# Living Wage Laws in Practice

## The Boston, New Haven and Hartford Experiences

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# Chapter 1

## The National Living Wage Movement and the Laws in New Haven, Boston, and Hartford

Over the last decade the United States has witnessed the rapid expansion of a local initiative known as the living wage ordinance. Such measures typically mandate a wage floor significantly above the state and federal minimum wage—usually high enough so a full-time worker can support a family of three or four above the federal poverty level. In 2003, a full-time worker employed for a full year would have had to make $8.85 an hour to reach the federal poverty line of $18,400 for a family of four. Living wage laws typically apply to firms that do business with local governments. Most cover firms that supply city or county services, and many also include businesses that receive local financial assistance such as tax abatements and loan guarantees. A few living wage ordinances cover private-sector businesses with no direct financial ties to the city, while a handful have also emerged in other arenas such as college campuses.

Living wage measures aim to boost the stagnating living standards of low-wage workers and stem rising wage and income inequality in the United States. Both trends are integrally connected to the steady erosion of the national minimum wage—which has fallen 38 percent from its peak of $8.46 in 1968 (in 2003 dollars).[1] In 1968, an individual working full-time for the entire year at the minimum wage had earnings 20 percent above the poverty line for a family of three. By 2003 a similar worker earning the federal minimum wage—$5.15—fell 27 percent below the three-person poverty line, itself considered by many experts today to be an inadequate measure of true poverty.

By the end of 2004 more than 120 localities across the country had enacted living wage ordinances, and nearly one-fifth of the U.S. population resided in a city or county with a living wage law. If we consider only medium and large cities (those with a population of 100,000 or more), we find that nearly 40 percent of the nation's urban residents live in a region with a living wage ordinance.[2] While only a small fraction of the nation's workforce is actually *covered* by such legislation (a point we discuss in detail below), there is no disputing the fact that the modern living wage movement has penetrated deep into the fabric of local policymaking.

What economic impact have these measures exerted? Opponents argue that living wage laws will actually lower the welfare of low-wage workers and their families, warning that firms will respond by laying off such workers and reorganizing workplaces, substituting new machinery, or hiring better-skilled employees. In the extreme, firms may even move to another region to avoid living wage mandates. Critics also argue that living wage laws will swell city budgets, as firms raise prices for contracted services in an attempt to pass higher wage costs back to municipalities. Ballooning contract costs could force cities to raise taxes or cut services, including aid to the working poor. Given the precarious economic position of the lowest-paid segment of the U.S. workforce and the fragile finances of local governments, these are all serious concerns.

Yet despite the proliferation of living wage measures throughout the country, and their potentially disruptive effects, comparatively few studies have examined the economic impacts of living wage laws on the cities that adopt them, the firms they cover, and their ultimate beneficiaries—low-wage workers. Existing research, moreover, has been conducted almost exclusively *prior* to the passage of a particular living wage measure. Most studies therefore analyze the *likely* effects of proposed initiatives. By contrast, this study aims to fill an important gap in living wage research because it examines the economic effects of ordinances in three New England cities well *after* their passage. By concentrating our attention on what happens after the laws are adopted, we can better identify the *actual* impact of living wage measures, deepening our understanding of their dynamics.

New Haven, Boston, and Hartford were early living wage adopters. These three cities—clustered in a single region of the country—therefore offer an excellent vantage point for examining the economic impacts of living wage ordinances. Like most cities, New Haven, Boston, and Hartford established a minimum wage for municipal contracts above a certain dollar value. Yet the three cities differ in the types of services their ordinances cover and the provisions they mandate. These similarities and differences—as we will show below—are a good reflection of national trends. However, before comparing our three cities with the national picture, we must situate living wage ordinances vis-à-vis another important trend: the rapid rise in government outsourcing.

## The Link between Privatization and Living Wage Laws

Besides addressing the sharp decline in the real value of the minimum wage and the proliferation of "working poverty," many living wage advocates also aim to stem the erosion of stable public-sector employment. Largely owing to cost pressures, the last two decades have seen many local governments experiment with privatizing—or contracting out—services formerly

provided by public employees. For example, a 2002 survey by the International City/ County Management Association (ICMA), the nation's leading group of local administrators, found that "external fiscal pressures such as restrictions on raising taxes" prompted nearly half of all cities and counties in their survey to consider privatization. Most also cited "internal attempts to decrease the cost of service delivery" as a motivating factor.

According to privatization proponents, such moves inject competition into service delivery, making it more efficient. However, the evidence that private contractors are more efficient and therefore less costly is weak. In his comprehensive examination in the academic journal *Public Administration Review*, privatization scholar George Boyne noted that only about half of all quantitative studies have found that contracting out lowers government spending and improves efficiency. What's more, Boyne says, "in some studies, the authors draw conclusions that are not substantiated by their own evidence." Today many local governments are validating these mixed reviews. For example, in the ICMA's 2002 survey, more than one in five local governments reported bringing privatized services back in house. Nearly three-quarters of these localities cited unsatisfactory service quality, and more than half cited insufficient cost savings, as their primary motivation.[3]

> *Living wage ordinances provide advocates with a clear, concrete tool to address the sharp decline in earnings for low-wage families.*

In contrast with the mixed evidence that privatized service delivery is more efficient and cost effective, the picture is much clearer when it comes to the working conditions associated with these jobs. Research shows that where contracting out does produce cost savings, they typically come from lower wages and benefits for workers performing the privatized services.[4] In this context living wage ordinances provide advocates with a clear, concrete tool to address this sharp decline in employee welfare.

## The National Living Wage Movement

The modern living wage movement began in 1994, when proponents waged and won the first living wage campaign in Baltimore.[5] However, the idea of setting wage standards for government contracting is not new. Federal, state, and local laws such as the 1931 Davis-Bacon Act and the 1965 Federal Service Contract Act require contractors to pay a "prevailing wage"—a local market rate that typically approaches a union wage—in certain industries, usually construction. Living wage ordinances similarly set a standard for public funds used to pay outside contractors, but typically aim at jobs in low-wage sectors such as janitorial services, security guard services, and landscaping.

**TABLE 1.1 – Ratified Living Wage Ordinances as of December 2003**

| Type of campaign | No. passed |
|---|---|
| City council or county board ordinance | 104 |
| Ballot measure | 6 |
| *Adopted by other bodies:* | |
| School board | 3 |
| University | 4 |
| Library board | 1 |
| Hospital | 1 |
| Transportation board | 1 |
| Road commission | 1 |

Source: Data compiled by authors.
Note: This table includes measures that were later repealed or overturned in court. See Appendix 1 for details.

Coalitions of community, labor, and faith-based groups generally spearhead living wage campaigns, each motivated by different concerns. Community groups often want to address extreme poverty and economic inequality. Many unions participate in living wage campaigns to build coalitions with new partners, organize new workers (typically those benefiting from the laws), or—in the case of public-sector unions—discourage the outsourcing of government jobs. Faith-based groups often see campaigns as an opportunity to foster social justice and put their faith into practice.

Most campaigns work to convince legislative bodies such as city councils, county boards, or state legislatures to adopt living wage mandates, although organizers sometimes rely on ballot initiatives to achieve their objectives (*Table 1.1*). Living wage advocates have also targeted a variety of additional entities ranging from school boards and universities to hospitals and libraries. As living wage laws have proliferated, 14 states have responded by setting their state minimum wage higher than the federal level, and three cities have recently established their own citywide minimum wage.[6]

### *Who Do Living Wage Laws Cover?*

Living wage ordinances may affect any of several economic relationships between local governments and the private sector. These include:

**TABLE 1.2 – Number of Living Wage Ordinances with Selected Coverage**

| Ordinances that cover: | Number | Pct. of total |
|---|---|---|
| City service contractors | 86 | 91% |
| City service subcontractors | 44 | 46% |
| Firms receiving economic assistance | 39 | 41% |
| Direct city employees | 23 | 24% |
| Concessionaires, lessees, or tenants of city-owned land | 13 | 14% |
| Employers in a geographic region | 1 | 1% |
| Total ordinances | 95 | 100% |

Source: Data compiled by authors.
Note: This table includes only city, county, and school board ordinances that were ratified and remained in effect through December 2002. The list does not include localities for which we could not obtain copies of the ordinance.

**Contractors:** Almost all ordinances apply to private businesses contracted to provide city services, as opposed to firms that provide supplies and equipment.[7] Many ordinances limit coverage to certain sectors, such as clerical, food service, janitorial, and security services (*Table 1.2*). Ordinances typically apply to contracts above a specific dollar value, and many exempt nonprofits. Most laws also cover only employees fulfilling a city contract rather than all a firm's workers.[8]

**Recipients of economic development assistance:** Many ordinances also cover firms receiving local tax breaks or subsidized loans designed to convince them to move to, remain in, or expand in the region. Like laws that cover contractors, these ordinances usually apply only to employees working at the subsidized site rather than to the whole firm, and to firms receiving tax breaks above a certain dollar value threshold. For example, St. Paul's ordinance applies to companies receiving $100,000 or more in local financial assistance.

**Subcontractors:** Nearly half of all ordinances extend to the subcontractors of city contractors, subcontractors of firms receiving economic development assistance, or both.

**City lessees and concessionaires:** A few living wage ordinances apply to businesses that hold leases or operate concessions on city property, such as vendors located at city-owned airports or sports arenas, and restaurants and hotels at city-owned ports. For example, the Los

Angeles ordinance covers concessionaires at Los Angeles International Airport, while Berkeley's ordinance applies to restaurants and hotels leasing land at the city marina.

**City and county employees:** Public-sector workers are often unionized and typically receive wages well above the living wage threshold. However, the growing use of part-time and temporary workers by local government has lowered the wages of many public employees and prompted living wage organizers to include them in several ordinances.

**Location-based measures:** A new form of living wage applies to firms in a geographic region rather than those receiving public funds. The most expansive such measures are essentially citywide minimum wage laws.

Many living wage ordinances exempt specific types of employees, such as part-time or seasonal workers, interns and students in job-training programs, and people with disabilities working in employment programs.[9] Many ordinances also exclude managerial and supervisory employees, and some exempt professional services, such as engineering and legal services. Some living wage laws also exempt nonprofits completely, while others exempt only nonprofits that limit the pay of their CEOs.[10] Efforts to extend living wage coverage into the nonprofit sector have intensified, owing in part to the growing reliance of cities and counties on nonprofit contractors for low-wage human service work such as childcare and home care. Because states usually provide these funds through counties rather than cities, counties are often the entities likely to apply living wage laws to nonprofits.

*The Scope of Local Ordinances*

The average living wage threshold has risen steadily (*Table 1.3*). Early ordinances typically mandated a wage level high enough to bring a full-time worker with a family of three or four up to the poverty line. In 2003 this amounted to an hourly wage of about $8.85 for a single earner with a family of four.[11] However, organizers have recently begun to push for higher wage levels and more non-wage benefits, on the grounds that the federal poverty line does not accurately measure a minimal cost of living in most cities.[12] As of December 2003, Fairfax, Calif., had the country's highest living wage threshold: $13 an hour with health benefits, or $14.75 without. Several ordinances have raised wages gradually over time. For example, Baltimore's living wage started at $6.10 per hour in fiscal-year 1996 and grew annually until it reached $7.70 in fiscal-year 1999. Other cities have indexed their living wage to changes in the cost of living. These laws phase in gradually, as they apply to new contracts or when existing contracts are rebid.

As in Fairfax, Calif., many living wage laws encompass employee benefits such as health insurance. Many also prevent employers from firing or disciplining employees who speak publicly

**TABLE 1.3 – Average First-Year Wage Levels under Living Wage Ordinances**

| Year | Number of ordinances | Nominal average wage | Real average wage (in 2002 dollars) | Percentage of the federal minimum wage |
|---|---|---|---|---|
| 1994 | 1 | $6.10 | $7.45 | 144% |
| 1995 | 2 | $8.03 | $9.54 | 189% |
| 1996 | 7 | $7.18 | $8.28 | 151% |
| 1997 | 8 | $7.98 | $9.00 | 155% |
| 1998 | 8 | $8.96 | $9.95 | 174% |
| 1999 | 15 | $9.18 | $9.97 | 178% |
| 2000 | 15 | $9.50 | $9.99 | 184% |
| 2001 | 24 | $10.37 | $10.60 | 201% |
| 2002 | 17 | $10.46 | $10.46 | 203% |

Source: Authors' calculations.
Note: In cities that set a higher living wage for employers that do not provide a health insurance benefit, we used the lower of the two wage mandates.

about living wages or file complaints of noncompliance, while a significant number protect labor rights, including the right to organize (*Table 1.4*). The Minneapolis ordinance, for example, directs the city to favor employers who are neutral in union organizing drives when it awards contracts and economic subsidies. Some ordinances require employers to make a good-faith effort to hire new employees through community hiring halls—a practice designed to give priority to local residents for jobs created through city contracting and economic development subsidies.

*Monitoring Compliance with Living Wage Laws*

Monitoring is critical to implementing a living wage law effectively. In the best cases, cities require employers to submit payroll records, and conduct spot checks to verify compliance. However, many cities do not require employers to document their compliance with living wage ordinances. Instead, these cities typically rely on complaints from workers covered by the ordinances to identify potential violations. The resulting penalties often include withholding city payments to a firm, ending or suspending a contract, denying the firm the right to bid on future contracts (for one year after a first violation and three years after a second, for example), and requiring a firm to award employees back wages. Stronger ordinances require employers to pay penalties to the municipality as well. For example, Baltimore levies a fine of $50 per employee per day of noncompliance, while Miami-Dade County and Oakland fine employers $500 per employee per week. Some localities allow aggrieved workers or their representatives, such as a union, to sue for back wages and attorneys' fees.

**TABLE 1.4 – Number of Living Wage Ordinances with Selected Provisions**

| Ordinances that include: | Number | Percent |
|---|---|---|
| Health benefits | 63 | 66% |
| Wage indexing | 60 | 63% |
| Anti-retaliation language* | 34 | 36% |
| Labor language** | 24 | 25% |
| Paid days off | 16 | 17% |
| Use of community hiring halls | 10 | 10% |
| Unpaid days off | 9 | 9% |
| Worker retention clauses | 7 | 5% |
| Pension provisions | 1 | 1% |
| Total ordinances | 95 | 100% |

Source: Authors' analysis of living wage ordinances.
Note: This table includes only city, county, and school board ordinances that were ratified and remained in effect through December 2002. The list does not include ordinances for which copies could not be obtained.
* Anti-retaliation language refers to explicit provisions protecting individual workers who ask for information about or file complaints under the city's living wage ordinance. In many instances these provisions also protect workers' rights to exercise freedom of association.
** Labor language includes provisions such as labor peace agreements, preference for employers who sign labor-union neutrality agreements, and prohibitions on using public money for union busting.

## The Living Wage in New Haven, Boston, and Hartford

How do the laws that we examine in this report compare with the nationwide picture? Adopted during the first wave of living wage legislation in the 1990s, the ordinances of New Haven, Boston, and Hartford highlight several key characteristics of such initiatives. City councils approved all three, and all apply to city service contracts above a certain dollar value, for example. However, our three ordinances also differ from each other in several important respects (*Table 1.5*).

Like many living wage laws, New Haven's ordinance, enacted in July 1997, covers contracts of a certain value, in this case at least $25,000. Also like many ordinances, New Haven's law applies only to firms that provide certain services. These include the preparation and distribution of food on city property, security guard services, transportation among city facilities, custodial work, cleaning, non-technical repairs, and clerical and office work. The ordinance further applies to firms that manage those activities. The New Haven ordinance requires these employers to follow federal, state, and local affirmative action laws, to inform low-wage workers about the federal earned income tax credit, and to give priority in hiring to laid-off city employees and workers referred by a community hiring hall.

New Haven initially designed its wage floor to enable a single wage earner with a family of four to reach the federal poverty threshold. However, the city raised the threshold to 105

## TABLE 1.5 – Main Provisions of the Living Wage Ordinances in New Haven, Boston and Hartford

| | New Haven | Boston | Hartford |
|---|---|---|---|
| Adopted by: | City council | City council | City council |
| Adopted in: | July 1997 | September 1998 | October 1999 |
| Law covers: | City service contracts | City service contracts | City service contracts and economic development assistance |
| Covers all service contracts? | No | Yes | No |
| Covers nonprofits? | No | Yes | No |
| Covers sub-contractors? | Yes | Yes | Yes |
| Contract value threshold: | $25,000 | $100,000 ($25,000 for subcontracts) | $50,000 |
| Employment threshold: | None | 25 employees (100 employees for nonprofits) | None |
| Does wage level rise? | Adjusted annually for first four years | Indexed to inflation. | Indexed to inflation |
| Higher wage required if no health benefits? | No | No | Yes |
| Non-wage provisions: | - Employers must follow affirmative action laws.<br>- Employers must give employees information on the earned income tax credit.<br>- Employers are encouraged to hire through a community hiring hall. | - Employers must give employees information on the earned income tax credit.<br>- Employers are encouraged to hire through a community hiring hall. | - Employer must be neutral in any attempt by employees to organize a union. |

Note: Details for Boston reflect the ordinance that is the subject of this report—namely, before it expanded in September 2001.

**TABLE 1.6 – Minimum Wage and Living Wage Levels In New Haven, Boston, and Hartford**

| | | 1997–98 | 1998–99 | 1999–00 | 2000–01 | 2001–02 |
|---|---|---|---|---|---|---|
| New Haven | Living wage | $7.43 | $8.03 | $8.61 | $9.14 | $9.75 |
| | Minimum wage | $4.77 | $5.18 | $5.65 | $6.15 | $6.40 |
| | Difference | *+56%* | *+55%* | *+52%* | *+49%* | *+52%* |
| Boston | Living wage | | | $8.23 | $8.71 | $9.11 |
| | Minimum wage | | | $5.25 | $6.00 | $6.75 |
| | Difference | | | *+57%* | *+45%* | *+35%* |
| Hartford *(with health benefits)* | Living wage | | | | $8.77 | $8.97 |
| | Minimum wage | | | | $6.15 | $6.40 |
| | Difference | | | | *+43%* | *+40%* |
| Hartford *(without health benefits)* | Living wage | | | | $10.51 | $10.71 |
| | Minimum wage | | | | $6.15 | $6.40 |
| | Difference | | | | *+71%* | *+67%* |

Source: Authors' calculations.
Note: Minimum wages represent the legal rate at the start of each fiscal year (July 1). Massachusetts and Connecticut generally change their minimum wage on January 1, although Connecticut did raise its minimum wage from $4.77 to $5.18 on September 1, 1997. Minimum wage rates thus rose to those listed for the following fiscal year in the second half of several fiscal years.

percent of the federal poverty level in July 1998, 110 percent in 1999, 115 percent in 2000, and 120 percent in 2001, which meant that the living wage climbed from $7.43 to $9.75 per hour over this four-year period. (A Living Wage Task Force must determine any future adjustments, but this group did not convene in 2002 and 2003.) Over the entire period New Haven's living wage floor stood roughly 50 percent higher than the state minimum wage (*Table 1.6*).[13]

Boston's ordinance—adopted in September 1998 as a revision of an earlier law—covers firms with service contracts of at least $100,000 and subcontracts of at least $25,000. Reflecting a more recent trend, Boston's law applies not only to private, for-profit service contractors working in areas such as security guard services or janitorial services, but also to nonprofits providing human services, such as special education, assisted living, and childcare. The law exempts firms with fewer than 25 full-time-equivalent employees and all nonprofits with fewer than 100 employees. Nearly two-thirds of covered contracts in Boston apply to human services, distinguishing Boston even from other cities that have extended coverage to

nonprofits. This is due to the fact that city employees in Boston continue to perform many services that private contractors provide elsewhere.

The law set an initial floor of $8.23 in July 1998. The living wage rises each July 1 to reflect either inflation as measured by the regional Consumer Price Index, or 110 percent of the state or federal minimum wage, whichever is higher. The wage floor has remained at least 35 percent above the state minimum wage. Apart from wage mandates, Boston's law also requires that employers notify employees of the earned-income tax credit and encourages firms with contracts worth more than $100,000 to hire through city job-training centers.[14]

Boston dramatically expanded its living wage ordinance in September 2001, raising the wage floor to $10.25 per hour, lowering contract thresholds to $25,000, and lowering the full-time-equivalent threshold to 25 employees for nonprofits. However, because these changes did not go into widespread use until July 2002, and because they apply only as contracts expire and are renewed, we restricted our analysis to contracts covered under the initial provisions.

Hartford's ordinance—passed in October 1999—covers service contracts of $50,000 or more and also extends to subcontractors. Much like New Haven's ordinance, it does not cover all service contracts. The law applies to firms providing food and security services on city property, and to firms providing custodial services and non-technical maintenance, clerical and non-supervisory office work, and transportation and parking services. However, unlike the ordinances in Boston and New Haven, Hartford's living wage law also applies to any development project greater than $100,000 that is subsidized by city, state, or federal funds, tax abatements, grants, or pension funds. The ordinance also extends coverage to any real estate development costing more than $25,000 on city-owned land where the city is the landlord.

*"Policymakers and community organizers alike now broadly embrace the need for a living wage.*

Hartford's law sets the living wage at 110 percent of the federal poverty level for a family of four if the employer provides health benefits. Like a growing number of living wage laws across the country, the Hartford ordinance requires a firm to pay a higher rate if it does not offer health benefits. In these cases, the difference between the two wage rates reflects the average cost of comprehensive health insurance for a family of four, as determined by the city's director of human relations. The living wage rate for workers with health insurance was about 40 percent above the state minimum wage in the law's first two years, while for workers without insurance it was as much as 71 percent higher.

Like some 25 percent of ordinances nationwide, Hartford's law includes non-wage provisions relating to labor relations. Specifically, it includes a "labor peace" clause requiring firms engaged in city-financed development projects to sign an agreement with any labor union seeking to represent their employees. In essence, employers agree not to interfere

with union organizing, while unions agree to a no-strike clause for the duration of the contract.

How do the three cities in our study compare with the national picture? First, by 2002 their wage floors were between 7 percent (New Haven) and 17 percent (Hartford) lower than living wage levels established by laws adopted that year. This follows the pattern suggested in Table 1.3, where cities adopting living wage laws in later years set their wage floors higher than their predecessors did. Hartford's decision to apply its law to recipients of economic development assistance is also consistent with the trend of newer adopters, which tend to ratify broader measures. Boston's high contract threshold is also characteristic of many early adopters, which took a more cautious approach.

As these cities show, proponents of a living wage have fought for higher wages and indexed them to inflation, won inclusion of non-wage benefits and other workplace protections, and extended the provisions to new types of jobs and employers. By the end of 2003, almost 10 years into the movement, policymakers and community organizers alike broadly embraced the need for a living wage. With experience with ordinances in New Haven, Boston, and Hartford now in hand, we can examine the economic impacts of the laws on city contracts, the firms that win those contracts, and the employees who perform the essential public services.

## Endnotes

1. Throughout this report we make adjustments for inflation using the consumer price index for all urban consumers (CPI-U). Some analysts have begun using an experimental inflation series published by the Bureau of Labor Statistics, known as the research series (CPI-RS), to make historical comparisons. Although the CPI-RS series has not been published for years prior to 1977, were it available the estimated real value of the 1968 minimum wage would most likely be lower than the figure reported here.

2. We calculated these percentages on a population-weighted basis and did not include any cities or counties that adopted and later repealed living wage laws. In instances where cities with living wage ordinances fell within the boundaries of counties with living wage laws, we counted the entire city population and only the net additional county population—that is, our calculations avoid double-counting. See Appendix 1 for a full accounting of cities and counties with living wage laws nationwide.

3. Experts have identified several problems associated with contracting out, including the challenge of assuring service quality, the costs associated with monitoring contractors, the service disruptions that can result when contractors attempt to renegotiate contract prices or void contracts entirely, and the possibility of corruption or mismanagement. See Dilger, Moffett, and Struyk (1997), Hirsch (1995), Pack (1989), Sclar (1997), Steel and Long (1998).

4. See, for example, the evidence cited in Dilger et al. *op. cit.*, Kettl (1993), and López-de-Silanes et al. (1997).

5. Des Moines, Iowa, and Gary, Ind., passed living wage ordinances in 1988 and 1991, but Baltimore was the first campaign to explicitly use the term "living wage." The Des Moines ordinance was called a "minimum compensation policy," and the Gary ordinance a prevailing wage. For more on the historical use of the term and on struggles for living wages earlier in the century, see Glickman (1997).

6. The 14 states are Alaska, California, Connecticut, Delaware, Florida, Hawaii, Illinois, Massachusetts, Maine, Nevada, Oregon, Rhode Island, Vermont, and Washington. Of note, Florida, Oregon, and Washington recently indexed their minimum wage to inflation, a move likely to narrow the gap between the state minimum wage and local living wage levels. The three cities to ratify citywide minimum wages are San Francisco, Santa Fe, and Madison, Wisc. The District of Columbia has long maintained a minimum wage above the federal level.

7. In a few cities across the country, the garment workers union UNITE-HERE! has spearheaded successful efforts to pass "procurement ordinances"—measures that attach living wage standards to government purchases of goods. Our overview does not include such ordinances.

8. The two exceptions are Cleveland, Ohio, and Santa Cruz County, Calif.

9. Construction workers are also typically excluded from living wage provisions, since public construction projects are often already subject to prevailing wage legislation.

10. For example, Los Angeles exempts nonprofits that limit CEO pay to eight times that of their lowest-paid employees.

11. We calculated this wage rate by dividing the U.S. Department of Health and Human Service's 2003 poverty guideline for a family of four ($18,400) by 2,080 hours. However, since most low-wage employees work fewer than 40 hours per week and fewer than 52 weeks per year, in reality they would need to earn a higher hourly wage to reach the poverty threshold. The U.S. Census Bureau also provides annual poverty thresholds based on the number of adults and children living in a household. While the two sets of thresholds are similar, they are used for different purposes. The federal government relies on census figures to calculate the annual poverty rate, while a variety of government programs use Health and Human Services guidelines as a means test to receive specific benefits.

12. See Chapter 4 for more information on poverty measures and different methods of determining a region's cost of living.

13. The average difference over the year may be more or less than the difference at any given point within the year, because governments adjust the living wage and the minimum wage at different times.

14. Boston first passed an ordinance in 1997, which required service contractors to publicly disclose wage and hour records as part of their compliance. However, the city revised the law in 1998 after firms threatened legal action over this provision. Now the ordinance requires only that employers notify employees of the earned-income tax credit, and encourages firms with contracts worth more than $100,000 to hire through city job-training centers.

# Chapter 2

## The Impact of Living Wage Laws on City Contracting

For many firms, labor costs account for a significant portion of their overall costs. If living wage laws force companies to raise wages for a sizable portion of their workforce, then the price of their services—and therefore contract costs paid by cities—might rise. What's more, if living wage laws raise the cost of doing business with cities, they might also discourage some firms from bidding on service contracts, undermining competition and opening the door to even higher prices from remaining bidders. Although these are indeed possible outcomes from living wage implementation, have they in fact occurred?

Examining the evidence from other cities as well as New Haven, Boston, and Hartford, we found a modest overall impact on contract costs and bidding, and a somewhat mixed picture both within and between cities. For example, contract costs actually fell in two of our three cities after living wage implementation, while contract costs rose in one city.[1] The impact of a living wage law on individual contracts often varied widely, reflecting the type of services they cover and the way cities conduct the bidding. We further found that competitive bidding remains strong under living wage ordinances, and that such laws may even boost the number of bidders on city contracts. On balance, these experiences imply that a living wage law is only one of many factors influencing the cost and competitiveness of city procurement.

### The Record in Other Cities

Living wage laws have been in place in many cities around the country for quite some time. What impact have those cities experienced? Fortunately, a growing body of evidence is beginning to shed light on that question. For example, two studies examined Baltimore's living wage law, implemented in 1995. One study, conducted after the first year of implementation, reported that the total cost of 19 contracts had risen only a quarter of one percent since the law took effect. The other, conducted three years later, found that the cost of 26 contracts had risen just 1.2 percent. In both cases the rate of inflation was higher, so real costs actually fell.

Both studies also found that the impact on individual contracts varied substantially. For example, the contract for Baltimore's bus services—by far the largest—rose by just 2 percent. The cost of a small janitorial contract, in contrast, rose by 47 percent, while the cost of a contract for summer food services fell by 12 percent.[2]

Another review of 13 living wage laws across the country found that city and county officials in every location reported higher contract costs, with the absolute amount of overall cost increases varying widely. Unfortunately, in many cases officials did not compare these cost increases with the total value of covered contracts or the rate of inflation, so we cannot judge whether relative costs actually rose or fell in real terms.

As with the Baltimore experience, officials in each city reported considerable variation in changes in the costs of individual contracts. For example, the cost of a janitorial contract rose 22 percent in Warren, Mich., while the real cost of three human service contracts declined in Dane County, Wisc. In Corvallis, Ore., an analysis in June 2001 found that the total cost of 31 contracts covered by a living wage ordinance had risen 13 percent—much faster than the inflation rate of 3.5 percent.[3]

Some cities have taken active steps to mitigate the costs of their living wage laws. For example, in a one-year report filed in February 2000, Pasadena city manager Cynthia Kurtz found that the cost of five contracts rose by $168,000 (the report did not specify the total contract cost). However, according to Steve Mermell, who oversees Pasadena's living wage law, the city had actually budgeted $340,000 to cover an expected cost increase. Officials negotiated with their contractors to split the higher costs, agreeing in exchange to extend existing contracts rather than put them out for competitive bid.

In a similar case, Multnomah County, Ore., reported a 5 percent rise in total contract costs for covered services after implementing its living wage policy. However, costs would have risen 27 percent under the old contracts: the county saved funds by consolidating janitorial services at the Department of Corrections, the courthouse, and the county jail into a single contract. This appears to be an example of "relational contracting"—wherein the parties recognize "that for all intents and purposes they depend on one another," and "that it's in their self-interest to establish a long-term cooperative relationship."[4]

Evidence also shows that living wage ordinances can boost municipalities' satisfaction with service contracts. In Multnomah County, the contractor's performance rating rose from 2 out of 5 before the living wage to 4 out of 5 six months after it took effect. These gains may reflect a drop in annual turnover among janitors, which fell from 60 to 25 percent over the same period.

Some of these studies reveal contradictory effects of living wage laws on bidding patterns. For example, one of the two Baltimore studies found that the total number of bids the city received fell from 93 before the law took effect to 76 after (the number of bidders rose on three contracts and fell on eight). An official in Ypsilanti Township, Mich., in contrast, reported that major contracts attracted "more bidders than ever before, at even better rates," after the living wage took effect, forcing them to "be tighter and provide less of a profit margin." City officials in Alexandria, Va., noted a similar boost to competitive bidding after the city adopted its living wage law.[5]

*Evidence shows that living wage ordinances can boost municipalities' satisfaction with service contracts.*

In Corvallis, Ore., several firms indicated that they would not bid on city business because of the living wage, yet every vendor the city contacted submitted a bid, "and the bids have continued to be competitive," according to the city finance director. In Hayward, Calif., the acting finance director reported that all contracts remained competitively bid, and that "productivity and service quality have not been adversely affected."[6]

## How We Approached Our Three Cities

To further investigate the impacts of living wage laws on contract costs and competitive bidding, we compared experiences in New Haven, Boston, and Hartford before and after they implemented their ordinances. Because the scope of the law in each city varies, and because the cities differ in the amount of contracting they pursue, we found dramatic differences in the number of covered contracts among the three (*Table 2.1*).

For example, because Boston's law does not restrict its coverage to specific services, the city reported 219 covered contracts in September 2001. Some 53 of these contracts were effectively exempt, leaving 166 with a total value of close to $137 million.[7] Although this large number of contracts would be ideal for analyzing the effects of the city's living wage law, the cost of obtaining copies of each contract proved prohibitive. Thus we restricted our study to "high-impact" contractors—those reporting at least five employees earning between $8.71 (the living wage floor in fiscal year 2000–01) and $12 an hour. To identify high-impact contractors, we relied on quarterly reports that covered vendors must file with the Living Wage Division of the Office of Jobs and Community Services. Those reports include the number of employees falling within several wage ranges.

That strategy made results among the three cities more comparable, as both New Haven and Hartford restrict their living wage laws to low-wage sectors such as janitorial and security guard services (*Table 2.2*). The contracts we excluded from our Boston analysis, moreover,

**TABLE 2.1 – Contracts Covered by Living Wage Laws in Boston, Hartford, and New Haven, as of June 2001***

| City | Covered contracts | Total contract value |
|---|---|---|
| **Boston** | | |
| *Total* | 219 | $201,819,829 |
| Covered | 166 | $136,803,560 |
| Exempt | 53 | $65,016,269 |
| **Hartford** | 2 | $1,184,959 |
| **New Haven** | 7 | $596,574 |

Source: Authors' calculations based on data obtained from the three cities.
Note: In Boston, "requirement" contracts are exempt from the living wage law. The city taps such contracts—which set the upper limit of work a vendor can perform—only as needed. A vendor with such a contract for automotive repairs, for example, may never actually perform any work.
* Boston data are through September 2001.

cover professional services such as legal, engineering, and architectural services, which are unlikely to have experienced significant cost increases as a result of the living wage law. Overall we found that 25 contract holders in Boston met our criteria—18 of them nonprofits. We asked city departments to provide copies of the contracts we intended to analyze, and only one (Elderly Services) failed to comply with our request. Even so, we could not match many of these contracts with equivalent services performed before the living wage law took effect. To compensate, we added several special-education contracts from the Boston Public Schools to our analysis, because that sector experienced the heaviest impact from the living wage law. (The law forced nearly 60 percent of special-education contractors to raise wages, as we show in Chapter 3.) In all we obtained information on 28 contracts in Boston, 22 of which applied to special education, with a total value of $41 million. Those contracts represented some 30 percent of the total value of all covered service contracts at that time.[8]

In marked contrast to Boston, New Haven's law affected some 15 service contracts at the time of our data collection. However, the city had funded only 8 of those both before and after the law took effect. Because the city merged 2 of these contracts in fiscal year 2001–02, we focused on 7 contracts with a value of nearly $600,000.

In Hartford, the living wage law had affected only 2 contracts worth $1.2 million when we collected our data, although the city reports that the law will eventually affect 8 contracts. Both the contracts covered services, as no economic development projects had yet come under the

**TABLE 2.2 – Services Covered by Living Wage Laws in Boston, Hartford, and New Haven**

| City | Service |
|---|---|
| **Boston** | Adult education |
| | Architectural and engineering services |
| | Assisted living* |
| | Consulting services |
| | Childcare services* |
| | Cleaning services* |
| | Community learning center services* |
| | Computer services and support |
| | Educational consulting |
| | General repair services |
| | Janitorial services* |
| | Legal services |
| | Security guard services* |
| | Special education* |
| | Supportive housing* |
| | Temporary office assistance* |
| | X-ray services* |
| **Hartford** | Security guard services |
| | Temporary office assistance |
| **New Haven** | Busing services |
| | Food services |
| | Janitorial services |
| | Security guard services |

Source: Authors' analysis of data obtained from the three cities.
* "High-impact" services are those where at least one contractor reports a concentration of low-wage workers. The study focused on those services.

law's purview. That experience is not uncommon: many cities whose living wage law covers economic development aid actually apply the law to few if any projects.[9]

## The Impact of Living Wage Laws on Bidding Patterns

How have living wage laws affected competitive bidding in our three cities? In Boston and Hartford the number of bids either stayed the same or grew after the living wage law took effect, while in New Haven the number of bids declined by three. Overall, we found that the total bids for all three cities declined by only one after living wage implementation (*Table 2.3*).

**TABLE 2.3 – Total Number of Bids Before and After Implementation of the Living Wage**

| Service | Before | After | Difference |
|---|---|---|---|
| **Boston** *(high-impact firms only)* | | | |
| X-ray services, Suffolk County Jail | 3 | 1 | -2 |
| Temporary office help, Dept. of Neighborhood Development | 5 | 9 | 4 |
| Janitorial services, Police Dept. | 9 | 7 | -2 |
| Security services, Library | 3 | 4 | 1 |
| Cleaning services, Prop. Management Office | 6 | 5 | -1 |
| *Boston subtotal* | 26 | 26 | 0 |
| **Hartford** | | | |
| Temporary office help, citywide | 3 | 3 | 0 |
| Security services, citywide | 7 | 9 | 2 |
| *Hartford subtotal* | 10 | 12 | 2 |
| **New Haven** | | | |
| Security services, Main Library | 5 | 5 | 0 |
| Janitorial services, Health Office | 5 | 4 | -1 |
| Janitorial services, Police Station | 9 | 5 | -4 |
| Janitorial services, Main Library | 4 | 4 | 0 |
| Janitorial services, Branch Libraries | 3 | 4 | 1 |
| Janitorial services, Senior Center | 3 | 3 | 0 |
| Food preparation services, Child Develop't | 1 | 2 | 1 |
| Bus services, Parks Dept. | 1 | 1 | 0 |
| Bus services, Child Develop't | 1 | 1 | 0 |
| *New Haven subtotal* | 32 | 29 | -3 |
| **All cities total** | 68 | 67 | -1 |

Source: Authors' analysis of data obtained from the three cities.

Within each city we saw wide variation among individual contracts. More than a third of all contracts saw no change in the number of bidders, nearly a third saw increases, and bids declined for nearly 30 percent. Declines in the number of bidders were most prevalent in Boston, occurring for three of five types of services. (We excluded special-education contracts here because Boston does not award them through competitive bidding. Instead, special-ed facilities must first receive state certification and then win selection by the Boston Public Schools as placement sites.) Given that less than a third of contracts saw declines in the number of bidders after living wage implementation, forces *other* than the living wage law seem to be exerting at least as strong an effect on the number of firms willing to compete for

contracts. Reinforcing experiences in Baltimore and other cities, we did find that bidding patterns varied systematically across a few sectors. One example is janitorial services: the number of bidders declined for four of seven janitorial and cleaning contracts after the living wage took effect. That total includes two contracts in New Haven, where winning bids usually come from small, individually owned and managed janitorial companies, and two in Boston, where large, commercial building services firms tend to compete for the city's janitorial contracts.

Two out of three security guard contracts, in contrast, saw an increase in the number of bidders, as did one of two temporary office assistance contracts. In these cases, the living wage floor may have actually improved bidding by reducing the ability of vendors to undercut their competition. As New Haven's Controller Mark Pietrosimone noted, the living wage ordinance "puts all vendors on equal footing...[and] it has leveled off undercutting," forcing contractors to compete with one another along dimensions other than wages and benefits, such as service quality.[10] Experience in Hartford sheds light on why and how that occurs.

*"For some services, living wage laws can dramatically increase the number of bidders.*

## Expanding the Bidding Pool: Security Guard Contracting in Hartford

In September 1999, a month after passing its living wage law, Hartford solicited bids for a new city contract for security guard services. The contract was scheduled to begin on January 1, 2000, and run through December 31, 2001. The initial request solicited proposals for some 54,000 hours of security guard services over the two-year period, and firms submitted their bids in the form of an hourly rate the city would pay for each hour of services actually performed. Two companies bid on the contract, including Command Security, which had won the last contract for these services.

That number of bids was much lower than in past years: seven companies had bid during the 1997 round, and five had done so during the 1993 round. (The contract was not competitively bid in 1995; the city extended Effective Security's 1993 contract for two years.) Most firms decided not to compete with Command Security—the incumbent contractor— in 1999, perhaps because the Hartford-based company was guaranteed special consideration under a provision giving preference to local businesses. That provision had been decisive when the city awarded Command Security the contract in 1997.

Upon review, city officials realized that the contract was subject to the new living wage ordinance but that they had not informed contractors. The officials determined that the

**TABLE 2.4 – Bids for Hartford Security Guard Contracts**

| Bidder | 1997 | 1999 Round 1 | 1999 Round 2 |
|---|---|---|---|
| Command Security Corp. | **$9.75** | **$10.07** | $14.96 |
| Metro Loss Prevention | $9.87 | | |
| Elite Security | $9.90 | | |
| Tri-City Security Services | $10.38 | | $18.85 |
| Burns International Security | $10.49 | | $19.35 |
| Pinkerton Security Services | $11.50 | $10.56 | $15.65 |
| Wackenhut Corp. | $13.34 | | |
| Lance Investigations | | | **$14.58** |
| Argus Security Group | | | $14.61 |
| Jo-Ryu Security | | | $17.77 |
| Novas Security | | | $18.55 |
| Al Washington and Associates | | | $18.62 |

Source: Authors' analysis of data obtained from the city of Hartford.
Note: Bids for Hartford's security guard contract are made on the basis of an hourly billable rate charged to the city. The values are reported as they were submitted in each year; that is, we have not adjusted them for inflation.

contract should be re-bid, and this time included information on the living wage in all materials they sent to prospective bidders. In this second round the city received nine bids, including new bids from the two companies that had bid during the first round (*Table 2.4*). Hartford's living wage law seems to have sparked a dramatic increase in the number of bidders.

The living wage ordinance was not the only factor underlying the quadrupling of bidders. One second-round bidder, Argus Security Group, pointed out that the city of Hartford did a better job of advertising the request for proposals in the second round. Argus representative Pat Paboway said that the firm would have probably entered the first-round bidding had it been aware of the opportunity.

Still, a closer look at the record shows that the living wage may also have leveled the playing field, encouraging more companies to bid. An analysis by the city two years after implementing the living wage found that under the prior contract, Command Security had employed 10 security guards earning $6.77 and 2 guards earning $6.60 per hour. The former group did not receive health benefits while the latter did, but in both cases the guards were earning only about a dollar above the state minimum wage of $5.65. According to the Bureau of Labor Statistics, those wages were nearly 30 percent below the average hourly wage for security guards in the Hartford area at the time ($9.45), and 20 percent below the median ($8.38).

An analysis of Command Security's contract reveals that wage costs accounted for more than two-thirds of the hourly bid price prior to the living wage. (The company charged the city $9.75 per hour, while the highest-paid guards were earning $6.77.) This suggests that firms paying higher wages were at a disadvantage when competing with Command Security in the city security guard market when the only floor was the statewide minimum of $5.65. By setting a wage floor well above the state minimum wage, Hartford's ordinance substantially enlarged the market for security guard services.

Rod Murdoch of Tri-City Security Services confirmed that his company decided to enter the Hartford security guard market because "the playing field had been leveled." Tri-City, he said, often receives opportunities to work in "low-ball" niches, where the guards make little money and the company's margins are thin. However, he said, Tri-City prefers to work in "'middle niches,' where the guards are making more in the range of $9 to $10 and the company's margins aren't so thin." He also maintained that Tri-City prefers to work with the private sector because the public sector often has more contract requirements but, in his opinion, is unwilling to pay for them. "We'll provide a guard with certain credentials," he said, "but you must be willing to pay for it."

*"The living wage may also have leveled the playing field, encouraging more companies to bid.*

Donald Coursey of Al Washington and Associates concurred that he considers the municipal contracting market problematic, "because cities are usually obliged to take the lowest bid, which means that there is an incentive to low-ball, and it's hard to compete against that. It means you end up paying people minimum wage, which is very unstable, because people can make that money anywhere, and they may just disappear tomorrow, and the city is calling up saying, 'Where is my guard?' and you are hamstrung, and in the process your reputation gets ruined." He added, "Most companies with any business sense would concentrate on a higher-wage niche, because there is more stability involved, and it gives you better control of the business, and allows you to preserve your reputation." Coursey held that any firm with a long-term approach to working in the security guard industry would avoid the low-wage end of the market.

Mark Cratin of Lance Investigations similarly reported that his company usually avoids low-wage guard work, instead seeking out contracts in which guards can earn at least $10 an hour. He argued that the low-bid method is inefficient; his firm sat out the 1999 bidding on the Hartford security guard contract for precisely that reason. These results reinforce the argument that cities can exert a major impact on the market in which they procure services, a theme we return to in the concluding chapter.

**TABLE 2.5 – Real Annual Contract Costs before and after Living Wage Implementation** (in 2001 dollars)

| City | Before | After | Difference |
|---|---|---|---|
| **Boston** *(high-impact firms only)* | | | |
| Special education (*number of contracts=22*) | $18,356,900 | $15,078,551 | -18% |
| Non–special education (*number of contracts=6*) | $1,414,013 | $ 1,372,230 | -3% |
| Total (*number of contracts=28*) | $19,770,913 | $ 16,450,781 | -17% |
| **Hartford** (*number of contracts=2*) | $465,338 | $617,416 | 33% |
| **New Haven** (*number of contracts=9*) | $692,697 | $611,411 | -12% |

Source: Authors' calculations based on data collected from the three cities.
Note: As noted in the text, for each contract we compared the cost prior to the living wage with the cost afterward. For consistency, we calculated the annual cost of multi-year contracts, and adjusted for inflation by expressing those costs in 2001 dollars.

## The Impact on Contract Costs in Our Three Cities

How have living wage laws affected city contract costs? In Boston, we found that the total annual cost of the 28 contracts we analyzed fell markedly in real terms—from $20 million to $17 million, or 17 percent—after the city implemented its living wage ordinance. A 19 percent drop in the 22 special-education contracts drove this decline. However, the 6 other contracts also declined by 3 percent. New Haven similarly registered a 12 percent decline in annual contract costs after implementing its living wage law. The overall cost of the 2 Hartford contracts, in contrast, rose sharply—by 33 percent (*Table 2.5*).[11]

To better understand these results, we examined average cost changes across all the contracts in our study. At first glance, a more detailed view seems to show that living wage laws boosted the average cost of a service contract in these three cities. In Boston, special-education contracts rose an average of 3 percent, while the other contracts rose an average of 7 percent. In New Haven, the average contract rose 0.3 percent, while in Hartford it rose 29 percent (*Table 2.6*).

However, we find a different story when we factor in the size of the contracts, weighting them according to their total dollar value. Adjusting for contract size is important when we want to get a sense of whether a city will experience overall cost increases owing to the living wage. In

**TABLE 2.6 – Average Real Annual Change in Contract Costs under the Living Wage** (in 2001 dollars)

| City | Unweighted | Weighted |
|---|---|---|
| **Boston** *(high-impact firms only)* | | |
| Special education *(number of contracts=22)* | 3% | -9% |
| Non-special education *(number of contracts=6)* | 7% | 16% |
| Total *(number of contracts=28)* | 3% | -7% |
| **Hartford** *(number of contracts=2)* | 29% | 33% |
| **New Haven** *(number of contracts=9)* | 0.3% | -11% |

Note: To account for the size of each contract, the figures in column two are calculated using weights. Specifically, the percentage change in each contract's cost is weighted according to the proportion of the overall annual cost that each contract comprises.

this case we find that Boston's special-education contracts declined an average of 9 percent, while non-special-education contracts rose 16 percent. New Haven's contracts declined by an average of 11 percent, while Hartford's rose an average of 33 percent. Except for non-special-education contracts in Boston—which reflect a substantial increase in the cost of temporary office services—these results mirror the total average annual changes reported in Table 2.5.

What forces underlie the remarkably different cost outcomes between Boston and New Haven, on the one hand, and Hartford on the other? The most obvious influence is the different nature of services contracted out in Boston. A much higher proportion of Boston's contracts apply to human services such as special education, where reimbursement rates are set by state and federal agencies. These contracts are not competitively bid, and their fixed reimbursement rates do not allow contractors to pass on higher labor costs to the city.

However, contract costs also declined in Boston even for some competitively bid services such as X-ray and janitorial services. The major difference among the three cities seems to be that Hartford bid both its contracts on a unit-cost basis. Under that approach, cities ask vendors to submit the rate they will charge for each hour of work they perform, rather than to submit a bid for the total value of the work. This approach encourages firms to apply "cost-plus" markups, and thus appears ill-suited to holding down total contract costs. Indeed, we find that

most contracts bid on a unit-cost basis in Boston and New Haven display a similar pattern. Because of the systematic impact unit-cost bidding appears to exert on contract costs, their dynamics merit more attention.

## How Unit Costs Change under Living Wage Laws

Behind the changes in contract costs reported in Table 2.6, we find a clear pattern of cost increases for security guard services and temporary office assistance in all three cities. Officials rely on unit-cost bidding for these services because they can rarely anticipate their exact need for them in advance. That approach opens the door for significant cost increases under a living wage law.

For example, the winning bidder for security guard services in Hartford raised the average markup—the difference between what the city paid and the amount the vendor paid its workers—from $3.12 to $4.36 after living wage implementation. Some of this undoubtedly reflected higher payroll taxes and worker's compensation payments stemming from the living wage. The company may also have passed on raises for employees not working on city contracts, or raises for employees earning above the living wage. Mandated wage increases for part of a company's workforce are expected to create pressure to raise wages for workers not covered by the mandate. But as the next chapter shows, non-mandated wage increases under living wage ordinances are actually relatively modest. This implies that the firm may have padded its bid not only to recuperate the indirect costs of the living wage, but also to maintain or boost its profit margin on each hour worked.[12]

Higher contract costs after living wage laws take effect are more common in cities where unit-price bidding is more prevalent. Indeed, contractors bidding on unit prices often appear to pass higher labor costs back to the city more than dollar for dollar, as with security guard services in Hartford. While that case represents the extreme among our cities, almost all contracts bid on a unit-cost basis experienced the problem.[13]

The Hartford case also shows that efforts to consolidate services can hold down markups and unit prices even under unit-cost bidding. For example, the real unit cost for security guard services in Hartford grew by 43 percent. In contrast, 6 of the 12 unit prices for temporary office assistance bid both before and after living wage fell, and only 2 rose by more than 15 percent. While these results may partly reflect the market for temporary office services in Hartford, they may also reflect a conscious strategy by bidders to hold down the unit prices of some services while raising them for others in an effort to win the contract for consolidated services. Evidence from Boston and New Haven also suggests that in cases where they consolidated services, even those bid on a unit-cost basis, the cities were able to prevent higher labor costs from translating into higher prices. In sum,

when cities bundle service contracts—such as by awarding a single contract for cleaning all libraries rather than a separate contract for each building—firms appear to lower the amount of overhead they add to their bids.[14] Our results suggest that consolidating service contracts can cut cost pass-through by contractors as much as 20 percent (see Appendix 2).

## Do Living Wage Laws Force Cities to Curtail Services?

Concern often arises that cities will curtail services if living wage mandates force contract costs to rise. However, higher contract costs have not prompted our three cities to cut public services. The contract for security guard services at the Boston Public Library is a good example. Unit prices rose nearly 39 percent in real terms after living wage implementation, but the city actually expanded the number of guard hours at the library and total contract costs rose by nearly 60 percent. Diane Collins, who oversees the contract, believes that higher wages actually spurred positive changes that helped sustain the level of services. She agreed that "The guards seem a little happier than the batch that was here before. Plus, they seem to be here longer. Before the living wage, you'd see new faces all the time. With higher wages, the guards seem to take the work more seriously and provide better service."

Joanne Keville-Mulkern, contracting specialist for the Boston Public Schools, reported that the living wage ordinance has not forced the city to curtail services for which BPS contracts, nor have human service agencies proved less willing to bid on city contracts. However, she did express the concern, shared by many of Boston's nonprofit contractors, that if living wage mandates generate significant costs, providers will have no way to pass those costs through to the city, as federal and state agencies set their reimbursement rates. Although this dilemma was not a real issue under the original law, nonprofits were concerned that the September 2001 expansion may lead to hardship.

Overall, staff members responsible for implementing the living wage law in the three cities confirmed our findings that its impact on costs and competitive bidding has been modest. In New Haven, where the ordinance mandates that the city evaluate its impact each year, staff members found only a 6 percent increase in the cost of busing for field trips. They also noted that the workforce for several contracts was unionized, so workers already received wages higher than the living wage threshold. When discussing the Boston law with the Providence City Council, Mimi Turchinetz, director of Boston's Living Wage Division, attested: "We have not seen a decrease in competition for these contracts. We also have not seen increased costs to maintain city contracts. Vendors and the city have successfully absorbed the cost of the living wage ordinance. There has been no adverse financial impact on the city. The living wage ordinance has been good for Boston."

## Endnotes

1. Are negotiated contract costs an accurate benchmark of the real costs of procuring services? Bidders may submit artificially low bids to win contracts, only to renegotiate more favorable terms after a contract is awarded. One analyst has labeled this the "hold-up" phenomenon (Hirsch 1991). If such a practice is common, our analysis will understate the true costs of living wage laws.

Interviews with officials in all three cities revealed no evidence that renegotiation is occurring. For example, Diane Collins, who oversees the living wage for the Boston Public Library, held that library staff members invest time up front to ensure that bids describe the work accurately, and that vendors cannot renegotiate the terms of their contract. According to Collins, one director told a vendor "that if they wanted to go that route, the library would exercise their right to void the contract and re-award it 30 days later to another firm." New Haven controller Mark Pietrosimone recounted a similar incident in which the city rebid a cleaning contract after the firm tried to renegotiate it.

2. For details of the first Baltimore study, see Weisbrot and Sforza-Roderick (1996), and for details on the second, see Niedt et al. (1999).

3. For the 13-city review, see Elmore (2003). For details on Corvallis, Ore., see Brewer (2001).

4. This quote comes from Sclar (2000). Multnomah County data come from Facilities and Property Management Division (n.d.). For more on relational contracting, see Sclar (op. cit.).

5. These quotes are drawn from Elmore (2003).

6. The quotes on the Corvallis experience come from Brewer (2001), while those on Hayward come from Finance Director's Office (2000).

7. The contracts that were effectively exempt from Boston's law fell into a category known as "requirement contracts." These are contracts for services that may be performed if the city has a need for them (e.g. auto glass repair, locksmith services, and plumbing and electrical repair). Living wage requirements are only applied should the city make use of more than $100,000 of these services, a phenomenon that we found rarely, if ever, occurs.

8. As noted, Boston dramatically expanded its living wage ordinance in September 2001, raising the wage floor to $10.25 per hour, lowering contract thresholds to $25,000, and lowering the full-time-equivalent threshold to 25 employees for nonprofits. Because of the long process of phasing in these new provisions, we restricted our analysis to contracts covered under the original provisions of the law.

9. See Brenner et al. (2002) for a discussion of how often cities apply living wage laws to recipients of economic development assistance.

10. Elmore (2003).

11. Some contracts are annual while others span multiple years, so we calculated the annual costs for each. Like most cities, Boston, Hartford, and New Haven implemented the living wage law gradually as contracts expired and were rebid or renewed. To account for this phasing in, we compared a contract from the cycle before the living wage took effect to the one negotiated during the ensuing cycle. Where the scope of services clearly changed over time, we adjusted contract values accordingly.

12 Without additional information on the actual overhead costs of the winning contractor, we could not evaluate whether its profit margins actually rose or fell after living wage implementation.

13. One exception was New Haven's nutrition programs for children, where costs declined even though the city bids the contracts on a unit-cost basis. That result probably reflected the high proportion of non-labor costs involved in preparing meals compared with other services bid on a unit-cost basis.

14. Of course, consolidating contracts will not be practical for many services. See Pollin et al. (1999) for a more detailed discussion.

# Chapter 3

## The Impact of Living Wage Laws on Firms

Most studies of living wage laws—both proposed and enacted—find that they affect a very small number of firms. Such studies also find that the overall costs to firms covered by such mandates are low, averaging between 1 and 2 percent of total operating costs or sales.[1] However, these estimates are averages for all firms covered by living wage laws. The costs to firms in low-wage industries such as food service, janitorial services, parking lot maintenance, and security services are often much higher. How do firms—particularly these low-wage firms—adjust to higher costs?

Some economists maintain that firms respond by laying off workers, and that living wage laws thus worsen prospects for low-wage workers. However, recent research on the minimum wage shows that average firm employment does not drop after the minimum wage rises, even in high-impact industries such as fast food, and that the employment prospects of individual low-wage workers do not worsen. Some analysts have even found a positive relationship between minimum wages and the number of jobs available to low-wage workers. Other studies suggest that lower turnover—and hence lower recruitment and training costs—may offset higher labor costs for firms.[2]

Recent empirical evidence suggests that firms have indeed relied on adjustment mechanisms other than layoffs—particularly raising prices—in the face of higher minimum wages.[3] In light of this evidence, studies of proposed living wage ordinances have predicted that firms can absorb higher costs—even on the order of 10 percent—through some combination of price increases, higher productivity, and lower profits.

Have firms actually taken such steps in the face of living wage mandates? To investigate that question—and to better understand the kinds of firms affected by a living wage law—we conducted an in-depth telephone survey of the 140 vendors holding 212 service contracts covered by Boston's law in fall of 2001 (*Table 3.1*).[4] Among our three cities, Boston offers the

**TABLE 3.1 – Number and Value of Contracts Covered by the Boston Living Wage Law, September 2001**

*City service contracts and contract value, by sector*

| Type of service | Number of contracts | Percent of total | Total value of contracts (millions) |
|---|---|---|---|
| Education and training services | 54 | 26% | $22 |
| Repair and construction | 39 | 18% | $113 |
| Assisted living/supportive housing | 33 | 16% | $20 |
| Special education services | 31 | 15% | $40 |
| Engineering/architecture/other consulting | 27 | 13% | $22 |
| Childcare | 16 | 8% | $30 |
| Computer consulting | 7 | 3% | $3.3 |
| Trash/janitorial/security | 5 | 2% | $3.5 |
| Total | 212 | 100% | $253 |

*Number of covered firms and survey responses, by sector*

| Type of service | Number of covered firms in sector | Percent of all firms | Number of firms surveyed | Percent of firms surveyed |
|---|---|---|---|---|
| Education and training services | 24 | 17% | 12 | 17% |
| Repair and construction | 34 | 24% | 13 | 18% |
| Assisted living/supportive housing | 7 | 5% | 4 | 6% |
| Special education services | 27 | 19% | 16 | 22% |
| Engineering/architecture/other consulting | 20 | 14% | 11 | 15% |
| Childcare | 7 | 5% | 3 | 4% |
| Computer consulting | 7 | 5% | 4 | 6% |
| Trash/janitorial/security | 4 | 3% | 2 | 3% |
| Multi-service contractor | 10 | 7% | 7 | 10% |
| Total | 140 | 100% | 72 | 100% |

Source: Authors' tabulation of city records and survey responses.

best conditions for such an analysis because its living wage mandate covers numerous contracts and subcontracts, including those of nonprofits, which often pay low wages.

We conducted our survey three years after Boston implemented its living wage ordinance, when the living wage was $9.11. As mentioned, Boston dramatically expanded its living wage ordinance in September 2001, raising the wage floor to $10.25 per hour, lowering the contract threshold for coverage to $25,000, and lowering the threshold for the number of full-time-

equivalent employees to 25 for nonprofits. However, these changes did not go into widespread use until July 2002, so we evaluated only contractors covered under the earlier terms of the law.

After developing an overall profile of firms covered by the law, we investigated whether firms responded to higher labor costs by reducing the overall number of jobs,or increasing the number of part-time jobs,as predicted by standard models of the labor market. In contrast to such theoretical predictions, we found that firms forced to raise wages actually significantly expanded the number of staff assigned to their city contracts, and did not turn to part-time instead of full-time jobs to absorb higher labor costs. We also found little evidence that firms raised prices—to the city or other customers—to accommodate higher labor costs. Nor did they take other steps, such as cutting turnover, raising productivity, or substituting higher-skilled workers or equipment for their low-wage workforce. The one clear move a significant number of affected firms pursued was to accept lower profits.

*"We found no evidence that firms lowered employment levels to adjust to higher labor costs.*

## How We Conducted Our Survey

We initiated our survey by mailing a copy of a questionnaire to a contact person at each firm, along with a cover letter and a letter from the head of Boston's Living Wage Division. (See Appendix 3 for the questionnaire.) We then called the contact person to determine who could best respond to the survey, and to establish a date and time for the interview. Overall, human resource directors were most likely to answer our questionnaire, but several individuals within a given firm often provided responses to different parts of the survey. For example, the finance director often answered questions on revenues and expenditures, while the human resource director responded to workforce-related questions.

We continued to contact each firm until we obtained an interview—which typically lasted between 20 to 30 minutes—or until the firm declined to participate. Our survey produced 72 valid interviews, a 51 percent response rate. Participating firms held $101 million in city service contracts, or some 40 percent of the value of all contracts covered under the living wage law (*Table 3.1*). Our respondents closely mirror the profile of all covered firms, although our sample includes a smaller percentage from the repair and construction sector than in the overall profile. (That sector accounts for 24 percent of all covered firms but only 18 percent of our sample.)

Because, unlike most cities, Boston's living wage law includes nonprofits, a full 63 percent of the contracts covered by the ordinance involved human services. Those contracts accounted

for 44 percent of the total value of all covered contracts.[5] In most other cities, private, for-profit services such as janitorial and security guard services account for a much larger share of covered services.

This has two important implications for our study. On the one hand, a large number of low-wage workers probably received raises as a result of Boston's living wage law, since human service employees are among the most poorly remunerated in the services sector.[6] However, the high concentration of nonprofits also makes it more difficult to anticipate the behavior of firms, since nonprofits may well respond differently than for-profit firms to higher wage mandates. Although few analysts have investigated how nonprofit human service agencies respond to mandates such as living wage laws, those that have done so suggest that nonprofits—in particular, those in the hospital industry—may try to maintain employment levels even in situations where their for-profit counterparts would not.[7]

## A Profile of Boston's Covered Firms

Because we know comparatively little about the firms covered by living wage ordinances, we first used the results of our survey to create an overall profile of the firms covered by Boston's law. We found that those firms are relatively large, averaging 203 employees. (Some 63 percent reported more than 50 employees, and over a quarter reported more than 250) (*Table 3.2.*) Some 80 percent of these employees are non-managerial, and 16 percent work part time. The firms in our survey are substantial enterprises, averaging $105 million a year in revenue. (Four-fifths reported revenues greater than $1 million; nearly two-thirds had revenues greater than $5 million; and close to a third reported revenues in excess of $15 million.)

Despite their significant revenues, we found that many firms covered by Boston's living wage ordinance pay comparatively low wages. Nearly 20 percent of employees in covered firms earned less than $11.75 an hour (about $24,000 a year for a full-time employee) and a third earned less than $14.25 an hour (about $30,000 a year for a full-time employee). For comparison, one recent study estimated that in 2001 a one-parent, two-child family in Boston needed at least $38,000 to maintain a basic living standard, which meant that a wage earner working full-time needed to make $13.60 per hour.[8] These firms may compensate their workforce in other ways: 94 percent offered both individual and family health plans, for example. However, as we discuss in Chapter 4, many workers can't necessarily afford these plans.

Despite the fact that a substantial percentage of employees received low wages, we found that the impact of the living wage law on firms' costs was relatively modest. That's because low-wage labor accounted for a relatively small share of these firms' total costs. For example, work-

**TABLE 3.2 – Characteristics of Firms Covered by Boston's Living Wage Law, 2001**

| | |
|---|---|
| **Employment, hours, and wages** *(number of firms=72)* | |
| Employees | 203 |
| Part-time employees | 16% |
| Non-managerial employees | 80% |
| Employees earning < $14.25 | 33% |
| Employees earning < $11.75 | 18% |
| Monthly turnover among non-managerial employees* | 3.4% |
| Unscheduled absenteeism (days per employee per year)** | 4.6 |
| **Revenues and costs** *(number of firms=51)* | |
| Average revenue per firm (millions) | $105 |
| Firms with revenue less than $500,000 | 10% |
| Firms with revenue less than $1 million | 14% |
| Firms with revenue greater than $5 million | 61% |
| Firms with revenue greater than $15 million | 29% |
| Labor costs as a share of total costs | 63% |
| **Other firm attributes** *(number of firms=72)* | |
| Firms that are nonprofits | 47% |
| Firms offering benefits | 94% |
| Firms that are franchises or branches | 38% |
| Firms reporting some unionized employees | 13% |

Source: Authors' calculations.
* Only 67 firms reported valid data on turnover.
** Only 44 firms reported valid data on absenteeism.

ers earning less than $11.75 accounted for 9 percent of the average firm's total costs, while workers earning less than $14.25 accounted for 17 percent.[9] (For the median firm, workers earning less than $11.75 accounted for 2 percent of total costs, while those earning less than $14.25 accounted for 9 percent of total costs.) Overall, we found that labor costs accounted for an average of 63 percent of the total costs of these contractors (or a median of 69 percent).

One phenomenon often associated with low-wage work is high employee turnover and absenteeism. How prevalent are these problems among all our firms? We found that monthly turnover averaged 3.4 percent for non-managerial employees—slightly above the national rate of 3.3 percent, and slightly below the national rate of 3.5 percent for the service sector.[10] These figures correspond to an annual average of 41 percent. Our firms reported an average of 4.6 sick days per employee per year, translating into 805 days per firm.

To understand the impact of turnover and absenteeism, we asked firms to estimate the total cost—including separation, search, and training—of replacing their lowest-paid workers. The 43 responding firms reported a median of $2,500 and an average of $9,297 per new hire, with the former representing about 3 percent of the firm's wage bill for workers earning less than $11.75. These figures do not account for productivity lost while new workers become proficient at their job, which can account for as much as 60 percent of total turnover costs, even in low-wage industries.[11] Even if we account for lost productivity, however, it is not clear that these costs are substantial for most firms covered by the Boston law.

The firms in our survey reported a total of 14,606 employees, with 2,771 working on city service contracts (*Table 3.3*). Although city contract workers represent about 20 percent of all workers in covered firms, for the average firm about 31 percent of their workforce is involved in city contracting.[12]

Service contractors in Boston reported substantial continuity in working with the city: some 72 percent had held the same contract before the adoption of the living wage law. However, 12 percent said they did not immediately comply with the law when it first applied to their contracts. Nonprofits disproportionately accounted for these delays, particularly those working in assisted living and supportive housing, and those with contracts for more than one service. One very important finding from our survey is that the living wage law forced nearly a quarter of covered firms to raise wages to comply. Although we did not directly query firms as to how many workers received raises as a result of the law, our estimates indicate that as many as 2,000 current employees did. (See Appendix 4 for more detail.)

## Comparing Firms That Raised Wages and Those That Did Not

We now have a picture of the firms covered by Boston's living wage law. However, our main goal is to determine how firms forced to raise wages under the law dealt with rising costs. To do this, we want to compare their experience with that of firms not forced to raise wages. Concretely, that means we need to compare changes experienced by these two groups of firms between 1998 and 2001 on a number of counts. In so doing, we attribute any differences in how the two groups reacted to the impact of the law.[13]

The fact that we conducted our survey nearly three years after the living wage law took effect raises the risk that any changes in these two groups over time may reflect other influences. However, this time lag also better enables us to uncover firms' long-term adjustments to Boston's living wage law, including approaches such as reorganizing workplaces and adopting new technologies. Because 10 percent of our firms reported delays in raising pay to comply

**TABLE 3.3 – The Scope of Living Wage Coverage in Boston, 2001**

| | |
|---|---|
| Total number of employees of firms participating in our survey | 14,606 |
| Estimated number of employees in all firms covered by Boston's living wage law | 26,440 |
| Number of employees working on city contracts among firms in our survey | 2,771 |
| Estimated number of employees working on city contracts among all covered firms | 5,177 |
| Average percentage of employees working on covered contracts among firms in our survey | 31% |
| Firms in the survey that delayed implementing the living wage* | 12% |
| Firms in the survey with the same contract before the living wage law** | 72% |
| Firms in the survey that raised wages to comply with the living wage law*** | 23% |

Source: Author's calculations.
* Number of firms=60.
** Number of firms=62.
***Number of firms=66.

with the law, our time horizon also ensures that we have not missed any adjustments that occurred because of a lag in implementation.

To see if unaffected firms would provide a good control group for our study, we compared them to the affected firms on a couple of fundamental characteristics. We found that firms that raised wages were roughly the same size as firms that did not, with both employing roughly 200 people at the time of our survey (*Table 3.4*). Both sets of firms were roughly similar in terms of revenues as well, with affected firms reporting median revenues of $8.9 million, versus $6.6 million among unaffected firms.

Not surprisingly, affected and unaffected firms differed in a few key areas related to the living wage. Affected firms were overwhelmingly nonprofit: 80 percent versus just a third of unaffected firms. And, as we would expect, affected firms reported more workers earning near the living wage threshold: an average of 37 percent of their employees earned less than $11.75, versus 12 percent at unaffected firms. Affected firms also averaged significantly higher labor costs as a share of total costs: 73 percent, versus 60 percent for unaffected firms. Affected firms

**TABLE 3.4 – Comparing Firms That Raised Wages to Comply with Boston's Living Wage Law with Firms That Did Not**

| | Raised wages | Did not raise wages |
|---|---|---|
| **Employment and wages** | *Number of firms=15* | *Number of firms=51* |
| Average number of employees | 206 | 193 |
| Average percentage of employees earning < $11.75 | 37% | 12% §§ |
| Average monthly turnover among non-managerial employees* | 7.4% | 2.6% §§ |
| Average unscheduled absenteeism (days per employee per year)** | 5.5 | 4.2 |
| **Revenues and costs** | *Number of firms=12* | *Number of firms=36* |
| Median revenue per firm (millions) | $8.9 | $6.6 |
| Revenue < $1 million 17% | 14% | |
| Revenue > $5 million 67% | 56% | |
| Labor costs as a share of total costs | 73% | 60% § |
| **Other firm attributes** | *Number of firms=15* | *Number of firms=51* |
| Nonprofit | 80% | 33% §§ |
| Offers benefits | 93% | 98% |
| Unionized | 20% | 10% |

Source: Authors' calculations.
* Only 62 firms reported valid data on turnover, including 14 that raised wages and 48 that did not.
** Only 44 firms reported valid data on absenteeism, including 10 that raised wages and 33 that did not.
§ Indicates a statistically significant difference between the averages for firms that raised wages and those that did not, at a 95 percent confidence level.
§§ Indicates a statistically significant difference, at a 99 percent confidence level.

also had a much higher turnover rate among non-managerial employees—7.4 percent a month—compared with unaffected firms, which had a turnover rate of 2.6 percent a month. We found that firms that raised wages to comply with the Boston law varied dramatically by type of service even within the nonprofit human services sector (*Table 3.5*). The largest concentration of affected firms occurred in special education, where 57 percent of all firms reported raising wages. A third of childcare firms raised wages, as did over a quarter of firms in education and training. None of the assisted living/ supportive housing firms, in contrast, reported raising wages.

