to pass costs along to the City. In an effective subsidy program, the City's assistance is not intended, of course, to "pay" for the long-term employment of workers to do particular tasks. An efficient subsidy leverages a relatively large private investment by filling some temporary gap in the businesses' ability to turn a profit at a particular location or with particular workers, and enables the businesses to become self-sustaining over a short period of time. A permanent increase in costs tied to an economic subsidy can substantially change the cost equation for the prospective business investment. Moreover, many of these subsidies are not structured in a way that makes it easy to simply expand the subsidy to cover the added worker compensation.

As we saw in Section 2, the point of some of the economic subsidy programs, such as the Community Development Bank, is to increase economic activity in very poor sections of Los Angeles. The labor market that these new businesses are intended to recruit from are people with short work histories and long bouts of unemployment. Workers recruited from this labor market are often receiving useful training from employers, both in specific job skills and more general "employment" skills. Because it can be somewhat more costly for firms to employ these workers, paying wages below the $7.50 threshold is a method of having the workers bear some of their training cost.

All of this suggests that application of the Ordinance to economic subsidy programs risks more serious, inadvertent harms than is the case with coverage of service contractors or concessionaires. We view it as a good thing that the Ordinance does not appear to currently cover any economic assistance recipients (though a few may be covered that we missed). The coverage that is written into the Ordinance -- covering recipients of very large subsidies -- is not tailored to avoid the problems we have described, so that if a firm does at some point fall under the Ordinance's coverage, the Ordinance could have negative and inadvertent effects on the subsidy program's goals. We conclude that the Ordinance should either have a blanket exemption for economic subsidy recipients, or should be revised to capture situations where the subsidy program's goals are consistent with the operation of the Ordinance.

Indirect, "Climate" Effects of the Proposed Ordinance. Would the Ordinance have a general chilling effect on the Los Angeles business climate, discouraging firms from migrating to Southern California and encouraging existing firms to consider expanding or relocating elsewhere? We are quite skeptical about such an effect. For one thing, the scale of the proposal is tiny in comparison to the Los Angeles economy -- some $30 million in a county-wide economy of some $200,000 millions. For another, the indirect effects of the proposal on the Southern California wage market, to the extent that it has any effect on employment not covered by the proposal, is in the direction of reducing rather than raising labor costs. The multiplier effects we have analyzed are also negligible.

Most importantly, the Proposed Ordinance does not place meaningful burdens on businesses. Coverage is entirely voluntary, in the sense that businesses that choose not to contract with the City (and the vast majority of businesses in Southern California do not) are not affected by its provisions. Businesses that do contract with the City choose to do so only after negotiation, and, as noted above, will only enter into those contracts if they can make a normal profit on the transaction.

It seems to us that regulations of city contracting procedures are going to be perceived by the business community very differently than regulations of the private sector in general. The Ordinance does not create generalized costs to "doing business" in Los Angeles. Consequently, negative effects from the proposal can only stem from perceptions that it is only the "entering wedge" of broader interference in the private market, or that it signifies a revitalized and aggressive labor movement in Los Angeles. For example, if businesses believed that the Ordinance was the first part of a campaign to adopt a city-wide minimum wage affecting all private firms, that might affect the business climate.[51]

Even here, however, we would register two caveats. First, there are certainly affirmative things the City can do to affect how the Ordinance, if adopted, is perceived by business, such as emphasizing its limited reach and its effect in improving the quality of some City services. Second, the empirical research on this question suggests that business climate effects are very modest, if they exist at all. The best research we have found is a Michigan study that interviewed several hundred business executives, and gathered information on hundreds of business location decisions, to determine how attitudes about business climate are formed, and how these attitudes relate to actual locational decisions.[52] The study found no statistically probative relationship between the climate views and locational decisions.

We are therefore skeptical of claims that the Ordinance would have significantly negative effects on the general Los Angeles business climate.

Section Ten: Administrative issues

The primary determinants of the shape and cost of any program administration strategy flow from the answers to three policy questions, which in the present case are: (a) How seriously is the Ordinance to be implemented and enforced? (b) Will enforcement rely on harsh penalties or broad monitoring? (c) Will administrative burdens be primarily borne by the City or by employers? We will discuss each of these briefly.

A great many social programs and policies are enacted without any serious implementation mechanism. Depending on the context, these initiatives may serve as a useful statement of public aspirations, or they may foster cynicism among the parties that are, in theory, regulated. A general mandate to City Departments to follow the provisions of the Ordinance, without any other

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[51] A City-wide minimum wage would, of course, be quite different from the Ordinance and would probably impose serious costs on the local economy.

[52] Schmitt, Gleason, Pigozzi and Marcus, "Business Climate Attitudes and Company Relocation Decisions," 72 *Journal of Applied Psychology* 622 (1987).

administrative mechanism, would probably lead to the following practice: most Departments would require contractors and other covered parties to sign a certification that they are in compliance with the Ordinance. The affected businesses would soon learn that this was simply a formality, and most would pay no further attention to the Ordinance's requirements if the cost of compliance was significant.

Our assumption in the rest of this section, and indeed in the report as a whole, is that both proponents and opponents of the Ordinance are more interested in understanding the benefits and cost of the Ordinance -- including administrative costs -- on the premise that it would be seriously enforced.

Serious enforcement can still be relatively inexpensive, if there is some systematic oversight and if the penalties for violation are severe. A well-established principle in the study of compliance with the law is the tradeoff between the probability of detection and the severity of punishment: the lower one is, the higher the other must be to maintain a constant level of compliance. In the case of the Ordinance, one can imagine a gradation of possible City responses to noncompliance by covered parties: a request that the party comply; suspension of the contract or assistance until compliance occurs; termination of the contract and ineligibility of the offending party to do further business with the City under the program; or termination plus some civil penalty.

There is also a gradation of mechanisms for detecting noncompliance: requiring covered employers to give their employees (and post at the workplace) notices on their rights under the Ordinance and creation of a "hotline" for employees to notify the City of violations; random audits of covered employers at varying levels of frequency; requests for systematic documentation from employers, including federal payroll records; random interviews with covered employees; or annual audits of each covered employer.

The least expensive administrative method for the City would combine a low-intensity detection method with a high penalty for noncompliance. This approach is economically efficient, but it can also be unfair, since a few noncomplying parties get hit with severe penalties while other violators escape any punishment. More comprehensive monitoring methods can increase costs for both the City and for employers.

An important problem particular to enforcement of this Ordinance is the difficulty of monitoring hours of work. The paper records of employers could be quite deceptive about hourly compensation rates if the actual hours worked by covered employees are understated by, say, 20%. Many public contracts curently require contractors to keep "time sheets" of hours spent on the funded activity, and falsification of timesheets -- probably more often for reasons of administrative convenience than fraud -- is widely reputed to be endemic. Methods of compliance that rely on information from employees about their actual hourly rate and benefits, rather than just paper records, are probably be more reliable.

How can employer costs of compliance be minimized under the Ordinance? One strategy is to tie actual reporting requirements under the Ordinance as closely as possible to existing reporting requirements, such as the periodic listing of employees and individual employee compensation required of all significant employers by the State of California. If the format and timing of City reports is linked to other reports of this type, it will make reporting easier and will probably tend to increase its accuracy. For employers that currently provide no health insurance to employees, the City could also help to gather systematic information on group health plans that satisfy the Ordinance requirements and provide that data to employers.

It is also worth noting that the great majority of employers covered by the Ordinance are concentrated among a relative handful of firms. We recommend in our conclusion that the Ordinance actually be modified to focus on firms that, among other critiaria, have the largest number of low-wage employees; but even if such changes are not made in the Ordinance, it would make sense, from the standpoint of minimizing both City enforcement costs and private compliance costs, to have much simpler reporting requirements for firms that have a relatively small number or percentage of workers covered by the wage and health insurance requirements of the Ordinance.

Given the various considerations we have discussed, the best administrative mechanism, in our opinion, would have the following characteristics: (a) efforts to make covered employees aware of the requirements of the Ordinance, and a mechanism to gather information from employees on employer compliance; (b) serious but not disproportionate penalties for noncompliance; (c) some type of random auditing program; (d) a two-tiered reporting structure (depending on the number of a firm's employees covered by the Ordinance), with lower reporting requirements for firms with few covered employees, and forms tied into existing state forms and time-lines, to minimize employer burdens and paperwork.

We believe that a program of this type should not be very expensive for either the City or for employers. The Chicago study quoted an estimate that the cost of administering a Living Wage proposal in that city would be $4 million annually. The Riverside study, extrapolating from administrative experience in San Jose's prevailing wage ordinance, estimated that the administrative cost would be approximately $600,000 for the City of Los Angeles. We have tried to "price out" the administrative mechanism described above, and we come up with City costs similar to, or lower than, the Riverside estimate (depending mostly on whether compliance focuses mostly on the firms with many covered employees). We believe that a capable administrative unit with a budget of $600,000 and the design features described here would be able to achieve a high level of compliance with the Ordinance. It is much more difficult to estimate the administrative costs for private employers, since the composition of employers and the ways they are affected by the Ordinance vary so greatly. Moreover, it is virtually impossible to verify how great these costs are if the Ordinance is enacted, since they are scattered across hundreds of businesses. Nonetheless, we believe that if our suggestions above are followed, the administrative cost for any one form would be quite low.

Section Eleven: Alternatives

In the debate over the Living Wage concept, an important option that has been overlooked is the federal Earned Income Tax Credit (EITC). The EITC was begun in the late 1970s and was greatly expanded by the Clinton Administration in 1993. The EITC works as a sort of "negative income tax" for low-income families with job earnings. A worker who is the sole support for her family, has two children and worked full-time in 1996 at an hourly wage of $5.75 (the statewide minimum wage that will be in effect in a year) would be eligible for an EITC of roughly $3,500 -- enough, in other words, to make her effective wage $7.50 per hour. There is thus a mechanism already in place to achieve one of the Ordinance's central goals.

The problem is that a majority of the Los Angeles residents who are eligible for the EITC do not know about it or do not use it. Even those who use it tend to receive the EITC in a lump sum when they file a tax return, even though the program now makes it relatively easy for employers to pass the benefit on to workers in the form of regular "wage subsidy" payments. We estimate that the total value of unused EITC benefits in the City is $100 million per year.

From the City's standpoint, the enormous advantage of an EITC over a Living Wage is that the EITC brings more outside funds into the metropolitan area, while a Living Wage tends to reduce the inflow of outside benefits and increases the outflow of taxes. Moreover, from a policy standpoint, the EITC is perfectly targeted at the neediest population: all of its benefits go to low-income families, and none of the EITC income is taken into account in determining the recipient's eligibility for other means-tested benefits.

If the City takes steps to increase the use of the EITC by City service contractors, it can help achieve some of the other goals of the Ordinance. For example, if City contractors offer year-round wage supplements from the EITC to their qualified low-wage workers, they will presumably secure lower turnover from their workers and some of the other productivity benefits that the Ordinance seeks to achieve.

The EITC cannot achieve all of the goals of the Ordinance, such as the provision of health insurance to contract workers, or the establishment of "model employer" criteria. Moreover, many of the weaknesses of the Ordinance can be greatly migitaged by carefully targeting its provisions. The most significant quality issues that have arisen in service contracts are concentrated in particular areas (e.g., custodial and security contracts). Some types of contracts (e.g., for child care workers) hire low-wage workers with much higher concentrations of poverty than the average level. Low-wage workers are also concentrated in a relatively small number of contracts; if the Ordinance applied only to these high-concentration areas, administrative costs would be far lower.

We therefore set forth, in the "Summary and Recommendations" portion of this report, a specific proposal that lays out a path by which many of the goals of the Ordinance can be achieved at much lower cost. It is by no means certain that the scaled-down "Living Wage" proposal we outline can succeed in all of these goals; we have, for instance, little hard information on the productivity problems or the exact effects of higher wages. But we think there is a good chance that the proposal would achieve its goals of increasing the quality of City services and transfering income to a substantial number of poor or near-poor workers. In this form, we think that any possible negative side effects of the Ordinance are virtually eliminated. The EITC proposal, for its part, is the sort of common-sense idea that has virtually no downside. With both proposals, we strongly recommend an evaluation mechanism for assessing whether the demonstrable benefits of the programs justify their costs over time.

Section Twelve: Conclusions

On the whole, we are surprised that we were able to answer as many questions about the Living Wage Ordinance as we did. Put as broadly as possible, our findings are these: The Ordinance's benefits and wages mandates would mostly affect a few hundred service contractors and concessionaires and around seven thousand employees. The total cost of the mandate would be around $30-40 million; two-thirds of the cost would go to benefits rather than higher wages. There would be some indirect effects on higher-paid workers and the general economy, but both of these would be surprisingly small. A non-trivial number of covered workers would lose their jobs when the Ordinance's mandated wage and benefit increases went into effect, but most of these workers would find new jobs in what we have called the "secondary market." The City would probably end up paying most of the cost of the increase -- and should do so, if it wishes to minimize the displacement of workers. The Ordinance would have a positive effect on worker productivity and the quality of services provided to the City, but a more targeted Ordinance could gain most of those benefits at much less cost. The Ordinance would have a very modest effect on poverty among the affected workers; this too, could be made more cost-effective with better targeting. The Ordinance will not be a great boon to Los Angeles' low-income communities; neither is it likely to chill Los Angeles' business climate.

How these findings translate into support or opposition to the Ordinance in its current form, of course, depends on one's values and goals, and how one estimates the seriousness of the problems the Ordinance seeks to address. One might think that the tilt of the Ordinance's cost towards higher benefits is desirable, if one sees the absence of health insurance among low-wage workers as a critical problem. One might believe that the symbolic and service quality effects of the Ordinance easily justify its cost. Or one might conclude that the program is weak as an anti-poverty initiative and that the money could be used more effectively elsewhere.

Our intent is not to answer these difficult questions, but to provide a sufficiently detailed framework so that one can roughly determine how well the Ordinance, as drafted, meets various goals, and what is likely to happen if it is enacted. Our own recommendations follow from our interpretation of the Ordinance's goals. We believe that if the central purposes are seeking higher productivity, having the City set a positive example, and reducing poverty among the City's "shadow" workforce, then the program outlined in our summary would meet the goals more cost-effectively.

Appendix A
Notes on the Study Methodology for Surveying Firms

Given the potentially broad scope of the ordinance, it is essential to understand how many workers will be potentially affected under the various interpretative variations. The ideal methodology for estimating the number of workers affected is to survey the universe of contracts. Given the short time under which the present study was produced, a complete canvass of the universe was not feasible. A methodologically sound alternative would be to draw and survey a random sample from the universe of city contracts and leases. An important property of a random sample, and the property that makes it methodologically sound, is that all contracts in the universe have an equal probability of being chosen for the sample. Though scientifically valid, this property makes a true random sample an arguably inefficient data gathering procedure in cases where it is known beforehand that certain types of observations (i.e.contracts) are more likely to contain covered workers. To increase the reliability of the estimates in situations where one has strong beliefs that certain types of observations are more likely to contain relevant information, a strong case can be made for stratified sampling. Under a procedure of stratified sampling, the universe is first stratified according to the likelihood of containing relevant information and then the strata more likely to contain relevant information is more heavily sampled. In the context of this study, a method of stratified sampling would call for contracts and leases known to contain low wage labor to be more intensely sampled.

The procedures that we use for estimating the number of workers affected and overall costs uses a combination of stratified and random sampling. To obtain estimates for low wage workers working directly on city contracts we primarily used data obtained from the City for firms known to employ low wage labor. We supplemented the City-provided data with a random sample 650 contractors. Of the 650 firms in the random sample, fifty were also included in the City survey, and we did not resurvey them. Of the remaining 600, we successfully collected information from over 260 service contractors. Taking into account the information we collected from our random sample and the information we already had on firms in our random sample from the City Survey, we had data on 310 contractors of the original 650 firms in the random sample -- a response rate a little short of 50%, which is high for surveys that require a written response.

For most low wage sectors, we had data from the City on most of the universe for that sector. In a few cases where we did not have the complete universe of contracts, we adjusted our sectoral estimate up by a conversion factor that reflected what was included in the universe but not in the sample. In most cases, this conversion was based on the dollar value of contracts. In a small number of cases (for concessionaires), the relevant contract value data was not available and, we used the number of firms in the universe relative to the the number in the sample to compute a conversion factor. To estimate the number of administrative support staff, social service workers and child care workers, we used the results of our random sample and the appropriate conversion factor. We used similar methods to estimate the number of affected workers and costs for lessees and concessionaires.

One obstacle that had to be overcome with the City-provided data is that it was not gathered in a way that always provided direct information on the number of workers in the relevant ranges and the average wages for workers in that range (i.e. relevant ranges being "workers making less $7.50" and "workers making between $7.50 and $15.00"). Instead, the City gathered information on all workers making less than $15.00. Over 1/2 of the observations fell within the relevant ranges and required no adjustment and most of the cases involved workers making between $4.75 and $9.50. For the observations where the workers surveyed overlapped the ranges, we used an algorithm that estimated the number of workers in each range using information from the survey on the maximum, the minimum and the average wage of all the workers surveyed. This algorithm broke down the workers on a given survey into those making less than $7.50, those making between $7.50 and $9.50 and the averages for each range. As a check on this algorithm, we recomputed the mean wage of all workers in the survey implied by the algorithm and compared it to the actual mean wage. The algorithm computed an average wage within 2 cents of the actual mean.

Finally, we checked to make sure that our estimates were inclusive in two ways. First, we combed the universe for sectors that might have substantial low wage workers but for whom we had no data and surveyed these firms over the telephone. For example, in the sanitation sector where we had very little information, we called and talked to most of the firms with large contracts (over 5 million annually) and found that none we talked to had affected workers. An important exception in this sector of a firm that we were unable to gather information on was Browning-Ferris. Second, we used the random sample to derive a point estimate of the number of affected workers, excluding social service and child care workers. The point estimate is 1865 workers making under $7.50 and 470 workers making between $7.50 and $9.50. These point estimates are similar to our reported estimates of 1917 for workers making under $7.50 and and somewhat less that our reported estimate of 1300 workers making between $7.50 and $9.50. The main reason for the discrepancy was the lack of information on food service workers in the random sample where many of the $7.50 to $9.50 workers are concentrated, leading to an underestimate for the point estimate, and additional information we gathered on firms not in the random sample (but included in our reported estimates) for administrative support staff employed by"low-wage" firms. Since both of our point estimates are less than the reported amounts, we believe that our numbers are roughly accurate and may in fact overestimate the number of covered workers.

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The Fair Housing Institute was founded in 1996 to study and implement better methods of social policy, particularly in the area of fair housing. The Instiute currently advises half-a-dozen governments around southern California on a variety of fair housing and landlord-tenant issues. It is also conducting a substantial study for the federal Department of Housing and Urban Development, using title records to measure changes in the access of inner-city communities to conventional housing credit over the past thirty-five years.

APPENDIX 3

ECONOMIC ANALYSIS OF THE LOS ANGELES LIVING WAGE ORDINANCE

October, 1996

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ECONOMIC ANALYSIS OF LOS ANGELES LIVING WAGE ORDINANCE

SUMMARY OF KEY FINDINGS & RESPONSES TO BASIC MATTERS OF CONCERN

Summary of Key Findings:

Experiences with Minimum Wage Standards

⇒ Experiences with federal and state minimum wage laws in different parts of the country demonstrate that increases in the minimum wage do not cause unemployment.

⇒ Prevailing wage laws for construction firms contracting with the government have created stability in the construction industry, encouraged worker training, and have given construction workers the opportunity for a solid career.

⇒ The prevailing wage regulation in San Jose and the living wage ordinance in Baltimore have not generated any significant costs to their respective cities.

Direct Impact of Los Angeles Ordinance

⇒ 10,596 workers at 849 firms will be directly affected by the ordinance. Their average wage in 1995 was $5.64. Raising each of them to $7.50 will entail a total wage increase of $39.4 million.

⇒ Total production of goods and services--or output--of the 849 affected firms was $3.9 billion in 1995. The total wage increase from the ordinance is therefore 1 percent of the affected firms' output.

⇒ Given this overall relationship between the $39.4 million in direct wage increases and $3.9 billion in total firm output, we conclude that ***the living wage ordinance can be implemented while causing no net increase in the City budget, no employment loss and no loss of City services to the residents of Los Angeles***.

Additional Costs of Ordinance

⇒ A total of 5,004 workers earning below $9.50 will receive health benefits totaling to $20.0 million.

⇒ Higher paid workers not formally covered by the ordinance are likely to receive raises as well. We allow that workers earning between $7.50 and $9.49 will receive 15 percent raises, and that workers earning between $9.50 and $11.49 will receive 7.5 percent raises. We also allow that workers between $9.50 and $11.49 who do not have health insurance will receive the same coverage as those below them on the pay scale. These indirect costs of the ordinance will total $32.9 million.