**TABLE 3.5 – Firms That Raised Wages under Boston's Living Wage Law, by Type of Service**

| Type of service | Percentage |
|---|---|
| Education and training services | 27% |
| Repair and construction | 8% |
| Assisted living/supportive housing | 0% |
| Special education services | 57% |
| Engineering/architecture/other consulting | 9% |
| Childcare | 33% |
| Computer consulting | 0% |
| Trash/janitorial/security | 0% |
| Multi-service contractor | 17% |
| All firms | 23% |

Source: Authors' survey of affected firms.

## How the Two Groups Reacted to the Living Wage Law

Did firms that raised wages and firms that did not react to the living wage law differently? For example, perhaps the former shrank in size to cope with higher labor costs, or grew at a slower pace than they otherwise would have. Perhaps they reduced the number of hours worked by their staff, or substituted more part-time employees. Perhaps they coped with higher labor costs by hiring more experienced or more skilled workers at the higher wages. These are all possible methods of adjustment. But did firms in fact rely on those or other adjustment channels in the face of higher wages?

We did find evidence that employment grew more quickly among unaffected firms than among affected firms between 1998 and 2001 (*Table 3.6*). Among the former it grew by an average of 17 percent (from roughly 156 to 183 employees), while among the latter it grew 11 percent (from 183 to 203).[14] Although the difference between the two groups is not statistically significant, we can't dismiss this finding entirely. (For example, it is possible that the relatively small size of our sample has limited the power of our statistical test.)

However, these figures do not account for changes in the number of full-time versus part-time employees. Did affected firms react to higher costs under the living wage law by reducing the number of full-time employees? Upon examination, we did not find that to be the case. In fact, we found nearly identical trends for affected and unaffected firms. The number of full-time jobs at affected firms actually *rose* by an average of 13 percent (from 166 to 188), while the

**Table 3.6 – Comparing Firms That Did and Did Not Raise Wages, Before and After the Living Wage Law**

| | Raised wages | | | Did not raise wages | | |
|---|---|---|---|---|---|---|
| Variable | 1998 | 2001 | Difference | 1998 | 2001 | Difference |
| Number of employees | 183 | 203 | 21 | 156 | 183 | 27 |
| Number of full-time-equivalent employees | 166 | 188 | 22 | 152 | 175 | 22 |
| Percentage part-time employees | 34% | 23% | -11 | 11% | 10% | -0.9 § |
| Number of employees working on city contracts covered by the living wage* | 69 | 87 | 18 | 15 | 15 | -0.2 §§ |
| Percentage of employees earning < $9.25 | 23% | 4% | -19 | 3.4% | 2.6% | -0.8 §§ |
| Percentage of employees earning < $11.75 | 41% | 41% | 0 | 11% | 12% | 1.0 |
| Average monthly turnover rate** (percentage of non-supervisory employees) | 4.8% | 5.6% | 0.8% | 3.6% | 1.6% | 2.0% |
| Average annual absenteeism rate*** (days per employee per year) | 5.3 | 5.7 | 0.4 | 4.4 | 4.2 | -0.2 |

Source: Authors' survey of affected firms. The number of firms=51.
* Only 36 firms reported valid information on the number of contract workers in both years, including 10 firms that raised wages and 26 that did not.
** Only 43 firms reported valid data on turnover in both years, including 10 that raised wages and 33 that did not.
*** Only 36 firms reported valid data on absenteeism in both years, including 9 that raised wages and 27 that did not.
§ Indicates a statistically significant difference in the trend from 1998 to 2001 between firms that raised wages and those that did not, at a 95 percent confidence level.
§§ Indicates a statistically significant difference in the trend from 1998 to 2001 between firms that raised wages and those that did not, at a 99 percent confidence level.

number of such jobs similarly rose 14 percent among unaffected firms (from 153 to 175). What's more, the average number of part-time staff actually declined substantially among affected firms — from 34 to 23 percent — versus a much more modest decline among unaffected firms, from 11 to 10 percent.[15] These findings are striking, because they reveal that affected firms did not respond to higher wages by laying off staff, cutting hours, or shifting to more part-time employees. Quite the opposite – there was growth in overall employment and a shift away from part-time to full-time staff.

How else might firms have adjusted to higher wages? Rather than reducing the overall number of jobs or employees' hours in response to higher wage mandates, could firms have responded by cutting the number of employees working on city contracts while expanding the number of employees performing other work? Again, we did not find that to be the case: the number of employees working on covered contracts grew much faster among firms forced to raise wages

than among firms not forced to raise wages. The average number of contract workers at affected firms rose from 70 in 1998 to roughly 87 in 2001; at unaffected firms the number remained relatively stable at 15. (This difference is also highly statistically significant.) We found virtually identical results when we analyzed changes in the number of contract jobs on a full-time-equivalent basis, and changes in the percentage of contract workers.

Perhaps the living wage law raised wages for only a marginal number of workers at affected firms. As one of us has noted in related work, many localities do not implement or enforce living wage ordinances effectively.[16] If we find little direct evidence that firms raised wages in response to the living wage law, that may explain why we failed to detect any negative effects on employment or hours, and instead found an increase in firms' use of full-time staff.

*"Affected firms **did not** respond to higher wages by laying off staff, cutting hours, or shifting to more part-time employees.*

The evidence, however, does not support that proposition. Affected firms saw a substantial decline—from 23 percent in 1998 to 4 percent in 2001—in the proportion of workers earning below $9.25. Firms unaffected by the law, in contrast, reported a decline of less than 1 percentage point.[17] The proportion of workers earning less than $11.75 did not change for either group of firms. That implies that affected firms saw a substantial degree of wage compression: that is, the number of workers earning mid-range wages grew from 1998 to 2001. This is important evidence that firms raised wages for a substantial number of workers, and that the living wage ordinance was effectively enforced.

If firms did not reduce the number of employees or the hours worked in the face of higher wages, what other avenues could they have pursued to adjust to Boston's living wage mandate? One possibility is that firms offset higher direct labor costs by trying to reduce turnover and absenteeism, which are essentially indirect costs to firms. Examining the evidence, however, we found that average turnover and absenteeism actually rose among firms forced to raise wages, while firms unaffected by the law saw a sharp drop in turnover and a more modest reduction in absenteeism. This seemingly contradictory finding is most likely the result of Boston's extraordinarily low unemployment rate between 1998 and 2001, which averaged less than 3 percent for the entire period. This tight labor market (coupled with the substantial increases in the state minimum wage over this period) may have actually made alternative employment more attractive for some covered employees. At a minimum, it significantly reduced the cost of finding (and perhaps taking) a new job.

What other methods could firms have used to adjust to higher wage costs? Perhaps higher wages boosted productivity by spurring greater worker effort, thereby enabling firms to absorb

**TABLE 3.7 – How Firms Reported Adjusting to Boston's Living Wage Law**

| Variable | Percentage |
|---|---|
| Greater employee effort | 25% |
| Higher employee morale | 25% |
| Raised bid prices on city contracts | 15% |
| Raised prices for other services | 8% |
| Lowered profits | 39% |
| Changed hiring standards | 0% |
| Changed hiring methods | 27% |
| Changed production techniques | 0% |

Source: Authors' survey of affected firms.
Note: This information is based on reports from 13 firms.

these higher costs. There is solid empirical evidence that such effects exist, although analysts disagree on whether greater employee effort results from positive forces, such as higher morale, or negative ones, such as fear of losing a higher-paying job.[18] A quarter of affected firms reported that employee effort and morale had improved somewhat or significantly under the living wage law (*Table 3.7*). Although we have no way of assessing whether this greater effort and higher morale translated into higher productivity, such impacts are unlikely given the modest number of firms reporting such improvements.

Another alternative to lowering employment or hours among firms with rising labor costs is raising prices. This adjustment method seems to explain a lack of job losses in the fast food industry after increases in federal and state minimum wage levels. According to one study of the fast food industry, "Pretax prices rose 4 percent faster as a result of the minimum-wage increase in New Jersey—slightly more than the increase required to fully cover the cost increase caused by the minimum-wage hike." Another study similarly found that restaurant prices in the United States and Canada generally rise with changes in the wage bill, and that these changes typically occur in the first quarter after a minimum wage increase.[19]

However, in Boston only 15 percent of our affected firms reported raising the prices they bid for city contracts after the living wage took effect, and only 8 percent reported raising prices for other customers. This evidence is consistent with our finding that overall contract costs did not rise after living wage implementation in Boston (see Chapter 2). One explanation for the

scant evidence of higher bid prices in the wake of higher labor costs is the fact that funding for many of Boston's covered contractors ultimately comes from state and federal sources. Because many state and federal programs set reimbursement rates associated with their programs, firms cannot pass costs through to the city. This situation is particularly true for nonprofit human service providers.

*"Rather than passing on higher costs, firms may be lowering profits to adjust to the law.*

Rather than passing on higher costs, firms may be lowering profits to adjust to the law.[20] And indeed, 39 percent of affected firms reported doing so. This suggests that firms may have been maintaining high profit margins—or, in the case of nonprofits, large operating surpluses—before the living wage law took effect. Such a situation is not uncommon with government contracting, where markets are often thin or otherwise uncompetitive. However, analysts do not typically attribute such behavior to the types of nonprofit social service agencies covered by Boston's living wage law. [21]

If substantial operating surpluses are indeed prevalent among nonprofit government contractors, these firms may have greater incentive than their for-profit counterparts to lower such surpluses in the face of higher wages. That's because nonprofit status—while conferring many advantages to firms—also comes with legal restrictions on the use of operating surpluses. More research is needed to fully understand whether many nonprofits do, in fact, reap operating surpluses, and whether they have more incentive than for-profit firms to lower those surpluses in the face of higher wages.

Another possibility is that firms may have responded to higher wage mandates by replacing existing workers with more educated or otherwise more skilled employees. Such an outcome would not necessarily lead to changes in employment or hours, but it could limit or erase any benefits to low-wage workers. However, no firms in our study reported changing hiring standards after the passage of Boston's living wage law.

A related concern is that firms might also change their methods of hiring in the wake of living wage implementation, and that these changes might undercut poor workers. And we did indeed find that more than a quarter of affected firms reported changing their methods of hiring. Investigating further, however, we uncovered two types of adjustments. Firms expanded their use of city-sponsored referral centers, as mandated by the living wage law, and they also increased their use of the internet to advertise jobs. The former may enlarge the pool of job applicants from disadvantaged neighborhoods, while the latter is likely to undercut the chances of job seekers without regular internet access.

A final option for firms in adjusting to higher wages is to change production techniques, either reorganizing the way work is performed or substituting machinery or equipment in an attempt to minimize the use of (now more expensive) labor. One example might be to eliminate security personnel in a multilevel parking garage by installing remote security cameras. Another would be to shift to responsibility-sharing teams as a way to reduce the number of people involved in cleaning an office building. However, we found that no firms reported changes in their production techniques after the living wage law took effect. Boston contractors do not seem to have displaced low-wage labor with machines and other equipment, or reduced employment with other types of work reorganization.

On balance, our study confirms other research showing that living wage laws affect a minority of firms. Yet we did find that the law exerted a significant effect on the pay of low-wage workers. While unaffected firms saw virtually no changes in the proportion of workers earning less than $9.25, affected firms reported a drop from nearly 25 percent to less than 5 percent in the number of such workers.

In summary, firms did not respond to the Boston living wage ordinance—and its higher wage mandates—by reducing employment or hours. Indeed, firms who were forced to raise wages actually significantly expanded the number of staff assigned to their city contracts compared with firms that did not have to raise wages. Nor did affected firms raise prices—to the city or other customers—to accommodate higher labor costs.

In the absence of changes in jobs or hours, firms might have lowered the indirect costs linked to turnover and absenteeism to offset higher labor costs. However, turnover and absenteeism actually rose among affected firms, while unaffected firms saw a substantial decline. Employee effort and morale rose somewhat at affected firms, but those forces alone were not enough to offset rising labor costs. We also found little evidence that firms adjusted to living wage mandates by substituting higher-skilled workers or equipment for their low-wage workforce. The one clear move a large number of affected firms made was to accept lower profits.

## Endnotes

1. For a review of the living wage literature, see Brenner (2004).

2. Studies that fail to find employment declines following an increase in the minimum wage include Katz and Krueger (1992); Spriggs (1993); Card and Krueger (1994; 1995; and 2000); and Zavody (2000). For labor market models that admit the possibility of a positive relationship between a higher wage floor and employment, see Bhaksar, Manning, and To (2002) and Manning (2003). For examples of how lower costs associated with turnover and absenteeism may offset a higher wage floor, see Akerlof and Yellin (1986) and Stiglitz (1987). These ideas reflect those of economists writing earlier in the twentieth century, such as Clark Kerr, Richard Lester, Lloyd Reynolds, and Sumner Slichter.

3. See the discussion of price adjustments in Card and Krueger (1995, Chapter 2) and Aaronson (2001).

4. In most cases we collected information at the establishment level. However, several multi-establishment contractors reported data for operations covered by the law on a consolidated basis. Thus our unit of analysis is more accurately the firm, not the establishment. Of course, our information does not represent the national operations of large companies.

5. We include educational and training services as well as special education, assisted living, supportive housing, and childcare in the human services category, because all fall under the purview of "caring labor." See Folbre (1995; 2001) for a more detailed treatment of caring labor.

6. Indeed, the relatively low pay of human service providers in Massachusetts prompted advocates to introduce a statewide living wage bill for human service workers in 2000, which would have required providers to pay a wage of $12.89 to employees working on state contracts.

7. For a review of the theoretical and analytical issues separating the behavior of nonprofit and for-profit firms, see Glaeser (2003); Malani, Philipson, and David (2003); and Hansmann, Kessler, and McClellan (2003).

8. Boushey et al. (2001). Annual figures are based on 2,080 hours of work per year.

9. In Santa Monica, by contrast, Pollin and Brenner (2000) estimated that labor costs for workers earning less than $10.75 accounted for close to 17 percent of revenues of firms potentially affected by a proposed living wage ordinance. Had the city implemented its law, those low-wage labor costs would have risen to more than 23 percent of total revenue. Note that we estimated low-wage labor costs based on the approach used in Pollin, Brenner, and Luce (2002).

10. We relied on data from the Bureau of Labor Statistics to calculate this rate because they correspond most closely to our survey question: "In the last month, how many non-managerial employees have quit, been discharged, or laid-off?" To calculate the turnover rate, we divided a firm's response by the number of non-managerial employees.

11. For more on the costs associated with employee turnover, see Hinkin and Tracey (2000).

12. In this approach, we averaged the ratios of such workers at each firm, rather than calculating the percentage of all city contract workers among all firms.

13. Because we are using firms unaffected by the living wage mandate as a control group, our study closely parallels Katz and Krueger's (1992) analysis of the impact of a minimum wage increase in Texas.

14. The first increase was only weakly statistically significant, likely because of the relatively small number of firms, while the second increase was statistically significant.

15. The difference between the two is highly statistically significant. To test the robustness of this finding, we limited our analysis to human service firms reporting valid information for both years. While the reduced sample sizes drastically limit the power of the statistical tests, the resulting patterns for employment, full-time-equivalent employment, and hours are broadly similar to those for the complete sample.

16. See Luce (2004).

17. The difference between the two groups is statistically significant.

18. See Cappelli and Chauvin (1991); Levine (1992); and Campbell (1993).

19. See Card and Krueger (1995) and Aaronson (2001).

20. In the context of our survey, nonprofit respondents used "profits" as a shorthand for operating surpluses. It is therefore important to note that nonprofits differ from for-profit entities not in their ability to accrue such surpluses, but merely in the ways they are allowed to distribute them.

21. For more on the dynamics of government contracting, in particular the character of nonprofit contracting, see Boyne (1998); Steel and Long (1998); Sclar (2000); Milward and Provan (2000); and Van Slyke (2003).

# Chapter 4

## The Impact of Boston's Living Wage Law on Workers

Proponents of living wage laws contend that they can be an effective mechanism for improving the living standards of low-wage workers. Do employees covered by these laws in fact experience such benefits?

Studies of proposed living wage ordinances show that potential beneficiaries are likely to be overwhelmingly adults supporting at least one family member and living below or slightly above a realistically defined poverty level.[1] Far fewer studies have examined the impact on workers after living wage ordinances have actually been implemented. Notable exceptions are an analysis of workers at San Francisco International Airport, and of home care workers in San Francisco County. Both these studies shed light on the job tenure and earnings of living wage beneficiaries, finding marked reductions in turnover and (unsurprisingly) substantial wage gains for workers covered by the living wage vis-à-vis their counterparts not covered by the law. But neither study examines the family situation of covered workers, in particular whether living wage ordinances help lift families out of poverty.[2]

To shed light on these unanswered questions, we conducted an in-depth telephone survey between November 2001 and May 2002 of workers covered by Boston's living wage law. Our findings mirror prior research showing that workers covered by living wage ordinances—particularly those likely to receive mandated raises—are overwhelmingly adults well into their working lives. In Boston, living wage beneficiaries are also primarily women and people of color. The high incidence of poverty among these workers before implementation of the living wage law attests that it is well targeted to the working poor. We found significant wage gains among covered workers after the law took effect, while the incidence of poverty fell sharply. However, close to a third of these workers remained poor even after the law took effect—if we define poverty realistically and take into account Boston's high cost of living. Not surprisingly, therefore, we found that the living wage level was generally not sufficient to lift covered workers and their families up to a still-modest but more substantial living standard that allows them to fulfill basic needs.

## Defining a Poverty Threshold

Before weighing the impact of the living wage law on low-wage workers in Boston, we first needed to determine an adequate standard of living for the metropolitan area. The starting point for any such analysis is the federal poverty line. For almost four decades the U.S. government has defined and measured poverty using the pioneering methods developed by Mollie Orshansky, an economist at the Social Security Administration, in the early 1960's. Orshansky based the absolute poverty threshold on the cost of the U.S. Department of Agriculture's "economy food plan," which in turn drew from the USDA's 1955 survey of household food consumption. The economy food plan, which provided a nutritious but monotonous diet, was designed for "temporary or emergency use when funds are low."[3]

*"In Boston, we concluded that a reasonable upward adjustment of the official poverty line is 60 percent.*

After calculating the proportion of after-tax expenditures the average family dedicated to food (33 percent), Orshansky multiplied the cost of an economy food plan by three to derive poverty thresholds for a variety of family types. The government initially adjusted these thresholds according to the annual cost of the economy food plan, but in 1969 began basing them on the Consumer Price Index. This method for establishing poverty thresholds has remained largely unchanged ever since.

Many analysts now question the accuracy of this approach to measuring poverty, given dramatic structural changes in the U.S. economy and demographic shifts in the population. For example, a panel convened by the National Research Council (NRC) in 1995 concluded that the measure no longer "provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the county, nor an accurate picture of trends over time."[4] After examining six detailed studies that suggested raising the poverty threshold 24 to 53 percent, the panel recommended raising the poverty threshold 14 to 33 percent, citing concern about large regional variations in housing and medical costs, inadequate measures of childcare costs, and rising living standards.[5] Although the Census Bureau has incorporated these recommendations into experimental measures of poverty, the government has not revamped its official approach to measuring poverty.

Based on this body of research, we concluded that a reasonable upward adjustment of the official poverty line is 34 percent—the mid-point among all the estimates examined in the NRC's report. However, such an upward revision does not address dramatic regional differences in the cost of living. Such differences are as important for low-wage workers as for those higher up the wage ladder.

**TABLE 4.1 – Cost of Living Indexes for Boston (U.S. average=100)**

| | Index |
|---|---|
| Bureau of Labor Statistics<br>Experimental Interarea Index, 1989 | 122 |
| Bureau of Labor Statistics<br>Experimental Index for Shelter, 1995 | 114 |
| National Research Council<br>Housing Index, 1990 | 121 |
| American Chamber of Commerce Research Association<br>Cost of Living Index, 3rd Quarter 2002 | 136 |

Source: David S. Johnson, John M. Rogers, and Lucilla Tan (2001), "A Century of Family Budgets in the United States," *Monthly Labor Review* 124: 5, Table 8. ACCRA index reported at www.accra.org.

We drew on four sources to estimate a regional cost-of-living adjustment for Boston: two from the Bureau of Labor Statistics, one developed by the NRC panel, and one created by the American Chamber of Commerce Research Association for 300 cities.[6] These measures show that Boston's cost of living is 14 to 36 percent higher than the national average, with a midpoint of 25 percent (*Table 4.1*). Combining that increase with the 34 percent upward revision of the federal poverty level, we concluded that the poverty threshold for the Boston area should be some 160 percent of the federal measure. Given that price inflation in Boston continues to outpace the national average, that estimate is conservative.[7]

While such an approach establishes an appropriate measure of poverty in Boston, the term "living wage" suggests a higher standard. When the concept first gained widespread use at the onset of U.S. industrialization in the 1870s, a broad consensus held that a living wage should provide "the ability to support families, to maintain self-respect, and to have both the means and the leisure to participate in the civic life of the nation."[8]

Two measures come close to capturing this historic meaning of a living wage. The first—the "self-sufficiency standard"—was created in 1998 by the Massachusetts Women's Educational and Industrial Union (WEIU), in conjunction with Wider Opportunities for Women (WOW). The second measure—the "basic family budget"—comes from research on the cost of living conducted by the Economic Policy Institute (EPI).[9] Both the EPI and WEIU/WOW thresholds are substantially above not only the federal poverty line (which we believe

**TABLE 4.2 – Living Standard Thresholds for Boston, 2001**

| | Family type *1 adult, 2 children* | Family type *2 adults, 2 children* |
|---|---|---|
| **Severe poverty**(official poverty line) | | |
| *Annual income* | $14,270 | $17,960 |
| *Hourly wage rate for full-time job* | $6.86 | $8.63 |
| **Poor**(160% of official poverty line) | | |
| *Annual income* | $22,830 | $28,740 |
| *Hourly wage rate for full-time job* | $10.98 | $13.82 |
| **Near-poor**(185% of official poverty line) | | |
| *Annual income* | $26,400 | $33,230 |
| *Hourly wage rate for full-time job* | $12.69 | $15.97 |
| **Self-sufficiency standard** (Women's Educational and Industrial Union and Wider Opportunities for Women) | | |
| *Annual income* | $44,700 | $48,600 |
| *Hourly wage rate for full-time job* | $21.49 | $11.68 |
| **Basic family budget**(Economic Policy Institute) | | |
| *Annual income* | $48,550 | $54,190 |
| *Hourly wage rate for full-time job* | $23.34 | $13.03 |

Source: The official poverty line is from www.census.gov/hhes/poverty/threshld/thresh01.html. The basic family budget is from Boushey et al. (2001), Tables A4.2 and A4.5. The self-sufficiency standard is from Bacon et al. (2000), Table 1. Calculations of the hourly wage assume one wage earner per family. All figures are in 2001 dollars.

is more accurately described as a measure of severe poverty), but also our adjusted poverty thresholds for Boston (*Table 4.2*). In fact, the EPI family budget for a one adult-two child family is more than three times the official poverty line, and more than double our adjusted poverty threshold.

While substantially above our poverty thresholds, these two measures are not extravagant. Both aim "for a safe and decent standard of living, accounting for major family expenditures related to housing, childcare, food, transportation, health care, other miscellaneous expenses, and taxes."[10] Both also reflect the cost of living "in the regular 'marketplace' without public or private subsidies—such as public housing, food stamps, Medicaid or childcare—or private 'informal' subsidies such as free baby-sitting by a relative or friends."[11] These measures include no savings, even for retirement or education, nor any expense for restaurant meals, movies, or vacations. Both measures also assume that both parents in a two adult-two child family work.[12] (See Appendix 5 for more information on the standards.)

EPI calculated its measure for 6 family types living in 12 regions of Massachusetts, while WEIU/ WOW calculated its measure for more than 70 family types in 40 regions of the state. We combined those two standards to establish the outer bounds of a decent yet modest living standard that we call "basic needs." That standard implies a wage of $12–$13 an hour for a family with two wage earners, and $21–$23 an hour for a family with one wage earner—in contrast to the city's living wage of $9.11 at the time of our study. We used the "basic needs" measure—along with 185 percent of the federal poverty line as a measure of near-poverty—to evaluate the impact of Boston's living wage law on the living standards of low-wage workers.[13]

## A Profile of Covered Workers in Boston

To develop a profile of workers covered by the law and assess its impact on them, we surveyed 105 individuals employed by covered service contractors, 97 of whom provided usable information. (See Appendix 6 for more information on our survey.) As in many such situations, we could not conduct a random sample of workers covered by the Boston living wage law because a master list of those workers did not exist. We therefore relied instead on a non-random sampling technique, soliciting respondents among workers employed in "high-impact" sectors—those with large concentrations of low-wage workers.[14] Because our firm survey revealed that 93 percent of covered workers who earned less than $11.75 in 2001 worked in childcare, assisted living/ supportive housing, education and training, and special education, we solicited respondents from those sectors (*Table 4.3*).[15] An overwhelming majority of these respondents worked in nonprofit organizations.

*"Individuals covered by Boston's living wage ordinance were adults well into their working lives. These workers were overwhelmingly women and people of color.*

Our respondents sat on the lower rungs of the wage scale among firms covered by the law. Some 70 percent earned between $9.11 (the living wage at the time of our survey) and $12.74, and more than a third made between $9.11 and $10.74 (*Table 4.4*). (One respondent, a teenager, reported an hourly wage of $8.75—the only violation of the law we found.)

This workforce was overwhelmingly female: women composed 80 percent of all respondents, and at least three-quarters of each wage category. The workforce was also overwhelmingly non-white: 64 percent were people of color, with African Americans composing the largest single ethnic group. Race and earnings appeared to be related, as more than 70 percent of workers in two lower wage categories were non-white, while less than 50 percent in two upper wage categories were non-white.

**TABLE 4.3 – Surveyed Workers Covered by Boston's Living Wage Law, by Sector**

| | Firms | Number of surveyed workers | Percent of covered workers at the firms |
|---|---|---|---|
| Childcare | 7 | 40 | 42% |
| Assisted living/supportive housing | 7 | 19 | 20% |
| Education and training | 24 | 19 | 20% |
| Special education | 27 | 16 | 17% |
| Trash/janitorial/security | 4 | 2 | 1% |
| Other | 71 | 0 | 0% |
| Total | 140 | 96* | 100 |

Source: Authors' survey.
Note: Here, unlike in Chapter 3, we do not specify multi-service contractors. Instead we classify firms that provide services in more than one area according to their largest activity.
*One survey respondent did not provide sector information.

Our workers averaged 32 years of age, with the oldest workers concentrated in the lowest-paid jobs. Just 5 percent of our respondents were less than 20 years old, and they, too, fell mostly in the lowest wage category.

Despite the fact that these workers had participated in the workforce for a number of years, their average tenure in their current position was just 3 years. Job tenure varied significantly by wage group, with workers earning between $10.75 and $12.74 averaging 4.1 years, and those earning between $9.11 and $10.74 averaging 1.9 years.

Over a third of our respondents held no more than a high school degree, while more than half reported a two- or four-year college degree, and 11 percent held advanced degrees (*Table 4.5*). This large divergence in education despite relatively narrow differences in earnings is characteristic of the nonprofit social services sector from which the bulk of our respondents were drawn.

These employees were working a substantial number of hours, with those in all wage groups averaging over 40 hours per week (*Table 4.6*). The high proportion of full-time work reflects the fact that these employees often worked for more than one firm, averaging 1.3 jobs. Our respondents also worked during a substantial part of the calendar year, averaging 44 to 49 weeks annually.

These workers averaged $24,402 in earnings, ranging from $18,590 in the lowest wage category to $30,910 in the next-to-highest category. Our respondents reported wages ranging from

**TABLE 4.4 – Basic Demographics of Workers Covered by Boston's Living Wage Law**

| | All workers | Hourly wage rate $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 | +$14.75 |
|---|---|---|---|---|---|
| Number of workers | 97 | 34 | 33 | 16 | 13 |
| Percentage | 100% | 35% | 34% | 17% | 13% |
| Average age | 32 | 34 | 32 | 31 | 30 |
| Percentage teenagers | 5.2% | 4.1% | 0% | 0% | 0% |
| Average tenure on current job *(years)* | 2.9 | 1.9 | 4.1 | 2.4 | 3.0 |
| Percentage female | 79% | 77% | 82% | 75% | 85% |
| Percentage black | 40% | 47% | 46% | 25% | 31% |
| Percentage Hispanic | 22% | 24% | 24% | 13% | 15% |
| Percentage non-white | 64% | 71% | 72% | 44% | 46% |

Source: Authors' survey.

**TABLE 4.5 – Education of Workers Covered by Boston's Living Wage Law**

| | Number of workers | Percentage |
|---|---|---|
| Less than high school | 7 | 7% |
| High school/GED | 29 | 30% |
| Two- or four-year college degree | 50 | 52% |
| Master's degree | 11 | 11% |

Source: Authors' survey.

$9.61 to $16.18, averaging $11.90. Differences in hours worked among people in different wage categories exerted a strong effect on their annual earnings. Workers earning between $12.75 and $14.75 an hour, for example, averaged higher earnings than those making more than $14.75 an hour, largely because the former worked 26 percent more hours.

Turning to the demographic characteristics of our sample, we found that the model of the nuclear family does a poor job capturing the living situation of these workers. The majority

**TABLE 4.6 – Wages and Earnings of Workers Covered by Boston's Living Wage Law**

| | | Hourly wage rate | | | |
|---|---|---|---|---|---|
| | All workers | $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 | +$14.75 |
| Hourly wage | | | | | |
| *Average* | $11.90 | $9.61 | $11.83 | $13.60 | $16.18 |
| *Median* | $11.60 | $9.38 | $12.00 | $13.46 | $15.68 |
| Average hours per week | 43 | 44 | 42 | 48 | 42 |
| Average weeks per year | 47 | 44 | 49 | 49 | 45 |
| Average hours worked last year | 2,038 | 1,918 | 2,112 | 2,345 | 1,863 |
| Average number of jobs | 1.3 | 1.3 | 1.2 | 1.4 | 1.3 |
| Earnings *(2002 dollars)* | | | | | |
| *Average* | $24,402 | $18,590 | $25,071 | $30,910 | $30,008 |
| *Median* | $23,324 | $18,949 | $24,960 | $28,538 | $32,050 |

Source: Authors' survey.

were single heads of household: 43 percent were single with no children, and another 14 percent reported only one adult in a family that includes children under 18 (*Table 4.7*).[16] Although a majority were supporting only themselves, some 47 percent supported at least one other family member, while some 30 percent live in families with children. We also found that the number of respondents supporting children was very much in line with figures for the city as a whole.

Our respondents reported a wide range of family incomes—from an average of $18,000 for two-adult families without children, to $25,000 among single adults with children, to $39,000 to $49,000 among families with more than one wage earner (*Table 4.7*). These families faced relatively high rates of poverty: 11 percent lived in severe poverty—below the federally defined poverty line—while close to a third fell below an adequate poverty threshold. Nearly 40 percent of these families were near-poor, while half fell below the basic-needs threshold (*Table 4.8*). Our respondents had much lower living standards than similarly situated workers in the Boston-area labor market. (See Appendix 7 for a profile of all low-wage workers in the region.)

**TABLE 4.7 – Family Incomes and Dependency Ratios* of Covered Workers in Boston, by Family Type**

| Family type | Number of families and percent of total | Dependency ratios* (median) | Average income (2001 dollars) | Median income (2001 dollars) |
|---|---|---|---|---|
| One adult, no children | 41 (43%) | 1 | $24,085 | $25,000 |
| One adult, with children | 13 (14%) | 2 | $24,473 | $25,033 |
| Two adults, both wage earners, no children | 10 (10%) | 1 | $43,348 | $33,898 |
| Two adults, both wage earners, with children | 13 (14%) | 2 | $39,197 | $40,000 |
| Two adults, one wage earner, no children | 4 (4%) | 2 | $18,000 | $20,250 |
| Two adults, one wage earner, with children | 4 (4%) | 3.5 | $24,410 | $18,995 |
| Multiple adults/ wage earners | 11 (12%) | 1.7 | $49,067 | $35,000 |
| Total, all family types | 97 (100%) | 1.5 | $30,813 | $26,076 |

Source: Authors' survey.
* The dependency ratio is the number of family members divided by the number of income earners in the family. This measure indicates the number of people a wage earner is supporting with his or her earnings.

What helps explain the low living standards among covered workers? Perhaps the clearest predictor of poverty is a high "dependency ratio"—that is, the number of wage earners in these families divided by the number of people they are supporting (*Table 4.7*). More than half of workers supporting another person lived in families that were poor. (The exception was two-adult families with two wage earners, of which only 31 percent were poor.) This effect becomes even clearer when we divide our respondents into families with and without children. Some 40 percent of respondents with children were poor, 43 percent were near-poor, and a full 79 percent fell below our basic-needs standard. Although respondents without children were more likely to surpass our poverty thresholds, a substantial fraction of these families also lived on relatively modest means: nearly 25 percent were poor, while roughly 38 percent were either near-poor or fell below the basic-needs threshold (*Table 4.8*).

Not surprisingly, we found strong links between lower wages and poverty (*Table 4.9*). For example, the families of 25 percent of individuals earning between $9.11 and $10.74 were severely poor. Half of these families were poor, 69 percent were near-poor, and 68 percent fell below the

**TABLE 4.8 – Poverty and Basic-Needs Status of Covered Workers in Boston, by Family Type (percentage of workers in each category falling below each threshold)**

| Family type | Severe poverty | Poor | Near-poor | Basic needs |
|---|---|---|---|---|
| One adult, no children *(number of families=41)* | 8% | 18% | 35% | 35% |
| One adult, with children *(number of families=13)* | 8% | 46% | 46% | 100% |
| Two adults, both wage earners, no children *(number of families=11)* | 0% | 11% | 11% | 22% |
| Two adults, both wage earners, with children *(number of families=13)* | 8% | 31% | 31% | 44% |
| Two adults, 1 wage earner, no children *(number of families=4)* | 25% | 50% | 50% | 75% |
| Two adults, 1 wage earner, with children *(number of families=4)* | 25% | 50% | 75% | 100% |
| Multiple adults/wage earners *(number of families=11)* | 27% | 54% | 64% | - |
| Total, families without children* *(number of families=64)* | 9% | 25% | 38% | 37% |
| Total, families with children** *(number of families=30)* | 13% | 40% | 43% | 79% |
| Total, all family types *(number of families=94)**** | 11% | 30% | 39% | 50% |

Source: Authors' survey.
* We cannot define a basic-needs threshold for any household with more than two adults, so the basic-needs calculation is based on only 54 families.
** The basic-needs calculation for this category is based on 24 families.
*** The basic-needs calculation for this category is based on 86 families.

basic-needs threshold.[17] None of the families of workers in the $10.75–$12.74 wage bracket lived in severe poverty, but 28 percent were poor. More than a third were near-poor, and 46 percent fell below the basic-needs threshold. Less than 8 percent of individuals in the two highest wage groups were poor or severely poor, yet roughly 40 percent fell below the basic-needs standard.

Despite the high incidence of poverty among our respondents, as many as half reported incomes above a basic-needs standard — many more than in cities such as Los Angeles and Santa Fe, where as many as 80 percent of potentially affected workers fell *below* such a standard. Who are these Boston workers above the basic-needs threshold?[18]

**TABLE 4.9 – Poverty and Basic-Needs Status of Covered Workers in Boston, by Wage (percentage falling below each threshold)**

| | | Hourly wage rate | | | |
|---|---|---|---|---|---|
| | All workers | $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 | +$14.75 |
| Severe poverty | 11 | 25 | 0 | 6 | 0 |
| Poor | 30 | 50 | 28 | 6 | 8 |
| Near-poor | 39 | 69 | 34 | 13 | 8 |
| Basic needs | 50 | 68 | 46 | 38 | 42 |

Source: Authors' survey.

In several respects, workers living above this threshold were similar to those living below it (*Table 4.10*). The former were, on average, the same age as all covered workers (32 years in both cases), and women appeared in roughly the same proportion: 74 percent of workers above the basic-needs threshold were female, compared with 79 percent of the entire sample. However, workers above the basic-needs level also differed from other respondents in several important respects. For example, half of this group was white, versus one-third of all respondents. Workers above basic needs also averaged about a dollar more per hour in earnings compared with all respondents. Employees above basic needs further average some 200 more hours of work a year than all covered workers.

But the most dramatic difference between workers above the basic-needs threshold and those below it is the type of family in which they reside. Close to 70 percent of workers above basic needs were single adults, while another 16 percent resided in two-adult households with no children and both spouses working. Only 16 percent of workers above basic needs had children, and all of those reported a second adult in the household working for wages.

Is the Boston law doing a bad job of targeting workers in poverty, compared with living wage laws in other cities? Our evidence suggests that the Boston law is at least as well targeted as other ordinances across the country. The main difference between our findings and earlier research is that we define basic-needs thresholds for a broader range of family types, including those without children. If we examine only covered workers *with* children, we find that some 80 percent of these families fall below basic needs—virtually identical to the situation in Los Angeles. The rates of severe poverty, poverty, and near-poverty among these Boston families with children are also higher than among low-wage workers in Los Angeles.[19]

**TABLE 4.10 - Characteristics of Covered Workers above the Basic-Needs Threshold**

| | |
|---|---|
| Number of workers | 39 |
| Average age | 32 |
| Percentage teenagers | 0% |
| Average tenure on current job *(years)* | 3.2 |
| Percentage female | 74% |
| Percentage black | 31% |
| Percentage Hispanic | 13% |
| Percentage non-white | 49% |
| Hourly wage | |
| average | $12.76 |
| median | $12.60 |
| Average hours per week | 45 |
| Average weeks per year | 48 |
| Average hours worked last year | 2,205 |
| Average number of jobs | 1.4 |
| Earnings *(2002 dollars)* | |
| average | $27,940 |
| median | $26,098 |
| One adult, no children (percentage) | 69% |
| Two adults, both wage earners, no children (percentage) | 16% |
| Two adults, both wage earners, with children (percentage) | 16% |

Source: Authors' survey.
Note: The percentages for family type do not add to 100 percent because of rounding.

## The Impact of the Living Wage Law on Wages and Earnings

What changes are associated with the implementation of Boston's living wage ordinance? Did the living wage law exert a discernable impact on the poverty status of any of our survey respondents? Did it lift any of these low-wage workers out of poverty, or raise them to a higher standard of living that enabled them to meet their basic needs? To answer these questions, we asked our respondents to compare their wages and family incomes in 1998, before the law took effect, with their situation in 2001.[20]

We found that workers who earned below the living wage in 1998 had reaped significant gains by 2001: $2.10 per hour in real terms (*Table 4.11*). These employees also worked a higher

**TABLE 4.11 – Hourly Wages, Annual Earnings, and Family Income of Covered Workers in Boston, 1998 and 2001**

| | Hourly wage | Annual earnings | Family income |
|---|---|---|---|
| **Earned below the living wage in 1998** *(number of workers=21)* | | | |
| 1998 | $9.22 | $16,990 | $37,310 |
| 2001 | $11.32 | $26,990 | $40,960 |
| Difference | $2.10 | $10,000 | $3,650 |
| **Earned above the living wage in 1998** *(number of workers=38)* | | | |
| 1998 | $12.78 | $27,350 | $33,750 |
| 2001 | $12.87 | $27,800 | $36,620 |
| Difference | $0.09 | $450 | $2,870 |

Source: Authors' survey.
Note: All wages, earnings, and incomes are expressed in 2001 dollars. Annual earnings and incomes refer to the prior year.

number of hours. Their $10,000 rise in real earnings reflects longer hours along with higher real wages. The boost in hours confirms our finding in Chapter 3 that covered firms—particularly those forced to raise wages to comply with the living wage law—shifted from part-time to full-time staffing. Living wage beneficiaries also experienced significant gains in family income, which grew on average by $3,650.

Workers who already earned above the living wage in 1998, in contrast, saw little wage growth—a mere $0.09 in real terms—and their real annual earnings remained flat. These workers did see increases in family income, however, reflecting gains by other family members. We also saw differences in wage and earnings gains between people who changed employers and people who did not. By far the largest wage gains accrued to individuals earning less than the living wage and working for a different employer in 1998: those employees saw a real increase of $2.88 an hour and $11,880 per year (*Table 4.12*). Affected workers who remained with the same employer saw a much more modest real increase of $0.83 per hour and $6,950 per year. Workers who already earned above the living wage in 1998 who remained with the same employer saw real earnings decline by $1,590, while affected workers who changed employers saw real gains of $2,100.

The fact that workers earning less than the living wage in 1998 who changed employers saw the greatest gains runs counter to some claims that higher wage floors prompt employers to substitute lower-paid (and presumably lower-skilled) workers with higher-skilled (and presumably

higher-paid) workers. In this case lower-paid (and possibly lower-skilled) workers appear to be the prime beneficiaries of the living wage law.

These results also suggest the need for a broader understanding of the benefits of living wage policies. Analysts often discuss those benefits solely in terms of the higher wages that accrue to lower-paid individuals. However, our evidence suggests that the Boston ordinance has benefited more than just the individuals who received raises when the law went into effect. The law has also turned a discrete set of jobs into better-paying jobs—typically with better hours and sometimes better benefits. Our results also show that far from disadvantaging lower-paid workers, the living wage policy has given many a pathway to a better job.

*Changes in Family Income and Living Standards*

Although unaffected workers who changed employers experienced the largest gains in *family* income between 1998 and 2001 (increasing by $7,140), affected workers who changed jobs saw significant increases as well, with family income rising by $5,640 (*Table 4.12*). Family income for affected workers who remained with the same employer rose modestly, in contrast, while family income fell by $2,410 among unaffected workers remaining with the same employer (*Table 4.12*).

How did these shifts in earnings and family incomes affect living standards? We found that for individuals earning *less* than the living wage in 1998, the percentage living in severe poverty dropped from 34 percent to 13 percent (*Table 4.13*). The proportion of families considered poor also fell markedly, from 41 percent to 28 percent. The percentage who were near-poor fell from 50 to 41, but the proportion with family incomes below a basic-needs threshold did not change.

Family living standards among workers earning *above* the living wage in 1998 also improved, with the percentage of severely poor families falling from 9 percent in 1998 to 0 by 2001, and the proportion of poor families dropping from 32 percent to 23 percent. However, the proportion of families living near poverty fell even more markedly—from 46 to 30 percent—while the proportion below basic needs fell from 63 to 48 percent.

For those in poverty, the living standards of affected workers and their families improved much more substantially than for unaffected workers. How much of this is due to the living wage ordinance? One way to measure this is to compare the trends in living standards between the two groups. Although our survey design does not lend itself to formal statistical testing, we can still reasonably attribute differences in these trends to the living wage law. Making such a comparison, we find that from a third to half of the decline in poverty and severe poverty stems from the living wage ordinance. (See the "difference in trend between the two groups" in *Table 4.13*).[21]

**TABLE 4.12 – Hourly Wages, Annual Earnings, and Family Income of Covered Workers Who Changed Employers and Those Who Did Not, 1998 and 2001**

| | Hourly wage | Annual earnings | Family income |
|---|---|---|---|
| **SAME EMPLOYER** *(number of workers=25)* | | | |
| **Earned below the living wage in 1998** | | | |
| *(number of workers=8)* | | | |
| 1998 | $9.81 | $21,770 | $35,690 |
| 2001 | $10.64 | $28,720 | $36,090 |
| Difference | $0.83 | $6,950 | $400 |
| **Earned above the living wage in 1998** | | | |
| *(number of workers=17)* | | | |
| 1998 | $12.27 | $28,210 | $36,310 |
| 2001 | $13.12 | $26,620 | $33,900 |
| Difference | $0.85 | -$1,590 | -$2,410 |
| **DIFFERENT EMPLOYER** *(number of workers=33)* | | | |
| **Earned below the living wage in 1998** | | | |
| *(number of workers=13)* | | | |
| 1998 | $8.86 | $14,060 | $38,310 |
| 2001 | $11.74 | $25,940 | $43,950 |
| Difference | $2.88 | $11,880 | $5,640 |
| **Earned above the living wage in 1998** | | | |
| *(number of workers=21)* | | | |
| 1998 | $13.20 | $26,660 | $31,680 |
| 2001 | $12.67 | $28,760 | $38,820 |
| Difference | -$0.53 | $2,100 | $7,140 |

Source: Authors' survey.
Note: All wages, earnings, and incomes are in 2001 dollars. Annual earnings and incomes refer to the prior year.

However, these benefits seem restricted to those living in poverty or severe poverty. Unaffected workers saw much greater drops in the proportion of families who were near-poor or just below basic needs. Since affected workers were making substantially less money in 1998 compared with 2001, it is not surprising that we see the benefits of Boston's living wage law restricted to the lower reaches of the income distribution. However, while the living wage policy cut the proportion of families living in poverty, it did not appear to improve living standards for families just above the poverty line who remain in some degree of insecurity.

As above, to deepen our understanding of these findings, we considered differences in *family* incomes between workers who changed employers and those who did not. Among workers earning less than the living wage in 1998 who *changed* employers, the proportion with families

**TABLE 4.13 – Poverty and Basic-Needs Status of Families of Covered Workers in Boston, 1998 and 2001**
(percentage below each threshold)

| | Severe poverty | Poor | Near-poor | Basic needs* |
|---|---|---|---|---|
| **Earned below the living wage in 1998** *(number of workers=32)* | | | | |
| 1998 | 34 | 41 | 50 | 54 |
| 2001 | 13 | 28 | 41 | 54 |
| Difference (1998–2001) | 22 | 13 | 9 | 0 |
| **Earned above the living wage in 1998** *(number of workers=44)* | | | | |
| 1998 | 9 | 32 | 46 | 63 |
| 2001 | 0 | 23 | 30 | 48 |
| Difference (1998–2001) | 9 | 9 | 16 | 15 |
| ***Difference in trend between the two groups*** | **13** | **3** | **-7** | **-15** |

Source: Authors' survey.
* We cannot define the basic-needs threshold for any household with more than two adults, so these figures are based on fewer individuals than the other thresholds. That is why, in one case, the proportion of families living under the basic-needs threshold is lower than the proportion of families that is near-poor.

in severe poverty fell from 42 percent to 17 percent, while the proportion in poverty fell from 50 to 38 percent (*Table 4.14*). The percentage of families in this group living near poverty declined modestly, while the proportion below basic needs remained the same.

Among workers earning less than the living wage in 1998 who remained with the *same* employer, the proportion of severely poor and poor families fell from 13 percent in 1998 to 0 in 2001, while the proportion of near-poor families fell from 38 percent to 13 percent. The proportion of families that remained below a basic-needs threshold did not change. Poor or severely poor workers earning *above* the living wage in 1998 experienced much more modest gains, whether they stayed with employers or changed jobs over that time period. By contrast, the gains for families living near poverty or below a basic-needs threshold were much more substantial.

Overall, then, poor workers who received raises as a result of the living wage law experienced much sharper improvements in their living standards than did poor workers already earning

**TABLE 4.14 – Poverty and Basic-Needs Status of Families of Covered Workers Who Changed Employers and Those Who Did Not, 1998 and 2001**
(percentage below each threshold)

| | Severe poverty | Poor | Near-poor | Basic needs* |
|---|---|---|---|---|
| **SAME EMPLOYER** *(number of workers=26)* | | | | |
| **Earned below the living wage in 1998** *(number of workers=8)* | | | | |
| 1998 | 13 | 13 | 38 | 29 |
| 2001 | 0 | 0 | 13 | 29 |
| Difference (1998–2001) | 13 | 13 | 25 | 0 |
| **Earned above the living wage in 1998** *(number of workers=18)* | | | | |
| 1998 | 0 | 28 | 44 | 56 |
| 2001 | 0 | 22 | 28 | 44 |
| Difference (1998–2001) | 0 | 6 | 17 | 13 |
| ***Difference in trend between the two groups*** | **13** | **7** | **8** | **-13** |
| **DIFFERENT EMPLOYER** *(number of workers=50)* | | | | |
| **Earned below the living wage in 1998** *(number of workers=24)* | | | | |
| 1998 | 42 | 50 | 54 | 64 |
| 2001 | 17 | 38 | 50 | 64 |
| Difference (1998–2001) | 25 | 13 | 4 | 0 |
| **Earned above the living wage in 1998** *(number of workers=26)* | | | | |
| 1998 | 16 | 35 | 46 | 67 |
| 2001 | 0 | 23 | 31 | 50 |
| Difference (1998–2001) | 16 | 12 | 15 | 17 |
| ***Difference in trend between the two groups*** | **9** | **1** | **-11** | **-17** |

Source: Authors' survey of workers covered by Boston's living wage law.
* We cannot define the basic-needs threshold for any household with more than two adults, so these figures are based on fewer individuals than the other thresholds. That is why, in one case, the proportion of families living under the basic-needs threshold is lower than the proportion of families that is near-poor.

above the living wage. Yet only a modest percentage of affected workers moved above the near-poverty and basic-needs thresholds after the living wage took effect, particularly compared with workers unaffected by the law. By comparing affected workers with similarly situated unaffected workers, we conclude that the Boston living wage ordinance has been relatively effective at lifting workers out of poverty. However, at current wage levels it appears unable to

lift all workers out of poverty, or to help lower-wage workers achieve a higher standard of living that enables them to meet their basic needs.

Based on our evidence, we also conclude that these benefits have by and large been concentrated among workers who managed to obtain jobs with a covered firm *after* the living wage law took effect. Affected employees who worked for the same employer before implementation experienced much more modest gains. These results suggest that policymakers must expand their concept of who benefits from living wage laws to include not only current but future jobholders as well. Indeed, one of the primary benefits of Boston's living wage law is the fact that it led to qualitative improvements in the jobs themselves. These jobs will remain better jobs as long as they remain covered by the living wage law.

## The Impact of the Living Wage Law on Employees' Quality of Life

In this study we also wanted to include more than just a quantitative assessment of the impact of Boston's living wage law on the employees it covers. We also wanted to convey a deeper sense of the concrete impact of wage increases on workers' quality of life. Thus in the summer of 2003 we conducted follow-up phone interviews with eight employees who received raises as a result of the living wage ordinance. We selected these respondents randomly from the pool of employees earning less than $9.11 in 1998 (8 percent of the initial sample). The results illuminate the modest but concrete benefits that accompany higher wages, as well as many of the challenges low-wage workers face.

For example, higher wages had enabled virtually all these workers to boost their savings. One worker reported that she had opened her first bank account, while another had created a 401(k) retirement account. Debt was a near-unanimous concern, and six of the eight reported that they had been somewhat successful in reducing their debt burden in the wake of higher wages.

Respondents also signaled small but concrete advances in their personal and professional lives. Five had begun classes, four had been able to take vacations, and four had used higher disposable incomes to assist their families financially. This ability to help out friends and family was especially meaningful, as it signaled a degree of independence and security that these workers had not been able to attain with lower earnings. For example, one woman was able to regularly purchase groceries for her aging mother, and even to save enough money to buy her mother a new set of living room furniture and help her son with college expenses. One man was saving money to help his mother make a down payment on a house. Another woman was able to help two of her family members pay for funeral arrangements. Three individuals used the higher wages to help buy a car, and one young man had managed to

improve his housing situation by leaving his mother's house to share an apartment with friends. Three respondents reported that they were able to reduce their work hours after receiving the living wage.

*"Boston's living wage law has brought modest but concrete quality-of-life improvements to covered workers.*

All our interviewees confirmed that the living wage law had exerted a positive but modest impact on their lives, but that the higher wages did not provide enough money to avoid trade-offs. For example, the workers who took vacations tended not to offer their families financial support, while the ones who bought a car tended not to enroll in classes.

In spite of incremental financial improvements, our respondents also clearly conveyed that the higher wages did not leave them feeling more financially secure. Only two workers indicated a greater sense of financial security; in both cases these individuals had been able to reduce their debt and increase their savings. The overriding lack of security among these workers mirrors findings by analysts examining living wage effects in San Francisco—which also experienced rapid rises in the cost of living. These researchers concluded that higher wages did not permit workers to get ahead, but merely to avoid falling behind.[22]

## Employees' Benefits and Job Satisfaction

To further gauge employees' quality of life, we also gathered information on the benefits available to low-wage workers through their jobs as well as their job satisfaction. The most common benefit reported was health insurance: 87 percent of our respondents said they had access to individual health insurance, and 75 percent reported access to family health insurance (*Table 4.15*). More than three-quarters received paid sick leave, 79 percent received paid vacation days, 60 percent reported receiving retirement benefits, and 53 percent said they received formal training on the job. Those receiving sick pay averaged 7 days per year, and those receiving paid vacation averaged 10.6 days.

When we queried employees on their attitudes regarding workplace issues, we found that they varied widely. A majority of interviewees reported being very satisfied with parking and transportation to the job, relations with their supervisor, and safety and health issues (*Table 4.16*). Respondents with children were strongly split in their satisfaction with childcare benefits: more than one-third were not at all satisfied while a quarter were very satisfied. Similarly, more than a quarter responded that they were very satisfied with health benefits for the family, while more than a quarter were not at all satisfied. Those unsatisfied with health benefits reported cost as a major concern. More than half of our respondents reported being very or somewhat

**TABLE 4.15 – Benefits and Training Available through Current Job**

| Benefit | Yes |
|---|---|
| Retirement | 60% |
| Health insurance for self | 87% |
| Health insurance for family | 75% |
| Paid sick leave | 77% |
| Paid vacation days | 79% |
| Received formal training on job | 53% |

Source: Authors' survey of workers covered by Boston's living wage law.

satisfied regarding their own health benefits, paid time off, hours, and job security. We take these results as evidence of substantial heterogeneity among the workplaces covered by Boston's living wage ordinance.

## The Overall Impact of the Law on Workers

Our survey revealed that workers covered by Boston's living wage law have low living standards. In 2001 the families of some 11 percent fell below the official poverty line, which we consider a measure of severe poverty in the Boston area. Using a more accurate measure of poverty for the region, we found that close to a third of covered workers were poor, while nearly 40 percent were near-poor, defined as below 185 percent of the official measure. We found that nearly half of covered workers fell below a more comprehensive "basic-needs" living standard. Further examination revealed that workers with children were much more likely to fall below each of our living standards, with 40 percent of these workers below poverty, 43 percent near poverty, and a full 79 percent below the basic-needs threshold. While these figures confirm that Boston's living wage law is well targeted toward working poor individuals, they are a sobering reminder that for many people $9.11 is still inadequate to lift their families out of poverty and achieve a higher standard of living.

Nevertheless, we found solid evidence of real wage increases and gains in annual earnings since implementation of the Boston living wage ordinance. Real wages rose nearly 25 percent for affected workers, while real annual earnings rose by roughly 60 percent. The steep rise in annual earnings reflects a parallel rise in hours worked per week and weeks worked per year. This shift to more full-time employment is consistent with our findings in Chapter 3, where

**TABLE 4.16 – Satisfaction with Elements of Current Job**

| Element | Percent reporting level of satisfaction (1=very satisfied; 5=not at all satisfied) 1 | 2 | 3 | 4 | 5 | Mean score |
|---|---|---|---|---|---|---|
| Wages | 5% | 27% | 18% | 23% | 27% | 3.4 |
| Health benefits for self | 34% | 34% | 13% | 7% | 13% | 2.3 |
| Health benefits for family | 26% | 18% | 18% | 11% | 27% | 3.0 |
| Paid time off | 32% | 32% | 10% | 11% | 16% | 2.5 |
| Hours | 39% | 34% | 7% | 11% | 9% | 2.2 |
| Safety/health issues | 53% | 26% | 9% | 8% | 4% | 1.9 |
| Parking/transportation to job | 60% | 25% | 6% | 6% | 3% | 1.7 |
| Childcare* | 25% | 25% | 14% | 0% | 35% | 3.0 |
| Relations with supervisor | 59% | 23% | 8% | 6% | 2% | 1.7 |
| Job security | 48% | 28% | 12% | 4% | 7% | 1.9 |

Source: Authors' survey of workers covered by Boston's living wage law.
Note: Totals may not add to 100 percent because of rounding.
*Asked only of workers with children.

we also saw evidence of a shift to more full-time, higher-wage jobs. Upon closer examination we found that the biggest changes accrued to low-wage employees who took jobs with covered firms *after* the law was implemented—rather than to those who worked for these firms beforehand. This means that policymakers should broaden their understanding of the benefits of living wage laws to include the creation of better-paying jobs and more full-time jobs.

We found clear evidence of sharp reductions in the incidence of poverty among workers covered by the Boston living wage ordinance, and we attribute as much as half the reduction in severe poverty, and a third of the reduction in poverty, to the law. However, we also found that the Boston living wage law was not enough to lift affected workers to a higher standard of living that better reflects the spirit and intent of the ordinance.

## Endnotes

1. For studies of proposed living wage ordinances that consider the situation of potential beneficiaries, see Pollin and Luce (1998); Reich et al. (1999); and Pollin and Brenner (2000).

2. Reich et al. (2005) examines employees at San Francisco Airport, while Howes (2005) investigated home care workers in San Francisco County.

3. Orshansky actually developed two sets of poverty measures, one based on the USDA's economy food plan and the other on its "low-cost food plan." Welfare agencies had long used the latter "as a basis for food allotments for needy families," but federal officials decided to opt for the former—the lower of the two thresholds—thereby cutting the number of people officially living in poverty (Fisher 1992).

4. For the full NRC report, see Citro and Michael (1995). See Iceland (2000) and Short (2001) for more on the issues entailed in adjusting the U.S. poverty line.

5. See Pollin and Brenner (2000) for a more complete discussion.

6. Both BLS measures are for large metropolitan areas. The first is based on the prices of all commodities from July 1988 to June 1989, while the second reflects the cost of shelter in 1995. Johnson et al. (2001) adapted the BLS shelter index and the NRC housing measure to make them comparable with the BLS commodities index. The analysts then combined these measures with the calculations used by the Department of Labor in implementing the Workforce Investment Act to estimate family budgets for a variety of urban areas, including Boston.

Several studies have assessed the strengths and weaknesses of the detailed figures in the ACCRA index, published since 1967, finding that they are designed to represent a "mid-management standard of living" (Healy and Cox 1982; Raper 1999). Thus we should view the ACCRA measure as an upper bound on the cost of living for low-wage workers in Boston. See Pollin and Brenner (2000) for more discussion.

7. The estimates from both the BLS and NRC are somewhat dated. Based on an analysis of the Consumer Price Index, we found that prices rose 10 percent faster from 1989 to 2002 in the Boston area than in the country as a whole, and 32 percent faster from 1995 to 2002. This gap suggests that the BLS and NRC estimates in Table 4.1 understate the true cost-of-living difference between Boston and the rest of the country.

8. For more on the historical notion of a living wage, see Glickman (1997).

9. The two standards are detailed in Bacon et al. (2000) and Boushey et al. (2001). The WEIU/ WOW standard is historically significant, as WEIU released a study of working women in Massachusetts in 1911 as part of its campaign to establish a statewide minimum wage, a goal achieved in 1912. See Luce (2002a).

10. Boushey et al. (2001, p. 7).

11. Bacon et al. (2000, p. 4).

12. If we adjusted transportation and childcare costs to allow for only one working parent in the two adult-two child family, the resulting threshold would be about 75 percent of the two adult-two child standard—that is, $40,502 for the EPI measure, and $35,531 for the WEIU/ WOW standard. Health care costs are based on a self-purchased family plan, adjusted to reflect the fact that some 60 percent of families have some form of employer-provided coverage.

13. See Appendix 5 for the thresholds for each family type.

14. For a review of the merits and limitations of non-random sampling, see Pollin and Brenner (2000).

15. Our survey respondents resided throughout the Boston metropolitan area, with the single largest concentration in the Dorchester neighborhood (20 people), followed by the city of Boston (11) and the Jamaica Plain neighborhood (10). The rest of the respondents resided in 26 different cities and towns throughout the Boston metropolitan area. The employees in the assisted living/ supportive housing sector in Table 4.7 work for establishments classified as multi-service contractors in Chapter 3.

16. Table 4.9 reports a slight decline in the proportion of workers earning between $9.11 and $10.74 who are near poverty versus below a basic-needs threshold. This is due to the fact that the basic-needs threshold is not defined for all family types, and therefore several individuals included in the calculations for the near-poor are not included in calculations for those below basic needs.

17. The 80 percent figure is for workers earning $5.75 to 10.75 in Los Angeles in 1999, calculated from figures in Tables 8.4 and 8.8 in Pollin and Brenner (2000).

18. Another example of why the law is well targeted comes from the results in Appendix 7. There we show that covered workers in Boston are substantially worse than similarly situated workers in the Boston-area labor market. Indeed, workers in the Boston-area labor market earning less than the living wage were nonetheless better off than covered workers already receiving a living wage, reporting lower rates of severe poverty and poverty for example.

19. Because firms that reported raising wages to comply with the law reported annual turnover of 89 percent, and because our respondents averaged job tenure of just 3 years, we had little chance of surveying many current employees who had worked for the same employer before the law took effect. We therefore considered all our respondents who reported earning less than $9.11 in 1998 as direct beneficiaries of the law.

20. For example, we find that severe poverty dropped by 22 percentage points among affected workers while dropping by 9 percentage points for unaffected workers. The difference between these two – which we attribute to the living wage ordinance – is 13 percentage points. This is more than half of the total decline.

21. See the qualitative assessments reported in Reich et al. (2005).

# Chapter 5

## The Impact of Living Wage Laws and Their Implications for Government Policy

Taken together, what are the implications of our findings regarding the impact of living wage laws on contracting in our three cities, the firms that provide services under those contracts, and the low-wage workers that the laws are designed to benefit? On balance, our research shows that living wage ordinances can exert a modest but significant impact on the living standards of low-wage workers, without causing layoffs or reducing workers' hours among covered firms. Two of our three cities also saw overall contract costs decline in real terms after implementing a living wage, although cities may face higher contract costs for some services as a result of such a mandate. We further found that living wage laws do not appear to reduce the competitiveness of city contracting, and in some instances can dramatically improve the bidding process. Broader experience with living wage laws in New England and beyond shows that they can also spur proponents to take other steps to improve the living standards of low-wage workers.

### Living Wage Laws and City Service Contracting

Chapter 2 shows that the real costs of many contracts actually decline after a living wage law takes effect. This evidence is consistent with earlier findings from Baltimore. Such cost savings result from the interaction of several factors. Those include greater competition among service providers; efforts by the city to restructure contracts, especially by bundling those for similar services; and internal firm dynamics, including a willingness among companies to accept lower profits to retain city contracts.

Like other researchers, we also found that cost declines are not universal. The cost of many contracts we examined—particularly those bid on an hourly or "cost-plus" basis—rose after the living wage law took effect. For example, in all three cities contract costs rose for security guard services following living wage implementation. Hartford saw higher costs for security guards despite more bidders for the contract, suggesting that the city's "cost-plus" bidding methods outweighed the influence of greater competition. Governments therefore need to use

caution when designing their bidding and procurement systems, and may need to reexamine them in light of a living wage law.

We found an equally wide range of experiences regarding the impact of living wage laws on the number of bidders competing for specific contracts. The number of bidders declined for some contracts in both Boston and New Haven, while the number of bidders rose in other cases in all three cities. More than a third of all contracts saw no change in the number of bidders. This dramatic variation in both costs and bidding patterns suggests that many different forces influence city contracting, including the bidding process itself, the price of non-labor inputs, and the degree of market competition in an industry. Our results show that the living wage ordinance does not uniformly outweigh these other influences.

Our findings also suggest that contracting by local governments exerts a major impact on certain markets. Prior research has shown that markets for publicly provided services—particularly social services—are often fragmented or otherwise not competitive. For example, Boston's living wage law covers specialized social services such as education for the disabled. Few providers offer such services, and many depend on public-sector contracting for survival. Local governments do not enter such markets at arm's length but may instead have to actively intervene to preserve, expand, and even create them.[1]

Experience with Hartford's security guard contract highlights the fact that a city's influence on markets can apply to private, for-profit service providers as well as nonprofits. Several security guard contractors chose not to bid on Hartford contracts when forced to compete solely on low wages. Other research suggests that low-cost bidding itself can sometimes destroy the very competition needed to make it a cost-effective method for procuring services.[2] In such situations, living wage laws can "level the playing field" and force government contractors to compete along dimensions other than wages such as service quality.

Officials in our three cities were clear that monitoring service contracting and enforcing living wage laws requires careful planning and substantial expertise, which they acquired over time. For example, Boston living wage administrator Mimi Turchinetz refined her techniques for monitoring employers and verifying compliance over several contract cycles, interacting with employers regularly to solve implementation problems. In New Haven, city staff members worked with small-business owners to ensure that they could still compete for city contracts while paying a living wage.[3]

These experiences support the view of Professor Donald Kettl, an expert on privatization, that third-party service delivery requires "aggressive management by a strong, competent govern-

ment." These experiences also raise broader questions about the pitfalls associated with privatized service delivery. Much like low-cost bidding, contracting-out can be a Catch-22 for cities, as agencies risk losing not only the ability to provide the services themselves but also the expertise to ensure that a third party delivers services effectively.[4] One team of researchers has gone so far as to refer to the shrinking role of government and its atrophied capacity to manage its remaining responsibilities as "governing the hollow state."[5]

## The Impact of Living Wage Laws on Firm Behavior and Profitability

Contrary to the predictions of many economic models, our evidence in Chapter 3 shows that firms have not responded to living wage mandates by reducing employment or creating part-time jobs. Firms forced to raise wages under Boston's living wage law actually created the same number of full-time jobs as did firms unaffected by the law. They did so, in part, by shifting from part-time to full-time employment—reducing the percentage of part-time employees from 34 percent to 23 percent. The percentage of part-time workers among firms that did not raise wages remained virtually unchanged. This parallels evidence that average firm employment does not decline when the minimum wage rises, even within high-impact industries such as fast food.[6] This research—called the "new economics of the minimum wage"— similarly shows that a rising minimum wage does not undercut the overall employment prospects of low-wage workers.[7]

*"The real costs of many contracts actually decline after a living wage law takes effect.*

This divergence between theory and evidence highlights the fact that firms may rely on several mechanisms to adjust to higher wage mandates, including raising prices, expanding sales, changing production techniques, boosting productivity, and lowering profits. Indeed, firms chose precisely these channels—particularly raising prices—in the face of a higher minimum wage.[8] In Boston, firms did not respond to the living wage law by raising prices, but a significant minority did report accepting lower profits, or operating surpluses in the case of nonprofits.

What are the implications of adjusting via reduced profits, especially for the many nonprofit firms covered by Boston's living wage law? Is such a strategy among government contractors viable over the long term? As Chapter 3 notes, several nonprofits expressed concern that continued increases in the living wage floor could cause financial hardship down the road. Many of their clients depend on public funding, but state and federal agencies have not adjusted their reimbursement rates in step with the Boston living wage law. Without the ability to "raise prices," these firms fear they will need to take more drastic measures to cope with the city

council's decision to further boost Boston's living wage floor. These firms also noted that state and local budget shortfalls are leading to cuts in social spending, shrinking service contracts and further limiting their ability to cope with a higher wage floor.

Boston officials have responded to these challenges by using the waiver process to exempt firms for whom the living wage law would pose a real financial hardship. Living wage advocates and service providers have also discussed coping strategies with the state Department of Education, which sets reimbursement rates for Community Partnerships for Children, the primary childcare program affected by the living wage law. Although these efforts may eventually bear fruit, the challenge reveals how policies and regulations beyond the immediate control of local officials constrain their ability to apply a living wage law to nonprofits.

## The Impact of Wage Floors on Poverty and Wage Inequality

Chapter 4 suggests that Boston's living wage law has exerted a substantial impact on poverty. Among workers affected by the mandate, severe poverty fell by 22 percentage points, and poverty fell by 13 percentage points. Our evidence suggests that the living wage accounts for more than half of the drop in severe poverty, and about a quarter of the decline in poverty. These results are much stronger than those showing a small drop in poverty after the minimum wage rises, in part because living wage ordinances set much higher wage floors.[10] Nevertheless, the living wage raised only a modest percentage of affected workers above the near-poverty and basic-needs standards of living. This suggests that at $9.11 the living wage ordinance is unable to lift covered workers and their families up to a more substantial standard of living that reflects the spirit and intent of the law.

Recent research suggests that as much as 20 percent of the rise in U.S. wage inequality is due to the declining real value of the minimum wage.[11] In Chapter 3, we found evidence that Boston's living wage law has substantially reduced wage inequality within covered firms. Specifically, firms forced to raise wages saw the proportion of employees earning less than $9.25—slightly above the living wage—fall from 23 percent of the workforce to 4 percent, while unaffected firms saw virtually no change.