⇒ Monitoring by the City and compliance costs of the affected firms will cost $1 million.

⇒ Total direct and indirect costs of the ordinance will amount to $93.3 million

Diffusion of Costs

⇒ The ordinance will necessarily be phased-in, corresponding to the staggered terminal dates of the affected firms' existing agreements with the City. The City may also want to formalize the process of phasing-in.

⇒ If the ordinance is phased-in over four years, the annual costs to firms will equal less than 0.6 percent of their annual output of goods and services.

Benefits of Ordinance

⇒ Direct benefits to affected families amount to 33.0 percent in pretax income, 27.9 percent in after-tax earned income, and 10.6 percent including all taxes and subsidies.

⇒ Affected families will have much greater access to bank loans and other forms of credit, that can be used to purchase a home or automobile or to finance higher education.

⇒ Affected workers and their families will reduce the amount of government subsidies they receive by 50.4 percent. This should yield substantial benefits in terms of the sense of self-worth of the affected workers.

⇒ Some of the communities in which the affected workers reside will experience increased spending at businesses; higher rates of homeownership, education and entrepreneurship; and more robust home-ownership and small-business markets. We estimate these effects for the areas of Pacoima, Lincoln-Sereno, and Crenshaw-Figueroa.

⇒ Raising workers to a living wage will cajole many firms that pay low wages to operate according to a "high-wage/high morale" path, thus reducing turnover and increasing efficiency. Many firms in the Los Angeles area already operate successfully along the "high wage/high morale" path. We document the cases of Bell Industries, All American Home Center and Rogers Poultry.

Responses to Basic Matters of Concern:

1. Would the living wage ordinance increase unemployment--and thereby also poverty--in Los Angeles by pricing less-skilled workers out of the market?

For several reasons, we conclude that the living wage ordinance will not increase unemployment among less-skilled workers in Los Angeles.

A) The impact of the wage increase on most affected firms (i.e. around 84 percent of the firms) will be negligible, less than one percent of their total output of goods and services. These firms should be able to absorb these wage increases easily, without laying off any workers. For the minority of affected firms where the wage increase will be more significant, the city should allow some cost pass-throughs, either through allowing the firms slightly better terms when the contracts come up for renewal, or, in the case of concessionaires, agreeing that the firms charge consumers slightly higher prices. Through such measures, the more heavily affected firms should also be able to absorb the wage increases without laying off workers.

B) Experiences throughout the country with various minimum wage standards have shown that minimum wage increases have not increased unemployment among directly affected workers. For example, unemployment did not rise among fast-food industry workers in New Jersey in 1992 after the state increased its minimum wage by nearly 19 percent above the national minimum wage rate.

C) There are many firms now operating successfully in Los Angeles who voluntarily pay all of their workers well over the minimum wage. These firms compete successfully through experiencing much lower rates of turnover and higher levels of worker morale. These factors translate into higher productivity per worker, in particular for workers with relatively less skill and lower pay. We anticipate that the living wage ordinance will cajole many firms in Los Angeles to operate competitively through this same "high wage/high morale" path. Rather than cause job losses, this will raise the productivity of the relatively less skilled.

2. Will the living wage ordinance discourage firms from either locating in or otherwise doing business with the city?

The living wage ordinance will not discourage business from either locating in Los Angeles or doing business with the city itself:

A) Firms which are affected by the ordinance will remain affected regardless of whether they are located inside or outside of Los Angeles. The only way that a firm can do business with the city and fall outside its stipulations is if the firm's workers reside outside Los Angeles County. However, the city is under no obligation to award contracts, concessions or subsidies to such firms.

B) Because for most firms, the relative impact of the ordinance-mandated wage increase will be so small, the ordinance will have no significant impact on their relationship with the city. For the small proportion of firms that will experience a more substantial wage increase, pass-throughs should again be permitted. As a result, the ordinance will not affect these firms' willingness to do business with the city either.

C) Our analysis of bidding patterns in Baltimore after implementation of its living wage ordinance demonstrated no significant departures from previous patterns, either in terms of number of bidders or the size of winning bids.

D) Businesses in communities with a high proportion of affected workers--such as Pacoima, Lincoln-Sereno and Crenshaw-Figueroa--will enjoy benefits from the ordinance through the injection of additional spending in these neighborhoods.

3. Will the ordinance place small business owners--including many minority- and women-owned enterprises--at an unfair disadvantage?

The ordinance does not place small businesses of any sort at a disadvantage:

A) The ordinance is explicitly drafted to exempt firms whose business arrangement with the city is relatively small, e.g., firms with contracts below $25,000 or subsidies below $100,000. Firms with such relatively small city contracts, concessions and subsidies will tend to be smaller firms, including minority- and women-owned firms.

B) For firms that are affected, the general principle that we present here is that firms should absorb the additional labor costs due to the ordinance as long as these costs are negligible, but should be permitted to pass through the costs in some fashion if they are not negligible. This principle should apply equally to small- and large-businesses. Following this principle, no firm, large or small, will be placed at a disadvantage: the relative impact will be comparable across firm types.

C) We have been unable to do careful statistical analysis to identify affected firms, workers, or communities by their ethnic status. But we are confident that a disproportionate share of affected workers are either Hispanic or African American.

Because all affected workers will receive a significant increase in their earned income and reduction in their government subsidies, they will be in a much better position to obtain credit, which could then be used to start a business or invest in a home. Moreover, in communities with a disproportionately large number of affected workers, existing businesses will receive a boost in their sales and incomes.

4. How can the ordinance be implemented, especially if some pass-throughs are permitted, without having any net impact on the City's budget or the City's ability to deliver services to the residents of Los Angeles?

A) Assuming we allow for pass-throughs only beyond a certain threshold of increased costs (such as more than 3 percent of a firm's total output of goods and services), the resulting amount of pass-throughs will be very small on an annual basis. This already small figure then diminishes dramatically once we recognize that the ordinance can only be implemented through a gradual phase-in, corresponding to the staggered terminal dates of the affected firms' existing agreements with the City.

B) If it so chooses, the City could cover the new costs due to pass-throughs by not replacing a relatively small fraction of its newly retired workers in one year (e.g. 170 workers in a total full-time equivalent City labor force of 51,600). The number of unreplaced retirement positions needed in a year to prevent any net increase in the budget would then also diminish according to the rate at which the ordinance is phased-in. Because the number of unreplaced positions would be so small, the impact on City administration of such a budget-saving move would be similarly small. It would not produce an *absolute decline* in city services, but perhaps only a one-year reduction in the *rate of improvement* in services.

Economic Analysis of Los Angeles Living Wage Ordinance
EXECUTIVE SUMMARY

1. OVERVIEW

The Los Angeles City Council is presently considering a Living Wage Ordinance designed to ensure that employees of city contractors, subcontractors, concessionaires and subsidy recipients earn an hourly wage that is sufficient for a family of four to live at or above the Federal poverty level. The aim of this study is to provide a thorough analysis of its likely costs and benefits for residents of Los Angeles, the City's municipal government, and the business firms that operate in the area and conduct business with the City.

Our analysis incorporates a range of evidence of two different sorts. In Section 1, we examine a variety of settings in which minimum wage standards have been practiced, including the federal, state and municipal government levels. Section 2 then focuses on the Los Angeles economy itself, considering data from a variety of perspectives. These perspectives include statistical analyses of the workers and firms likely to be affected by the ordinance, as well as investigations of how individual households, specific neighborhoods, and various types of workplaces would also be affected. The structure of our study is summarized in Table S-1.

In considering the experiences with different types of minimum wage standards, we conclude that such policy initiatives have brought direct benefits to the recipients of the wage increase and indirect benefits to the firms in which they operate in the form of higher morale and lower turnover. The overwhelming preponderance of evidence now finds that such minimum wage initiatives do not cause increases in unemployment, nor, in

TABLE S-1

ANALYSIS OF LIVING WAGE PROPOSAL: TYPES OF EVIDENCE EXAMINED

SECTION II: EXPERIENCES WITH VARIETY OF MINIMUM WAGE STANDARDS

* *United States Minimum Wage Laws*

* *Davis-Bacon Prevailing Wage Laws in Construction*

* *San Jose Municipal Prevailing Wage Law*

* *Baltimore Living Wage Law*

SECTION III: LIVING WAGE LAW FOR LOS ANGELES

* *Estimate of affected number of workers and firms*

* *Costs of Wage/Benefit Increases*

  ⇒ Effects on Average Firm, All Firms, and City

  ⇒ How to Spread Costs

* *Benefits of Wage/Health Benefit Increases*

  ⇒ Gains to Individuals and Families

  ⇒ Gains to Communities

  ⇒ Gains to Workplaces

the cases of municipal minimum wage laws, have they led to disruptions in the normal functioning of the affected regional economies or municipal governments.

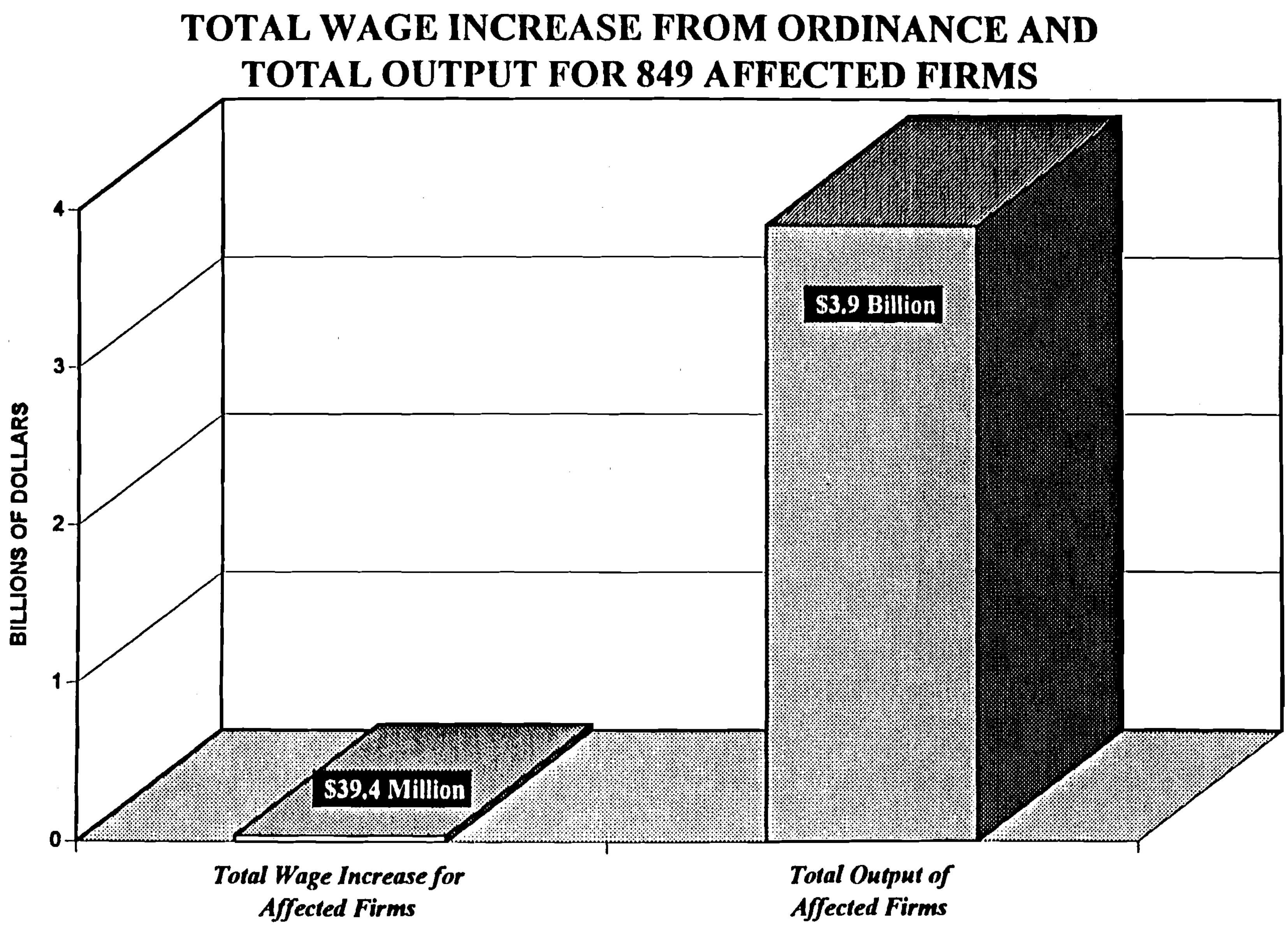
In estimating the likely effects of a living wage ordinance for Los Angeles, we find that 10,596 workers at 849 firms will be affected by the ordinance. Their average wage in 1995 was $5.64, so that in raising each of them to $7.50, the total wage increase will be $39.4 million. The total production of goods and services--or output--of these firms was 3.9 billion in 1995. This means that the total wage increase from the ordinance would constitute one percent of the affected firm's output. This relationship is portrayed in Figure S-1.

From this result we conclude ***that the living wage ordinance can be implemented while causing no net increase in the City budget, no employment loss, and no loss of City services to the residents of Los Angeles***. To reach this conclusion, our evaluation assumes no significant departures from the normal operations of either the City administration or the greater Los Angeles economy.

The benefits of the ordinance will be substantial for the affected individuals and their families. Their pretax earned income will rise by 33.0 percent, their aftertax earned income will rise by 27.9 percent, and their aftertax income including subsidies rises by 10.6 percent. At least equally important in terms of the sense of self-worth of these families, their dependence on government subsidies will decline by 50.4 percent.

Benefits will also accrue to the communities in which these workers live and in their workplaces. Benefits to the communities include increased spending at businesses in the local communities; higher rates of homeownership, education, and entrepreneurship by affected households; and more robust home-ownership and small business markets in

FIGURE S1



TOTAL WAGE INCREASE FROM ORDINANCE AND TOTAL OUTPUT FOR 849 AFFECTED FIRMS
BILLIONS OF DOLLARS
4
3
2
1
0
$3.9 Billion
$39.4 Million
Total Wage Increase for Affected Firms
Total Output of Affected Firms

lower-income areas of Los Angeles. We expect that firms will benefit in many ways from providing higher wages and benefits, including reduced labor turnover, better quality of work, better cooperation with management, more flexibility in the operations of a business, and higher overall morale.

2. EXPERIENCES WITH VARIETY OF MINIMUM WAGE STANDARDS

A) United States Minimum Wage Laws

The argument that is often made about the minimum wage is that while it may increase living standards for *employed* low wage workers, it does this by *increasing unemployment*, especially among those seeking low-paying, less skilled jobs. We consider two types of evidence, the U.S. experience over time, and case studies on changes in minimum wages in various geographical settings.

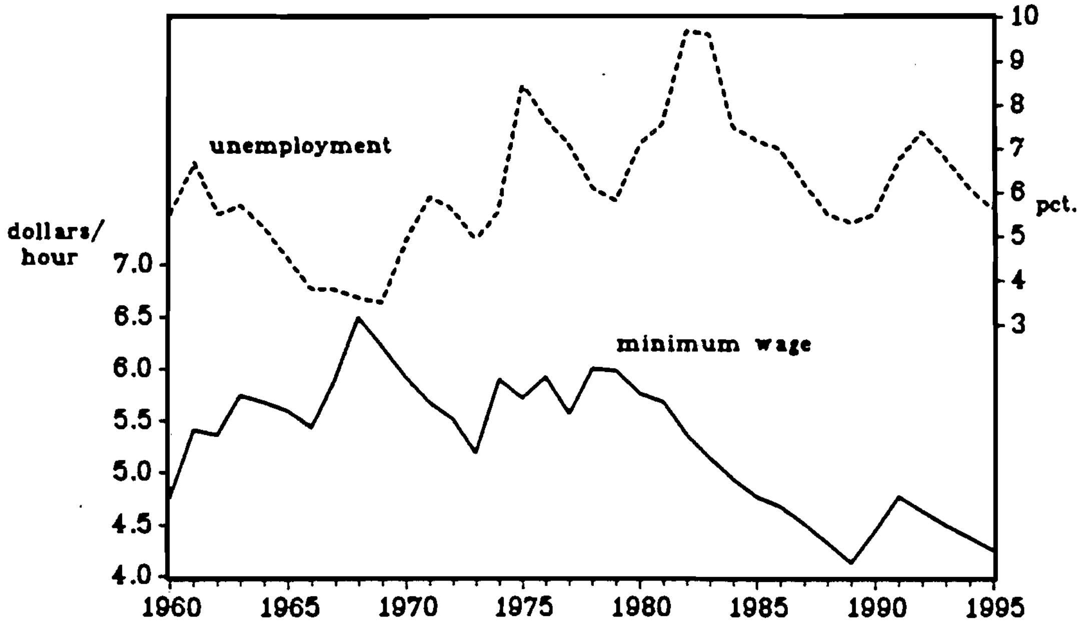
The U.S. experience over time is conveyed in Figure S-2, showing the relative movements in the minimum wage and the unemployment rate over 1960-95. The divergent movements between the minimum wage and the unemployment rate suggest that no systematic relationship at all exists between the two values. This perspective is strongly reinforced by research into the effects of a rise in the minimum wage in a range of communities, including New Jersey, California, Texas, Jackson, Mississippi, and Greensboro, North Carolina. In no cases did researchers find that a rise in the minimum wage caused increases in unemployment.

B) Davis-Bacon Prevailing Wage Laws in Construction

The prevailing wage laws in construction are similar to the LA proposal in that they apply to only a small segment of the working population in a region. They also set

Figure S-2. Minimum Wage Rate and Unemployment Over Time

(1960-95)



wage floors that are well above the national and state minimum wage, again similar to the Los Angeles proposal.

According to the comprehensive work of Prof. Peter Phillips and colleagues at the University of Utah, there have been four major long-term results of both the federal and state Davis-Bacon laws. These include:

1. Local wage and benefit standards have been "taken off the table" in the bidding process for government contracts. This protection of wages, benefits and working conditions allows construction work to be a solid career for working people. In addition, the fact that workers are receiving decent wages has meant that investment in training is encouraged either through employers or unions. These industry training standards provide avenues for less-skilled, less educated workers to acquire the skills they need to have stable, decently paid working lives. Such training programs have been especially beneficial to members of ethnic minorities seeking a career in the construction industry.

2. The establishment of wage and benefit floors has meant that higher-paying contractors can compete successfully with contractors who seek to obtain contracts through driving down wages and "low-ball" bidding.

3. The encouragement of skilled labor and relatively high wages has meant that, in general, the quality of the work done by government contractors is high.

C. San Jose Municipal Prevailing Wage Laws

On October 11, 1988, the City Council of San Jose formalized the city's practice of requiring prevailing wages on city-funded public works construction projects by adopting a resolution to establish a local prevailing wage program. In the following year, the Council voted to extend the scope of the policy to include certain service contracts and certain housing construction contracts.

We were unable to obtain systematic data on contracting patterns, since we could not obtain records for a sufficiently long time period before the 1989 resolutions took effect. But based on the documentary evidence we could obtain, we generously estimate that the annual costs to the city have averaged $2.8 million per year between 1990-95. This is less than 0.9 percent of the city's annual budget over these years.

We then estimate the impact of the 1989 prevailing wage initiatives on the San Jose economy by considering three basic indicators: city government expenditures per capita; personal income per capital for the San Jose region; and the unemployment rate for the region. We group the data into two time periods. The first period is 1980-89, that is, one decade prior to, and the months immediately after the implementation of the prevailing wage measures. The second period is 1990-95, the full years subsequent to the implementation of the resolutions. By none of the three measures do we observe that the performance of the San Jose economy had changed significantly relative to the 1980-89 period. In short, it appears that the prevailing wage ordinance has had no discernible impact on the overall functioning of the San Jose economy.

D. Baltimore Living Wage Law

Since July 1995, Baltimore has operated under a Living Wage ordinance that most closely parallels that proposed for Los Angeles. And while the Baltimore law has been in effect too briefly to generalize about its impact, we are able to extract useful information from its experience through examining in detail how bidding patterns on specific city contracts have changed since the law was implemented.

The Baltimore Living Wage ordinance established a minimum wage of $6.10 per hour for anyone working on a city contract. In July 1996, the wage was increased by Baltimore's Board of Estimates to $6.60. The living wage ordinance stipulates that the wage be increased annually, upon approval by the Board of Estimates, until it equals the amount required to raise a family of four above the poverty line.

Our analysis focuses on contracts whose labor costs have increased or are expected to increase as a result of the living wage ordinance. Baltimore's Bureau of Budget and Management Research determined that the total value of contracts falling under the wage requirement was $26.8 million in December 1995. We obtained full or partial information on 46 contracts involving 75 companies; others have yet to be rebid under the living wage requirements. The value of these contracts is $19.3 million, which amounted to 72% of the value of those contracts affected by the ordinance. We found that in inflation adjusted dollars, the total cost of these contracts declined from $19.3 million to $18.8 million, a 2.4 percent decline.