While these drops in both poverty and wage inequality are important, do the effects of living wage laws extend beyond covered firms? At first glance, this seems improbable. Using the most generous assumptions, we calculate that the Boston ordinance raised wages for some 2,000 individuals—compared with 351,000 people living below the official poverty line (which we term severe poverty) in the Boston area in 1999.[12] Even if all 2,000 covered workers were severely poor, and even if the law lifted every one out of poverty, it would have reduced the

metro-area poverty rate by only one-tenth of 1 percent. Moreover, a more realistic estimate based on our evidence in Chapter 4 is that the law lifted just 440 of 2,000 families out of severe poverty, thereby reducing the regional rate of severe poverty by a mere three one-hundredths of 1 percent. The impact of the law on wage inequality in the region—although more difficult to estimate—is likely to be equally small.

## Beyond the Living Wage

If the scope and impact of living wage laws is limited, what is the point of pursuing them? After examining evidence in our three cities and around the country, we find at least four reasons to believe that the impact of living wage laws may be greater than these numbers suggest.

First, higher wage mandates among government contractors may become a benchmark for other workers and firms. For example, we found that that a significant number of firms in Boston provided raises to workers not directly covered by the law. Firms in the San Francisco Airport—even those unaffected by the law—appear to have similarly raised wages after the living wage ordinance took effect.[13] In Tucson, more than 100 firms employing 10,000-plus workers participated in the mayor's Good Business Partnership, which asks firms to pay employees a living wage.[14] We do not know whether these firms voluntarily raised wages because they are competing directly with government contractors for new employees, or because they want to burnish their public image and thus attract customers. However, the establishment of wage norms is one indirect consequence of living wage ordinances that deserves further investigation.

*Living wage campaigns have proven effective in raising public awareness of the problems facing the working poor.*

A second reason that the impact of such laws may be greater than the raw numbers suggest is that living wage campaigns have proven effective in raising public awareness of the problems facing the working poor—often creating substantial pressure to address those problems.[15] For example, living wage initiatives have served as a springboard for more ambitious campaigns to expand their purview, establish a citywide minimum wage, and raise the state minimum wage. In Boston, for example, community and labor leaders who participated in the original living wage coalition led a successful campaign to raise the state's minimum wage to $6.75. These leaders were clear that their experience in pushing for a living wage helped drive the minimum wage campaign.[16] Successful efforts to establish a citywide minimum wage in San Francisco, Santa Fe, and Madison similarly built on campaigns to pass living wage laws.

Living wage campaigns have also sparked initiatives designed to address other problems confronting the working poor. For example, advocates in California pressed the state to allow firms covered by local living wage laws to join the state's health care purchasing pool.[17] In Montgomery County, Md., debate over a living wage ordinance prompted officials to implement the country's first local earned income tax credit (EITC), which now serves as an important complement to the county's living wage law.

*"Living wage campaigns foster coalitions among groups that have not historically worked together.*

Boston's living wage campaign also spurred several related EITC initiatives. Besides convincing the state to raise its minimum wage, advocates also won a substantial expansion of the state's EITC program. These efforts also sparked an extensive effort by the city to promote the EITC among low-income residents. The living wage administrator spearheaded this initiative with the backing of the city's Living Wage Advisory Committee, composed of business leaders and other community members. According to the city, it established 16 free tax-preparation centers in 2003 that helped more than 4,000 city residents file their taxes and claim more than $2 million in tax credits.

Finally and perhaps most fundamentally, living wage campaigns foster coalitions among groups that have not historically worked together. In Boston, the Association of Community Organizations for Reform Now (ACORN) approached the Boston Central Labor Council in the mid-1990s to collaborate on the living wage campaign. Despite the fact that ACORN's membership is primarily low-wage African-Americans while the Labor Council represents many higher-wage, white men from the building trades, Labor Council leader Tony Romano later called the collaboration one of the most important of his career in the labor movement. Such joint efforts not only improve relationships among individuals and organizations, but also build their capacity to mount other successful campaigns, such as, in Boston, for a statewide minimum wage, expansion of the state's EITC, and a citywide EITC promotion program.

The concept of a living wage enjoys tremendous popular support, making it a natural base for building coalitions, and participating organizations find that working with new allies boosts their chance of success. A decade of experience nationwide shows that these alliances serve as potent building blocks for promoting more ambitious and comprehensive public policies that may dramatically improve the lives of low-wage workers and their families.

## Endnotes

1. Sclar reports that a 1996 audit found that the state of California let almost two-thirds of consultant contracts on a sole-source basis, implying that the contractor was the only provider of such services (State of California, Office of the State Auditor 1996, reported in Sclar 2000). For more discussion of the link between local governments and their contractors, see also Van Slyke (2003).

2. Sclar's description of public transit privatization in Denver in the late 1980s is instructive. Eight companies initially submitted bids to operate portions of the transit system, and the city divided the privatized portions among three of them. Within seven years only two companies remained in the transit market, and prices charged the city had nearly tripled.

3. For more on the challenges city governments face monitoring and implementing living wage laws, see Luce (2004).

4. See Kettl (1993, p. 6). The relationship between government capacity and contracting out is also addressed in Milward (1994); GAO (1997); and Van Slyke (2003).

5. Milward and Provan (2000). The authors note that atrophied capacity to provide services in-house can hasten the erosion of competitive bidding, as it strengthens firms' bargaining power by removing the credible threat that the government can leave the market. This is particularly true in markets with few bidders.

6. For examples of this research, see Katz and Krueger (1992); Spriggs (1993); Card and Krueger (1994; 1995; 2000).

7. For more evidence on the effect of the minimum wage on employment outcomes, see, Zavodny (2000) and the reanalysis of Linneman (1982) and Currie and Fallick (1994) presented in Card and Krueger (1995).

8. See Card and Krueger (1995, p. 54), and Aaronson (2001) for more on the link between higher minimum wages and higher output prices.

9. Although the name suggests otherwise, as we discussed in Chapter 3 many nonprofits actually generate operating surpluses which are functionally analogous to profits.

10. See, for example, Mincy (1990); Card and Krueger (1995); and Addison and Blackburn (1999).

11. See, for example, Dinardo, Fortin, and Lemieux (1996); and Lee (1999).

12. Data on poverty in Boston for 1999 come from ferret.bls.census.gov/ macro/ 032000/ pov/ new25_001.htm.

13. See Reich, Hall, and Jacobs (2003, p. 40) for evidence on the "wage norm" effect of the Quality Standards Program at the San Francisco Airport.

14. See Luce (2004, p. 177) and Grant and Trautner (2002) for more discussion of the Tucson case.

15. See Luce (2004, p.195–198) for a more detailed discussion of the impact of living wage campaigns on public awareness of the issues surrounding low-wage work.

16. This case appears in Luce (2004, p. 204).

17. See Brenner (2002) for a discussion of the potential cost savings for the state of California that could result from this measure.

## APPENDIX 1: U.S. Living Wage Ordinances

This appendix provides a catalogue of living wage ordinances passed throughout the United States between 1991 and December 2003. The three tables depict the cities and counties that have legislated above-minimum wages for at least some private-sector firms; other entities such as school boards and universities that have also established a living wage; and the cities and counties that have created living wage standards for direct employees. Although we have tried to be as comprehensive as possible, we may have omitted some ordinances.

## TABLE A1.1
## City and County Living Wage Ordinances, as of December 2003

| City or county | Population (2000) | Year passed | Amendments, modifications, or changes |
|---|---|---|---|
| Alexandria, VA | 128,283 | 2000 | |
| Ann Arbor, MI | 114,024 | 2001 | |
| Arlington County, VA | 189,453 | 2003 | |
| Ashland, OR | 19,522 | 2001 | |
| Baltimore, MD | 651,154 | 1994 | |
| Bellingham, WA | 67,171 | 2002 | |
| Berkeley, CA | 102,743 | 2000 | amended 2000 to add marina |
| Boston, MA | 589,141 | 1997 | amended 1998 and 2002 |
| Bozeman, MT | 27,509 | 2001 | |
| Broward County, FL | 1,623,018 | 2002 | |
| Buffalo, NY | 292,648 | 1999 | |
| Burlington, VT | 38,889 | 2001 | |
| Cambridge, MA | 101,355 | 1999 | |
| Camden NJ | 79,904 | 2001 | vetoed by mayor 2001 |
| Charlottesville, VA | 45,049 | 2001 | |
| Chicago, IL | 2,896,016 | 1998 | expanded 2002 |
| Cincinnati, OH | 331,285 | 2002 | |
| Cleveland, OH | 478,403 | 2000 | |
| Cook County, IL | 5,376,741 | 1998 | |
| Corvallis, OR | 49,322 | 1999 | |
| Cumberland County, NJ | 146,438 | 2001 | |
| Dane County, WI | 426,526 | 1999 | |
| Denver, CO | 554,636 | 2000 | |
| Des Moines, IA | 198,682 | 1996 | |
| Detroit, MI | 951,270 | 1998 | |
| Duluth, MN | 86,918 | 1997 | amended 2000 |
| Durham, NC | 187,035 | 1998 | |
| Eastpointe, MI | 34,077 | 2001 | 2001 ballot to repeal is defeated |
| Eau Claire County, WI | 93,142 | 2000 | |
| Fairfax, CA | 7,319 | 2002 | |
| Ferndale, MI | 22,105 | 2001 | |
| Gary, IN | 102,746 | 1989 | |
| Gloucester County, NJ | 254,673 | 2001 | |
| Hartford, CT | 121,578 | 1999 | |
| Hayward, CA | 140,030 | 1999 | |
| Hazel Park, MI | 18,963 | 2002 | repealed 2002 |
| Hempstead, NY | 56,554 | 2001 | repealed 2001 |
| Hudson County, NJ | 608,975 | 1999 | |
| Ingraham County, MI | 279,320 | 2003 | |
| Jersey City, NJ | 240,055 | 1996 | |
| LA City, CA | 3,694,820 | 1997 | amended 1998 |
| LA County, CA | 9,519,338 | 1999 | |
| Lawrence, KS | 80,098 | 2003 | |
| Madison, WI | 208,054 | 1999 | |
| Marin County, CA | 247,289 | 2002 | |
| Meriden, CT | 58,244 | 2000 | |
| Miami Beach, FL | 87,933 | 2001 | |
| Miami-Dade, FL | 2,253,362 | 1999 | |
| Milwaukee City, WI | 596,974 | 1995 | |
| Milwaukee County, WI | 940,164 | 1997 | |
| Minneapolis, MN | 382,618 | 1997 | amended 1998 |
| Missoula, MT | 57,053 | 2001 | |
| Monroe County, MI | 145,945 | 2001 | |
| Montgomery County, MD | 873,341 | 2002 | |
| Multnomah County, OR | 660,486 | 1996 | amended 1998 |
| New Britain, CT | 71,538 | 2001 | |
| New Haven, CT | 123,626 | 1997 | |

## TABLE A1.1 *(cont.)*
## City and County Living Wage Ordinances, as of December 2003

| City or county | Population (2000) | Year passed | Amendments, modifications, or changes |
|---|---|---|---|
| New Orleans, LA | 484,674 | 2002 | overturned by court 2002 |
| New York City, NY | 8,008,278 | 1996 | expanded 2002 |
| Oakland, CA | 399,484 | 1998 | expanded to cover port 2002 |
| Omaha, NE | 390,007 | 2000 | repealed 2001 |
| Oxnard, CA | 170,358 | 2002 | |
| Oyster Bay, NY | 2,262 | 2001 | |
| Pasadena, CA | 133,936 | 1998 | |
| Pima County, AZ | 843,746 | 2002 | |
| Pittsburgh, PA | 334,563 | 2001 | repealed 2001 |
| Pittsfield Township, MI | 30,167 | 2001 | |
| Port Hueneme, CA | 21,845 | 2003 | |
| Portland, OR | 529,121 | 1996 | amended 1998 |
| Prince Georges County, MD | 801,515 | 2003 | |
| Richmond, CA | 99,216 | 2001 | |
| Rochester, NY | 219,773 | 2001 | |
| Salem, OR | 136,924 | 2001 | |
| San Antonio, TX | 1,144,646 | 1998 | |
| San Fernando, CA | 23,564 | 2000 | |
| San Francisco, CA | 776,733 | 2000 | expanded to city 2003 |
| San Jose, CA | 894,943 | 1998 | |
| Santa Clara County, CA | 1,682,585 | 1995 | |
| Santa Cruz County, CA | 255,602 | 2002 | |
| Santa Cruz, CA | 54,593 | 2000 | |
| Santa Fe, NM | 62,203 | 2002 | expanded to city 2003 |
| Santa Monica, CA | 84,084 | 2001 | overturned by ballot 2002 |
| Sebastopol, CA | 7,774 | 2003 | |
| Somerville, MA | 77,478 | 1999 | |
| Southfield, MI | 78,296 | 2002 | |
| St. Louis, MO[1] | 348,189 | 2002 | |
| St. Paul, MN | 287,151 | 1997 | |
| Suffolk County, NY | 1,419,369 | 2001 | |
| Taylor, MI | 65,868 | 2002 | |
| Toledo, OH | 313,619 | 2000 | |
| Tucson, AZ | 486,699 | 1999 | |
| Ventura County, CA | 753,197 | 2001 | |
| Warren, MI | 138,247 | 2000 | |
| Washtenaw County, MI | 322,895 | 2001 | |
| Watsonville, CA | 44,265 | 2002 | |
| West Hollywood, CA | 35,716 | 1997 | |
| Westchester County, NY | 923,459 | 2002 | |
| Ypsilanti Township, MI | 49,182 | 1999 | |
| Ypsilanti, MI | 22,362 | 1999 | |

| | *Ordinance passed:* | *Ordinance in effect:* |
|---|---|---|
| Total population with living wage: | | |
| In cities | 30,051,564 | 28,602,815 |
| In counties | 30,640,579 | 30,640,579 |
| **Total U.S. Population** | **287,973,924** | |

Source: ACORN National Living Wage Resource Center website: www.livingwagecampaign.org.
U.S. Census Bureau website: www.census.gov/popest/estimates.php.
Population data for Pittsfield Township, Mich.: www.pittsfieldhistory.org/; for Ypsilanti Township, Mich.: www.twp.ypsilanti.mi.us/officials/roe.shtml.

[1] Voters approved an earlier ordinance in 2000. The city refused to implement it, and the state supreme court ruled that state law invalidated parts of the initiative. Advocates campaigned for a new ordinance, which the city council approved in 2002.

## TABLE A1.2
## Living Wage Ordinances, Other Jurisdictions

| | Year passed |
|---|---|
| Central Arkansas Library Commission | 2001 |
| Harvard University | 2001 |
| Johns Hopkins University | 2002 |
| Milwaukee School Board | 1996 |
| Richmond School Board | 2001 |
| San Antonio University Health System | 2002 |
| San Diego Metropolitan Transit Development Board | 2000 |
| Stanford University | 2002 |
| Washtenaw County Road Commission, MI | 2001 |
| Wesleyan University | 2001 |

## TABLE A1.3
## Municipalities with Direct Living Wage Policies*

| | |
|---|---|
| Barre City, VT | 1999 |
| Bexar County, TX | 2000 |
| Burlington, VT | 1998 |
| Dayton, OH | 1998 |
| Gainesville, FL | 2001 |
| Hidalgo County, TX | 1999 |
| James City County, VA | 2001 |
| Montpelier, VT | 1998 |
| Orange County, NC | 1998 |
| Tompkins County, NY | 2003 |
| Travis County, TX | 2000 |

* These policies or ordinances set living wage levels for all direct municipal employees. The policies do not cover private-sector employers that hold public contracts or receive public subsidies. Some cities and counties have since passed ordinances covering contractors and subsidy recipients.

## APPENDIX 2: How Consolidating Services Can Influence Contract Costs

In Chapter 2 we found evidence that cities can curb increases in contract costs after living wage laws take effect by consolidating similar services in a single contract. How much can cities reasonably expect to save through such consolidation?

We can shed some light on that question by comparing the behavior of unit prices with that of total contract costs after living wage implementation. Even though most contracts are not bid on a unit-cost basis, many contracts include them as a point of reference. One type of service—such as temporary office assistance—may encompass numerous unit costs. For example, Boston reported 4 contracts encompassing 14 unit costs for which we could calculate changes after the start of the living wage (*Table A2.1*). These include contracts for janitorial and security guard services, each with one unit cost; an X-ray services contract, with two unit costs; and a contract for temporary office assistance, with 10 unit costs. We found that unit costs (weighted by contract size) rose by nearly 12 percent.[1]

In Hartford—which reported just 1 unit price for security guard services and 12 for temporary office assistance—weighted costs rose by 27 percent. However, in New Haven, which had 6 contracts with unit prices—1 for security guard services and 3 for janitorial services, each with 1 unit price; and 2 for busing services, with 59 unit prices—average unit prices fell.

To understand the link between unit costs and total contract costs, we compared changes in the two. In weighted terms, we found that changes in the two costs differed by about 20 percent across the three cities. In Boston, total costs *rose less* than unit costs, and in New Haven they *fell more* than unit costs. That suggests that consolidating service contracts can cut cost pass-through by contractors as much as 20 percent.

However, in Hartford total costs *rose more* than unit costs—a seemingly anomalous result. We obtained that result because of the way we weighted the unit costs associated with temporary office assistance in Hartford. Because we have no information on the city's use of various types of temporary help, we weighted each unit price equally. It seems likely that were we able to control for the share of total contracting that each temporary job represented, the two figures would more closely mirror the patterns in Boston and New Haven.

## TABLE A2.1 – Changes in Unit Costs versus Total Costs under the Living Wage Law

| City | Percentage change |
|---|---|
| **Boston*** | |
| Change in unit costs *(number of unit costs=14)* | 12% |
| Change in contract costs *(number of contracts=4)* | 10% |
| Difference | 2% |
| Difference as a percentage of change in contract costs | 20% |
| **Hartford** | |
| Change in unit costs *(number of units=13)* | 27% |
| Change in contract costs *(number of contracts=2)* | 33% |
| Difference | -6% |
| Difference as a percentage of change in contract costs | 18% |
| **New Haven** | |
| Change in unit costs *(number of units=63)* | -11% |
| Change in contract costs *(number of contracts=6)* | -14% |
| Difference | 3% |
| Difference as a percentage of change in contract costs | 21% |

*In Boston, costs are for non–special education contracts. Most contracts in these two cities include several unit prices.

## APPENDIX 3: Survey of Covered Firms in Boston

### A: FIRM PROFILE

A1. What category best describes your establishment?

_____ FOR-PROFIT ORGANIZATION
_____ NON-PROFIT ORGANIZATION
_____ OTHER (PLEASE SPECIFY): _____

A2. What best describes your establishment's situation?

_____ IT IS AN INDEPENDENT, SINGLE ESTABLISHMENT FIRM **(skip to Section B)**
_____ IT IS A FRANCHISE OR BRANCH OF A LARGER COMPANY

A2a. What is the name of your establishment's parent company? _____

A2b. How many other establishments does your parent company operate in your area? _____

### B: CURRENT EMPLOYMENT CONDITIONS

B1. How many employees were on the payroll at this establishment in the last pay period? (*excluding temporary and contract workers*) _____

B1a. Of these, how many are non-managerial personnel? _____

B1b. How many of the total work part-time? (35 hours or less) _____

B1c. Can you estimate the average hours worked per week by a typical part-time employee? _____

B1d. Can you estimate the average hours worked per week by a typical full-time employee, including overtime? _____

B2. How many temporary or contract employees do you have? _____
**(if 0, then skip to B3)**

B2a. How long has your most senior temporary or contract employee been working with your establishment? _____

B3. Now I would like to ask you to put the managerial and non-managerial employees on your payroll into wage/ salary categories. Can you tell me how many full-time and part-time workers earn the following amount? (*Please include salaried workers in this answer*)

| Workers earning: | Full-time Employees | Part-time Employees |
|---|---|---|
| Less than $6.75 per hour | _____ | _____ |
| Between $6.75 and $9.24 | _____ | _____ |
| Between $9.25 and $11.74 | _____ | _____ |
| Between $11.75 and $14.24 (*between $24,400 and $29,640*) | _____ | _____ |
| More than $14.25 (*more than $29,640* per year) | _____ | _____ |

B4. In the last month, how many non-managerial employees have _____ quit, been discharged or laid-off?

B5. How many of your employees currently work on city service _____ contracts in Boston? (*excluding temporary and contract workers*)

B6. Consider the lowest paid occupational group working on your _____ city service contract. About how many hours of training are required for a new worker to become competent in this job?

B6a. If you were to replace one of these workers with a new $_____ worker, what is your best estimate of the total costs of such an action (including separation, search and training costs)?

B7. What is your rate of unscheduled absenteeism, in days per _____ employee per year?

B8. What proportion of your employees are covered by a collective _____ bargaining agreement?

B8a. Which union(s) represent these employees?

B9. What sort of health benefits plan do you currently offer your non-supervisory employees?

_____ INDIVIDUAL COVERAGE

_____ BOTH INDIVIDUAL AND FAMILY COVERAGE

_____ NO HEALTH BENEFITS OFFERED

B9. Please describe the two or three NON-MANAGERIAL jobs in this establishment where you have the most employees:

| Title | Job 1 | Job 2 | Job 3 |
|---|---|---|---|
| How many people are employed with this job title? | | | |
| Please describe what people in this job do: | | | |
| What are the minimum educational qualifications required to fill the position? | | | |
| What is the starting wage for this job title? | | | |
| What is the average wage for this job title? | | | |
| What is the highest wage in this job title? | | | |

## C: PAST EMPLOYMENT SITUATION AND QUALITATIVE CHANGES

For comparison purposes, we now want to ask you about the situation of your business several years in the past. Specifically, we are going to ask you many of the same questions about your business as it was in 1998.

C1. How many employees were on the payroll at this establishment in the current pay period three years ago, i.e. in 1998? (*excluding temporary and contract workers*) _____

C1a. Of these, how many were non-managerial personnel? _____

C1b. How many of the total worked part-time? (35 hours or less) _____

C1c. Can you estimate the average hours worked per week _____ by a typical part-time employee in 1998?

C1d. Can you estimate the average hours worked per week _____ by a typical full-time employee in 1998, including overtime?

C2. How many temporary or contract employees did you have at that time? _____

C3. Now I would like to ask you to put the managerial and non-managerial employees on your payroll in 1998 into wage/ salary categories. Can you tell me how many full-time and part-time workers earned the following amount? (*Please include salaried workers in this answer*)

| Workers earning: | Full-time Employees | Part-time Employees |
|---|---|---|
| Less than $6.75 per hour | _____ | _____ |
| Between $6.75 and $9.24 | _____ | _____ |
| Between $9.25 and $11.74 | _____ | _____ |
| Between $11.75 and $14.24 (*between $24,400 and $29,640*) | _____ | _____ |
| More than $14.25 (*more than $29,640 per year*) | _____ | _____ |

C4. In 1998 how many non-managerial employees quit, were discharged_____ %
or laid-off in an average month?

C5. In 1998 how many of your employees worked on city service _____
contracts in Boston? (*excluding temporary and contract workers*)
**(if 0, then skip to C7)**

C6. Consider the lowest paid occupational group working on your _____
city service contract in 1998. About how many hours of training
were required for a new worker to become competent in this job?

C6a. In 1998, if you were to replace one of these workers with $_____
a new worker, what is your best estimate of the total costs
of such an action (including separation, search and training costs)? **(skip to C8)**

C7. Consider the lowest paid occupational group working at your _____
establishment in 1998. About how many hours of training
were required for a new worker to become competent in this job?

C7a. In 1998, if you were to replace one of these workers with $_____
a new worker, what is your best estimate of the total costs
of such an action (including separation, search and training costs)?

C8. In 1998, what was your rate of unscheduled absenteeism, in days _____
per employee per year?

C9. What proportion of your employees were covered by a collective _____
bargaining agreement in 1998?

C10. What sort of health benefits plan did you offer your non-supervisory employees in 1998?

_____ INDIVIDUAL COVERAGE
_____ BOTH INDIVIDUAL AND FAMILY COVERAGE
_____ NO HEALTH BENEFITS OFFERED

C11. Please describe the two or three NON-MANAGERIAL jobs in this establishment where you had the most employees in 1998:

| **Title** **Job 1** | **Job 2** | **Job 3** |
|---|---|---|
| How many people were employed with this job title? | | |
| Please describe what people in this job did. | | |
| What were the minimum educational qualifications required to fill the position? | | |
| What was the starting wage for this job title? | | |
| What was the average wage for this job title? | | |
| What was the highest wage in this job title? | | |

## D: PRODUCTIVITY AND WORKFORCE CHANGES

We would now like to ask you some questions about your business as it relates to your current city service contract. In particular, our records indicate that your city service contract is one of many that is subject to Boston's living wage ordinance, which currently mandates a minimum wage of $9.11 for all of your employees working on this city contract.

D1. On what date did your city service contract become subject to _____ the Boston living wage ordinance?

D2. Was there a delay in your compliance with the ordinance? YES NO (*circle one*)

D2a. **If yes**, when did you begin to comply with the ordinance? _____

D3. Did you have a contract for the same service with the city before your firm became subject to the living wage law? YES NO (*circle one*)
**(if no, skip to D4)**

D3a. **If yes**, do you currently have the same number of workers assigned to the city contract as you did before you were subject to the living wage ordinance?

YES NO DON'T KNOW (*circle one*)

D3a1. If you have changed the number of employees working on your city service contract since the living wage law was applied to your business what was the reason for the change?

D4. Do you have employees who received raises as a result of the implementation of the city's living wage ordinance? YES NO (*circle one*)
**(If No, Skip to E1)**

D4a. If yes, how would you say the following have changed?

1 = Decreased Significantly; 2 = Decreased Somewhat; 3 = No Change;
4 = Increased Somewhat; 5 = Increased Significantly

| | | | | | |
|---|---|---|---|---|---|
| Employee turnover | 1 | 2 | 3 | 4 | 5 |
| Absenteeism | 1 | 2 | 3 | 4 | 5 |
| Effort | 1 | 2 | 3 | 4 | 5 |
| Morale | 1 | 2 | 3 | 4 | 5 |

D4b. Could you comment further on these changes?

D5. When you gave raises to your workers directly covered by the ordinance to raise them to the living wage level, did you also raise wages of other employees in your establishment who were already earning above the living wage?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to D6)**

D5a. **If yes**, please list the job categories and number of workers who received these wage increases.

| Job category | Number who received raise | Average wage before raise | Average wage after raise |
|---|---|---|---|
| 1. | | $ | $ |
| 2. | | | |
| 3. | | | |
| 4. | | | |

D6. When you gave raises to your workers directly covered by the ordinance to raise them to the living wage level, did you also raise wages of other employees in your establishment who were earning below the living wage but not working on the city contract?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to D7)**

D6a. **If yes**, approximately how many other workers got raises? _____

D6b. How much were their raises? (*Pick one*)

____ UP TO THE LIVING WAGE AMOUNT
____ BELOW THE LIVING WAGE AMOUNT, APPROXIMATELY $_____
____ VARIOUS AMOUNTS

D7. Since raising wages to comply with the living wage ordinance, have you changed your hiring standards? (e.g. high school diploma, number of years work experience)

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to D8)**

D7a. **If yes**, in what ways have you changed your hiring standards?

D8. Since raising wages to comply with the living wage ordinance, have you changed your method of hiring? (e.g. newspaper ads, employee contacts, increased internal promotions, etc.)

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to D9)**

D8a. **If yes**, in what ways have you changed your method of hiring?

D9. Have you ever utilized the career centers run by the city of Boston to fill vacant positions at your establishment?

YES NO DON'T KNOW (*circle one*)

D9a. **If no**, what are the reasons you have not made use of these services?

D10. Since raising wages to comply with the living wage ordinance, have you found that your average time to fill an unfilled position has changed?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to E1)**

D10a. **If yes**, how has the time to fill an unfilled position changed?

____ Decreased Significantly (*Mark one box*)
____ Decreased Somewhat
____ No Change
____ Increased Somewhat
____ Increased Substantially

D11. Since raising wages to comply with the living wage ordinance, has the equipment, machinery, or general way of doing the work that is required changed for the jobs on your city service contract?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to SECTION E)**

D11a. **If yes**, can you describe what sorts of changes have taken place?

## E. COSTS AND REVENUES

We would now like to ask you some questions about your costs. This information is simply for statistical purposes and will remain completely confidential.

E1. What were your total annual revenues for the year 2000? $_____

E2. Approximately what were your total operating costs for theyear 2000 $_____ (including labor costs, materials, depreciation of machines, computers and other equipment, rent or mortgage and amortization, utilities, telephone, and mail).

E3. Approximately what proportion of your total operating costs _____% are total labor costs (wages and benefits)?

E4. What percentage of your establishment's revenues come from _____% any city service contracts?

E5. What percentage of your establishment's revenues come from _____% city service contracts with the city of Boston?

## F. GENERAL PERSPECTIVE ON THE LIVING WAGE ORDINANCE
*(for all employers)*

*Now, we'd like to ask you for your assessment of how the city's living wage ordinance affects you.*

F1. Did the passage of the living wage law affect your willingness to bid on city service contracts?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to F2)**

F1a. **If yes**, please describe.

F2. Did the passage of the living wage law allow you to better compete for city service contracts?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to F3)**

F2a. **If yes**, please describe.

F3. Do you believe that the existence of the ordinance has had an impact on the overall quality of service for your contract?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to F4)**

F3a. **If yes**, please describe.

F4. Have you received any information from the city about the Earned Income Tax Credit?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to F5)**

F4a. **If yes**, have you been providing that information to your employees?

YES NO

F5. Has your establishment experienced cost increases due to the passage of the ordinance (either from direct wage increases, indirect wage increases, or compliance costs)?

YES NO DON'T KNOW (*circle one*)
**(If No, Skip to F6)**

F5a. **If yes**, how are you paying for those increases? Please check all methods that apply. In the space to the right, please indicate what proportion of your total cost increase is being absorbed by each method. (For example you could cover half of the cost increases (50%) through a higher bid price, and half (50%) through higher productivity.)

____ Higher bid price _____
____ Raising prices of other services _____
____ Lower profits _____
____ Lower or no raises to higher wage personnel _____
____ Costs recouped through higher productivity/ lower turnover & absenteeis _____
____ Other. Specify: _____

F6. Overall, how do you assess the Boston living wage ordinance, and what have been your general impressions about the law?

## APPENDIX 4: How Many Workers Received a Raise under Boston's Living Wage Law?

Our survey of firms covered by the Boston living wage law revealed that the ordinance forced nearly a quarter of these firms to raise wages. While we did not ask firms directly how many workers the law affected, in this appendix we provide several estimates of the number of workers who received direct raises as a result of the law (*Table A4.1*). These estimates each make different assumptions, which we explain in more detail below.

The most conservative assumption we can make is that that only workers who were earning less than $9.25 and working on a city contract in 2001—some 500 employees—benefited from the law. However, based on our survey responses, it is clear that the living wage law also led many firms to raise the wages of low-wage employees not working on city contracts. By our estimates, about 30 percent of workers in this category saw raises as a result of the Boston law. If we include these workers, then our estimate of the number of beneficiaries rises to some 900 employees overall.

What about people who might have received raises in 1998 but leapfrogged out of the lowest wage range by 2001? If we define the beneficiaries as workers on city contracts earning less than $9.25 in 1998, then we estimate that some 1,000 workers were affected by the law. If, as before, we count those low-wage workers who were likely affected by wage spillovers but who were not working on city contracts—some 30 percent according to our data—then we arrive at a figure of 1,300 beneficiaries.

A more generous assumption is that the living wage law may have forced firms to raise the wages of *all* their employees making less than $9.25. If we take the figures reported for 2001 as a guide, this represents about 1,900 workers. If we consider figures from 1998, that number rises to about 2,000 workers. Of course, these estimates represent fixed points in time: they do not include other individuals who benefited from the law between 1998 and 2001. With covered firms reporting annual turnover rates of close to 60 percent for non-supervisory staff, the total number of employees who benefited from Boston's living wage law is probably much higher than the figures reported in Table A4.1.

**TABLE A4.1 – Workers Receiving Raises as a Result of Boston's Living Wage Law**

| | Estimated number of affected workers |
|---|---|
| **Estimate 1** (Assumes only workers earning less than $9.25 in 2001 and working on covered contracts received raises) | 473 |
| **Estimate 2** (Same as estimate 1, but adds 30% of workers earning less than $9.25 in 2001 but not working on covered contracts) | 897 |
| **Estimate 3** (Assumes only workers earning less than $9.25 in 1998 and working on covered contracts received raises) | 1,004 |
| **Estimate 4** (Same as estimate 3, but adds 30% of workers earning less than $9.25 in 1998 and not working on covered contracts) | 1,287 |
| **Estimate 5** (Assumes all workers earning less than $9.25 in 2001 received raises) | 1,884 |
| **Estimate 6** (Assumes all workers earning less than $9.25 in 1998 received raises) | 1,948 |

Source: Authors' calculations.
Note: Because we had no firm way of determining how many workers received raises owing to the living wage law, we used several approaches to estimate that number. This table summarizes those approaches.

## APPENDIX 5: Basic-Needs and Self-Sufficiency Standards

In Chapter 4, we used several benchmarks to evaluate the living standards of workers covered by Boston's living wage law. In addition to those based on the federal poverty line, we also used a more ambitious standard that we termed "basic needs." In Table A5.1 we provide an example of the types of items included in the WEIU/ WOW and EPI budgets on which the basic-needs standard is based.

The first two columns provide the threshold for a one adult-two child family, as reported in Bacon et al. (2000) for the city of Boston. The authors assume that one child is a preschooler and the other is school age. The second two columns present a similar budget by Boushey et al. (2001) for a two adult-two child family in the Boston metropolitan area.

Just to illustrate the content of these budgets, let us examine the EPI budget for a two adult-two child family in more detail. It includes $986 for housing (with utilities), $555 for food, $1,071 for childcare, $240 for transportation, $421 for health care, $478 for other expenses, and $765 for taxes. Housing is assumed to be rented at the Department of Housing and Urban Development fair market rent for Boston, defined as the 40th percentile of "privately owned, decent, [structurally] safe, and sanitary rental housing of a modest (non-luxury) nature with suitable amenities" (Bernstein et al. 2000). Food costs are based on the USDA's low-cost food plan, and childcare costs are based on average statewide rates and assume that one child is under 4 while a second child is in public school.

Health care costs are based on a self-purchased family plan, adjusted to reflect the fact that some 60 percent of families have some form of employer-provided coverage. Transportation costs assume that an individual's commute equals the citywide average and that that person drives to work, and values each mile at the IRS reimbursement rate of $0.32 per mile. Other necessities total 31 percent of housing and food costs, based on a BLS survey. Finally, taxes are based on the assumption that all wages come from income, that all families have the maximum amount of dependent-care expenses, and that school-age children are under 13 years old and thus eligible for the dependent-care credit. This measure also assumes that the individual takes no adjustments in computing adjusted gross income, although it does make an adjustment for federal income taxes in calculating state taxes.

The two methods differ in their transportation budget and in the costs they allocate to miscellaneous expenditures such as clothing, personal care, and household cleaning supplies. However, as these figures show, such differences are minor. Thus the combination of the two thresholds offers a useful, more ambitious benchmark with which to measure the effects of the Boston living wage ordinance. Table A5.2 provides the monthly thresholds for all eight family types we used in this combined analysis in Chapter 4.

## TABLE A5.1 – Monthly Budgets for Self-Sufficiency and Basic-Needs Thresholds

| | One-adult, two-child family | | Two-adult, two-child family | |
|---|---|---|---|---|
| | (1997) | (2001) | (1999) | (2001) |
| Housing | $839 | $957 | $906 | $986 |
| Food | $355 | $405 | $510 | $555 |
| Childcare | $985 | $1,123 | $984 | $1,071 |
| Transportation | $46 | $52 | $221 | $240 |
| Health | $183 | $209 | $387 | $421 |
| Miscellaneous | $241 | $275 | $439 | $478 |
| Taxes | $694 | $792 | $703 | $765 |
| Childcare credit | -$80 | -$91 | $0 | $0 |
| Total | $3,266 | $3,725 | $4,150 | $4,515 |

Source: Bacon et al. (2000) for one adult-two child family and Boushey et al. (2001) for two adult-two child family.

## TABLE A5.2: Self-Sufficiency and Basic-Needs Thresholds, by Family Type

| Family type | Monthly threshold (nominal) | Monthly threshold (2001 dollars) | Annual threshold (2001 dollars) |
|---|---|---|---|
| **Type 1**: One adult, no children Bacon et al (2000) | $1,324 | $1,510 | $18,121 |
| **Type 2**: Two adults, no children Bacon et al. (2000) | $1,680 | $1,916 | $22,994 |
| **Type 3**: One adult, one child Boushey et al. (2001) | $3,191 | $3,472 | $41,664 |
| **Type 4**: One adult, two children Boushey et al. (2001) | $3,718 | $4,045 | $48,545 |
| **Type 5**: One adult, three children Boushey et al. (2001) | $4,803 | $5,226 | $62,712 |
| **Type 6**: Two adults, one child Boushey et al. (2001) | $3,598 | $3,915 | $46,978 |
| **Type 7**: Two adults, two children Boushey et al. (2001) | $4,150 | $4,515 | $54,186 |
| **Type 8**: Two adults, three children Boushey et al. (2001) | $5,120 | $5,571 | $66,851 |

Source: Authors' calculations based on Bacon et al. (2000) and Boushey et al. (2001).

## APPENDIX 6: How We Surveyed Boston Workers

We relied on a survey of Boston low-wage workers to study the impact of the living wage law, because we were unable to obtain cooperation from affected firms to conduct a random sample of their workforce. We gathered responses using a combination of three non-probability techniques: volunteer, purposive, and key-respondent referral (or snowball) sampling.[2]

Such methods are thought to suffer from several limitations, the most important being the inability to use probability theory to explain variations among respondents, and thereby generalize to the entire population. As Singleton and Straits note, however, "It would be a mistake to rule out non-probability sampling. In many instances this form of sampling either is more appropriate and practical than probability sampling or is the only viable means of case selection."

Our first means of soliciting interviews was to approach potential respondents at or near their place of employment to give them information about the survey and how to contact our research team (via a toll-free number) if they were interested in participating. We tried to vary the times and locations of such direct contact, to ensure that we did not introduce any bias into our sample, such as by omitting or favoring workers from certain industries or on certain shifts. We conducted many interviews in person with workers leaving work or on break, but conducted the majority via telephone.

We conducted interviews in English or Spanish, depending on the preference of the respondent, and they typically lasted between 20 to 30 minutes. After the interview, we mailed respondents a stipend of $25. Such payment is standard practice among researchers, both to increase participation rates and to partially compensate individuals for their time and for providing confidential information. Analysts have shown that such payments do not bias results or undercut the quality of the data, but rather, if anything, reduce the amount of missing data.[3]

Utilizing snowballing, we relied on help from participants to put us in touch with co-workers. These employees either gave us names and contact information for co-workers directly, or we enclosed our contact information with their stipend checks. We also tried to use purposive sampling – recruiting respondents from specific worksites – to assure that workers in certain key occupational categories were represented in our sample.

Our 97 valid responses represent some 1 percent of all workers earning less than $14.25 in covered firms, and 3.5 percent of workers earning less than $14.25 and working on covered city contracts. Such coverage is extensive, and far higher than the CPS for the Boston PMSA, which in 2002 included 1,634 respondents representing some 5.7 million people—a sampling rate of 0.03 percent. Our sampling rate is high even compared with other non-random samples. For example, one study of Vietnam veterans reported a sampling rate of 0.01 percent, while a recent study of occupational health by reported a sampling rate of 0.2 percent.[4]

The survey follows.

## The Boston Worker Survey

### INTRODUCTION

Good morning/ afternoon. My name is _____, and I work with the University of Massachusetts. We are doing a study of work in Boston. In particular, we are interested in studying the effects of the Boston "living wage" ordinance. In 1998 the Boston city council passed a measure known as a "living wage ordinance" which required certain employers to raise the minimum wage for certain workers in Boston. According to our records, you are potentially covered by this law. If you do work at a covered work-site, we would like to get information about your job in Boston, and to find out how this law has affected your family's financial situation. The interview should take only 20-30 minutes, and we will pay you $25.00 for your time. However, we first we need to verify that you work at a qualifying work-site.

### SCREENING QUESTIONS

S1. Who is your current employer(s)? (verify that this is one of the covered contractors)

S2. At what location do you work for this employer? _____
OR
S3. What kind of work do you do for this employer? _____

**(Verify that the location or kind of work is part of a covered contract)**

We appreciate you taking the time to help us with this project. I assure you that all information you provide us today will be kept strictly confidential. No one except the researchers on the project will see this information, and there is no way that anyone will be able to identify your answers in the results.

Please let me know if you do not understand a question or would like me to repeat it. Since this is a voluntary survey, you are not obligated to answer questions that you do not wish to answer. However, it is important that the information we get is as accurate as possible, so that our study represents the real working conditions for workers in Boston.

### A. LABOR MARKET EXPERIENCE - CURRENT

A1. I'd like to start by asking you about your current work experiences. _____
How many jobs are you working at now, including self-employment?
(Include jobs where you are laid off or on leave but expect to return.)

A2. Including paid vacation (if any), how many weeks did you work during 2000? _____

A3. How many hours do you usually work for pay per week on <u>all</u> jobs? _____

A4. The next questions are about your current job in Boston with [LIVING WAGE CONTRACTOR]. How long have you been working for this employer?
_____ Years _____ Months

A5. In this job are you a permanent, temporary, or seasonal employee?

1 REGULAR/ PERMANENT
2 TEMPORARY
3 SEASONAL
4 PART-TIME
5 OTHER

A6. How many hours a week do you usually work at this job?_____
**(If more than 35 hours then skip to A7)**

A6a. What is the reason you usually work less than 35 hours a week?

1 NOT ENOUGH WORK. COULD ONLY FIND PART-TIME WORK. HOURS REDUCED.
2 HAVE ANOTHER JOB THAT I WANT TO KEEP
3 HEALTH/ DISABILITY.
4 FAMILY CARE/ HOUSEKEEPING
5 AGE
6 PREFER TO WORK LESS THAN 35 HOURS.
7 STUDENT
8 OTHER (SPECIFY:_____)

A7. What is your hourly wage on this job before taxes, tips and bonuses? $_____

A8. Through this job with |LIVING WAGE CONTRACTOR|, are any of the following available to you?

| | | | | |
|---|---|---|---|---|
| A8a. | Retirement Plan | YES | NO | DON'T KNOW |
| A8b. | Hospital or Health Insurance available for yourself | YES | NO | DON'T KNOW |
| A8c. | Hospital or Health Insurance available for your family or dependents | YES | NO | DON'T KNOW |
| A8d. | Paid Sick Leave | YES | NO | DON'T KNOW |

A8d1. How many days of paid sick leave do you get per year?

1 _____ DAYS
2 DON'T KNOW

| | | | | |
|---|---|---|---|---|
| A8e. | Paid Vacation Days | YES | NO | DON'T KNOW |

A8e1. How many days of paid vacation do you get per year?

1 _____ DAYS
2 DON'T KNOW

A9. If you do not have health benefits through your job, do you receive them through another family member?

1 YES
2 NO
3 DON'T KNOW

A10. If someone with your same level of education but no experience were to start your job tomorrow, how long would it take (him/ her) to become fully able to do the job?

1 ____ **(circle one:** years months weeks days)
2 DON'T KNOW

A11. Did you have any previous experience in this type of job before you were hired (excluding schooling)?

1 YES
2 NO
3 DON'T KNOW

A11a. How much experience?_____ **(circle one:** years months weeks days)

A12. Did you receive any formal, classroom style training from your employer on this job?

1 YES
2 NO
3 DON'T KNOW

A12a. How much training?_____ **(circle one:** years months weeks days)

A13. What do you perceive is the main reason preventing you from working at a job with higher wages?

1 SKILLS/ EXPERIENCE
2 NOT ENOUGH TRAINING
3 EDUCATIONAL REQUIREMENTS
4 LACK OF TRANSPORTATION TO HIGHER PAID JOBS
5 FAMILY CARE/ HOUSEKEEPING
6 NO NEED/ DESIRE.
7 LANGUAGE
8 OTHER (SPECIFY:_____)

A14. Does your employer require you to speak English on your job?

1 YES
2 NO

A15. Do you view this job as:

1 A LONG TERM CAREER
2 A SHORT TERM JOB TO MAKE MONEY
3 OTHER (SPECIFY: _____)

A16. Are you a member of a union or covered by a collective bargaining agreement on this job?

1 YES A16a. **IF YES:** Which Union?_____
2 NO
3 DON'T KNOW

A17. How satisfied are you with the following issues related to your job?
Please indicate whether you are
1 = Very satisfied; 2 = Somewhat satisfied; 3 = Not sure;
4 = Somewhat unsatisfied; 5 = Not at all satisfied

| | | | | | |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | WAGES |
| 1 | 2 | 3 | 4 | 5 | HEALTH BENEFITS FOR SELF |
| 1 | 2 | 3 | 4 | 5 | HEALTH BENEFITS FOR FAMILY |
| 1 | 2 | 3 | 4 | 5 | PAID TIME OFF |
| 1 | 2 | 3 | 4 | 5 | HOURS |
| 1 | 2 | 3 | 4 | 5 | SAFETY/ HEALTH ISSUES |
| 1 | 2 | 3 | 4 | 5 | PARKING/ TRANSPORTATION TO JOB |
| 1 | 2 | 3 | 4 | 5 | CHILD CARE |
| 1 | 2 | 3 | 4 | 5 | RELATIONS WITH SUPERVISOR |
| 1 | 2 | 3 | 4 | 5 | JOB SECURITY |

## B. LABOR MARKET EXPERIENCE - PAST

B1. Now, I'd like to ask you to think back to this same time in 1998 (e.g. November _____ 1998), and answer similar questions about your work experiences at that time.
How many jobs were you working at in 1998, including self-employment?
(Include jobs where you are laid off or on leave but expected to return.)

B1a. If you were working more than one job, how many of these jobs were in Boston? _____

B2. Including paid vacation (if any), how many weeks did you work during 1998? _____

B3. How many hours did you usually work for pay per week on **all** jobs? _____

B4. Were you working for [LIVING WAGE CONTRACTOR] in 1998?
[note: should be consistent with A4]

1 YES **(if yes skip to B5)**
2 NO

B4a. If no, what was the name of your primary employer in 1998? _____

B4b. Please describe what you did at this job? _____

B5. How many hours a week did you usually work at that job? _____
**(If more that 35 hours skip to B6)**

B5a. What was the reason you usually worked less than 35 hours a week?

1 NOT ENOUGH WORK. COULD ONLY FIND PART-TIME WORK. HOURS REDUCED.
2 HAVE ANOTHER JOB THAT I WANT TO KEEP
3 HEALTH/ DISABILITY.
4 FAMILY CARE/ HOUSEKEEPING
5 AGE
6 PREFER TO WORK LESS THAN 35 HOURS.
7 STUDENT
8 OTHER (SPECIFY:_____)

B6. What was your hourly wage on this job before taxes, tips and bonuses? $_____

B7. Through this job with [LIVING WAGE CONTRACTOR], were any of the following available to you in 1998?

| | | | | |
|---|---|---|---|---|
| B7a. | Retirement Plan | YES | NO | DON'T KNOW |
| B7b. | Hospital or Health Insurance available for yourself | YES | NO | DON'T KNOW |
| B7c. | Hospital or Health Insurance available for your family or dependents | YES | NO | DON'T KNOW |

B7d. Paid Sick Leave YES NO DON'T KNOW

B7d1. How many days of paid sick leave did you get per year in 1998?

1 _____ DAYS
2 DON'T KNOW

B7e. Paid Vacation Days YES NO DON'T KNOW

B7e1. How many days of paid vacation did you get per year?

1 _____ DAYS
2 DON'T KNOW

B8. If you did not have health benefits through your job, did you receive them through another family member?

1 YES
2 NO
3 DON'T KNOW

## C. DEMOGRAPHICS AND HOUSEHOLD COMPOSITION

C1. Interviewer: Mark respondent's sex (ask if necessary): _____ Male _____ Female

C2. How old are you? _____ Years

C3. What is your race/ ethnicity?

1 WHITE
2 BLACK/ AFRICAN-AMERICAN
3 HISPANIC/ LATINO
4 AMERICAN INDIAN, ALEUT OR ESKIMO
5 ASIAN OR PACIFIC ISLANDER
6 OTHER (SPECIFY: _____)

C4. What is the highest level of schooling you have completed?

1 LESS THAN HIGH SCHOOL
2 HIGH SCHOOL/ GED
3 TECHNICAL COLLEGE
4 TWO OR FOUR YEAR DEGREE COLLEGE
5 OTHER (SPECIFY: _____)

C5. Are you currently enrolled in school?

1 YES
2 NO **(SKIP TO D1)**

C5b. What level of school are you enrolled in?

1 LESS THAN HIGH SCHOOL
2 HIGH SCHOOL/ GED
3 TECHNICAL COLLEGE
4 TWO OR FOUR YEAR DEGREE COLLEGE
5 OTHER (SPECIFY: _____)

**D. FAMILY INCOME STRUCTURE - PRESENT**

D1. To help us understand your living situation, I would like to make a list of persons who usually live with you. Please include the adults as well as the children. What I need to know is their relationship to you, their sex, and their age on their last birthday.

| | Relation to you | Sex | Age |
|---|---|---|---|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |
| 5. | | | |
| 6. | | | |
| 7. | | | |
| 8. | | | |
| 9. | | | |
| 10. | | | |

D2. Next are a few questions about your income for the past year (2000). Including yourself, how many family members living with you were employed in 2000?

1 _____ FAMILY MEMBERS EMPLOYED
2 DON'T KNOW

D3. Including yourself, how many family members living with you had any income from **any** source (including wage income, as well as other sources such as SSI or alimony) in 2000?

1 _____ FAMILY MEMBERS WITH INCOME
2 DON'T KNOW

Now I would like to ask you about your sources of income. In the past year, have you or a family member living with you received any income from the following sources:

| | | | |
|---|---|---|---|
| D4. Money from relatives or others living outside your home? | YES | NO | DON'T KNOW |
| D5. Social Security, SSI, or other retirement payments? | YES | NO | DON'T KNOW |
| D6. Unemployment (Insurance) compensation? | YES | NO | DON'T KNOW |
| D7. Temporary Assistance to Needy Families (TANF) or other cash assistance welfare payments? | YES | NO | DON'T KNOW |
| D8. Food stamps? | YES | NO | DON'T KNOW |

D9. What was your family income before taxes in 2000? This figure should include your income from all sources, and the income of all family members living with you. It should include salaries, pensions, self-employment earnings and public assistance.

1 $ _____ **(skip to D10)**
2 DON'T KNOW

D9a. Can you tell me your best guess as to what your family's income was before taxes from the following choices?

1 LESS THAN $5,000 FOR THE YEAR
2 BETWEEN $5,000 AND $10,000
3 BETWEEN $10,000 AND $20,000
4 BETWEEN $20,000 AND $30,000
5 BETWEEN $30,000 AND $40,000
6 MORE THAN $40,000 PER YEAR

D10. Do you rent or own your home/ apartment/ condo?

1 RENT
2 OWN
3 OTHER (SPECIFY: _____)

D11. How much is your monthly rent or mortgage? $_____

D12. In a typical week, how many hours are your children cared for by someone outside your immediate family?

0 RESPONDENT DOESN"T HAVE CHILDREN LIVING AT HOME
1 _____ HOURS PER WEEK
2 DON'T KNOW

D13. How much do you pay per week for this care?

1 $ _____ PER WEEK
2 DON'T KNOW

D14. I have a question about the amount your family owes for things (other than your home), such things as credit card debts, personal loans, or a car?
What is the approximate amount you owe for things (other than your home)? $_____

D15. Some people have assets such as deposits in the bank, savings accounts, checking accounts, savings bonds, stocks and bonds, and individual retirement accounts (IRAs). Please indicate the approximate amount of your family's current assets—(please do not include any equity you may have in your home or the value of your car). $_____

**E. FAMILY INCOME STRUCTURE - PAST**

E1. Now we'd like to ask you some of the same questions about income, but again for the year 1998. Including yourself, how many family members living with you were employed in 1998?

1 _____ FAMILY MEMBERS EMPLOYED
2 DON'T KNOW

E2. Including yourself, how many family members living with you had any income from **any** source (including wage income, as well as other sources such as SSI or alimony) in 1998?

1 _____ FAMILY MEMBERS WITH INCOME
2 DON'T KNOW

E3. What was your family income before taxes in 1998? This figure should include your income from all sources, and the income of all family members living with you. It should include salaries, pensions, self-employment earnings and public assistance.

1 $_____ **(SKIP TO E4)**
2 DON'T KNOW

E3a. Can you tell me your best guess as to what your family's income was before taxes from the following choices?

1 LESS THAN $5,000 FOR THE YEAR
2 BETWEEN $5,000 AND $10,000
3 BETWEEN $10,000 AND $20,000
4 BETWEEN $20,000 AND $30,000
5 BETWEEN $30,000 AND $40,000
6 MORE THAN $40,000 PER YEAR

E4. In 1998, did you rent or own your home/ apartment/ condo?

1 RENT
2 OWN
3 OTHER (SPECIFY: _____)

E5. How much was your monthly rent or mortgage? $_____

E6. In 1998, what was the approximate amount your family owed for things such as cars, credit cars, and student loans (other than your home)? $_____

E7. In 1998, what was the approximate amount of your family's assets? $_____
(Deposits in the bank, savings accounts, checking accounts, savings bonds, stocks and bonds, and individual retirement accounts (IRAs); NOT including any equity in home or value of car).

## F. LIVING WAGE ORDINANCE

F1. Finally, I'd like to ask you about your opinions about the Boston Living Wage ordinance. First, are you aware that the city of Boston has a Living Wage ordinance?

1 YES
2 NO

F2. How did you first hear about the law?

1 FROM EMPLOYER
2 FROM NEWSPAPERS/ RADIO
3 FROM CO-WORKERS
4 I WAS ACTIVE IN THE LIVING WAGE CAMPAIGN
5 OTHER: Specify: _____

F3. Did you receive a raise as a result of the Living Wage ordinance?

1 YES
2 NO **(skp to F5)**
3 DON'T KNOW

F3a. If YES, when did you receive the raise? _____

F4. Do you find that you are working harder on your job since you received a wage increase?

1 YES
2 NO

F5. Has your employer laid off workers since they began complying with the Living Wage ordinance?

1 YES
2 NO

F6. Has your employer reduced your work hours since they began complying with the Living Wage ordinance?

1 YES
2 NO

F7. Has your employer increased the pace of work since they began complying with the Living Wage ordinance?

1 YES
2 NO

F8. Can you tell me what impact, if any, the Living Wage Ordinance has had on you and your family?

## APPENDIX 7: A Profile of Low-Wage Workers in Boston

To profile the pool of low-wage workers in the Boston area, and to compare those workers to our survey respondents, we relied on the Current Population Survey (CPS). The CPS—a monthly survey of some 50,000 households conducted by the Census Bureau—is widely recognized as the primary source of information on the U.S. labor market, and serves as the basis for calculating the U.S. unemployment rate. CPS data on the Boston primary metropolitan statistical area (PMSA) offer a broad, statistically reliable picture of people employed in low-wage jobs.

To ensure an adequate number of people in different wage categories, we pooled data from the 2001 and 2002 Annual Demographic Survey, a supplement to the CPS conducted every March. (We used the Consumer Price Index for the Boston PMSA to put wages and incomes for 2001 into 2002 terms.) Our sample of 1,943 individuals represented some 1.9 million people.[5]

We found that some 173,000 people in the Boston area—close to 10 percent of the workforce—were earning between the state minimum wage ($6.75 per hour) and the living wage ($9.11 per hour) (*Table A7.1*). Some 389,000 people—21 percent of the labor force—fell into the $9.11–$14.74 wage range, representing the next rung on the wage ladder.

We also found that most workers in the Boston area earning less than $14.74 were adults, not teenagers, even in the lowest wage ranges, and most have close to 20 years of labor market experience. On average, these individuals were working close to full-time, year-round jobs, although with substantial variation across wage ranges (*Table A7.2*). The majority of these employees live with families, and they are making a substantial contribution to total family income (*Table A7.3*).[6]

On average, family incomes for these workers were fairly high: less than 10 percent fell below a reasonably defined poverty threshold (defined in Chapter 4), except for workers in the very lowest wage ranges (*Table A7.4*). From 75 and 80 percent of the families of workers earning more than the living wage of $9.11 an hour lived above a basic-needs threshold. However, at least 40 percent and as many as 65 percent of the families of individuals earning less than the living wage fell below the basic-needs threshold. Thus Boston's living wage policy has substantial scope for raising affected workers up to a more comprehensive living standard.

Close comparisons between these results and our survey data show that researchers must exercise care when extrapolating earnings and family structure for people covered by living wage laws from large databases. The percentages of CPS workers who were women and who were non-white were much lower than in our survey, for example. However, 85 percent of CPS employees working in social services were women and 44 percent were non-white.[7]

The slightly higher representation of people of color in our survey may reflect a difference in the workforce composition of Boston's covered contractors compared with other social service providers in the Boston area, or it may reflect a bias in our sample. However, given the small number of workers in the social services sector in the CPS sample, the differences are probably real, not least because most employers are in the central city, where the population is more heavily African American and Latino. (The population of Suffolk County, which includes Boston, is 48 percent non-white, according to U.S. Census data for 1999, while Middlesex County, which is 13 percent non-white, has the highest non-white percentage among the other counties in the Boston PMSA.)

Even when making a more precise comparison between our respondents and workers in the social services sector of the CPS sample, we found that family incomes for our respondents were between 20 to 25 percent lower than those reported in the CPS. While we have good reason to believe that these lower family incomes, much like the demographic differences between the two groups, reflect real differences, our estimates of family income may be biased downward. This follows from the fact that workers in our survey reported higher earnings than the general CPS population (because our respondents worked far more hours per week and per year than workers in the CPS sample).

## TABLE A7.1 – Basic Demographics of Low-Wage Workers In Boston, 2001

| | Hourly wage rate | | |
|---|---|---|---|
| | $6.75–$9.10 | $6.75–$8.00 | $8.01–$9.10 |
| Number of workers | 172,832 | 86,935 | 85,897 |
| Percentage of workforce | 9% | 5% | 5% |
| Average age | 35 | 34 | 36 |
| Estimated labor force tenure (years) | 17 | 16 | 18 |
| Teenagers | 16% | 14% | 17% |
| Non-white (including Hispanic) | 30% | 27% | 33% |
| Hispanic | 13% | 12% | 13% |
| Female | 54% | 50% | 58% |

| | Hourly wage rate | | | |
|---|---|---|---|---|
| | $9.11–$14.74 | $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 |
| Number of workers | 388,710 | 113,892 | 137,826 | 136,991 |
| Percentage of workforce | 21% | 6% | 7% | 7% |
| Average age | 39 | 39 | 40 | 39 |
| Estimated labor force tenure (years) | 20 | 20 | 20 | 20 |
| Teenagers | 4% | 6% | 0.7% | 5% |
| Non-white (including Hispanic) | 22% | 20% | 25% | 19% |
| Hispanic | 8% | 9% | 9% | 6% |
| Female | 58% | 55% | 60% | 58% |

Source: Current Population Survey (2001 and 2002)

**TABLE A7.2 – Hours and Earnings of Low-Wage Workers In Boston, 2001**

| | Hourly wage rate | |
|---|---|---|
| | $6.75–$8.00 | $8.01–$9.10 |
| Average wage *(2002 dollars)* | $7.39 | $8.53 |
| Average hours per week | 35 | 33 |
| Average weeks per year | 43 | 43 |
| Average yearly hours worked | 1,508 | 1,396 |
| Average annual earnings *(2002 dollars)* | $11,430 | $12,182 |

| | Hourly wage rate | | |
|---|---|---|---|
| | $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 |
| Average wage *(2002 dollars)* | $10.05 | $11.76 | $13.63 |
| Average hours per week | 37 | 38 | 39 |
| Average weeks per year | 48 | 47 | 46 |
| Average yearly hours worked | 1,774 | 1,765 | 1,761 |
| Average annual earnings *(2002 dollars)* | $17,865 | $20,492 | $24,009 |

Source: Current Population Survey (2001 and 2002).

## TABLE A7.3 – Family Structure and Earnings of Low-Wage Workers in Boston, 2001

| | Hourly wage rate | |
|---|---|---|
| | $6.75–$8.00 | $8.01–$9.11 |
| Average family size | 3.3 | 3.4 |
| Average number of wage earners per family | 2.3 | 2.2 |
| Average dependency ratio *(family size/number of wage earners)* | 1.5 | 1.7 |
| Family earnings *(2001 dollars)* | | |
| median | $32,169 | $40,728 |
| mean | $50,090 | $60,966 |
| Family income *(2001 dollars)* | | |
| median | $39,057 | $52,313 |
| mean | $55,869 | $73,536 |

| | Hourly wage rate | | |
|---|---|---|---|
| | $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 |
| Average family size | 2.9 | 2.8 | 3.0 |
| Average number of wage earners per family | 2.0 | 1.9 | 2.1 |
| Average dependency ratio *(family size/number of wage earners)* | 1.6 | 1.6 | 1.5 |
| Family earnings (*2001 dollars*) | | | |
| median | $49,083 | $36,552 | $49,865 |
| average | $56,777 | $54,481 | $63,129 |
| Family income (*2001 dollars*) | | | |
| median | $59,300 | $49,615 | $51,255 |
| average | $66,229 | $62,548 | $73,537 |

Source: Current Population Survey (2001 and 2002).

## TABLE A7.4 – Poverty Status of Low-Wage Families in Boston

| | Hourly wage rate | |
|---|---|---|
| | $6.75–$8.00 | $8.01–$9.11 |
| Families in severe poverty *(below official poverty line)* | 6% | 1% |
| Families in poverty *(below 160% of official poverty line)* | 27% | 10% |
| Near-poor families *(below 185% of official poverty line)* | 38% | 17% |
| Below basic-needs threshold | 64% | 41% |

| | Hourly wage rate | | |
|---|---|---|---|
| | $9.11–$10.74 | $10.75–$12.74 | $12.75–$14.74 |
| Families in severe poverty *(below official poverty line)* | 4% | 3% | 4% |
| Families in poverty *(below 160% of official poverty line)* | 10% | 7% | 9% |
| Near-poor families *(below 185% of official poverty line)* | 14% | 12% | 13% |
| Below basic-needs threshold | 24% | 19% | 5% |

Source: Current Population Survey (2001 and 2002).

## Endnotes

1. We calculated the weights by dividing the real annual contract value by the number of unit costs. Thus the impact of each contract remains the same as in Chapter 2.

2. For more on these and other non-probability sampling techniques, see Babbie (1998) and Singleton and Straits (1999).

3. For a more thorough discussion of this practice, see Levy and Lemeshow (1991); Groves (1989); Groves and Couper (1998), and Singer et al (2000).

4. Rothbart, Fine, and Sudman (1982), cited in Singleton and Straits (1999); and Hammond et al. (1995).

5. Our respondents lived in the Massachusetts portion of the Boston PMSA, which includes residents of Suffolk County and parts of Essex, Middlesex, Norfolk, Bristol, Worcester, and Plymouth counties. The PMSA also includes parts of southern New Hampshire. See OMB (1999).

The analysis in this section largely follows the CPS results reported in Pollin and Brenner (2000), and examines civilian labor force participants over 14 years of age. Thus the information represents some 1.9 million people, based on a sample of 1,943 individuals.

6. In the CPS, income includes unemployment, workers' compensation, Social Security or railroad retirement, Supplemental Security Income, public assistance or other cash welfare payments, veterans payments, survivor's income, disability, retirement income, interest, dividends, income from estates or trusts, net rental income, child support, alimony, and private financial assistance.

7. We calculated the average figures for social service workers in the CPS based on pooled data from the ADS for 1999 to 2002, restricted to workers earning $9.11–$14.74 in 2001 dollars. We added the extra two years of data to boost the number of observations in the social services sector. In total, these results are based on 28 individuals who reported working in the social services sector.

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# THE ECONOMIC IMPACT OF LOCAL LIVING WAGES

*by Jeff Thompson and Jeff Chapman*

The modern living wage movement was born in Baltimore in 1994, when the city passed an ordinance requiring firms to pay employees a rate above the minimum wage while working on city contracts. Since then, over 120 communities have followed suit, some setting wage floors more than twice the federal minimum wage, and some requiring various benefits.

The astounding growth of the living wage movement has been a response to the predicament of Americans who work but are unable to make ends meet, as well as to the public policies contributing to the problem.

Public policies have exacerbated the problem from the federal level to the local level. Since the early 1980s, the federal government has generally neglected the minimum wage; by 2005, a minimum wage paycheck bought less than it had in 49 of the last 50 years. Local governments have contributed to the problem, following the trend of cutting costs by contracting out services to firms who frequently pay lower wages and offer fewer benefits than public employment. Too often, economic development efforts have channeled public funds in the form of tax breaks or tax incentives to businesses without regard to the quality of the jobs those businesses provide.

As a result of these policies, the two most common themes echoed by living wage proponents are (1) that wages should be high enough to allow workers to meet basic needs (i.e., "living wages"), and (2) that municipal policy should encourage or require living wages for its employees and contractors, rather than exacerbate the problems faced by low-wage workers.

Despite having common goals, living wage laws vary considerably in practice. Most cover employees working under municipal contracts. Some also cover municipal employees, employees of businesses receiving public economic development dollars, or employees of businesses located in districts that have benefited from significant public investment. Wage levels vary from one dollar above the federal minimum wage to over twice the minimum. Some exempt nonprofit organizations, while others primarily affect human service providers.

One characteristic most share is considerable scrutiny—by pushing for higher wages and challenging the way municipal governments operate, living wage policies have generated significant interest from many different parties. One of the chief concerns among all observers has been the economic effects for municipalities, workers, and firms.

Using the growing body of research that has empirically determined the actual effects of living wage policies, this study shows that:

***Living wage laws have small to moderate effects on municipal budgets.***

- A detailed survey of 20 cities found that the actual budgetary effect of living wage laws had been consistently overestimated by city administrators; actual costs tended to be less than one-tenth of 1% of the overall budget.
- Two separate studies of the Baltimore living wage found that city contract costs increased less than the rate of inflation.
- A study of the Los Angeles ordinance found no measurable effect on the city's fiscal health.
- A study of living wage ordinances in three New England cities found that contract costs only rose in one city.
- Multiple studies have shown that the bidding for municipal contracts remained competitive or even improved as a result of living wage ordinances.

***Living wage laws benefit working families with few or no negative effects.***

- Recent studies using original surveys in both Los Angeles and Boston have shown that the workers affected were mostly adults and mostly working full time.
- Both the Boston and Los Angeles studies also showed that most living wage workers were in households struggling to meet a basic-needs budget.
- In Baltimore and Boston, empirical studies have found no evidence of diminished employment.
- In Los Angeles, surveys of workers and firms show that job losses affected just 1% of workers getting a raise.

- Two studies of San Francisco living wage policies found employment increased among airport workers and home health care workers.
- An exception to the general conclusion of research on living wages is a series of studies by David Neumark and Scott Adams that estimate relatively large wage gains and employment losses. The method of these studies has been severely criticized, and the findings discredited by many researchers.

***Living wages laws have raised productivity and decreased turnover among affected firms.***

- Multiple studies of Baltimore, Boston, Los Angeles, and San Francisco have shown that firms enjoy lower turnover among employees as a result of the living wage ordinance.
- A study of home-care workers in San Francisco found that turnover fell by 57% following implementation of a living wage policy.
- A study of the Los Angeles ordinance found that absenteeism declined, and the decrease in turnover offset 16% of the total cost of the living wage ordinance.
- A study of the San Francisco airport found that annual turnover among security screeners fell from 95% to 19%, as their hourly wage rose from $6.45 to $10.00 an hour.

## Effects of living wages on municipalities and consumers

### *Costs to municipalities*

One frequently raised concern is that the cost of the living wage might be passed onto the municipality through higher prices for contracts. If contract prices do increase, the municipal government will be faced with cutting services, raising taxes to pay for the higher costs, finding ways to become more productive, or some combination of the three.

A number of studies have examined changes in municipal contract costs resulting from living wage laws. In general, the evidence from enacted ordinances, as well as the more carefully prepared prospective studies, shows that the overall cost of contracts does not rise significantly.

In 1996, one year after the implementation of the first modern living wage ordinance in Baltimore, the Preamble Center for Public Policy published a study reviewing the fiscal costs of the ordinance. The Preamble study used data on city contracts and interviews with contractors and found that, in the first year under Baltimore's living wage law, the real cost of city contracts actually decreased. Nominal contract costs rose 0.2%, but after adjusting for inflation costs declined by 2.4%. Expenses associated with implementing the law and monitoring contractors' compliance were also shown to be minimal, "with the City allocating about 17 cents per person annually for this purpose" (Weisbrot and Sforza-Roderick 1996, 10).

Two years after Preamble's study, the Employment Policies Institute (EmPI) published a vitriolic response, even charging the Preamble researchers with fabricating evidence in order to reach their

desired conclusions.[1] Despite its use of heavily charged rhetoric, nowhere does the EmPI study refute Preamble's key finding—that the living wage ordinance had no discernible impact on contract costs. In fact, the EmPI study does not present a new interpretation of what actually happened to the overall cost of contracts, possibly because their analysis did not yield significantly different results than Preamble's.[2]

EmPI's key accusation was that Preamble "created out of whole cloth a fictitious multi-million-dollar contract." According to EmPI, the results of the Preamble study hinged entirely on the inclusion of this "whipped-up" contract. Despite EmPI's apparent attempt to make the casual reader believe that the Preamble authors made up a contract from thin air, the disagreement between EmPI and Preamble was not whether the contract existed, but whether it was in fact an extension of an existing contract and therefore exempt from the ordinance.[3] EmPI also accused Preamble of omitting contracts about which information was actually not available at the time of the earlier Preamble study.

In their reply to EmPI's charges, the Preamble researchers showed that even accepting each of EmPI's charges does not change the conclusion that Baltimore's living wage ordinance did not significantly increase contract costs (Preamble 1998).

In 1999, the Economic Policy Institute (EPI) published the third study of the Baltimore experience. Analyzing contracts that could be directly compared before and after the implementation of the ordinance, the EPI research associates from Johns Hopkins University found that the nominal contract costs for the city rose just 1.2%—lower than inflation during the same period—and concluded that the "budgetary impact of the living wage [in Baltimore] has, to date, been insignificant" (Niedt et al. 1999, 6-9). Despite the overall real decline in contract costs during the period under study, there was a range of results for different contract types. Some contracts experienced moderate price decreases, while others grew considerably. The overall price for the heavily effected janitorial contracts, for example, rose 16.6% in nominal terms, with specific contracts seeing price increases ranging from less than 1% to over 50%. The overall budgetary impact of these contracts, however, was negligible as cost increases in other contract areas were more modest. The EPI study's overall conclusion was that "the widely voiced fear that [the living wage ordinance's] implementation would place intolerable strains on the city's budget have not yet materialized."

The research conducted since these early studies on Baltimore has tended to confirm the initial findings of negligible overall increases in contract costs. In 2003, Andrew Elmore surveyed administrators in 20 cities and counties that had adopted living wage ordinances that had been in force at least one year by late 2001. Each of these municipalities also had the "administrative capacity to produce cost impact estimates, formal internal evaluations, or other empirical assessments of the effects of their laws." Elmore's main finding was that in most municipalities "contract costs increased by less than 0.1% of the overall local budget in the years after a living wage law was adopted" (Elmore 2003, 2). Municipalities widely overestimated the costs of the living wage ordinances: the City of Berkeley, California, for example, projected the living wage would result in $479,425 in higher contract costs, but the actual increase turned out to be less than half that amount. Elmore reports that, despite the negligible overall costs of living wage ordinances, in each city there were a few contracts that did experience significant price increases. Predictably, these few contracts were labor intensive operations that employed a large number of workers concentrated at low wages, notably janitorial and security guard services.[4]

Elmore also found that municipalities that extended their living wage ordinances to cover human services providers, such as home health care or child care, experienced slightly higher contract price increases, ranging from 0.3%–2.8% of local human services budgets (Elmore 2003, 7). These higher (though still modest) price increases could result from a range of factors, not least of which includes large concentrations of low-wage workers and a willingness of municipalities to pick up at least some of the increased wage bill of community-based nonprofit organizations.

An exhaustive study of three New England cities by researchers from the University of Massachusetts confirmed the general finding that modest costs should be expected, but found that one particular type of bidding process that is more likely to lead to cost increases—the use of unit-cost bidding. In Boston and New Haven, Connecticut, falling or stagnant costs for other contracts balanced out increases in unit-cost contracts, resulting in 7% and 11% declines overall, respectively (Brenner and Luce 2005, 25). In Hartford, Connecticut, the ordinance covered only two contracts, both of which used unit-cost bidding, resulting in an overall increase in cost. Unit-cost bidding is used for services such as security or temporary office help, where the city is unable to predict exactly how much of a need they will have in advance. Instead of bidding on the price of providing services for the entire period, firms bid on the price of one hour of service provision. Perhaps because of the clearer connection to the costs of increased wage floors, this practice appears to make it easier for firms to pass on the costs to the city.

The authors also identified a strategy that tends to lead to lower costs—consolidating multiple services into a single contract. They give the example of Multnomah County, Oregon, where consolidating janitorial services at the Department of Corrections, courthouse, and county jail into a single contract saved the county money and may also have improved the firm's approval rating and turnover rate.

Overall, the study adds more evidence to the finding that living wage ordinances do not put undue strain on city or county budgets. As the director of Boston's Living Wage Division said, "We also have not seen increased costs to maintain city contracts. Vendors and the city have successfully absorbed the cost of the living wage ordinance. There has been no adverse financial impact on the city. The living wage ordinance has been good for Boston."

Richard Sander and Sean Lokey, in a study of the Los Angeles living wage, confirmed that living wage ordinances don't generate substantial increases in overall contract costs, concluding, "Apart from the direct costs of the living wage ordinance to the city budget (about $500,000 in 1998 and $3–4 million when the living wage ordinance is fully implemented) and the administrative costs of implementation (also around $500,000 in 1998), there is no significant positive or negative effect on the city's fiscal health or the local economy from the living wage ordinance" (Sander and Lokey 1998, 10). They do, however, identify some contracting arrangements that can lead to higher costs. In these cases, if a city intends to absorb added costs and informs contractors of this intention, there is little reason to expect that the city won't face increased costs on those contracts. Overall, though, they found total labor costs to have increased by about $2.5 million, a far cry from their prediction before the fact of $30 to 40 million (Williams and Sander 1997, 62; Sander and Lokey 1998, 10).

Although not primarily concerned with the cost of the ordinance to the city of Los Angeles, a study by University of California Riverside economist David Fairris, UCLA researcher David Runsten, and

colleagues at the Los Angeles Alliance for a New Economy (LAANE) reaches similar conclusions on this issue. The LAANE study includes surveys of affected workers, affected firms, and a comparable control group of firms not affected by the ordinance. Conducted several years after adoption and major modification of the living wage ordinance, these surveys support the finding that some firms have been able to pass costs through to the city, and similarly conclude that specific contracting arrangements are responsible in some cases. Most surveyed firms did not answer questions about cost pass-through, but half of those answering indicated that they were able to pass at least some of their costs on to the city (Fairris et al. 2005, 93). Qualitative evidence gathered in interviews suggests that this pass-through, including some firms billing the city in excess of the cost increases they actually experienced, results from contracts that are tied to these firms' hourly wage costs.

The general conclusion of the available evidence is that, while some firms do increase prices to municipal governments, these price increases generally have only a negligible impact on city budgets. These increases are less than what many municipal governments had expected when they were preparing cost projections in anticipation of law changes, and much smaller than what was predicted by opponents of living wage laws.

### *The bidding environment*

A handful of studies have looked at what happens to the competitiveness of the bidding process following the implementation of a living wage ordinance and have found that the competitive bidding process itself may be an important reason behind constrained growth in contract prices following adoption of living wage ordinances.

Sander and Lokey found that contract competitiveness played an important role in their findings. Of 30 firms surveyed 18 months after implementation of the living wage ordinance, they found that for 17 firms, "the costs of the contract to the city did not change and employment levels dropped modestly, if at all. In most of these cases, it is clear that the reason costs were absorbed by employers was the presence or introduction of competitive bidding" (Sander and Lokey 1998, 8). About one-quarter of the other contracts did experience cost increases, in large part because, as Sander and Lokey explain, "these were contracts that were not competitively bid; the city has a long-term relationship with a particular firm, and the firm was asked to determine the amount of the increased cost" (Sander and Lokey 1998, 8).

In their analysis of the Baltimore ordinance, Preamble reports that "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 from the living wage" (Preamble 1998, 9). The competitive bidding environment may prevent firms from passing costs back onto the municipal government, and the relatively small size of the costs of the living wage may make it still worthwhile for the company to continue to bid on contracts. It will be easier for firms to absorb small cost increases, rather than dramatically adjust operations (moving, laying off workers, not bidding, etc.).

Other studies have found similar results. Preamble's study of the Baltimore ordinance found that, despite opponents' predictions to the contrary, contracts that faced the largest increases in the wage bill

saw an increased number of bids (Preamble 1998, 13).[5] Elmore's survey quotes one policy maker in Ypsilanti Township, Mich., as saying that there were "more bidders than ever, at better rates" following the living wage policy. In their study of New England cities, Brenner and Luce found that bids increased in one city (Hartford), didn't change in another (Boston), and declined in the third (New Haven). In Boston, only 6% of firms indicated that the higher wage requirements will affect their willingness to bid on future city contracts.

The LAANE employer survey asked Los Angeles contractors about their attitudes toward city contracts following the adoption of the living wage. Seventy percent of firms had not changed their attitude toward city contracting; a significant minority (19%) indicated that they were less likely to seek city contracts in the future (Fairris et al. 2005, 111). Whether such intentions are honest, or are merely political posturing, is unclear. Brenner reports that in the case of Corvallis, Oregon, despite several firms threatening to not bid on future contracts, the city finance director reports that every firm contacted has submitted a bid, "and the bids have continued to be competitive" (Brenner 2004, 22).

A common sentiment expressed by contractors in Baltimore was that the higher wage floor leveled the playing field. As one bus company manager stated, "We feel more able to compete against businesses that were drastically reducing wages in order to put in a low bid." The LAANE employer survey found that 11% of firms consider it easier to compete for city contracts following the living wage policy (Fairris et al. 2005, 111). These firms felt that the new policy had made it possible for "scrupulous" companies paying decent wages to compete against firms whose main strategy is to drive down wages. Elmore's survey indicates that following adoption of a living wage, some cities instituted competitive bidding for contracts that had not been put out for bid in many years. These cities report that the return to bidding led to cost savings.

Brenner and Luce (2005) determined that the large increase in the number of bidders in Hartford was the result of more security firms willing to bid because of the living wage ordinance. Previously, firms that paid their workers higher wages were unwilling to bid when the outcome of the contract was determined exclusively by who could offer the lowest wages. One security guard contractor remarked, "Most companies with any business sense would concentrate on a higher wage niche, because there is more stability involved, and it gives you better control of the business, and allows you to preserve your reputation." Similar sentiments were expressed in New Haven, where that city's comptroller noted that the living wage "puts all vendors on equal footing... [and] it has leveled off undercutting." Under the ordinance, competition for contracts is determined by more than which firms can drive wages down the lowest, and is influenced by other factors, such as service quality.

### *Costs to consumers*

One of the most comprehensive, post-passage studies of a living wage ordinance followed the implementation of the living wage at the San Francisco International Airport (SFO). The SFO policy is almost universally applied to the airport workforce, directly affecting the wages of about 5,400 workers[6] (Reich 2005, 119). The living wage policy is actually part of a series of policies called the Quality Standards Program (QSP) that includes a wage floor. Unlike most other living wage ordinances, the affected firms don't provide services for a municipal government, but instead operate in a publicly owned facility.[7]

Most of the study, produced by Michael Reich and colleagues at UC Berkeley, concerns the employment and other economic impacts of the QSP (which will be discussed in the next section), and addresses the issue of cost increases faced by airport consumers. Reich shows that even if the entire employee compensation cost of the QSP was passed on to consumers, the effect would be relatively minor—an increase of $1.42 per passenger, an amount unlikely to deter people from using SFO (Reich 2005, 124). This hypothetical increase is substantially less than the $5 "per segment" security tax implemented following September 11th and the $4.50 departure tax proposed by the airport in 2001 to study options for a new runway[8] (Reich 2003, 49).

## Effects of living wage ordinances on workers

### *Living wage workers*

The characteristics of workers who benefit have always been of interest to researchers studying the effects of living wage ordinances. Because of the policy's stated goals, information on the demographics and family income of the workers receiving raises is relevant when judging success.

The Los Angeles Alliance for a New Economy conducted a survey in 2002 of 320 randomly selected workers who benefited from the Los Angeles living wage ordinance. This survey proved to be a rich data source for information on the thousands of workers who received raises, showing that:

- 96% were age 20 and older; 58% were 35 and older
- 86% worked full time
- 71% had only a high school degree or less
- On average, workers had been in the workforce nearly 20 years
- 29% were African American
- 57% were female

The LAANE survey did not provide reliable family income data. Instead, LAANE analyzed a similar group of low-wage workers from the Current Population Survey, finding that 69% fell below a "basic needs" budget (Fairris et al. 2005, 38).[9]

Brenner and Luce surveyed 97 low-wage workers employed in the industries most affected by Boston's living wage policy.[10] The survey of this group of covered workers reveals a generally similar profile as Los Angeles:

- Workers were predominantly adult, full-time workers, who were disproportionately people of color[11]
- The average age of covered workers in Boston was 32, with 95% age 20 or older (Brenner and Luce 2005, 51-52)

- 40% of covered workers were African American, and 79% were female
- The average covered worker worked 43 hour per week (Brenner and Luce 2005, 60)

Workers benefiting from the Boston living wage policy were also disproportionately poor and low-income, especially prior to its implementation. Among those covered workers getting a wage increase under the ordinance, over half (54%) were from households with incomes too low to afford even a basic needs budget.[12]

One difference between the affected workers in Boston and Los Angeles is the level of education. Among workers impacted by Boston's living wage, 37% had only a high school degree or less, compared to 71% in Los Angeles (Fairris et al. 2005, 31). More than half of covered workers in Boston had a two- or four-year degree, and 11% had a master's degree (Brenner and Luce, 51). The reason for this difference is that the Boston ordinance primarily covers nonprofit social service providers (a workforce with relatively low wages and relatively high educational attainment), while the workers impacted by the Los Angeles ordinance primarily work at the airport and in a variety of service contract jobs for the city.

In the study of the San Francisco airport, Reich also reports some basic demographic characteristics of affected workers. Following the implementation of the QSP, more than three-quarters of affected workers were 25 or older, and 86% were non-white[13] (Reich 2005, 134).

### *Employment effects*

A frequently expressed concern about living wage ordinances is that the increased cost might decrease employment opportunities for low-skilled workers by causing employers to hire fewer workers or even lay off employees. The employment impact of living wage ordinances is a primary focus of most recent living wage studies. In attempting to answer the question of whether or not living wage ordinances have a significant impact on employment, different researchers have used a variety of approaches, ranging from qualitative interviews with service contractors and affected workers, to detailed before-and-after analysis of impacted firms, to econometric analyses of readily available labor market data. Most of the available studies have concluded that there have been either no or only small employment losses as a result of adopting living wages.

At the time when the earliest analyses were conducted, there was not enough data to quantitatively assess the impact that living wage laws had on employment. Instead, researchers relied on qualitative surveys to develop an impression of the potential impacts on employment. In their 1996 study, researchers from Preamble interviewed 31 contractors affected by the wage increase. None of the firms, including the janitorial services most heavily impacted by the increase, reported reducing staffing levels as a result of the living wage requirement (Preamble 1996, 10). In 1999, Niedt interviewed 26 workers employed in jobs affected by the Baltimore living wage ordinance. Based on questions about conditions at their workplaces, Niedt concluded there was "no evidence that employment levels or working time had changed because of the living wage" (Niedt 1999, 27). Later studies have used quantitative data and more sophisticated techniques to answer the question about employment impacts, and have reached similar conclusions as these early studies.

In his post-passage study of the Boston living wage, Brenner found little evidence of job losses. There was no significant difference in changes in employment (total employment or full-time equivalent (FTE) employment) between contractors who were forced to raise wages because of the law and those that did not have to raise wages (Brenner 2005, 73). For example, affected firms added 22.1 FTE positions, while unaffected firms added 22.4.[14] Also, the number of contract employees covered by the Boston ordinance increased more at firms that were forced to raise wages to comply than those that did not have to raise wages. Brenner's study documents that while approximately 1,000 workers received wage gains, there was no evidence of reduced employment or hours.[15]

The Los Angeles living wage ordinance directly raised the wages of an estimated 7,700 workers, according to the LAANE study[16] (Fairris et al. 2005, 20). This extensive study, using original surveys of firms and workers, found that job loss occurred for less than 1% of the covered workers, or 1.4% of those receiving mandatory wage increases. On the firm side, less than one in five affected firms reported making any staffing changes due to the living wage.[17]

The analysis by Reich et al. of the living wage policy at the San Francisco Airport concluded that there was no evidence of employment losses due to the policy. Despite a recession-induced decline in airport activity by early 2001, SFO employment in jobs covered by the QSP rose by more than 15% between 1998 and 2001—the period in which the QSP was implemented (Reich 2005, 129). As Reich et al. report, "this increase is surprising given that over the same period, airport activity declined by 9% and overall employment in the San Francisco [metropolitan area] increased by only 1%."[18]

Although her research focuses primarily on employee turnover, Candace Howes' findings from her study of the living wage ordinance for home-care workers in San Francisco also does not support claims of job loss. Over the four years of her study (late 1997-early 2002), the number of home-care workers increased by 54% (Howes 2002, 2).

A series of studies by Neumark and Adams are an exception to the general findings of studies of employment effects. They report significant decreases in employment as a result of cities adopting living wage policies. In at least five separate papers, Neumark and Adams examine the effects of living wage laws by comparing the experience of the lowest-paid workers in cities with living wage laws to those in cities without such laws.[19] In each of their studies, Neumark and Adams report that the workers in living wage cities have experienced positive wage effects, but negative effects on employment relative to workers in non-living wage cities.

While Neumark's and Adams' research has received wide attention, it has also been criticized by a number of economists, especially work by Brenner, Wicks-Lim, and Pollin. While it is not possible to fully address all of the criticisms in this review, below is a brief summary.

To begin with, the data source used in the Neumark and Adams studies is the Current Population Survey (CPS), a national survey used by the Bureau of Labor Statistics to measure unemployment, wages, and other labor market outcomes. While an excellent data source for many purposes, it is inappropriate for the task of analyzing the impact of living wage laws. Given that in some communities the living wage law only impacts a few hundred workers, it is unlikely that any affected workers are surveyed by the CPS at all in some communities. Even in Los Angeles, with one of the broadest of living

wage ordinances, Brenner, Wicks-Lim, and Pollin estimate that one year of CPS data would likely include about eight affected workers[20] (Brenner, Wicks-Lim, and Pollin 2002, 13). In addition, the CPS does not contain data on the workers' employer, making it impossible to positively identify those eight workers if they do appear in the survey. Using the CPS to analyze the economic effects of living wage laws makes finding a needle in a haystack look like a relatively simple chore, which is why most researchers have eschewed it for the more costly and time-intensive process of administering new surveys targeted specifically to be able to calculate the impacts of living wages. These surveys reflect the experiences of firms and workers actually impacted by living wage ordinances, while the CPS data at best allow Neumark and Adams to analyze a broad swath of the more general, low-wage workforce.

Neumark and Adams report that their findings are driven by laws that extend the living wage requirement to firms who are recipients of business assistance (such as tax breaks). They report that laws that only cover employees working on municipal contracts (the majority of policies) do not have significant impacts on wages or employment. The finding that laws covering business assistance drive the results casts doubt on the studies because most observers believe the business assistance extensions to be weakly implemented or even redundant. Brenner et al. have argued that a large share of the cities with business assistance provisions had not actually implemented this part of the law during the time studied by Neumark and Adams; while these provisions exists on paper, firms have not actually been required to raise wages because of them.[21] Economic development expert Timothy Bartik considers the effects identified by Neumark and Adams unrealistic since, "large economic development subsidies typically only go to new and expanding manufacturing companies...[which]...are a small share of the labor market and pay high enough wages that few workers would be affected by living wages" (Bartik 2004, 290). Bartik's assessment is supported by Elmore's survey, which found that "many business subsidy programs already emphasized attracting high-wage jobs, so living wage laws effectively formalized and reinforced existing practices" (Elmore 2003, 2).

In order to rule out the possibility that their findings were spurious, Neumark and Adams calculated the wage and employment effects for two groups of workers they call "covered" and "non-covered" workers. Since living wage beneficiaries cannot be identified directly in the CPS, they used a classification scheme that ends up including unreasonably large portions of the workforce—over 85% of the lowest-paid one-fourth of workers in cities with living wage ordinances are classified as "covered" (Neumark 2002, 60). Referring to the Los Angeles example, Fairris estimates that fewer than 10,000 workers benefited from the living wage ordinance, but Neumark's and Adams' classification scheme proceeds as if approximately 450,000 workers received a raise under the ordinance![22]

The size of the poverty reduction effects reported by Neumark and Adams are also simply too large given that living wage ordinances affect relatively few workers (Bartik 2004, 290). Similarly, the disemployment effect reported by Neumark and Adams is unrealistic, equivalent to 91% of the total number of workers most other researchers have estimated to be affected (Fairris and Reich 2005, 10).

Brenner et al. found that Neumark's and Adams' key findings are extremely sensitive to the inclusion of workers from Los Angeles earning less that the state minimum wage.[23] Since most firms affected by the Los Angeles ordinance are also covered by the state's minimum wage and can generally

be expected to be in compliance with it, it is doubtful that workers not covered by the minimum wage would be "potentially covered" by the living wage law.[24]

Because of these factors, it is unlikely that the differences in wages, employment, and poverty between the two groups of cities (living wage and non-living wage) are due to living wage ordinances. As Richard Freeman notes, "any of a host of uncontrolled factors that change the economy in an area exclusive of a living wage ordinance could explain the empirical patterns [observed by Neumark and Adams]" (Freeman 2005, 24).

All told, Neumark's and Adams' results are simply not believable. Their econometric analysis shows that, on average, metropolitan areas with "business assistance" provisions tended to have more negative employment outcomes and more positive wage outcomes than other cities during the time studies. For all of the reasons discussed above, however, there is little reason to believe that these results are capturing the effects of living wage ordinances. The effects measured by Neumark and Adams are too large to be reasonable, the data source they use is inadequate to capture what they are hoping to measure, and there are too many other possible factors that could be driving their findings.

In summary, the best empirical research has shown that the adoption of higher wage floors has not resulted in measurable employment loss.. Yet many prospective studies predict the opposite. While some predictions of job losses resulting from living wage ordinances have been based on perfectly defensible, if not empirically supported reasoning, others are simply re-treads from different debates that are not actually relevant to living wage ordinances. One such argument is that firms will relocate to avoid having to pay a living wage. This is a standard (and generally unproven) argument in the debate over minimum wage laws, but it is not relevant to living wage ordinances. Living wage policies, particularly the predominant contractor-only variety, are typically not place-based policies. A service contractor can elect to not submit bids for future contracts should they not wish to abide by the living wage mandate. As long as they continue to contract, however, they will be covered by the law regardless of whether they relocate or not. For the few living wage ordinances that are place-based (in that they apply to firms leasing public facilities), it is either not feasible to relocate (airlines) or the geographic region of application is so narrow that firm relocation would not necessarily imply job loss for a city even if such relocation made sense (airport concessionaires or firms leasing other types of public facilities.) In any event, estimates provided by Pollin suggest that the costs imposed on firms from living wage ordinances are too low to justify relocation as a feasible response even if it were possible to dodge the living wage ordinance requirements by doing so (Pollin 2005). In Los Angeles, 81% of firms that were forced to raise wages did not cut any jobs, in large part because "either the number of workers affected was small or the size of the required raises was minimal" (Fairris et al. 2005, 95).

The absence of predicted job losses is due in part to the small impact of living wage policy on employers, and also that some of the costs faced by employers have been offset by increased spending by municipal governments. Although such cost increases are much lower than frequently predicted, as discussed in the previous section, they have occurred to some degree and have softened the blow to contractors accordingly.

In addition, there are details of specific living wage ordinances (as opposed to the general principle behind wage floors) that might limit job losses. In their study of the Baltimore living wage ordinance, Niedt identifies that the specific nature of the major school bus contracts makes it almost impossible to reduce either worker hours or employment levels. As Niedt explains, "the bus routes have not changed and cannot be drastically sped up, nor can an aide work on more than one bus at a time" (Niedt 1999, 19). Also concerning Baltimore, the Preamble study notes that some of the large janitorial contracts have mandatory staffing levels that the firms cannot alter even if they want to (Preamble 1998, 12). In Los Angeles, the LAANE study shows that contractually determined staffing levels also prevented job losses at parking firms as well as airline service contractors (Fairris et al. 2005, 95).

Other studies have identified that living wage ordinances in some municipalities apply to large numbers of nonprofit/human services organizations. Although nonprofits are exempted altogether in some living wage ordinances and almost entirely in others, they are covered in some cities. Because of their nonprofit status and strict limits on uses of some funding sources, nonprofits may respond differently to living wage ordinances than for-profit enterprises. As Brenner notes in his study of the Boston ordinance, nonprofits may go to greater lengths to avoid layoffs in the face of labor cost increases from a mandated wage increase (Brenner and Luce 2005).

### *Implementation and enforcement*

The only way for workers to benefit from living wage laws is if they are covered by laws that are implemented and enforced. If few workers are covered and/or policies are not actually implemented or enforced, there is little reason to think that workers will gain.

Regarding implementation and enforcement, there have been problems for living wage ordinances from the very beginning. Even after adopting the first living wage ordinance in Baltimore, it took many months, rallies, public hearings, complaints, and fines before some firms started to obey the law. As Stephanie Luce has documented, major post-passage struggles have been required in several cities before the law was implemented. Based on extensive interviews with city administrators, living wage advocates, and review of newspaper reporting on living wage laws, Luce considers more than half of all living wage ordinances to have been only "narrowly" implemented[25] (Luce 2005, 45). As she explains:

> In some places, implementation seems to simply fall through the cracks: there is no single person in charge and no one who knows much about the ordinance. There are other cities in which the staff is incompetent, ineffective, or personally opposed to the ordinances. There are also cities where the administration is outwardly opposed to the ordinance and works to stall implementation, water down, or repeal the laws. Finally, some city councilors and/or administrators continue to publicly support living wage ordinances but make it easy for employers to receive waivers or exemptions from coverage. (Luce 2005, 46)

In their study of the Los Angeles living wage ordinance, Sander and Lokey found that enforcement, compliance, and discipline were all problems. Firms did not submit required paperwork, site visits

were not performed, and no action was taken against contractors violating the policy. In their 18-month review of the ordinance, Sander and Lokey considered the discipline process to be "toothless," and one of several implementation problems limiting the effect of the ordinance (Sander and Lokey 1998, 4). Sander and Lokey did indicate, however, that by late 1998 most implementation issues were improving. More recent work by LAANE indicates that, as of 2001-02, virtually all firms surveyed were in compliance with the wage requirements, but there may be problems with compliance with other provisions.

Finally, some living wage ordinances, even if they are implemented and enforced, have such narrow coverage that they raise the wages of few workers. This is a general problem with living wage ordinances around the country. Living wage ordinances end up being narrow in scope because some sectors are excluded from coverage (nonprofits, for example). Small contracts are also usually exempted from coverage, with small being defined as anywhere from under $10,000 to under $100,000. Also, small contractors, only partly related to the size of the contract, are sometimes exempted, based on number of employees or firm revenues.

Some cities also exempt contractors based on the source of their funding. In the first year of the Los Angeles ordinance, 59% of potentially covered contracts were granted exemptions, many because the contract was funded with federal resources, which the city was allocating or "passing through" (Sander and Lokey 1998, 2). Some ordinances apply only to those employees directly working on the contract, while others set a threshold, applying only to workers putting in more than a certain portion of their work time on the contract. In some ordinances, there are provisions to exempt contractors that are identified as facing extraordinary hardship under the ordinance. The combined effect of all of these exclusions and exemptions—particularly since the total employment of service contractors is small to begin with—means that in many cases very few workers are actually covered by the living wage.

In his review of living wage ordinances, Freeman notes "living wage campaigns pay a price for targeting small groups of workers in particular localities. The price is that the ordinances and policies affect only those relatively few workers. Most ordinances and policies cover at most a few hundred workers" (Freeman 2005).

These small numbers reflect what Jared Bernstein describes as the "paradox" of the living wage movement—activists succeed in passing ordinances, in part, by agreeing to narrow the focus and lower the cost of the ordinances (Bernstein 2005, 100). Ordinances are narrowed when exemptions are granted for particular types or sizes of contracts, broad classes of industries, and certain types of workers.[26]

## Effects of living wage ordinances on firms

### *Productivity and turnover*

One potential benefit of living wage ordinances (which is also one explanation for the minor impact on municipal budgets and employment levels) is that higher wage floors lead to decreased turnover and greater work effort among the affected workforce, as well as spur firms to seek out and adopt other means of boosting productivity. These responses could offset at least some of the increased labor costs experienced by employers. Most of the available research on living wages suggests that these types of responses are occurring.

Increased productivity resulting from wage increases has been recognized for decades, particularly in the economics literature on "efficiency wages" and debates over the minimum wage. With higher wages, workers may feel greater satisfaction with their job and may decide to put in greater work effort.[27] Increased effort could also result from fear of losing the job; now that the job is more desirable than available alternatives the "cost of job loss" is greater. A related byproduct is that workers may be less likely to leave their jobs, thus lowering the rate of employee turnover and reducing costs of recruiting and training new workers. All of these mechanisms suggest ways that increased labor costs for firms are offset.

The research on the living wage has provided new opportunities to test for evidence of these effects. The earliest living wage studies relied on qualitative interviews, and presented evidence to suggest that employees were working harder with the new wage floor and turnover had declined. In their survey of affected workers, Niedt found that most reported an improved attitude toward their job, including a greater sense of worth of the job and an intention to stay on the job longer (Niedt 1999, 2). Similarly, in their interviews with effected contractors, researchers at Preamble found evidence suggesting improved attitudes toward work as well as reduced turnover (Preamble 1996, 13). The Preamble study quotes one manager as saying "workers seem happy ]and] they come to work on time because they know that at $6.10 [in 1995] per hour, somebody else wants the job if they don't." Further anecdotal evidence of decreased turnover following living wage ordinances is reported in Elmore's survey of cities. Sander and Lokey's interviews with contractors following implementation of the living wage ordinance in Los Angeles also yielded evidence that some firms had responded to increased labor costs by becoming more productive.

At SFO, Reich found evidence that the living wage led to increased productivity, reduced turnover, and shorter airport lines. There were 1,550 fewer turnovers per year at SFO following implementation of the QSP (Reich 2003, 55). Security screeners, who had a notoriously high turnover rate of 94.7% before the living wage, had just an 18.7% turnover rate after the living wage, where the average wage of security screeners went from $6.45 an hour to $10.00 an hour. Annual turnover among firms experiencing "high impacts" from the QSP fell from 49% to 20%, while turnover at "low impact" firms fell from 17% to 14% (Reich 2003, 52).[28]

In addition, employers reported a range of other positive outcomes following the implementation of the QSP: 35% reported improvement in work performance, 47% reported better employee morale, 44% reported fewer disciplinary issues, and 45% reported improved customer service.[29]

David Fairris' study of Los Angeles found that employers in that city also reaped some benefits from the living wage. While employee turnover decreased for the entire sample of firms, it appears that firms affected by the living wage experienced larger decreases than firms that were not affected. Differences in the questionnaires for the two types of firms complicate the analysis, but Fairris reported significantly lower levels of turnover at affected firms. Controlling for other factors, Fairris showed one-third less turnover among low-wage workers in firms affected by the living wage ordinance (Fairris 2005, 101). This conclusion holds when looking at the entire firm and focusing exclusively on turnover among the lowest-paid workers. Based on his regression analysis, Fairris concludes, "The lower turnover rate

for prominent low-wage occupations in living wage establishments is entirely accounted for by the higher wage that prevails there." Additionally, absenteeism declined more at low-wage firms affected by the ordinance than at low-wage firms not impacted by the ordinance. The detailed interviews with firms affected by Los Angeles's living wage ordinance buttress the statistical results. The LAANE study quotes one employer as stating, "Higher wages mean less turnover" (Fairria et al. 2005).

One in-depth analysis of living wage ordinances' impact on turnover was conducted by Candace Howes, an economist at Connecticut College. Howes studied the impact of a series of living wage policies, which nearly doubled the hourly wages of homecare workers in San Francisco, and provided them with health insurance. Using a unique database linking payroll records with case management files, Howes found that homecare worker turnover fell by 57% following the implementation of the living wage policies[30] (Howes 2005, 140). The likelihood that a new worker would stay at least one year on the job rose by 89%, after controlling for the effects of general economic growth.

Most studies looking at the topic of turnover, absenteeism, and employee work effort have found some evidence supporting the beneficial impacts of living wages. One study reporting mixed findings is Brenner's analysis of Boston. Although one quarter of firms reported greater employee work effort and one quarter similarly reported improved morale, there was no evidence that higher wages produced lower turnover or less absenteeism (Brenner 2005, 73-77).

While the existence of the "efficiency wage" effect seems to be well documented in the living wage literature, it is less clear how much of the increase in labor costs is offset through greater productivity and decreased turnover. The cost-savings associated with increased productivity generally are extremely difficult to calculate, and no living wage research to-date has attempted to measure them. Several studies have attempted, however, to measure the cost-savings associated with decreased turnover. These estimates are influenced by the degree of reduction induced by living wage ordinances and the cost of employee turnover at the affected firms. In his research on Los Angeles, Fairris estimates that lower turnover offset 4% of the added labor costs from the living wage ordinance[31] (Fairris 2005, 102).

In their follow-up study, Fairris and his colleagues at LAANE suggest that the original estimate of the cost offset from reduced turnover is likely a lower-bound because the cost of turnover is underestimated. After taking into account other research on the cost of turnover in low-wage industries, LAANE considers 16% to be a more reasonable estimate of living wage costs that are offset by decreased turnover[32] (Fairris et al. 2005, 109).

Reich addresses some of the difficulties associated with measuring turnover costs by combining survey information of affected firms with industry and academic research regarding turnover costs among low-wage workers. Published estimates from human resource practitioners and trade associations indicate that the average per-worker turnover costs (including lost productivity) for employees earning $8 per hour range from $3,500 to $8,000 depending on the industry (Reich 2003, 56). Academic research on turnover costs in the hotel industry shows that average turnover costs range from $1,300 to $7,700 depending on the position and the region of the country.

Reich's best estimate of the savings from turnover reduction in San Francisco was $6.6 million a year, offsetting one-tenth of the originally estimated cost of the QSP (Reich 2003, 58). These narrow

cost savings, however, radically underestimate the potential benefits resulting from more reliable airport security. The costs of poorly implemented airport security can be truly devastating, and indeed impossible to calculate.

There is some debate over the causes of productivity gains due to living wage ordinances, and whether those gains should be interpreted as a benefit for low-wage workers—the intended beneficiaries of living wage ordinances. Some opponents of living wages argue that firms will simply substitute away from low-skilled employees to employees with higher skills if forced to pay a higher wage. The alternative is that productivity gains will result from current employees working harder or receiving more training and being equipped with more productive tools and equipment.

Some studies have attempted to isolate the direct causes of increased productivity. Are low-skilled workers being replaced with higher-skilled workers, or are workers working harder, getting better trained, and using more productive technology? Is turnover falling because workers are feeling more respected and the job is worth keeping? Or is it that less-reliable workers are being replaced by more-reliable workers hired at the new wage?

Brenner's study of the Boston living wage reported that no affected firms changed their hiring standards following implementation (Brenner 2005, 79). The improved morale and increased work effort identified by affected firms is not attributable to former low-wage workers being replaced with higher-skilled substitutes, but to the current employees' response to higher wages.

At SFO, Reich concluded that while some firms raised their hiring standards as a result of being forced to pay higher wages, more firms increased training for current and new employees. Eight percent of firms reported raising the bar for hiring new employees, which in part explains a slight shift away from workers with less than a high school degree (Reich 2003, 69). However, since the QSP made completion of a high school degree a condition for being hired in certain positions, this change rather than the wage floor itself is directly responsible for the shift away from high school dropouts.

Rather than substitute their workforce with higher-skilled workers, more firms raised the level of training provided; this occurred among 20% of employers at SFO. Overall, the evidence from SFO suggests that substitution away from affected workers was minimal, and it was outweighed by improved job satisfaction and work effort among those workers. One telling fact is that 45% of the firms reported decreased employee grievances following the implementation of the QSP (Reich 2003, 60). These indicators, as well as sentiments expressed by workers at the airport, support Reich's conclusion that worker effort, rather than displacement, has driven increased productivity and decreased turnover. One union organizer volunteered that people "don't want to lose their jobs. The mentality is different now. Before people didn't care, [they could] always find another $6 job" (Reich et al. 2003).

The LAANE study approached this question by comparing those employees hired before the ordinance was implemented and those hired after. Despite some minor differences, LAANE's overall conclusion is that "the worst case scenario—the displacement of the workers who are the intended beneficiaries of the living wage—has not occurred. The majority of firms have not changed their hiring standards and reported seeing no changes in the composition of their workforce. A comparison of workers hired before and after the living wage reveals that new hires are no different in terms of age at

hiring, years of schooling, whether they are native English speakers, and whether they are currently attending school. The proportion of Latinos has actually increased..." (Fairris et al. 2005, 115-6). There was some evidence that new hires were slightly more likely to be male and have received formal training before being hired, with a few workers having previously earned considerably higher wages than the pre-living wage workers at affected firms.

These studies suggest that increases in productivity at firms subject to a living wage ordinance are not the result of wholesale replacement of the workforce, but something else. Some of these firms may be able to attract better qualified workers at the living wage than before, but the current workforce is experiencing less turnover, less absenteeism, and likely greater work effort that is increasing productivity enough to offset some of the higher costs associated with the living wage ordinance.

### *Profits and wage scales*

One possible response to an increased wage floor is that profits will decline or that wage growth for higher-paid employees will be restrained. These possibilities have received less attention in the research literature than other possible employer responses to living wage ordinances. As suggested by Brenner, this area should be more thoroughly addressed by future research on living wage laws.

The possibility that firms would lower their profit margins as a response to living wage ordinances was suggested in the very first assessment of living wage ordinances. Researchers from Preamble considered this a distinct possibility given the absence of evidence of job loss along with contractors adhering to the competitive behavior of under-bidding the previous year's contract, despite added labor costs from the ordinance.

The first research to directly assess this possibility was Brenner's analysis of the Boston living wage ordinance. Brenner found that while few service contractors reduced employment or reported less turnover, nearly 40% indicated that they had reduced profits as a response to the ordinance (Brenner 2005, 78). If credible, this information suggests that firms might reduce profits to absorb added labor costs from a living wage ordinance. Straightforward interpretation of this evidence, however, is complicated by the fact that a large majority of firms affected by the Boston ordinance are nonprofits.

Another way firms could reallocate revenue is by directing money that would otherwise have gone to higher-paid workers to the lowest-paid workers. Although living wage ordinances have compressed the wage scales of some firms, there is no evidence of decreased wages among higher-paid workers in analyses of the SFO and Boston living wage ordinances. In Boston, the share of city service contract workers earning less than $9.75 per hour declined dramatically and significantly, but the share of workers earning more than $11.75 did not fall (Brenner 2005, 73). At SFO, the evidence shows dramatic declines in the share of workers earning less than $8 per hour or less than $10 per hour, but not higher up the wage distribution (Reich 2003, 45). In fact, the share of workers earning more than $14 per hour at SFO more than doubled between 1999 and 2001.[33]

While there is no evidence of wages of higher-paid workers being constrained, it does appear that living wages compress wage scales within the firm. In the survey of nonprofits in the Detroit area, several firms voiced concerns about the newly increased wages of the lowest-paid now being "too close" to the

wages of more experienced or highly educated workers, making it difficult to maintain internal pay differentials that depend on very low wages at the bottom.

Concerns about maintaining wage scales may lead employers to raise the wages of workers earning slightly above the new mandated wage. This "spillover" effect has been long discussed in research on the minimum wage and is the result of voluntary action by firms seeking to maintain pre-existing wage structures. Firms that formally or informally peg wages of certain positions to the minimum wage have to raise those wages as well if they want to maintain the pre-existing wage differential. There are similar pressures on firms that provide wage increases to maintain differentials based on employee tenure. Since coverage of the minimum wage is universal, the kind of spillover raises discussed is usually this "vertical wage push" type, where workers earning above the new wage also get a raise. Coverage of living wage laws is far from universal and does not necessarily apply uniformly across firms, industries, or occupations. In fact, it is possible for a firm to have some employees in a particular occupation covered by the ordinance (those working on the municipal contract), and others in the same occupation that are not covered. These gaps give rise to the possibility of "horizontal wage push," where firms give raises to worker in order to maintain wage parity between workers that are affected and those that are not affected.

Early discussions of spillover effects in the living wage debate were primarily speculative, based primarily on educated guesswork and application of rules-of-thumb gleaned from the limited work on this issue in the minimum wage literature. Some of the recent living wage research, however, has directly addressed this issue, providing detailed information on the size of the spillover effect.

In their research on living wages at the San Francisco International airport, Reich et al. have documented a considerable degree of spillover. Of the nearly 8,000 workers getting a raise because of the QSP, one-third (2,550 workers) received spillover raises (Reich 2005, 119). There were nearly half as many spillover raises as mandatory raises resulting from the policy. Workers receiving mandated wage increases got a 33% raise, on average, while spillover raises averaged 10%.

The LAANE study showed that 7,700 workers in Los Angeles received mandated wage increases under the ordinance, and that 1,850 received "non-mandatory indirect raises" (Fairris et al. 2005, 19). The number of workers benefiting from spillover increases is substantial, accounting for one-fifth of all workers benefiting from the ordinance, and is one-fourth the size of the group getting mandatory raises. On average, spillover raises were half the size of mandated wage increases. From its survey of firms, LAANE found that, on average, raises were granted to workers earning up to 12% higher than the living wage (Fairris et al. 2005, 45).

## Lessons for policy makers and researchers

To date, most living wage research on which policy makers have had to rely has been prospective—they are written before the law has been implemented. With the increasing availability of quality studies and data on the actual (as opposed to projected) effects of living wages, future prospective studies should be less speculative and instead be based on the findings of the highest quality empirical studies.

Prospective studies have typically been created to inform and influence policy decisions, and have varied widely in their methodology, predictions, and accuracy. While a comprehensive review of prospective research is not within the scope of this paper, following are two predictions that prospective studies have commonly made, but have not been borne out.

### *Prediction one: significant costs to the municipality*

Given sufficient information on the relevant contracts and workforce, it is possible to calculate reasonable estimates of the gross costs of mandated increases in wage and benefits from a living wage policy. It is more difficult, however, to determine who will ultimately pay for these cost increases. Prospective studies frequently focus on how much a living wage would cost the municipal government.

Lacking a significant body of research until recently, prospective studies have tended to base their predictions of how much of the cost pass-through would be passed onto local governments in the form of higher contract prices on educated speculation, sometimes justified with references to economic theory.[34]

Some studies make the extreme assumption that local governments will absorb all of the cost increases from a living wage. Other studies, however, assume that governments will only absorb a portion of the cost increase, acknowledging that some of the costs will be offset through decreased turnover and increased productivity and that since costs from the living wage represent a very small portion of their overall cost of doing business, firms in a competitive bidding environment may ultimately pass little of the cost increase onto the municipal government.

Evidence from the retrospective studies suggests that this latter approach is probably the most realistic. In his review of the economic impacts of living wages, Brenner shows that studies predicting modest cost increases yielded estimates compatible with the effects measured by many retrospective studies (Brenner 2004, 38). Prospective studies produced by living wage opponents (e.g., Tolley 1999) have predicted massive costs that have not been reflected by the actual experience of cities. In many cases, studies have ignored factors that offset the costs, such as those described above.

Even cities budgeting for a new living wage policy have systematically overestimated the ultimate cost of the policy. Elmore's survey of cities that have enacted living wage laws shows that all of the cities that created budget forecasts significantly overestimated the actual costs of implementation. Actual costs ended up being between 30%-52% lower than what was forecast by the municipal government (Elmore 2003, 8).

To most accurately reflect the likely cost of the policy, prospective studies need to acknowledge, at bare minimum, that municipal governments will not bear all of the cost of a living wage, and most likely will experience only relatively small budget impacts.

### *Prediction two: significant employment losses*

The economic impact of greatest interest for most prospective studies, and policy makers as well, is jobs. Most prospective studies have discussed potential impacts on employment and some have provided estimates of job loss. Typically these studies have relied on the minimum wage literature, both the theory and the empirical research, to infer the impacts of living wages on employment.

Some anti-living wage studies cite minimum wage research to support their claims of major job losses, but as esteemed labor economist Richard Freeman has concluded, the minimum wage "debate is over whether modest minimum wage increases have 'no' employment effect, modest positive effects, or small negative effects. It is not about whether or not there are large negative effects" (Freeman 1995, 833). This emerging consensus on the employment impacts of the minimum wage, however, is of limited use in the discussion of living wages because the living wage is set so much higher—anywhere between 50%–250% higher—than the federal minimum wage, with some living wage policies also requiring health insurance and other fringe benefits.

In addition, because the coverage of the two laws is so different, it is not clear they will have the same impacts on employment; while minimum wage laws cover most or essentially all firms in a geographic region, living wage ordinances cover the relatively few firms with direct voluntary financial relationships with municipal governments, and even then provide significant exemptions based on firm size and industry, as well as employee type. Given these differences of coverage and level of benefit, findings from the minimum wage literature cannot accurately translate to a living wage policy.

## Conclusion

As in the debate over minimum wages, the question of the impacts of living wages on employment is ultimately answerable empirically. Thus far, the most reliable research on living wages suggests that the impact is modest. In the largest cities with the broadest-based living wage policies, there has been little measured employment loss. Given these results, prospective studies would do best to acknowledge that offsetting factors and modest costs for employers result in only limited job losses from a living wage policy. Ignoring the importance of offsetting factors will result in extreme overestimates of costs and job losses under a living wage policy.

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## Endnotes

1. The Employment Policies Institute (EmPI) is an operation housed at the lobbying firm Berman and Company and works with low-wage employers to oppose minimum wages and living wages.

2. At best, EmPI refutes Preamble's finding that contract costs decreased during the period. However, EmPI inaccurately portrays the Preamble findings as a claim that the living wage ordinance actually caused contract costs to increase, despite the fact that Preamble states clearly in their study, "We cannot, of course, conclude that the living wage ordinance actually contributed to lowering the cost of the average contract."

3. Preamble appears to have been given incorrect information by the city and it is likely the contract was not covered. Nevertheless, the Preamble response shows that the exclusion of the contract does not change their key finding.

4. Separate interviews of Cleveland officials (not included in Elmore's study) conducted by researcher Dana Williams also found that contract costs had not increased.

5. They also found that contracts already paying above the living wage experienced a decrease in the number of bids.

6. An estimated 2,550 workers who were already earning at or above the living wage level received indirect, or "spillover" raises.

7. The Los Angeles living wage policy also covers Los Angeles International and Ontario (Calif.) International airports, which account for 60% of the affected jobs.

8. These points were made by Reich in an earlier draft of the study, published as a UC Berkeley working paper.

9. The LAANE study used "needs-based" budgets developed by the California Budget Project and the National Economic Development and Law Center.

10. Although the survey was not based on a random sample, Brenner and Luce employed a variety of alternative sampling techniques to ensure that the surveyed workers are representative of the population of affected workers. See Brenner and Luce 2005, Appendix 6 for details.

11. Brenner and Luce 2005, tables 4.4 and 4.6.

12. Among the 76 "covered" workers with reliable before and after wage information, 32 earned below the living wage in 1998 and are considered "affected" workers.

13. Here "affected workers" are those in low-wage occupations who had been on the job between one and five years. The age of workers is their age when they started the job.

14. There was, however, a significant difference in reliance on part-time workers, with the share of part-time workers dropping considerably among affected firms.

15. The estimate of 1,000 workers getting a raise includes employees directly covered by the law, and the ripple effect on non-covered employees.

16. An estimated 1,850 workers who were already earning at or above the living wage level received indirect, or "spillover" raises. In his initial study, Fairris estimated 6,500 affected workers, but the figure was revised in later work he completed with LAANE.

17. An earlier version (Fairris 2005) reported larger, but still small, employment effects. The final version uses the same dataset, but with improved methodology.

18. Reich et al. demonstrate that this decline in airport traffic, which was also experienced by airports around the world, was due to a general decline in economic activity, and then to the events of September 11, 2001. Other Bay area airports fared better with airport traffic than SFO in 2001, primarily due to the relocation of Southwest Airlines to the Oakland airport, which left SFO after failing to secure additional terminal facilities (Reich 2005, 131-32).

19. Most of the studies also include other wage ranges as well and include the bottom quarter of workers, but the most consistent findings are for the lowest-wage 10% of workers. Also, the studies include specifications for contemporaneous effects, as well as six- and 12-month lagged effects. The 12-month lagged effects are generally the most robust findings.

20. The Brenner, Wicks-Lim, and Polling figures are based on an assumption of 7,600 affected workers that was developed before the release of either the Fairris or LAANE studies.

21. There is disagreement between Neumark and Adams and their critics as to whether only one city in Neumark's 2002 study (as maintained by Brenner et al. 2002) had implemented the business assistance living wage provisions, or if the number is considerably larger. Whatever the exact number, it is certain that the actual impact of business assistance living wage ordinances is considerably less than an impression gained solely by looking at which cities had adopted these provisions in their city code. Neumark and Adams conduct interviews with municipal government administrators responsible for implementing the business assistance provisions of the living wage ordinance and reach a different conclusion than Brenner et al., finding that many cities are in fact implementing the provisions to some extent (Neumark and Adams 2005c, 19-20). As Bernstein points out, however, there is still a gap between what Neumark and Adams identify as "implemented" and what Brenner et al are implying in their critique: actually having to raise wages.

22. Brenner, Wicks-Lim, and Pollin indicate that Neumark's scheme covers 97% of workers, while Neumark (2002) identifies 90% of the bottom quartile of workers as being "covered."

23. Brenner et al. (2002) also make a technical point that by truncating his sample to focus on the lowest wage 10% of workers that Neumark could be introducing "sample selection bias." Instead, they argue that "quantile regression," focusing on the 10th percentile of the entire wage distribution is appropriate. Neumark and Adams respond that their truncation approach is necessary to capture the impacts of the living wage, and that, in fact, is unlikely to introduce sample selection bias. Neumark's and Adams' argument on this point is probably correct, but is not relevant to the main part of the critique levied by Brenner et al.

24. Neumark and Adams claim not to understand this critique by Brenner et al, and do present a defense of their position. They do not, however, refute the Brenner et al. critique.

25. For an additional 10% of adopted ordinances, implementation has been blocked either by courts or elected officials, or was overturned by voters.

26. Nationwide there were potentially 100,000 workers that had received wage increases under living wage ordinances as of 2002, although dozens more successful campaigns since that time have likely increased that number by tens of thousands (Tanner 2002, 769).

27. See, for example, Greenwald and Stiglitz 1988 and Akerlof and Yellen 1990.

28. "High impact" refers to firms where the direct increase in wage costs under the Quality Standards Program is 10% or higher.

29. The percentages of employers reporting that these areas actually suffered were in the single digits.

30. The period under study was from November 1997 to February 2002. The policy change studied by Howes was not just limited to a living wage ordinance, but also was accompanied by union organizing.

31. The 4% offset is based on sizeable reductions in turnover among affected firms, but quite low turnover costs. Fairris reports that the average reported cost of turnover was just $807 per worker. These turnover cost are considerably smaller than most other available estimates, and are actually based on his control group survey of firms not affected by the living wage law.

32. In Pollin's survey of hotels, retail establishments, and restaurants in Santa Monica, firms reported average non-managerial turnover costs of $2,090. Similarly, in Brenner's survey of Boston firms, it was reported that the average per-employee cost of turnover was $9,297 and the median cost was $2,500. The differences between these estimates could be influenced by the different mix of industries affected by different living wage laws (landscaping in Los Angeles versus human services in Boston) or by the possibility that mail and telephone surveys are an inadequate means by which to gather data on the cost of employee turnover. It could also be the case that the surveyed firms do not actually know the true costs of employee turnover.

33. Nominal figures not adjusted for inflation.

34. The competitiveness of the market and the price elasticity of demand for the products in question influence the ability of producers (in this case, service contractors) to pass cost increases on to their consumers (in this case municipal governments). The degree of price increases passed onto taxpayers involves a further set of assumptions regarding the responses of local governments. Some combination of higher taxes, reduced services, or greater efficiencies determine the size of any potential tax increase—essentially a parallel set of assumptions to those behind the extent of the increased costs passed onto the local government in the first place.

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Economic Justice Project
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# Living Wage Laws & Communities:

## Smarter Economic Development, Lower Than Expected Costs

Andrew J. Elmore

BRENNAN CENTER FOR JUSTICE
AT NYU SCHOOL OF LAW

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# Introduction

In one of the most pronounced local policy trends in recent years, scores of cities and counties across the United States—more than one hundred as of July 2003—have adopted local "living wage" laws. Under these laws, employers receiving city contracts or city business subsidies must pay full-time workers a wage sufficient to support themselves and their families at a subsistence level.

The policy goals driving these initiatives—that hard work should be rewarded with adequate pay and benefits, and that taxpayer dollars should not support jobs that leave workers and families in poverty—have found broad support among local lawmakers and the public.

# Questions Asked

In assessing the value of living wage laws as policy tools, it is important to understand their costs and benefits for communities. Especially in a time of budget deficits and job losses, local policymakers have had two key questions about these laws:

- Will they increase the costs of city contracts?
- Will they limit the ability of cities to use business subsidies to increase the number of good jobs in their communities?

To answer these questions, we asked local government officials in communities with living wage laws to examine the impact of these laws after they were implemented. We have collected their findings in this report. Significantly, local government officials found:

- Only small increases in city contract costs as a percentage of city budgets—and less than initially expected.
- No significant adverse effects on city business subsidy programs—and in some cases such programs were actually strengthened.

By collecting the actual findings of government officials in communities that have implemented living wage laws, this report provides detailed information that may be valuable to other communities considering whether to enact similar laws.

**Jobs Covered by Living Wage Laws**

The living wage laws analyzed in this report apply to jobs generated under two types of city programs:

**City Contracts**

Cities (and other local governments) employ private contractors to provide a range of services for the government and the public. Living wage laws require firms that perform city service contracts to pay their workers a "living wage"—generally set between $8 and $12 per hour—and to provide health benefits.

**City Business Subsidies**

In order to attract or retain jobs in their communities, some cities offer taxpayer-funded business subsidies—usually in the form of grants, tax abatements or below-market bonds or loans—to employers that pledge to open or retain facilities in the community. Living wage laws require employers receiving city business subsidies to pay their workers a living wage and to provide health benefits.

# Key Findings

**For city contracts, local officials reported that cost increases have been small and less than initially expected.**

- For most cities, contract costs increased by less than 0.1% of the overall local budget in the years after a living wage law was adopted. See Table 1 on page 6.
- Generally, in each city a few contracts involving large numbers of low-wage workers—for example, contracts for janitorial or security guard services—increased substantially in price. For these few contracts, the contracting businesses submitted higher bids, or negotiated for higher prices, to perform the city work once the living wage requirement took effect.
- But the officials interviewed found that most contracts increased little, if any, in cost. In many cases, contracting employers were reported to have absorbed much or all of the additional labor costs without demanding increased funds from the cities.
- Living wage requirements encouraged some local governments to institute competitive bidding for contracts that had not been put out for bid in many years, reportedly yielding savings for the cities.
- In localities that extended living wage requirements to contracts for human services such as home healthcare or child care, cost increases were slightly larger—ranging from 0.3% to 2.79% of local human services budgets—although still quite moderate overall. See Table 2 on page 7.
- These increased costs reflect both the high concentrations of low wages among city-contracted caregivers, and the fact that cities have sometimes agreed to automatically pay for some or all of the increased wage costs for such contracts because of the vital nature of human services and the budgetary constraints faced by the non-profit agencies that often provide these services.

**For city business subsidy programs, local officials reported that they could still attract desired business development, and that living wage laws often reinforced smarter economic development focused on creating higher quality jobs.**

- Local officials reported that only in a very few instances did living wage requirements that applied to business subsidy programs limit their ability to attract desirable employers to their communities. See Table 4 on page 12.
- Many business subsidy programs already emphasized attracting high-wage jobs, so living wage laws effectively formalized and reinforced existing practices.
- Some local officials reported that a living wage requirement increased public support for their business subsidy programs by assuring taxpayers that public funds would be spent to attract only high-wage jobs.
- Relatively few local officials reported using their business subsidy programs to attract jobs in low-wage sectors such as retail, since such jobs are less beneficial to local residents and the economy than higher paying jobs. The few that did use subsidies to attract retail jobs reported that they were still generally able to attract such employers, although some cities renegotiated subsidy packages or chose to exempt some businesses from the living wage requirement.

# Background: What Is a "Living Wage" Law?

Over the past decade, increasing numbers of cities and counties across the United States have adopted "living wage" laws.[1] These local laws typically require that in order to receive service contracts or business subsidies from the local government, employers must agree to pay their workers a wage higher than the current federal and state minimum wages. The "living wage" label communicates that the higher wage levels required—typically from $8.00 to $12.00 per hour—are closer to the pay that full-time workers need to support themselves and their families at a subsistence level.[2] The goal of living wage laws, according to many local governments, is to create city contracting and business subsidy programs that prioritize high-wage job creation and do not inadvertently perpetuate poverty. Frequently, living wage laws index the "living wage" at or above the federal poverty level and require employers to provide benefits, such as health care and paid leave.

Cities and counties have long relied on private contractors to provide a range of services for both the government and the public. In recent decades this practice has only increased. Work needed by local governments such as guarding and cleaning public buildings, maintaining public parks, and staffing publicly-owned facilities ranging from parking garages to convention centers is now often performed by employees of private contractors. For some local governments, especially counties, service-contracting programs may also include the purchase from non-profit agencies of human services such as childcare or home healthcare for low-income local residents.

When localities adopt living wage laws, firms that bid for and win city contracts must agree to pay their workers the wages and benefits specified. While many of the first generation of living wage laws exempted from coverage human services contracts performed by non-profit agencies, recent ordinances—especially those adopted at the county level—have increasingly included such programs in their coverage. In promoting living wages for contracted human services workers, local governments emphasize that this sector contains some of the largest concentrations of publicly subsidized low-wage workers, and that low pay in human services programs contributes to staff retention and recruitment problems that can compromise the quality of care provided.[3]

Many living wage laws also cover local business subsidy programs. Such programs are generally designed to attract or retain desirable jobs in a locality by providing taxpayer-funded subsidies—usually in the form of grants, tax abatements or below-market bonding or loans—to businesses that pledge to open or retain facilities there. Some local business subsidy programs focus chiefly on attracting individual firms to the community. Others focus on subsidizing development projects that will attract clusters of businesses or large numbers of consumers, such as sports stadiums, convention centers or large-scale commercial zones. Local governments explain that by applying living wage standards as eligibility criteria for companies seeking city business subsidies, they maximize the return on taxpayer dollars by targeting the subsidies to employers that create better paying jobs.

Living wage laws vary considerably in coverage and scope. Some laws exempt certain categories of city contractors, such as non-profit agencies. Many apply the requirements only to service contracts or business subsidy awards above a specific size, or to firms with at least a certain number of employees. Most laws require employers to pay the higher wages and benefits only during the time that employees actually perform the publicly funded work. Under some laws, the city or county may grant exemptions to individual firms that demonstrate that they cannot reasonably afford to pay their employees a living wage due to budgetary or other constraints.

# Methodology

In order to examine the effects of living wage laws on local governments, we interviewed officials and administrators from twenty cities and counties that had enacted and implemented living wage laws at the time the study was done. The information in this report was provided by local officials in twenty cities and counties—the entire group of cities and counties that, by late 2001, had both (1) a living wage law that had been in force for at least one year, and (2) the administrative capacity to produce cost impact estimates, formal internal evaluations, or other empirical assessments of the effects of their laws.[4] In many cases, localities had conducted the necessary analysis to report on the effects of their living wage in just one of the two focus areas—service contracts and business subsidies—but not both. Combining larger cities like San Francisco, CA and San Antonio, TX with medium-sized cities like Oakland, CA and smaller cities like Madison, WI and Warren, MI, the study reflects the experiences of a broad range of communities.

In compiling this report, we (1) conducted structured interviews with government administrators and lawmakers; and (2) analyzed studies done by the localities themselves. In all these communities, some sort of centralized authority possessed information on the local government's experience with its living wage law. In some localities, this took the form of an administrator charged with overseeing implementation. In a number of the communities, the locality had conducted a formal review of the law's impact that examined its effects on costs of city contracts or on the operation of city business subsidy programs. We focused our questioning on the living wage laws' effects on the local governments' contract costs and city business subsidy programs. In an effort to limit the possible effects of biases by lawmakers and administrators—biases either in favor of or against the living wage policy—we attempted wherever possible to draw data from several sources, including interviews with different city officials and written city reports or analyses.

While this report does not reveal every aspect of the effects of these laws, the experiences and analyses of local officials with firsthand knowledge offer important insights into the impact of living wage laws.

# Relationship to Other Research

As the first comprehensive overview of the direct experiences of a group of cities and counties with living wage laws, this report adds to our understanding of the effects of these policies.

Our findings that living wage laws have resulted in only modest cost increases for cities are consistent with most of the existing research on living wages. Studies conducted prior to the adoption of living wage laws have projected their likely cost impacts on both the payrolls of city contractors and on prices for city contracts. Most have predicted that only a portion of the higher wage costs would be passed on to cities in the form of higher contract prices.[5] As more living wage laws have been enacted, researchers have begun to use actual city contracting and budget data to assess the impact of living wage laws in individual cities after their implementation. Several studies analyzing city contract prices relatively shortly after living wage laws were adopted found that cost increases were generally modest.[6] More comprehensive recent research analyzing contract costs in three cities several years after living wages were implemented found that contract costs decreased in real terms in the aggregate, although some individual contracts increased in price, particularly those that were bid on an hourly basis and that involved large concentrations of low-wage workers.[7]

One recent study attempted to assess *indirectly* the impact of living wage laws on local economies by looking for trends in regional poverty and employment data in cities with living wage laws.[8] However, because only a tiny percentage of workers covered by living wage laws are included in those regional data sets, the study's approach and findings have been called into question by other researchers.[9]

# Findings

## City Contracts: Lower Than Expected Costs

We interviewed administrators and lawmakers from a total of fourteen cities and counties to assess the degree to which living wage laws increased the costs of city service contracts. (Six other localities from the total of twenty cities and counties studied were able to assess the impact of living wage laws on their business subsidy programs, but not on their service contracts.) One would expect that requiring higher wages would result in some increase in the cost of service contracts. However, as summarized in the following tables, the reported increases in service contract prices were consistently very small—generally ranging between 0.003% and 0.079% of the localities' budgets.

**Table 1: Increases in City Contract Costs After Passage of Living Wage Laws, 2001**

| Locality | City Budget | Contract Cost Increase | Increase as a % of City Budget |
|---|---|---|---|
| Alexandria, VA | $395,636,000 | $265,000 | 0.067% |
| Berkeley, CA | $289,546,000 | $229,000 | 0.079% |
| Cambridge, MA | $296,467,000 | $150-$200,000 | 0.067% |
| Hartford, CT | $422,667,000 | $160,000 | 0.038% |
| Hayward, CA | $135,400,000 | $9,000 | 0.006% |
| Madison, WI | $159,000,000 | $29,000 | 0.018% |
| New Haven, CT | $511,071,000 | $20,000 | 0.003% |
| Pasadena, CA | $493,596,000 | $240,000 | 0.049% |
| San Jose, CA | $645,000,000 | $40,000[10] | 0.006% |
| Warren, MI | $136,490,000 | $60,000 | 0.040% |
| Ypsilanti, MI | $13,000,000 | $6,000 | 0.044% |
| Ypsilanti Twnship, MI | $24,745,000 | $0[11] | 0.0% |

As expected, contract costs did increase modestly as a result of living wage laws:

- Cost increases for mid-sized cities—Alexandria, VA, Berkeley, CA, Cambridge, MA, Hartford, CT, New Haven, CT, Pasadena, CA, and San Jose, CA—ranged from $40,000 to $265,000.
- Smaller cities—Hayward, CA, Madison, WI, Warren, MI, and Ypsilanti, MI—reported minor cost increases of between $10,000 and $60,000.
- These service contract cost increases represent a very small proportion—in all cases less than 0.08%—of the cities' operating budgets.[12]
- This modest impact led most administrators to report that contract costs as a whole did not increase significantly after passage of a living wage law.[13]

As Madison's comptroller stated, "[from a] city-wide view, the actual fiscal impact [of the living wage law] has been negligible."[14]

However, administrators did note significant increases in costs for specific contracts in sectors involving labor-intensive work performed by large numbers of low-wage workers. In some localities, several such contracts increased substantially in cost:

- In Hartford, a contract for security services, the first contract covered by the city's living wage law, increased by $160,392 or 30.5% from the year before.[15]
- Two of the 23 contracts covered by the Alexandria, VA living wage law increased by over 20%, with an average increase of 10.6%.[16]
- Similarly, Warren, MI reported a contract price increase of $61,848 or 22% from the previous year following the re-bidding of its janitorial contract.[17]
- Compliance with Berkeley's living wage law caused that city's security contract to increase from $55,000 to $114,000, doubling in price.[18]

These significant increases are not surprising given living wage laws' focus on increasing pay for workers at the bottom of the economic scale. One would expect contracts for labor-intensive services such as security, groundskeeping, and janitorial services to increase because such contracts usually employ a large low-wage workforce.

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As Madison's comptroller stated, "[from a] city-wide view, the actual fiscal impact [of the living wage law] has been negligible."

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The living wage laws in the above cities generally did not cover contracts for social services such as home healthcare or child care, which typically involve large concentrations of low-wage workers. Human and social services contracts were not covered in many communities, either because such services tend to be provided by counties rather than cities, or because some of the earlier living wage laws exempted non-profit human services providers from coverage.

However, three of the localities studied—Berkeley, CA, Dane County, WI, and San Francisco, CA—did have substantial contracting programs in the human services area that were covered by their living wage laws. Moreover, unlike most cities, these localities were able to provide more refined data showing the increase in contract costs as a percentage of the annual human services contracting budget rather than as a percentage of the overall municipal budget. We therefore list these increases as a percentage of their human services budgets with the reminder that, as a percentage of the overall municipal budget, these costs would be substantially smaller. In all three cities, the impact on the overall city budget was still manageable. But these figures indicate that cities planning to cover human services programs under their living wage laws should prepare for modest increases in their human services budgets to accommodate the higher labor costs.

Human services contracts covered by living wage laws saw slightly larger average cost increases than did other categories of contracts:

**Table 2: Increases in Human Services Contract Costs After Passage of Living Wage Laws, 2001**

| Locality | Budget for Human Services Contracts | Cost Increase for Human Services Contracts | Increase as a % of Human Services Budget |
|---|---|---|---|
| Berkeley, CA | $6,099,000 | $170,000 | 2.79% |
| Dane Cty, WI | $112,000,000[19] | $338,000[20] | 0.3% |
| San Francisco, CA | $312,000,000[21] | $3,714,000[22] | 1.01% |

- Berkeley, CA saw costs increase in its human services budget by $170,000 to meet its living wage requirement of $9.75 an hour.
- Dane County, WI increased its human services budget by $676,000 between 2001 and 2002 in order to raise the minimum wages of approximately 645 full-time human services personnel to $8.53 an hour.[23]
- San Francisco increased its human services contracts by $3,714,000 in order meet its living wage requirement of $9.00 an hour.[24]

Although these increases were among the largest average increases reported by the localities reviewed in this study, they still represent a modest proportion of these local governments' human services budgets. The largest proportional increase occurred in Berkeley, CA, where the human services contracts totaling $6,098,578 increased by 2.79% as a result of the living wage law. In San Francisco, where the human services contract budget is $312 million, the living wage resulted in a cost increase of approximately 1%. The increase in Dane County represents a 0.3% increase in the locality's current $112 million human services budget. These experiences suggest that local governments that extend living wage laws to non-profit human services programs can anticipate slightly larger—but, overall, still quite modest—increases in the costs of such contracts.

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These experiences suggest that local governments that extend living wage laws to non-profit human services programs can anticipate slightly larger — but, overall, still quite modest — increases in the costs of such contracts.

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In preparing for implementation of their living wage laws, several cities made budget impact projections based on the assumption that contractors would pass through the entire cost of the increased wages to the city in the form of higher contract prices. However, all of the cities that did so reported to us that their projections substantially overestimated the actual impact that their living wage law had on local contracting costs. As shown in Table 3, actual cost increases ranged from 30% to 50% lower than projections.

**Table 3: Comparison of Cost Projections with Actual Increases in Contract Costs**

| Locality | City Budget | Projected Increase | Actual Increase | Difference |
|---|---|---|---|---|
| Alexandria | $385,636,353 | $500,00 | $265,988 | -47% |
| Berkeley | $289,546,000 | $479,425 | $228,800 | -52% |
| Cambridge | $296,466,580 | $300,00 | $150-200,000 | -33%–50% |
| Pasadena | $493,596,335 | $340,000 | $240,000 | -30% |

Other reports from local governments suggest that many localities experienced smaller contract price increases than they anticipated:

- In Dane County, an analysis of four contracts involving low-wage work that county staff had projected would increase in cost revealed that only one did so (by 10.2%) from 2001 to 2002, while the other three contracts actually decreased in cost.[26]

- The New Haven Controller reported that "we originally thought [that the living wage law would have] a significant impact [on agency budgets]." However, reports from agencies after the first year of implementation show that New Haven contracts have never exceeded their line in the budget, despite the law's increased coverage as more contracts have been re-bid with the living wage requirement.

These modest cost increases suggest that only a portion of the higher labor costs resulting from living wage laws end up being passed on to cities in the form of higher contract prices.

## Factors That May Account for Limited Impact on Contract Costs

The modest increases in contract costs resulting from living wage laws have surprised some observers and have led to an examination of why this is the case. The experiences reported to us by the cities and counties in the sample suggest that two factors contribute to this result: the small number of covered service contracts that involve large concentrations of low-wage workers, and an evident capacity of many contractors to absorb a portion of the higher labor costs.