We cannot conclude that the living wage ordinance actually contributed to lowering the cost of the average contract. However, as we argue at length in the next section of the paper, there are efficiency gains to firms at the higher wages, and these could have lowered total costs. In telephone interviews with the contractors, many stressed the relationship between a higher wage and a lower rate of turnover.

3. LIVING WAGE LAW FOR LOS ANGELES

A. Estimate of Affected Number of Workers and Firms

TABLE S-2

TOTAL NUMBER OF WORKERS AFFECTED AND AVERAGE WAGE INCREASE THROUGH ORDINANCE

Number of Firms Affected	849
Number of Workers Affected (FTE)	10,596
Average Hourly Wage Before Ordinance	$5.64
Average Hourly Wage Increase	$1.86 (= $7.50 - $5.64)
Average Yearly Wage Increase (assumes 2000 hours of work)	$3,720
Wage Increases for Year, All Workers	$39.4 Million ($3,720 x 10,596 workers)

We estimate that 10,596 workers (adjusted for full time equivalence) will receive wage increases through implementation of the ordinance. Table S-2 shows how we derive the estimate that the total wage increase resulting from the living wage ordinance is $39.4 million. In addition, a total of 2,966 workers earning less than $7.50 and 2,033 earning between $7.50 and $9.49 will receive a total of $20 million in health benefits.

B. Impact of Wage and Benefit Increases on Firms and City

Critics of the ordinance argue that firms may respond by seeking to pass through their added costs to the city, by laying off some of their existing workers to offset the wage increase or even relocating to avoid falling under the terms of the ordinance.

In fact, the extent to which any of the negative outcomes would actually ensue depends on how significant are the pay raises to low wage workers relative to other concerns that the firms would face. Most general among these other concerns is the size of the wage increase as a proportion of other factors, such as the firms' overall annual production, or output, of goods and services. We estimate the total output of the 849 affected entities in 1995 as slightly below $4 billion. This means that the total wage increase will amount to about 1 percent of the annual output of these firms.

Other factors as well are of central importance to firms in determining how they would respond to the city-mandated wage increase. These include: the importance the firm's association with the city to its overall business; the competitive environment in which the firm operates; the normal rate of productivity growth for the affected firms; the normal attrition rates of workers in the affected firms; and the process of phasing-in the ordinance.

Once these factors are taken into account, we believe that the entire wage increase can be absorbed by the affected firms and their competitors without causing any net increase in the city's budget; without creating any employment loss for the city; and without bringing any decline in services to city residents. Depending on how quickly the ordinance would be phased in, we anticipate that, at most, the ***rate of*** *improvement* in city services might decrease for one to three years.

Allowing for such an outcome, moreover, does not in any way depend on making highly favorable but perhaps implausible assumptions about how the city's economy may depart from its normal patterns. Quite the contrary: as we have seen in the cases of the national minimum wage laws, the experiences with Davis-Bacon laws, and the wage ordinances in San Jose and Baltimore, the *normal case* is that such initiatives do not have a negative impact on broader economic patterns.

C. Additional Indirect Costs of Ordinance

When workers earning an average wage of $5.64 receive their ordinance-mandated raise to $7.50, it is likely that other workers in the firm within roughly comparable job categories will also receive raises. Former Secretary of Labor and Harvard University labor economist John Dunlop coined the term "wage contours" to describe groups of jobs with "common wage-making characteristics." While workers on the same contour don't necessarily make the same wage or receive increases at the same rate, their pay tends to move together over time, generally in response to the human resource policies of firms and to local labor market conditions.

We attempt to capture this "wage contour" factor for the affected firms by assuming that when the below $7.50 workers are increased, that workers between $7.50

and $9.49 will get an average increase of 15 percent, and that those earning between $9.50 and $11.49 will receive a 7.5 percent raise. In terms of health benefits, the ordinance itself already allows that uncovered workers earning between $7.50 and $9.49 would be eligible for a $2 per hour raise as a substitute for receiving employer-provided health coverage. We now assume that uncovered workers earning between $9.50 and $11.49 will also receive the $2 per hour raise in lieu of employer-provided health benefits as an indirect effect of the ordinance. The costs associated with these wage contour effects, amounting to a total of $33.9 million, are presented in Table S-3 along with the direct wage and benefit costs of the ordinance.

Table S-3 also reports the costs for firms of compliance with the ordinance as well as the city's enforcement costs. These costs total roughly $1 million. This table finally brings together all the direct and indirect costs generated by the living wage ordinance, amounting to $93.3 million.

D. Diffusion of Costs through Phasing-In

The living wage ordinance will not affect all 849 firms at once, but rather will be phased-in over several years when existing contracts terminate and new ones are put out for bid. Service contracts with the City normally run for three years, while concessions generally span between 5-10 years. Because of this, *it is a given* that the ordinance will be phased-in gradually, corresponding to the staggered terminal dates of our affected firms' existing agreements with the city. On top of this, the city may also want to formalize the process of phasing-in the ordinance through raising the minimum wage to $7.50 in a series of steps.

TABLE S-3

TOTAL DIRECT AND INDIRECT COSTS OF LIVING WAGE ORDINANCE

Direct Effects of Ordinance	
Wage Increases for Below $7.50/Hour Workers	$39.4 Million
Health Benefits for Below $9.50/Hour Workers	$20.0 Million
Total Direct Effects	**$59.4 Million**
Indirect Effects of Ordinance	
Wage Increases for $7.50-$9.49/Hours Workers	$18.2 Million
Wage Increases for $9.50-$11.49/Hour Workers	$10.6 Million
Health Benefits for $9.50-$11.49/Hour Workers	$4.1 Million
Total "Wage Contour" Effects	$32.9 Million
Monitoring & Compliance Costs	$1.0 Million
Total Indirect Effects	**$33.9 Million**
Total Direct and Indirect Effects	**$93.3 Million**

FIGURE S3

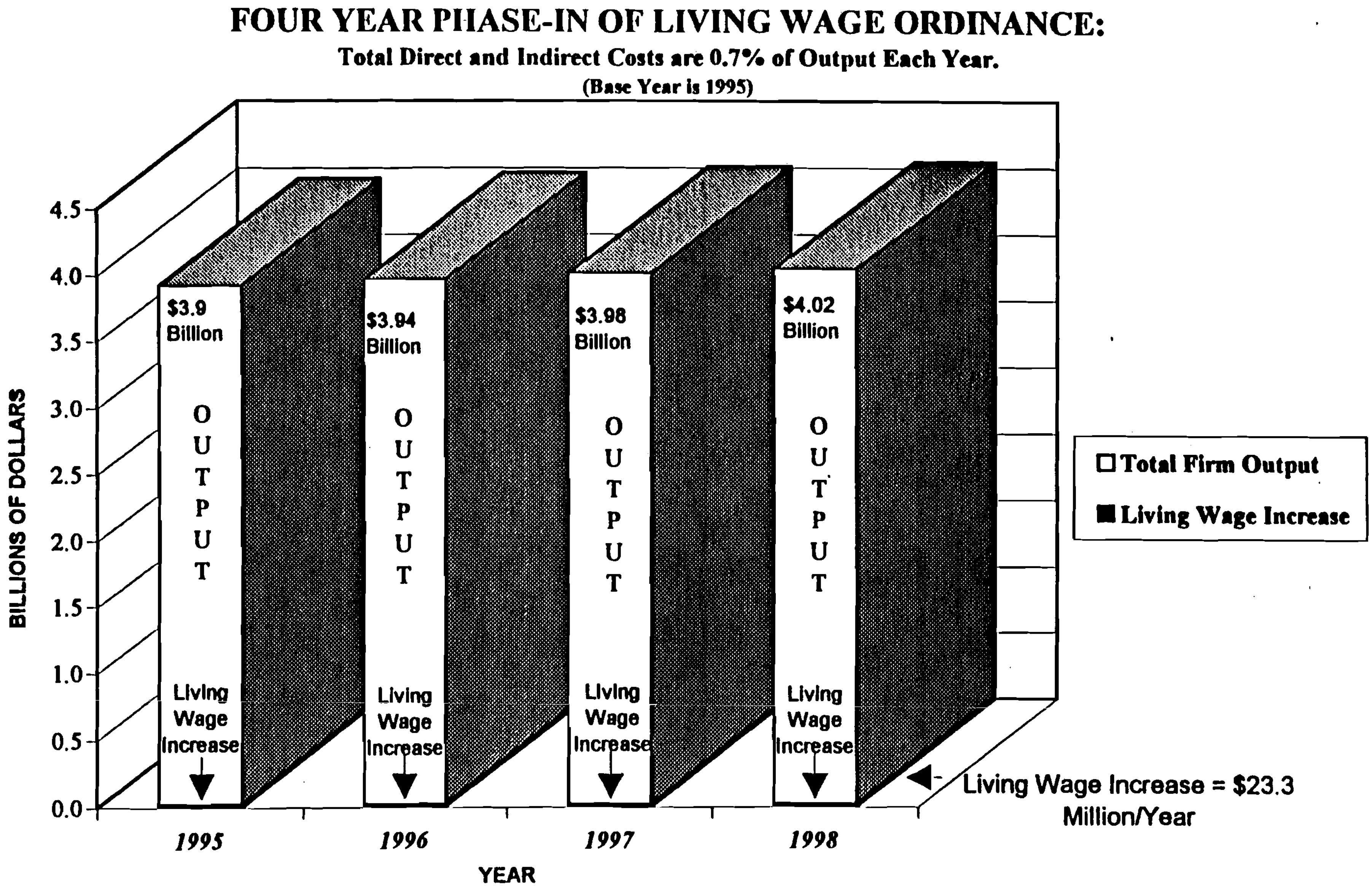

FOUR YEAR PHASE-IN OF LIVING WAGE ORDINANCE:
Total Direct and Indirect Costs are 0.7% of Output Each Year.
(Base Year is 1995)
BILLIONS OF DOLLARS
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
$3.9 Billion
$3.94 Billion
$3.98 Billion
$4.02 Billion
OUTPUT
Living Wage Increase
1995
1996
1997
1998
YEAR
Total Firm Output
Living Wage Increase
Living Wage Increase = $23.3 Million/Year

Figure S-3 illustrates how phasing-in contributes to the diffusion of costs, by considering the yearly impact of these costs over a four-year phase-in period. We thus distribute the total of $93.3 million in costs over the four years; the costs each year averaging $23.3 million. We then allow for the national average of a one percent increase in productivity for the 849 firms over the four year period. Output therefore rises from $3.90 billion in 1995 to $4.02 billion in 1998. We therefore see that when the total costs of the living wage ordinance are distributed over four years, they amount to less than 0.6 percent of the affected firms' average output each year.

Of course, some firms will incur substantial increases in costs. Table S-4 shows the dispersion of firms according to their proportion of low-wage workers relative to total output. We see, in particular, six firms for which low wage labor costs average 85 percent of total output. The city should be prepared to permit these firms to pass through most of their increased costs, either through changes in their contract terms or, in the case of concessionares, through small increases in the prices they charge to consumers. We provide an illustrative model of how partial pass-throughs could be incorporated into the city's operations with minimal disruption.

E. Benefits of Ordinance I: Individuals and Families

Figure S-4 shows the benefits to individuals and families in four ways: pre-tax income increases by 33.0 percent; after-tax earned income rises by 27.9 percent; increases in after-tax income and subsidies rise by 10.6 percent; and the family's reliance on government subsidies declines by 50.4 percent.

In addition to these direct financial benefits, two other considerations must be given great weight in evaluating the overall impact of the living wage on the low wage

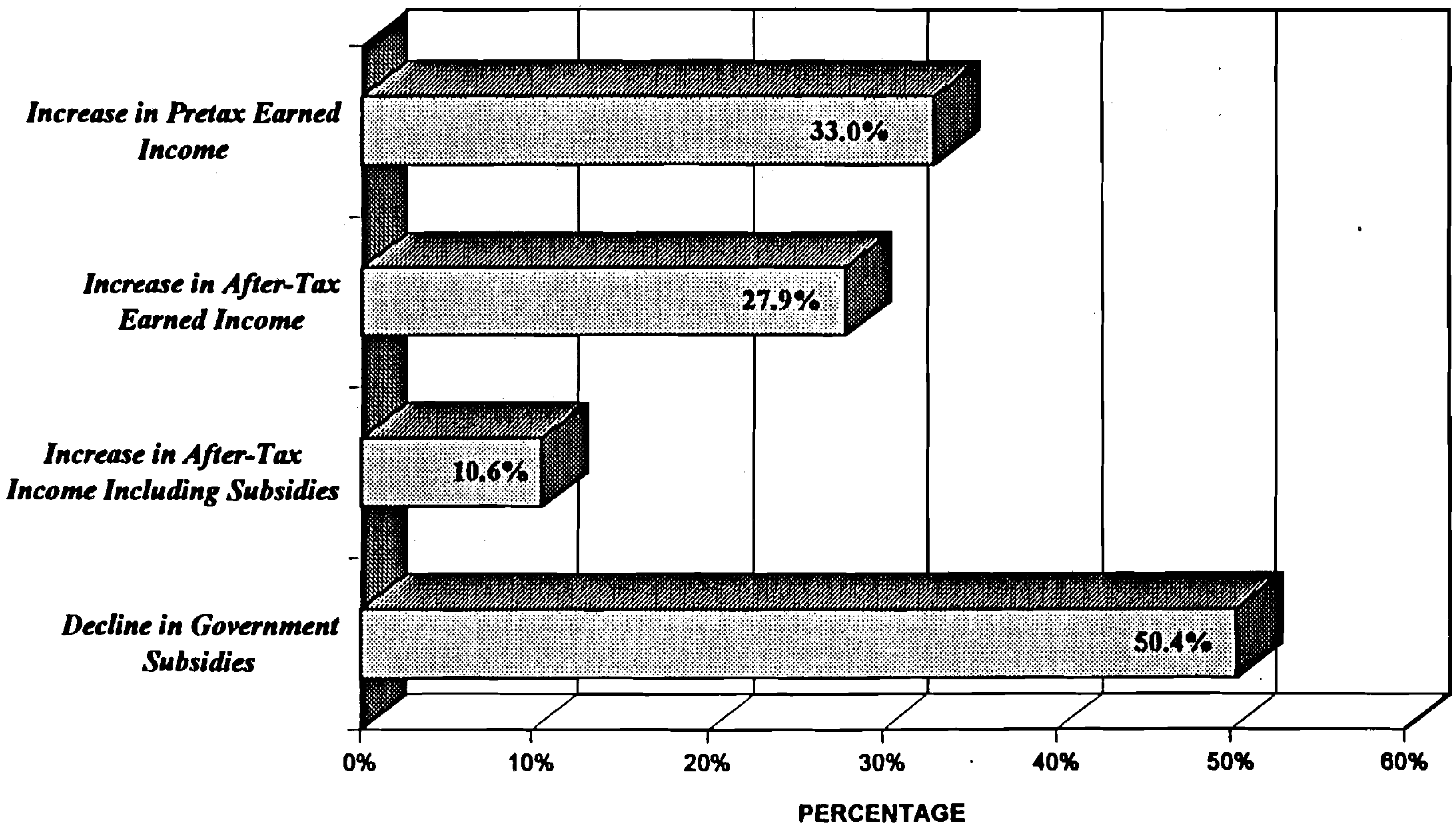
TABLE S-4

THE IMPACT OF WAGE INCREASE ACROSS THE RANGE OF AFFECTED FIRMS

Wages of Affected Workers as Percentage of Total Firm Output	Number of Firms in Category	Percentage of Firms in Category	Low Wage Costs/Total Output	Wage Increase/ Total Output
0-9%	711	83.7%	2.5%	0.8%
10-19%	91	10.7%	16.1%	5.3%
20-39%	41	4.8%	22.4%	7.4%
40-59%	0	0%	0%	0%
60-79%	0	0%	0%	0%
80-100%	6	0.7%	85.0%	28.0%

FIGURE S4

CHANGES IN INCOME AND SUBSIDIES FOR LOW WAGE FAMILY AFTER ORDINANCE



family. The first is that after living wage ordinance became law, the low-wage family would have much greater access to bank loans and other forms of credit, that can be used to purchase a home or automobile or to finance higher education. This is because lending institutions measure a borrower's creditworthiness on the basis of their earning power, not on their amount of disposable funds after subsidies. We explore the issue of creditworthiness in more detail below.

In addition, there is the issue of dignity. The country has just gone through a hotly contested debate on welfare reform. Despite differences on a myriad of questions, all parties to the welfare debate agree on one thing: that earning a dollar of income has dramatically different effects on a person's self-image and attitude toward life and work than being given a dollar of government subsidies. Passage of the living wage ordinance would mean that the low-income family's reliance on government subsidies will fall by 50.4 percent.

Benefits to Government of Subsidy Declines

As the low-wage family comes to rely far less on government support to earn a living, the corollary is that the government spends far less to help working people survive the effects of earning poverty wages. Table S-5 documents the $33.3 million savings to government of the living wage ordinance, including the rise in tax revenues, the decline in earned income tax credit support, and reductions in Food Stamps, MediCal benefits, and Los Angeles County Health Services support.

F. Benefits of Ordinance II: Communities

TABLE S-5

SAVINGS TO GOVERNMENT FROM LIVING WAGE ORDINANCE

SAVINGS TO FEDERAL GOVERNMENT	
Higher Income Taxes	$5.5 Million
Less EITC Payments	$8.0 Million
Less Food Stamp Payments	$11.2 Million
Less MediCAL Coverage	$2.9 Million
SAVINGS TO STATE GOVERNMENT	
Less MediCAL Coverage	$2.9 Million
SAVINGS TO LOS ANGELES COUNTY	
Less Indigent Health Coverage	$2.8 Million
TOTAL	**$33.3 Million**

A high proportion of Los Angeles' lower-income workers live in concentrated geographic areas in which many homes are owner-occupied and lower-income households provide much of the demand for owner-occupied housing. These areas also have large numbers of small businesses, which are frequented primarily by local residents. Because many of the low-income workers who will be affected by a living wage ordinance live in such concentrated areas, it may generate significant community spillover benefits. These benefits include increased spending at businesses in the local communities; higher rates of homeownership, education, and entrepreneurship by affected households; and more robust home-ownership and small-business markets in lower-income areas of Los Angeles. In sum, higher income flows to residents of lower-income communities allows more of their residents to use these income gains to become homeowners, and to increase their wealth in their communities.

We estimate the size of these effects for three communities in Los Angeles, Pacoima, Lincoln-Sereno, and Crenshaw-Figueroa. Considering both direct income gains and indirect "wage contour" gains, the total injection of income for the three communities is $3.1 million. When we add a "multiplier effect" that accounts for the new spending in each community, the total income gain for the three communities rises to nearly $10 million, distributed in roughly equal shares across the three communities. These estimates are shown in Table S-6.

The adoption of a living wage ordinance will measurably improve the economic circumstances of a modest number of workers. Because many of the affected workers live in close proximity to one another, this ordinance will also trigger modest community effects in these neighborhoods. The concentration of lower-income working households

TABLE S-6

SCOPE OF COMMUNITY BENEFITS IN PACOIMA, LINCOLN-SERENO, AND CRENSHAW-FIGUEROA

	PACOIMA	LINCOLN-SERENO	CRENSHAW-FIGUEROA	TOTAL OF THREE COMMUNITIES
Population	69,823	56,070	47,852	173,745
Percentage of LA City	2.00%	1.61%	1.37%	4.98%
Labor Force Participants	31,357	24,757	21,299	77,413
Percentage of LA City	3.03%	2.39%	2.06%	7.49%
Estimated Directly Affected FTE Workers	351	339	301	991
Estimated Wage-Contour Affected Workers	531	468	314	1312
Average Direct After-Tax gain per Worker	$2,103	$2,103	$2,103	$2,103
Average Wage-Contour gain per Worker	$2,300	$2,300	$2,300	$2,300
Total Direct Income Gain	$737,589	$712,875	$633,447	$2,083,911
Total Wage-Contour Gain	$1,115,201	$1,077,835	$957,743	$3,150,779
Total Income Gain Including Multiplier Effect	**$3,201,622**	**$3,094,347**	**$2,749,575**	**$9,998,258**

All figures drawn from 1990 Census data. Estimation procedure is explained in text and appendix.

in particular geographic areas of Los Angeles creates the potential for concentrated community spillovers when income flows to these households improve. These neighborhoods' fiscal health will not miraculously change in the wake of this living-wage ordinance. But it will improve at the margin. The living wage ordinance is one piece of a larger fabric of feasible urban revitalization.