### Relatively Few Service Contracts Have Large Concentrations of Low-Wage Workers

One reason why the cost impact of living wage laws tends to be so small is that, in most localities, relatively few of the covered service contracts involve large concentrations of low-wage workers. To begin with, most living wage laws incorporate minimum size thresholds that exclude from coverage small businesses or businesses with small city contracts. Among those service contracts that are covered, many involve relatively few workers whose pay must be raised to meet the living wage standard. In most cities it is only a handful of contracts—typically those for janitorial and security guard services—in which substantial numbers of workers must be given raises in order to meet the living wage. This is particularly true for city-level living wage laws, which seldom cover non-profit human services programs—the service contracting area generally involving the largest concentrations of low-wage staff.

However, the limited number of covered service contracts involving large concentrations of low-wage workers does not fully explain the small contract cost increases that cities have experienced. As explained earlier, several cities found that contract cost increases were substantially lower than projected—projections that generally took into account the distribution of low-wage workers under the covered contracts.

### Contractors Absorbed Some of the Labor Cost Increases

Based on reports from cities and counties, a second key factor contributing to limited contract cost increases appears to have been contractors absorbing some of the new labor costs rather than fully passing them on to the localities through higher contract prices.

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A policymaker in Ypsilanti Township, MI remarked that the Township's major contracts had "more bidders than ever before, at even better rates."

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Why did contractors absorb some of the costs?

First, the enactment of living wage laws led several local governments to open for competitive bidding some contracts that had not been subject to this process for some time. Many

administrators believe that this newly competitive contracting environment led contractors to be more willing to absorb some of the increased costs associated with the living wage law in order to remain competitive and secure the highly valued contracts. A policymaker in Ypsilanti Township, MI remarked that the Township's major contracts had "more bidders than ever before, at even better rates." She attributed the lower bids to the living wage law, which subjected contracts to a competitive bidding process with fixed wage and benefit requirements. In order to remain competitive, bidders had to "be tighter and provide less of a profit margin."[28] In fact, an administrator from Alexandria found that "[t]here have been some competitive advantages to rebidding. We have seen some incumbents who lost on the second go-round, and it may be due to the bidding process."[29] Contractors plainly saw the contracts as desirable despite costs associated with the living wage laws.

Similarly, costs appear to have been kept down in circumstances where cities negotiated directly with their contractors to share the cost increase. For example, in the first year that it implemented its living wage law, the Pasadena Purchasing Department projected the additional labor costs that the living wage mandate would generate on five service contracts, and negotiated for a cost split between the city and the contractors, with the contractors absorbing nearly half of the total labor cost increase.[30]

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A study of living wage costs at the San Francisco International Airport found that higher labor costs were partially offset by savings to the companies in the form of reduced employee turnover and increased productivity.

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In addition, some contractors appear to have absorbed some of the living wage-related labor cost increases, even in the absence of a competitive bidding process.

- For example, an analysis by the San Jose Contract Compliance office found that in San Jose's contract with the city's convention center, the living wage requirement increased labor costs by 4%, yet the cost of the contract increased by only 1.5%.[31] The city's analysis concluded that 61% of the increased costs were simply absorbed by the convention center.
- In Hayward, CA, after examining the payroll records of all service contracts covered by the city's living wage law, Hayward's auditor concluded that service contractors changed their pay scales to comply with the living wage requirements without demanding an increase in the contract prices from the city. The auditor attributed the contractors' willingness to absorb the increased labor costs to the modest size of the cost increases created by the living wage on most city contracts.[32]
- The director of purchasing of San Francisco remarked that the living wage law was a "non-event" among for-profit service contractors, and that contractors typically paid the living wage requirement without complaint or a request to modify in the contract.[33]

These reported experiences of cities and counties generally suggest that where service contracts reflect generous or above-market profit margins (as may be the case for contracts that have not been competitively bid for some time) and a living wage law increases labor costs modestly, contractors are likely to absorb a significant share of the increased labor costs. On the other hand, where contracts have small, defined profit margins and involve large concentrations of low-wage workers (as is often the case for non-profit human services contracts), the cost increases resulting from a living wage law will be larger and it may be necessary for the local government to bear a greater proportion of them.

Finally, contractors may have absorbed some of the increased labor costs because the costs were offset by savings resulting from decreased turnover and higher productivity among the workers whose wages rose because of the living wage requirements. When the Pasadena Budget Administrator interviewed contractors affected by that city's living wage requirement, a number reported that the higher wages had reduced turnover in their workforces.[34] This finding is consistent with studies that have concluded that living wage laws generate countervailing savings for employers that offset a portion of the increased labor costs. For example, a study of living wage costs at the San Francisco International Airport found that higher labor costs were partially offset by savings to the companies in the form of reduced employee turnover and increased productivity.[35]

## City Business Subsidies: Smarter Economic Development

City and county business subsidy programs typically provide taxpayer-funded grants, tax abatements or subsidized loans to businesses that in exchange pledge to create or retain jobs in the locality. In recent years, localities have begun to include such programs under their living wage laws. As explained by staff in the cities and counties in our study, doing so effectively establishes a city policy that business subsidies must be reserved for creating better-paying jobs in the locality. Our investigation examined the experiences of cities and counties that have extended living wage requirements to their business subsidy programs. Our aim was to learn whether cities and counties found such requirements impeded the efficacy of their programs.

### Employers Have Continued to Seek City Business Subsidies in Localities Where Subsidized Jobs Must Pay a Living Wage

Local policymakers have sometimes voiced concerns that living wage laws could harm local economies by deterring firms from participating in business subsidy programs—and therefore from locating or remaining in a community. Some have feared that it might be unrealistic to recruit businesses willing to pay higher wages and that a living wage requirement might prevent a city from attracting minimum wage employers—businesses that, while perhaps less valuable to the local economy, might nonetheless offer some benefits such as generating sales tax revenue.

In order to assess whether businesses might be deterred from participating in business subsidy programs because they are unwilling to pay higher wages to their employees, we looked at ten cities with a living wage requirement for subsidized economic development projects: Duluth, MN; Los Angeles, CA; Minneapolis, MN; Oakland, CA; San Antonio, TX; San Francisco, CA; Toledo, OH; Warren, MI; Ypsilanti, MI; and Ypsilanti Township, MI. These ten cities represented all of those nationally that had had a living wage requirement for subsidized economic development projects in place by 2000—a year before the study began—and where we were able to identify a city administrator able to assess the impact of the living wage policy on the city program.

We interviewed policymakers and economic development personnel in these cities, and examined reports prepared by the economic development departments of Duluth, MN, Toledo, OH and Oakland, CA to determine whether businesses have continued to participate in business subsidy programs in localities where subsidized jobs must pay a living wage. As Table 4 on the next page shows, almost no adverse impact on subsidized economic development projects could be detected.

Overall, administrators concluded that the requirement to pay a living wage and health benefits to employees did not result in fewer applicants for business subsidies.[36] In fact, a number of cities reported banner years for economic development in 2001, with correspondingly low local unemployment levels.[37] Administrators who noted a decline in economic development since 2001 attributed this to general economic conditions, rather than to business concerns about the living wage requirement.

| Table 4: Impact of Living Wage Laws on City Business Subsidy Programs, 2001 | | | |
|---|---|---|---|
| **Locality** | **Type of Projects** | **Number of Projects with Living Wage Conditions Each Year** | **Number of Projects Cancelled Because of Living Wage Law** |
| Duluth, MI | Health Care, Technology | 2 | 0 |
| Los Angeles, CA | Mixed Use | 3 | 0 |
| Minneapolis, MN | Technology | 6-7 | 0 |
| Oakland, CA | Mixed use | 1 | 0 |
| San Antonio, TX | Technology, Finance, Manufacturing | 4 | 0 |
| San Francisco, CA | Mixed use | 1 | 1 |
| Toledo, OH | Industrial | n/a | 0 |
| Warren, MI | Industrial, Manufacturing | 4-6 | 0 |
| Ypsilanti, MI | Industrial | 1 | 0 |
| Ypsilanti Township, MI | Technology, Industrial | 5 | 0 |

- Minneapolis, which has had a living wage requirement in effect since 1998, has seen no drop in applications for business subsidies under its economic development program, and no complaints from businesses since it implemented its living wage policy.[38]
- In San Antonio, which last year expanded its living wage policy to incorporate a base living wage standard for all of business subsidy recipients' employees, the Economic Development Department successfully recruited a grocery firm to locate its meat distribution plant in the city, which is expected to create 40 new jobs at or above the $8.75 living wage rate.[39] In negotiating the project, the company raised no objections to the wage requirement.[40]
- In Toledo, which experienced a drop in applications for subsidized loans for machinery and equipment in 2001, the economic development administrator attributed the decrease to current economic uncertainties—not the obligation to pay a living wage.[41]
- Similarly, administrators in Los Angeles and Oakland attributed any reduction in retail development to the recent decline in tourism, rather than the living wage requirement.

### Limited Impact Even on Business Subsidy Programs That Target Employers in Lower Paying Sectors Such as Retail

Generally, few cities use economic development funds to subsidize the creation or retention of jobs in low-wage sectors such as retail. Many localities do not see providing business subsidies to retailers, whose employees generally earn at or just above the minimum wage, as the best use of scarce economic development dollars. As Karen Lovejoy Roe, Supervisor of Ypsilanti Township, explained, "the Township Board . . . feels that if you are going to cut a person's taxes to promote economic development, it's only worthwhile if the employees are making a decent living standard."[42] As a result, few of the localities provided subsidies directly to retail establishments.

However, more communities do choose to subsidize mixed-use development projects, which may include some combination of office, housing, and retail space. The economic development departments in San Francisco, Oakland, and Los Angeles have mandated that developers of mixed-use development projects make efforts to ensure that their retail tenants pay the living wage rate. In these instances, local governments have had mixed success with retail establishments.

- In Oakland, city officials reported that two retail development projects had been cancelled in recent years, but attributed the result to factors other than the living wage law.[43]
- In Los Angeles, developers of two subsidized projects, including the Staples Center stadium development project, agreed without complaint to the living wage requirement, while a third project proceeded by exempting some retail and restaurant staff from the requirement.[44]
- In San Francisco, a supermarket, while claiming that it paid its employees a living wage, chose not to accept a business subsidy package citing a desire not to be subject to the living wage reporting requirement.[45]

Generally, cities reported that the overall economic climate and traditional economic development concerns were the dominant factors in decisions by developers whether to seek or accept public business subsidies for economic development projects involving retail components. Cities interviewed, such as Oakland, attributed developer decisions not to pursue subsidized retail development projects chiefly to traditional considerations, such as project location, availability of parking, and consumer spending, rather than the applicability of a living wage requirement.

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**The experiences of these cities and counties suggest that living wage requirements may help cities in directing public funds away from retail projects that often bring fewer economic returns to their communities.**

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Finally, the experiences of these cities and counties suggest that living wage requirements may help cities in directing public funds away from retail projects that often bring fewer returns to their communities. In fact, Oakland's experience indicates that the failure of its proposed retail projects may have been a blessing in disguise. Using the same land and fewer taxpayer resources, Oakland sold most of the city property originally slated for retail development to a telecommunications manufacturer, which is expected to create 1,200 high-wage jobs without requiring city subsidies.[46] The remainder of the property is being developed into an automotive facility by a unionized firm that pays its employees at or above the living wage requirement. Thus, even where a living wage requirement limits the feasibility of economic development strategies focused on low-wage sectors such as retail, this may help cities in re-directing business subsidy resources towards other sectors that more readily yield good jobs for the community.

## Factors That May Account for Limited Impact on Local Business Subsidy Programs

Administrators attributed the living wage laws' limited impact on business subsidy programs to two key factors: (1) the fact that many business subsidy programs were already focused on recruiting businesses in sectors that offer higher wages; and (2) the greater public acceptance of business subsidy programs that they believe living wage policies can generate. At the same time, administrators reported that living wage laws helped sharpen the focus of their business subsidy programs on attracting jobs that generate the greatest benefits for their communities.

### Firms Targeted by Economic Development Agencies Already Paid Higher Wages

Several administrators commented that because their business subsidy programs already aimed to recruit firms paying better than average wages, the living wage law did not change their way of operating but rather formalized a pre-existing policy preference. As a consequence, only two cities identified businesses that they sought to recruit with taxpayer subsidies where the employer had to raise some workers' pay in order to meet the living wage standard:

- Duluth reported that in 2000, a health maintenance organization recruited with a public subsidy package raised wages for 95 workers in order to meet the city's living wage standard.[48]
- Toledo reported that in 2000, a telephone answering company seeking a public subsidy raised pay for 25 employees in order to meet the city's living wage standard.[49]
- However, Minneapolis, Warren, Ypsilanti and Ypsilanti Township reported that all jobs at businesses targeted by their economic development programs—chiefly firms in the industrial and technology sectors—already paid a living wage and thus no wage adjustments were required by firms recruited with subsidy awards.[50]

For the majority of the localities, living wage laws did not require changes in the operation of their business subsidy programs because the programs already targeted for recruitment firms that paid living wages.

### Living Wage Laws Increased Public Confidence in Business Subsidy Programs

Some cities indicated that their living wage policies actually boosted public acceptance of local business subsidy programs. They found that residents who questioned the value of providing taxpayer subsidies to business were less hostile to an economic development program that guarantees that the jobs created pay at least a living wage. According to a San Antonio economic development agent, the living wage law has "helped eliminate the controversy associated with [the economic development] program [because] . . . groups hostile to incentives in the past aren't as hostile with the living wage component."[51] A Los Angeles administrator who negotiated with the developer of the Staples Stadium development project echoed this sentiment by noting that project's acceptance of the living wage requirement "aided the developer in getting community support."[52]

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In fact, according to a San Antonio economic development agent, the living wage law has "helped eliminate the controversy associated with [the economic development] program [because] . . . groups hostile to incentives in the past aren't as hostile with the living wage component."

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### Living Wage Laws Helped Focus Business Subsidy Programs

Administrators report that living wage laws can help focus business subsidy programs by prioritizing high-wage job creation. For example, the economic development director of Duluth recounted that in the 1970's, when Duluth had one of the highest unemployment rates in the country, the city used tax dollars to attract any jobs it could, regardless of the wage level. However, with a more moderate unem-

ployment rate in the 1990's, it adopted a living wage law to "formalize a strategy of [promoting] living wage jobs."[53] As a result, Duluth now provides subsidies only to firms such as software and healthcare companies that expand the city's base of better-paying jobs. The manager concluded that the living wage law "sends a strong signal to policymakers that they need to seek higher wage jobs."[54]

In fact, seeking to maximize the number of better-paying jobs supported by their business subsidy programs, some economic development agencies have extended living wage requirements to subsidy projects not actually covered by their local ordinances. The Los Angeles community development agency has applied a living wage requirement for developers seeking public subsidies for retail projects that were not formally covered under the city's living wage law. According to a community development officer, as a result of these projects "we've set a baseline that any redevelopment project of any size has to [pay a living wage]. Anyone that deals with us has got to pay their direct people a living wage. And even if the [living wage law] doesn't cover retail, it gets put on the table."[55]

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Seeking to maximize the number of better-paying jobs supported by their programs, some economic development agencies have extended living wage requirements to subsidy projects not actually covered by their local ordinances.

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San Antonio's living wage law not only provided the city with an incentive to focus on attracting high-wage jobs, but also encouraged its economic development department to think strategically about how to prepare local residents for these positions. Its living wage law helped San Antonio focus its tax abatement pool on recruiting high-wage firms such as Boeing, Chase Bank and a commercial airline overhaul company.[56] Turning then to the task of equipping as many residents as possible with the skills necessary to be hired and advance in these jobs, San Antonio designed a workforce development program that combined worker training, financial assistance for students attending college and technical schools, and apprenticeship placements.[57]

# Conclusion

The experiences of the initial group of twenty cities and counties studied in this report are clear: living wage requirements have not significantly increased contracting costs or adversely affected the operation of business subsidy programs. The overall cost increases were quite low and less than anticipated, generally ranging from 0.003% to 0.079% of the localities' total budgets. In some communities, a few service contracts involving large concentrations of low-wage workers increased in cost more substantially, but increases were still quite modest overall.

The municipalities that extended living wage laws to their local business subsidy programs found that these policies did not prevent them from attracting new businesses to their communities. Several cities found that applying a living wage standard to these programs focused their economic development agencies on recruiting higher wage employers, and in some cases allayed public doubts about the appropriateness of using taxpayer dollars to support private businesses.

This snapshot of the actual effects of fully implemented living wage laws in a range of localities sheds light on the budget and economic consequences of such measures and provides useful guidance for policymakers considering adopting living wage laws in their communities.

# End Notes

1 Since 1994, more than one-hundred cities and counties have passed local living wage laws, and seventy-five other communities are considering some form of living wage legislation. ACORN Living Wage Resource Center, Living Wage Successes: A Compilation of Living Wage Policies on the Books (*available at* www.livingwagecampaign.org/victories.php (visited Apr. 16, 2003)). *See* Greg LeRoy, et al., *Good Jobs First, The Policy Shift to Good Jobs: Cities, States and Counties Attaching Job Quality Standards to Development Subsidies* (2000) (listing cities and counties with wage and benefit requirements as a condition of receiving taxpayer-funded subsidies).

2 There is broad consensus among researchers and policymakers that the federal poverty level significantly understates the income that a low-income person needs in order to obtain basic necessities. Developed in the late 1960's based on the assumption that a typical family spends one third of its income on food, the federal poverty level calculates a subsistence standard by tripling the cost of a basic food budget. Because the poverty level does not directly reflect the costs of actual necessities besides food—for example, housing, healthcare, childcare and transportation—it has become increasingly outdated as those other costs have seen substantial inflation over the past thirty years. See Heather Boushey, Chauna Brocht, Bethney Gundersen & Jared Bernstein, *Hardships in America: The Real Story of Working Families*, pp. 5-7 (Economic Policy Institute 2001).

3 For example, a Dane County Department of Human Services memorandum states that the inability of human services organizations to pay competitive wages resulted in "difficulty in recruiting qualified staff," "high staff turnover," and "increased costs associated with staff recruitment and training." Dane County Department of Human Services, "Purchase of Service COLA and Living Wage," p. 1 (July 2000).

4 These reporting cities and counties were drawn from an initial list of 29 localities identified as likely to have available cost impact estimates, formal internal evaluations, and/or other observations of the effects of their living wage laws. The following localities were contacted but could not offer any observations or reports on the impact of their living wage laws: Ann Arbor, Boston, Cleveland, Cook County, Detroit, San Fernando, St. Paul and Tucson. While Milwaukee had available some information on the impact of its living wage law, we did not include it because the city was unable to provide an estimate of the increase in the cost of its contracts as a result of the wage requirement.

5 *See, e.g.*, Robert Pollin & Stephanie Luce, *The Living Wage: Building a Fair Economy*, pp. 112-14, 119, 121 (1998) (predicting that, in general, the vast majority of contracts will increase in cost by less than 1%, and that contractors will absorb most of that cost); Bruce Nissen & Peter Cattan, *The Impact of a Living Wage Ordinance on Miami-Dade County*, p. 22 (Ctr. for Labor Research & Studies, Fla. Int'l Univ., Oct. 23, 1998) (predicting that the county would pay between 35% and 55% of the increased labor costs). *But see* Douglass Williams & Richard Sander, *An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance*, pp. 51-52 (Jan. 17, 1997) (predicting that over the long-term, contractors will probably pass through most increased costs to the locality).

6 *See* Mark Weisbrot & Michelle Sforza-Roderick, *Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore's City Ordinance*, p. 11 (Preamble Ctr. for Public Policy, Oct. 1996) (finding no increase in contract prices after the implementation of Baltimore's living wage law); Christopher Niedt et al., *The Effects of the Living Wage in Baltimore*, p. 6 (Economic Policy Inst., Working Paper No. 119, Feb. 1999) (finding that contract prices decreased in real terms after implementation of living wage law); Richard Sander and Sean Lokey, *The Los Angeles Living Wage: The First Eighteen Months*, p. 8 (Nov. 16, 1998) (finding that 56% of studied firms did not pass on any costs to the City, that 27% passed on all increased costs to the city, and that 17% of firms reduced services in response to cost increases).

7 *See* Mark D. Brenner & Stephanie Luce, *The Effect of Living Wage Laws in New England* (Univ. of Mass., Political Economy Research Inst., Research Report, forthcoming 2003) (finding that contract costs decreased in real terms in Boston and New Haven, but increased in Hartford where only two contracts were covered, both of which were bid on an hourly basis and involved large concentrations of low-wage workers).

8 *See* David Neumark, *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families* (Public Policy Institute of California, Mar. 2002).

9 *See* Mark D. Brenner, Jeannette Wicks-Lim & Robert Pollin, *Measuring the Impact of Living Wage Laws: A Critical Appraisal of David Neumark's How Living Wage Laws Affect Low-Wage Workers and Low-Income Families* (Univ. of Mass, Political Economy Research Inst., Working Paper No. 43, 2002).

10 San Jose, CA, in 2001 reported that the impact of the city's living wage law largely occurred in one city contract for janitorial services. While that contract had not been previously let, the city arrived at an estimated increased cost by comparing the living wage requirement with the prevailing wages of janitorial services in the region.

11 In Ypsilanti Township, only one contract was affected by the living wage requirement, resulting in a small wage increase for one temporary contract employee and a negligible total increase in the cost of the contract. Telephone Interview with Karen Lovejoy Roe, Supervisor, Ypsilanti Township, MI (Jan. 23, 2003) (on file with author).

12 This range represents all cities for which we could obtain accurate budget information and which reported an actual cost increase (Alexandria, VA; Cambridge, MA; Hartford, CT; Hayward, CA; New Haven, CO; Pasadena, CA; Madison, WI and Ypsilanti, MI). In addition to reporting their overall operating budgets, Madison and Alexandria were able to share data on their municipal purchasing budgets. The reported living wage contract cost increases represented 0.07% and 0.33% of these cities' purchasing budgets, respectively.

13 Administrators in Cambridge, Dane County, Hartford, Hayward, Madison, New Haven, Oakland, Pasadena, San Francisco, Ypsilanti, and Ypsilanti Township all described the contract price increases in their cities as "not significant."

14 Telephone Interview with Daniel Bohrod, Comptroller, Madison, WI (Nov. 14, 2001) (on file with author).

15 Report by City Manager Saundra Kee Borges to the Mayor and Council Members of Hartford, CT, p. 1 (Mar. 2, 2001) (on file with author). In an unpublished estimate of the cost of its living wage law in 2002, the city found that while one contract increased by $7,391 or 22.4% over the prior year, none of the four other impacted contracts increased substantially, accounting for the changes in the scope of services.

16 Telephone Interview with Jack Pitzer, Director of Purchasing Department, Alexandria, VA (Sept. 17, 2002) (on file with author)

17 Telephone Interview with Ronald Guzi, Purchasing Agent, Warren, MI (Nov. 16, 2001) (on file with author).

18 Telephone Interview with Public Works Department, Berkeley, CA (Feb. 28, 2003) (on file with author).

19 Figure reflects the budget for human services in Dane County for fiscal years 2001 and 2002.

20 Figure reflects the average of the annual cost increases for Dane County human services contracts for fiscal years 2001 and 2002.

21 Figure reflects the budget for contracts awarded to non-profit agencies in San Francisco in 2001.

22 Figure reflects the increased cost for San Francisco's human services contracts in 2001.

23 Telephone Interview with Travis Myren, Program and Budget Analyst, Dane County, WI (June 26, 2002) (on file with author).

24 Interview with Office of Contract Administration, San Francisco, CA (June 25, 2002) (on file with author).

25 Dane County was also able to provide the marginal increase for human services costs because of the living wage requirement. The 2001 total expenditures for contracts for human serves was $92 million, and increased by $2.6 million above the year before, due to a number of factors, including an increased case load and additional types of services. The $400,000 increase for this year means that the increase in human service costs associated with the living wage was 14.8-15% of the total increase for the human services budget. Telephone Interview with Travis Myren, Program and Budget Analyst, Dane County, WI (June 26, 2002) (on file with author).

26 Myren, *supra* note 25. The County reports that the level of service did not change for these contracts. *Id.*

27 Telephone Interview with Mark Pietrosimone, Controller, New Haven, CT (Nov. 1, 2001) (on file with author).

28 Telephone Interview with Karen Lovejoy Roe, Supervisor, Ypsilanti Township, MI (Nov. 16, 2001) (on file with author).

29 Pitzer, *supra* note 16.

30 Memorandum Requesting Increase in Living Wage Rate, City Manager. Pasadena, CA (Dec. 16, 2002) (on file with author).

31 Draft Report on Effect of San Jose Living Wage, Office of Equality Assurance, San Jose, CA, p. 9 (May 16, 2002) (on file with author).

32 Telephone Interview with Carl Guitonjones, Auditor, Hayward, CA (Dec. 19, 2001) (on file with author).

33 Telephone Interview with Judith Blackwell, Director of Purchasing, San Francisco, CA (Nov. 19, 2001) (on file with author).

34 Memorandum, Pasadena City Manager, *supra* note 30, p. 2.

35 A recent study of the effect of the living wage law in the San Francisco International Airport found that turnover decreased by 60% among surveyed firms where wage costs increased by 10% or more, and that "high-impact" firms also reported improvements in work performance and employee morale. Michael Reich, Peter Hall & Ken Jacobs, *Living Wages and Economic Performance: The San Francisco Airport Model*, pp. 52-63 (Institute of Indus. Relations, Univ. of Calif.-Berkeley Mar. 2003).

36 Administrators reported no negative effect from their living wage law on economic development in Cambridge, Hartford, Minneapolis, San Antonio, Toledo, Warren, Ypsilanti Township, and Ypsilanti.

37 Duluth, San Antonio, Toledo, and Ypsilanti Township reported a successful year for economic development in 2000, measured by local job growth and low unemployment levels. Duluth had a 20% unemployment rate in the 1980's, while 2001 unemployment levels were around 4%. Telephone Interview with Tom Cotruvo, Business Development Manager, Duluth, MN (Nov. 13, 2001) (on file with author). In Toledo, the unemployment rate dropped from 5.9% in September, 2001, to 5.5% that November. Telephone Interview with John Sherburne, Commissioner, Department of Development, Toledo, OH (Nov. 19, 2001) (on file with author).

38 Telephone Interview with the Minneapolis Community Development Agency, Minneapolis, MN (Nov. 13, 2001) (on file with author).

39 William Pack, "City OK's tax break for H-E-B: Grocer plans to expand East Side distribution center," *San Antonio Express-News*, p. 1B (Feb. 14, 2003).

40 Telephone Interview with Trey Jacobson, Economic Development Department, San Antonio, TX (Mar. 13, 2003) (on file with author).

41 Telephone Interview with John Sherburne, Commissioner, Department of Development, Toledo, OH (Nov. 19, 2001) (on file with author).

42 Lovejoy Roe, *supra* note 28.

43 Telephone Interview with Jay Musante, Project Manager, CEDA, Oakland, CA (June 28, 2002) (on file with author); Telephone Interview with Jens Hillmer, CEDA, Oakland, CA (June 25, 2001) (on file with author); E-mail from Nancy Nadel, Councilmember, Oakland, CA, to author (Mar. 1, 2002, 7:46 PM EST) (on file with author). *See also* Kara Platoni, "Die Hard: Sears Has Made Its Fortune by Selling Everyday Things to Everyday People. Maybe That's Why It's Oakland's Only Surviving Department Store," *East Bay Express* (Aug. 22, 2001).

44 Telephone Interview with John McCoy, Deputy Administrator of Operations, Community Resources Administration, Los Angeles, CA (June 15, 2001) (on file with author); Telephone Interview with Gerry Miller, Assistant Chief Legislative Analyst, Los Angeles, CA (June 14, 2002) (on file with author).

45 Telephone Interview with Helen Sause, Deputy Director, Redevelopment Agency, San Francisco, CA (June 21, 2002) (on file with author); Rachel Gordon, "Whole Foods Backs Out of San Francisco Store Deal," *San Francisco Chronicle*, p. A21 (Dec. 19, 2001).

46 Musante, *supra* note 43.

47 *Id.*

48 City of Duluth, MN, Division of Urban Development, Memorandum, "Living Wage Reporting for 2000" (Feb. 2, 2001).

49 Sherburne, *supra* note 41.

50 Telephone Interview with Tom Zemsta, Economic Development Director, Warren, MI (Nov. 16, 2001) (on file with author); Lovejoy Roe, *supra* note 28.

51 Jacobson, *supra* note 40.

52 Miller, *supra* note 44.

53 Cotruvo, *supra* note 37.

54 *Id.*

55 McCoy, *supra* note 44.

56 Telephone Interview with Trey Jacobson, Economic Development Department, San Antonio, TX (Nov. 14, 2001) (on file with author).

57 *Id.*

# Examining the Evidence:
## The Impact of the Los Angeles Living Wage Ordinance on Workers and Businesses

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The surveys would not have been possible without the help and advice of June Gibson and Nghiem Tran from the office of the Los Angeles City Administrative Officer, who shared their living wage enforcement database with us and assisted us in countless ways. Various staff members at Los Angeles World Airports were instrumental in allowing us to complete the surveys as well. Steven Wallace, of the UCLA Center for Health Policy Research, read the health chapter and made important and useful comments. John Colborn, of the Ford Foundation, also read and commented and provided helpful comments on the draft.

We want to acknowledge the 82 employers who took time out of their busy schedules to share with us their experience of the living wage ordinance and to facilitate interviews with their employees. Likewise, we want to thank the 320 workers who shared their personal experiences under the living wage ordinance and ultimately made this study possible.

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The authors take full responsibility for the contents of this report, and are responsible for any errors or omissions it may contain.

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# EXECUTIVE SUMMARY

## ABOUT THIS STUDY

This study represents the most definitive analysis of a living wage law's impact on workers and employers. It provides important new insights on the effects of living wage policies, which have been adopted by more than 120 local governments around the country.

The study's findings are based on three original random-sample surveys of workers and firms. Random sampling techniques ensure that survey findings are representative of the entire population being studied. The surveys include:

- A survey of 320 workers affected by the Los Angeles Living Wage Ordinance, conducted after the pay increase had taken place. This is the first such survey ever completed.
- A survey of 82 firms affected by the Los Angeles Living Wage Ordinance.
- A control group survey of non-living wage firms in similar industries, which provides a baseline for comparison in order to isolate the impacts of the living wage.

## ABOUT THE LIVING WAGE

Living wage laws set wage and benefit standards for companies that do business with the government, such as service contractors, as a means to improve the quality of contracted jobs and increase the standard of living for low-income workers.

The first living wage law was passed in Baltimore in 1994. Over the past 11 years, many of the largest cities in the country, including New York, Boston, San Francisco and Chicago, have passed living wage laws, as have scores of smaller cities.

In 1997, Los Angeles became one of the first major cities to pass a living wage law. The ordinance currently (as of 2004-2005) requires firms to pay either $10.03 per hour, or $8.78 with a $1.25 per hour contribution to health benefits, and to provide 12 paid days and 10 unpaid days off per year.

## GENERAL FINDINGS

- The Los Angeles Living Wage Ordinance has increased pay for an estimated 10,000 jobs, with minimal reductions in employment.
- The number of jobs where pay was increased is among the largest in the nation, after New York and San Francisco.
- Although the living wage has not prompted firms to set up health benefits plans, some firms have improved their existing plans or extended coverage to more workers, affecting 2,200 jobs.
- Most workers affected by the living wage are in poor or low-income families.
- Most firms affected by the law have adapted to the living wage without eliminating jobs. Employment reductions amounted to one percent of all affected jobs, or an estimated 112 jobs.
- Employers have recovered some of the increased costs of the living wage through reductions in labor turnover and absenteeism.
- Firms have adapted to the remaining costs in a variety of ways, including cutting fringe benefits and overtime, hiring more highly trained workers, cutting profits and passing on costs to the city or to the public.
- While workers and their families have experienced measurable gains from the living wage, 31 percent of workers still lack health benefits and 44 percent rely on government assistance, including the Earned Income Tax Credit.

## WHAT JOBS ARE AFFECTED BY THE LIVING WAGE?

- Sixty-four percent of jobs affected by the living wage are at Los Angeles International or Ontario airports.
- Major affected occupations include airline service workers, janitors, parking attendants, food service workers and retail clerks.
- Most affected jobs are in firms that are service contractors to the city (41 percent), or service contractors to the airlines (37 percent).

## ARE LIVING WAGE WORKERS IN POOR OR LOW-INCOME FAMILIES?

- The L.A. Living Wage Ordinance affects primarily poor and low-income families.
- Seventy-one percent of workers affected by the living wage have a high school education or less, and only four percent of affected workers are teenagers.
- On average, affected workers have been in the labor force for 19 years, and 86 percent work full-time.
- Compared to L.A. County low-wage workers, workers affected by the living wage are more likely to be women, to be African-American and to be single mothers.
- We used data on L.A. County low-wage workers to estimate the family incomes of workers affected by the living wage, because the two groups share many common characteristics.
- Fifteen percent of L.A. County low-wage workers fall below the Federal Poverty Guidelines, a measure of severe poverty.
- More than 40 percent of low-wage workers in L.A. County fall below 200 percent of the poverty guidelines. This is arguably a more realistic measure of poverty status, since many workers at this income remain eligible for government assistance.
- Nearly 70 percent of low-wage workers in L.A. County can be considered low-income. They fall below a self-reliance standard, which measures the actual cost of living expenses in Los Angeles County.
- Workers affected by the living wage are likely to have lower family incomes than L.A. County low-wage workers.

## WHAT IS THE IMPACT OF THE LIVING WAGE ON WAGES?

- Pay for an estimated 8,000 jobs has been increased to meet the requirements of the ordinance. The average mandatory pay increase was 20 percent, or $2,600 per year.

- The wage gain for the current workforce is smaller than the original pay increase because some of the original workers have left and workers from higher-paying jobs have been hired. For the workers in affected jobs at the time of the survey, the average raise was $1,300 per year, or about half as much as the pay increase for the original workforce.

- Voluntary raises affecting an estimated 2,000 additional jobs have been given mostly to maintain pay differentials between higher- and lower-paid workers. These raises average $0.75 per hour, or $1,300 per year.

- An analysis of three prototypical families, representing 68 percent of affected workers, shows that workers keep 70 percent or more of their wage gains after taxes.
- A similar analysis shows that most workers and their families will likely retain their eligibility for anti-poverty programs. Three percent of affected workers, who are single parents relying on Section 8 or Food Stamps, are likely to face reduced eligibility for these programs.

## WHAT IS THE IMPACT OF THE LIVING WAGE ON BENEFITS?

- The $1.25 health care differential is not sufficient to encourage firms to initiate health plans for workers if they do not already offer such plans. The health care differential is less than the average cost of job-based individual health benefits in California, which was $1.49 per hour for a full-time worker in 2003.

- However, the living wage has improved health benefits for an estimated 2,200 jobs by encouraging employers who already provide benefits to improve their plans or extend coverage to more workers. Benefits have been reduced for 140 jobs in order to cut costs.

- Even after the living wage, 31 percent of workers are uninsured and 54 percent of workers' children rely on public health insurance or are uninsured.

- Almost 60 percent of workers who receive the higher wage in lieu of health benefits say they would accept the lower wage in exchange for free employer-provided health insurance. Three out of four workers who receive the lower wage say they would not trade their health benefits for a higher wage.

- Living wage firms offer workers two more paid days off per year as a result of the ordinance, an increase of 23 percent. However, some workers report being discouraged from taking days off or being penalized for doing so.

## WHAT IS THE IMPACT OF THE LIVING WAGE ON EMPLOYERS AND THE WORKPLACE?

- Employers have cut costs by making small reductions in employment and fringe benefits. Employment reductions total an estimated 112 jobs, representing one percent of all living wage employment in affected firms. Employers cut benefits for less than five percent of living wage jobs in affected firms, including cuts in health benefits, merit pay and bonuses.

- Use of overtime has declined, representing a further reduction in labor costs. Training for new hires stayed the same at living wage firms, while non-living

wage firms have increased their training, representing a relative decrease for living wage firms.

- Labor turnover has declined as a result of the ordinance. Current rates of turnover at living wage firms average 32 percent, compared to 49 percent at comparable non-living wage firms. These turnover reductions represent a cost savings for the average firm that is 16 percent of the cost of the wage increase, based on various estimates of the cost of replacing a low-wage worker.

- The ordinance has had no impact on the use of part-time workers, the intensity of supervision, the tendency to fill vacancies from within or the use of equipment and machinery.

- Firms have not actively displaced workers in order to hire workers who are better qualified, and most firms have not changed hiring standards as a result of the ordinance.

- Compared to the original workforce, workers hired after the living wage have similar levels of education, are of similar age, and are no less likely to be members of racial or ethnic minority groups.

- New hires are more likely to be male and to have higher levels of formal training. Fifty-six percent of new hires are male, compared to 45 percent of workers hired before the living wage. Twenty-two percent of new hires had formal training before being hired, while only 12 percent of workers hired before the law had such training. These changes occurred primarily through normal attrition at the firms. They suggest somewhat diminished job opportunities in city contract work for women and for workers with less formal training, as compared to before the ordinance.

# Chapter 1 : Introduction

Local governments are increasingly turning to living wage policies as a means to improve job quality for low-income workers. To date, more than 100 local governments around the country have passed living wage ordinances.[1] Living wage laws set wage and benefit standards for workers employed by government contractors or other firms that have a financial relationship with the government. These laws have, in part, been a response to the stagnation of state and federal minimum wages, which have failed to keep pace with inflation. In addition, these laws represent a reaction to the growing interest in contracting out city services as a means to cut costs, a strategy that advocates argue penalizes the low wage workers who perform city services. However, despite the prominence and continued growth in the number of living wage ordinances, only a handful of retrospective studies of firms have been published on the impacts of these laws. This study is the first to combine a random sample survey of affected firms and workers, a control group analysis of low-wage employers, and a matched firm and worker dataset. These elements make us confident that our survey results both isolate the effects of the living wage and accurately represent the experiences of living wage workers and firms.

As living wage laws have grown in popularity, so have debates about their effectiveness. Although these laws typically raise standards for just a small segment of jobs in a local labor market, they can focus public discussion on the issue of job quality. Proponents of the law argue that the city should not be a low-wage employer, and that living wage policies put much-needed money in the pockets of low-income families, while also setting standards that have an impact beyond those directly affected by the law. Business groups have made similar arguments as those made against minimum wage hikes: that living wage laws will result in job reductions, harm small businesses, and will hurt the very population the policy is intended to serve. This study evaluates the experience in Los Angeles in order to determine what actually occurred after the living wage went into effect in that city, as well as provide broader lessons that contribute to the national debate.

### Provisions of the Los Angeles Living Wage Ordinance

The City of Los Angeles' Living Wage Ordinance is broad in scope and expands on the living wage laws used in some other cities that only cover service contractors. The Los Angeles law covers lessees and concessionaires that operate on city land. The law covers thousands of low wage workers at Los Angeles International Airport (LAX) who work as janitors, airline service workers, retail clerks, and food service workers. The L.A. ordinance also covers several thousand workers at other locations around the city. Although few living wage ordinances around the country cover airport workers, the L.A. ordinance is not unique in this respect. Other cities with airport living wage policies include San Francisco, Oakland, San Jose, and Denver.

[1] See the Association of Community Organizations for Reform Now website at http://www.acorn.org/ for a complete listing of Living Wage Ordinances.

The law has been in place since 1997, and applies to firms and their subcontractors in the following categories: city service contractors, firms that lease city property, firms that receive $1 million or more in economic development subsidies, and firms that have concession agreements with the city, such as food service and retail firms at the Los Angeles International Airport. The ordinance mandates a two-tier hourly wage, with an annual cost of living increase. The wage level for the period from July 2004 through July 2005 is $10.03, or alternatively $8.78 with a $1.25 per hour contribution to employee health benefits. The living wage rate is increased annually to correspond with adjustments in the amount paid to city employees from their pension fund, which has grown at about the rate of inflation.[2] The $1.25 health benefit credit is not adjusted. Since the law was implemented, the state's minimum wage has been raised three times. In 1997-1998, the higher tier living wage was 1.7 times the state minimum wage while today (2004-2005) it is 1.5 times the state minimum wage.

The ordinance also mandates twelve paid days off per year, and ten unpaid days off. Employers can negotiate an exemption to the ordinance if they are subject to a collective bargaining agreement. Non-profit organizations whose chief executive officers earn a salary less than eight times the lowest wage paid employee are exempt, except in the case of childcare providers, which are always covered.

The LWO goes into effect when a new agreement is approved or an existing agreement is renewed, modified or extended. Consequently, it takes time for the ordinance to impact all of the workers targeted by the law. Employees on different contracts have received the raises and the other benefits of the ordinance at different times, depending on when an agreement was signed or modified.

**History of the Los Angeles Living Wage Ordinance**

Los Angeles was one of the first major cities to adopt a living wage law. When the Los Angeles law passed in 1997, only a handful of cities, including Baltimore, had passed living wage laws that applied to service contractors. Los Angeles' living wage law was not the first worker protection law to apply to the city's service contract sector, however. In 1995, the City Council adopted the nation's first Service Worker Retention Ordinance (SWRO). Passage of the law was prompted by the plight of workers facing displacement at LAX. In the early 1990s, about one thousand unionized retail and food service jobs at LAX were threatened when the Airport Department sought to replace LAX's long-time concessionaire with national chains. This move prompted the formation of a labor/community coalition that lobbied for passage of the SWRO. The SWRO covers the same class of workers as the Living Wage Ordinance—service workers employed by city contractors, financial assistance recipients and workers on city-owned land. The law ensures that when a contract changes hands the new employer retains workers from the prior contract or lease for at least 90 days.

[2] From 1998 through 2003, the average annual rate of growth for both the living wage and the Los Angeles-Riverside-Orange County Consumer Price Index has been about 3 percent.

Like the SWRO, the Living Wage Ordinance represented a reaction to the growing concern about the public costs of contracting out city services. Proponents of contracting out argue that private companies can deliver better services at lower costs than government can. Living wage law proponents countered that contracting out displaced the costs onto a different part of the public sector by creating poor quality jobs that forced workers to seek government assistance. A coalition of labor unions, community organizations, and clergy initially proposed a living wage of $7.50 per hour with an additional two dollars that could either fund employee health insurance or higher wages. The proposal also called for 20 paid days off. The compromise legislation that the city eventually adopted included a lower wage, $7.25 per hour and a $1.25 differential for health insurance, in addition to twelve paid and ten unpaid days off per year.

In its first year, the Los Angeles Living Wage Ordinance was administered by the city's Bureau of Contract Administration (BCA). After a city-commissioned report criticized the BCA's enforcement of the LWO (Sander and Lokey, 1998), the city amended the Living Wage Ordinance in January of 1999 and removed the enforcement responsibility from the BCA. The City Council was given the authority to designate the administrative agency, and selected the office of the City Administrative Officer to enforce the ordinance, which aggressively implemented and enforced the ordinance. In 2004, after our surveys of employers and workers were already completed, enforcement authority reverted to the BCA.

The 1999 amendment made some other important revisions to the ordinance. The amendment clarified the intent of the law, which was to cover city facilities frequented by the public, such as LAX, Ports O'Call Village (a restaurant and retail center in San Pedro) and recreation centers operated by the Department of Recreation and Parks. It also ensured that airlines and their subcontracted workers (security screeners, janitors working for the airlines, wheel chair runners, and baggage handlers) were covered by the law, a matter that had been a point of contention between the airlines and living wage advocates. The amended living wage law created a small-business exemption for lessees with annual gross revenues of less than $350,000 (in 1999) and seven or fewer employees.

A separate ordinance, passed in 1998, ensured that direct city employees not already covered by a collective bargaining agreement were also covered by the provisions of the Living Wage Ordinance. In 2003, the city's redevelopment agency passed a living wage policy that mirrors the requirements in the original ordinance, and applies to employees of real estate developers who receive public subsidies and their subcontractors—such as security guards and janitors—but not to developers' commercial tenants. The CRA policy also applies to the agency's own contractors. The surveys conducted for this study do not include the firms and workers that were affected by these living wage policies, only those affected by the original 1997 L.A. City ordinance.

## The Living Wage at LAX

The implementation of the Living Wage Ordinance occurred in the context of a multi-union organizing campaign at LAX targeting low-wage workers. In 1998, labor and community groups launched Respect at LAX, a partnership between national and local labor groups and local community and religious organizations.[3] Many low wage jobs at the airport were covered by collective bargaining agreements even before the launch of the Respect at LAX campaign. In all, there are 59,000 jobs at the airport. About 9,600[4] of those jobs are at firms that gave raises to meet the requirement of the ordinance. Of those, 92 percent[5] (or 8,800) were covered by a collective bargaining agreement at the time of our survey (2001-2003). An estimated 2,200 jobs at the airport became union after they became subject to the living wage ordinance, and due to the efforts of the Respect at LAX campaign.

Many of the unionized firms are technically not subject to the ordinance, which allows firms to "opt-out" of the ordinance, if the union agrees to such a provision in the collective bargaining agreement. However, by raising the wage floor, the living wage enabled many unions to bargain better compensation packages. For example, some already-unionized sectors, such as janitorial and parking jobs at the airport, provided family health benefits before the living wage, but had starting wages below the living wage level. For these firms, the living wage enabled the unions to negotiate a wage increase into their contracts.[6]

| Timeline of the Los Angeles Living Wage Ordinance | |
|---|---|
| May 1997 | Los Angeles Living Wage Ordinance adopted by City Council |
| 1998 | Respect at LAX Campaign to expand unionization at LAX is launched. |
| 1998 | A separate ordinance ensures that city workers are covered by the provisions of the Living Wage Ordinance. |
| January 1999 | Living Wage Ordinance is amended to cover city facilities frequented by the public, including LAX. |
| 1999 | Respect at LAX wins contracts for 800 food service workers, including 200 previously unorganized workers. |
| 2001 | Respect at LAX campaign wins contracts for more than 1,000 previously unorganized retail and airline service workers. |
| Late 90's-2001 | City negotiates separate living wage agreements with developers of subsidized projects. |
| 2003 | City's redevelopment agency adopts living wage law that mirrors the city law |

The presence of a union campaign at the airport has two implications for our findings.

1) The Los Angeles ordinance may be better enforced than some others

[3] LAANE, an author of this report, was part of the Living Wage Coalition and continues to participate in the Respect at LAX collaboration.

[4] A total of 69 percent of all jobs at firms that gave mandated raises due to the ordinance are located at the airport. The margin of error is ± 10 percent.

[5] The margin of error is ± 11 percent.

[6] Interview with Ray Witmer, Teamsters Local 911 and Eddie Iny, SEIU Local 1877.

due to the ongoing and active involvement of labor unions and community groups in the law's passage and implementation. Therefore, we may see more of a benefit to workers than we otherwise would.

2) Firms may negotiate an exemption to the ordinance if their employees agree to it. Typically, workers will trade a better benefits package for wages that are lower than those required by the ordinance. In some cases, employers may not have credited the ordinance for improved benefits that resulted from this bargaining dynamic. In addition, the employer survey did not ask employers to measure improvements in areas not covered by the ordinance like pensions or seniority provisions.

Another distinguishing feature of LAX workers and firms is that they were heavily impacted by economic repercussions of the September 11th attack. Indeed, one large segment of the jobs—pre-board screeners—was federalized while interviews were still being carried out. The screener positions are now federal Transportation Safety Administration jobs, and are no longer covered by the Living Wage Ordinance. As the screeners were covered by the ordinance at the time of the interviews, they are represented in our sample. In order to isolate the impact of the Living Wage Ordinance from changes due to the post-9/11 downturn in the tourism industry, the Worker Survey was altered following the September 11th attack. Workers were asked to provide information about their experiences after the passage of the Living Wage Ordinance and prior to 9/11. About 64 percent of the worker survey sample consists of airport workers, virtually all of them interviewed after the 9/11 attack.

**Research Questions**

Our research questions reflect the policy debates that typically occur when a living wage ordinance is proposed:

*What is the extent of the wage impact on covered firms and jobs?* In the early stage of a living wage campaign, policymakers must usually rely on estimates of the impact of the policy on covered firms and jobs based on industry data and economic theory. This study answers such basic questions as: How many firms—and what type of firms—are covered by the ordinance? How many jobs were subject to both mandatory and voluntary pay increases due to the law?

*Does the living wage affect primarily low-income workers?* Some critics of living wage laws have charged that the majority of benefits do not go to low-income adults. This study includes an analysis of the demographics and the estimated income of living wage workers.

*Has the living wage brought about significant improvements in the lives of workers and their families?* Increases in earnings can be accompanied by an increase in taxes and reductions in eligibility for government programs. We look at the after-tax benefits of the pay increase due to the living wage, and its impact on program eligibility. Finally, we also asked workers to identify ways in which they benefited from the law.

*How does the living wage affect health coverage?* The two-tier wage structure was designed to encourage employers to offer affordable health insurance to their low wage workers. This study evaluates the effectiveness of the $1.25 health insurance differential, and the obstacles faced by employers who do not provide affordable insurance to their low wage workers.

*Does the living wage lead to job reductions or other negative impacts on workers?* Job reductions are a widely predicted consequence of living wage laws. This study evaluates the extent of job reductions due to the ordinance, and investigates the extent of other cost cutting strategies employed by firms, including reductions in benefits, training and overtime.

*Does the living wage lead to a change in the workforces?* If employers are required to increase wages, they may seek to hire workers with better skills or qualifications. Some critics of living wages argue that such laws will ultimately exclude the type of workers that are the intended beneficiaries and reduce opportunities for less skilled workers.

*Are there benefits to employers from raising wages?* Higher wages can also lead to cost savings for employers, such as lower turnover, higher productivity, and lower rates of unscheduled absenteeism.

*Are there benefits to taxpayers from raising wages?* Low wage workers who receive raises may pay more federal taxes and be eligible for fewer government programs, saving taxpayers money.

This study does not evaluate the cost to the city of the living wage policy, which may be passed along to local taxpayers. Other topics not addressed by the study include the impact of the living wage on the quality of city services and the bidding process for city contracts, all of which are important subjects in debates on living wages.[7] Finally, the study does not evaluate the impact of the living wage on workers or firms who have left the city contract sector since the passage of the ordinance.

Most of the existing studies of living wage ordinances are prospective studies, which predict the impact of a proposed policy.[8] These studies usually make projections based on theoretical assumptions and using publicly available government data on industries, firms, and workers. In addition to the many prospective studies that have been completed, there are a handful of studies analyzing the impact of living wage ordinances after they have been passed and fully implemented. Most of these studies rely on original surveys of firms subject to living wage ordinances.[9] In addition, two of these studies

[7] The City had already contracted with Richard Sander for such a study.

[8] These include Alunan et al. (1999), Employment Policies Institute (1999), Pollin and Brenner (2000), Pollin and Luce (1998), Reich et al. (1999), Reich and Hall (1999), Reynolds (1999), Tolley et al (1999), Williams and Sander (1997), and Zabin et al. (1999).

[9] Brenner (2003), Reich, Hall, and Jacobs (2003), Sander and Lokey (1998), and Weisbrot and Sforza-Roderick, 1996.

include worker surveys (Niedt, et al. 1999 and Reich et al 2003). Neumark and Adams (2005) does not include original survey data, but rather analyzes Current Population Survey data across cities to test for the effects of living wage policies

**Methodology**

Three original surveys are the main data sources for this analysis: a survey of living wage employers, a survey of living wage workers, and an employer control group survey. The living wage employer and worker surveys were directed by David Runsten. The employer control group survey was directed by David Fairris. The surveys are described below. A more detailed description of the survey methodology is included in Appendix A.

*Living Wage Employer Survey:* The City of Los Angeles' enforcement database was used to identify contracts with low wage workers. The lists of firms were stratified by industry and occupational groupings before a random sample of employers was taken. Firms whose wages and benefits levels were already at or above the requirements of the ordinance were screened out of the sample. In all, surveyors conducted in-person interviews with managers in 82 firms from the summer of 2001 through the spring of 2003. The results from this survey are referred to as the Living Wage Employer Survey.

*Living Wage Worker Survey:* Lists of workers were obtained from the random sample of living wage employers before a random sample of workers was selected. The Living Wage Worker Survey was conducted in-person, often at the respondent's house. From the spring of 2001 through the summer of 2003, 320 interviews were conducted. About 44 percent of workers interviewed were hired before the ordinance went into effect at their firm, and the remainder were hired afterwards. Those hired before the ordinance went into effect at their firm (the stayers) were asked to compare their experiences prior to the living wage raise with their experiences after the raise. Those coming into the living wage jobs (the joiners) were asked to compare their living wage jobs to their previous jobs at non-living wage firms. We were unable to interview those workers who left the contract sector after the living wage ordinance came into effect at their firm (the leavers).

*Survey of Diversity in Human Resource Practices (SDHRP):* A third survey was conducted by David Fairris and Mark Brenner in the Spring and Summer of 2002. The survey sampled firms in the same industries as those in the Living Wage Employer Survey but not covered by a living wage law. This survey of 210 non-living wage firms was explicitly designed to mirror the size and sectoral distribution of the firms in the living wage survey. This survey provides a baseline for changes that occurred in the broader economy during the same time period as that covered by the living wage survey. Findings from this control group analysis were published earlier this year in the journal *Industrial Relations* (Fairris 2005). Following Fairris, we exclude airport firms from the control group analysis. Although we do not present it, we have conducted the same analysis including the airport firms. Where the findings are significantly different including the airport, we discuss those differences. For the questions where there is no

control group equivalent, we analyzed the entire living wage sample, including airport firms.

The control group analysis allows us to isolate impacts on firms due exclusively to the living wage ordinance. However, not all the questions asked of living wage firms were also asked of the non-living wage firms. Consequently, we lack a control group comparison for some of our data. We do have strong evidence, however, that living wage firms are able to isolate the sole impact of the living wage and report it accurately. For example, firms were asked what they would pay employees subject to the living wage, if there were no such ordinance. In other words, they were asked to isolate the impact of the living wage on wages, excluding other factors. The average hypothetical hourly wage for an entry-level worker was $7.32, almost exactly the same as the average hourly wage actually paid to entry-level workers by the non-living wage firms, which was $7.34. This makes us reasonably confident about our ability to identify the impact of the living wage in those instances when the Employer Survey specifically asks about responses to the law.

In addition to these three main data sources, we compare our findings to two government data sources that provide information on low wage workers: the Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP), prepared by the U.S. Department of the Census. The comparison allows us to see how the demographics and other characteristics of living wage workers compare to their low wage counterparts in the state and county. The CPS, which is conducted by the Census for the Bureau of Labor Statistics, is a monthly survey of about 50,000 households and is the primary source of information for labor force characteristics for the U.S. population. The SIPP is a national household survey used to examine income sources of individuals and families, and participation in entitlement programs, such as Food Stamps.

**Overview of the Report**

In Chapter 2, we provide an overview of the number of firms and types of jobs affected by the ordinance. In Chapter 3—"Who are Living Wage Workers?"—we provide a demographic profile and estimates of the family income of workers who were in the affected living wage jobs at the time of the survey. Where possible, we compare the living wage workers to low wage workers in similar industries in Los Angeles County. Chapter 4 explores the impact of the raise and time off provisions of the ordinance on the employment policies at living wage firms and on the workers occupying living wage jobs at the time of the survey. Chapter 5 examines the effectiveness of the health insurance wage differential, and details the sources of insurance for low wage workers and their families. Chapter 6 examines how much of the raise workers are able to keep after taxes, and how the increase in income affects their eligibility for government programs. This chapter also analyzes workers' responses to questions about how their lives actually changed due to the ordinance. Chapter 7, entitled "Impact on Employers and the Workplace," explores firms' response to the Living Wage Ordinance. This chapter investigates the extent of job reductions, and other cost cutting strategies. This chapter assesses positive impacts of the ordinance on firms, such as reductions in turnover and

changes in employee absenteeism. Finally, in Chapter 8, we offer some conclusions and policy implications, based on the report's findings.

**Terms Used in This Report**

Throughout this report, we use the following specific definitions of firms, jobs and workers:

*Covered firms:* All firms with contracts covered by the living wage. Some firms did not have to increase pay because wages for all jobs were at or above the living wage level.

*Covered jobs:* All jobs on contracts covered by the living wage. Wages for some jobs were not increased because they were at or above the living wage level.

*Affected firms:* Firms that were required to raise wages to comply with the living wage. These are the firms in the Living Wage Employer Survey.

*Covered jobs in affected firms:* All jobs on contracts covered by the living wage within affected firms. Wages were increased for some of these jobs through mandatory and voluntary raises. Wages for some jobs were not increased at all because they were at or above the living wage level.

*Covered workers in affected firms:* All workers on contracts covered by the living wage within affected firms.

*Affected jobs:* Jobs where mandatory wage increases were given to comply with the living wage. This does not include jobs where wages were increased through voluntary raises.

*Affected workers:* Workers in the affected jobs, who were the subject of the Living Wage Worker Survey.

## Chapter 2 : Overview of Living Wage Firms and Jobs

This report focuses on the firms and workers that are most affected by the living wage: the firms that were required by the law to increase wages, which were the focus of the employer survey, and the workers in the jobs where pay was increased, who were the focus of the worker survey. Before exploring these groups, this chapter first gives an overview of the financial agreements with the city that are subject to the living wage and the number of jobs that represents. Then, we estimate the number of firms and jobs that have been actually affected by the living wage, based on information from the employer survey and the City's database of contracts subject to the living wage. "Affected firms" are defined as those firms that were required to raise wages in order to comply with the living wage. "Affected jobs" are those where mandatory pay increases were given. Affected firms gave both "direct raises," which are mandatory wage increases, and "indirect raises," which are non-mandatory. Indirect raises can either increase pay for workers above the level of the living wage, or increase pay for workers who are not subject to the living wage.

**Direct and Indirect Raises**

| | |
|---|---|
| *Direct raises* | Mandatory raises given to comply with the ordinance |
| *Indirect raises* | Voluntary raises given above the level of the living wage or to workers who are not subject to the living wage |

Focusing on the affected firms in our survey, we provide an overview of their basic characteristics, including industry, occupation, type of financial agreement with the city, size, whether employees are unionized, and other characteristics. We compare these characteristics to various sources of comparative firm data in order to explore whether affected living wage contractors are a select group, with characteristics that differentiate them from other firms.

### Types of Agreements Subject to the Living Wage

The Los Angeles living wage ordinance applies to firms and their subcontractors that have the following types of financial relationships with the city:

**Service contractors:** These firms perform a wide range of services for the City, including the following: janitorial services, security guard services, parking lot operations, social services, landscape maintenance, tree trimming, brush clearance, bus services, and a wide variety of miscellaneous services, including customer service, recreation services, and others. Although the majority of services are provided by low-wage workers, some services are provided by higher-paid professionals, including engineering, public relations, and legal services.

**Concession operators:** Concessionaires contract with the city to operate a business on city property, and typically agree to pay the city a percentage of the revenue generated by that business. Businesses operated by concessionaires include retail shops, restaurants and fast food stands, and recreation and entertainment establishments. Since

concessionaires operate on city property, they may also have a lease with the city. The majority of concession operators are located at LAX and Ontario Airports, and operate food service and retail establishments. Other concessionaires are located at city golf courses and recreation centers.

**Other firms that lease or license city property:** These include airlines, which lease terminals and other areas at the airport. They also receive permission from the City to land airplanes, considered by the City to be a license. Their subcontractors that operate at the airport are also subject to the ordinance, which include firms that provide baggage and other passenger services, and janitorial contractors.

**Economic development subsidy recipients:** These are firms that receive $1 million or more in subsidies within one year, or more than $100,000 per year on an ongoing basis, for the purpose of promoting economic development or job growth. There are only two subsidy recipients whose workers are subject to the living wage ordinance. In part, this is because the City has not granted a large number of development subsidies in recent years. Moreover, subsidy projects that have been approved often take years to build, and therefore have not been completed.

Most development subsidy projects are coordinated by the L.A. Community Redevelopment Agency (CRA), which is a state-chartered, quasi-independent agency, and therefore was not covered by the original 1997 ordinance. In 2003, however, the CRA passed a living wage policy that mirrors the requirements in the original ordinance, and applies to employees of real estate developers receive public subsidies and their subcontractors, but not to developers' tenants. This policy means, for example, that if a developer builds a shopping mall with CRA assistance, janitors and security guards hired by the developer would be subject to the ordinance, but not retail shops or restaurants that lease space in the mall. The CRA policy also applies to contractors the agency employs directly. The living wage surveys conducted for this report did not include any of the firms or workers affected by this policy.

In this report, firms that have any of the above relationships with the city will be referred to as **"city contractors,"** and their workers who are subject to the ordinance will be described as working **"on the city contract."**

### Exemptions to LWO

There are a variety of exemptions to the LWO. The more significant ones include the following:

- Service contracts that are less than three months long or for less than $25,000. An example is tree trimming contracts, which are often for specific streets, and are therefore short-term and low value.

- Contracts for the construction of buildings or infrastructure.

- Contractors who have a collective bargaining agreement (CBA) with a union that includes language specifying that the provisions of the CBA shall supercede the provisions of the LWO. For example, a union might accept a lower wage level in exchange for a higher contribution to health benefits or increased paid days off. Although many firms are technically exempt from the ordinance through this provision, we included such firms in our surveys if they said that the living wage ordinance had led to an improvement in wages or benefits through the collective bargaining process.

- Non-profit firms in which the executive director's hourly wage rate is less than eight times the hourly wage rate of the lowest-paid worker, except for childcare firms, which are subject to the ordinance in all cases.

- Small businesses that lease or license city property, but not small business service contractors, may apply for a renewable two-year waiver from the living wage. This exempts many of the businesses operating on city-owned property at Olvera Street, an historic neighborhood in downtown Los Angeles, and Ports of Call, a restaurant and retail complex at the Port of Los Angeles. Small businesses are defined as those employing no more than seven employees and with annual gross revenues below a specified threshold, which is adjusted on an annual basis. The revenue threshold for fiscal 2004-2005 is $391,637.

- Employees of a lessee or licensee who work in an area of city property that is not visited by the members of the public or who perform work that could not feasibly be performed by city employees. This exemption largely applies to the airport. Examples include employees who work in secure areas, such as on the airport tarmac, and employees of taxi companies and cargo airlines.

**Jobs Covered by the Living Wage Ordinance**

An estimated 22,000 jobs in 475 firms are subject to the requirements of the living wage ordinance, or "covered" by the ordinance (Table 2.1). Pay was increased for 9,584 of these jobs, or 44 percent of all covered jobs, based on results from the employer survey and information from the City's database of living wage covered contracts. The remaining 56 percent of jobs already paid at or above the levels required by the living wage, even before those jobs became subject to the ordinance. About half of these jobs, approximately 6,200, are at the airlines.[10] Other jobs above the level of the living wage include professional services, such as legal and engineering, and managers. For more information on jobs where pay was not increased, see Appendix B.

[10] We did interview two airlines, neither of which raised wages for any employees due to the living wage. These airlines are not included in the living wage firm survey data. An analysis done by the City of L.A.'s CAO office of payroll records submitted by the airlines in 2002 showed that most airline employees make more than $10 per hour. (At the time, the living wage was $9.52) Although it is possible that raises were given to some airline employees, in order to provide a conservative estimate of the number of jobs where pay was increased, we have excluded the airlines.

**Table 2.1 Jobs Covered by the L.A. Living Wage Ordinance**

| | Number of Jobs | Percent of All Covered Jobs |
|---|---|---|
| Jobs where pay was increased | 9,584 | 44% |
| Jobs where pay was not increased | 12,416 | 56% |
| Total | 22,000 | 100% |

Source: Living Wage Employer Survey, weighted by number of subject workers, and the City of Los Angeles Living Wage Contractor Database.

### L.A. Living Wage Compared to Other Cities

Although a minority of covered jobs were affected by the ordinance, the nearly 9,600 affected jobs makes the L.A. ordinance one of the largest in scope in the nation. Very few retrospective studies have been completed that provide estimates of affected jobs, but the comparative data that is available shows that most local governments with living wage ordinances have fewer than 9,000 jobs covered by the living wage.[11] Only the cities of New York and San Francisco could have larger numbers of jobs where pay was increased. New York City's ordinance, passed in 2002, will be phased in over several years and is expected to raise wages for 59,000 jobs by 2006, most of them in the homecare industry (Brennan Center, 2002). In San Francisco, Michael Reich's retrospective study found that pay was increased at an estimated 8,000 airport jobs due to the living wage (Reich, 2003).[12] His prospective study predicted that an additional 13,500 jobs, including service contractors, homecare workers, and port workers, would be affected by the San Francisco law.

### Jobs Affected by the Ordinance

This report focuses on the firms that had to increase wages in order to meet the requirements of the ordinance, which were the firms interviewed in the living wage employer survey. Screening for the employer survey revealed that the wage impact was the primary effect of the ordinance; firms did not improve health benefits without also raising wages. An estimated 148 firms gave pay increases as a result of the living wage.[13] Pay for 7,735 jobs in these firms was increased through mandatory raises, as shown in Table 2.2. In addition, nearly 40 percent of these firms (58 firms) gave non-mandated wage increases, known as "indirect raises." These indirect raises affected 1,849 jobs. Most of the indirect raises increased wages vertically, above the level required by the ordinance, in order to maintain wage differentials among workers subject

[11] L.A. County data comes from an interview with Lorena Gomez of the LA County Office of Affirmative Action Compliance, which coordinates living wage enforcement. Data on other local governments is from unpublished research by Stephanie Luce, University of Massachusetts, Amherst Labor Center and Mark Brenner, Political Economy Research Institute, University of Massachusetts, Amherst.

[12] In San Francisco, wages were raised both through the Quality Standards Program and the Minimum Compensation Ordinance. 5,400 jobs received mandated wage increases and another 2,550 jobs received non-mandated increases.

[13] The results of the employer survey were extrapolated to all firms affected by the living wage. For more background on the City's Living Wage Contractor Database, and a detailed explanation of the methodology used to derive the estimates in this section, see Appendix B.

to the living wage. A few firms increased wages horizontally, in order to maintain wage parity between living wage affected workers and low-wage workers not working on city contracts. More detailed information about the indirect raises is presented in Chapter 4. Ten firms improved their health benefits plans or expanded coverage to more workers to meet the requirements of the ordinance. An estimated 2,236 jobs were affected by those improvements. The impact of the ordinance on health benefits is explored further in Chapter 5.[14]

**Table 2.2: Estimated Number of Firms and Jobs Affected by Living Wage Requirements**

| Type of LWO Impact | # of Firms | # of Jobs |
|---|---|---|
| Wages increased | 148 | 9,584 |
| Mandatory raises | 148 | 7,735 |
| Non-mandatory indirect raises | 58 | 1,849 |
| Health benefits increased* | 10 | 2,236 |

Sources: Living Wage Employer Survey, weighted by number of subject workers, and the City of Los Angeles Living Wage Contractor Database.
*Jobs with health benefits increases overlap with jobs with pay increases.

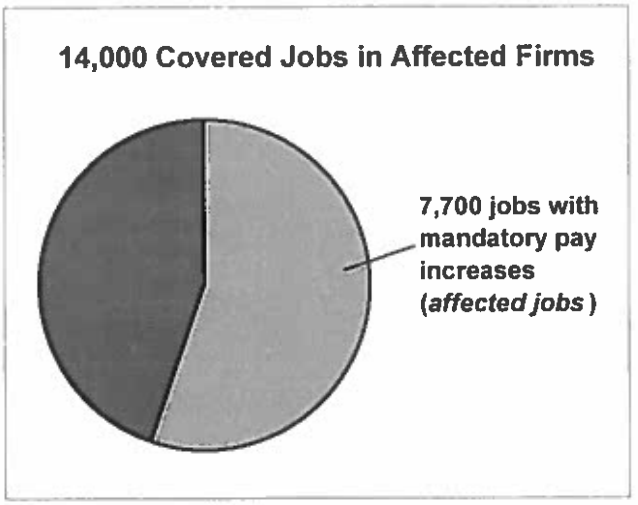
It is important to note that our estimates of jobs affected by the City of Los Angeles' living wage ordinance are based on data from 2001 and 2002, and there has been one significant change in the number of jobs since that time. In November 2002, 1,200 subcontracted airline security screener jobs were transferred to the federal government's Transportation Security Administration as a response to the events of September 11.[15] Pay for the jobs is above the level of the living wage, and they are no longer subject to the ordinance. The only factor offsetting this decline in the number of jobs affected by the living wage is the rolling implementation of the ordinance, which means that some firms with long-term contracts have likely become subject to the ordinance since 2002.[16]

Nearly 150 firms were required to raise wages to comply with the living wage. Within these affected firms, there are nearly 14,000 jobs on living wage contracts, as shown in Figure 2.1. We define these jobs as **"covered jobs in affected firms."** Pay was increased for some of these jobs through direct and indirect raises, while pay for some jobs was not increased at all. This group of jobs is of particular importance in Chapter 5, dealing with health benefits, and Chapter 7, dealing with workplace changes such as job reductions. This is because changes such as health benefits or job reductions may affect all jobs on living wage contracts, whether or not wage increases were given. Data on

[14] We were unable to estimate the number of jobs where paid days off were increased. Firms that increased paid days off due to the living wage employ more than 8,000 living wage workers, but because paid days off policies are often based on job tenure at the firm, these changes may not have affected all workers subject to the living wage in these firms.
[15] *Los Angeles Times*, "LAX Fills Its Screen Team," November 5, 2002.
[16] Many of the largest employers, such as airport concessionaires and airline service firms, have already become subject.
[22] A living wage establishment is defined as a physical location that employs living wage workers, and for some firms, includes non-living wage employment. A firm may have one or more establishments.

covered jobs in affected firms is derived from the living wage employer survey, weighted by the number of workers on living wage contracts.

**Figure 2.1: Jobs in Affected Firms**




Source: Living Wage Employer Survey and City of Los Angeles Living Wage Contractor Database

**Overview of Affected Firms**

The following section presents data on firm characteristics and employment. The distribution among industry groups varies for firms and jobs, as shown in Table 2.3. Airline service, security, and parking firms make up less than 10 percent of all affected firms. However, because the number of affected jobs tends to be larger for these firms, over half of all directly affected jobs are in these industries.

Since our employer survey in 2002, the most significant change in the composition of living wage jobs has been the federalization of 1,200 security screeners. Therefore, we present data for directly affected jobs as they were at the time of our survey (including screeners), and current data, which excludes screeners. Before federalization, airline services jobs represented nearly a third of all directly affected jobs, while today they make up less than 20 percent.

Finally, the miscellaneous group includes firms that did not fit into any other category, and is therefore quite diverse. Some examples include firms that provide customer service, bus services, home health care, and firms that operate game and amusement centers on city property.

**Table 2.3: Living Wage Affected Firms and Jobs by Industry Groups**

| Industry Group | % of Affected Firms | % of Affected Jobs | % of Affected Jobs Without Screeners |
|---|---|---|---|
| Airline Services | 3% | 30% | 19% |
| Janitorial | 13% | 12% | 14% |
| Landscape Maintenance | 10% | 2% | 3% |
| Miscellaneous | 23% | 8% | 9% |
| Retail and Food Service | 23% | 10% | 11% |
| Security and Parking | 6% | 31% | 35% |
| Social Service | 23% | 8% | 9% |

Source: Living Wage Employer Survey, weighted by firm and by number of jobs where mandatory raises were given.
N = 82 Margin of error ranges from ±3% to ±11%

Living wage affected jobs include a variety of occupations (Table 2.4). Before federalization, nearly one-third of affected jobs were airline service employees, which include baggage handlers, wheelchair attendants, and security screeners. Even after federalization, airline service jobs still make up the largest single category. Another thirty percent of affected jobs are janitors and cashiers. Other sizable occupational groups include parking attendants and food service workers. Several occupations can be found in multiple industries. For example, cashiers may be employed by retail, food service, or parking firms. Even janitorial jobs are found in other industries, such as social service where, for instance, janitors are employed in homeless shelters.

**Table 2.4: Affected Jobs by Occupation**

| *Type of Job* | # of Affected Jobs | % of Affected Jobs | % of Affected Jobs Without Screeners |
|---|---|---|---|
| Airline service workers† | 2,415 | 30% | 19% |
| Janitor | 1,127 | 14% | 16% |
| Cashier | 966 | 12% | 14% |
| Parking attendant | 725 | 9% | 10% |
| Food service worker | 644 | 8% | 9% |
| Child care worker | 322 | 4% | 4% |
| Retail clerk | 242 | 3% | 4% |
| Security guard | 242 | 3% | 3% |
| Customer service representative | 161 | 2% | 3% |
| Driver | 161 | 2% | 2% |
| Landscape maintenance worker | 161 | 2% | 2% |
| Usher | 81 | 1% | 2% |
| Other | 886 | 11% | 13% |

Source: Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given.
N=82
The margin of error ranges from ± 2% to ±10%
†Includes skycaps, wheelchair attendants, and screeners

Table 2.5 displays additional basic characteristics of living wage affected firms and the percent of affected jobs in each type of firm, both before and after the federalization of the screeners. The majority of affected jobs are located at LAX or Ontario airports, because the largest affected employers are concentrated at the airport. In terms of the type of relationship firms have with the city, nearly 70 percent of affected firms are service contractors, but these firms represent only about half of affected jobs currently. Airline service firms, which are subcontractors to the airlines, represent only 6 percent of all affected firms, but nearly 30 percent of all current directly affected jobs. There are very few firms that are economic development subsidy recipients or lessees. Although the airlines do lease airport terminals and other facilities, they were not included in the survey because they did not give significant raises to their employees.

**Table 2.5: Characteristics of Affected Firms**

| | % of Affected Firms | % of Affected Jobs | % of Affected Jobs Without Screeners |
|---|---|---|---|
| Located at airport | 28% | 64% | 58% |
| | | | |
| Service contractor | 67% | 41% | 48% |
| Service subcontractor to airlines | 6% | 37% | 27% |
| Concessionaire | 24% | 15% | 17% |
| Economic development subsidy recipient | 0.5% | 7% | 8% |
| Lessee | 0.4% | 0.2% | 0.3% |
| | | | |
| Subcontractor | 12% | 41% | 32% |
| Subsidiary of another firm | 30% | 55% | 52% |
| Non-profit firm | 23% | 8% | 9% |

Source: Living Wage Employer Survey, weighted by firm and by number of jobs where mandatory raises were given.
N = 82 Margin of error is ranges from ±1% to ±11%

Compared to establishments in similar industries in L.A. County, living wage affected establishments are more likely to be large.[22] Over a third of living wage affected establishments have more than 100 employees, while only 2 percent of L.A. County establishments do (Table 2.6). Less than half of all living wage affected establishments have fewer than 20 employees, compared to over 80 percent for establishments in similar industries in L.A. County.

**Table 2.6: Establishments by Size Category**

| Size Category | % of Living Wage Affected Establishments | % of All Establishments in Similar Industries in L.A. County* |
|---|---|---|
| 1 to 19 employees | 43% | 83% |
| 20 to 49 employees | 18% | 11% |
| 50-99 employees | 3% | 4% |
| 100-499 employees | 30% | 2% |
| 500 employees or more | 6% | <1% |
| N | 78 | 67,600 |

Source: Living Wage Employer Survey and 2001 County Business Patterns, U.S. Census Bureau
Margin of error for Living Wage Survey ranges from ±4% to ±11%
*Industries include the following NAICS codes: 44 Retail Trade, 56 Administrative and Support and Waste Management and Remediation Services, 624 Social Assistance, 71 Arts, Entertainment, and Recreation, 722 Food Service and Drinking Places, 81293 Parking Lots and Garages.

Living wage affected jobs in Los Angeles are also much more likely to be unionized than jobs overall in California (Table 2.7). Nearly two-thirds of living wage affected jobs are unionized, compared to only 17 percent of all jobs state-wide (Milkman and Rooks, 2003). In fact, the rate of unionization for living wage affected jobs is comparable to the rate for public sector jobs, which, at 54 percent, is the most heavily unionized sector in the state.

Some of this high union density can be attributed to a multi-union organizing drive at the Los Angeles airport, which was undertaken in 1998, the same year the living wage was extended to airlines and their subcontractors. This campaign was successful in organizing 2,200 workers, which included 16 percent of all living wage affected jobs. Even before this campaign, however, 41 percent of affected jobs were already unionized, a much larger proportion than for jobs in the state as a whole.

**Table 2.7: Unionization**

| | % of Living Wage Affected Firms | % of Living Wage Affected Jobs | % of All Jobs in CA | % of All Public Sector Jobs in CA |
|---|---|---|---|---|
| Unionized before living wage | 14% | 41% | Not available | Not available |
| Unionized in 2002 | 15% | 64% | 17% | 54% |

Source: Living Wage Employer Survey and Current Population Survey 2001 and 2002, as analyzed in Milkman and Rooks (2003)
Living Wage Employer Survey N=82
Margin of error for living wage employer survey ranges from ±8% to ±10%

### Additional Living Wage Jobs Not Covered by the Original Ordinance

There are other jobs in Los Angeles that are subject to living wage requirements, but they are not included in this study because they are not covered by the original 1997 ordinance (see Table 2.8). We did not include any of the following groups in our surveys.

A separate city ordinance, enacted in 1998, raised wages for approximately 900 city jobs that were previously below the living wage standard.[25] The majority of these jobs are part-time or intermittent positions that supplement regular staff during peak work times. Affected jobs include summer youth job program staff and summer camp staff, school crossing guards, and election staff.

The living wage surveys also did not include several subsidized development projects that are subject to living wage requirements but are not covered by the original ordinance. The L.A. Community Redevelopment Agency (CRA) is a major source of economic development subsidies for projects in the City of Los Angeles. Although the 1997 living

[25] A 1998 memo prepared by the L.A. City Administrative Officer listed the number of jobs where wages would be increased under the ordinance.

wage ordinance covers recipients of city economic development subsidies, it does not cover CRA projects, because the CRA is a state-chartered, quasi-independent agency. The CRA passed its own living wage policy in 2003, as previously discussed. In the late 1990's, before the passage of this policy, the CRA attached living wage requirements to three of the economic development projects it funded.

Under these agreements, developers and their subcontractors are required to comply with the provisions of the 1997 living wage ordinance. In addition, some of the low-wage jobs in these developments are unionized, which has raised wages and benefits standards. These three projects are in the city council district of the sponsor of the living wage ordinance, former Councilmember Jackie Goldberg, and the living wage requirements were attached as a result of community and political organizing by living wage proponents. The projects are the Hollywood/ Highland theater, hotel and retail complex; the Arclight Cineramadome movie theaters; and the Sunset and Vine retail and housing complex. These projects have been constructed, are now in operation, and include approximately 400 low-wage jobs that are subject to living wage requirements or union collective bargaining agreements.[26]

**Table 2.8: Other Jobs Subject to Living Wage Requirements**

| Category | Number of Covered Low-Wage Jobs |
|---|---|
| City jobs where pay was increased by 1998 City Ordinance | 900 |
| Existing CRA economic development subsidy projects with living wage requirements | 400 |
| Total | 1,300 |

Source: CAO, CRA, owners of affected development projects

**Conclusion**

The Los Angeles living wage ordinance raised wages for an estimated 9,600 jobs in 150 firms. Wages were raised for 7,700 jobs through mandated raises that were given to meet the requirements of the ordinance. Another 1,900 jobs were affected through non-mandated indirect raises. In addition to wage increases, 10 firms improved health benefits or extended coverage to more workers in order to meet the requirements of the living wage, and those improvements affected 2,236 jobs. The wage increases brought about by the L.A. ordinance make it one of the largest in scope in the nation. Only ordinances in New York City and San Francisco raised wages for a larger number of jobs. In addition to the impact of the original ordinance, pay was increased for another 900 city jobs through a subsequent ordinance, and another 400 low-wage jobs are subject to living wage requirements in negotiated legal agreements with developers.

More than 60 percent of the jobs affected by the L.A. city living wage are at the Los Angeles or Ontario Airports, and most affected jobs are found in firms that are service contractors for the city or for the airlines, as opposed to concessionaires or economic

[26]Because these agreements are not subject to the 1997 living wage ordinance, they are not included in the city's regular living wage enforcement process.

development subsidy recipients. The most common living wage affected occupations are airline service workers, janitors, cashiers, parking attendants, and food service workers. Living wage affected establishments are larger compared to those in similar industries in L.A. County. Finally, nearly two-thirds of living wage affected jobs are unionized. This is even higher than the rate of unionization for public sector jobs, which is the most highly unionized sector in both California and the nation.

## Chapter 3 : Who Are Living Wage Affected Workers?

The living wage ordinance resulted in mandatory pay increases for an estimated 7,700 jobs on city contracts. In 2002,[27] we conducted a survey of the workers in those jobs, referred to in this chapter as *living wage affected worker* or *affected workers.* In order to explore who benefits from the living wage, this chapter presents demographic information from the worker survey. We detail the gender, racial, and ethnic composition of the workforce, as well as the percentage who are immigrants. We explore whether workers are young and at the start of their working careers, or whether they are older and well into their working lives. In order to determine whether workers are supporting families, we present an overview of workers' family characteristics, such as marital status and number of dependent children. We also calculate the percentage of affected workers who live in different types of families. In order to determine whether living wage affected workers are different from other low-wage workers, we also present data from the Current Population Survey (CPS) on the characteristics of workers earning similar wages in similar industries in Los Angeles County.[29]

One of the most important questions about affected workers is whether they are part of low-income families. Because one of the commonly-stated goals of living wage policies is to reduce poverty or improve living standards for low-income families, a key research question is whether living wage affected workers are part of poor or low-income families. Demographic characteristics are an important predictor of family income. In addition, we use data from the CPS on the family incomes of low-wage workers in L.A. County to

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[27] The survey began in late 2001 and continued until the middle of 2003, but the majority of interviews were conducted in 2002.

[29] The Economic Policy Institute conducted the analysis of CPS data presented in this chapter. We used the CPS Outgoing Rotation Group (ORG) and selected people who worked in the last week and reported earning from $6.75 to $11.99 per hour. In order to have a large enough sample to select workers only in the same industries, we combined 2002 and 2003 data, and we selected workers up to $11.99, which is slightly higher than the living wage level at the time of the survey. (In 2002-2003, the higher wage level was $9.52 per hour.) The average wage of the CPS workers is $9.40, very similar to the average wage of workers affected by the living wage, which is $9.53. Although we selected only workers in similar industries as the living wage workers, the occupational mix may be different, which could account for some of the differences between the two groups. The industries selected include the following NAICS codes: 44 Retail Trade, 56 Administrative and Support and Waste Management and Remediation Services, 624 Social Assistance, 71 Arts, Entertainment, and Recreation, 722 Food Service and Drinking Places, 81293 Parking Lots and Garages.

estimate the family incomes of living wage affected workers. We analyze what percentage of low-wage workers fall below a variety of poverty measures, including the federal poverty guidelines, 200% of the federal poverty guidelines, and basic-needs budget thresholds, which measure the actual cost of basic necessities for families in Los Angeles County. We do not evaluate whether the living wage is more or less effective than other public policies in decreasing poverty.

**Gender, Age, and Labor Force Tenure**

Compared to low-wage workers in similar industries in Los Angeles County, living wage affected workers are more likely to be women. Fifty-seven percent of living wage affected workers are women, compared to 45 percent of low-wage workers in L.A. County (Table 3-1).

Living wage affected workers are well into their working careers and are older than workers in L.A. County in similar industries. Only four percent of living wage affected workers are teenagers, compared to 14 percent of low-wage workers in L.A. County. Teenagers are more likely to live with their parents, who tend to have higher incomes. Teenagers are therefore less likely to be living in low-income families than older workers are. The lower proportion of teenagers among living wage affected workers suggests that living wage affected workers are more likely to be low-income than are low-wage workers in L.A. County.[30]

The age difference between living wage affected workers and low-wage workers in L.A. County is evident in all age groups. Nearly 60 percent of living wage affected workers are 35 or older, while less than 40 percent of low-wage workers in L.A. County are in that category. Given that living wage affected workers are older, it is not surprising that they have many years of experience in the labor market. On average, living wage affected workers have been working for 19 years, and half the workers have been in the labor force for at least 17 years.

[30] There has been much debate over whether wage mandates, such as living wage policies and minimum wage increases, are well-targeted to low-income families. See, for example, Neumark 2003, and the discussion in *Economic Development Quarterly*, February 2005.

**Table 3.1: Gender, Age, and Years in the Labor Force**

| Sex | Living Wage Affected Workers | L.A. County Low-Wage Workers in Same Industries† |
|---|---|---|
| Female | 57%* | 45%* |
| Male | 43%* | 55%* |
| Age | | |
| 16-19 | 4%* | 14%* |
| 20-34 | 37%* | 50%* |
| 35 and over | 58%* | 36%* |
| Average Number of Years in Workforce Since age 16 | 19 | |
| N | 320 | 1,188 |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

†Includes all workers earning $6.75 to $11.99 per hour.

*The difference between living wage workers and L.A. County workers is statistically significant at the 95% confidence level.

**Race/Ethnicity and Immigrant Status**

Half of all living wage affected workers are Latino, while nearly 30 percent are African-American. Another 12 percent are Asian or Pacific Islanders, as shown in Table 3-2. Compared to low-wage workers in L.A. County in similar industries, more than three times as many living wage affected workers are African-American, while fewer are Latino and White. This higher concentration of African-Americans in living wage jobs may be related to the fact that African-Americans tend to be employed in the public sector. Among low-wage workers, African Americans make up 8% of the overall L.A. county workforce, but 19% of the public sector workforce.[31] It is also likely due to the concentration of African-Americans in the neighborhoods surrounding LAX.

Approximately half of living wage affected workers are immigrants, but they tend not to be recent immigrants. Affected workers who are immigrants have been in the U.S. for 16 years on average, five years longer than the average for low-wage workers in L.A. County. Most foreign-born living wage affected workers are from Mexico and Central America. The remaining foreign-born workers come from several regions of the world including Asia, Africa, and South America.

[31] Economic Policy Institute analysis of CPS Outgoing Rotation Group, 2002 and 2003 combined.

**Table 3.2: Race, Place of Birth, and Years in U.S.**

| | Living Wage Affected Workers | L.A. County Low-Wage Workers in Same Industries† |
|---|---|---|
| Latino | 51%* | 64%* |
| African or African-American | 29%* | 8%* |
| Asian/Pacific Islander | 12% | 8% |
| White | 8%* | 19%* |
| | | |
| Foreign-born | 53% | 56% |
| Mexico | 17% | |
| Other Latin America | 18% | |
| Asia | 9% | |
| Africa | 6% | |
| Caribbean | 2% | |
| Other | 2% | |
| | | |
| Mean Years in United States (if not born in US) | 16* | 11* |
| N | 320 | 1,188 |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group 2002 and 2003 combined.

†Includes all workers earning $6.75 to $11.99 per hour.

*The difference between living wage workers and L.A. County workers is statistically significant at the 95% confidence level.

**Full-time/Part-time Status**

The great majority (86 percent) of living wage affected workers work full-time, either at their living wage job or by combining that job with another job (Table 3-3). This suggests that the earnings of affected workers are an important source of support for themselves and their families. These are not workers who are able to work less than full-time by relying on the income of other family members. Seventy-one percent of affected workers work full-time (35 hours per week or more) at their living wage job.[32] The percentage of workers who work full-time varies significantly by industry. For example, 100 percent of affected workers in landscape firms and 84 percent of those in airline service firms work full-time while only 59 percent of affected workers in the retail and food service industries and the security and parking industries work full-time.[33] Another 15 percent of affected workers work full-time by combining their part-time living wage job with another job. The remaining 14 percent work part-time.

[32] Five percent of all workers are employed by firms that do not offer year-round work on city contracts, and they may work full- or part-time during those periods. For example, some landscape firms only contract with the city for a few months to complete a particular project. Other firms do not operate on a year-round, full-time basis.

[33] The association between industry and full-time/part-time status is statistically significant at the 0.01 level.

**Table 3.3: Living Wage Affected Workers by Full-Time/Part-Time employment status**

| | % of Affected Workers |
|---|---|
| Work full-time* | 86% |
| Work full-time at living wage job | 71% |
| Work full-time by combining part-time living wage job with second job | 15% |
| Work part-time | 14% |

Source: Living wage worker survey.
N=320 The margin of error is +- 5%.
*35 hours per week or more

**Worker Educational Characteristics**

The living wage ordinance mostly affects workers who do not have high levels of education. The great majority (71 percent) of living wage affected workers have a high school education or less (Table 3-4). One in five have attended some college, while very few have completed a bachelor's degree. These proportions are similar to those of low-wage workers in L.A. County. Currently, 14 percent of living wage affected workers attend college, with more attending a community college than a four-year college.

**Table 3.4: Educational Characteristics**

| | Living Wage Affected Workers | L.A. County Low-Wage Workers in Same Industries† |
|---|---|---|
| Highest Level of School Completed | | |
| High School or less | 71% | 68% |
| Some college | 21% | 25% |
| College degree or higher | 8% | 7% |
| | | |
| Currently Enrolled in High School or College | | |
| Community college | 10% | |
| Four year college | 4% | |
| High school/GED | 1% | |
| N | 320 | 1,188 |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.
†Includes all workers earning $6.75 to $11.99 per hour.

**Worker Family Characteristics**

The majority of living wage affected workers are single, which is similar to low-wage workers in similar industries in L.A. County, as shown in Table 3-5. A significant minority of living wage affected workers (40 percent) have dependent children living in

their household. Affected workers living with dependent children have two on average, which is also similar to low-wage workers in L.A. County. The proportion living with dependent children is similar between the two groups, which may seem surprising given that living wage affected workers are older. One the one hand, living wage affected workers are less likely to be teenagers, which would suggest that they are more likely to have dependent children. However, nearly a quarter (24 percent) of living wage affected workers are over fifty, which suggests that they may have adult children, rather than dependent children.

**Table 3.5: Family Characteristics**

| Marital Status | Living Wage Affected Workers | L.A. County Low-Wage Workers in Same Industries† |
|---|---|---|
| Single | 58% | 60% |
| Married | 42% | 40% |
| **Dependent Children** | | |
| Do not have dependent children in household | 60% | 65% |
| Have dependent children in household | 40% | 35% |
| Average number of dependent children | 2 | 2 |
| N | 320 | 1,188 |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

†Includes all workers earning $6.75 to $11.99 per hour.

We classified workers into several family types based on whom they reported living with, as shown in Table 3-6. Fifty-five percent of living wage affected workers live with either a spouse, domestic partner, or dependent children, similar to low-wage workers in L.A. County. Nearly a quarter of affected workers are part of two-parent families with children under 18, also similar. Sixteen percent of affected workers – the overwhelming majority of whom are female (95 percent) – are single parents of children under 18. This is more than double the proportion for low-wage workers in L.A. County. Another 15 percent of affected workers live with a spouse or domestic partner, but not with any young children of their own, which is similar to low-wage county workers. The remaining 41 percent of workers we defined as "single" – that is, they are adults over 18 who do not live with a spouse, domestic partner, or dependent children.[34] Although the proportion of low-wage county workers is lower, the difference is not statistically significant. Living wage affected workers who are single do not necessarily live alone, in fact, only 14 percent of living wage affected workers report living alone. Most single affected workers live with other family members or roommates. Only 1 percent of

[34] However, it should be noted that 9 percent of these workers are in fact legally married. Since all but two of these workers are immigrants it could be that these workers have spouses living in their country of origin. Another possible explanation why some married workers live alone is that they might be separated from their spouse. "Separated" was not an option listed on the survey and only in a few cases did workers offer that they are living separately from their spouse.

affected workers are teenagers under 18, which is similar to the proportion among county low-wage workers.

**Table 3.6: Family Types**

| Family Type | Living Wage Affected Workers | L.A. County Low-Wage Workers in Same Industries† |
|---|---|---|
| Couple with children under 18 in the household | 24% | 28% |
| Both parents working | 17% | 16% |
| One parent working | 7% | 12% |
| Single parent with children under 18 in the household | 16%* | 7%* |
| Couple with no children under 18 in the household | 15% | 12% |
| Single adult 18 and over (does not live with spouse or dependent children) | 44% | 49% |
| Teenagers under 18 | 1% | 4% |
| N | 320 | 1,188 |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

†Includes all workers earning $6.75 to $11.99 per hour.

*The difference between living wage affected workers and L.A. County workers is statistically significant at the 95% confidence level.

## Income and Poverty Status of Living Wage Affected Workers

The living wage worker survey did not gather reliable information on family income.[35] The best source of such data for low-wage workers in L.A. County is the Current Population Survey (CPS), which we used to estimate the family incomes of living wage affected workers.[36]

[35] The worker survey did not collect this information for several reasons: workers were often interviewed at or near the workplace, so they did not have access to financial records, workers who were interviewed were not always the person responsible for keeping track of the family finances, and survey interviewers often did not have access to other family members or to financial records. As a result, the survey asked workers for their family income, but two-thirds of workers were unable to answer this question. The survey also asked workers to select among various family income categories. Eighty percent of workers answered this question. Of those workers, 40 percent said that their family income was less than $20,000 per year and two-thirds said it was less than $30,000. However, further analysis of this data revealed that reported family income was too low to be reliable. It is likely that workers' responses did not include all other family members' income, and all sources of non-wage income.

[36] For the analysis of family income, we used the Current Population Survey March Supplement, 2002 and 2003 combined. We used the same selection criteria as the previous analysis (people who worked in the last week and reported earning from $6.75 to $11.99 per hour), except for the selection of similar industries, which we unable to do because of small sample size.

As we have seen, the characteristics of living wage affected workers are quite similar to those of low-wage workers in the county. However, they differ in several respects. Living wage affected workers are less likely to be teenagers, and they are more likely to be African-American, to be female, and to be single parents. Living wage affected workers who are immigrants have been in the U.S. five years longer than similar low-wage workers in the county. Except for years in the U.S., all the other differences between the two groups would suggest that living wage affected workers have lower family incomes. Therefore, using CPS data on low-wage workers in L.A. County is likely to be an overestimate of family incomes and an underestimate of the poverty status of living wage affected workers.[37] However, this is the best available data to estimate the family incomes for living wage affected workers.

In order to determine whether low-wage workers are members of poor or low-income families, we used three different measures:

***Federal Poverty Guidelines:*** The federal guidelines are best seen as a measure of extreme poverty. In recent years, researchers and government officials have argued that the federal poverty line, set in 1963, is an inadequate measure of the minimum income needs of families (Citro and Michael, 1995, Bernstein et al., 2000, Ruggles, 1990.) The federal poverty line is based on the cost of the basket of food necessary to satisfy the caloric needs of a family. To generate a dollar figure for poverty, the government multiplies the cost of the food basket by three. Such an approach does not take into account that costs vary greatly in different parts of the country. In addition, the federal poverty line is not indexed to housing, child care and healthcare costs, expenses that take up an increasing share of family income. The 2002 federal poverty guideline was $18,100 per year for a family of four.

***200 Percent of Federal Poverty Guidelines*:** This standard offers a more realistic definition of poverty. The federal government itself bases income eligibility levels for many anti-poverty programs—including Food Stamps, Section 8 housing assistance, Reduced Price School Meals, and the Earned Income Tax Credit—at levels that are higher than the federal poverty guidelines, as shown in Table 3-7. Other government anti-poverty programs, such as the State of California's subsidized child care and its subsidized health care program (Healthy Families),[38] have eligibility thresholds that are even higher than 200 percent of the poverty guidelines. We chose 200 percent as the threshold to represent eligibility for anti-poverty programs, and to serve as our definition of poverty for this report. 200 percent of the 2002 Federal Poverty Guidelines was $36,200 per year for a family of four.

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[37] We only rely on the CPS for family income information. All other data about living wage workers comes from the employer and worker surveys.

[38] Healthy Families is California's version of the State Children's Health Insurance Program, a federal program that provides health insurance to low-income children.

**Table 3.7: Income Thresholds for Major Anti-Poverty Programs, 2002**

| Anti-Poverty Program | Income Threshold for Family of Four | % of Federal Poverty Guidelines |
|---|---|---|
| Food Stamps | $23,532 | 130% |
| Section 8 housing vouchers | $27,550 | 152% |
| Reduced Price School Meals | $33,485 | 185% |
| Earned Income Tax Credit | $34,178 | 189% |
| California subsidies for child care | $39,000 | 215% |
| Healthy Families subsidized health care | $45,252 | 250% |

Sources: U.S. Department of Agriculture, U.S. Department of Housing and Urban Development, California Department of Health Services, Internal Revenue Service, California Department of Education.

***Self-Reliance Budgets:*** Largely in response to the inadequacy of the federal poverty guidelines, various research organizations have devised monthly budgets based on actual living expenses, in an effort to determine the income needed to support a family without government assistance in different regions of the country.[39] These budgets vary according to family type and include estimated expenses for necessities such as housing, food, and childcare. They do not include such items as savings for college or retirement, or family trips. The budgets assume that families are paying market rates for necessities such as childcare and healthcare.[40] In reality, many working families go without healthcare or rely on family or friends for childcare. Among living wage affected workers, 43 percent of single parents and 64 percent of workers whose spouses also work report that a member of their family provides childcare for their children, presumably for free or at reduced cost.

In addition, self-reliance budgets are based on the nuclear family, and only include spouses and children, unlike the federal poverty guidelines, which include extended family. In reality, many low-income workers live with extended family members or roommates in order to make ends meet. Among living wage affected workers, 42 percent live with people other than members of their nuclear family. The self-reliance budget, then, represents an ideal standard that would allow an individual or a nuclear family to live independently if they wish to do so, without having to rely on government anti-poverty programs or low-cost childcare from family and friends. Families that fall below this standard may not necessarily be poor, but they can be considered low-income. Table 3-7 lists the components of the self-reliance budgets used in this analysis by family type.

[39] This report uses the needs-based budgets developed by the California Budget Project (2003) for all family types except married couples with no children, for which we use the National Economic Development and Law Center budget (Pearce, 2003). Income for families in the CPS was inflated to 2003 using the Consumer Price Index.

[40] We adjusted the healthcare costs to account for the fact that 31% of low-wage workers in L.A. County have family health insurance provided by their employer or the employer of someone in their family. For those workers, we deducted 75% from the cost of their health insurance, which is the average portion of the premium for family health benefits paid by employers in California who provide health benefits to their employees, from the 2003 California Employer Health Benefits Survey (Henry J. Kaiser Family Foundation et al., 2002).

**Table 3.8: Self-Reliance Budget for Various Family Types**

| Monthly Expenses | Single Adult | Single Parent† | Couple, No children | Two Parents, One Working† | Two Working Parents† |
|---|---|---|---|---|---|
| Housing/Utilities | $638 | $967 | $807 | $967 | $967 |
| Child Care | $0 | $954 | $0 | $0 | $954 |
| Transportation | $290 | $290 | $469 | $290 | $522 |
| Food | $190 | $465 | $358 | $667 | $667 |
| Health Care†† | $197/ $49 | $495/ $124 | $238/ $60 | $595/ $149 | $595/ $149 |
| Miscellaneous | $173 | $342 | $187 | $422 | $422 |
| Taxes | $330 | $528 | $308 | $385 | $689 |
| **Monthly Total** | **$1,819** | **$4,041** | **$2,367** | **$3,327** | **$4,817** |
| **Annual Total††** | **$21,823/ $20,050** | **$48,490/ 44,035** | **$28,404/ $26,262** | **$39,920/ $34,565** | **$57,800/ $52,445** |

Source: Pearce (2003) for the couple with no children, and California Budget Project (2003) for all other family types.

†Assumes two children

††Healthcare costs were decreased by 75% for workers with employer-based family health insurance.[41]

Comparing the family incomes of low-wage workers to these three measures yields the results shown in Table 3-8. This analysis takes into account workers' family size and structure.[42] Only fifteen percent of low-wage workers are in severe poverty, falling below the federal poverty guidelines. However, most people below the poverty guidelines are not working, so it is not surprising that the living wage does not primarily affect this group.[43] Using the standard of 200 percent of the poverty guidelines as a more realistic measure of poverty status, 43 percent of low-wage workers are poor. These workers meet the income eligibility criteria for several government anti-poverty programs. Finally, the majority of workers, or 69%, can be considered low-income. They fall below a self-reliance standard for Los Angeles County, and would likely have difficulty making ends meet without sharing housing or relying on government assistance or informal childcare. The remaining 31% of low-wage workers are not low-income.

Compared to low-wage workers in the county, living wage affected workers are likely to have lower family incomes. The income gains from the living wage, then, are likely to affect predominantly poor and low-income families.

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[41] See previous note.

[42] To compare family income to the federal poverty guidelines and twice the federal guidelines, we generally followed the Census Bureau definitions of the family, which include extended family members. For the self-sufficiency standard, we included only the nuclear family in the calculation of family income.

[43] In 1998, 59 percent of people in poverty age 16 and over in the U.S. did not work (Dalaker 1999).

**Table 3.9: Percentage of Low-Wage Workers Whose Estimated Family Income Falls Below Low-Income Thresholds**

| | % of Low-Wage Workers in L.A. County† |
|---|---|
| Earning below Federal Poverty Guidelines | 15% |
| Earning below 200% of Poverty | 43% |
| Earning below self-reliance budget for L.A. County | 69% |
| N | 277 |

Source: Economic Policy Institute analysis of Current Population Survey March Supplement, 2002 and 2003 combined.

†Includes all workers earning $6.75 to $11.99 per hour. The sample size was too small to select workers in the same industries as the Living Wage Survey.

**Conclusion**

Living wage affected workers are well into their working careers, having worked for nearly twenty years on average. They are older than low-wage workers in L.A. County in similar industries and are less likely to be teenagers. Only 4 percent of living wage affected workers are teenagers, compared to 14 percent for low-wage workers in L.A. County. In addition, nearly 60 percent of living wage affected workers are 35 and over, while less than 40 percent of low-wage workers in L.A. County are in that age group. Living wage affected workers also differ from low-wage workers in L.A. County in that they are disproportionately female (nearly 60 percent) and African-American (30 percent), both groups that historically have been paid less and given fewer opportunities in the labor market. Living wage affected workers are typical of low-wage workers in L.A. County in that they are predominantly Latino and predominantly immigrants. More than 70 percent of living wage affected workers have a high school education or less, also similar to other low-wage workers. Nearly 90 percent of living wage affected workers work full-time, either at their living wage job, or by combining their living wage job with other jobs.

Approximately half of living wage affected workers live with either their dependent children or spouses and domestic partners, similar to low-wage workers in L.A. County. Forty percent live with their children who are under 18, and 42 percent are married, similar to other low-wage workers in the same industries in L.A. County. Affected workers living with their dependent children have two on average, also the same as low-wage workers overall. Living wage affected workers are more likely to be single parents—16 percent of affected workers, compared to 7 percent of low-wage workers in the county.

An analysis of low-wage workers in L.A. County reveals that only 15 percent fall below the federal poverty guidelines, and are living in severe poverty. This is not surprising, given that the majority of people below the poverty line are not working. Using the more realistic standard of twice the poverty guidelines as a measure of poverty, more than four out of ten workers are in poverty. These workers and their families would qualify for

several government anti-poverty programs based on income eligibility criteria. Self-reliance budgets, which take into account regional differences in the cost of living, can be used a measure of low-income status. They represent an ideal standard that would allow an individual or a nuclear family to live independently if they wish to do so, without having to share housing or depend on government anti-poverty programs and informal childcare. Using this standard, nearly 70 percent of low-wage workers are in low-income families. Compared to low-wage workers in the county, living wage affected workers are likely to have lower family incomes, because they are less likely to be teenagers, and are more likely to be female, African-American, and single parents.

## Chapter 4 : Wages and Time Off Policies

The living wage ordinance has three main provisions intended to improve the quality of life for low-wage workers in the city's contract sector. The first provision raises the wage floor, the second sets a minimum standard for paid and unpaid time off, and the last is a two-tier wage structure intended to provide an incentive for firms to offer affordable health insurance. The impact of the first two provisions of the ordinance is examined in this chapter.

**Worker Survey Terminology**

We divide respondents to the worker survey into two categories—stayers and joiners—according to when they were hired at the affected firm. In addition, there is a third category of worker we did not interview—those who left their firm after it became subject to the ordinance. These categories are described in detail below.

- **Stayers:** These workers were employed at living wage firms before they became subject to the ordinance. These workers were asked to compare their current wage to their wages before the living wage ordinance went into effect at their firm.
- **Joiners:** These workers joined living wage firms after the ordinance went into effect. We compared the wages at their living wage job to wages at their previous job.
- **Leavers:** These workers were employed at the time the living wage went into effect, but left their jobs before our worker survey took place. We were unable to interview these workers to find out how the law affected them.

The most important feature of the living wage ordinance is its potential to raise wages of low-wage workers. By setting a higher minimum wage in a discrete sector of the economy, the city altered—to a small degree—the types of jobs available to low-skilled workers in Los Angeles. A higher wage floor can have a variety of effects on a labor market, both direct and indirect. Our survey of firms and workers focused primarily on the direct effects of the mandated raise, both on the jobs affected by the raise and on the workers who occupied them at the time of the survey. In Chapter 2, we estimated that the mandated raise affected 7,735 jobs, which we refer to as *affected jobs*. In this chapter, we explore how wages at those jobs have changed. In addition, we examine how the workers employed in those occupations at the time of the Living Wage Worker Survey, referred to as *affected workers*, experienced the increase in pay at those jobs. In order to understand the impact of the pay increase, we divide affected workers into two categories—those hired before the ordinance went into effect at their firm and those hired after. In addition, there is a third group of workers we did not interview who left their firm after the ordinance went into effect. (See Text Box)

Of course, the wage provisions of the Living Wage Ordinance impact a broader range of workers than those who received a mandated raise. A sizable minority of firms reported that they gave raises to workers whose wages were already above the living wage threshold. Another group of firms gave raises to workers at their firms who do not work on city contracts covered by the ordinance. We analyze which firms gave these raises

and why. Finally, we examine how the time-off provisions of the ordinance affected firm policy regarding paid and unpaid days off.

This chapter relies on the Living Wage Worker Survey and Employer Survey. We also make substantial use of the control group analysis of the Living Wage Employer Survey (Fairris 2005).

**Raising the Floor**

The richness of our data—which includes a living wage employer survey, an employer control group survey, and a living wage worker survey—allows us to analyze the pay increase at affected jobs in several ways, and to compare results. Our first analysis relies on the survey of living wage employers. They were asked to compare current starting wages for low-wage occupations affected by the living wage ordinance at their firm with wages of similar occupations at their other establishments that were unaffected by the ordinance. The difference between the average current starting wage and the average counterfactual wage reported by firms provides one account of how entry-level pay at living wage jobs has changed. In addition, a control group analysis was conducted comparing starting pay for the largest low-wage occupation at living wage firms to starting pay at a comparable group of firms that are not covered by the ordinance. The difference between the control group's increase in starting pay and that of the living wage employers provides another perspective on how those entry-level jobs have changed. Using either method, firms report an average increase in starting wages of about $1.65 per hour.

**Counterfactual wage:** Starting wages at living wage firms absent the Living Wage Ordinance.

Of course, firms typically do not employ only entry-level workers in low-wage occupations. The data from the worker survey provide a mix of all affected workers, not just entry-level. In order to estimate how pay for affected jobs has increased due to the ordinance, we calculated the raise for the stayers. In this analysis, the stayers represent the workforce that was in place at the time the living wage went into effect. Since that time, the workforce has changed as turnover has brought in joiners to replace the leavers. In order to estimate the wage gain for the current workforce, we calculated the raise using the entire worker dataset, which takes into account the joiners' wages at their previous jobs.

*Living Wage Employer Survey:* In order to determine how entry-level jobs were impacted by the Living Wage Ordinance, we asked firms to report the current starting wages for employees in low wage occupations and what those wages would have been absent the Living Wage Ordinance. By subtracting the counterfactual wage from the current starting wage, we can determine how entry-level jobs were impacted by the law.[44]

[44] For this analysis we excluded firms that were new to city contracting (that is, firms that had not held city contracts before the living wage ordinance became law). We excluded these firms because new firms entered into city contracts with the knowledge that their firm would become subject to the ordinance, and may represent a different type of firm than those originally subject to the law.

On average, firms reported a $1.65 (or 22 percent) difference between the current starting wage for the firms' low-wage occupations and the counterfactual wage, as shown in Table 4-1.[45] On average, firms reported an average starting wage of $9.16 at the time of the interviews, just eight cents under the higher living wage rate in 2001-2002. The average counterfactual wage was $7.51, about one dollar above the minimum wage in 2002. Eighty-five percent of the firms reported a difference of more than $1.00 between the starting wage and the counterfactual wage. Only two firms reported a counterfactual wage that was higher than the current starting wage. One firm reduced the starting wages for low-wage occupations in order to compensate for increased vacation days, and another firm reduced starting wages to account for increased health insurance costs. As explained below, the counterfactual wage is very credible since it closely matches the starting wage of control group firms not subject to the living wage ordinance.

**Table 4.1: Mean Starting Wage and Counterfactual Starting Wage at Living Wage Firms**

| | |
|---|---|
| Mean Current Starting Wage | $9.16 |
| Mean Counterfactual Wage | $7.51 |
| Mean Difference | $1.65 |

Source: Living Wage Employer Survey
Note: Firms that did not have a city contract prior to becoming subject to the Living Wage Ordinance are excluded from this analysis.
N=66

*Control Group Analysis:* Living wage firms were also asked to report starting wages for employees in low wage occupations prior to their company becoming subject to the ordinance. The difference between the current starting wages and the starting wages paid prior to the living wage were then compared to changes experienced by a control group of non-living wage firms in similar industries in Los Angeles County (See Fairris 2005).[46] These firms were asked to report changes in pay over the past two years. As shown in Table 4-2, living wage employers reported an average increase in starting wages of $2.39 for the largest low wage occupation at their firm. This increase was significantly greater than the average increase reported by the control group, which

[45] We reported the average raise weighted by the firm in order to compare these results to the control group analysis. The firm average could be misleading insofar as it does not take into account differences in employment levels among firms. The difference between the current starting wage and the average counterfactual wage is $1.35 when weighted by number of affected workers at each firm.

[46] For the purposes of the control group, we examined how wages in the largest low wage occupation were impacted by the ordinance. By contrast, Table 1 examines the difference between the average current starting wage and the average counterfactual wage for *all* low wage occupations. In addition, airport firms are excluded from the control group analysis due to comparability issues described in Chapter 1. It should be noted that for airport firms, the *difference* between the current starting wage and counterfactual wage for entry-level workers was significantly lower than it was for non-airport firms ($1.29 compared to $1.86). The difference appears to be due to the fact that airport firms had higher counterfactual wages, i.e. airport workers would be making more money than non-airport workers absent the living wage ordinance. It is also important to note that the control group analysis includes firms that are new to city contracting.

reported an average increase of $0.73 per hour over a two-year period.[47] The increase in entry-level pay at non-living wage firms was $1.66 less than the increase reported by living wage firms. After controlling for a variety of factors, including establishment size and union status, the increase in entry-level pay at living wage firms was $1.74 greater than at non-living wage firms.[48]

It is also important to note that the mean counterfactual wage for non-airport living wage firms ($7.32) is strikingly similar to the mean current starting wage reported by the control group firms ($7.34). In other words, living wage firms would be providing the same entry-level pay as control group firms absent the living wage.

**Table 4.2: Change in Entry Level Pay for the Largest Low Wage Occupation**

| | Living Wage Firms (Std. Dev.) | Non-Living Wage Firms (St. Dev.) | Difference | Difference with Controls |
|---|---|---|---|---|
| Change in Wage | $2.39 (0.89) | $0.73 (0.50) | $1.66** (0.11) | $1.74** |
| Current Wage | $9.14 (0.57) | $7.34 (0.61) | $1.80** | $1.71** |
| Wage Before | $6.75 (0.90) | $6.61 (0.73) | $0.14 (0.14) | |
| Counterfactual Wage | $7.32 (0.85) | $7.34† (0.61) | -$0.02 (0.14) | $0.01 |
| N | 47 | 111 | | |

Source: Living Wage Employer Survey and Survey of Diversity in Human Resource Practices (Fairris 2005).

†In the case of the control group, the counterfactual wage is the same as the current starting wage.

**Statistically significant at the 0.05 level.

Note: This analysis does not include firms at the airport. The regression analysis controlled for establishment size, non-profit status, industry, whether the firms were independent operations, and union status.

*Worker Survey:* The firms we surveyed reported increases in starting wages at the time they became subject to the law. But firms typically employ a mix of entry-level and more senior workers in low wage occupations. The more senior workers would be

[47] Non-living wage firms gave sizable raises due to the increases in the California minimum wage during the period of the interviews. The California minimum wage increased from $5.75 to $6.25 in 2001 and from $6.25 to $6.75 in 2002.

[48] The implementation of the Living Wage Ordinance could have spanned a period as long as 1997 to 2002 in the firms we interviewed. Meanwhile, the control group firms were only asked about changes between 2000 and 2002. However, when the control group firms were compared to a subset of living wage firms with only a two-year span between the interview date and the implementation of the living wage ordinance, the difference between the two groups remained virtually the same. The regression analysis controlled for establishment size, non-profit status, industry, whether the firms were independent operations, and union status.

expected to see a smaller raise than their entry level counterparts, as they would be earning a higher wage prior to the living wage increase. In order to estimate the typical pay increase at a living wage job, we analyzed the raise experienced by a subgroup of workers—the stayers—who were in place at the time the living wage went into effect at their firm. These workers represent those employed at the time of the living wage increase. The stayers, who had varying degrees of experience and tenure on the job, received an estimated average pay increase of $1.48. This result controls for the changing level of the state minimum wage over the study period,[49] and closely resembles the $1.35 difference between the average starting wage and the counterfactual wage reported by employers (when it is weighted by the number of affected workers at the firm).

Using the average hourly increase of $1.48, we estimate an average annual pay increase for the affected job at $2,590.[50] (This can also be thought of as the average pay increase for workers at the time the living wage was implemented at their firm.) We can multiply the estimated average annual increase in salary for the stayers by the total number of jobs impacted by the mandatory raise (7,735) to derive an estimate of the aggregate increase in pay for those jobs: $20 million.

As mentioned, there are two categories of workers we surveyed—the stayers hired before the ordinance took effect at their firm and the joiners hired after. The new workers—or joiners—do not see the same benefit from the raise as those who were there at the time of the survey. The joiners compared their wages at their living wage job to those they received at their previous job. On average, they received a 2 percent increase of $0.21 per hour, as shown in Table 4-3.[51] After controlling for a several factors, including worker demographics, the differences between stayers' and joiners' average pay raise remains statistically significant.

Joiners received lower average raises than stayers because they held jobs that were higher paying (on average) than those held by stayers before they received the living wage raise.

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[49] In many cases, workers did not know what their wages were directly before and after the living wage raise, and reported instead their current wage and a wage some time prior to becoming subject to the ordinance. In order to bring those two wages closer together in time and to distinguish the effects of the living wage from concurrent minimum wage increases, we indexed their "before" wages to the minimum wage at the time they reported it, and applied that percentage to the minimum wage at the time the worker received their living wage raise. Likewise, we adjusted the "after wage" by indexing it to the living wage at the time they reported it, and multiplying that ratio by the living wage rate at the time of the raise. In this analysis, we include workers from all firms--those that are new to city contracting and those that are not. Workers employed at firms that are new to the contract sector are, with few exceptions, joiners—that is to say they were hired explicitly to staff the contract.

[50] On average, the workers we surveyed worked for 35 hours per week for an estimated 50 weeks per year (including paid vacation).

[51] In a difference of means test, the difference between the stayers and joiners raise was statistically significant at the 0.01 level. In addition, Fairris and Fernandez-Bujanda (2005) conducted a multiple regression analysis of the raise variable that controls for changing union status, changing health benefits, time elapsed between "before" and "after" wage observations, and minimum wage period, among other variables. This isolates the true impact of the living wage—as opposed, say, to the difference in union status or health benefits coverage between the city contract and non-contract sector. In this analysis, the stayers' raise was also significantly higher than the joiners' raise (at the 0.01 level).

A few joiners had exceptionally high "before" wages, resulting in a substantial pay decrease for these workers.[52] These joiners may have been displaced from their previous job. A few of these joiners appear to be older workers who changed jobs in order to have less strenuous work. For example, a 53-year-old man, who lives with his son and grandchildren, worked in higher-wage construction jobs for several years before becoming a full-time parking attendant at a living wage firm. Although changing jobs entailed a $10.45 per hour pay cut, he said working at the construction firm was too dangerous. A 67-year-old single man worked as a mechanic before switching to a living wage security firm. He now works full-time as a security guard and earns over $8 per hour less than what he earned before going to work at his living wage job. Some other joiners who experienced a pay decrease after changing to a living wage job had previously held relatively more skilled and higher-paying positions, with titles such as banquet supervisor, instructor, and floor manager.[53]

Altogether, the workers surveyed received an average raise of $0.74 or $1,295 per year. This raise represents the average gain for workers after accounting for the new workers at the firm. The raise is about half the size of the pay increase at the average living wage job.

**Table 4.3: Mean and Median Living Wage Raise Experienced by Stayers and Joiners**

| | Mean Raise | Percent Increase in Mean Hourly Wages | Median Raise | Percent Increase in Median Raise | N |
|---|---|---|---|---|---|
| Stayers | $1.48** | 20% | $1.47 | 21% | 99 |
| Joiners | $0.21** | 2% | $0.88 | 12% | 142 |
| All Workers | $0.74 | 9% | $1.06 | 14% | 241 |

Data Source: Living Wage Worker Survey

**The difference between the mean stayer and joiner raise is statistically significant at the 0.05 level.

Note: Joiners are workers who were hired after their firm became subject to the ordinance, while stayers are those hired before their firm became subject to the law.

[52] Indeed, the median raise for the joiners was $0.88, more than four times as high as the mean raise, and may better represent the experience of the typical joiner.

[53] Chapter 7 includes a more complete discussion of the difference in characteristics between the stayers and the joiners.

**Indirect Raises**

In addition to providing the mandated raise, 40 percent of firms reported providing non-mandated raises, resulting in pay increases for an estimated 1,900 additional workers. These raises resulted from workers receiving either a "vertical" or "horizontal" indirect wage increase, sometimes called a "ripple raise." Some covered workers already earning above the living wage rate received a vertical wage increase typically due to employers' desire to preserve the differential in wages between their affected and unaffected workers. Low-wage workers in affected firms who were not employed on city contracts sometimes received horizontal wage increases. Firms raised wages for these workers often in order to maintain wage parity within the firm. These two types of indirect raises are discussed in more detail below.

*Vertical Wage Increase*

Thirty-nine percent of affected firms said they gave non-mandated raises to an estimated 1,537 workers in order to maintain wage differentials on city contracts.[54] On average, these workers received a non-mandated raise of $0.73,[55] about half the size of the average mandated pay increase. Using these assumptions, their average annual pay increase would be $1,278 due to the non-mandated raises.[56] On aggregate, these workers received a $1.9 million pay increase over the course of the year.[57]

It appears that the vertical wage push mostly affected other low wage workers. With only one exception, firms gave vertical wage increases only to workers making less than $14 per hour. On average, the non-mandated raise was given to workers who earned up to $1.03—or 12%— more than the living wage.

Firms provided several reasons for giving vertical non-mandated raises. Many firms said they did so to maintain fairness in the wage structure, while others cited employee complaints, particularly among supervisors making only slightly more than the workers they oversee. Other firms said the vertical raise made it easier to recruit supervisors.

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[54] The 95% confidence interval is ± 11 percent.

[55] The 95% confidence interval is ± $0.19.

[56] Estimates on the number of workers to receive non-mandated raises and the amount of those raises come from Living Wage Employer Survey data and wage band data from the Survey on Diversity in Human Resources Practices. We multiplied the estimated average annual increase in salary for those receiving a ripple raise by the number of workers impacted by the raise to derive an estimate of the annual pay increase for those jobs.

[57] In order to estimate the annual pay increase for workers receiving the non-mandated vertical raise, we assume that they work for 35 hours per week (as do living wage workers) and are employed by a living wage contractors for 50 weeks per year, on average.

*Factors explaining the vertical wage increase*

In order to determine which factors make a firm more likely to give vertical non-mandated raises, we conducted a multiple regression analysis.[58] This analysis revealed that unionized firms were much more likely to give vertical non-mandated raises.[59] In fact, being a union firm virtually guaranteed that a vertical wage push would take place at the firm. This may be because union contracts include wage scales, which are often based on skill level and tenure at the firm. Since wages are known to all employees through the contract, there may be more pressure in union firms to maintain the same wage differential when the contract is renegotiated. Finally, unions are commonly concerned with issues of fairness, and provide structures for collective action that may increase the pressure to raise wages.

In addition, the analysis found that the greater the percentage of covered workers (in affected firms) who received mandatory raises, the more likely the firm was to raise the pay of covered workers earning above the living wage. For every percentage point increase in the ratio of affected to unaffected workers on the contract, the odds of giving non-mandated vertical raises increases more than 50 times.[60] This may be because the more workers who receive a raise, the more it becomes known throughout the firm, creating pressure to increase wages. Similarly, the smaller the establishment the larger the likelihood of a vertical wage increase. With a decrease of 100 workers, the odds of a firm giving non-mandated raises to covered workers increase by 62 percent.[61] In small establishments, news of raises may spread more easily than in large ones. In fact, managers at several large firms explained that workers not covered by the law were not aware of the higher wages paid to the workers on the city contract, and they preferred to keep it that way.

*Firms that did not give indirect raises*

The affected firms that did not give indirect raises gave a variety of reasons. Many firms said workers who were unaffected by the mandated raise already earned well above the living wage level, so the living wage did not generate concern about inequities in their wage structure. Other firms said they could not afford to give any indirect raises. Still others said that higher-paid employees already received regularly scheduled raises, through a union contract or the firm's policy, or that they preferred to give merit raises or bonuses.

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[58] The analysis was an ordered logistic regression which included the following variables: the size of the living wage raise, industry, union status, percentage of covered workers who received a raise, whether the firm is a subsidiary, size of establishment, and whether the firm had a city contract before becoming subject to the living wage. Six firms that reported they had no employees earning between the living wage level and $12 per hour were excluded from the analysis. Due to missing data, the analysis was conducted with a reduced sample of 54 firms.

[59] This relationship is statistically significant at the 0.10 level.

[60] This relationship is statistically significant at the 0.10 level.

[61] This relationship is statistically significant at the 0.10 level.

*Horizontal Wage Increase*

Only three firms, representing 3 percent[62] of the sample, said that they gave non-mandated raises to employees who were not covered by the living wage ordinance. We estimate that those raises affected 312 employees.

- One customer service firm said that they gave raises to all their employees who were paid below the living wage level up to the level of the living wage. According to the firm's manager, there was a "shift in company strategy" toward becoming a high-wage employer that recruited better quality employees and provided better services to the city. This firm, which has many other city and county contracts, succeeded in passing its living wage costs on to the City of Los Angeles, and may have done the same with other public contracts as well.
- Two social service agencies gave raises to their lowest-paid workers. One firm, which already provided full-time workers with employer-paid health benefits, raised the entry-level wage for the entire organization to the lower tier of the living wage.[63] Managers explained that because the organization is a religious non-profit, they want to pay a "just wage." The other firm, which employs 700 workers in L.A. County and operates in three other counties around the state, also gave raises organization-wide. The manager cited the living wage as a motivation, as well as their desire to decrease employee turnover. They found they were training employees and then losing them to other firms that paid higher wages. This organization also gave raises to covered workers already making more than the living wage level, which makes it likely that the ordinance led to a change in the entire wage structure of the firm.

## Time Off

Another important provision of the Living Wage Ordinance is the requirement that covered employers provide 12 paid and 10 unpaid days off annually to full time workers (with part-time workers receiving time off on a prorated basis). On average, firms affected by the mandated pay provisions of the law increased paid days off from 14 to 17 days, as shown in Table 4-4. (Those firms exclusively affected by the vacation provisions of the law were not surveyed). Most affected firms (58 percent) did not make a change in their paid-time-off policy due to the living wage ordinance. However, affected firms that did increase paid time off represent the majority of covered jobs in affected firms (also 58 percent),[64] as the larger firms were more likely to make changes.

On average, affected firms increased their unpaid days off by two days, from 9 unpaid days off to 11 unpaid days off per year.[65] However, most affected firms (74 percent) did

[62] The margin of error is ± 3 percent.
[63] Thirty-five percent of workers in this firm are part-time and do not receive health benefits
[64] The margin of error is ± 11 percent.
[65] The difference between average unpaid days off provided before the living wage and unpaid days off provided after the living wage is significant at the 0.05 level.

not make changes to the unpaid days off policy due to the living wage ordinance.[66] A quarter of affected firms made changes that ranged from adding six to 10 days unpaid vacation. These firms represent more than 20 percent of covered jobs in affected firms.

**Table 4.4: Average Days Off Granted by Affected Firms Annually Before and After the Living Wage Ordinance**

| | Before Living Wage | After Living Wage | Difference | N |
|---|---|---|---|---|
| Total Paid Days Off | 14.4 | 17.4 | 3.1*** | 81 |
| Total Unpaid Days Off (Sick and Personal Days) | 9.1 | 11.0 | 1.9** | 36 |

Source: Employer Survey, weighted by firm
**Significant at the 0.05 level
***Significant at 0.01 level

In order to isolate changes due to the living wage ordinance, the change in paid days off off at living wage affected firms was compared to changes made by the control group firms over time, as shown in Table 4-5.[67] (See Fairris 2005). Non-living wage firms from the control group reported an average increase in paid days off of less than half a day over a two-year period while affected firms reported an average increase of almost three days.[68] After netting out the increase in paid days off experienced by non-living wage firms we find that the living wage was responsible for an increase of about two and a quarter paid days off. After controlling for other factors, such as union status and industry, the net difference is 1.7 days, a 23 percent increase. The estimated dollar value of the increase in paid time off is $126, which is the average current wage of living wage workers ($9.37) times the 13 ½ -hour annual increase in paid days off due to the ordinance.

[66] The margin of error is ± 15 percent.
[67] The control group analysis was conducted on a sub-group of living wage firms—those not at the airport. However, there was no significant difference between the change in paid days off made by living wage firms at the airport vs. those made by firms not at the airport.
[68] Non-living wage firms were asked about a change in days off over a two-year period while living wage firms were asked about changes made since they became subject to the Living Wage Ordinance.

**Table 4.5: Average Change in Paid Days Off Granted by Living Wage Affected and Non-Living Wage Firms**

| | Living Wage Mean (Standard Deviation) | Non-Living Wage Mean (Standard Deviation) | Difference | Difference with Controls[69] |
|---|---|---|---|---|
| Current Paid Days Off | 10.13 (6.78) | 7.59 (6.94) | 2.54* (1.31) | 1.42 (1.23) |
| Paid Days Off Before | 7.36 (7.67) | 7.10 (6.90) | 0.26 (1.35) | -- |
| Change in Paid Days Off | 2.77 (5.15) | 0.49 (2.12) | 2.28** (0.84) | 1.66* (0.92) |
| N | 39 | 98 | | |

Source: Living Wage Employer Survey and Survey of Diversity in Human Resource Practices (See Fairris 2005).
*Statistically significant at the 0.10 level; **Statistically significant at the 0.05 level.
Note: Airport firms were excluded from the mean for Living Wage firms.

*Compliance Issues*

In spite of the increases in paid days off, the worker survey revealed that some firms may not be fully complying with the days off provision of the ordinance. Eight percent of workers reported compliance problems with the paid time off provision of the ordinance, which allows time off to be used for sick leave, vacation, or personal necessity. Two percent[70] of workers volunteered that their employer was not providing them with paid vacation time or was reluctant to do so. Five of the eleven workers were employed at two food service firms as dishwashers and foodservice crew members. More than half were full time workers. Six percent [71]of the workers volunteered that they either did not know sick days were available or that they feared their employer would penalize them for taking sick time. More than half of these workers were employed in the security/parking industry, and most of them were full time workers. "Sick days do not exist to this firm," said one janitor. A security guard said, "They take it out of our pay and change us to a different work site." Because so many workers volunteered that their employers were not providing them with paid time off, there may be compliance problems with respect to this provision of the ordinance.

[69] The regression controlled for establishment size, non-profit status, independent operation, union status, and industry group. The difference between living wage and non-living wage firms was significant at the 0.05 level. With controls, the difference was significant at the 0.1 level. (See Fairris, 2005).
[70] The margin of error is ± 2 percent.
[71] The margin of error is ± 3 percent.

## Conclusion

Due to the mandated wage increase, average pay at the affected jobs rose by $1.48 per hour, or about $2,600 per year. In aggregate, pay at the 7,700 affected jobs was increased by $20 million annually. Overall, the workers we surveyed (stayers and joiners) received an average raise of $1,295, about half the size of the pay increase at living wage jobs. The workers we surveyed included "stayers"—those hired before the living wage went into effect at their firms and "joiners"—those hired after. The new workers, or joiners, experienced a significantly lower increase over their previous job than those hired before, bringing down the average increase for the workers we surveyed.

Because of the richness of our data, the average pay increase at the affected jobs was estimated in several ways using the Employer Survey, the Worker Survey, as well as a control group analysis. The $1.48 per hour pay increase at affected jobs comes from the Worker Survey. These findings were based on the raise that the stayers--workers employed in those jobs prior to their firm becoming subject to the law--received. Living wage firms also provided data on pay at jobs covered by the law. These living wage firms reported the current starting pay of living wage jobs and the wages firms would have paid these workers in the absence of the law (counterfactual wages). We calculated the increase in starting pay at living wage jobs by subtracting the counterfactual wage from the current starting wage, producing a result that was very similar to the average stayer raise: starting pay at the average job increased by $1.35 per hour. Finally, a control group analysis that compared entry-level pay increases at a similar group of firms not covered by the ordinance to our sample of affected firms further bolsters our findings. On average, firms increased pay at entry-level jobs by about $1.65 due to the ordinance, according to analyses of both sets of firm survey data. The increase in starting pay at affected jobs derived from the Employer Survey is therefore consistent with what workers themselves report--and is bolstered by a control group analysis of firms not covered by the ordinance--suggesting that these findings are highly reliable.[72]

Forty percent of firms reported providing non-mandated raises. Most of the firms gave non-mandated raises out of a desire to preserve the differential in wages between workers at the establishment who were affected by the raise provisions of the law and those who were not. These "vertical" raises resulted in an estimated average pay increase of $0.73, about half the size of the mandated pay increase at affected jobs. On aggregate, more than 1,500 workers received a $1.9 million pay increase. On average, firms gave vertical raises to covered workers who earned up to 12 percent (or $1.03) more than the living wage. With one exception, firms gave vertical wage increases only to workers making less than $14 per hour. A much smaller group of firms (3 percent) provided "horizontal raises," increasing wages for their lowest paid workers who *are not* employed on city contracts. These raises were given to more than 300 workers in order to maintain wage parity within the firm.

[72] We chose to use the stayer raise derived from the Worker Survey to represent change at living wage jobs because the questions in the employer survey focused only on increases in starting pay at living wage jobs. By contrast, the stayers' raise represents the average increase in pay at all affected jobs.

The living wage also led to an increase in paid time off. Firms increased paid days off from 14 to 17 days per year, on average, and total unpaid days off increased from an average of 9 to 11 days. After accounting for general increases in paid time off in a control group of non-living wage firms, the net increase in paid days off for living wage firms was two and a quarter days. That increase is worth about $169 to the average living wage worker. However, eight percent of workers volunteered that they did not have full access to the sick and vacation days they are owed, suggesting that there may be a compliance problem with regard to paid days off.

## Chapter 5 : Health Insurance

The intent of the LA Living Wage Ordinance's two-tier wage structure was to encourage city contractors to provide affordable health insurance to their employees. Under the law, affected firms that offer health benefits to their affected workers may pay an hourly wage that is as much as $1.25 less than the higher living wage rate. In return, they must contribute the differential to their employee's health insurance. Contributions to employee benefit plans are not subject to payroll taxes, while wages are, creating a financial incentive for firms to provide benefits. Firms whose employee compensation does not meet the living wage standard would face a smaller cost increase if they complied with the ordinance by paying the lower wage with benefits.

How the $1.25 Per Hour Health Differential Works

- It is the employer's choice whether to pay the higher wage or the lower wage with benefits. They may also allow their employees to choose.
- The employer can provide a health benefits plan costing less than $1.25 per hour, as long as the difference is passed on to the employee in wages.
- The employer may not require an employee to pay a co-premium, unless the cost of the health benefits is greater than $1.25 per hour. In that case, the employer may require a co-premium of the amount greater than $1.25.
- If the employer requires a co-premium, the employee has the right to choose the higher wage without benefits.

The City originally drafted an ordinance that allowed affected firms to pay a $2.00 per hour differential. But a city-commissioned study recommended a $1.25 per hour differential, the amount eventually settled on (Williams et al. 1997). Unlike the living wage itself, the hourly health care contribution is not adjusted annually for inflation.

This chapter investigates whether the law encourages employers to provide health insurance to their employees. We also examined what other factors—beside the living wage ordinance—might encourage firms to offer affordable health insurance. In addition, we provide a profile of affected workers, their insurance rates, and how much it costs them to obtain health insurance from their employers. Finally, we interviewed affected firms about the costs and obstacles to providing health insurance to their workers.

Much of the data in this chapter comes from the Living Wage Worker Survey, and applies to "affected workers," or the 7,700 workers that are in jobs where pay was increased through mandatory raises. We also present data on "covered workers (or jobs) in affected firms," which refers to the broader group of 14,000 workers (or jobs) on contracts covered by the living wage within affected firms. We present data for this group because changes in health benefits may affect all workers on living wage contracts, whether or not they received mandatory raises. Data for this group of workers is derived from the Living Wage Employer Survey, weighted by number of covered jobs. We also

make substantial use of a control group analysis of the Living Wage Employer Survey (Fairris 2005).

**Implementation of the Ordinance**

An estimated 73 percent of the 148 affected firms say they comply with the ordinance by offering workers the higher wage.[73] (Many of these firms also make a contribution to health benefits, but, nevertheless, comply by paying the higher wage.) About 16 percent of the firms comply by paying the lower living wage plus a contribution to benefits while 10 percent allow their employees to choose between the higher or lower wage in addition to benefits. (See Table 5-1.) A few firms comply with the ordinance in both ways, depending on the type of worker. For example, one firm offers the higher wage to part-time workers and the lower wage plus benefits to full-time workers.

Although a small percentage of firms comply with the ordinance by paying the lower wage and health benefits, these firms represent 45 percent of covered jobs in affected firms, as firms that comply by making a contribution to health insurance tend to be bigger. Thus, a majority of covered workers are employed in firms that either allow workers to choose the option of receiving a higher wage or a lower wage with benefits—or that pay the lower living wage plus a contribution to health insurance.

**Table 5.1: Means of Compliance with the Living Wage Ordinance Weighted by Firms and Workers Employed at Living Wage Firms**

| | Percentage of Affected Firms | Percentage of Covered Jobs in Affected Firms† |
|---|---|---|
| Higher wage | 73% | 46% |
| Lower wage plus benefits | 16% | 45% |
| Employees can choose | 10% | 6% |
| Some receive lower wage, some higher | 1% | 1% |
| Other | <1% | 1% |
| | 100 | 100 |

Source: Living Wage Employer Survey
N=82
Note: The margin of error ranges from ± 2 percent to ± 11 percent.
†The firm survey was weighted by the number of workers covered by the ordinance in order to derive these percentages. "Covered jobs at affected firms" refers jobs on living wage contracts at firms affected by the living wage ordinance.

Since many firms that comply by paying the higher living wage also offer health insurance, we wanted to see if their workers were, in fact, taking advantage of that insurance and how these workers' insurance rates differed from workers employed at

[73] The margin of error is ± 11 percent.

firms paying the lower living wage.[74] For this analysis, we used data from the worker survey to analyze the self-reported insurance status of each worker. Almost three-quarters of workers[75] employed in firms that comply by paying the lower wage plus a contribution to health benefits are insured by their living wage employer compared to only 12 percent of workers in firms that pay the higher wage. (See Table 5-2). Workers employed in firms that pay the higher wage are more likely to be uninsured. Close to half of these workers report not having any health insurance while only 13 percent of workers in firms that pay the lower wage are uninsured.[76]

**Table 5.2: Worker Insurance Status by Employer Means of Compliance**

| How workers are insured | Firm pays higher living wage | Firm pays lower living wage |
|---|---|---|
| Living wage employer | 12% | 73% |
| Other private insurance† | 30% | 13% |
| Government | 12% | 2% |
| Not insured | 46% | 13% |

Source: Worker Survey and Living Wage Employer Survey
N=281
Note: The margin of error ranges from ± 5 to ± 8 percent. The difference in percentage of workers insured in firms paying the higher versus the lower wage is significant at a 0.01 level. Firms that comply with the ordinance in multiple ways were excluded from this analysis. The workers, in this case, are limited "affected workers"—those affected by the mandated raise provisions of the ordinance.
†Other private insurance includes the worker's other employer, spouse's or domestic partner's employer, parent's insurance or self-insured.

### Effect of the Living Wage Ordinance on Provision of Health Benefits

Although one quarter of firms comply with the ordinance by allowing some or all of their employees to opt for health insurance, the Living Wage Ordinance, on its own, has not significantly increased the number of firms offering health insurance to low wage workers. Only one firm moved from not offering health insurance to their low wage employees to offering them benefits because of the Living Wage Ordinance. A non-union janitorial firm chose to pay the lower minimum and provide a $1.25 contribution to health insurance for its 16 living wage employees who received mandatory raises.

A control group analysis of firms with similar characteristics and in similar industries as the Living Wage firms bolsters the finding that the health insurance differential did not induce firms to provide health insurance to their low wage workers. (See Table 5-3.) A group of Los Angeles County firms that are in the same industries and that employ low-

[74] Some higher wage firms that offer health insurance also contribute to the insurance premium while others do not.
[75] In this case, we are referring to "affected workers"—that is workers affected by the mandated raise provisions of the living wage ordinance.
[76] The margin of error is ± 6 percent.

wage workers but are not covered by the ordinance were asked about whether they currently provide employer-paid health benefits to their low wage workers and whether those benefits were provided two years prior. (See Fairris 2005.) Establishments at LAX were excluded from the Living Wage Employer survey for the comparison with the control group since the Survey of Diversity in Human Resource Practices (SDHRP) did not include comparable firms to those at the airport. The results of the SDHRP were then compared to the changes in the provision of benefits that occurred after firms became subject to the LWO. (Living wage affected employers were also asked a longer set of questions about the provision of health benefits before and after becoming subject to the ordinance.) Both surveys found no significant change in the provision of employer-paid health insurance benefits over time, suggesting that the tax savings provided by the $1.25 differential is not a sufficient incentive to induce firms to initiate health coverage.