G. Benefits of Ordinance III: Firms

The Los Angeles region includes many firms that try to keep wage payments as low as possible. But there are also many firms in the region that pay all their workers a wage well above the legal minimum, provide them with additional benefits, and still compete successfully in the marketplace. Such "high wage" firms includes many who compete directly with firms who pay minimum wages as much as possible. One of the benefits of the Living Wage proposal is that it will cajole many of these "low wage" firms to operate along the "high wage" path–providing direct benefits to the firms' workers, but also increasing the capacity of the firms to compete through creating a high-morale/low turnover work environment.

To demonstrate these points more concretely, we examine the operating procedures of some specific firms that operate in the Los Angeles area today along the high wage path. The three firms that we consider are Bell Industries, a large distributor of industrial equipment; All American Home Center, a home products store; and Rogers Poultry. We will also briefly contrast these firms by considering the operations of one unnamed firm (that we term Firm X) that operates along the low-wage path, despite receiving substantial subsidies from the City.

What conclusions can be drawn from the experiences of these firms? Because we are presenting case studies rather than systematic data on a representative sample of firms, we cannot make broad generalizations. We can, however, say that there are many high wage/high productivity firms in the Los Angeles area, and that many of these firms seem to be thriving. Moreover, we know that these firms report numerous benefits to themselves--reduced turnover, higher productivity and quality, greater flexibility in the deployment of workers, and enhanced cooperation with management -- from treating their workers fairly and with respect. Furthermore, it does not seem unreasonable to assume that at least some of the benefits to firms from following the high wage/high productivity path could be captured by low-wage firms if the living wage proposal were to become law in Los Angeles.

APPENDIX 4

Baltimore's Living Wage Law

An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442

Mark Weisbrot

Michelle Sforza-Roderick

The Preamble Center for Public Policy

Baltimore's Living Wage Law

An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442

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Prepared for
The Preamble Center for Public Policy

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The Preamble Center for Public Policy is a new, independent research and public education organization based in Washington, D.C. Preamble works in partnership with a broad network of academics, policy professionals and community leaders who share our concerns about the pressing social, economic and political challenges facing the United States.

The Preamble Center's mission is to expand the prospects for progressive, sustainable solutions to the serious economic and social problems confronting America's working families. Through research, analysis and policy development work we seek to challenge outdated and unproductive ideas and assumptions and develop new analytical and policy approaches for the long term.

Our uniqueness as an organization lies in our commitment to bringing citizen organizations, community leaders and elected officials together with researchers to hammer out practical solutions to our collective dilemmas. The Preamble Center's work is geared toward putting tools in the hands of citizen leaders and policymakers – tools they can use to challenge old policy orthodoxies, carve out new approaches, and communicate their ideas to a public increasingly eager for serious, workable alternatives to present social and economic policies.

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Executive Summary

"Living wage" laws are under consideration in states and cities across the country. These proposals are designed to raise the wages of very low-income workers by requiring state or municipal contractors, recipients of public subsidies or tax breaks, or, in some cases, all businesses, to pay employees wages significantly above the Federal minimum

Wherever they have been proposed, living wage laws have been met with vigorous opposition, primarily from business interests and some local political leaders. Opponents claim that a living wage law will cause large increases in the costs of public contracts, lead to increased unemployment, cause companies to drop out of bidding for public contracts, impose significant administrative costs, and cause businesses in general to shun the locale in response to the law's ostensibly unfavorable impact on the local business climate.

The Preamble Center for Public Policy conducted the present study of Baltimore's living wage law in order to determine, based on the actual experience of one of the first cities to pass such a law, whether the stated concerns of critics are or are not well-founded.

Baltimore City Ordinance 442 was passed in December of 1994. This ordinance mandated a minimum hourly wage of $6.10 for anyone working on a city service contract, effective July 1, 1995; this minimum increased to $6.60 per hour for contracts signed after July 1, 1996. The study involved a review of the costs of, and bidding for, city service contracts, interviews with city contractors, and analysis of tax data relating to levels of business investment in Baltimore.

Among this study's main findings:

- The real cost of city contracts has actually *decreased* since the ordinance went into effect. For the average contract (weighted by its share in the sample), this decline was statistically significant.

- Of companies interviewed that held contracts before and after enactment of the law, none reported reducing staffing levels in response to the higher wage requirements.

- The cost to taxpayers of compliance has been minimal, with the City allocating about 17 cents per person annually for this purpose.

- The average number of bids per contract declined from 1994 to 1995, but this decline was not statistically significant, nor did it affect the competitiveness of the bidding process as manifested in actual contract costs.

- There is no evidence that businesses have responded negatively to the passage of the ordinance. In fact, the value of business investment in the City of Baltimore actually increased substantially in the year after passage of the law.

Based on these findings, it is clear that opponents' claims of large-scale negative economic and fiscal impacts from living wage legislation have not held true for the case of Baltimore.

Introduction

Observers from across the political spectrum now acknowledge that real wages have declined for the majority of American workers over the last two decades Wages for the bottom three-fifths of wage-earners have been falling since 1979, and for four-fifths of wage-earners since 1989.

The lowest wage workers have been the hardest hit. A worker at the 10th percentile (i.e. earning less than 90% of wage earners and more than 10%) lost 17% of his or her real income from 1979-95, an hourly wage drop from $6.10 to $5.06 in 1995 dollars. Women in this category fared even worse, with wages falling from $5.82 to $4.84 per hour.[1]

The minimum wage itself fell behind inflation from 1979-1989, losing 31% of its real purchasing power during that period. This in itself was a significant cause of declining incomes for the poorest workers.

What to do about the problem of declining wages, or indeed whether to do anything at all, is a matter of heated debate. Business interests and conservative political leaders generally oppose any direct government action to raise workers' wages. The argument is that government's role should be limited to measures designed to increase business investment. This, it is claimed, will ultimately lead to gains for workers.

From the political center to the left, there is support for some form of government action to address the problem. One obvious mechanism is the minimum wage. On August 2, 1996, Congress passed legislation raising the federal minimum wage to $5.15 by September of 1997. However, the real value of the minimum wage after it is fully in effect will be about $4.89 in 1995 dollars. This is still 24% below its value in 1968. The income of someone working 40 hours a week, 52 weeks a year at this wage will still remain approximately 19% below the official poverty level for a family of three.

Furthermore, the political forces necessary to bring the minimum wage closer to its past real value are not in evidence. Congressional Republicans fought hard against the recent increase, filibustering in the Senate and attempting to gut the bill with amendments that, for example, excluded millions of small businesses. Only five Senate Republicans broke ranks to vote against the latter amendment that would have doomed the bill.

On the Democratic side, neither President Clinton nor the Democratic Congressional leadership made any serious effort to increase the minimum wage when they had control of both Congress and the White House in 1993 and 1994. Further action to raise the minimum wage during the next Congress seems unlikely, regardless of who controls the House and Senate.

The Living Wage

The decline in wages for low-income workers and the failure of the federal government to take stronger steps to address the problem have led to efforts to raise wages through legislation at the state and local level. These efforts, commonly referred to as "living wage campaigns," have been launched by grass-roots coalitions of community organizations, religious groups and labor unions – led in many cases by the AFL-CIO's state labor federations and local central labor councils and the

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[1]Mishel, Lawrence, Bernstein, Jared, and Schmitt, John. *The State of Working America: 1996-97*. Washington, D.C.: Economic Policy Institute, 1996.

Association of Community Organizations for Reform Now (ACORN)[2] Living wage campaigns are underway in more than a dozen states and municipalities.

In contrast to recent federal legislation, many state and local living wage campaigns make an explicit effort to raise wages to the level necessary to keep the family of a full-time worker above the poverty line. Some of the proposals would raise the minimum wage in a state or municipality to its peak historical value under federal law ($6 47 per hour in 1995 dollars, achieved in 1968) and thereafter index it to inflation. Others would mandate insurance benefits for low-wage workers. And others would set wages according to local cost of living levels. The California Liveable Wage Coalition, for example, took California's high cost of living into account when setting its minimum wage goal above the federal level.

Many living wage campaigns do not seek to increase the minimum wage across the board in a particular location. Instead they target only those employers who receive public money or public contracts, requiring that these employers pay a certain wage as a condition of receiving these funds or contracts. State and local programs that provide subsidies, tax abatements and other benefits to private employers for the purpose of job creation and retention rarely distinguish between high and low-wage employment. Nor do most cities and states that contract with private corporations for the provision of public services impose any pay and benefits standards on contract recipients. As a result, many companies receiving public subsidies and/or public contracts pay wages well below the poverty level. The argument behind living wage laws is that governments should not be using tax dollars to create or subsidize poverty-wage jobs, but rather should set a positive example by requiring employers who receive public funds to pay a living wage.

Baltimore's living wage law is one of the first to compel contractors to pay employees enough to keep a family of four above the poverty line. Other cities with such laws include San Jose, where city contractors must pay employees union-scale wages. A Milwaukee ordinance requires city contractors to pay employees $6.05 per hour, and increases yearly until the wage can raise a family of three above the poverty line. Jersey City, New Jersey, requires a minimum wage of $7.50 per hour be paid to employees of certain city contractors. And New York City recently established union-scale wages and benefits requirements for some city service contractors.

Campaigns to ensure that beneficiaries of public funds pay employees a living wage are underway in Los Angeles, Chicago, Boston and other locales. The Los Angeles Living Wage Coalition drafted an ordinance that would require companies "that benefit from city taxpayer dollars" (any business in receipt of a city contract, lease agreement, tax abatement or subsidy valued above $25,000) to pay employees $7.50 per hour and provide them with health insurance benefits. The estimated number of affected workers is over 14,000. A city council vote is expected this fall.

Chicago's Jobs and Living Wage Proposal, which would require a $7.60 per hour wage for employees of city contractors or companies receiving city financial assistance, would affect 10,000 workers. The ordinance, introduced in the city council in May 1996, is now in the finance committee.

Community and labor groups in Boston plan to introduce a similar ordinance by the end of the year. The Corporate Accountability and City Contracting proposal would tie financial assistance and city contracts to business to community hiring requirements and a living wage of $7.49 per hour.

Table 1 lists living wage proposals under consideration around the country.

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[2]ACORN is a national grass-roots community organization of low and moderate-income families.

Table 1: Examples of Proposed Living Wage Legislation

City or State	Route to Enactment	Description of Measure	Status
Albuquerque	Ballot Initiative	Raise minimum wage to $6.50/hour	Gathered required signatures, waiting to qualify for December special election
Boston	Legislative	Require city contractors and subsidized businesses to pay $7.49/hour and hire from the community	Possible introduction of city council ordinance by the end of the year
Chicago	Legislative	Require city contractors and subsidized businesses to pay $7.60/hour and hire from the community	Ordinance introduced to city council in May 1996
Denver	Ballot Initiative	Raise minimum wage to $6.50/hour in 1997; $6.85/hour in 1998; $7.15/hour in 1999, indexed to cost of living thereafter	Supporters gathered required signatures to qualify for the November 1996 ballot.
Houston	Ballot Initiative	Raise minimum wage to $6.50/hour city wide	Will begin gathering signatures in Fall for January 1997 ballot.
Los Angeles	Legislative	Require city contractors and subsidized businesses to pay $7.50/hour plus family health benefits or $9.50/hour without benefits	Possible council vote Fall 1996
Minneapolis/ St. Paul	Legislative	Joint Twin Cities Task Force is drafting living wage policies for city contractors and subsidized businesses	Possible introduction of proposed ordinance by the end of the year; public hearing expected in the fall.
New Orleans	Ballot Initiative	Set city-wide minimum wage at $1.00/hour above the federal level	Supporters have gathered 14,000 signatures; 1997 timeline to be determined
California	Ballot Initiative	Raise the *state* minimum wage to $5.00/hour in 1997 and $5.75/hour in 1998	Supporters gathered required signatures to qualify for the November 1996 ballot.
Minnesota	Legislative	Require state and city contractors and subsidized businesses to pay $7.28/hour and hire from the community	Passed MN. House and Senate; vetoed by Governor
Montana	Ballot Initiative	Raise the *state* minimum wage to $4.75/hour in 1997; $5.25/hour in 1998; $5.75/hour in 1999; $6.25/hour in 2000.	Supporters gathered required signatures to qualify for the November 1996 ballot.
Missouri	Ballot Initiative	Raise the *state* minimum wage to $6.25/hour in 1997; $6.50/hour in 1998; $6.75/hour in 1999; and increase $.15 each year thereafter	Supporters gathered required signatures to qualify for the November 1996 ballot.
Oregon	Ballot Initiative	Raise the *state* minimum wage from $4.75 to $6.50/hour over three years.	Supporters gathered required signatures to qualify for the November 1996 ballot.

Proposals to require municipal contractors to pay a living wage have met with strong opposition from business interests and some political leaders. Their most prominent arguments include the following:

Higher Costs for Contracts. Critics argue that requiring city contractors to pay employees wages substantially higher than the federal legal minimum will drive up the costs of city contracts, imposing substantial new burdens on local taxpayers. The office of Los Angeles Mayor Richard Riordan claims that the proposed Los Angeles living wage ordinance "will have a major impact on the city's budget and may make it impossible to restructure the way the city delivers services."[2] The Chicago Chamber of Commerce has advanced the same argument during the debate on the Chicago living wage ordinance. A spokeswoman claimed that "[t]he new ordinance will. . . hurt the city by creating artificially high wage rates. . . and increasing city procurement costs."[3] In Baltimore, Mayor Kurt Schmoke, contemplating a veto of the living wage ordinance passed by the City Council, expressed fears that the contract cost increases would be so high the city would not have the funds to pay for them.[4]

Fewer Workers Employed. Opponents also claim that because living wage laws will raise labor costs, many contractors will seek to do the same work with fewer employees, thus costing some low-wage workers their jobs. Economist Stephen J.K. Walters' arguments during the Baltimore living wage campaign were fairly typical: "the big losers are all the states that have done the most to make unionization easy and labor costly. . . . [The living wage would] price many of the workers right out of their jobs."[5] According to the chief economist for the University of New Mexico Bureau of Business and Economic Research , "the ones who are fortunate enough to keep their jobs will benefit [from Albuquerque's proposed law], but we would see quite a few people at the minimum wage who would lose their jobs."[6]

High Enforcement Costs. Critics claim that taxpayers will be further burdened by substantial new costs to monitor and enforce employer compliance with the law. During the debate on the St. Paul living wage proposal, a board member of the Chamber of Commerce stated, "The initiative mandates that the city follow up on all projects after two years and impose fines and penalties for noncompliance. Who do you think would end up paying to administer this ordinance? We would – the taxpayers. . . . This new burden would be added at a time when taxpayers are demanding that we reduce the price of government."[7]

Loss of Bidders. Opponents also claim that competition for city contracts will be reduced, as fewer companies believe that they can place a competitive bid under the requirement of higher

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[2] The "Living Wage "Issue - Fact Sheet, Office of Mayor Richard Riordan

[3] Fou, Ross. "Group Wants City Contractors to Pay $7.60 'Living Wage,'" *The Press*, June 19, 1996.

[4] "Wage Bill Depends on Schmoke," *Baltimore Sun*, December 4, 1994

[5] Walters, Stephen J.K. "Is BUILD Trying to Tear Down?" *The Baltimore Sun*, June 22, 1994, p. 11A.

[6] Domrzalski, Dennis. and Vukelich, Dan. "6.50 City Minimum Wage Advocated," *Albuquerque Tribune*, August 15, 1996, p. 1.

[7] Given, William. "Should City Jobs Initiative Pass?" *Saint Paul Pioneer Press*, October 10, 1995, p. 7A.

wages. Less competition will lead to further cost increases. A *Chicago Sun-Times* editorial asserted that although "proponents argue that [Chicago's proposed living wage] ordinance would make the bidding process more equitable for companies already paying a living wage, it is likely that the higher cost of doing business would instead reduce the number of companies bidding."[8] And the *Boston Herald* claims that "for a business in a competitive industry (and most are), increasing the cost base with [a living wage] requirement could simply lead it to drop the city as a customer."[9]

Creation of a Hostile Business Climate. One of the most prominent arguments of critics is that businesses in general, not just those bidding on city contracts, will interpret the passage of a living wage law as a "bad signal" in terms of the city's overall business climate, leading to capital flight from the city. At a time of bitter competition for job-creating investment, the argument goes, a municipality would be placing itself at a grave disadvantage by passing a law that implies a lack of commitment to keeping costs for businesses under control. According to a *Boston Herald* editorial, "the [Boston] proposal couldn't be better calculated to drive business out of the city."[10] The *Los Angeles Business Journal* opined, "Simply put, the living wage threatens to derail the economic revival that the City of L.A. has been enjoying," referring to the proposal as, "[a]nother bad, job-killing idea."[11] The Minnesota Retail Merchants Association claims that "mandating wages like this will have a chilling effect on business development."[12] Concerning Denver's ballot initiative to raise the city's minimum wage, a City Councilman called it "retail suicide. . . . What we're going to do is watch a lot of our economic base walk out of the city to the suburbs."[13]

These arguments, and their variants, have been raised wherever living wage legislation is under consideration. If they are correct, the case for this legislation would be severely weakened.

The purpose of this study is to determine, based on the experience of one of the first cities to pass a living wage requirement for municipal contractors, whether the stated concerns of critics about negative economic and fiscal consequences are or are not well-founded. We assessed the impact of Baltimore City Ordinance 442, which went into effect on July 1 of 1995, in the following areas: the cost of city contracts, the numbers of bidders seeking city contracts, the number of workers employed by city contractors, administrative costs, and the overall business climate of the city of Baltimore It is our hope that the results of this analysis will be of use not only to the citizens of Baltimore, but to elected officials and members of the public in other locales as they evaluate present and future proposals for living wage requirements.

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[8] June 23, 1996.

[9] September 5, 1996.

[10] Ibid.

[11] "Another bad, job killing idea," *Los Angeles Business Journal*, September 30, 1996

[12] Judy Cook, Main Retail Merchants Association, quoted in "Can Government Ensure a "Living Wage,'" *Investor's Business Daily, April 3, 1996,* in reference to proposed state-wide Minnesota living wage law

[13] Bartels, Lynn. "Voters Will Decide on Wages," *Rocky Mountain News*, August 6, 1996, p. 1.

The Baltimore Living Wage Ordinance

In December 1994 the Solidarity Sponsoring Committee (SSC), a group of low-wage service workers, successfully campaigned for a mandatory living wage for employees of city service contractors. The committee was organized by BUILD (Baltimoreans United in Leadership Development), a largely church-based community organization affiliated with the Industrial Areas Foundation, and AFSCME (the American Federation of State, County and Municipal Employees). The Baltimore Living Wage ordinance, which went into effect in July 1995 (fiscal year 1996), established a minimum wage of $6.10 per hour for anyone working on a city service contract. In July 1996, the wage was increased by Baltimore's Board of Estimates to $6.60. The living wage ordinance stipulates that the wage be increased annually, upon approval by the Board of Estimates, until it equals the amount required to raise a family of four above the poverty line. In subsequent years, the wage is to be indexed to inflation in order to keep it above the poverty line. The ordinance aims for a living wage of $7.70 (the projected poverty level income for a family of four) for 1999 (see Figure 1).

The living wage ordinance establishes an enforcement mechanism and imposes significant penalties on contractors who violate the wage requirement or fail to submit proof of compliance. Contractors are required to submit payrolls on a biweekly basis to the Wage Commission for enforcement purposes. They can be fined $10.00 per day for each day their payrolls are late. If a service contractor is found to be noncompliant with the wage requirement, it must remit back pay to the employees and pay fines to the city. Any violator of the ordinance can be made ineligible for city contracts for a year. If a contractor is noncompliant on more than three contracts in a two-year period, it can be barred from bidding on contracts for three years.

There is, however, an exception in the ordinance that exempts those companies awarded contract *extensions* from the living wage requirement. Extension options typically range from one to four years and "grandfather" the wage requirement in force at the time the contract was awarded.

The adoption of the living wage ordinance was a response to the deepening impoverishment of low-wage earners in the city of Baltimore. Church leaders saw a sharp increase in the number of working people relying on social service ministries for food and housing. An increasing number of these poor families were headed by low-wage earners, rather than the unemployed or welfare recipients. In Baltimore, BUILD argues, the proliferation of poverty-wage jobs was spawned by the subsidized refurbishing of the downtown sector as well as the privatization of work by the city government. The job growth brought by subsidized businesses was concentrated in low-wage, temporary occupations like janitors and lawn cutters. And government privatization often relegated workers to contingent employment paying low wages and offering few, if any, benefits. In order to reverse this trend, the SSC campaigned for a mandatory living wage for employees of city contractors, arguing that taxpayers' money should not be used to promote the creation of poverty-wage jobs. Workers benefitting from the living wage ordinance include janitors, food service employees, laborers, machine cleaners and repairmen, stenographers, carpet cleaners and repairmen, and bus drivers and aides hired by the city.