Interestingly, the Living Wage affected firms were about twice as likely to provide employer-paid benefits to their workers as the control group firms. About 49 percent of affected firms provide employer-paid health insurance to their workers on living wage contracts, compared to 24 percent of the control group firms who offer those benefits to their employees. The difference between living wage and non-living wage firms diminishes slightly in a multiple regression analysis that controls for establishment size, union status, industry grouping, and other factors, but remains substantial and significant.[77] Consequently, living wage affected firms appear to be a distinctive group of firms that are much more likely to provide employer-paid health insurance than non-living wage firms, although the ordinance did not significantly contribute to the difference.

[77] The regression analysis also controlled for non-profit status and whether the firm was a subsidiary of larger firm.

**Table 5.3: Provision of Employer-Paid Health Benefits to Low Wage Workers by Living Wage Affected and Non-Living Wage Firms Over Time**

| | Non-Airport Living Affected Wage Firms (Std. Dev.) | Non-Living Wage Firms (Std. Dev.) |
|---|---|---|
| Firms Currently Providing Employer-Paid Health Benefits to Low Wage Workers | 49% (0.51) | 24% (0.43) |
| Firms Providing Employer-Paid Benefits Before to Low Wage Workers | 44% (0.50) | 23% (0.42) |
| N | 45 | 136 |

Source: Living Wage Employer Survey and Survey of Diversity in Human Resource Practices (SDHRP)
Note: The Survey of Diversity in Human Resources did not include employers who operate at an airport. Consequently, airport firms were excluded from the Living Wage Employer Survey for the purpose of this comparison. The difference in the provision of health benefits between living wage and SDHRP firms is statistically significant at the 0.05 level. The margin of error for this table ranges from ± 7 percent to ± 15 percent.

Although only one firm began offering health insurance due to the Living Wage Ordinance, another six firms made improvements to their benefits. Several firms made benefits available to more employees than had access before, and several firms increased their contributions to their employee benefit plans. (See Table 5-4.) The firms that improved the value of their benefits made the following changes:

— Two of the companies that increased their contribution to benefits were non-union security firms. They reported paying the lower wage plus a contribution toward health benefits in order to save money on payroll taxes. One of the two firms provides an individual plan that costs exactly $1.50 per hour for each employee. The health benefits fluctuate depending on the hours employees work so that if an employee misses a few days of work benefits are reduced accordingly. At the other firm, management reported lower workers' compensation expenses and improved worker retention as a result of providing health benefits that cost them $1.25 per hour for each affected employee.
— A unionized food service firm increased the value of benefits for its living wage employees as part of its contract negotiations.
— A social service organization extended its health insurance to part-time workers in response to the ordinance.
— A unionized concession firm at the airport that paid 75 percent of its employees' health benefits prior to the living wage began covering the full cost of healthcare after the implementation of the ordinance, and as part of a collective bargaining agreement.
— A unionized parking firm extended its health benefit plan to part-time workers.

Not all firms that made changes to their plans reported improvements. In two instances, firms said that they reduced the value of their benefits in response to the ordinance. The firms that reduced the value of their benefits made the following changes:

— One firm pays the higher minimum for three months after hiring an employee, and then gives workers the choice of continuing to receive the higher minimum or receiving a lower wage with benefits. A manager said most workers chose the higher wage, but he added that the cost of complying with the ordinance prompted him to lower his contribution to health benefits, thus decreasing the quality of the firm's plan.
— A non-profit social service provider did not increase its health plan contribution (in order to keep up with the rising costs) as much as it otherwise would have.

Overall, a relatively small percentage of firms (7 percent) either added or improved their benefits. But a slightly larger percentage of covered workers in affected firms stood to benefit from those changes, as larger firms tended to make changes to their plans. A total of 2,236 workers—or 17 percent of covered workers in affected firms—benefited from positive changes to their benefit plans while 140 workers (1 percent of covered workers) experienced a reduction in benefits. Sometimes the improvements only affected workers who received raises due to the ordinance while other times it affected all workers covered by the law. For example, two union firms increased the value of benefits for all workers covered by the law as part of contract negotiations. (See Table 5-4.)

**Table 5.4: Employer Changes to the Provision of Health Benefits Due to the Living Wage Ordinance**

| | Percentage of Affected Firms | Percentage of Covered Jobs in Affected Firms† |
|---|---|---|
| Health benefits remained the same | 91% | 82% |
| Improved or added health benefits | 7% | 17% |
| Reduced health benefits | 2% | 1% |
| Total | 100% | 100% |

Source: Living Wage Employer Survey
N=72
Note: A union firm that paid some workers below living wage with no contribution to health benefits and others above the living wage with a contribution to health benefits was excluded from this analysis. The margin of error for this table ranges from ± 3 percent to ± 11 percent. "Covered jobs at affected firms" refers jobs on living wage contracts at firms affected by the living wage ordinance.
†For this analysis, we determined the number of covered workers within each firm that experienced improvements or reductions in their firms' health benefits.

We might expect firms paying a lower wage with a contribution to health insurance to be the ones to make changes to their health plans. Since they are contributing to health insurance as a means of complying with the law, they might have an incentive to improve their plan in order to meet the $1.25 per hour requirement. Indeed, firms that comply with the ordinance by making a contribution to health benefits for some or all of their

employees are significantly more likely to have improved their health plans than those that complied by paying the higher wage.[78] Only one firm that pays the higher living wage made improvements--a unionized company located at LAX that faced the additional pressure of contract negotiations.

### *Worker Experience of Benefits Before and After the Living Wage*

We examined the worker survey to evaluate whether the changes firms reported making influenced rates of insurance. Each worker gave details about what type of insurance they and their family members had, and whether they were insured through their employer prior to the Living Wage Ordinance. Overall, 21 percent of affected workers moved from *not having* insurance through their employer to *having* insurance through their living wage employer. Given the above findings, it is probably less the living wage ordinance than the city contract effect that accounts for these results. Most workers who acquired employer-paid benefits (70 percent) were hired after the ordinance went into effect at their firm. These new workers likely received benefits they did not possess before by virtue of joining the city service contract sector. About 30 percent of workers who moved from not having insurance through their employer to having insurance from their living wage employer were hired before the ordinance went into effect. However, it is difficult to attribute all of this movement to the Living Wage Ordinance. A closer examination of the data reveals that these workers were not concentrated in firms that reported making positive changes to their health plans. In addition, the survey question did not capture all the possible scenarios that might account for why workers would move from not having insurance through their employer to receiving insurance from the Living Wage employer. For example, they may have sought insurance from their living wage employer after their spouse lost access to family insurance because she lost her job. In that case, the change in insurance status resulted from a change within the worker's family, not the living wage ordinance.

### Access to Affordable Health Care

There are several ways to evaluate the extent to which affected workers and their families have access to affordable health care. Through the worker and employer survey, we examine the following measures:

1. Offer rates: The rate at which the firms they work for offer health insurance to their living wage employees.
2. Participation rates: The extent to which living wage workers participate in their company's health insurance plan.
3. Cost to the employee: The cost of the plan is measured in terms of employee contributions to insurance premiums.

[78] The difference between higher wage and lower wage firm was statistically significant at the 0.001 level.

**Offer Rates**

Affected firms were much more likely to offer health insurance than other similar employers, according to most measures used. However, living wage firms are much less likely to offer health insurance than the City, which provides fully family health insurance to most direct employees. So as to be able to use comparative data, we analyzed offer rates in three different ways:

1. The rate at which affected firms offer employer-paid health insurance to low wage workers was compared to the offer rate of a control group of non-living wage firms in Table 5-3 above.
2. The rate at which affected firms offer health insurance (regardless of subsidy) to low wage workers was examined in Table 5-5 to give a fuller picture of the behavior of living wage firms.
3. The percentage of affected firms offering health insurance to any workers permits a comparison to national data on low wage employers.

The control group analysis, discussed above, revealed that affected firms are twice as likely to offer employer-paid health insurance to their low wage employees as non-living wage firms in similar industries.[79] Affected firms were also asked whether they offered any health insurance—whether employer-paid or not--to their low-wage workers. Some 62 percent of all affected employers said they offer health insurance to their low wage workers. More than half of the affected firms offer family health insurance to their living wage workers, while 11 percent of firms offer only individual health plans.[80] However, a greater proportion of workers than firms appear to be impacted by these policies. Three quarters of covered workers in affected firms are employed at firms that offer some form of health insurance plan to living wage workers. (See Table 5-5.)

In order to compare living wage firms' offer rates to national survey data, we looked at what proportion of firms offer health insurance to any employee. An estimated 79 percent of affected employers offer health insurance (some of it employer-paid) to at least some employees. Nationally, an estimated 52 percent of low wage employers offer health insurance to at least some of their employees (Henry J. Kaiser Family Foundation et al. 2002).[81]

While living wage firms appear to provide more generous health insurance benefits than other firms, they do not compare favorably with the City of Los Angeles, which might otherwise employ contract workers. All city employees are eligible for full family health insurance (or an in-lieu cash payment for those who decline) provided they work more than 20 hours in a two-week period.[82]

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[79] The control group comparison did not include living wage firms at LAX. The other offer rates discussed in this section include all firms interviewed.

[80] The margin of error is ± 11 percent.

[81] Low-wage employers are defined as firms where at least 35 percent of employees earn less than $20,000 per year.

[82] Employee Benefits Division, Personnel Department, City of Los Angeles, June 17, 2004.

**Table 5.5: Rate at which Affected Firms Offer Health Insurance (Weighted by Firm and Covered Workers in Affected Firms)**

| | Percent of Affected Firms | Percent of Covered Workers in Affected Firms |
|---|---|---|
| Offers health insurance to low wage workers† | 62% | 74% |
| Offers only individual health insurance to Living Wage workers | 11% | 5% |
| Offers family health insurance to Living Wage workers | 51% | 69% |
| No health insurance offered | 38% | 26% |

Source: Living Wage Employer Survey (weighted by firm and workers employed at those firms)
N=79
Note: The margin of error for this table ranges from ± 5 percent to ± 12 percent. The table includes any firm that offers health insurance whether or not it is subsidized.

### Participation Rates

Living wage affected workers appeared to be marginally more likely to have employer-based health insurance than other low wage workers in Los Angeles County, according to the Worker Survey. Their children appear to be much more likely than poor children in the county to have employer-based insurance. However, a sizable minority of affected workers and their families lack health insurance. Thirty-five percent of workers are uninsured or have a family member who lacks health insurance.

Individual insurance: Although three-quarters of workers are employed in firms that offer health insurance to their low wage employees, a much smaller percentage of workers actually make use of it, according to the worker survey. An estimated 41 percent of affected workers interviewed reported that they received health coverage through an employer subject to the living wage ordinance. Another 18 percent are covered by job-based insurance from a non-living wage employer, either through their spouse, parent or another job. An estimated 31 percent are uninsured, and 7 percent are on Medi-Cal. (See Table 5-6).

About 69 percent of affected workers have some sort of health coverage, while the remaining 31 percent are uninsured. This rate compares somewhat favorably to the insurance rate among low-wage workers in Los Angeles County, where 61 percent reported having some sort of health insurance in 1999. About 59 percent of workers had *job-based* health coverage, compared to 52 percent of low wage employees in Los Angeles County in 1999. (Pollin et al. 2000, Table 8.9).[83] As discussed earlier, the higher rate of insurance is likely due to the contractor effect, not to the living wage law.

[83] The insurance rates are for Los Angeles County workers who earned between $7.41 to $9.10 in 1999, a wage band that overlaps with the living wage rate at the time.

Another point of comparison is the rate at which employees make use of insurance that is offered to them. Sixty-nine percent of employees working in firms that offer health insurance to living wage workers report participating in their living wage employers' health insurance plan. This rate is statistically identical to what is found among low-wage workers in California, where 72% of eligible workers participated in their employers' health plan, according to a UCLA study. (Brown 2002, Exhibit 17).

Spousal Insurance: About 40 percent of affected workers say they are married or living with a domestic partner. Of those, about 21 percent say their spouses or domestic partners received insurance through a living wage affected employer.

Dependent insurance: Thirty-nine percent of those interviewed have children under the age of 18. Fifteen percent of the children of affected workers are uninsured, 18 percent receive health insurance through their parent's living wage affected employer, 43 percent receive health insurance through any employer, and 39 percent receive health insurance through a government program, either Medi-Cal or Healthy Families.

**Table 5.6: Sources of Health Insurance for Living Wage Affected Workers and Their Families**

| | Respondent | Spouse/Partner | Children (under 18) |
|---|---|---|---|
| Uninsured | 31% | 23% | 15% |
| | | | |
| Employment Based Insurance Source | | | |
| Living Wage Employer | 41% | 21% | 18% |
| Other employer† | 18% | 42% | 25% |
| | | | |
| Individually purchased insurance | 3% | 3% | 2% |
| | | | |
| Public Health Insurance | | | |
| Medi-Cal | 7% | 8% | 26% |
| Healthy Families | 0% | 0% | 13% |
| Other†† | <1% | 3% | 0% |
| | | | |
| TOTAL | 100 | 100% | 100% |
| N | 314 | 86 | 223 |
| Margin of Error | ±2% to ±5% | ±4% to ±10% | ±2% to ±6% |

Source: Worker Survey

†Other employer includes employer for workers with more than one job, spouse's employer, and parents' employer.

††Includes the Medicare HMO Secure Horizons, National Guard, Veterans Benefits, GI Bill.

*Consequences of Being Uninsured*

A total of 35 percent of affected workers are uninsured or have a family member who is uninsured.[84] The health problems for which uninsured workers or their uninsured family members needed medical attention ranged from common infections and the flu to more serious problems like pneumonia, diabetes, a hernia, and a brain aneurysm. Lack of insurance also prevented workers from visiting the dentist for toothaches, the optometrist for glasses, and from seeking medical attention for injuries.

Workers with more serious health problems explained that they ultimately were forced to seek medical attention after some delay. But their lack of insurance meant that these workers incurred a significant expense, particularly those who sought treatment at a hospital emergency room. Other workers found different ways to treat their medical problems. Some sought cheaper care in Mexico or at a medical clinic, while others

[84] The margin of error is ± 6 percent.

simply used home remedies. Some of the stories workers told about the consequences of being uninsured included:

- A worker was hit in the head with a rock and went into debt for a $3,000 CAT scan. Since he first visited the hospital he has continued to have pain but has not sought further medical attention because he cannot afford it.
- A worker had bone spurs in her foot but could not afford the MRI or yearly medical check-ups to resolve the problem.
- A worker had a bad stomach infection and ultimately paid $1,300 out of pocket for care and missed three weeks of work to recover.
- A worker's husband has needed to use a colostomy bag for many years, but without insurance to cover the expenses involved, the couple spends about $6,000 a year out of pocket.

**Cost to the Employee**

Living wage affected firms require lower employee contributions to health insurance premiums than other California employers, but those premiums may still be too high for many workers. The Living Wage Employer Survey asked firms what employees are required to contribute to health insurance premiums in order to participate in the company's least expensive health plan. In order to understand the costs faced by living wage workers, we weighted the results by the number of covered workers at each firm.

On average, covered workers in affected firms who are offered health insurance are required to pay a monthly premium of $22 for individual insurance. This is somewhat lower than the $29 per month average that all employees in California pay for individual coverage. The $79 average premium that covered workers in affected firms pay for family coverage is substantially lower than the $153 per month that California workers pay on average for family coverage (The Henry J. Kaiser Family Foundation 2003, Chart 11).[85]

Because the monthly contribution is the largest cost burden and there is such a wide spread in payments--from $0 to $185 for individual plans and $0 to $577 for family—we decided to examine this variable more closely. Table 5-7 displays the average monthly employee contributions divided into quintiles for firms offering individual and family health care. Over half of the workers (58 percent) have access to free individual plans while 80 percent have access to plans for $55 per month or less. Twenty percent of workers work for firms whose individual plans require monthly contributions between $56 and $185 per month.

Likewise, over half of the workers (56 percent) have access to family plans that require no monthly employee contribution. However, 40 percent of workers are employed by

[85] California premiums for 2002 were used to make the data comparable to the Worker Survey data.

firms that require monthly contributions of at least $68 to participate, and 20 percent have access to family plans costing between $153 and $577 per month.

The size of the required employee contribution to health insurance is negatively correlated with whether a worker has insurance through his or her living wage employer, suggesting that cost is, indeed an obstacle for many living wage workers wishing to obtain health insurance.[86] In other words, the more a worker is required to contribute to health insurance costs the less likely she is to have coverage through her living wage employer.

**Table 5.7: Workers' Contribution to Monthly Premiums by Quintile**

| | Monthly Contributions | |
|---|---|---|
| Quintile† | Individual | Family |
| 20 | $0 | $0 |
| 40 | $0 | $0 |
| 60 | $28 | $68 |
| 80 | $55 | $152 |
| 100 | $185 | $577 |

Source: Employer Survey (Weighted by Covered Workers in Affected Firms)
N=60, column 1 and N=45, column 2
†Contribution at which x% of workers pay less and (100-x)% pay more.

### Obstacles to Providing Affordable Health Care

Considering that most firms comply with the living wage ordinance by paying the higher minimum, it is likely that firms face obstacles to providing their low wage employees with affordable health insurance. We examined obstacles faced by two overlapping groups of firms: 1) those firms that comply with the Living Wage Ordinance by paying the higher wage. (Some of these higher wage firms offer health insurance to their living wage employees and some do not), and 2) those firms that do not offer health insurance to low wage employees.

As mentioned above, 73 percent of affected firms comply with the ordinance by paying the higher living wage. Over a third of these firms reported that their employees prefer this option to a lower wage plus benefits. Managers at some higher wage firms, for example, say few of their workers would actually take advantage of the plan if offered one so providing health care is not cost-effective for the employer. Other respondents said they could only provide individual health insurance for the required $1.25 per hour contribution, but their workers prefer a family health plan. When faced with the decision between individual health care or a higher wage, they said their workers chose the latter. Another obstacle to providing benefits is the difficulty and cost of administering a health plan, cited by about one-third of employers who pay the higher wage.

[86] The two variables have a moderate degree of negative correlation. (The correlation is -0.478 and is significant at the 0.01 level.) The data for this analysis comes from the Living Wage Employer Survey and the Worker Survey.

Affordability is a barrier for about a quarter of higher-wage firms whose managers say they have been unable to find a low-cost health care plan that enables them to comply with the ordinance. Finally, a few respondents report that they offered employees health insurance prior to the ordinance, but that their hourly contribution to the plan failed to satisfy the ordinance requirements. These respondents may have misunderstood the provisions of the ordinance that allow firms to pay a premium that is lower than $1.25 provided they make up the difference and give employees the option to opt for the higher wage. (See Table 5-8.)

**Table 5.8: Obstacles to Providing Affordable Health Insurance**

| Firms that Comply with the LWO by Paying the Higher Wage† | |
|---|---|
| ***Why do firms pay the higher living wage rate?***<br><br>N=57 | — Employees prefer higher wage (34%)<br>— Higher wage is easier to administer (31%)<br>— A low-cost health plan is hard to find (24%) |
| **Firms that Do Not Offer Any Health Benefits to Living Wage Workers** | |
| ***Why don't firms offer health insurance to covered workers?***<br><br>N=23 | — Too expensive (62%)<br>— Firms can't compete with other contractors (23%)<br>— Administrative burden (18%) |

Source: Living Wage Employer Survey
Note: Percents do not add to 100 percent because respondent could provide more than one answer.
†Some higher wage firms offer health insurance to their living wage employees and some do not.

About 38 percent of affected firms do not offer health insurance to their covered employees. Of these, 62 percent say that health insurance is simply too expensive to provide. Related to cost, just under a quarter of the employers feel that their company cannot remain competitive with other contractors if it contributes to worker health insurance plans. Another significant proportion of firms (18%) reports that offering health insurance poses too much of an administrative burden on the firm.

Other reasons respondents cite for not offering health benefits have to do with the particular characteristics of their labor force. For example, some companies employ a significant proportion of part-time or seasonal workers who never become eligible for the firms' health plan. Others claim that high employee turnover makes it too costly to provide health insurance. One firm, for instance, reports that many of its workers return to Mexico for a few months out of the year. Since the workforce is constantly changing, offering health care is not cost-effective for the firm.

State and national employer surveys have identified firm size as a significant predictor of whether a firm offers health insurance. Nearly all large California employers (with 200 or more employees) offered health insurance to their employees in 2003, while only 59 percent of the smallest businesses do (those with 3 to 9 employees). (The Henry J. Kaiser

Family Foundation et al. 2003, Chart 11).[87] Nationally, 61 percent of small firms offered health insurance in 2002 compared to 99 percent of large firms. (The Henry J. Kaiser Family Foundation et al 2002, Exhibit 2.1).[88] What these national surveys do not reveal is how many firms that offer health insurance extend it to their low-wage employees. Our sample did not reveal any trends with regard to establishment size. We uncovered cases where small businesses faced obstacles to providing affordable health insurance to low-wage employees, and also some very large employers that did not offer health insurance to their low-wage employees.

For example, a minority-owned firm with ten employees on its living wage contract had offered a Kaiser health plan previously but stopped because employees were unwilling to pay a co-premium. Likewise, a family-owned landscape maintenance firm that employs nine people pays higher wages because it is easier to administer, less costly to the firm, and, according to managers, preferred by the employees. On the other hand, a very large firm with 2,500 employees in LA County does not offer health insurance to its low-paid janitors due to cost considerations and a desire to be the lowest bidder. In addition, a large company that caters to entertainment venues does not offer health insurance to its 80 employees because they are temporary, seasonal workers.

**Firm Characteristics**

We would expect certain firms to be more likely to offer affordable health insurance to their employees than others. For example, smaller firms tend to face greater cost burdens than larger firms, and therefore are likely to require larger employee contributions than other firms. Unions generally negotiate with employers for more generous health plans, and so we would expect more union workers to be insured. We conducted a multiple regression analysis in order to isolate the factors that contribute to a firms' provision of health insurance. The analysis is limited by the small number of firms interviewed. Nevertheless, we make some significant findings.

*Proportion of Living Wage Workers*

The greater the proportion of affected workers at the establishment, the less likely a firm is to offer health insurance to their low wage workers when other factors, including industry group, number of employees, and union status, are held constant. In addition, the greater the proportion of affected workers, the higher the monthly co-payment is for individual insurance.[89] Indeed, when discussing obstacles to providing health insurance, firms with large proportions of affected workers were more likely to complain of high costs than other firms.[90]

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[87] California premiums for 2002 were used to make the data comparable to the Worker Survey data.
[88] Small firms are defined as firms with less than 200 employees.
[89] Proportion of affected workers is significant at a 0.01 level.
[90] On the other hand, those firms with few affected workers that did not offer health insurance typically complained of the administrative burden of providing health insurance for only a handful of employees.

*Union Status*

Three-quarters of union firms interviewed offer health insurance to their low wage workers compared to 59 percent of non-union firms.[91] However, in a multiple regression analysis that controls for other factors, union firms are not significantly more likely to offer health insurance to their low-wage workers, nor are low-wage workers at unionized establishments significantly more likely to be insured. However, the odds of having a family member insured by a living wage employer was six times greater for workers in unionized establishments than for workers in non-union establishment, when other factors are held constant. Not surprisingly, among firms that offer insurance, union firms require lower than average contributions to family health insurance than non-union firms. The required monthly contribution to participate in family health insurance is $126 less on average than for non-union workers when other factors are held constant.[92] There were three union firms that did not offer health benefits to their low wage employees: two firms whose workers only recently unionized and a firm represented by an independent union not affiliated with the AFL-CIO. Nationally, union firms are 61 percent more likely to offer health benefits than non-union firms. (The Henry J. Kaiser Family Foundation 2002, Exhibit 2.3).

**Is $1.25 Per Hour Enough?**

The health insurance differential was set in 1997 with the passage of the Los Angeles Living Wage Ordinance. From 1999 through 2002, the cost of health insurance premiums grew at an average annual rate of 9 percent, compared to 3 percent for overall inflation. (The Henry J. Kaiser Family Foundation 2002).[93] If the health differential had kept pace with rising health insurance costs, it would have equaled $2.02 in 2003. Consequently, it is also useful to look at whether $1.25 per hour could purchase the average job-based individual health insurance plan, estimated at $259 per month by a 2003 survey of California firms. (The Henry J. Kaiser Family Foundation 2003, Chart 11). Using this figure, an employer would need to dedicate $1.49 per hour toward health insurance in order to fully cover the premium for a full time worker. (See Table 5-9.) The employer would need to pay an estimated $4.09 per hour to cover that same worker with family insurance. Living wage workers work 35 hours per week on average, indicating the hourly cost to the employer would be higher for some living wage workers.

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[91] Because of the small number of union firms interviewed, the margin of error is ± 25 percent.
[92] Union status is significant at the 0.1 level.
[93] Data from Exhibit 1.2 were used to calculate the annual rate of growth. Data on premium increases reflect the cost of health insurance premiums for a family of four.

**Table 5.9: Average Premium Costs in California, 2003**

| | Average Annual Premium | Average Monthly Premium | Average Hourly Premium for Full Time Worker |
|---|---|---|---|
| Individual health insurance | $3,102 | $259 | 1.49 |
| Family health insurance | $8,504 | $709 | 4.09 |

Source: The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, California Employer Health Benefits Survey, 2003, Chart 11.
Note: Table shows worker and employer contributions combined.

In 2002, the California state legislature passed Assembly Bill 2178 in order to make it easier for living wage employers to purchase low-cost health insurance. The bill expanded the definition of small employer to including living wage firms, and thereby made them eligible to purchase health insurance in the small group market, regardless of how many employees the firm has. A health insurance broker is currently marketing a plan that costs $1.25 per hour for certain living wage employers. The plan is suitable for about three-quarters of living wage employers, in particular firms with more than six employees and without a preponderance of older workers. But the basic plan has a cap on the number of doctor visits patients are allowed before they must satisfy a deductible, and could require a large out-of-pocket expense if the worker is hospitalized.[94]

***Worker Attitudes toward Health Insurance***

Survey results show that most workers would be willing to trade some of their wages in order to have affordable health benefits. Fifty-eight percent of workers who are paid the higher wage report that they would be willing to have their wages reduced by $1.25 per hour in order to gain access to an employer-sponsored individual health plan at no cost to them. A third of workers who currently earn the higher wage would be willing to take a $2.50 per hour pay cut if it meant their employer would offer them free family health insurance. Conversely, over three-quarters of workers who are paid the lower wage plus health benefits would *not* give up their access to employer-provided health care for a $1.25 per hour wage increase. It is important to note that the actual cost of individual health insurance is, on average, greater than the $1.25 health differential. The same point can be made about the cost of family health insurance. As shown in Table 5-9, the average hourly premium for a full time worker in California is $1.49 for individual health insurance and $4.09 for family health insurance. Still, these low wage workers' willingness to sacrifice pay for health insurance is notable.

[94] Telephone Communication with George Park, Jr., Chairman and CEO of Park Family Insurance, June 22, 2004.

**Table 5.10: Worker Attitudes Toward Health Insurance**

| |
|---|
| **Receives Higher Tier Living Wage Rate:** |
| • 58% would take a $1.25 pay cut to have no-cost individual health insurance |
| • 33% would take a $2.50 pay cut to have no-cost family health insurance |
| **Receives Lower Tier Living Wage Rate:** |
| • 75% would not give up their access to health insurance for a $1.25 wage increase |

Source: Worker Survey
N=176 (high wage workers) and 128 (low wage workers)
The margin of error for this table ranges from ± 7 percent to ± 8 percent.

A sizable minority of workers (23 percent) had been given the option of receiving a lower wage and health insurance and yet had chosen not to accept it. Twenty-nine percent of these workers decided not to participate in the plan because it was either unaffordable or of poor quality. Several workers, for example, did not believe it was worth it to accept a lower wage in exchange for a health plan that required a significant worker contribution. Another significant proportion of these workers (28%) chose not to participate because they needed the higher wage for other expenses. Only a small group of these workers (13%) declined to participate because they already were covered by another insurance plan through a family member or the government.

**Conclusions**

The Living Wage Ordinance had a small but measurable impact on firm behavior, resulting in improvements in health insurance plans for about 2,236 jobs and benefit reductions for about 140 jobs. The ordinance did not induce firms to move from not offering employer-paid health insurance to their low wage workers to offering this benefit. But overall, a small percentage of firms (7 percent) made positive changes to their existing health plans—from increasing their employer's contribution to health benefits to expanding benefits to cover part time workers. The two percent of firms that cut benefits said they decreased the value of the benefits paid to living wage workers. Firms that comply with the ordinance by making a contribution to health benefits are significantly more likely to have improved their benefits upon becoming subject to the law than those that choose to pay the higher wage, suggesting that the health differential was, indeed, the impetus for the change.

Overall, firms affected by the Living Wage Ordinance are about twice as likely to provide employer-paid health insurance to affected workers than low wage employers in the same industries that are not covered by the law. But the difference is most likely to due to the distinctive characteristics of the contract sector, not the living wage law. Living wage affected workers, on the other hand, are only marginally more likely to be covered by employer-provided health insurance than other low-wage workers in Los Angeles County. In any case, a sizable number of workers remain without insurance. More than one-third of workers are uninsured or have a family member who is uninsured. An estimated 15 percent of workers' children are uninsured, while 39 percent rely on

public insurance. Furthermore, living wage workers experience much lower rates of insurance than city employees, most of whom have access to full family health insurance.

Most firms (73 percent) comply with the ordinance by paying the higher wage, suggesting that there are obstacles to providing affordable health insurance to their living wage employees.[95] The most common reason firms cite for not paying the lower wage is that employees prefer the higher wage. However, if employers were able to offer health benefits at no cost to workers, survey results show that most workers would prefer benefits over a higher wage. Nearly 60 percent of higher wage workers said they would take a $1.25 per hour pay cut in exchange for free individual benefits, while three out of four of workers receiving the lower wage say they would not give up their benefits for a $1.25 per hour increase.

Consequently, the real barrier to getting firms to opt for the lower wage appears to be the challenge of finding a plan that costs them $1.25 per hour and the difficulty of administering the plan. The health differential—which has stayed constant as health care costs have increased—is lower than the average cost of employer-paid health benefits for a full-time worker, which was $1.49 hour in California in 2003. Family coverage is even more costly, averaging $4.09 per worker per hour. Unionized living wage companies have demonstrated the greatest success in providing affordable family coverage for their workers.

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[95] Firms at the San Francisco airport responded somewhat differently to that city's living wage law. About 70 percent complied by paying the lower wage plus health insurance compared to only 16 percent in Los Angeles. However, it appears that the labor market conditions—and not San Francisco's Quality Standards Program—explain the San Francisco-based establishments' decision to comply by paying the lower wage plus benefits. See Reich et al. 2003: 42-3.

# Chapter 6 : Impact on Workers and Their Families

In Chapter 4, we found that pay for the average living wage affected worker we surveyed increased by $1,295 per year.[96] In this chapter, we explore the impact this raise had on those workers and their families. We also examine the impact of the pay increase on the tax burden and the eligibility for government programs of three prototypical workers. The prototypes are based on the most common family types we found among affected workers. In addition, we asked how the lives of affected workers and their families have actually changed since the living wage ordinance—from their leisure time to their household expenditures. Workers lives may change due to factors other than the living wage. Whenever possible, we use multiple regression analyses to relate the changes they experienced (since becoming subject to the ordinance) more directly to increases in their wages. We also explore the question of whether the living wage provides workers with enough income to meet their basic needs. Finally, in this chapter, we discuss a byproduct of the living wage ordinance that is not captured by the Living Wage Worker Survey—the city's decision to contract in about 400 jobs after the law was enacted in 1997, which allowed the workers to retain their jobs and become city employees. Interviews with union and city officials suggest that the Living Wage Ordinance contributed to the City's decision to transform some private sector city contract jobs into better-paying city jobs.

This chapter relies primarily on the Living Wage Worker Survey. In addition, we use data on low-wage workers and their families from the Current Population Survey, a joint project of the Census and the U.S. Bureau of Labor Statistics to estimate family income, and from the Census Bureau's Survey of Income and Program Participation.

## Impact of Living Wage on Prototypical Affected Families

An increase in wages can also mean higher taxes and reduced eligibility for government programs, like the Earned Income Tax Credit (EITC) or Food Stamps. The amount of taxes affected workers pay before and after the living wage depends on their family type and their family income. We developed three prototypical affected families, based on our survey data on living-wage-affected workers: a single worker, a two parent family with two income earners and two children, and a single parent family with two children. These family types account for 68 percent of all living wage affected workers. The single worker category excludes workers who are 21 or under and living with their parents, as some of these workers may still be supported by their parents.

In Table 6.1, we report the unique characteristics of each family, based on data from the Worker Survey and data on low-wage workers in L.A. County from the Current

[96] This figure combines both wage increase for workers hired before the ordinance went into effect at their firm (the stayers) and the increase for those hired after (the joiners.) For the stayers, we compared their wages before they became subject to the ordinance to their "after" wages. Joiners were asked to compare pay at their living wage job to pay at their previous job. As discussed in Chapter 4, joiners received significantly lower pay increases than stayers.

Population Survey.[97] We indicate the average number of dependent children, the raise due to the living wage, hours worked per week, and annual income. For example, the worker in the two-parent family has two children, received a $1.01 raise due to the Living Wage Ordinance, and works an average of 37 hours per week at his living wage job. According to CPS data, L.A. County low-wage workers in two-parent families with both parents working had an average family income of $44,208.[98] Those with one parent working earned on average $21,823. The prototypical worker comes from a dual income family because the partners of most living wage workers (72 percent) also work.

We find that living wage affected workers who are parents received a considerably greater boost in their average annual salary than single workers. In the case of single parents, the higher raise is related to the large proportion of women—94 percent of these workers are women (compared to 50 percent of single workers), and women in our sample received higher raises than men on average because they started at a lower wage on average.[99] In the case of workers from two-parent households, the difference between their average raise and that of single workers is related to the significantly greater proportion of workers in this group who are "stayers," i.e. were hired before the living wage went into effect at their firm.[100] As discussed in Chapter 4, stayers received significantly higher raises than joiners—those hired after the ordinance went into effect at their firm.

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[97] For the analysis of family income, we used the Current Population Survey Annual Demographic Survey, 2002 and 2003. We selected all people in L.A. County who worked in the previous week and reported earning a wage between $6.75 and $12.00 per hour. We calculated family income based on the nuclear family, including only spouses and dependent children, and not other extended family members. This method best suited our analysis of the impact of the raise on taxes and public program eligibility, because taxes are likely to be based on the nuclear family, and many public programs determine eligibility based on the nuclear family.

[98] Seventy-two percent of living wage workers in two-parent families report that their spouse works.

[99] In a difference of means test, gender was significant at the 0.01 level. The gender difference did not appear to be due to different proportions of stayers and joiners among men and women. Comparable percentages of male and female workers are stayers and joiners.

[100] Single workers are significantly more likely to be joiners than workers from other family types (at the 0.01 level.)

**Table 6.1: Prototypical Living Wage Affected Families**

| | Single worker[101] | Two Parent Family | Single Parent Family |
|---|---|---|---|
| Average number of children under 18 | 0 | 2 | 2 |
| Hourly raise | $0.45 | $1.01 | $0.96 |
| Average hours of work per week at living wage job | 36 | 37 | 35 |
| Percent of all living wage affected workers | 35% | 24% | 16% |
| | | | |
| Average annual family income for low-wage workers in L.A. County | $17,028 | $44,208† | $17,702 |

Source: Data for all characteristics except family income are from the Living Wage Worker Survey. Family income data comes from the Economic Policy Institute's analysis of the Current Population Survey's Annual Demographic Survey, 2002 and 2003 combined.

†The family income figure is for couples with two working parents.

### Impact of Federal and State Taxes on Wage Gain

In Table 6.2, we see how the prototypical affected workers' annual incomes are affected by taxes.

- The *single worker* experiences a $1,098 annual pay increase, bringing his family's total annual pay to $18,126. His federal income taxes increase by $165 while his FICA taxes rise by $84 annually. He does not pay state income taxes, but increases his contribution to California disability insurance by $10 annually. He does not qualify for either the child care credit or the EITC before or after the raise. His after-tax income increases by $839 per year.
- The *worker from the two parent, dual income family*—like the single worker—sees an increase in FICA taxes and in state disability insurance due to the living wage raise. His after-tax pay increase comes to $1,370.
- We see a similar pattern with the *single parent*, with FICA taxes and state disability insurance contributions increasing. But her federal income tax increase is offset by her ability to claim a higher federal child care credit. On the other hand, her Earned Income Tax Credit declines by $347 annually due to the raise, and her total after-tax gain is $1,190.

The analysis assumes that workers take advantage of the EITC and the child care tax credit. At least 22 percent of all workers, including 31 percent of single parents, 25 percent of workers in couples with children, and 25 percent of single workers, as we

[101] Single workers are defined as those who do not live with a spouse, domestic partner, or dependent children. They do not necessarily live alone, however. This group excludes workers who are 21 years old or younger who live with their parents.

define them, make use of EITC.[102] (See Table 6.3.) Studies estimate that about 75 percent of eligible tax filers participate in the program, with certain populations (like Latinos and families with more than two children) less likely to participate. (Stewart 2004, U.S. Department of Agriculture 2004, White 2001, and Phillips 2001). An eligible affected worker who did not make use of the EITC would experience a bigger gain from a pay increase—as they would have less to lose in the form of government transfer payments.

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[102] Thirty percent of workers said they did not know whether they had filed for the EITC on their last tax return. However, we included *all* workers (whether or not they knew they had filed for the EITC) in the denominator when calculating the proportion of workers who filed for the credit. Consequently, these proportion constitute an underestimate of the number of workers who had actually filed for the EITC. The margins of error is ± 5 percent.

**Table 6.2: Change in Earnings and Taxes Before and After the Living Wage for Prototypical Affected Families**

| | | Single | | | Two Parent | | | Single Parent | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Family Income | Before LW | After LW | Change | Before LW | After LW | Change | Before LW | After LW | Change |
| 1 | Worker annual earnings from lw job | $15,390 | $16,488 | $1,098 | 15,152 | $17,020 | $ 1,869 | $13,528 | $ 15,208 | $ 1,680 |
| 2 | Gross Family Earnings | $17,028 | $18,126 | $1,098 | 44,208 | $46,077 | $ 1,869 | 17,702 | $ 19,382 | $ 1,680 |
| 3 | Federal income tax | ($1,099) | $(1,264) | $ (165) | (3,056) | $ (3,319) | $ (263) | $ (181) | $ (348) | $ (167) |
| 4 | FICA tax | $(1,303) | $(1,387) | $ (84) | $(3,382) | $ (3,525) | $ (143) | $1,354) | $ (1,483) | $ (129) |
| 5 | California state income tax | $ - | $ - | $ - | $ 858 | $ 934 | $ (76) | $ - | $ - | $ - |
| 6 | State disability insurance | $ (153) | $ (163) | $ (10) | $ (398) | $ (415) | $ (17) | $ (159) | $ (174) | $ (15) |
| 7 | After-tax earned income (2+3+4+5+6) | $14,473 | $15,312 | $ 839 | $38,230 | $39,752 | $ 1,370 | $16,007 | $ 17,377 | $ 1,370 |
| 8 | Child Care Tax Credit | $ - | $ - | $ - | $1,008 | $ 1,008 | $ - | $ 181 | $ 348 | $ 167 |
| 9 | Earned Income Tax Credit | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,254 | $ 2,907 | $ (347) |
| 10 | Disposable income (7+8+9) | $14,473 | $15,312 | $ 839 | $39,238 | $ 40,760 | $ 1,370 | $19,442 | $ 20,632 | $ 1,190 |

Source: Family prototypes were derived from the Living Wage Worker Survey. Income data comes from the Economic Policy Institute's analysis 2002 and 2003 Current Population Survey (Annual Demographic Survey). The analysis selected L. A. County residents who worked in the previous week and reported earning a wage between $6 75 and $12 00 per hour. Family income is based on the nuclear family, including only spouses and dependent children, and not other extended family members.

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**Table 6.3: Living Wage Affected Worker Program Participation Rates by Family Type**

| | Couple with no kids under 18 | Single, no kids under 18 | Single parent | Two parents of children under 18 | Total |
|---|---|---|---|---|---|
| Medi-Cal*** | 9% | 8% | 26% | 16% | 12% |
| National School Lunch Program*** | 0% | 4% | 35% | 23% | 13% |
| Women, Infants, and Children*** | 2% | 0% | 27% | 16% | 8% |
| Healthy Families*** | 2% | 3% | 12% | 16% | 7% |
| Food Stamps** | 2% | 0% | 6% | 1% | 2% |
| Section 8*** | 0% | 0% | 12% | 0% | 2% |
| Public Housing | 2% | 0% | 6% | 4% | 2% |
| Welfare*** | 0% | 0% | 10% | 3% | 2% |
| EITC** | 13% | 25% | 31% | 24% | 22% |

Source: Worker Survey
N=320
Note: This table does not include columns for single workers under 23 who are living with their parents, although they are included in the total.
*Family type is significant at the 0.1 level. **Family type is significant at the 0.05 level. ***Family type is significant at the 0.01 level.

Overall, our prototypical affected workers retain between 71 and 76 percent of the wage increase after taxes. Table 6.4 sums up gains for the affected workers in our prototypical families and government savings from the increased taxes our prototypical workers pay. The single worker sees his pre-tax annual income rise by $1,089. He retains 76 percent of that increase—or $839. The government sees a $259 annual increase in tax revenue, with the majority of that increase--$249--going to the federal government in the form of higher FICA taxes and federal income taxes. A similar pattern holds true for the couple with two children, who retain 73 percent of the raise. The single parent retains a lower percentage—71 percent—of her living wage raise because she has the more to lose from reductions in her eligibility for the EITC than the other prototypical workers.

**Table 6.4: Annual Gains for Affected Workers and Government Due to Wage Increase**

| | | Single Worker | Two Parent | Single Parent |
|---|---|---|---|---|
| | Worker Gains | | | |
| 1 | Pretax income increase | $ 1,089 | $ 1,869 | $ 1,680 |
| 2 | After-tax income increase | $ 839 | $ 1,370 | $ 1,189 |
| 3 | Income lost to higher taxes (1-2) | $ (259) | $ (499) | $ (491) |
| 4 | Percentage of living wage increase retained by workers (2/1) | 76% | 73% | 71% |
| | | | | |
| | Federal Government Savings | | | |
| 5 | Federal Income Tax | $ 165 | $ 263 | $ 167 |
| 6 | FICA | $ 84 | $ 143 | $ 129 |
| 7 | EITC Savings | $ - | $ - | $ 347 |
| 8 | Childcare Tax Credit Cost | $ - | $ - | $ (167) |
| 9 | Total (5+6+7+8) | $ 249 | $ 406 | $ 476 |
| | | | | |
| | State government savings | | | |
| 10 | Higher state income taxes | $ - | $ 76 | $ - |
| 11 | Higher disability insurance | $ 10 | $ 17 | $ 15 |
| 12 | Total (10+11) | $ 10 | $ 93 | $ 15 |
| | | | | |
| 13 | Total Government Savings (9+12 | $ 259 | $ 499 | $ 491 |
| 14 | Additional tax income as a percentage of living wage increase (13/1)* | 24% | 19% | 29% |

Source: Table 6.2.

* Does not include employer's share of payroll tax.

### Impact of Wage Gain on Eligibility for Government Programs

Low-wage workers receiving a raise due to the living wage may also face a decline in eligibility for government programs, such as Food Stamps. These declines also translate into savings for government. In order to understand how the ordinance might affect eligibility for government programs, we examined our three affected families' eligibility for Food Stamps, Medi-Cal, Healthy Families, federal Section 8 rental vouchers, and school meal subsidies.[103]

Key to this analysis is whether and how affected workers (and their families) are insured since public health insurance constitutes one of the largest government subsidies to eligible low wage workers. Despite being more likely to possess health insurance paid for by their employer, a sizeable percentage of living wage affected workers and their families are either uninsured or rely on public health insurance—38 percent of affected workers and 50 percent of their children. For the purposes of this analysis, we assume

[103] Medi-Cal is California's Medicaid health care program. Healthy Families is a state and federally funded health coverage program for children in low income families who are above the income eligibility level for Medi-Cal.

that our prototypical affected workers and their spouses lack health insurance both before and after they receive their living wage raise, and are reliant on Los Angeles County Health Services, which provides health services to the uninsured. We assume that the children in the prototypical families would rely on public health insurance before and after becoming subject to the Living Wage Ordinance if they are indeed eligible.[104] This is so we can evaluate the impact of the pay increase on their eligibility for public health insurance programs, such as Medi-Cal and Healthy Families.

*Single Workers*

Of the seven programs listed in Table 6-5, the single worker is only eligible for Los Angeles County Health Services and Section 8 rental assistance. The single worker would experience a $329 decline in his eligibility for Section 8 vouchers. However, many of those eligible for Section 8 vouchers do not participate in the program due to lack of knowledge about the program, long waiting lists and the reluctance of some landlords to accept them.[105] Only one of the single workers surveyed said they rely on Section 8 housing vouchers so it is unlikely that very many workers would be impacted by a loss in Section 8 eligibility.[106] The single worker would remain reliant on Los Angeles County Health Services before and after the living wage ordinance.

*Two-Parent Family*

Members of the two-parent family, the highest income family of the three, see very little change in eligibility for government programs. The family is ineligible for most anti-poverty programs before and after the living wage, but remains reliant on the county for health services. Unless the parents purchase private insurance for their children, the children would also be reliant on the county for health services before and after their living wage raise.

*Single-Parent Family*

The single parent family has the most to lose in terms of eligibility for government programs. She experiences a $504 annual decline in eligibility for Section 8 vouchers and a $624 annual decline in eligibility for Food Stamps, a program that was used by more than half of eligible Californians in 2001. (U.S. Department of Agricultures 2004). Her children remain eligible for public insurance before and after the increase. The decline in eligibility for government subsidies is offset by $1,189 increase in disposable income. The analysis of the single parent prototype reveals that the living wage increase would not be a net income gain for a worker relying on Food Stamps and living in a Section 8 subsidized apartment. However, the vast majority of living wage workers who are single parents do not rely on these programs. Nonetheless, they are significantly more likely to rely on government assistance than are workers belonging to other family

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[104] The average per person cost estimates for Medi-Cal, Healthy Families, and Los Angeles County Health Services were derived from data provided by the agencies responsible for those programs.

[105] In early 2004, there were about 84,000 families on the waiting list in Los Angeles for Section 8 housing vouchers. See Stewart 2004.

[106] Toikka et.al. (2005) found that more living wage workers will lose benefits. However, that study did not take into account participation rates for the various government programs. The study also found that single-parents are the most likely to experience a reduction in government assistance.

types.[107] (Almost 12 percent of living wage affected workers who are single parents rely on Section 8 housing vouchers, while about 6 percent of those who are single parents rely on Food Stamps.[108])

Table 6.6 illustrates how our prototypical single parent would experience the living wage raise depending on her use of government programs. If she did not rely on any program, she retains 71 percent of her $1,680 raise, as discussed above. If she were reliant on Food Stamps, she retains 44 percent of her raise, and if she were reliant on Food Stamps and Section 8, her raise would be virtually wiped away. She would retain only 4 percent of her raise. A small group of single parent workers affected by the living wage (less than 1 percent of affected workers) rely on both Section 8 and Food Stamps and would potentially fall into this category. This amounts to fewer than 30 out of the 7,700 affected workers who got mandatory raises.

Another potentially vulnerable group may be couples with only one parent working. These families—who represent 7 percent of our sample—have lower family incomes than families with two working parents and may be more reliant on government programs.

Only one worker—a skycap at the airport—reported losing his Section 8 benefit due to the living wage raise. He said he was able to cover his entire rent without the assistance, and that he would rather be earning the living wage and lose his eligibility than earn the minimum wage.

**Benefit to Government from Loss in Eligibility**

The loss in eligibility for government programs could constitute a revenue savings for government. But in our analysis of prototypical affected workers the change in eligibility affects just two programs, and only single parents in our survey make use of these programs. The prototypical single parent affected worker would lose Section 8 eligibility (valued at $504) and Food Stamp eligibility (valued at $624).[109] (See Table 6-5.) If we apply the percentage in which those programs are used by single parents in our survey (6 percent and 12 percent respectively) to the dollar amount of the loss in eligibility for the prototypical single parent, then single parents would lose on average $135 in benefits, and the federal government would be the beneficiary. About 1,300 of the living-wage-affected workers are single parents so the government would gain about $174,000 annually from this group of workers in aggregate, according to this scenario. (Of course, the government will also gain from increased payroll taxes due to the higher wages paid to living wage workers in general.) What is more striking about this analysis is that these prototypical workers continue to be eligible for between $4,200 and $15,400

[107] An analysis was conducted examining program use by family type (single worker, two parent family, single parent family, and couple without children.) A chi square test of family type by food stamp and Section 8 housing voucher use was significant at the 0.1 level and the 0.5 level, respectively. The pattern was the same for other government programs.

[108] The margin of error is ± 12 percent.

[109] One of the children in the single parent family would also move from relying on Medi-Cal to relying on Healthy Families, which would marginally decrease the public cost of medical care.

in government assistance even after receiving their living wage raise. These figures do not include the $2,900 in EITC benefits also available to our prototypical single parent.

**Table 6.5: Changes in Eligibility for Government Assistance Programs for Prototypical Affected Families**

| | Single | | | Two Parent | | | Single Parent | | |
|---|---|---|---|---|---|---|---|---|---|
| Benefit | Before LW | After LW | Change | Before LW | After LW | Change | Before LW | After LW | Change |
| Food stamps | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,580 | $1,956 | $ (624) |
| Medi-Cal | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,240 | $1,240 | $ - |
| Healthy Families | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,068 | $1,068 | $ - |
| LA County Health Services | $1,849 | $1,849 | $ - | 5,546 | $5,546 | $ - | $ 5,546 | $5,546 | $ - |
| Section 8 | $2,692 | $2,362 | $ (329) | $ - | $ - | $ - | $ 4,565 | $4,061 | $ (504) |
| School Meals | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,082 | $1,082 | $ - |
| WIC | $ - | $ - | $ - | $ - | $ - | $ - | $ 456 | $ 456 | $ - |
| TOTAL | $4,540 | $4,211 | $ (329) | $5,546 | $5,546 | $ - | $ 16,536 | $15,408 | $ (1,128) |

Source: The agencies responsible for each program provided the eligibility information used to estimate benefits for each prototypical worker. Income data comes from the Economic Policy Institute's analysis 2002 and 2003 Current Population Survey (Annual Demographic Survey). The analysis selected L.A. County residents who worked in the previous week and reported earning a wage between $6.75 and $12.00 per hour. Family income is based on the nuclear family, including only spouses and dependent children, and not other extended family members.

**Table 6.6: Scenarios of Government Program Usage for Single Parent Prototype**

| | Not Reliant on Food Stamps, Section 8 | Reliant on Food Stamps | Reliant on Food Stamps and Section 8 |
|---|---|---|---|
| Living wage pre-tax income increase | $ 1,680 | $ 1,680 | $ 1,680 |
| Income lost to higher taxes | $ (491) | $ (491) | $ (491) |
| | | | |
| Net government transfers | | | |
| Food Stamps | $ - | $ (624) | $ (624) |
| Medi-Cal | $ - | $ - | $ - |
| Healthy Families | $ - | $ - | $ - |
| LA County Health Services | $ - | $ - | $ - |
| Section 8 | $ - | $ - | $ (504) |
| School Meals | $ - | $ - | $ - |
| WIC | $ - | $ - | $ - |
| TOTAL | $ - | $ (624) | $ (1,128) |
| | | | |
| Net income increase | $ 1,189 | $ 565 | $ 61 |
| Percentage of New Income Retained by Worker | 71% | 44% | 4% |

Source: Table 6-5.

### The Living Wage and Quality of Life Changes

**Quality of Life Changes Reported by Workers**
- — Improved housing conditions
- — Better able to support family
- — Bought better car
- — More money for college
- — Greater economic stability
- — Less stress
- — Able to live better
- — Able to save money

The majority of affected workers we surveyed did not report dramatic quality of life changes due to the living wage law. But a significant minority of affected workers (36 percent) reported improvements due to the living wage ordinance—from quitting a second job, to purchasing a car, to being financially independent enough to leave an abusive husband.

— Six percent of affected workers attributed improvements in their housing situation to the living wage ordinance. A married mother of two was able to move her family out of her parents' house and into their own apartment after receiving the living wage. Another young woman said that when she and her sister began working for a living wage airport screener firm they were able to buy a house together for their families. A woman said the wage increase gave her the ability and confidence to leave her abusive husband and take her children with her.

— Two percent of affected workers said they are better able to support their families with the extra income from the living wage, including a janitor and mother of two from Central America whose husband had recently lost his job. A landscape worker with two children purchased life insurance with his additional income.
— Three percent of workers said that being paid the living wage raise reduced their stress. A janitor and mother of three said that because of the living wage she does not feel like she is "drowning" anymore. A screener at the airport said that she began to feel more "tranquil" when she began being paid the living wage because it has enabled her to pay off her credit card debt.

It is important to note that 77 percent of affected workers reported not knowing what the Living Wage Ordinance was at the outset of the survey. Many of those workers were, nevertheless, aware they received a raise at the time the Living Wage Ordinance went into effect at their firm. Because not every worker was aware of the ordinance and knew when it went into effect, workers were asked a series of questions about changes that had occurred since the date the ordinance went into effect at their firm. In the case of workers hired after the ordinance went into effect at their firm, they were asked to compare their experiences at their current job to experiences at their previous job. They were asked about changes in spending on entertainment, remittances to family members, use of vacation and sick time, supplemental jobs, and time with family. We conducted multiple regression analyses on most questions to determine whether the size of the raise was associated with the changes experienced by workers.[110] The only changes that were attributable to the raise, other than those previously mentioned, were changes in spending on entertainment, such as taking the family to the movies or out to dinner. Almost a quarter of workers said they spent more money on entertainment after the raise while 11 percent said they spent less, and the higher the raise worker the received, the more likely they were to report spending more on entertainment.[111]

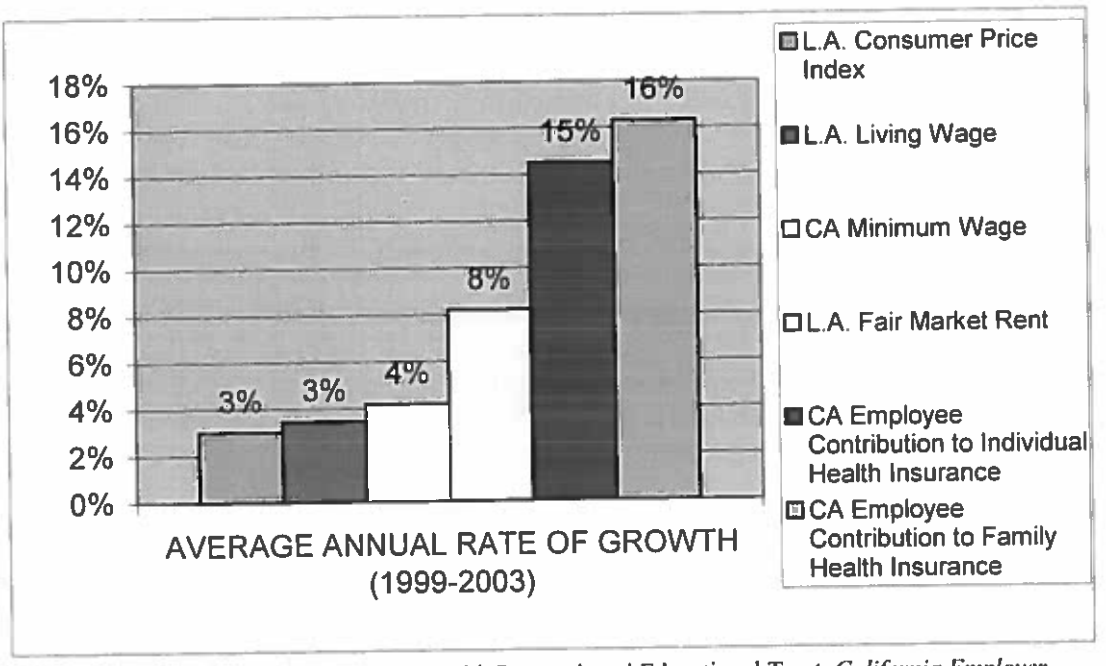
**The Living Wage and the Rising Cost of Living**

As we evaluate the impact of the living wage on affected workers' lives, it is important to place the wage increases due to the ordinance in the context of the rising cost of living in Los Angeles County. In order to provide a sense of how living costs were increasing during the time affected workers received their raises, we calculated the average annual growth rate of the living wage and the minimum wage levels (due to mandated increases), and several cost of living indicators during the period from 1999 to 2003.[112] (The living wage workers we surveyed experienced their wage increase at different times between 1997 and 2003.) As shown in Figure 6.1, the average annual rate of growth for the living wage level, from 1999 to 2003, was 3 percent, about the same as the rate of

[110] We did not conduct a multiple regression analysis on remittances due to the small number of workers who sent remittance to their family members both before and after the Living Wage Ordinance.
[111] For an increase of $1 in the raise received due to the ordinance, the odds of workers spending more on entertainment increase by 20 percent, according to an ordered logistic regression that controlled for the size of the raise, whether they were hired before or after the living wage went into effect at their firm, union status, sex, age, race, years of schooling, immigration status, tenure on the job, average hours worked per week, whether they are seasonal, and family type. The raise is significant at the 0.05 level.
[112] Health data were not available prior to 1999.

growth of the Consumer Price Index.[113] The California minimum wage level, which was raised twice during this period, grew at an average rate of 4 percent per year. Housing—which makes up a large share of a low income family's budget—has grown more dramatically. The average annual growth rate for the Fair Market Rent in Los Angeles was 8 percent during the same period.[114] Meanwhile, the cost to employees of health insurance has grown even more dramatically, with employees' share of individual and family premiums increasing at an average annual rate of 15 and 16 percent respectively. While the living wage and the minimum wage were growing during this period, the cost of living was also rising, and the cost of certain necessities—such as housing and healthcare—was rising at a much faster rate than any wage mandate.

**Figure 6.1 Annual Rate of Growth for the LA Living Wage, California Minimum Wage and Select Cost of Living Indicators (1999-2003)**




Sources: Kaiser Family Foundation and Health Research and Educational Trust, *California Employer Health Benefits Survey, 1999-2003*.; National Low Income Housing Coalition, *Out of Reach, 1998-2003.*

### Is the Living Wage Enough?

Given this context, it is not surprising that the great majority of affected workers (81 percent) say that the level at which the living wage is set is not sufficient to meet their needs and those of their families. We asked the workers how much they would need to earn to be able to support their families, assuming their employer would provide full family health benefits. On average, affected workers said they would need to be paid $13 per hour to be able to support their families – about $5 more per hour than the lower-tier

[113] The CPI is for the Los Angeles-Riverside-Orange County area.
[114] The FMR for Los Angeles is defined by the federal Department of Housing and Urban Development as the dollar amount below which 40 percent of the standard quality rental housing units rent.

living wage in 2002, when most workers were asked this question. Adding in the cost of benefits would, of course, bring the wage higher and would depend on the family composition of the worker. Using the wages supplied by the workers and available health insurance cost data, workers are saying that they would need between $15.14 and $17.85, depending on their family type.

Single parent workers were significantly more likely than other affected workers to say that the living wage is not enough (See Table 6-7). Single workers living alone were the least likely to report that the living wage is not sufficient, though the majority still felt it was not enough. Despite differences in workers' opinions about the adequacy of the living wage, there is little variation among family types in the hourly wage workers believe they would need to earn to be able to support themselves and their families. At the high end, affected workers who are part of two parent households reported needing an average hourly wage of $13.76 and full family health insurance, while at the low end, single parent workers said they require a wage of $12.17 per hour and full family health insurance on average. In addition, about 14 percent of full-time living wage affected workers have a supplemental job, suggesting that even a full-time job is inadequate for some affected workers.

**Table 6.7: Percent of Affected Workers Who Believe the Living Wage Is Not Enough to Support Their Families by Family Type**

| | Single parent | Two parent | Single | Couple | All Workers |
|---|---|---|---|---|---|
| Say living wage is not sufficient | 98% | 87% | 70% | 89% | 80% |
| Average wage workers believe they need to support family (not including family health insurance) | $12.17 | $13.76 | $13.65 | $13.14 | $13.30 |
| Average wage (including the cost of health insurance) † | $16.26 | $17.85 | $15.14 | $16.12 | $16.22 |
| Number of workers | 34 | 76 | 98 | 43 | 251 |

Source: Living Wage Worker Survey, The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, California Employer Health Benefits Survey, 2003, Chart 11.
Differences in the percentage of workers who believe the living wage is not sufficient are statistically significant at the 0.01 level.
Note: Domestic partners are included in the couple and two-parent family categories. The family type does not differentiate between workers who live with extended families and those who do not.
†For parents who are workers, we assumed the cost of health insurance was $4.09. The cost for single workers was assumed to be $1.49. The cost for couples was $2.48 (2 x $1.49). The data come from the Kaiser survey cited above.

### Use of Anti-Poverty Programs

Another way to approach the question of whether the living wage allows affected workers to meet their basic needs is to examine their use of anti-poverty programs. The Living Wage Worker Survey asked if workers were using a variety of anti-poverty government assistance programs at the time of the interview. The data suggests that, even while earning the living wage, a sizable minority of affected workers are poor enough to qualify for government assistance.

As previously discussed, a small percentage of affected workers rely on Section 8 and Food Stamps, programs which are sensitive to small changes in income. However, a significant portion of affected workers rely on other programs, even after receiving the wage increase. Thirty percent of affected workers said they or their children made use of at least one anti-poverty program other than the EITC (See Table 6-8). In addition, one in five affected workers said they claimed the Earned Income Tax Credit on their last tax return. In all, forty-four percent of workers surveyed reported that their family either claimed the EITC or was using at least one of the anti-poverty programs listed in Table 6-8. Commonly used programs include: Medi-Cal, California's Medicaid program; the School Lunch Program, which provides free or reduced-price meals; Women, Infants and Children (WIC) Nutrition Program, which provides food and counseling on nutrition; and Healthy Families, which provides health care coverage for low-income children. Living wage affected workers' rates of participation in these programs are comparable to the rates for low-wage workers overall in California, in those programs for which data are available.

**Table 6.8: Participation Rates in Government Anti-Poverty Programs**

| Anti-Poverty Program | % of Living Wage Affected Workers | % of California Low-Wage Workers† |
|---|---|---|
| Medi-Cal | 12% | 20% |
| National School Lunch Program | 12% | Not available |
| Women, Infants and Children (WIC) Nutrition Program | 9% | Not available |
| Healthy Families | 7% | Not available |
| Food Stamps | 2% | 3% |
| Section 8 | 2% | 2% |
| Public Housing | 2% | Not available |
| Welfare | 2% | 1% |
| Using at least one of the public welfare programs listed above | 30% | Not available |
| Claimed Earned Income Tax Credit with last tax return | 22% | Not available |
| Using EITC or any of the public welfare program listed above | 44% | Not available |
| N | 320 | 13,291 |

Source: Living Wage Worker Survey and 2002 Survey of Income and Program Participation analyzed by the Center for Economic and Policy Research.

†Includes workers who earn $6.75-$11.00 per hour and were working at least 15 hours per week. Margin of error for Living Wage Workers Survey ranges from ± 2 percent to ± 5 percent.

Research has shown that rates of participation in government programs are lower than rates of eligibility, so it is likely that even more living wage affected workers are eligible for these programs, but do not participate. (See Stewart 2004, U.S. Department of Agricultures 2004, White 2001, and Phillips 2001). In addition, certain immigrants are ineligible for many of these programs. Although the Living Wage Worker Survey did not collect information about legal status, over half of affected workers are immigrants, as discussed in a previous section. It is likely that some affected workers have incomes low enough to qualify for these programs, but do not participate due to their legal status.

**How Much Is Enough?**

In recent years, researchers and government officials have argued that the federal poverty line, set in 1963, is an inadequate measure of the minimum income needs of families.[115] The federal poverty line is based on the cost of the basket of food necessary to satisfy the caloric needs of a family. To generate a dollar figure for poverty, the government simply multiplies the cost of the food basket by three. Such an approach does not take into account that costs vary greatly in different parts of the country. In addition, the federal poverty line is not indexed to housing, child care and healthcare costs, expenses that take up an increasing share of family income. Several research and policy organizations have devised self-reliance budgets, which are based on living expenses in different regions, and represent the income needed by different family types in order to live independently, without sharing housing or relying on government assistance or informal child care.[116]

Table 6.9 illustrates how the living wage measures up to a self-reliance budget for several different family types in Los Angeles County. Based on these estimates, a single person with no dependents would need to earn about $10.50 per hour at a full-time job to be self-reliant. This hourly wage is about a dollar higher than the higher tier living wage in 2002-2003. A single parent, on the other hand, would need to earn more than $23 per hour, mainly due to child care and health insurance costs. Couples with children and one parent working require a wage of about $19 per hour, assuming that the spouse who does not work is able to care for the children. Still, this wage is almost $10 over the higher-tier living wage. Finally, families with two working parents would require an hourly wage of about $14 (for each working parent)—over $4 more than the higher-tier living wage. Low-wage workers do not typically purchase such services as child care and health insurance on the open market, as discussed in Chapter 3. But the self-reliance wages are not dramatically higher than what living wage affected workers themselves say they need, when health insurance is factored into the equation.

[115] For a fuller discussion, see Citro et al. 1995: 17-96.

[116] We used the "basic needs budget" developed by the California Budget Project (Oct 2003) for this analysis.

**Table 6.9: Comparison of Living Wage to Self-Reliance Budget by Family Type**

| | Self-Reliance Budget (Includes Health Care costs) | | | |
|---|---|---|---|---|
| | Single Adult | Single Parent | Two Parents, One Working | Two Working Parents |
| Monthly Total | $1,819 | $4,041 | $3,327 | $4,817 |
| Annual Total | $21,823 | $48,490 | $39,920 | $57,800 |
| | **Self-Reliance Wage Compared to Living Wage** | | | |
| Basic Needs Family Hourly Wage (2002-2003) | $10.49 | $23.31 | $19.19 | $13.89† |
| Higher-Tier Living Wage Rate in 2002-2003 as a Percentage of Basic Needs Family Hourly Wage | 91% | 41% | 50% | 69% |
| | **Difference Between Self-Reliance Wage and Living Wage** | | | |
| Difference | $0.98 | $13.80 | $9.68 | $4.38 |

Source: California Budget Project (Oct 2003).
Note: The CBP analysis assumes two children in the household of working parents. On average living wage workers who are single parents or married parents have two children under 18 in the household.
†This is the wage each of the two working parents in the family would need to earn, for a combined hourly wage of $24.36.

**Contracting Back in City Jobs**

One of the benefits to workers not captured by our surveys is the effort made by the City of Los Angeles to bring work performed by low-wage subcontracted workers "in-house," and transition these workers into city civil service positions. In all, 460 jobs have been contracted in since the enactment of the Living Wage Ordinance in 1997. Compensation for these city jobs includes full family benefits, pension benefits, and a starting wage that exceeds $12.00 per hour. Consequently, moving from a private company to a city job typically represents a step up for low-wage workers, even for some workers already covered by a union contract.

There may have been multiple motives for the city's decision to bring these private sector jobs in-house. However, interviews with city and union officials suggest that the ordinance played a role for a large portion of those jobs.[117] According to Scott Lager, Airport Maintenance Superintendent at Los Angles World Airports, the living wage factored into the decision to contract in 350 custodial jobs at the airport. "Because of the living wage, the custodial wages for the contract employees went up substantially, so it certainly narrowed the gap between what the city custodians made and what [employees

[117] Neumark (2004) discusses how living wage ordinances may reduce incentives for cities to contract out low-wage work, and how wages for unionized city workers have increased as a result of living wage ordinances.

of the] contractors made."[118] In other words, if the city pays for increased wages of subcontracted workers then there is no great savings from contracting out work.

In 1997, shortly after the passage of the Living Wage Ordinance, the City of Los Angeles contracted in 30 janitors at the Central Library after the workers testified before the City Council and filed complaints alleging the private contractor had failed to pay payroll taxes, workers compensation, and did not provide adequate safety equipment. The contract did not fall under the living wage at the time, but the passage of the ordinance helped bring the problem to light, according to Tony Royster, Assistant General Manager of Administration and Building Support with the Department of General Services. "After the passage of the living wage, there was more scrutiny of contracts as they related to wages," Royster said.[119]

Workers who are contracted in usually receive a training wage that is lower than the wages received by city workers during a 6 to 18-month probationary period.[120] The city has a program to transition contract workers into city jobs.

**Conclusion**

The wage gains from the living wage still make a financial difference to living wage affected workers even after taxes are subtracted from the gain. In an analysis of three prototypical affected families—a single worker, a two-parent family with two income earners, and a single-parent family—workers kept between 71 and 76 percent of their wage gain after taxes. That meant between $839 and $1,370 in additional disposable income for those families. The federal government is the public entity that experiences most of the gain from increased taxes paid by affected workers. The government claimed between $259 and $499 in increased income, FICA tax, and a reduced Earned Income Tax Credit. More than 95 percent of that gain went to the federal government for each family type.