Figure 1: Living Wage Earnings and the Poverty Level: How the Wages Compare

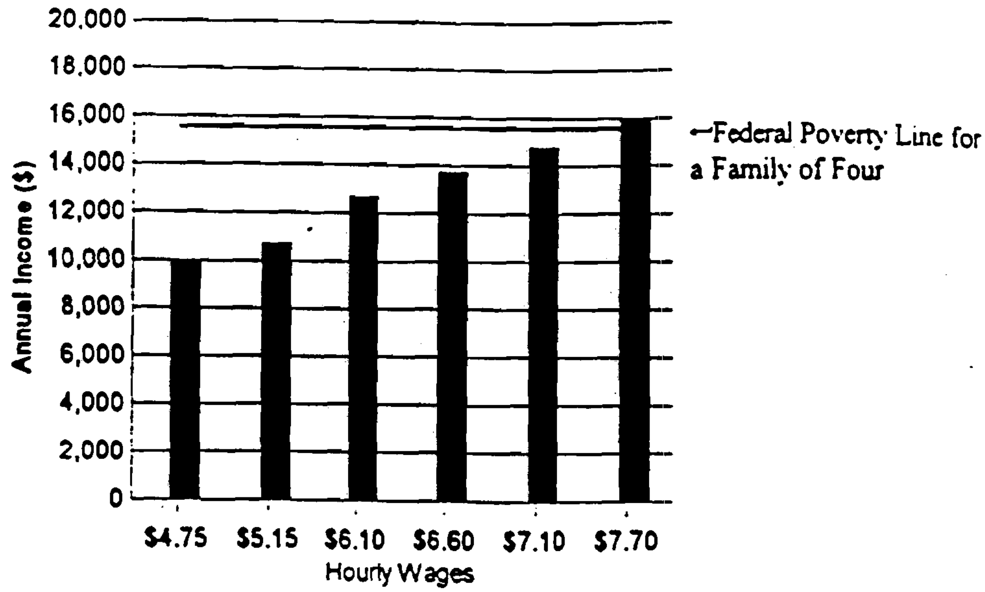

Figure 1: This figure compares the current ($4.75) and future ($5.15) federal minimum wages and Baltimore's living wage increments to the current poverty threshold for a family of four. The Baltimore Living Wage ordinance projects the earnings of the lowest paid city service contract employees to increase to $7.70 per hour in 1998. This amount would raise a family of four above the current federal poverty line of $15,569.00, but will lose some value due to inflation. A city contractor working 40 hrs per week, 52 weeks a year at Baltimore's current living wage of $6.60 per hour, earns a yearly salary of $13,728.00 or 22% less than the federal poverty level for a family of four. The current hourly wage of poverty-line earners is $7.49 per hour (*Source: Bureau of the Census.*)

The Costs of the Living Wage Ordinance to the City

This study focuses on contracts whose labor costs have increased or are expected to increase as a result of the living wage ordinance. The City's Bureau of Management and Budget Research compiled a list of the types of contracts that are or will be affected by the ordinance, as well as the dollar amount of all the contracts. The Bureau determined that the total value of contracts falling under the wage requirement was $26,811,544 in December 1995. We obtained full or partial information on 46 contracts involving 75 companies; others have yet to be rebid under the living wage requirements. Those contracts for which information on pre- and post-ordinance (rebid under the living wage law) costs were available are presented in Table 2. The value of these contracts is $19,326,066.39, or 72% of the value of those contracts affected by the ordinance.

Table 2: Baltimore City Contract Costs Before and After the Living Wage Ordinance

Contract Name	Pre-Living Wage Old Contract #	Price ($)	Bids	Post-Living Wage New Contract #	Price (current $)	Price (constant $)	Bids	Weighted % Diff.
Public Pupil Bus Transportation	BP-06000 ('94)	14,137,507.50		BP-06000 ('95)	14,500,000.00	14,213,263.74		0.4038
Homemaker Services	BP-11695	72,000.00	4	BP-10597	84,528.00	80,170.87	5	0.0482
Carpet Repairs	BP-12494		4	BP-17296			2	
Athletic & Cultural Bus Transportation	BP-13494		23	BP-12697			15	
Homemaker/Personal Care Services	BP-13595	268,400.00	4	BP-10497	258,280.00	246,192.10	5	-0.1080
General Moving & Hauling	BP-13794	118,650.00	5	BP-14596	118,508.20	112,623.18	4	-0.0303
Maintenance & Repairs on Trailers	BP-17594		2	BP-10396			1	
Grass Cutting -- Cluster H	BP-17795	44,604.00	4	BP-19396	31,500.00	30,692.69	4	-0.0508
Janitorial, People's Court Building	BP-19393	21,372.00	15	BP-19695	18,456.00	17,399.96	13	-0.0171
Hauling of Voting Machines	BP-19994		2	BP-21295			2	
Camp Variety Bus Transportation	BP-21793	30,000.00	7	BP-22096	35,440.00	32,653.63	3	0.0153
Janitorial, Library Branches 19 & 21	BP-22293	8,010.00		S-60703	8,700.00	8,210.39		0.0011
Janitorial, Library Branches 2 & 4	BP-22393	5,939.72		S-60704	8,736.00	8,244.36		0.0170
Janitorial, Library Branches 30, 36 & 38	BP-22493	10,067.84		S-60702	12,000.00	11,324.67		0.0075
Janitorial, Library Branches 6 & 18	BP-22593	6,672.00		S-60701	8,000.00	7,341.63		0.0039
Janitorial, Library Branches 23 & 26	BP-22693	8,100.00		S-60502	8,400.00	7,363.66		-0.0035
General Charter Bus Service	BP-24093	750,000.00	18	BP-20795	750,000.00	709,913.65	17	-0.2012
Commission on Aging Nutritional Meals	BP-94025	2,523,069.12	3	BP-95025	2,161,391.00	2,047,918.39	2	-2.0449
Summer Foodservice Program for Youth	BP-95111	1,289,500.00	1	BP-96110	1,332,000.00	1,296,569.57	1	0.0377
Janitorial, Dunbar Day Care	S-30202	9,600.00	1	S-50502	7,312.56	6,873.52	2	-0.0104
Janitorial, Wyman Park MPC	S-30206	5,628.00		S-50504	7,615.86	7,172.93		0.0104
Janitorial, Govans MPC	S-30208	7,346.21		S-50503	7,312.56	6,887.27		-0.0023
Janitorial, Arena Garage	S-30302	9,600.00		S-60708	10,128.00	9,510.41		-0.0005
Total Costs		**19,326,066.39**			**19,368,308.18**	**18,860,329.59**		
Mean % Difference								**-1.9240**
Standard Deviation								**0.4836**
Total Number of Bids			93				76	

As can be seen from the totals, the nominal cost of the contracts covered by the ordinance increased by only $42,242, or less than one-quarter of one percent. In real terms, adjusting for inflation, there was an absolute *decrease* in costs. The fifth column of Table 2 shows the price of the most recent contracts adjusted for inflation.[14] In real terms, the total cost of these contracts declined from $19,326,066 to $18,860,329, or 2.4%.

The average contract price, weighted by its share in the total cost of the sample, declined by 1.92%. (This is shown in the last column of Table 2). This decline is statistically significant at the .001 level.[15]

This is a surprising result, given that at least some of the contractors in this sample faced an increase in their labor costs as a result of the living wage. The most likely explanation is that other factors overwhelmed the impact of these cost increases. From interviews with contractors it appears that it is a common practice to try to underbid the previous year's contract, and it may be that the competitive pressures of the bidding process were enough that contractors were forced to absorb the increased costs of the living wage. This is most likely true for the food and bus contractors, who reported that they did not adjust their bids for the increased labor costs. Most janitorial companies reported that they did in fact take the increased labor costs into account when formulating their bids, but these increases did not show up in the overall costs of the new contracts.

We cannot, of course, conclude that the living wage ordinance actually contributed to lowering the cost of the average contract. However it is worth noting that there are efficiency gains at the higher wages, and these could have lowered total costs. In telephone interviews with the contractors, many stressed the relationship between a higher wage and a lower rate of turnover. One of the larger janitorial contractors who said he always paid more than the Federal minimum states that at wages below $5.00 an hour, the problems of turnover and absenteeism were too large. If turnover is actually lower under the new wage, and contractors insist that it is, productivity increases could offset all or part of the increased labor costs. And since high rates of turnover can make it more difficult for a contractor to fulfill the contract, the higher wage can protect the city from having to award increases to contractors who cannot fulfill their obligations in the agreed upon time and dollar amount.

The number of workers impacted is fairly small, so even if contract costs had increased by the full amount of the potential increase in labor costs, the impact on Baltimore's $2 billion budget would have been very slight. However, even these very small increases in the cost of city contracts did not materialize. Furthermore, the results of this study indicate that even if the contracts covered had comprised a much larger share of the City's budget, the predictions of significant cost increases would not have been borne out.

In addition, the argument that the cost of monitoring and enforcing compliance with living wage laws would impose significant new costs on taxpayers is not supported by the evidence from Baltimore. According to Baltimore's Bureau of Management and Budget Research, the wage

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[14] The prices were adjusted by the Consumer Price Index for the time that elapsed between each pair of contracts.

[15] $t_{18} = 3.978$.

commission was awarded only $121,000 to enforce the living wage in 1996. This would amount to an increased per capita tax burden of 17 cents a year This figure does not include any money received from fines levied on employers who fail to comply with the law, which would lower the net cost of enforcement to the City.

Impact on Contractor Employment Levels

Have contractors responded to increased labor costs by laying off workers or by failing to hire as many as they otherwise would have? The evidence here is not yet complete: (1) the majority of contractors bound by the living wage ordinance have yet to turn in payroll information to the Wage Commission and (2) pre-ordinance contractors were not required to submit payroll information. To determine whether the increased labor costs resulted in reduced employment, we interviewed those contractors who held a contract both before and after the ordinance went into effect and whose labor costs increased as a result of the ordinance. This sample consisted of 31 companies, including providers of transportation, janitorial, food and administrative services.

None of the companies interviewed reported any reduction in staff levels to compensate for the increased cost of labor resulting from the living wage requirement.

The school bus contract - actually a multiple contract with 26 companies that accounts for $14,500,000 of the total - provides the clearest example of how it is often less common in practice than in theory for employers to reduce staff in response to increased labor costs. Because the labor force for bus contracts consists of bus drivers and aides (the latter are required on special needs buses for senior citizens and the disabled), reducing staff levels would be difficult if not impossible.

According to the Baltimore Bureau of Management and Budget Research's estimates. the City's janitorial contracts have the highest percentage of costs attributable to labor. Of the two janitorial companies holding pre- and post-ordinance contracts, neither reported reducing staff levels to compensate for the increased costs. In addition, the large janitorial (school) contracts have mandatory staff levels set by the city. Staff levels for these contracts, then, could not be altered by contractors in response to the living wage requirements.

Impact on Bidding Practices

To determine whether the ordinance discouraged companies from bidding on contracts, we examined those contracts where the labor costs would be immediately increased by the ordinance.[16] Of these, 43% either had more or the same amount of bidders as the previous year and 57% had less. Although the average number of bids for these contracts declined from 6.64 to 5.42 (see Table 3), this difference was not statistically significant.

[16] Information on the number of bids made before and after the ordinance was available for 54% of the contracts.

According to Ken Dahms, janitorial contract buyer for the City of Baltimore, there has not been any decrease in bids outside of normal fluctuations in companies' bidding practices. It is perhaps worth noting that the two contracts whose labor costs for its lowest-wage workers had the highest rate of increase (55% - from $4.25 to $6.60 per hour) had an increase in the number of bidders, and the contract with the largest decline in bidders already pays workers more than the living wage.

Surprisingly, contractors interviewed about the living wage gave generally positive responses. From bus companies to temporary agencies to janitorial services, the prevailing opinion offered was that the living wage "levels the playing field" and relieves pressure on employers to squeeze labor costs in order to win low-bid contracts.

"We feel more able to compete against businesses who were drastically reducing wages in order to put in a low bid," said a manager of a bus company. In such cases, if more firms think they have a chance to win city service contracts, the number of bidders could actually increase over time as a result of the living wage hike.

Others notice a marked change in worker morale and productivity brought about by the higher wage. "You get a better quality worker, which builds a better reputation for our company," said a human resources representative of a temporary agency. And according to another manager at a bus company, "workers seem happy [and] they come to work on time because they know that at $6.10 per hour, somebody else wants the job if they don't."

Baltimore's Business Climate

The argument that businesses will leave a city as a result of the living wage ordinance is based primarily on a somewhat intangible mechanism - the idea that such ordinances create the *perception* that a locality is unfriendly to business, thus discouraging new or continued investment. The direct effects of such ordinances on wages, since they affect such a small proportion of the workforce, could not discourage investment by raising costs broadly in the local labor market. However, claims of indirect effects are asserted with great frequency, find receptive audiences in a time of intense state and local competition for investment, and therefore cannot be ignored.

In the case of Baltimore, there is no evidence that local businesses or potential investors have responded negatively to the ordinance. As noted above, even the city contractors interviewed for this study, who are directly affected, had no complaints about the ordinance. As for businesses in general, Table 3 shows the assessable base of personal property for businesses and corporations in the city of Baltimore, for the years 1990-95. This measures the value of local businesses' assets, other than real estate, for tax purposes.

As shown in the Table, the value of business property declined in real terms in the four years preceding the passage of Baltimore City Ordinance 442. It then increased sharply from 1994 to 1995, after the passage of the ordinance.[17] The experience of a single year since passage of the

[17] The declines for 1991 and 1992 can be attributed to the national recession (though it is worth noting that real declines continued until the 4.6% real jump in 1995).

ordinance provides a limited basis from which to assess the ordinance's impact. But it is clear that claims that a living wage law will drive investment from a city have found no basis of support in the actual experience of Baltimore.

Table 3: Total Assessable Personal Property Tax Base for Businesses in Baltimore City From 1990-1995

Year	Current $	Constant $
1990	$695,303,010	$695,303,010
1991	$705,676,100	$684,457,905
1992	$701,417,280	$661,153,059
1993	$697,686,606	$640,373,204
1994	$712,617,470	$636,834,200
1995	$764,257,220	$666,344,552

The Economic Debate Over Minimum Wages

The results here are consistent with a growing body of economic research that has challenged some long held notions of how labor markets function, and has influenced, most recently, the debate over raising the federal minimum wage.

According to traditional economic theory, wages are determined by an equilibrium of supply and demand in the labor market. The demand for labor is derived from the productivity of workers "at the margin," – that is, how much an additional unit of labor would contribute to the firm's revenue. In this view, an attempt to raise wages beyond the market equilibrium rate will cause increased unemployment. This results from both employers cutting back on hiring at the higher wage, and from the increased number of people who enter the labor force to seek work at the higher wage (but cannot find it).

This analysis of the effect of the minimum wage has been a mainstay of undergraduate economics textbooks for decades. However, in recent years a number of empirical studies have cast considerable doubt on the conclusion that raising the minimum wage will necessarily increase unemployment.

Most prominent among these is the study by Princeton economists David Card and Alan

Krueger,[18] which examined changes in employment at 410 fast-food restaurants in New Jersey and Pennsylvania, before and after New Jersey raised its minimum wage in 1992. The New Jersey increase was substantial – from $4.25 to $5.05 an hour, or 18.8%, and restaurants in neighboring eastern Pennsylvania faced no such increase. Their study found no significant differences in employment changes at these businesses across the border of the two states Card and Krueger followed this study with a more comprehensive book, *Myth and Measurement*, which drove a final nail into the coffin of the textbook relationship between minimum wages and unemployment.[19] An attempt to refute Card and Krueger's results, although seized upon by opponents of increasing minimum wages,[20] was found lacking within the profession.[21]

The other part of the traditional economic theory of labor markets that has been part of the public policy debate is more explicitly ideological. The "marginal productivity theory," described above, says that workers are indeed paid according to their productivity. This has a normative implication that is difficult to avoid – that is, the market rewards people according to what they deserve, or contribute to the economy. This belief is not just the province of economists, but has been part of the popular ideological scenery since the Industrial Revolution. Proponents of a higher minimum wage have had to contend with this precept as well, but they seem to have made some headway during the most recent debate over the federal minimum wage. This is partly due to their success in challenging the conventional stereotype of minimum wage workers as teenagers from middle class families earning some extra spending money in their spare time. The most recent increase in the Federal minimum wage directly affects more than 11.8 million workers, some three-quarters of whom are adults. About 40% of those affected are the sole breadwinners for their families.[22] And these figures do not include the millions of workers earning more than $5.15 per hour whose wages are part of the "minimum wage contour," – that is, they tend to be pushed up when the minimum wage rises.

There is of course some level of the minimum wage that would actually cause employers to eliminate jobs; whether any of the living wage ordinances could reach this level remains to be seen. One major difference between some of these ordinances and minimum wage laws is that to the extent

[18] Card and Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, Vol 84, No. 4, pp. 772-93, 1994. Other studies of different regions in recent years reached similar conclusions: e.g. Katz and Krueger (1992), for fast-food restaurants in Texas; Spriggs and Klein (1994), for food-service businesses in Jackson, Mississippi and Greensboro, North Carolina.

[19] Card and Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, N.J.: Princeton University Press, (1995).

[20] A major study prepared in opposition to the Chicago living wage ordinance relied on the Neumark and Wascher study (cited below) to assert that "the consensus among economists is that employment declines when the minimum wage is raised." (Tolley, Bernstein, and Lesage, p.41) See also, e.g., Richard Berman's op-ed against the federal minimum wage increase (Wall Street Journal, March 29, 1996).

[21] See Schmitt (1996) for a thorough review of Neumark and Wascher's (1995) failed attempt to refute Card and Krueger's research.

[22] See Mishel, Lawrence, Jared Bernstein, and Edith Rasell. "Who Wins With a Higher Minimum Wage?" Briefing Paper. Washington, D.C.: Economic Policy Institute, 1995.

that increased labor costs can be passed on to the city government, there would be no need for contractors to reduce employment. Of course, this could mean additional taxes for city residents. The other possibility – where there are more competitive markets and bidding practices – also cuts both ways. That is, if contractors are forced by the higher labor costs to increase productivity and therefore reduce employment, the taxpayers gain from the increased productivity.

In the case of Baltimore, there have been no additional costs nor measurable effects on employment. The results, however unexpected, are consistent with the most recent research in labor economics, in which competitive pressures, efficiency gains, or other responses can produce a labor market outcome with neither price nor employment changes following a minimum wage increase.

Conclusion

The predicted negative effects of raising wages for workers employed on city contracts have not materialized in Baltimore. The cost of the affected city contracts did not increase, and in fact decreased. Most payroll employment data for the relevant city contractors is not yet available, but interviews with contractors indicate that they did not reduce their workforce in response to the higher wage. The number of bidders for the contracts in our sample declined, but this change was not statistically significant. And finally, there is no evidence that the ordinance discouraged investment generally in Baltimore.

It will take more time, as well as further research, to determine exactly how contractors are responding to the ordinance, and how their responses affect employment, productivity, and costs to the city government. As the living wage continues to rise to $7.70 per hour over the next two years, there will be greater potential for cost increases and other effects. But for now, it is clear that in the 21 months since it was enacted by the city, the stated fears of those who oppose living wage legislation have found no basis in this case.

It also must be noted that the present analysis includes no assessment of the significant potential benefits of the living wage ordinance – substantially higher income for low-wage workers and their families, with attendant increases in their quality of life and cost savings as the demands these individuals place on federal, state and local government programs is reduced. The full extent of these benefits awaits analysis. But any future costs to the city of Baltimore that may arise from the living wage ordinance must be weighed against these benefits.

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APPENDIX 5

DRAFT for discussion purposes only

To:	Paul McCann, Acting Director
From:	Bob Consalvo, John Avault Policy Development and Research Development [1]
Date:	January 31, 1997
Subject:	Boston Living Wage Campaign

Working with the departments listed below, we have attempted to analyze the impact on the city budget of the proposal to create a minimum "Living Wage" for city employees and those who work for a company or agency under contract to the city. This memorandum does not take into account any impacts on independent agencies such as the Boston Housing Authority, the Boston Water and Sewer Commission, and the Boston Medical Center.

This memo first presents the Living Wage proposal and who and what it might cover, the conclusions of our analysis, the projected costs so far as we can determine, and issues that may arise.

The Living Wage Proposal

The Boston Jobs and Living Wage Campaign proposal lists six Basic Principles:

1) Ensure that employees earn enough to support a family of four at or above the poverty line which they set at $7.49 / hour. (However, the 1995 latest poverty line threshold, just released in September 1996, is $15,569 / year poverty line income and implies a full-time job making about **$7.80 / hour**.)

2) Cover non-construction jobs at companies receiving "a City contract, City subsidy, or City tax abatement."

3) Require "First Source Hiring" from "community based hiring halls" for some period, during which only Boston residents may be hired.

4) Employer to commit to hiring and wage rules before receiving contract, subsidy, or abatement.

5) Enforcement mechanism to require loss of contract, subsidy, or abatement in case of violation.

6) City Council Policy by November 15, 1996.

What companies would be covered?

While principle #2 identifies companies receiving "a City contract, City subsidy, or City tax abatement," most covered workers would be employed by firms with city service or vendor contracts.

City contracts are worth millions of dollars annually. They include such items as trash collection, Property Management, Elderly Commission services, school transportation, etc. The city also purchases a wide variety of goods and supplies. Some contract workers are

[1] Information was provided by Office of Budget Management, Community Centers, the Elderly Commission, Office of Jobs and Community Services, Office of Human Resources, the Property Management Department, and the Public Facilities Department.

subject to collective bargaining, and they generally are already above the living wage floor

"Abatements" are administrative or court-ordered refunds of property tax overcharges, and they are not subject to discretionary policy under Massachusetts property tax law. Property tax breaks such as 121A or the (as yet untried in Boston) "Tax Increment Financing" (TIF) property tax cut are applied the property owner, who is often different from the property's tenant company (making application here uncertain.)

"City subsidies" are limited by our state fiscal structure, which gives us only the property tax as an area for tax expenditure subsidies. Other subsidies could include: sale or lease of city property at negotiated prices, job training for company employees, business loans, the city's use of federal CDBG, HOME, JTPA, and other federal funds and Linkage.

Conclusion

We have concluded that the Living wage of $7.80 per hour (1995 official amount) would not result in a significant increase in the city budget, either directly through wages to city employees or indirectly through wages to contractors with city government.

Our conclusion applies to full-time positions or part- time positions with benefits, and contracts for services which fall under the city's operating budget.

It should not apply to the following:

contracts for human services with non-profit agencies of less than $100,000,
contracts for the purchase of goods,
contracts with firms where employees are covered by collective bargaining.
costs for services established under the rates set by the State's Purchased Services Division,
employees classified as emergency or temporary,
flat fees for services,
interns,
limited part-time work programs for adults, senior citizens or youth without benefits provided,
part-time bus monitors or lunch monitors paid by the trip or shift,
pass-through grants,
stipends,
substitutes, or
youth employment programs.

With regard to developers or businesses receiving subsidies or tax incentives, the Living Wage would not apply to landlords or other businesses receiving property tax relief under 121A agreements or other property tax relief incentives, loans or subsidies under CDBG, section 108 or other economic development incentive programs unless such incentives apply to:

- housing developments of over 4 units or where the majority of the units are not subsidized for tenants, or

- businesses of 20 or more employees, including businesses which are tenants of developers receiving such incentives.

We also recommend that the provision to require "First Source Hiring" from "community based hiring halls" for some period, during which only Boston residents may be hired not be adopted because it would conflict with union hiring procedures and other city sponsored job training and hiring programs.

Estimated budget increases required.

Estimated possible increased costs based upon FY 97 budget items include:

$ 54,480	Parking Ticket Mail Processing contract
67,421	Basic Services cleaning contracts
4,815	Transportation Dept. cleaning contract
840	Neighborhood Services 24 Hr. Hot-line
9,200	Community Centers
$136,756	**TOTAL**

Issues where questions may arise.

City payroll wages:
The starting pay for city workers is already above the $7.80 "Living Wage" level. The scheduled starting pay figure is $8.97 / hr. for a new "R5 Step 1" employee earning $314.52 for a 35 hour week.

Four or less housing units
Developments with **four or less housing units** are generally considered small developments by housing officials and the finance industry. If a development has received a city subsidy to produce affordable housing and the majority of the units are subsidized for tenants, it is reasonable to conclude that the subsidy has served its intended social purpose and it would not be appropriate to add the Living Wage condition to the development.

Businesses with less than 20 employees represent about 80% of the businesses in Boston but less than 20% of jobs. For many of these small businesses, imposition of a Living Wage standard would be a hardship, since many are start-up firms and family owned businesses which work on a tighter margin. It would also reduce the paperwork burden related to monitoring the application of the Living Wage proposal.

Human Service Grants Over $100,000
Human Service agencies operate on very tight budgets, particularly in this era of human service budget cuts. Boston's Office of Jobs and Community Services, which distributes most of the human service grants that the city awards, indicates that 90% of the grants are under $100,000, and that all of them go to small neighborhood based human service agencies. It would be an unreasonable burden on these agencies to require the application of the Living Wage.

Contracts with firms where employees are covered by collective bargaining.
Collective bargaining is a time honored and legally protected process between employers and employees that the city should not interfere with.

School Department:
Many special education students are in private placements. While teacher salaries would likely be competitive in these schools, there are likely to be a large number of aides employed in these schools. The costs for these placements are determined on a per pupil basis by state government's Purchased Services Division.

Health Insurance
Health Insurance is approximately a $70 million annual cost. Some HMOs may have employees earning below the Living Wage level. The Bureau of Labor Statistics May 1995 Occupational Compensation Survey identifies Nursing Assistants, Clerks, Key Entry Operators, Maintenance Workers, and Switchboard Operators / Receptionists as jobs that sometimes pay below $7.80 / hr. in Boston Area Health Services. The highly regulated and complicated nature of this industry and the rapid change it is undergoing suggests that it should not be subjected to the Living Wage requirements at this time. The city should re-examine this area in several years.

Transportation Department
Parking Ticket Mail Processors are employees of a contract firm. These 15 to 20 workers make $6.50 / hr. The contract costs the city about $270,000 / yr. If the contract cost were to increase by the same 20% hike that would raise workers' hourly pay to $7.80, then additional city costs would be $54,480.

A $15,000 cleaning contract may cover some low wage workers. If half of this represented direct labor costs, and if all workers here were now paid the $4.75 minimum wage, then raising wages to $7.80 would increase costs by $4,815. (These assumptions are rather severe; actual costs would probably be less.)

The **Office of Neighborhood Services** pays its three "24 Hour Hotline" workers $7.66 / hr. A raise to $7.80 would have an annual cost of $840.

Basic Services
Cleaning contracts total $210,000. If half of this represented direct labor costs, and if all workers here were now paid the $4.75 minimum wage, then raising wages to $7.80 would increase costs by $67,421. (These assumptions are rather severe; actual costs would probably be less.)

The **Library** has 150 "Library Aides" working 20 hours per week without benefits and earning $5.00 / hr. Most of these aides are high school students and some are senior citizens. They work primarily in branch libraries shelving books.

Elderly Commission: Only one employee is paid less than $7.80 / hr. The stipends of Senior Aides and Companions should be excluded from coverage.

Community Centers has eleven regular employees with benefits who earn below $7.80 / hour. Increasing these employees to this level will cost $9200.

Inspectional Services Department leases 1010 Mass. Ave. for $542,000 annually. The lease may include cleaning by low wage workers. Additional costs would probably not be great.

Unemployment Insurance involves a $33,324 contract for "processing services". Potential costs unknown, but small, if any.

The **Emergency Shelter Commission** pays Long Island Shelter Farm guests a stipend. This area should be exempt from a Living Wage measure, since it does not represent conventional employment.

Police Department:
Catering represents an annual $140,000 contract expense. The catering industry often involves low wage employees, especially among the smaller operations, which would be excluded from the program.

The **Fire Department** has a $25,000 laundry contract. Laundry is another wage industry that may submit higher bids if subject to a Living Wage requirement.

Cc: David Passafaro
Howard Leibowitz

APPENDIX 6

The Self-Sufficiency Standard:

The self-sufficiency standard specifies the amount of cash resources needed for a family--of given size and composition, in a given community--to meet the basic needs of housing, food, child care, transportation, clothing and related work expenses, without subsidies or public assistance. It is calculated using the real costs of those needs in local communities, and it takes into account family size, composition, and the age of children. It is computed using numbers drawn from official sources (such as the Census, federal and state surveys of prices, and consumer price surveys) and standardized methodology.

Like the official measure used by the Census Bureau to determine poverty, the self-sufficiency standard calculates the minimum amount of resources needed to meet a family's basic needs, less than which the family's income is deemed inadequate. At the same time, it differs from the official poverty measure in four important ways:

(1) The self-sufficiency standard assumes that the adult(s) in the household work full-time, and for this reason it includes costs that are associated with employment, namely child care and transportation.

(2) Because the costs of child care are significantly greater for very young children than for older children, the self-sufficiency standard takes into account *age* as well as number of children. (Other cost differences influenced by age, food and medical care, are also taken into account.)

(3) The self-sufficiency standard incorporates regional variations in cost where these are significant. This is particularly important for housing, for which the most expensive areas cost four times as much for equivalent size housing as the least expensive areas. It is true to a lesser extent for child care, with minor regional variations in costs of health care and transportation.

(4) It includes the "cost" of taxes, as well as the "benefit" of tax credits, both the Child Care Tax Credit (CCTC) and the Earned Income Tax Credit (EITC), in the calculation of income needed to meet basic needs.

By incorporating these factors, the self-sufficiency standard moves beyond the poverty approach in two important ways. First, it incorporates the demographic changes over the last three decades, both the growth of single parent families and the increased participation of mothers in the labor force. Second, it takes into account changes in income and public policy, particularly the much higher level of taxes paid by low-income families, as well as the tax credits available to these families.

How the Self-Sufficiency Standard is Calculated

Each of the costs that make up the self-sufficiency standard is calculated using figures that are either gathered and calculated by a single national source (such as by the U. S. Census Bureau) or are calculated by states or local entities using standardized methodology. Costs are based on the assumption that the adults work full-time. All costs are in 1994 numbers; those which were given for other years have been updated (or deflated) as necessary, using the CPI (Consumer Price Index), so that they are equivalent. (Where inflation has been higher in a particular sector, namely medical costs, the medical inflation index was used). Because these figures will be used for estimating future costs, however, the current tax rates, exemptions, and rules are used to calculate tax rates and tax credits. Because there has been a substantial expansion of the EITC (see below) beginning in 1996, it was deemed more relevant to use the rules that would be in place in the future, rather than outdated information.

1. Housing Costs: Fair Market Rents (FMRs) are used for housing costs, which are calculated annually by the U.S. Department of Housing and Urban Development for every metropolitan housing market as well as rural counties. The FMRs reflect the cost of a given size unit (including utilities except telephone) at the 40th percentile. It is assumed that single adults and married couples need one-bedroom housing units, while families with children need one bedroom for the parent(s), and one bedroom for each additional two children. Thus a single parent with one or two children would need a two-bedroom unit, and a two-parent family with three children would need a three bedroom unit.

2. Child Care Costs: Child care costs are derived from the market surveys conducted by each state that are mandated by the Family Support Act of 1988. The amount provided would access 75% of the local child care market, given the age of the child and the type of setting. It is assumed that children less than three years old (infants) and children three to five years old (preschoolers) require full-time care in day care homes, and that school-age children (6-12 years) need part-time center care. Because Iowa is largely rural, it is assumed that there are relatively few day care centers available for most parents, hence all care for children less than school-age is presumed to be in day care homes.

3. Food Costs: The standard uses the U.S. Department of Agriculture's Low-Cost Food Plan; this Plan is about 25% higher than the Thrifty Food Plan, on which the food stamp allocation is based. The Low-Cost Plan was chosen because it allows for nutritionally adequate food consumption without unrealistic assumptions about food preparation time or consumption patterns. Food costs vary by the age of children and the sex of adults; it is assumed that single parent families are maintained by a woman. Because there is little regional variation in food costs, the same amounts are used for all areas.

4. Transportation Costs: For those living in cities with rail-based public transportation systems, transportation costs are based on average costs of commuting to work using public transportation, plus one trip per week for shopping. In all other areas, transportation costs are based on the cost of owning an 8-year-old car, including gas, oil, maintenance, repairs, taxes, car payments, and insurance. The distance is assumed to be five miles each way, the average commuting distance for American workers, plus one mile for one parent to allow for a "linked" trip for child care. In Iowa, all transportation costs are based on the assumption of owning and maintaining an 8-year-old car, and in the case of two employed adults, two cars.

5. Medical Costs: It is assumed that the "self-sufficiency wage" includes employer-provided health care coverage. Health care costs thus consist of the employee share of insurance premiums (about one-third of the total cost) and out-of-pocket expenses--including co-payments, uncovered expenses (such as dental care and prescriptions), and deductibles. The latter costs are adjusted by age, and both premium and out-of-pocket costs are adjusted by state, although the geographical variation in medical costs is not large.

6. Clothing and Miscellaneous Costs: Besides clothing (including shoes and coats), this category includes paper products, disposable diapers, non-prescription medicines, cleaning products, household items personal hygiene items, and telephone. It is calculated by taking 10% of the total of all other costs.

7. Taxes and Tax Credits: Using a complex formula, three taxes and two tax credits are estimated. Federal income taxes are calculated using standard deductions by family type and exemptions per person. State income taxes are calculated using state rules. Payroll taxes (OASDI and Medicare taxes) total 7.25% of gross wages.

The Earned Income Tax Credit (sometimes called the Earned Income Credit) (EITC) is a federal tax refund for working parents that is highest for the lowest income families, and is adjusted by family size, with the largest amounts for families with two or more children. It is phased out for families with children starting at earnings of about $11,600. Iowa has a state EITC that is 6.5% of the federal EITC, and that is included in the amount labelled "EITC" in the tables.

The Child Care Tax Credit (CCTC) is a federal tax credit. Families, however, may not use more that $2400 (for one child's care) or $4800 (for child care for two or more children). Also, the deduction is calculated using a rate that is higher (a maximum of .3) for those with lower incomes, decreasing to .2 for those with higher incomes. Finally, the child care tax credit cannot exceed the amount of federal income tax owed. Note that both of these tax credits are *subtracted* from the totals that make up the self-sufficiency standard, as both *reduce* the amount of income needed to meet a family's needs. Hence the tax credits appear in the tables with parentheses around the numbers.

How the Self-Sufficiency Standard Can Be Used

First, the self-sufficiency standard can be used as a *performance standard*. Rather than use an overall average wage of all (placed) participants in a program—which allows whole groups to be below the average—using the self-sufficiency standard, performance is measured against what each individual needs to be self-sufficient. (Since those with more barriers, such as a greater need for child care, would require more services, achieving self-sufficiency for such individuals would be worth "more" in evaluating performance). Using the self-sufficiency standard as a performance standard provides information necessary to answer the bottom-line question, "As a result of this program, how many participants are earning enough to be economically self-sufficient?"

Second, the self-sufficiency standard can be used as a *counseling/assessment tool*. That is, as part of the intake and assessment process, the case manager or intake worker can calculate for each participant their "self-sufficiency standard," given their family size, age of children, and geographical location. With this information, the participant will know the wage required to be self-sufficient, which in turn can be used to inform choices about what occupations to enter or train for, given prevailing wages in the community vis-a-vis the individual's self-sufficiency standard.

Third, the self-sufficiency standard can be used as a *poverty measure* to compare actual living standards, or adequacy of income, in a more accurate way than is currently given by the national official poverty measure. In a sense, it "levels the playing field," so that it is possible to compare across geographic areas with very different cost functions, how many families lack income adequate to secure the housing they need, enough food to meet minimal nutrition standards, adequate child care, transportation, clothing, and miscellaneous expenses.

The Self-Sufficiency Worksheet
Oakland, California/Alameda County

	One Adult	One Adult, One Child				One Adult, Two Children						
	Adult	Adult + Infant	Adult + preschooler	Adult + schoolage	Adult + teenager	Adult + Infant Infant	Adult + Infant preschooler	Adult + Infant schoolage	Adult + Infant teenager	Adult + preschooler preschooler	Adult + preschooler schoolage	Adult + preschooler teenager
Housing	$615.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00
Child Care	$0.00	$433.00	$510.00	$284.00	$0.00	$866.00	$943.00	$717.00	$433.00	$1,020.00	$794.00	$510.00
Food	$125.00	$199.90	$206.50	$240.45	$255.40	$274.80	$281.40	$315.35	$330.30	$288.00	$321.95	$336.90
Transportation	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40
Medical Care	$77.35	$158.13	$139.03	$139.03	$162.63	$195.89	$176.79	$176.79	$200.39	$157.68	$157.68	$181.29
Miscellaneous	$87.97	$162.44	$168.89	$149.69	$125.14	$217.01	$223.46	$204.25	$179.71	$229.91	$210.70	$186.16
Taxes	$202.24	$365.57	$389.95	$306.65	$215.40	$520.20	$548.18	$468.18	$376.25	$577.21	$494.48	$408.91
Earned Income Tax Credit (-)	$0.00	$0.00	$0.00	($34.72)	($94.67)	$0.00	$0.00	$0.00	($16.95)	$0.00	$0.00	$0.00
Child Care Tax Credit (-)	$0.00	($44.00)	($42.00)	($46.00)	$0.00	($80.00)	($80.00)	($80.00)	($42.00)	($80.00)	($80.00)	($40.00)
MONTHLY SELF-SUFFICIENCY WAGE	$1,169.96	$2,108.45	$2,205.77	$1,872.49	$1,497.31	$2,827.30	$2,926.22	$2,634.97	$2,294.10	$3,026.20	$2,732.22	$2,416.66
HOURLY SELF-SUFFICIENCY WAGE	$6.65	$11.98	$12.53	$10.64	$8.51	$16.06	$16.63	$14.97	$13.03	$17.19	$15.52	$13.73

The Self-Sufficiency Worksheet
Oakland, California/Alameda County

				One Adult, Three Children								
	Adult + schoolage schoolage	Adult + schoolage teenager	Adult + teenager teenager	Adult + infant infant infant	Adult + infant infant preschooler	Adult + infant infant schoolage	Adult + infant infant teenager	Adult + infant preschooler preschooler	Adult + infant preschooler schoolage	Adult + infant preschooler teenager	Adult + infant schoolage schoolage	Adult + infant schoolage teenager
Housing	$771.00	$771.00	$771.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00
Child Care	$568.00	$284.00	$0.00	$1,299.00	$1,376.00	$1,150.00	$866.00	$1,453.00	$1,227.00	$943.00	$1,001.00	$717.00
Food	$355.90	$370.85	$365.80	$349.70	$356.30	$390.25	$405.20	$362.90	$396.85	$411.80	$315.35	$445.75
Transportation	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40
Medical Care	$157.68	$181.29	$204.90	$233.65	$214.54	$214.54	$238.15	$195.44	$198.44	$178.79	$176.79	$220.05
Miscellaneous	$191.50	$166.95	$142.41	$300.17	$306.62	$287.42	$262.88	$313.07	$293.97	$265.30	$261.25	$250.22
Taxes	$416.16	$310.52	$214.08	$862.16	$896.04	$797.48	$676.04	$929.91	$829.56	$688.03	$668.01	$618.00
Earned Income Tax Credit (-)	$0.00	($72.45)	($158.47)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Child Care Tax Credit (-)	($80.00)	($44.00)	$0.00	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)
MONTHLY SELF-SUFFICIENCY WAGE	$2,442.64	$2,030.56	$1,622.12	$4,084.08	$4,188.90	$3,879.10	$3,487.67	$4,293.73	$3,983.22	$3,526.31	$3,461.80	$3,290.42
HOURLY SELF-SUFFICIENCY WAGE	$13.88	$11.54	$9.22	$23.20	$23.80	$22.04	$19.82	$24.40	$22.63	$20.04	$19.67	$18.70

The Self-Sufficiency Worksheet
Oakland, California/Alameda County

	Adult + infant teenager teenager	Adult + preschooler preschooler preschooler	Adult + preschooler preschooler schoolage	Adult + preschooler preschooler teenager	Adult + preschooler schoolage schoolage	Adult + preschooler schoolage teenager	Adult + preschooler teenager teenager	Adult + schoolage schoolage schoolage	Adult + schoolage schoolage teenager	Adult + schoolage teenager teenager	Adult + teenager teenager teenager
Housing	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00
Child Care	$433.00	$1,530.00	$1,304.00	$1,020.00	$1,078.00	$794.00	$510.00	$852.00	$568.00	$284.00	$0.00
Food	$460.70	$369.50	$403.45	$416.40	$437.40	$452.35	$467.30	$471.35	$486.30	$501.25	$516.20
Transportation	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40	$62.40
Medical Care	$242.66	$176.34	$177.34	$201.95	$176.34	$200.95	$225.56	$176.34	$199.95	$223.56	$247.17
Miscellaneous	$225.58	$319.52	$300.42	$275.97	$281.11	$256.67	$232.23	$261.91	$237.38	$212.82	$188.28
Taxes	$523.14	$963.79	$863.44	$740.85	$766.28	$647.03	$553.07	$671.25	$560.14	$468.40	$382.83
Earned Income Tax Credit (-)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Child Care Tax Credit (-)	($40.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($40.00)	($80.00)	($80.00)	($40.00)	$0.00
MONTHLY SELF-SUFFICIENCY WAGE	$2,964.47	$4,398.55	$4,088.05	$3,696.58	$3,778.53	$3,390.40	$3,067.55	$3,472.25	$3,091.15	$2,769.43	$2,453.87
HOURLY SELF-SUFFICIENCY WAGE	$16.84	$24.99	$23.23	$21.00	$21.47	$19.26	$17.43	$19.73	$17.56	$15.74	$13.94

The Self-Sufficiency Worksheet
Oakland, California/Alameda County

	2 Adults	Two Adults, One Child				Two Adults, Two Children						
	2 Adults	2 Adults + infant	2 Adults + preschooler	2 Adults + schoolage	2 Adults + teenager	2 Adults + infant infant	2 Adults + infant preschooler	2 Adults + infant schoolage	2 Adults + infant teenager	2 Adults + preschooler preschooler	2 Adults + preschooler schoolage	2 Adults + preschooler teenager
Housing	$615.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00	$771.00
Child Care	$0.00	$433.00	$510.00	$284.00	$0.00	$866.00	$943.00	$717.00	$433.00	$1,020.00	$794.00	$510.00
Food	$267.10	$342.00	$348.60	$382.55	$397.50	$416.90	$423.50	$457.45	$472.40	$430.10	$464.05	$479.00
Transportation	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80
Medical Care	$169.04	$206.80	$187.70	$187.70	$211.30	$244.56	$225.45	$225.45	$249.06	$206.35	$206.35	$229.96
Miscellaneous	$117.59	$187.76	$194.21	$175.00	$150.46	$242.33	$248.78	$229.57	$205.03	$255.23	$238.02	$211.48
Taxes	$209.86	$410.16	$436.46	$359.35	$272.73	$568.92	$622.73	$516.90	$431.33	$621.53	$543.20	$457.63
Earned Income Tax Credit (-)	$0.00	$0.00	$0.00	$0.00	($30.60)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Child Care Tax Credit (-)	$0.00	($40.00)	($40.00)	($42.00)	$0.00	($80.00)	$0.00	($80.00)	($40.00)	($80.00)	($80.00)	($40.00)
MONTHLY SELF-SUFFICIENCY WAGE	$1,503.40	$2,435.52	$2,532.77	$2,242.40	$1,897.00	$3,154.50	$3,359.26	$2,962.17	$2,646.62	$3,349.00	$3,059.42	$2,743.87
HOURLY SELF-SUFFICIENCY WAGE	$4.27 per adult	$6.92 per adult	$7.20 per adult	$6.37 per adult	$5.39 per adult	$8.96 per adult	$9.54 per adult	$8.42 per adult	$7.52 per adult	$9.51 per adult	$8.69 per adult	$7.80 per adult

The Self-Sufficiency Worksheet
Oakland, California/Alameda County

				Two Adults, Three Children								
	2 Adults + schoolage schoolage	2 Adults + schoolage teenager	2 Adults + teenager teenager	2 Adults infant infant infant	2 Adults + infant infant preschooler	2 Adults + infant infant schoolage	2 Adults + infant infant teenager	2 Adults + infant preschooler preschooler	2 Adults + infant preschooler schoolager	2 Adults + infant preschooler teenager	2 Adults + infant schoolage schoolage	2 Adults + infant schoolage teenager
Housing	$771.00	$771.00	$771.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00
Child Care	$568.00	$284.00	$0.00	$1,299.00	$1,376.00	$1,150.00	$866.00	$1,453.00	$1,227.00	$943.00	$1,001.00	$717.00
Food	$498.00	$512.95	$527.90	$491.80	$498.40	$532.35	$547.30	$505.00	$538.95	$553.90	$457.45	$457.45
Transportation	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80
Medical Care	$206.35	$229.96	$253.57	$282.32	$263.21	$263.21	$286.82	$244.11	$245.11	$227.45	$225.45	$226.45
Miscellaneous	$216.82	$192.27	$167.73	$325.49	$331.94	$312.74	$288.19	$338.39	$319.29	$290.62	$286.57	$258.27
Taxes	$464.87	$379.31	$276.27	$885.28	$914.31	$827.86	$717.39	$943.34	$857.34	$728.30	$710.09	$584.70
Earned Income Tax Credit (-)	$0.00	$0.00	($67.58)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Child Care Tax Credit (-)	($80.00)	($40.00)	$0.00	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)
MONTHLY SELF-SUFFICIENCY WAGE	$2,769.84	$2,454.29	$2,053.68	$4,385.69	$4,485.66	$4,187.97	$3,807.51	$4,585.64	$4,289.49	$3,845.07	$3,782.37	$3,345.67
HOURLY SELF-SUFFICIENCY WAGE	$7.87 per adult	$6.97 per adult	$5.83 per adult	$12.46 per adult	$12.74 per adult	$11.90 per adult	$10.82 per adult	$13.03 per adult	$12.19 per adult	$10.92 per adult	$10.75 per adult	$9.50 per adult

The Self-Sufficiency Worksheet
Oakland, California/Alameda County

	2 Adults + infant teenager teenager	2 Adults + preschooler preschooler preschooler	2 Adults + preschooler preschooler schoolage	2 Adults + preschooler preschooler teenager	2 Adults + preschooler schoolage schoolage	2 Adults + preschooler schoolage teenager	2 Adults + preschooler teenager teenager	2 Adults + schoolage schoolage schoolage	2 Adults + schoolage schoolage teenager	2 Adults + schoolage teenager teenager	2 Adults + teenager teenager teenager
Housing	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00	$1,057.00
Child Care	$433.00	$1,530.00	$1,304.00	$1,020.00	$1,078.00	$794.00	$510.00	$852.00	$568.00	$284.00	$0.00
Food	$472.40	$511.60	$545.55	$560.50	$579.50	$594.45	$609.40	$613.45	$628.40	$643.35	$658.30
Transportation	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80	$124.80
Medical Care	$249.06	$225.01	$226.01	$250.62	$225.01	$249.62	$274.23	$225.01	$248.62	$272.23	$295.84
Miscellaneous	$233.63	$344.84	$325.74	$301.29	$306.43	$281.99	$257.54	$287.23	$262.68	$238.14	$213.59
Taxes	$498.72	$975.25	$886.38	$776.35	$799.48	$689.46	$596.26	$713.04	$602.69	$517.12	$431.55
Earned Income Tax Credit (-)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Child Care Tax Credit (-)	($40.00)	($80.00)	($80.00)	($80.00)	($80.00)	($80.00)	($40.00)	($80.00)	($80.00)	($40.00)	$0.00
MONTHLY SELF-SUFFICIENCY WAGE	$3,028.61	$4,688.50	$4,389.47	$4,010.56	$4,090.22	$3,711.31	$3,389.23	$3,792.52	$3,412.18	$3,096.63	$2,781.08
HOURLY SELF-SUFFICIENCY WAGE	$8.60 per adult	$13.32 per adult	$12.47 per adult	$11.39 per adult	$11.62 per adult	$10.54 per adult	$9.63 per adult	$10.77 per adult	$9.69 per adult	$8.80 per adult	$7.90 per adult

ATTACHMENT C

MATRIX OF CITY RESPONSES

Probable Impact of Living Wage Ordinance of Life Enrichment Agency Programs
&
The Community & Economic Development Agency (CEDA)

Based on an ordinance of $7.72/hr. without benefits and $8.50/hr. with benefits.

Department	Program	General Comments	Do employees currently receive benefits?	Number of F/T Employees Affected	Number of P/T Employees Affected	Hours	How many of these employees are under 18?	Additional Cost to Agency
Parks, Recreation and Cultural Services	Work reation	$8.50 - $5.25 = $3.25 - Exemption requested	No	0	400	200	289	$260,000
	Feather River Camp	Based on 1997 camp season. Seasonal part-time: Camp Helper ($5.23); Camp Cook I ($6.52) ;Head Counseler($6.30); Camp Second Cook($7.45);Jr. Counselor ($5.00); Camp Rec. Leader(6.68), Camp Counselor($5.57) NOTE: City also provides shelter & food at a valur of $156 per week, per staff position			4 2 1	80 - 160 200 - 360 400		$15,796
	Other Recreation, Sports & Cultural Arts	Recreation Aide classfication is paid $5.15 (Unit G) or $5.28 (Unit I) $13,200 is based on average.			20	200		13,200
	Lake Chabot Golf Course	Food Service Workers						
	Other Non-profits Concessionaires Lessees	Children Fairyland costs will increase by $186,500						$186,500
Facilities Planning and Development	N/A	No Impact.						
Oakland Museum of CA.	N/A	No Impact.						
Senior Companion Program	N/A	Volunteers stipends are not considered in these calculations.	No	0	1		0	$1,560
Aging, Health and Human Services	ASSETS Senior Employment Opportun.		No	0	150		0	Do not have current pay rate.
	National Senior Community Service Employment Program (SCSEP)	Senior aides earn minimum wage while working part-time and gaining OJT, but program is nationally funded . Ord. wage increase would reduce by 25% the # of seniors on OJT because grant amount is fixed = 62 fewer seniors served.						
Library Services	Library Services	Homework assistance program will be impacted						
	The Youth Employment Partnership, Inc.	Students would earn a higher wage receiving OJT that they can expect in a private, entry-level position. Ord. should not apply to those 18 and under.	No	0	30		About 44 (Each year about 27% of partic. turn 18 during program.)	$23,308
Community & Economic Development Agency (CEDA)	Community Development Block Grant (CDBG)	A $48,000 increase in programs.	N/A	890	N/A		N/A	N/A
							Total	$500,364

National Economic Development and Law Center

Attachment C

ATTACHMENT D

VICE MAYOR IGNACIO DE LA FUENTE'S PROPOSED OAKLAND LIVING WAGE ORDINANCE AND POLICY

Oakland Living Wage Ordinance

Draft - Not for Circulation

Whereas, the City of Oakland awards many contracts to private firms to provide services to the Public and to City Government; and

Whereas, the City of Oakland provides financial assistance and funding to others for the purpose of economic development or job growth; and

Whereas, the City of Oakland has a limited amount of taxpayer resources to expend; and

Whereas, even in promising economic times, far too many working Oakland residents and their families live below or near the poverty line; and

Whereas, the use of taxpayer dollars to promote sustenance and creation of living wage jobs will increase consumer income, decrease levels of poverty, invigorate neighborhood businesses and reduce the need for taxpayer-funded social programs in other areas; and

Whereas, the City of Oakland's payment of prevailing wage rates for public works projects has been tremendously beneficial for working people in Oakland and their families, Oakland neighborhoods, and the area economy;

Whereas, the experience in the City of Oakland indicates that the procurement by contract of services has all too often resulted in the payment by service contractors to their employees of wages at or slightly above the minimum required by federal and state minimum wage laws. Such minimal compensation tends to inhibit the quantity and quality of services rendered by such employees, to the City and to the public. Underpaying employees in this way fosters high turnover, absenteeism, and lackluster performance. Conversely, adequate compensation promotes amelioration of these undesirable conditions; and

Whereas, the inadequate compensation typically paid today also fails to provide service employees with resources sufficient to afford life in the City of Oakland. It is unacceptable that contracting decisions involving the expenditure of City funds should foster conditions placing a burden on limited social services. The City, as a principal provider of social support services, has an interest in promoting an employment environment that protects such limited resources; and

Whereas, financial assistance recipients of the City are engaged in manufacturing or some other line of business that is an integral part of the City of Oakland economy and such entities often pay wages at or slightly above the minimum required by federal and state minimum wage laws. The City as a provider of subsidies to these entities has the same interest in requiring the payment of a higher minimum level of compensation to employees of financial assistance recipients as it does of service contractors;

Whereas, when the City uses contractors or subsidizes businesses which do not provide health insurance to their employees, this often imposes the costs of their medical care on the County, State and Federal governments. The City has an interest in avoiding such impacts, which the City finds can only be done if the employer provides health insurance in a reasonable form. The City finds that the benefits avoiding such impacts cost at least $1.25 per hour on average in contributions. The City also has an interest in ensuring that persons delivering City services are healthy, as lack of health care can effect performance and absenteeism. The City finds that employees are far likelier to be healthy if their employer provides than reasonable health insurance to them and their dependents. In addition, one of the City's reasons for providing financial assistance is to promote the public health, an interest served by having employers receiving such assistance spend a reasonable portion of this money for health purposes.

Whereas, in requiring the payment of a higher minimum level of compensation, this chapter benefits these interests;

BE IT ORDAINED BY THE CITY COUNCIL FOR THE CITY OF OAKLAND:

The Municipal Code of Oakland is hereby amended by inserting a new Chapter XX, as follows:

Section 1. Title and Purpose

(a) Oakland Jobs and Living Wage Ordinance

This Chapter shall be known as the "Oakland Living Wage Ordinance." The purpose of this ordinance is to require that nothing less than a prescribed minimum level of compensation (a living wage) be paid to employees of service contractors of the City and employees of City financial assistance recipients.

Section 2. Definitions

The following definitions shall apply throughout this chapter:

(a) "Awarding authority" means that subordinate or component entity or person of the City (such as a department) that awards or is otherwise responsible for the administration of a service contract or the financial assistance recipient, or if none than the City.

(b) "City" means the City of Oakland and all awarding authorities thereof, including all City departments.

(c) "City financial assistance recipient" (CFAR) means any person who receives from the City financial assistance as contrasted with generalized financial assistance such as through tax legislation, in accordance with the following monetary limitations. Assistance given in the amount of five hundred thousand dollars ($500,000) or more in any twelve-month period shall require compliance with this article for five years from the date such assistance reaches the five hundred thousand dollar ($500,000) threshold. For assistance in any twelve-month period totaling less than five hundred thousand dollars ($500,000) but at least fifty thousand dollars ($50,000), there shall be compliance for one year if at least fifty thousand dollars ($50,000) of such assistance is given in what is reasonably contemplated at the time to be on a continuing basis, with the period of compliance beginning when the accrual during such twelve-month period of such continuing assistance reaches the fifty thousand dollar ($50,000) threshold.

Categories of such assistance include, but are not limited to, grants, rent subsidies, bond financing, planning assistance, tax increment financing exclusively by the City, and tax credits. City staff assistance shall not be regarded as financial assistance for purposes of this article. A loan shall not be regarded as financial assistance. The forgiveness of a loan shall be regarded as financial assistance. A loan shall be regarded as financial assistance to the extent of any differential between the amount of the loan and the present value of the payments thereunder, discounted over the life of the loan by the applicable federal rate as used in 26 U.S.C. §§ 1274(d), 7872(f). A recipient shall not be deemed to include lessees and sublessees.

A recipient shall be exempted from application of this article if (a) it employs fewer than five employees for each working day in each of twenty or more calendar weeks in the current or preceding calendar year, or (b) it obtains a waiver as provided herein. The City financial assistance recipient must also demonstrate that the waiver will further the purposes of the financial assistance, ie. creating job for the long term unemployed, creating training positions which will enable employees to advance into living wage jobs or better. A recipient -- who employs the long-term unemployed or provides trainee positions intended to prepare employees for permanent positions, and who claims that compliance with this article would cause an economic hardship -- may apply in writing to the City department or office administering such assistance, which department or office shall forward such application and its recommended action on it to the City Council. Waivers shall be effected by Council resolution only.

A city financial assistance recipient who contends it is unable to pay all or part of the living wage must provide a detailed explanation in writing to the City department or office administering such assistance, which may recommend to the City Council a waiver of this requirement, which waiver may only be granted by a resolution of the Council. A waiver will be granted only if the city financial recipient can show economic hardship and that the waiver of the ordinance will further the interests of the City in creating jobs for the long term unemployed or providing training positions which will enable employees to advance with the employer into permanent living wage jobs or better. However, no waiver will be granted if the effect of the waiver is to replace or displace existing positions or employees or to lower the wages of current employees.

The explanation submitted by the City financial assistance recipient seeking a waiver must set forth the reasons for its inability to comply with the provisions of this ordinance, including a complete cost accounting for the proposed work to be performed with the financial assistance sought, including wages and benefits to be paid all employees, as well as an itemization of the wage and benefits paid to the five highest paid individuals employed by the City financial assistance recipient. The City financial assistance recipient must also demonstrate that the waiver will further the interests of the City in creating jobs for the long term unemployed or providing training positions which will enable employees to advance with the employer into permanent living wage jobs or better and will not be used to replace or displace existing positions or employees or to lower the wages of current employees.

Waivers from the Ordinance are disfavored, and will be granted only where the balance competing interests weighs clearly in favor of granting the waiver. If waivers are to be granted, partial waivers are favored over blanket waivers. Moreover, any waiver shall be granted for no more than one year. At the end of the year the City financial assistance recipient may reapply for a new waiver which may be granted subject to the same criteria for granting the initial waiver.

(d) "Contractor" means any person that enters into a service contract with the City.

(e) "Employee" means any person -- who is not a managerial, supervisory, or confidential employee who is employed (1) as a service employee of a contractor or subcontractor and under the authority of one or more service contracts and who expends any of his or her time thereon, including but not limited to: hotel employees, restaurant, food service or banquet employees; janitorial employees; security guards; parking attendants; health care employees; gardeners; waste management employees; and clerical employees; or (2) by a City financial assistance recipient who expends at least half of his or her time on the funded project, or (3) by a service contractor of a CFAR and who expends at least half of his or her time on the premises of the CFAR directly involved with the activities funded by the City.

(f) "Employer" means any person who is a City financial assistance recipient, contractor, or subcontractor and who is required to have a business tax registration certificate by Oakland Municipal Code §§ ______ or successor ordinance or, if expressly exempted by the Code from such tax, would otherwise be subject to the tax but for such exemption.

(g) "Person" means any individual, proprietorship, partnership, joint venture, corporation, limited liability company, trust, association, or other entity that may employ individuals or enter into contracts.

(h) "Service contract" means (1) a contract let to a contractor by the City primarily for the furnishing of services to or for the City (as opposed to the purchase of goods or other property or the leasing of property) and that involves an expenditure in excess of twenty-five thousand dollars ($25,000) and a contract term of at least three months or (2) a lease or license under which services are rendered for the City by the lessee or licensee.

(i) "Subcontractor" means any person not an employee that enters into a contract (and that employs employees for such purpose) with (a) a contractor to assist the contractor in performing a service contract or (b) a City financial assistance recipient to assist the recipient in performing the work for which the assistance is being given. Vendors, such as service contractors, of City financial assistance recipients shall not be regarded as subcontractors except to the extent provided in subsection (c).

(j) "Contract Compliance" refers to the Office of Contract Compliance of the Public Works Agency of the City of Oakland.

Section 3. Payment of Minimum Compensation to Employees

(a) Wages

Employers shall pay employees a wage to each employee of no less than the hourly rates set under the authority of this Chapter. The initial rate shall be eight dollars ($8.00) per hour worked with health benefits, as described in this Chapter, or otherwise nine dollars and twenty five cents ($9.25) per hour. Such rate shall be adjusted annually, no later than July first to the sum equal to the increase at the immediately preceding December 31 over the year earlier level of the Bay Region Consumer Price Index as published by the Bureau of Labor Statistics, U.S. Department of Labor, applied to $9.25. The City shall publish a bulletin by April 1 of each year announcing the adjusted rates, which shall take effect upon such publication. Said bulletin will be distributed to all awarding authorities and City contractors upon publication. The contractor shall provide written notification of the rate adjustments to each of its employees and the employees of its subcontractors, if any and make the necessary payroll adjustments by July 1.

(b) Compensated Days Off

Employers shall provide at least (20) twenty days off per year for sick leave, vacation, or personal necessity at the employee's request. Employees shall accrue one compensated day off per month of full time employment. Part-time employees shall accrue compensated days off in increments proportional to that accrued by full-time employees. The employees shall be eligible to use accrued days off after the first six months of employment or consistent with company policy, whichever is sooner. Paid holidays, consistent with established employer policy, may be counted toward provision of the required 20 compensated days off.

Employers shall also permit employees to take at least an additional (10) ten days a year of uncompensated time to be used for sick leave for the illness of the employee or a member of his or her immediate family where the employee has exhausted his or her compensated days off for that year. This Chapter does not mandate the accrual from year to year of uncompensated days off.

(c) Minimum Hours

The Employer shall offer at least 16 hours per week to each employee. This guarantee of hours shall not apply to any employee engaged only for a special event, such as a holiday event, or any week in which the employer is not operating for at least 40 hours.

If an employee declines to work 16 hours, the Employer shall make a written record of its offer and the employee's declination.

Section 4. Health Benefits

Health benefits required by this Chapter shall consist of the payment of at least one dollar and twenty five ($1.25) per hour towards the provision of health care benefits for employees and their dependents. Proof of the provision of such benefits must be submitted to the awarding authority not later than 30 days after execution of the contract to qualify for the wage rate in Section 3 for employees with health benefits.

Section 5. Notifying Employees of their Potential Right to the Federal Earned Income Credit

Employers shall inform employees making less than twelve dollars ($12.00) per hour of their possible right to the federal Earned Income Credit ("EIC") under §32 of the Internal Revenue Code of 1954, 26 U.S.C. §32, and shall make available to employees forms informing them about the EIC and forms required to secure advance EIC payments from the employer. These forms shall be provided to the eligible employees in English, Spanish and other languages spoken by a significant number of the employees within 30 days of employment under the terms of this Chapter and as required by the Internal Revenue Code.

Section 6. Contract Review Process And City Reporting And Record Keeping

(a) In preparing bid specifications or preparing for contract negotiations, the awarding authority shall notify Contract Compliance of the proposed RFP, RFQ, contract, lease or financial assistance agreement and request a written determination as to coverage under this Chapter. Information transmitted to Contract Compliance shall include but not be limited to the following: the contract amount; term; scope of work; the number and classification of full-time and part-time employees required to perform the work. A copy of each executed contract and related documents subject to this Chapter shall be transmitted to Contract Compliance.

(b) Each awarding authority shall submit reports to Contract Compliance for the period ending June 30 and December 31 of each calendar year within 15 working days following the close of the period. The reports must include the following information:

(1) A listing and the status of all applicable RFP's and RFQ's, service contracts and lease agreements executed and financial assistance awarded, including the term, dollar amount and the service performed;

(2) A description of every instance where an exemption was granted by action of the City Council;

Within thirty days of receipt of said reports Contract Compliance will submit a summary of the reports received to the City Council.

(c) Before issuing a Request for Proposal (RFP) or awarding any contract covered by this Chapter, the awarding authority shall follow the following procedures:

(1) The awarding authority shall complete the normal and customary process of issuing RFP's and rating all bidders for the contracts in question.

(2) The awarding authority shall make a preliminary determination as to whether a prospective contract meets the term and dollar limitations of this Chapter as provided in Sections ______. For those prospective contracts meeting such term and dollar limitations, the awarding authority shall then submit a request for determination to Contract Compliance as to the applicability of this Chapter pursuant to Section _____.

(3) Contract Compliance will issue a written determination of applicability of this Chapter within five working days of receipt of a written request from the awarding authority. If the prospective contract is determined to be subject to the provisions of this Chapter, the awarding authority shall include compliance language in the RFP or prospective contract and attach a Declaration of Compliance form.

(4) If a bidder is otherwise qualified and is being considered for a contract award, the awarding authority shall review the bid

documents for inclusion of the completed Declaration of Compliance. If the declaration is not furnished, the bidder shall be deemed to be non-responsive and shall be disqualified subject to the Appeal Process under Section ____ herein.

(5) If the information in possession of the awarding authority indicates that a bidder should be disqualified the awarding authority shall inquire, in its request for a determination from Contract Compliance, whether any of the exemption provisions of this Chapter applies to the prospective contract in question.

(6) If a bidder is disqualified as non-responsive to the requirements of these Rules and Regulations but challenges the applicability of this Chapter, the Appeal Process shall be activated.

(7) Each bidder that has been disqualified under this Chapter shall be given written notice of such fact.

(d) There shall be a two level appeal process as described below. A contract shall not be executed until there is resolution of the relevant appeal.

(1) The following appeal process shall be available to every bidder who has been disqualified by the awarding authority because the bidder was deemed to be non-responsive to the requirements of this chapter or who disputes the determination of applicability of this Chapter to its business operation which will be involved in the proposed contract.

(a) Within five working days of being notified in writing of the awarding authority's disqualification decision and reasons therefor, or written determination of the applicability of this Chapter, the subject bidder may file an appeal with the awarding authority that made the disqualification and Contract Compliance.

(b) If such appeal is made, the awarding authority shall prepare written findings to support the disqualification and solicit the written findings and recommendations of Contract Compliance. Contract Compliance shall submit the written findings and recommendations within five working days of receipt of the request for consideration by the awarding authority.

(c) As soon as reasonably practical, but not more than ten working days from receipt of the bidder's appeal, the awarding authority shall conduct a hearing on the appeal. The scope of the hearing shall be limited first, as to whether the bidder responded to the bid process as directed relative to this Chapter, and secondly, as to whether the provisions of this Chapter applies to the contract.

(d) The appellant may present oral or documentary evidence, under oath, to rebut the information relied upon by the awarding authority and Contract Compliance.

(e) After reviewing all the evidence and testimony presented, including the written findings and recommendations of Contract Compliance, the awarding authority shall make a written determination as to whether the disqualified bidder was non-responsive. Contract Compliance shall make a written determination as to whether this Chapter applies to the bidder's business operation which will be involved in the proposed contract. If there is sufficient supporting evidence, Contract Compliance may grant an exemption under the terms of this Chapter.

(2) In case of an unfavorable determination to the bidder as to the applicability of this Chapter to its business operation which will be involved in the proposed contract, a bidder may file with Contract Compliance, within five working days, an appeal for a second level review. The second level review panel will consist of the director of Contract Compliance, the general manager or director of the awarding department or Contract Compliance, and the appropriate supervising attorney of the Office of the City Attorney. The Contract Compliance director shall chair the panel.

After review of all evidence, testimony and reports presented, the panel shall make a written determination within ten working days as to the applicability of this Chapter to the bidder's business operation which will be involved in the proposed contract. The determination of the second level review panel as to the applicability of this Chapter to the subject contract performance shall be final, after which action the City contract may be executed.

(c) Contract Compliance shall maintain a listing of all its determinations and a file of all complaints, findings and results, and shall submit a regular report on compliance with these Ordinances no less than annually to the City Council. Special reports and recommendations on significant issues of interest to the Council will be submitted as deemed appropriate.

Section 7. RFP and Contract Language

All RFP's and City contracts subject to this Chapter shall contain the following two paragraphs or substantially equivalent language:

(a) Living Wage Policy

This contract is subject to the Living Wage Ordinance, Chapter -- of the Oakland Municipal Code. The Code requires that, unless specific exemptions apply, all employers (as defined) under contracts primarily for the furnishing of services to or for the City and that involves an expenditure or receipt in excess of $25,000 and a contract term of at least three months or certain recipients of City financial assistance, generally shall provide payment of a minimum initial wage rate to employees as defined in the LWO of $8.00 per hour with health benefits of at least $1.25 per hour or otherwise $9.25 per hour. Such rate shall be adjusted annually pursuant to the terms of Living Wage Ordinance, Chapter -- of the Oakland Municipal Code.

(b) Termination Provisions relating to Living Wage Policy

Under the provisions of Section _____ of the Oakland Municipal Code, the City shall have the authority, under appropriate circumstances, to terminate this contract and otherwise pursue legal remedies that may be available if the City determines that the subject contractor or financial assistance recipient violated the provisions of the referenced Code Sections.

Section 8. Obligations Of Contractors And Financial Assistance Recipients

(a) All proposed contractors and City financial assistance recipients subject to the provisions of this Chapter shall submit a completed Declaration of Compliance form, signed by an authorized representative, along with each proposal. The completed Declaration of Compliance form shall be made a part of the executed contract.

(b) Contractors and City financial assistance recipients shall be responsible for informing their subcontractors of the subcontractor's obligation to comply with the provisions of this Chapter. Language indicating the subcontractor's intent to comply shall be included in the contract between the contractor and subcontractor. A copy of the subcontract shall be submitted to the awarding authority and made a part of the contract.

(c) Contractors and City financial assistance recipients shall maintain a listing of the name, address, date of hire, occupation classification, rate of pay and benefits paid for each of its employees and the employees of its subcontractors, if any, and submit a copy of the list to Contract Compliance by June 30 and December 31 of each year the contract is in effect. Contract Compliance shall transmit a copy of the list to the awarding authority immediately upon receipt. Contractors and City financial assistance recipients shall maintain payrolls for all Employees and basic records relating thereto and shall preserve them for a period of three years.

(d) Contractors and City financial assistance recipients shall give written notification to each current employee, and each new employee at time of hire, of his or her rights to receive the benefits under the provisions of this chapter. The notification shall be provided in English, Spanish and other languages spoken by a significant number of the employees, and shall be posted prominently in communal areas at the work site. A copy of said notification shall be forwarded to the awarding authority which must include the following:

(1) Minimum compensation - The initial rates of $8.00 with health benefits or $9.25 without health benefits will be adjusted annually to correspond to adjustments, if any. The Living Wage shall be upwardly

adjusted each year no later than April first in proportion to the increase at the immediately preceding December 31 over the year earlier level of the Bay Region Consumer Price Index as published by the Bureau of Labor Statistics, U.S. Department of Labor, applied to $9.25, whichever is greater. The Employer shall offer at least 16 hours per week to each employee. This guarantee of hours shall not apply to any employee engaged only for a special event, such as a holiday event, or any week in which the employer is not operating for at least 40 hours. If an employee declines to work 16 hours, the Employer shall make a written record of its offer and the employee declination.

(2) Health benefits - Proof of the provision of such benefits shall be submitted to the awarding authority not later than 30 days after execution of the contract to qualify for the wage rate in Section 3. Health benefits shall be provided to part-time employees as well as full-time employees.

(3) Twenty compensated days off per year for sick leave, vacation or personal necessity at the employee's request, and ten uncompensated days off per year for sick leave which shall be made available to all covered employees as provided in this chapter. Employees shall accrue one compensated day off per month of full time employment. Part-time employees shall accrue compensated days off in increments proportional to that accrued by full-time employees. The employees shall be eligible to use accrued days off after the first six months of employment or consistent with company policy, whichever is sooner. Paid holidays, consistent with established employer policy, may be counted toward provision of the required 20 compensated days off. Ten uncompensated days off shall be made available, as needed, for personal or immediate family illness after the employee has exhausted his or her accrued compensated days off for that year. This Chapter does not mandate the accrual from year to year of uncompensated days off.

(4) Federal Earned Income Credit (EIC) - Forms to inform employees earning less than $12 per hour of their possible right to EIC and forms to secure advance EIC payments from the employer shall be provided to the eligible employees in English, Spanish and other languages spoken by a significant number of the employees within 30 days of employment under the subject agreement.

(5) Notice that the employers are required to file a Declaration of Compliance form as part of the contract with the City and that the declarations are available for public inspection at the Awarding Authority.

(e) Contractors, City financial assistance recipients and subcontractors shall permit access to work sites and relevant payroll records for authorized City representatives for the purpose of monitoring compliance with this Chapter, investigating employee complaints of non-compliance and evaluating the operation and effects of this Chapter, including the production for inspection and copying of its payroll records for any or all of its employees for the prior three year period.

Section 9. Retaliation And Discrimination Barred

Contractors and City financial assistance recipients shall not discharge, reduce the compensation or otherwise discriminate against any employee for making a complaint to the City, otherwise asserting his or her rights under this Chapter, participating in any of its proceedings or using any civil remedies to enforce his or her rights under the Chapter. Contractors and City financial assistance recipients shall also be in compliance with federal law proscribing retaliation for union organizing.

Section 10. Monitoring And Investigation And Compliance

The provisions of this Chapter will augment the awarding authority's normal and customary procedure for administering its contracts. Contract Compliance shall administer the requirements of this Chapter as follows:

(a) Contract Compliance will be available to review all contract documents in cooperation with the awarding authorities to insure that relevant language and documents are included. It shall be the responsibility of the awarding authority to insure that all required documents are included.

(b) Contract Compliance will monitor the operations of the contractors, subcontractors and financial assistance recipients to insure compliance by conducting random site visits and payroll audits. The provision of wages and benefits by each employer shall be reviewed prior to the contract renewal and no less than annually.

(c) Contract Compliance will perform designated reviews where there is a specific concern or a complaint about the employment practices of a contractor or subcontractor relative to this Chapter. In such cases, the awarding authority will be notified and efforts made for a resolution to the problem within 30 days.

(d) Where a violation of any provision of this Chapter has been determined, the contractor will be given a written notice by Contract Compliance to correct the violation within five days. Should the violation continue and/or no resolution is imminent, Contract Compliance, in cooperation with the City Attorney and the awarding authority, shall pursue available legal remedies including termination of the contract for cause.

(e) If necessary for the enforcement of this Chapter the City Attorney may issue subpoenas, compel the attendance and testimony of witnesses and production of books, papers, records and documents relating to payroll records necessary for hearings, investigations, and proceedings. In case of disobedience of a subpoena, the City Attorney may apply to a court of appropriate jurisdiction for an order requiring attendance and testimony of witnesses and the productions of books, papers, records and documents. Said court, in the case of the refusal to obey any such subpoena, after notice to the person subpoenaed, and upon finding that the attendance or testimony of such witnesses of the production of such books, papers, records and documents, as the case may be, is relevant or necessary for such hearings, investigations or proceedings, may issue an order requiring the attendance or testimony of such witnesses or the production for such documents and any violation of the court's order may be punishable by the court as contempt thereof.

Section 11. Employee Complaint Process

An employee who alleges violation of any provision of this Chapters by a covered employer may report such acts to Contract Compliance and, at the employee's discretion, exhaust available employer internal remedies. The complaint to the Contract Compliance shall be handled as follows:

(1) The employee shall submit to Contract Compliance a completed complaint form and copies of all documents supporting the allegation. Contract Compliance shall provide the complaint forms in English and Spanish.

(2) Contract Compliance shall notify the awarding authority and the employer of the complaint and seek resolution within five days from receipt of the complaint form. If resolution is not accomplished, Contract Compliance shall initiate an investigation, report the results to the awarding authority and the City Attorney within 30 days and seek appropriate legal remedies.

(3) An employee claiming retaliation (such as, termination, reduction in wages or benefits or adverse changes in working conditions) for alleging non-compliance with this Chapters, may report the alleged retaliation in the same manner as the initial complaint.

(4) The complainant's or witness' identity will not be divulged to the employer without the individual employee's written consent.

Section 12. Private Right Of Action

(a) An employee claiming violation of this article may bring an action in the Municipal Court or Superior Court of the State of California, as appropriate, against an employer and may be awarded:

(1) For failure to pay minimum wages, back pay for each day during which the violation continued.

(2) For failure to pay medical benefits, the difference during the involved period between the minimum wage required herein without benefits and such minimum wage with benefits.

(3) For any violation of this Chapter, including retaliation, the Court may award any appropriate remedy at law or equity, including but not limited to reinstatement, compensatory damages and punitive damages.

(b) The Court shall award reasonable attorney's fees and costs to an employee who prevails in any such enforcement action.

(c) Notwithstanding any provision of this Code or any other ordinance to the contrary, no criminal penalties shall attach for any violation of this article.

(d) No remedy set forth in this Chapter is intended to be exclusive or a prerequisite for asserting a claim for relief to enforce the right under this Chapter in a court of law. This Chapter shall not be construed to limit an employee's right to bring common law cause of action for wrongful termination.

Section 13. Collective Bargaining Agreement Supersession

All of the provisions of this Chapter, or any part hereof, may be waived in a bona fide collective bargaining agreement, but only if the wavier is explicitly set forth in such agreement in clear and unambiguous terms. Unilateral implementation of terms and conditions of employment by either party to a collective bargaining relationship shall not constitute, or be permitted, as a waiver of all or any part of the provisions of this ordinance.

Section 14. Expenditures Covered By This Article

This Chapter shall apply to the expenditure – whether through aid to City financial assistance recipients, service contracts let by the City, or service contracts let by its financial assistance recipients – of funds entirely within the City's control and to other funds, such as federal or state grant funds, where the application of this Chapter is consonant with the laws authorizing the City to expend such other funds. As to any grant or similar program, this Chapter shall become applicable to the funds authorized by such program if and only if the City Attorney's Office has obtained from the funding government either an opinion or other determination indicating such consonance or a judgment of compliance from a court of law or other tribunal, which procurement has been reported in writing by such Office to the City Council by a letter to the City Clerk.

Section 15. Chapter Applicable To New Contracts And City Financial Assistance

The provisions of this Chapter shall apply to (a) a contract entered into and financial assistance provided after the effective date of this Chapter; (b) a contract amendment consummated after the effective date of this Chapter which itself meets the requirement of Section __ above or which extends the duration of the contract; and (c) supplemental financial assistance provided for after the effective date of this Chapter which itself meets the requirements of Section __________ above.

Section 16. Implementing Regulations

Contract Compliance shall promulgate implementing regulations consistent with this Chapter. The proposed regulations shall be subject to public comment and City Council approval before becoming final.

Section 17. Severability

In the event any provision of this ordinance shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

Section 18. Effective Date

The law shall be effective from the date of July 1, 1998.

CITY OF OAKLAND

DECLARATION OF COMPLIANCE
Living Wage Ordinance

The Oakland Municipal Code Chapter XX provides that all employers (except where specifically exempted) under contracts primarily for the furnishing of services to or for the City and that involve an expenditure or receipt in excess of $25,000 and a contract term of at least three months, or certain recipients of City financial assistance, shall comply with all provisions of this Chapter.

The contractor or City financial assistance recipient further agrees:

(a) To pay employees a wage no less than the minimum initial compensation of $8.00 per hour with health benefits, as described, or otherwise $9.25 per hour, and to provided for the annual increase pursuant to Section 3; To offer at least 16 hours per week to each employee. This guarantee of hours shall not apply to any employee engaged only for a special event, such as a holiday event, or any week in which the employer is not operating for at least 40 hours. If an employee declines to work 16 hours, the Employer shall make a written record of its offer and the employee's declination.

(b) To provide at least 20 compensated days off per year for sick leave, vacation or personal necessity at the employee's request, and at least ten additional days per year of uncompensated time off pursuant to Section 3;

(c) To inform employees making less than $12 per hour of their possible right to the federal Earned Income Credit (EIC) and make available the forms required to secure advance EIC payments from the employer pursuant to Section 5;

(d) To permit access to work sites for authorized City representatives to review the operation, payroll and related documents, and to provide certified copies of the relevant records upon request by the City; and,

(e) Not to retaliate against any employee claiming non-compliance with the provisions of this Chapter and to comply with federal law prohibiting retaliation for union organizing.

The undersigned authorized representative hereby obligates the proposer to the above stated conditions under penalty of perjury.

Company Name	Signature of Officer or Authorized Representative
Company Address and Phone Number	Type or Print Name and Title
Date Bid Number	Type of Service

FOR CITY USE ONLY

Determination: Bidder is Not Exempt____ Bidder is Exempt
Date____________

Department______________________ Representative________________

ATTACHMENT E

NATIONAL LAW CENTER LIVING WAGE SCENARIOS

Attachment E

SCENARIOS	REASONING	ESTIMATED ADMINISTRATIVE COST
1. Adopt an Economic Self Sufficiency Policy for all service industry occupations to pay a minimum of $12.74/hr..	• Average household size in the city of Oakland is three. • This is based on actual cost to live in the City of Oakland, based on W.O.W.'s economic self-sufficiency study.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).
2. Adopt a Prevailing Wage Ordinance for all service industry occupations that falls below $12.74/hr..	• Using W.O.W.'s economic self-sufficiency standard as the cut-off benchmark. • Setting occupational wage rates based on the county's median market rate.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1 FTE administrative support staff to input and track reports ($45,000). • 1 FTE researcher to research median market rate for all service industry occupations, with annual adjustments ($50,000). • Total administrative cost ($204,000).
3. Adopt a Living Wage Ordinance for all service industry occupations to pay a minimum wage of $7.78/hr..	• This is using 110% of the federal poverty threshold guideline for a household size of four, (a figure that several other cities have chosen). Assuming they are working 40 hrs./wk., and 50 wks./yr..	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).
4. Adopt a Living Wage Ordinance for all service industry occupations to pay a minimum wage of $6.08/hr..	• This is using 110% of the federal poverty threshold guideline for a household size of three. Assuming they are working 40 hrs./wk., and 50 wks./yr.. • The average household size in the City of Oakland is three.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).
5. Adopt a Living Wage Policy that staggers in a wage over 3 year period, to achieve $7.78/hr. by end of 3rd year. Service occupations must pay a starting wage of $6.26/hr, and increase by $.76 each year.	• This is using 110% of the federal poverty threshold guideline for a household size of four. • To lessen the impact on employers employing low wage workers.	• 1FTE compliance officer to monitor and enforce policy ($109,000). • 1FTE administrative support staff to input and track reports ($45,000). • Total administrative cost ($154,000).

Item 8
CED Cmte.