The prototypical single worker and single parent worker saw a decline in eligibility for Section 8 Housing vouchers, a program that is used by only 2 percent of living wage workers. The single parent family also saw a $624 annual reduction in food stamp eligibility that (along with a $504 reduction in Section 8 benefits) could offset her $1,189 wage gain. Other low income families—such as a family in which only one parent works—might also lose eligibility due to a living wage increase. Most living wage affected workers, including single parents, do not make use of these programs, although single parents are significantly more likely to rely on them than are other workers. About 6 percent of single-parent workers who are affected by the living wage say they use Food Stamps and 12 percent rely on Section 8 rental subsidies. As our prototypical affected workers did not see dramatic losses in eligibility, the federal and state government would not likely see large revenue gains due to workers becoming ineligible for government programs.

[118] Telephone interview, July 10, 2003
[119] Telephone interview, November 22, 2004.
[120] Interview with Teresa Sanchez, Local 347, October 6, 2004.

At least 36 percent of affected workers reported improvements in their lives as a result of the living wage, from less stress to being able to buy a car to being better able to face a financial emergency. Yet most affected workers do not report dramatic quality of life changes since receiving the raise. This is not surprising since other costs, like housing and healthcare, have been increasing at a faster rate than the living wage. About 80 percent of affected workers said the living wage was not enough to meet their needs and those of their family. Across family type, affected workers said they would need about $13 per hour plus free family health insurance to afford life in Los Angeles. A sizable minority of affected workers rely on some form of government assistance, indicating that their wages may not be enough to cover their basic needs. More than forty percent of affected workers' families either rely on government assistance programs (such as Medi-Cal or Food Stamps) or claim the federal EITC on their tax returns. The living wage ordinance is too low even for a single person, according to a self-reliance budget for Los Angeles. The self-reliance budget measures the income needed by different family types in order to live independently, without sharing housing or relying on government assistance or informal child care.

Another impact of the living wage ordinance has been to prompt some city departments to contract back in city jobs. The ordinance was in part responsible for bringing 380 city contract jobs in-house. Workers who move from private sector service contractors into a city job would likely experience a pay increase. The city also provides its workers with full family health insurance and pension benefits that are typically more generous than what can be found among low-wage private sector employers.

## Chapter 7 : Impact on Employers and the Workplace

This chapter examines whether changes have occurred in the workplace due to the living wage, including how affected firms have responded to the increased cost of the ordinance, and whether worker behavior has changed as a result of the wage increase. Firms may respond to the increased costs, for example, by reducing employment, cutting costs in other areas, or hiring more highly-qualified workers. Workers may respond to the higher wages by becoming less likely to quit their jobs, reducing turnover costs for employers and potentially mitigating some of the increased costs of the living wage.

Results from the Living Wage Employer Survey show that the majority of firms did not report major changes due to the living wage, though many of the predicted effects of the ordinance have indeed taken place for some firms.[121] The lack of widespread changes may be due to the moderate size of the wage increase. The lack of changes may also be explained by some firms' ability to pass on the increased costs of the living wage to the city, to the prime contractor, or to customers. Although we have only limited survey data in this area, we did find evidence that some firms have been able to pass on some or all of their increased costs, although other firms have not.

Finally, this chapter examines whether the living wage has changed the attitude of affected firms about contracting with the city, and whether there have been changes in the kinds of firms that have low-wage city contracts. By setting a higher wage and benefit standard, the living wage may attract different types of firms into city contracting, and discourage others.

The analysis in the chapter is derived largely from the two employer surveys—the Living Wage Employer Survey and a survey of non-living wage firms in the same industries, which provided a control group (the Survey of Diversity in Human Resource Practices or SDHRP).[122] Many of the questions on the Living Wage Employer Survey had a counterpart on the non-living wage survey, but some did not. When we have comparable data from both surveys, we present it, but we exclude living wage firms that operate at an airport from these results. This is for two reasons. First, the non-living wage survey did not include any firms that operate at an airport, and also because the events of September 11th may have influenced the responses of airport firms. Although we do not present it, we have conducted the same analysis including the airport firms. Where the findings are significantly different including the airport, we discuss those differences. For results from the Living Wage Employer Survey where there is no comparable data from the control group, we analyze the entire living wage sample, including airport firms.

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[121] The living wage employer survey was basically restricted to firms that had a current living wage contract with the city. It is possible that other firms had stopped bidding on living wage contracts entirely, and the consequences for those firms and their employees would not be captured by our survey. However, we have anecdotal evidence from numerous city officials involved in contracting that suggests that firms have not left city contracting due to the living wage. Interviews with six city officials overseeing contracting decisions in the major departments that have living wage contracts did not identify any cases where firms left city contracting due to the living wage.

[122] The full results of the control group analysis are presented in Fairris 2005.

In this chapter, we present data on *covered jobs in affected firms*, which refers to all jobs on contracts covered by the living wage within the affected firms. We present data on this group of jobs because employer responses to the living wage may affect all jobs on living wage contracts, whether or not pay was increased. We also present data on *affected workers*, who are the workers in jobs where pay was increased to comply with the ordinance.

## Cost Pass-Through

Firm responses to the living wage are likely to be influenced by whether they must absorb the increased cost or whether they can pass the cost on to someone else. Costs may be passed on to the city, the customers, or in the case of a subcontractor, to the prime contractor. The Living Wage Employer Survey asked affected firms if they were able to pass on any of their increased costs to the city or to the prime contractor. Nearly 60 percent of the firms we interviewed were unable or unwilling to provide an answer. Of the 40 percent that responded, half said they were able to pass through at least some of their costs. And of these firms, nine firms said that they were able to pass on 100 percent of their increased cost. Although large amounts of missing data prevent us from drawing broad conclusions, this is suggestive that some amount of cost pass-through is indeed taking place. Based on qualitative evidence from the interviews, we were able to discern some patterns in cost pass-through, which we found is likely to be influenced by the type of financial arrangement the firm has with the city. We identified the following types of agreements:

**Service contracts with payments based on labor costs:** Under this type of billing mechanism, firms are reimbursed for their hourly labor costs and paid an additional amount, based on a percentage of labor costs, to cover overhead and profit. Because firms are directly reimbursed for their labor costs, it is likely to be easier for them to pass on the increased costs of the living wage. In our interviews, we found two examples of firms with these types of service contracts who not only passed on their increased living wage costs, but also increased their reimbursement from the city so much that they increased their profit margins. These firms increased their hourly labor billing rate to cover the costs of the living wage. At the same time, they maintained the same percentage overhead charge. The overhead was therefore calculated on a larger base amount, and increased in value. One contractor described how his profit margin had increased because it is based on a percentage of labor cost, which is larger now due to the living wage. Another contractor stated quite frankly, "The more I pay, the more I make."

**Service contracts paid by the job or at a fixed price for services:** Other service contractors are paid a fixed total amount for completing a job or providing specified services. We found examples of this with brush clearance firms, which are paid for clearing a certain geographical area. Some social services providers complained that their reimbursement from the city is fixed, because the city sets a ceiling for certain types of social service spending, which is then allocated among different agencies, and not subject to revision during the year. As a result, their reimbursement has not increased to account for the cost of complying with the living wage ordinance.

**Concessions and leases:** Concessionaires typically pay monthly rent in the form of a percent of gross revenue to the city, with a minimum annual guaranteed rent. In order to pass costs on to the city, they would have to decrease their payments or increase them at a lower rate. We did not collect sufficient information on concessionaires to generalize about their ability to pass on costs. Lessees include airlines and cargo operators. Airlines pay the city through a variety of different mechanisms, including landing fees and leases of terminals and other airport facilities. The airlines did not have to make significant wage and benefit increases for their employees due to the living wage, but their airline service and janitorial subcontractors did. Qualitative evidence from airline subcontractors tells us that the airlines absorbed some of the costs of the living wage. It is unlikely that the airlines have been able to pass these costs on to the city. According to the Chief Financial Officer of Los Angeles World Airports, the city agency that operates LAX and Ontario airports, it would be very difficult for the airlines to pass on their living wage costs to the airport. She likened the relationship to that of a landlord and tenant operating under a long-term lease, where the tenant has no ability to negotiate a change in rent when the tenant's cost increase.[123]

Besides passing costs on to the city, some affected firms may also be able to increase their prices to customers. Many affected firms, such as airlines, food and retail concessionaires, parking lot operators, and child care centers, charge the public for their services. In our survey, five firms said they had increased prices to the public.[124] Three were concessionaires and two were child care providers. Firms are often limited in their ability to increase prices, because of restrictions imposed by the city. Concessionaires at the airport and city golf courses and parking firms reported being limited in this way.

## Reduction in Employment

*Extent of Job Reductions*

Declines in the level of employment are a widely predicted consequence of living wage laws. Employers are expected to reduce jobs in response to the increased cost of labor. The findings of the Living Wage Employer Survey indicate that while most affected firms did not reduce employment, some did so. The survey asked if affected firms had changed staffing due to the living wage. Four out of five affected firms surveyed (81 percent) reported that they did not cut jobs on their living wage contracts due to the living wage ordinance (Table 7-1). Firms that did cut jobs were asked to quantify the job loss.[125] Based on these results, an estimated 112 jobs on living wage contracts in Los

[123] Telephone interview with Karen Sisson, Chief Financial Officer at LAWA, on July 3 and 24, 2003.

[124] Although there was not a specific question in the employer survey about increased prices to customers, several firms volunteered the information in open-ended questions.

[125] We restricted the analysis of job reductions only to firms that already had a city contract before becoming subject to the living wage. Firms that entered into contracting after the living wage would have no reason to reduce staffing due to the living wage. There may have been some decrease in employment if a contract changed hands, and the new contractor used fewer employees to staff the contract. This would not be included in our analysis.

Angeles were eliminated due to the living wage mandate.[126] This number represents 0.8 percent of all covered jobs in affected firms , and 1.4 percent of affected jobs.

**Table 7.1: Employment Reduction in Affected Firms**

| | |
|---|---|
| Percent of affected firms that did not cut jobs | 81% |
| Percent of affected firms that cut jobs | 19% |
| Jobs cut as a percent of covered jobs in affected firms | 0.8% |
| Total number of jobs cut due to living wage | 112 |

Source: Living Wage Employer Survey N=66
Margin of error for percent of firms that cut jobs is ±9%. Average job loss is weighted by covered workers. Firms that did not have a city contract before becoming subject to the ordinance were excluded.

Some firms did not reduce employment because of the small impact of the living wage on them: either the number of workers affected was small or the size of the required raises was minimal. Firm interviews revealed two additional reasons why job reductions were limited. As discussed in the previous section on cost pass-through, several affected firms reported that the city had increased reimbursements on their contracts enough to cover the entire cost of the living wage. In addition, several affected firms reported that staffing levels on their contracts are determined by the client. According to the two parking firms we interviewed, the city plays a large role in determining staffing levels. One firm reported that the city will assess a fine if they don't abide by the mandated staffing standards. Three out of the five airline service firms we interviewed stated that the airlines determine how they staff the contract, and that the airlines hadn't required them to make changes after the living wage was adopted.

**Impact on Firms that Cut Staff**

Although the majority of affected firms in the survey did not reduce employment, 11 firms, representing 19 percent of affected firms, did so.[127] Looking more closely at this group, we calculated the reduction in jobs at each firm as a percentage of all workers on living wage contracts at the firm. Using this measure, staff reductions ranged from 2 percent to 41 percent of covered workers in these 11 firms, with an average reduction of 21 percent.[128] Two firms in the survey reported extremely high percent staff cuts of 41 percent and 40 percent, while the rest of the firms reported cuts of 20 percent or less. Although the two highest cuts were very large in percentage terms, because the firms are

[126] Each firm reported the number of jobs cut due to the living wage, from which we calculated the jobs cut as a percent of total employment on living wage contracts for each firm. The average for all firms surveyed, weighted by the number of covered workers, was 0.8%. In order to derive the absolute number of jobs cut, we applied this percentage to our estimate of the total number of covered workers in affected firms, which we derived from the city's living wage contractor database. The 95% confidence interval is +/- 1%, resulting in a range of 0 to 252 jobs lost. See Appendix B for the methodology used to estimate the number of covered workers from the city database.

[127] Again, the analysis is restricted to firms that already had a city contract before becoming subject to the living wage.

[128] Unlike the percentages in the previous sections, the staff cut percentages from here forward are weighted by firm, not by the number of employees covered by the living wage.

small, they represent very few actual workers—the 41 percent cut affected twelve workers and the 40 percent cut affected four workers.

The firm with the highest percent cut is a small concessionaire that had approximately 30 employees before the living wage. The concession owner has a lease with the city and his payments are based on the revenue generated by the concession. According to the owner, his profitability decreased so much in one area of his operation due to the wage increase, that he decided to close that section entirely, laying off 12 workers. The other firm with a large percent staff cut is a small janitorial firm, with only 6 employees. The owner reported that he tries to keep the value of his contracts under the $25,000 threshold for coverage, so that they will be exempt from the living wage. Although the owner reported having 14 city contracts, only 2 were large enough to be subject to the ordinance. The owner reduced staff not by laying off workers, but by reducing overall staff hours on the contract. He gave the example of having one employee work 8 hours a day, instead of having two employees working for 6 hours apiece. Although he reported that he is able to pass on some of the increased costs of the living wage in his bids, he must also worry about being the lowest bidder.

**Factors Explaining Job Reductions**

All of the eleven firms in the survey that cut staff were in the social service, janitorial and miscellaneous industries. Qualitative evidence from interviews with social service firms provide some explanation for the staff reduction experienced by this industry. All but one of the social service firms that cut staff complained that the city would not increase reimbursement on their contracts to help cover the costs of the living wage. In addition, all but one of the firms in this industry are non-profit organizations. Social service non-profits typically operate with tight budgets, and do not have much excess revenue. This means that they cannot absorb the living wage cost by reducing their profit margins, as other firms might be able to do. The combination of tight finances and the unwillingness of the city to increase contract reimbursement led to the staff cuts seen among these firms.

The social service organizations that cut staff operate programs such as homeless services, job training and placement, disabled services, child care, and transportation services. One agency that provides job training and placement reported hiring fewer welfare-to-work employees. This agency hires workers on welfare at a lower wage, and once their eligibility period expires, the agency gives them a raise up to the living wage level. The manager stated that without the living wage, he would hire more people at a lower wage to see how they work out. Now he only hires the very best of the welfare workers. The manager estimated that this change affected two low-wage positions out of his entire covered staff. Another social service agency reported that the increased costs of the living wage have led to a decline in the level and quality of services provided to the community. This agency, which provides a variety of social services, has negotiated with the city to reduce performance rates on some of their contracts. The manager we interviewed reported cutting three teachers at a child care center from a staff of eight, and reducing the number of children being served.

In order to determine which factors are related to larger staff cuts, we conducted a multiple regression analysis. The dependent variable is the number of jobs cut at each firm as a percentage of all workers on living wage contracts at the firm.[129] The results of this analysis show that firms with unionized employees on living wage contracts experienced slightly smaller percent staff cuts, although the relationship is only marginally statistically significant.[130] The smaller staff cuts experienced by union firms may be explained by the increased job protections provided by unions. Union contracts sometimes include protections against layoffs, or requirements for advance notice. In addition, unions provide structures for collective action that may prevent or reduce layoffs.

Legislators considering a living wage policy are often concerned that it will disproportionately harm small businesses. Indeed, in our survey, the two firms that reported the largest percent staff cuts were both small businesses. The results from the multiple regression analysis suggest that small businesses experienced a slightly greater percentage reduction in jobs, although the relationship is only marginally statistically significant.[131]

### Other Cost-Cutting Measures

Faced with the increased costs of the living wage, affected firms may cut costs in other areas. The Living Wage Employer Survey asked firms about changes in benefits, overtime hours, and training for new hires.

***Reductions in benefits***

Results from the survey show that 89 percent of affected firms did not reduce benefits for their employees on living wage contracts as a result of the increased costs of the ordinance, as shown in Table 7-2. The 11 percent of firms that did make changes represent 5 percent of covered jobs in affected firms, or 700 jobs. Three firms reported that they either reduced or eliminated bonuses, while two other firms reduced or eliminated their merit raise policy. Two firms reduced their financial contributions to health benefits, as previously discussed in Chapter 4. Finally, one firm that operates a restaurant stopped giving its employees free meals.

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[129]The analysis included the following variables: union status, industry, the size of the wage increase, the percentage of firms' total costs spent on labor, the percentage of employees who received a raise, whether the firm is at the airport, whether the establishment is independent or a subsidiary, whether the firm had a contract with the city prior to the living wage ordinance, and whether the firm is a non-profit organization. The multiple regression was conducted on a reduced sample of 49 firms due to missing data.

[130] Staff reductions for union firms were 4% less than those for non-union firms. This relationship is significant at the .20 level.

[131] The living wage survey did not collect information about the number of employees at each firm. It did collect data on the number of employees at the living wage establishment, but a small establishment may be part of a larger firm and is not necessarily a small business. In order to test for a disproportionate impact on small business, we created an interactive variable that separates out the effect of establishment size for independent firms and subsidiaries. For independent establishments, a decrease in size of 100 workers is associated with an 4.1 percentage point increase in staff cuts. This relationship is statistically significant at the .20 level.

**Table 7.2: Reductions in Employee Benefits**

| | % of Affected Firms | % of Covered Jobs in Affected Firms |
|---|---|---|
| Did not reduce benefits | 89% | 95% |
| Reduced benefits | 11% | 5% |
| Reductions included the following:<br>• Reduction or elimination of bonuses<br>• Reduction in health benefits<br>• Reduction or elimination of merit raises<br>• Elimination of free meals | | |

Source: Living Wage Employer Survey, weighted by firm and by covered workers
N=80. Margin of error = ±7%

***Reduction in Overtime and Training***

The control group analysis shows that living wage affected firms decreased both use of overtime and training for new hires relative to non-living wage firms.[132] To measure changes in overtime, firms were asked whether overtime hours had decreased, stayed the same, or increased. These answers were converted to a numeric scale of 0 to 2, with 0 being a decrease, 1 no change, and 2 an increase. These numeric scores were then averaged to create a change in overtime indicator. The lower the average, the greater the decrease in overtime. The results of this analysis show that living wage affected firms decreased overtime for their workers on city contracts, while non-living wage firms actually *increased* overtime slightly during the same period. (see Table 7-3). In a multiple regression analysis that controlled for a variety of other factors that may influence overtime hours, including union status and industry, the mean change in overtime score for the living wage firms is lower than that of the non-living wage firms, and this difference is statistically significant.[133]

[132] The non-living wage survey measured these changes for the establishment, and the living wage survey measured changes for workers on city contracts.

[133] The multiple regression analyses in this section controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry.

**Table 7.3: Changes in Overtime and Training for Living Wage Affected Firms and Non-Living Wage Firms**

| | Living Wage Mean (St. Dev.) | Non-Living Wage Mean (St. Dev.) | Difference (St. Dev.) | Difference with Controls (St. Dev.) |
|---|---|---|---|---|
| Change in Overtime | 0.85 (0.36) | 1.05 (0.47) | -0.20** (0.06) | -0.21** (0.07) |
| N | 48 | 169 | 217 | 217 |
| Change in Training | 1.00 (0) | 1.09 (0.34) | -0.09** (0.03) | -0.05* (0.03) |
| N | 46 | 122 | 168 | 168 |

Source: Living Wage Employer Survey and SDHRP
*Statistically significant at the 0.10 level
**Statistically significant at the 0.05 level.

The control group analysis also revealed differences between living wage and non-living wage firms regarding changes in hours of training for a new employee. According to human capital theory, workers must pay for on-the-job training if the training improves their general skills. One way workers may pay for training is through temporarily reduced wages during the training period. Under a living wage mandate, wages cannot be adjusted in this way, which could lead to a reduction in job training for living wage workers. In addition, substitution of more experienced or higher-skilled labor could result in less need for entry-level job training.

Similar to the overtime question, firms were scored on a numeric scale of 0 to 2, depending on whether training for a newly-hired worker decreased, stayed the same, or increased. Although living wage affected firms did not change the amount of training for their workers on city contracts, non-living wage firms showed a small increase in training during the same period. Controlling for a variety of other factors which may influence training, the mean score on the change in training indicator for living wage affected firms is lower than that of the non-living wage firms, and this difference is statistically significant. Thus, the firms under the living wage mandate have not kept pace with the small increases in training seen in the non-living wage sector.[134]

### Changes in the Workforce

Affected firms may respond to the living wage not only by cutting costs, but also by trying to get more value for the wages they pay. For example, firms may seek to hire employees who have more experience, skills, or education, a practice known as labor-labor substitution. These changes in hiring standards may decrease opportunities for low-skilled workers, and could change the composition of the workforce so much that the living wage no longer benefits the workers it was intended to. This chapter examines the

[134] When the airport firms are included in the control group analysis, the difference in training disappears. This is because training increased relative to the control group for airport firms. However, this is likely due to the impact of September 11. Several airport firms reported that training on security had increased after 9/11.

question of whether the living wage workforce has changed using two approaches. The Living Wage Employer Survey asked affected firms if they had changed their hiring standards due to the living wage, and also if they had observed a change in the makeup of their workforce since the living wage was enacted. In addition, using data from the Living Wage Worker Survey, we divided the affected workers into those hired before the living wage and those hired after, and then compared the two groups based on a variety of characteristics, in order to asses whether those characteristics changed after the living wage went into effect.[135]

***Changes in Hiring Standards and Workforce Makeup Reported by Firms***

The majority of affected firms, nearly 80 percent, reported that they did not change their hiring standards for workers on city contracts, as shown in Table 7-4. Of those who did, many said they are now seeking to hire applicants with better qualifications, including higher skill levels, more job experience, more education, and better English skills. One child care provider actually restructured the jobs covered by the living wage, by eliminating one teacher's aide position and replacing it with a higher-skilled and educated child care teacher. A janitorial firm reported hiring workers who were "more responsible" and had better English skills. The manager believed that the higher quality of workers has led to better service provision. However, a manager at a social service non-profit, located in the inner city, saw several drawbacks to the stricter hiring standards she adopted after the living wage. Since they were paying more for living wage positions, she increased the qualifications for hiring and the responsibilities for those positions. This made it more difficult to hire applicants from the local community, and she began to hire more people from outside the area. Besides decreasing job opportunities for local residents, she felt that the new hires don't have the same community service mentality.

In addition, two firms reported that they no longer hire teenagers, only adults. A concessions operator explained that he can't justify hiring teenagers when he could hire older workers who have a family to support. Another concessions operator at a golf course used to hire high school students who were interested in learning golf, but now only hires adults. Although a significant minority of affected firms did change their hiring standards, it is important to note that we found no evidence of existing workers being fired or pushed out in order to hire different workers.[136] Affected firms applied their new hiring standards to positions that became available through normal processes of turnover and attrition.

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[135] This analysis of worker characteristics does not include the "leavers," those workers who were employed at the time the firm became subject to the living wage, but have since left the firm, because we were unable to interview this group. Workers who have left may be different from workers who have stayed, and therefore the stayers may not present a fully accurate portrait of the workforce at the time of living wage implementation.

[136] The employer survey included an open-ended question about any changes in staffing that had occurred since the living wage. If employers were firing workers in order to replace them with more skilled staff, this question would have elicited that information. Indeed, one firm answered this question by saying that one lower-skilled teacher's aide position was eliminated and a higher-skilled teacher was hired instead due to the living wage.

**Table 7.4: Change in Hiring Standards**

| Type of Change | % of Affected Firms | % of Covered Jobs in Affected Firms |
|---|---|---|
| Did not change hiring standards | 79% | 85% |
| Changed hiring standards | 21% | 15% |
| Changes included the following:<br>• Hiring workers with more job skills or work experience<br>• Hiring workers with more education<br>• Hiring adults, not teenagers<br>• Hiring more "responsible" workers<br>• Hiring workers with better English skills | | |

Source: Living Wage Employer Survey
Margin of error =±9%
N=80

The majority of affected firms (87 percent) reported that the makeup of the workforce on city contracts had not changed (Table 7-5).[137] Qualitative evidence suggests that some affected firms that intended to change their hiring standards may not have been able to hire a different type of worker because the applicant pool did not change enough after the living wage. A manager at a non-profit organization that provides homeless services said she had hoped that the higher wages would attract a better applicant pool, but that this had not been the case. Two airline services firms reported that the living wage did not change the applicant pool at LAX significantly, but that the raises for security screeners that were implemented after 9/11 did attract more experienced and better educated applicants. These screener wages were significantly higher than the living wage—approximately $13 per hour in most cases, or $3.50 above the level of the higher tier of the living wage at that time. According to one manager, this wage increase also attracted applicants from outside the immediate area, unlike the majority of existing employees, who live near the airport. It is likely that the level of the living wage was not high enough for affected firms to hire more qualified applicants, but that they would be able to do so at higher wage levels.

**Table 7.5: Change in Workforce Makeup**

| Type of Change Reported by Firm | % of Affected Firms | % of Covered Jobs in Affected Firms |
|---|---|---|
| Workforce makeup did not change | 87% | 89% |
| Workforce makeup changed | 13% | 11% |

Source: Living Wage Employer Survey
Margin of error is ±7%
N=79

[137] The difference between the 21% of firms that changed hiring standards and the 13% that reported that the makeup of their workforce had changed is not statistically significant.

For firms who said the makeup of their workforce had changed, the changes included hiring more skilled or experienced workers, more educated workers, older workers, and workers with better English skills. None of the firms reported any other demographic changes, such as changes in race or gender.

***Changes in worker characteristics***

Results from the Living Wage Worker Survey data comparing the characteristics of affected workers hired before and after the living wage largely corresponded with the employer responses, in that there were not major changes in the workforce. However, this analysis also revealed some differences between the two groups that were not mentioned in the employer surveys. In order to analyze whether affected firms are hiring different types of workers since the living wage, we divided workers into those working on the city contract at the time the living wage went into effect, or "stayers," and those that were hired afterwards, or "joiners."[138]

To compare the stayers and the joiners, we conducted a series of multiple regression analyses that measured the differences between stayers and joiners for a variety of worker characteristics, such as sex, race, and various characteristics that measure skill or education, other things held constant.[139] For many characteristics, there were no discernable differences (Table 7-6). The two groups showed no differences in their age at hiring, their years of schooling, whether they are a non-native English speaker, and whether they are currently attending school.

**Table 7.6: Characteristics That Were the Same For Stayers and Joiners**

- Age at hiring
- Years of schooling
- Native English speaker
- Currently attending school

Source: Living Wage Worker Survey
N=208

For other characteristics, there were differences between the stayers and joiners, as shown in Table 7-7. Among joiners, the proportion who are men is 11 percentage points higher, holding other factors constant.[140] The proportion of affected workers who had participated in a formal job training program before being hired is 10 percentage points

[138] This analysis excludes workers in firms that began contracting with the city after the passage of the living wage ordinance, or "new firms." New firms employ 15% of the workers covered by the living wage. However, in our sample, there were very few workers in the new firms who were employed there before the firm began contracting with the city (only 5 workers). Therefore, data on the workers in the new firms does not give us information about changes in employer hiring practices, but rather reveals differences in the types of firms that have entered into city contracting since the living wage. Therefore, we discuss the workers in the new firms in a later section dealing with differences between old and new firms.

[139] The multiple regressions controlled for sex, age at hire, years in school, whether the worker is currently in school, whether English is the worker's first language, whether the worker received formal training before being hired, race, firm, and occupation. Full regression results and further analysis can be found in Fairris and Fernandez Bujanda 2005.

[140] This difference is statistically significant at the .05 level.

higher among the joiners, although the difference is only marginally statistically significant. In addition, the proportion of affected workers who are Latino is 11 percentage points greater for the joiners, while the proportion who are white is 10 percentage points lower, although the difference in the percentage of Latinos is also only marginally statistically significant.[141] Finally, the last wage earned before the living wage by the joiners was 20 percent higher than that earned by the stayers. In other words, the average wage earned by the joiners at their previous job was higher than the average wage earned by stayers before receiving the living wage raise.[142]

**Table 7.7: Characteristics That Were Different for Stayers and Joiners**

| Worker Characteristic | Joiners | Stayers | Difference | Difference with Controls |
|---|---|---|---|---|
| Male | 51% | 45% | 6% | 11%** |
| Received formal training before hiring | 20% | 12% | 8% | 10%† |
| Last wage earned before the living wage | $8.48 | $6.27 | 35% | 20%*** |
| Latino | 51% | 41% | 10% | 11%† |
| White | 4% | 11% | -7% | -10%* |

Source: Living Wage Worker Survey N=208
†Statistically significant at .20 level
*Statistically significant at .10 level
**Statistically significant at .05 level
***Statistically significant at .01 level

Some of these changes likely reflect employers' preferences for more highly-skilled workers. Women typically have a more tenuous attachment to the labor market, so the preferences employers expressed for more experienced workers may have resulted in fewer women being hired. However, it is also possible that the decreased proportion of female workers may result from employer discrimination, made possible by the increased wage and the more male-dominated applicant pool that it may generate. The increase in the percentage of workers with formal training is more clearly linked to employer preferences for more skilled employees. Examples of formal training completed by joiners include security guard certification and training in cleaning procedures.

The wage differences between the two groups also may reflect employers' preferences for more highly-skilled workers. Joiners may have earned higher wages before the living wage because they are more highly-skilled, or they may have other desirable characteristics, such as greater intelligence, better personality, or other qualities which are difficult to measure with a survey. However, there may also be other explanations for the difference in wages. First of all, wages are not solely determined by worker skills. Other factors, such as firm labor policies, also play an important role in determining wages. Therefore, the difference in wages may be partially due to the characteristics of the joiners' previous employers, about whom we have little information. In addition, the

[141] The difference in the percentage of Whites is statistically significant at .10 level.
[142] The regression on the last wage earned before the living wage also controlled for minimum wage periods, firm fixed effects, whether the worker received employer-paid health benefits before the living wage, and whether the worker is a union member.

wage difference is affected by a small group of joiners who earned extremely high wages at their previous job, in some cases up to $18 per hour. Some of these are older workers in their fifties or sixties moving from labor-intensive occupations, such as construction, into the service sector.

Finally, the higher percentage of Latino workers and the lower percentage of white workers is probably not due to the living wage. It may be explained by the broad demographic changes occurring in the Los Angeles labor market, which is increasingly likely to be Latino.[143]

In summary, a comparison of affected worker characteristics suggests that in many respects, the composition of the workforce has not changed, although joiners have had more training, are more likely to be male, and earned higher wages before the living wage. Attracting more highly-skilled workers represents a benefit to employers, since these workers are likely to be more productive and have less need for training and supervision. These changes in the workforce are likely to affect new job applicants, not the labor force that was in place at the time of the living wage increase. These changes represent a loss of job opportunity for new applicants who are women or have less training, as the 10,000 living wage affected jobs are now more difficult for these groups to access.

## Employer Cost Savings

This section explores whether affected firms experience costs savings through reductions in employee turnover and absenteeism, and whether employers made changes to increase worker productivity. We compare changes in turnover and absenteeism for living wage and non-living wage firms, as well as current rates of turnover for both groups. In addition, we estimate turnover cost savings as a proportion of the cost of the wage increase

*Employee Turnover*

A wage increase may lead to a decrease in employee turnover for two different reasons. First, workers may value the job more at a higher wage level, and be less likely to leave voluntarily for a better-paying job. Also, a higher wage level may attract more desirable employees into the hiring pool and enable firms to be more selective in their hiring. Hiring better qualified employees may reduce the rate at which firms discharge employees for poor performance. The control group analysis measured changes in turnover for living wage and non-living wage firms by asking whether turnover increased, decreased or stayed the same. As shown in Table 7-8, although the majority of living wage affected firms experienced no changes in turnover, one-third did see a decrease in turnover, more than double the percentage for non-living wage firms. For the purposes of this study, turnover refers to the percentage of employees that quit or were

[143] Latinos as a proportion of the population in L.A. County increased from 38% in 1990 to 45% in 2000. U.S. Bureau of the Census.

fired on an annual basis.[144] Living wage affected firms were asked specifically about changes in turnover for workers whose wages were increased due to the living wage.[145]

**Table 7.8: Change in Turnover for Living Wage Affected Firms and Non-Living Wage Firms**

| Change in Turnover | Living Wage Firms | Non-Living Wage Firms |
|---|---|---|
| No change | 58% | 76% |
| Decrease | 33% | 14% |
| Increase | 8% | 10% |
| N | 24 | 63 |

Source: Living Wage Employer Survey and SDHRP

The analysis comparing changes in turnover for living wage and non-living wage firms may be conducted in a control group setting with establishment controls for a variety of other factors that also affect turnover, such as union status and size. This control group analysis also shows that turnover decreased among living wage firms relative to non-living wage firms. In order to conduct a multiple regression analysis, the change in turnover variable was converted to a numeric scale ranging from zero to two, with zero representing a decrease in turnover, one no change, and two an increase. The results of this analysis show that the mean turnover change score for living wage firms is lower than that of non-living wage firms, as shown in row one of Table 7-9.[146]

[144]In the living wage survey, the question on turnover asked about workers who quit or were discharged. The non-living wage survey also included workers who were laid off.

[145] The non-living wage survey asked about changes in turnover for the entire establishment. In order to make the results comparable, this analysis includes only those non-living wage firms where the percentage of low-wage workers is more than 60% of the establishment and only those living wage firms where the percentage of workers who received a wage increase is more than 60% of the workers on the city contract.

[146]The multiple regression analyses in this section controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry.

**Table 7.9: Measures of Turnover for Living Wage Affected Firms and Non-Living Wage Firms**

| Turnover Variable | Living Wage Mean (Std. Dev.) | Control Group Mean (Std. Dev.) | Difference in Means (Std. Dev.) | Difference With Controls (Std. Dev.) |
|---|---|---|---|---|
| Change in turnover indicator | 0.71 (0.62) | 0.97 (.052) | -0.26** (0.13) | -0.39** (0.14) |
| N | 24 | 59 | 83 | 83 |
| Turnover rate for largest low-wage occupation in the firm | 21% (28) | 49% (61) | -28%** (8) | -17%* (9) |
| N | 23 | 113 | 136 | 136 |

Source: Living Wage Employer Survey and SDHRP
*Statistically significant at the 0.10 level.
**Statistically significant at the 0.05 level.

Results from the control group analysis also indicate that living wage affected firms have lower current rates of turnover than non-living wage firms, holding other factors constant, as shown in row three of Table 7-9. Looking at turnover just for the largest low-wage occupation in each survey firm, living wage affected firms report turnover rates of 21 percent, while non-living wage turnover is higher, with firms losing nearly half of their workforce in these occupations each year.[147] Controlling for a variety of other factors that influence turnover, the current turnover rate for living wage affected firms is 17 percentage points lower than that of non-living wage firms, and this difference is statistically significant.[148]

Several of the managers interviewed at living wage affected firms were quite aware that turnover was lower among their living wage workers, compared to the rest of their operations and to industry averages. Many of them attributed the decreased turnover to the living wage. According to one manager at a nation-wide janitorial services company, "Higher wages mean less turnover. People [in low-wage jobs] will move for 25 cents." He said company management has estimated that a wage of $7.50 to $8 per hour will keep an employee for a year or two. (At the time of the interview, this was $1.25-$1.75 above the minimum wage). He also cited the example of certain high wage locations, such as unionized hospitals and movie studios, where clients pay more for janitorial services and workers make up to $15 an hour. According to him, at these locations, "workers never leave."

Another manager had observed a decrease in turnover rates since the living wage and agreed that "the more you pay, the lower the turnover." According to him, company management has a conscious aim not to provide "throw away jobs," where employees

[147] The living wage survey did not ask for turnover rates for the largest low-wage occupation. In order to make the results comparable, this analysis excludes those living wage firms that have more than one occupation affected by the mandatory living wage increase.
[148] The multiple regression analysis controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry.

won't stay. This particular manager had previously worked in management at a unionized hotel, which had a higher than average wage scale. He said it was much easier to recruit a quality workforce there than at similar hotels that offered lower wages. A manager at another firm, a food service concessionaire at the airport, said that he had hoped to see turnover drop once the living wage was implemented, and it did. Another manager at a parking firm saw turnover rates decline to 10 percent after the living wage. He explained that although the firm is terminating the same number of workers for poor performance as it did before, fewer workers are resigning, which has decreased overall turnover. According to him, "In the parking world, this is as good as it gets."

Lower turnover rates at living wage affected firms may be related to better health benefits as well as higher wages. However, the control group analysis found that health benefits were not a significant factor in lower turnover rates among living wage firms, although living wage firms were more likely to offer employer-paid benefits than non-living wage firms.[149] However, the variable for health benefits used in the control group analysis divides firms into those that provide employer-paid health benefits, and those that do not. It does not provide a measure of the amount of the employer contribution to benefits, or the cost to the employee to participate. Both of these factors are likely to affect employee participation in health benefit plans. If a firm offers a poor quality plan that is expensive to use, employees may not be likely to use it. Therefore, further research is needed in order to draw strong conclusions on the effect of health benefits on employee turnover.

The decreased turnover rates seen among living wage affected firms represent both potential productivity gains and cost savings for the employer. Lower turnover means more experienced employees, who need less supervision and are more skilled at their jobs. Fewer employees leaving means that fewer have to be hired, leading to decreased spending on recruitment, hiring, and supervisor time spent training new employees. The non-living wage firm survey asked firms to estimate the cost of replacing a low-wage worker, including separation, search, training, and lost productivity while the new employee learns the job. The average cost for to replace one worker for non-living wage firms was $807.

Other estimates of replacement costs for low-wage workers have been higher (Table 7-10).[150] Robert Pollin and Mark Brenner conducted a survey of hotel, retail and restaurant firms in Santa Monica, California, in 2000. These firms reported an average cost of $2,009 to replace a non-managerial worker, not including productivity losses. According to *Business Week*, even Wal-Mart, known for its low-cost labor policies, estimates the cost of hiring a new employee to be $2,500.[151] In another study, researchers at the Cornell University School of Hotel Administration analyzed replacement costs for hotel

[149] The starting wage of the largest low-wage occupation and whether the firm currently offers health benefits were added to the multiple regression on current rates of turnover. Whether or not the firm offers health benefits is statistically insignificant and does not help to explain lower current turnover rates among living wage firms. The lower turnover rate in living wage establishments is entirely accounted for by the higher wage that prevails there.

[150] This overview of turnover costs is largely taken from Michael Reich's discussion of the issue (Reich 2003).

[151] *Business Week*, "The Costco Way," April 12, 2004, p. 76.

workers in Miami, Florida (Hinkin and Tracey, 2000). Their estimates, which included lost productivity, ranged from $1,332 for room-service wait staff, to $3,383 for store clerks, and up to $5,965 for front-office associates, whose work is similar to customer service agents. Finally, a professor at the University of Dallas, in a study for the Coca-Cola Retailing Research Council, found that the cost of replacing a non-salaried grocery store employee was $4,297 (Frank, 2000).

**Table 7.10: Cost Estimates of Replacing A Low-Wage Worker**

| Source of Estimate | Industry | Cost Estimate |
|---|---|---|
| Fairris, University of California, Riverside | Various | $807 |
| Pollin and Brenner, University of Mass. Amherst | Hotel, Retail, and Restaurant | $2,009 |
| *Business Week* interview of Wal-Mart | Retail | $2,500 |
| Hinkin and Tracy, Cornell University | Hotel | $1,332 - $5,965 |
| Frank, University of Dallas | Retail Grocery | $3,752 |
| Average of above estimates | Various | $2,529 |

The costs savings from turnover reduction are significant, even when compared to the increased costs imposed by the living wage. In order to compare the two, we calculate the cost savings as a percent of the cost increase using three estimates of the cost of replacing a low-wage worker: the lowest estimate presented above, the highest estimate, and an average of all the estimates, which was $2,529 (Table 7-11). Assuming a reduction in turnover of 17 percentage points, based on survey results discussed earlier, the cost savings in turnover reduction ranges from $137 to $638 per low-wage worker per year. To estimate the increased costs of the mandatory wage increase, we used the wage raise for the "stayer" workers, which represents the cost to the employer at the time the raise went into effect. The average raise was $1.48 per hour for each worker. Assuming 35 hours of work for 52 weeks,[152] the annual cost increase is $2,694 per worker. Therefore, the cost savings from turnover reduction makes up from 5 percent to 24 percent of the cost of increased wages.

[152] The average number of hours worked per week from the living wage worker survey was 35. The worker survey did not collect information on the number of weeks worked per year, so in order to provide a conservative estimate of cost savings, we assumed 52 weeks per year.

**Table 7.11: Calculation of Turnover Cost Savings as a Percent of Cost Increase Due to Mandated Living Wage Raises**

| | Lowest Estimate | Average of Estimates | Highest Estimate |
|---|---|---|---|
| Cost of replacing a low-wage worker | $807 | $2,529 | $3,752 |
| Average turnover reduction for living wage firms | | 17% | |
| Annual cost savings for one low-wage worker (Row 1 * Row 2) | $137 | $430 | $638 |
| Average hourly cost increase from mandatory raises | | $1.48 | |
| Average annual cost increase for one low-wage worker* | | $2,694 | |
| Annual cost savings / annual cost increase | 5% | 16% | 24% |

*Assumes 35 hours of work for 52 weeks.

***Employee Unscheduled Absenteeism***

The living wage ordinance could be expected to reduce unscheduled absenteeism in two different ways. If employees value their job more at the higher wage level, they may be less likely to risk the negative consequences of missing work without giving advance notice. Also, if the living wage meant an increase in paid time off, workers may be better able to plan time off in advance. The control group analysis compared the change in absenteeism for living wage and non-living wage firms, using the same three point scale for decrease, stay the same, and increase. An initial comparison shows that both groups showed a slight decrease in absenteeism, with no statistically significant difference between groups (Table 7-12). However, after controlling for a variety of other factors that may influence absenteeism, including union status, living wage affected firms show a greater decrease in absenteeism for workers on the city contract. The conditional mean absenteeism indicator for the living wage firms is 0.16 lower than that of non-living wage firms, and this difference is statistically significant.[153]

**Table 7.12: Change in Absenteeism for Living Wage Affected Firms and Non-Living Wage Firms**

| | Living Wage Mean (Std. Dev.) | Control Group Mean (Std. Dev.) | Difference in Means | Difference With Controls |
|---|---|---|---|---|
| Change in absenteeism | 0.95 (0.36) | 0.99 (0.45) | -0.04 | -0.16** |
| N | 47 | 164 | 211 | 211 |

Source: Living Wage Employer Survey and SDHRP

**Statistically significant at the 0.05 level.

[153] The multiple regression analysis controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry. The difference was statistically significant at the .05 level.

Several managers interviewed explained that they believed that the decrease in absenteeism is due to the higher pay the workers receive. According to one manager, absenteeism has decreased because employees now "have more to lose if they don't show up." Another manager at a food service firm agreed, saying that employees value their jobs more because they know they will not receive as high a wage at other jobs.

Although the control group analysis revealed that absenteeism decreased at living wage affected firms, it did not include data from airport firms. Airport firms were more likely to report an increase in absenteeism, compared to non-airport firms. Unlike the control group study, increases and reductions in absenteeism balanced out for airport firms, resulting in no overall decline. All of the airport firms that reported an increase in absenteeism were in the airline services industry. At least one of these firms believed that the ordinance allows workers to take a paid day off without advance notice. The firm's manager reported that this has been very difficult for the company. However, the living wage ordinance does not prohibit employers from having a policy that vacations or holidays must be scheduled in advance.

***Other Employer Changes to Increase Productivity***

The Living Wage Employer Survey asked if firms had made changes to equipment, machinery or the way the work is done in order to make employees more productive. Most affected firms reported that they had not made these types of changes, although three firms, representing 4 percent of the sample, did make changes (Table 7-13). These firms represent 7 percent of all covered jobs in affected firms. One firm is a janitorial subcontractor that also reported laying off 16 percent of its workforce because of the living wage. This firm bought new machinery to make the workers on the city contract more efficient, increased their workload, and said that workers now have to work faster and harder to get their work done. A manager at another firm, a food service concessionaire at the airport, said they have improved their systems to track costs and productivity on the city contract. They now keep track of sales revenue per worker hour. This has helped them to make staff scheduling decisions and has made their operations more efficient.

**Table 7.13: Employer Changes to Improve Productivity**

| Changes to Improve Productivity | % of Affected Firms | % of Covered Jobs in Affected Firms |
|---|---|---|
| Did not make changes | 96% | 93% |
| Made changes | 4% | 7% |
| Changes included the following:<br>• Bought new machinery to make workers more efficient<br>• Began tracking of sales revenue per worker hour | | |

Source: Living Wage Employer Survey
N=80
Margin of error is ± 4%.

## Changes in Contracting with the City

This section evaluates whether the living wage has resulted in changes in the types of firms and workers on living wage contracts. We examine whether affected firms have changed their attitudes towards contracting with the city, and which types of firms are more likely to do so. In addition, we examine differences between firms that already had a city contract before becoming subject to the living wage, and firms who have entered into contracting with the city since the living wage went into effect.

***Changes in attitude towards city contracting***

The Living Wage Employer Survey asked firms if the living wage had changed their attitude about contracting with the city. The majority of affected firms, as shown in Table 7-14, reported no change. However, it is important to keep in mind that the survey did not include firms that no longer contract with the city. Some firms may have stopped contracting with the city due to the living wage, and this effect would not be captured by our survey results. At any rate, nearly one-third of affected firms did report a change in attitude. This survey question was open-ended, so the responses do not follow the same pattern as other survey questions about changes. Some affected firms reported that they were less likely to seek city contracts, while others found it easier to compete for city contracts.[154] Due to the small sample size, the difference between the groups that experienced a positive change and those that experienced a negative change is not statistically significant.

**Table 7.14: Change in Attitude Towards City Contracting**

| Change in Attitude | % of Affected Firms | % of Covered Jobs in Affected Firms |
|---|---|---|
| No change | 70% | 74% |
| Less likely to seek city contracts | 19% | 15% |
| Easier to compete for city contracts | 11% | 11% |

Source: Living Wage Employer Survey
N=78
Margin of error ranges from ± 2% to ± 10%

The firms that said they were less likely to seek a city contract cited the increased costs of the ordinance. One manager at a union janitorial firm said that because the living wage annual increase varies slightly each year, it is difficult to predict costs on the contract and bid appropriately. Since the city will not increase payment during the term of the contract, profits have declined on the living wage contracts. On other contracts, this firm expects a profit margin of at least two percent, but some of the living wage contracts are down to one percent, according to the manager. Another firm, a concession operator at a

[154] One firm, representing 1 percent of the sample, said it was more likely to seek city contracts, and we combined this response with the "easier to compete" category. This firm experienced an increase in profit margin due to the hourly billing mechanism described at the beginning of this chapter. According to this manager, "If all my contracts were living wage, I'd be in heaven."

city golf course, agreed that profits have declined because of the living wage. When the contract was renegotiated, the city tried to increase the percent of revenue payment, while also setting limits for prices that can be charged to the public. As a result of this squeeze, the manager said they "weren't sure they could afford to continue [the contract.]" She believes that larger firms can afford to take a loss to "get a foot in the door" with the city, but that small businesses like hers are at a disadvantage.

On the other hand, some firms reported that the living wage has made it easier for them to compete for city contracts. Many of these firms complained about previously being underbid by other firms who they believe do not comply with basic labor requirements, such as paying minimum wage or carrying worker's compensation insurance. The phrase used time and again by these firms was that the living wage had "leveled the playing field." According to one contractor, the living wage "took a big, dark shadow" off of the bidding process by providing a common floor for bids. Before the living wage, managers at this firm felt that the bidding process was "short-sighted" and invariably rewarded the low-wage bidder. They were under serious cost pressure to decrease wages, because the low bidder would always win. Since the living wage, they are able to pay workers a higher wage and not lose out in the bidding process. The owner of a janitorial firm also said that the living wage had helped his company bid on city contracts, because it makes it easier for "scrupulous" companies with fair compensation practices, such as his.

In order to identify which types of affected firms were more likely to report positive and negative changes in attitude, we conducted a multiple regression analysis of attitudinal changes.[155] The dependent variable was whether the firm's attitude towards city contracting changed in a positive way, a negative way, or stayed the same.[156] This analysis showed that firms with more paid days off were more likely to report positive changes. The Living Wage Employer Survey asked firms how many paid days off they provided to low-wage employees before they became subject to the living wage. The higher the number of paid days off, the more likely the firm was to experience a positive change in attitude.[157] This likely reflects the "level playing field" created by the ordinance, which several firms commented about. Firms with more generous benefits policies are now better able to compete for contracts.

In terms of negative changes in attitude, non-profit firms and smaller establishments were more likely to report them.[158] As previously discussed, several non-profit firms reported cutting staff and complained that the city would not increase payments on their contracts. All the non-profits surveyed provide social services and typically operate with tight budgets, so they were unable to cut back profits as other firms might have been able to

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[155] The analysis was an ordered logistic multiple regression, which included the following variables: industry, whether the establishment is a subsidiary, size of establishment, labor costs as a percentage of total costs, whether firms pay the higher or lower living wage, whether the firm was a contractor before becoming subject to the living wage, and whether the firm is at the airport.

[156] The positive change category combined the one firm that reported being more likely to contract with the firms that said it was easier to contract.

[157] Statistically significant at the .05 level.

[158] For non-profit firms, the relationship is statistically significant at the .05 level. For establishment size, the relationship is statistically significant at the .05 level.

do. In addition, several small establishments cited reductions in profit due to the living wage as the reason for their change in attitude towards city contracting.

***Changes in Types of Firms***

It is possible that the changes in attitude towards contracting described above may have led to changes in the type of firms that currently hold living wage contracts, as less interested firms drop out of city contracting or firms that offer higher wages and benefits are more able to win contracts. In order to test this, we conducted a multiple regression analysis comparing the characteristics of firms that already had a city contract before the living wage ("old firms"), and those who have entered the city contracting sector since the living wage went into effect ("new firms").[159] In our sample 21 percent, or 12 firms, are new to city contracting. This analysis shows that new firms are more likely to pay higher wages, even without the living wage. The survey asked every firm what the starting wages for occupations covered by the living wage would be if there were no living wage ordinance. There difference between this "counterfactual" wage and the living wage is one measure of the wage impact of the living wage. The smaller the difference, the higher a wage the firm would pay without the living wage. New firms are more likely to have a smaller difference between the counterfactual wage and the living wage[160]

Although new firms are more likely to pay higher wages in the absence of the living wage, they are not more likely to be union firms. In fact, the opposite is true. While 19 percent of old firms are unionized, less than 1 percent of new firms (only one firm) is unionized.[161] This does not necessarily mean that union firms are exiting the city contract sector. It may be that firms are becoming unionized after entering the city contract sector. Although we did not ask firms if they were unionized before becoming city contractors, we know that living wage firms are much more likely to be unionized than other private sector firms—64 percent of living wage affected jobs are unionized, compared to only 17 percent of private sector jobs in California. California public sector workers are also very likely to be unionized (54 percent of jobs). Furthermore, six firms, employing 23 percent of living-wage-affected workers, became unionized through the Respect at LAX campaign after becoming subject to the living wage. Therefore, the lower rates of unionization among new firms may be due to their recent entry into contracting, and may change over time.

The multiple regression analysis also suggests that new firms are less likely to be small businesses, although the results are not definitive. New establishments are more likely to be subsidiaries of a larger firm, although this relationship is only marginally statistically

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[159] The analysis was a logistic multiple regression that included the following variables: industry, whether the establishment is a subsidiary, size of establishment, labor costs as a percentage of total costs, whether the firm pays the higher or lower tier of the living wage, and the number of paid days off before the living wage ordinance. The multiple regression was conducted on a reduced sample of 42 firms due to missing data.

[160] Statistically significant at the .05 level.

[161] The difference between old and new firms is statistically significant at the .10 level. In the reduced sample for the multiple regression, none of the new firms were unionized, so this variable was not used.

significant.[162] New firms that are independent are also more likely to be larger.[163] Since small businesses are small, independent firms, these results suggest that new firms are less likely to be small businesses.

***Changes in Types of Workers***

In order to evaluate whether changes in the types of firms entering into city contracting is reflected in changes in the types of workers working on city contracts, we conducted a series of multiple regression analyses that compared workers in old firms who were hired before the living wage went into effect ("stayers"), to workers in new firms, and controlled for industry and occupation.[164] These analyses shows that workers in new firms are older at hire, have more years of schooling, are more likely to be female, and earned a higher wage before becoming subject to the living wage (Table 7-15). Although the greater age, years of schooling, and higher previous wages may be explained by the tendency towards the usage of more skilled labor in the living wage sector, the increase in the proportion of women is more difficult to explain. Workers in new firms are four years younger than stayers, but after controlling for worker characteristics, occupation, and industry, workers in new firms are 11 years older on average than stayers. Older workers are likely to have more job experience and greater job skills. Workers in new firms also have a slightly higher level of education, with 1.2 years more of schooling than stayers. For workers in new firms, their wage at their previous job was 13 percentage points higher than the wage earned by stayers before the living wage. This wage difference may reflect characteristics which make them more productive, but are difficult to measure in a survey, such as intelligence, strength, or personality. Among workers in new firms, the proportion who are women is 18 percentage points higher than it is among stayers. Women typically have fewer years of experience in the labor force and tend to be lower paid, so it is unlikely that this result is due to the higher wages paid by new firms. In sum, the higher wages paid by new firms are reflected in a more experienced and slightly more educated workforce, but they have not led to demographic changes in the workforce.[165]

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[162] Statistically significant at the .20 level

[163] Statistically significant at the .10 level.

[164] The analyses measured the impact of being a stayer or a worker in a new firm on a series of worker characteristics. The analyses controlled for the following factors: industry, occupation, race, years of schooling, whether the worker is currently attending school, whether English is the worker's first language, whether the worker underwent formal training before hiring, and sex. The analysis compared workers in new firms to both stayers and joiners in old firms. The full regression results and additional analysis can be found in Fairris and Fernandez-Bujanda 2005.

[165] The multiple regression analysis also showed that workers in new firms are more likely to be Latino and less likely to be Asian, but these changes are probably not related to the higher wage paid by the new firms.

**Table 7.15: Characteristics of Stayers in Old Firms and Workers in New Firms**

| | Workers in New Firms | Stayers | Difference | Difference with Controls |
|---|---|---|---|---|
| Age at hire | 33 years | 37 years | -4 years | 11 years*** |
| Years of schooling | 12.6 years | 12.1 years | .5 years | 1.2 years * |
| Female | 81% | 56% | 25% | 18%** |
| Last wage earned before the living wage | $7.80 | $6.27 | 24% | 13%*** |

Source: Living Wage Worker Survey
N=235
*Statistically significant at .10 level
** Statistically significant at .05 level
***Statistically significant at .01 level

## Conclusion

The majority of affected firms and workers have not made changes in response to the living wage mandate. This may be due to the moderate size of the wage increase, which averaged $1.50 per job at the time of implementation, and continues to increase through annual indexing. A larger wage increase, which could result from either a higher living wage level or lower wages before the living wage went into effect, might induce more widespread or more dramatic firm and worker responses.

Although the majority of affected firms did not make changes, some firms did take cost-cutting steps, which in most cases affected only a small minority of workers. A significant minority of affected firms cut staff, although reductions were minimal—112 jobs, or 0.8 percent of covered jobs in affected firms. Several social service non-profits complained that staff cuts were necessary because the city would not increase reimbursement on their contracts to help cover the increased costs of the living wage. These anecdotes, in combination with the result that non-profits are more likely to report a negative change in attitude towards city contracting, point to the need for the city to look more closely at the reimbursements non-profits receive on living wage contracts. Why some non-profits report hardship while others do not is a question that deserves further investigation. A minority of affected firms also cut costs by reducing benefits such as health benefits, merit raises and bonuses, which affected at most 5 percent of workers on living wage contracts in affected firms. Affected firms decreased overtime hours, in sharp contrast to non-living wage firms, which increased overtime during the same period. Affected firms also kept training for new hires at the same level, while non-living wage firms increased training, representing a relative decrease in training for living wage firms. This may reflect the fact that living wage affected firms are hiring more workers with previous formal training, who do not require as much on-the-job training.

In terms of workforce changes, the worst case scenario— the displacement of the workers who are the intended beneficiaries of the living wage—has not occurred. The majority of affected firms have not changed their hiring standards and reported seeing no changes in the composition of their workforce. A comparison of affected workers hired before and

after the living wage reveals that new hires are no different in terms of age at hiring, years of schooling, whether they are native English speakers, and whether they are currently attending school. The proportion of Latinos has actually increased, while the proportion of whites has decreased, although this is more likely to be a reflection of demographic changes in the labor pool, rather than a result of changes in hiring preferences.

New hires are different in three important ways, however. Among new hires, the proportion of men is 11 percentage points greater and the proportion of workers who have had formal job training before being hired is 10 percentage points greater. Furthermore, the wages earned by new hires in their previous job before becoming subject to the living wage are 20 percent higher (compared to the wages paid by employers before the living wage). This wage difference may reflect employers' preferences for more highly-skilled workers. For employers, attracting better-trained workers means more productive employees and less time and money spent on training and supervision. From the workers' perspective, new applicants who are women or have less training will likely have more difficulty accessing these 10,000 living wage jobs.

Affected firms have also experienced some cost savings following the living wage, which partially mitigates the cost increases. One in three living wage affected firms reported a turnover decrease, which was twice the rate for non-living wage firms. Current rates of turnover are 17 percentage points lower on average at living wage firms than at non-living wage firms. The cost savings from turnover reduction allow living wage affected firms to recoup 16 percent of the costs of the mandatory wage increase. Rates of unscheduled absenteeism for affected firms have declined as well, representing a further cost savings.

Finally, the living wage has led to some changes in contracting patterns with the city. Although most affected firms feel the same about city contracting as they did before the living wage, firms that provided more paid days off before becoming subject to the ordinance find it easier to compete for city contracts. This may reflect the "level playing field" created by the ordinance, mentioned by several firms, which benefits firms with more generous labor policies. Non-profits and smaller establishments report that they are less likely to seek city contracts, although interviews with officials in five different city departments revealed no knowledge of firms that had left city contracting due to the living wage. Firms that have entered into city contracting since the living wage are more likely than other firms to have paid higher wages previously. This may explain why their workers are older at hiring and have slightly more years of education compared to workers hired before the living wage.

## Chapter 8 : Conclusions and Policy Implications

Living wage policies have proliferated across the country as local officials have sought ways to tackle the growth of low wage jobs in their communities. Although these ordinances typically apply to a small section of a given metropolitan labor market, they can focus public discussion on issues of job quality and low-wage poverty. Advocates argue that the public sector should not be a low-wage employer, and that increasing wages will improve the standard of living for poor and low-income workers. Opponents charge that living wage laws lead to job loss, and that many low-wage workers do not live in poor families. Our findings suggest that Living Wage Ordinances can provide tangible benefits to workers in poor and low-income families, with small negative impacts on business. Our findings do not address who bears the costs of the living wage, which may include employers, their customers, city government, and local taxpayers. In this chapter, we situate our findings in the context of the policy debates that surround living wage proposals, and suggest ways the benefits of the policies can be maximized and the negative impacts minimized.

*Are living wage affected workers poor or low-income?*

Given their characteristics, living wage workers are likely to be low-income. More than 70 percent have a high school education or less. Only 4 percent are teenagers, compared to 14 percent of low-wage workers in the county. The average affected worker has been in the labor force for 19 years, and nearly 90 percent are working full time. Living wage workers are more likely than other low-wage workers to be female (nearly 60 percent), to be African-American (30 percent), and to be single parents (16 percent). Indeed, nearly 45 percent of living wage workers surveyed said they use a government assistance program or claimed the Earned Income Tax Credit, even while earning the living wage.

We used data on low-wage workers in L.A County to estimate poverty levels and low-income status for living wage workers. Only fifteen percent of low-wage workers in the county are in severe poverty, falling below the federal poverty guidelines. Most people below the poverty guidelines are not working, so it is not surprising that the living wage does not primarily affect this group. Using the standard of 200 percent of the poverty guidelines as a more realistic measure of poverty status, 43 percent of low-wage workers are poor. These workers meet the income eligibility criteria for various government anti-poverty programs. Finally, the majority of workers, or 69%, can be considered low-income. They fall below a self-reliance standard for Los Angeles County, and would likely have difficulty making ends meet without sharing housing or relying on government assistance or informal childcare. The remaining 31% of low-wage workers are not low-income.

Compared to low-wage workers in the county, living wage workers are likely to have lower family incomes because they are less likely to be teenagers, and more likely to be female, African-American, and single mothers. The income gains from the living wage, then, predominantly affect poor and low-income families, who can likely use the extra income to help meet the high cost of living in Los Angeles.

*Has the Living Wage Ordinance brought about significant improvements for workers and their families?*

The Living Wage Ordinance had a significant impact on pay for workers in affected jobs at the time the ordinance went into effect. An estimated 9,600 workers received direct or indirect raises due to the law. Of those, 7,700 received a mandated raise, estimated at $1.48 per hour on average. The gain translates into $2,600 in a year on average or an annual gain of $20 million. In addition, pay for those jobs increases every year, as the wage level is indexed to increase annually. The remaining 1,900 workers received indirect, non-mandated raises, mostly so firms could maintain pay differentials within the establishment, adding another $2 million annually in pay increases.

Over time, the workforce has changed, and the wage gains for workers hired after the living wage have not been as great. Workers hired after the living wage went into effect came from higher-paying jobs, and therefore received smaller raises on average, even after adjusting for the affects of minimum wage increases. For the workers at the time of our survey, the average mandatory raise was $1,295, about half the size of the pay increase for the jobs at the time of implementation.

The pay increase only tells part of the story as workers must pay taxes on their increased earnings. In an analysis of three prototypical families drawn from survey data—a two parent family with two income earners, a single parent family, and a single worker—workers kept between 71 and 76 percent of their wage gain after taxes. Living wage workers in these prototypical families saw a decline in eligibility for Section 8 Housing vouchers, a program that is used by only 2 percent of living wage workers. The single parent family also saw a reduction in Food Stamp eligibility. Combined with a reduction in Section 8, the wage gain of the single parents could be completely offset by the loss of program eligibility. However, the majority of single-parent living wage workers do not rely on these programs. Only 12 percent use Section 8 rental subsidies, and only 6 percent rely on Food Stamps. Other low income families—like one in which only one parent works—might also lose eligibility due to a living wage increase. But again, most living wage workers do not rely on Food Stamps and Section 8, programs that are vulnerable to slight fluctuations in income. None of the workers in the prototypical families lost their eligibility for public health insurance, which would represent a significant loss to families with children.

There was significant variation in the raises workers received. Consequently, not all workers we interviewed received significant raises due to the ordinance, and some joiners even saw a decrease in wages from their previous non-living wage job. Nevertheless, more than one-third of workers we surveyed had compelling stories to tell about how their lives had been changed by the pay increase. One worker reported being able to leave an abusive husband, others reported feeling more tranquil due to the raise, and still others were able to make much-needed purchases (from a new car to children's clothing). But the living wage ordinance did not transform the lives of most workers. This is not surprising given the size of the average raise and the fact that other costs in

Los Angeles County—such as housing and health insurance—have been rising at a rapid rate. Indeed, more than 80 percent of workers said that the living wage was not enough to allow them to meet their basic needs. Some forty percent of workers said they or their family were currently relying on a government assistance program like Medi-Cal or the Earned Income Tax Credit, both indicators of need. Across family type, workers said they would need $13 per hour plus free full family health insurance to truly afford life in Los Angeles. Although many factors go into setting living wage levels, testimony from workers themselves represent a much-needed contribution to the debate.

The benefits of the living wage go beyond the workers who received the mandated raise. An estimated 1,900 workers received non-mandated raises. In contrast to government assistance programs, living wage policies impact a broader group of workers than those covered under the legal mandate.

The living wage also led to an increase in time off. The average firm increased paid days of increased by 1.7 days, or 23 percent and unpaid days off by 2 days, or 22 percent. The increase in paid days off is worth about $126 in pay to the average living wage worker. However, eight percent of workers volunteered that they did not have full access to the sick and vacation days they are owed, suggesting that there may be a compliance problem with regard to paid days off. Firm surveys also revealed that some airlines service firms misunderstood the time off provisions of the law, believing that workers could take the time off they were owed as soon as they accrued it, and without approval of management. Consequently, Los Angeles city officials may want to take a closer look at how this aspect of the law is being implemented.

We were unable to interview workers who left city contract firms after the living wage ordinance came into effect, and so we know very little about how the ordinance affected the wages or benefits of these workers. Survey evidence clearly reveals that few of these "leavers" were forced out of their firms through dismissals. Because these workers left voluntarily, we might conclude that wherever they left for, their current well-being is likely to be at least as great as at their former living wage job. This report has no definitive findings on this matter, though, and so should be viewed as an analysis of the impact of the living wage ordinance on work and workers in the city contract sector only.

*How does the living wage ordinance affect health coverage?*

Like many other living wage laws around the country, the Living Wage Ordinance was designed to encourage employers to offer affordable health insurance to their low wage workers. Living wage employers may comply with the ordinance by paying either a higher wage or a lower wage and a $1.25 contribution to health insurance. Because contributions to employee health benefits are not subject to payroll taxes, firms would face a smaller cost increase by paying the lower wage. Our analysis revealed that the living wage ordinance did not prompt firms to extend health insurance coverage to their affected workers. Nevertheless, a small group of firms improved their existing benefits plans or expanded benefits to low wage workers in order to comply with the law, changes that led to improvements for about 2,200 jobs. Two percent of firms decreased benefits

for their workers in response to the ordinance, resulting in benefit reductions for 140 jobs or for about 1.5 percent of the workers who received raises due to the law.

These modest changes suggest that a $1.25 health differential can cause some firms to improve their health insurance plans. But the ordinance has not resulted in significant numbers of workers gaining health insurance. Although firms in the city contract sector are more likely to offer employer-paid benefits than their non-living wage counterparts, more than 38 percent of workers lack health insurance or use public programs. Workers do value health insurance highly, with 75 percent of lower-wage workers say they would not give up their access to health insurance for a $1.25 per hour increase. Similarly, 58 percent of higher-wage workers say they would take a $1.25 per hour pay cut in order to have no-cost individual health insurance.

Health benefits that are affordable for workers will likely be difficult to achieve with the current $1.25 differential, which is less than the average cost of employer-provided individual health benefits in California. Increasing the differential would also provide a greater payroll tax savings, increasing the incentive for firms. Encouraging firms to provide affordable health coverage for workers' families is a greater challenge. Union firms, with access to union purchasing pools, have demonstrated the greatest success in this area.

*Does the living wage lead to job reductions or other negative impacts?*

The majority of firms we surveyed had not engaged in major cost cutting due to the Living Wage Ordinance. A larger wage increase might have induced more widespread firm responses. Nevertheless, some firms did take cost cutting steps, which in most cases only affected a minority of workers. A significant minority of firms cut staff (19 percent), and these reductions were minimal—112 workers—or one percent of affected workers. A minority of living wage firms also cut such benefits as merit increases, free lunches, health benefits (as discussed above), changes that affected no more than 5 percent of affected workers. Living wage firms also decreased overtime and training for new hires, relative to comparable non-living wage firms. Several firms reported that the enforcement of the ordinance has created an onerous paperwork burden. Firms must submit certified payroll records for each contract covered by ordinance, and some firms have numerous covered contracts.

A minority of firms reported making changes in their hiring standards, and the living wage workforce also became more male and more highly trained after firms became subject to the law. For employers, attracting better-trained workers means more productive employees and less time and money spent on training and supervision. From the workers' perspective, new applicants who are women or have less formal training will likely have more difficulty accessing these 10,000 living wage jobs. Moreover, new hires may possess greater unobservable skills, as suggested by the fact that they have higher before wages than do stayers.

In spite of the difference between new and old workers, the workforce remains unchanged in many important respects. New hires are no different in terms of age at hiring, years of schooling, whether they are native English speakers, and whether they are currently attending school. There has been a significant increase in the proportion of Latinos among new hires, most likely a reflection of demographic changes in the labor pool.

Although the negative impacts appear to be minor, some firms—namely social service organizations—may be disproportionately burdened by the law. Several social service firms complained that they cut staff because they were unable to pass on increased costs to the city. Social service firms were also more likely to report a negative change in attitudes toward city contracting than other firms. Given the importance of the work done by these firms—and the difficulty non-profit organizations have securing funding—the city may want to ensure that its funding for non-profits recognizes their increased costs due to the ordinance.

*Are there benefits to firms from raising wages?*

Employers have experienced cost savings following the living wage, which partly offset the cost increases. One in three living wage firms reported a turnover decrease, which was twice the rate for non-living wage firms. The average current turnover rate at living wage firms is 17 percentage points lower than at non-living wage firms, resulting in an estimated cost savings of $430 per worker per year. Through these turnover reductions, the average firm makes up 16 percent of the cost of the wage increase. Employers have also benefited from declines in unscheduled absenteeism, and an increased ability to recruit more highly-trained workers.

*Are there benefits to taxpayers from the Living Wage Ordinance?*

Our analysis of prototypical workers-a single worker, a couple with children, and a single parent--suggests that living wage laws may provide benefits to taxpayers, as well. Annual federal and state tax receipts increased by between $259 to $491 depending on the family type. For each family type, at least 95 percent of the benefits went to the federal government. (States and federal governments would also benefit from increases in employer payroll due to the living wage raise.) In our analysis of prototypical workers, the federal and state government did not see substantial potential savings in the area of government assistance. Eligibility for Section 8 rental housing subsidies were affected for the single worker prototype and the single parent prototype , but most workers do not use this program. Only the single parents prototype (single parents make up 16 percent of the sample) saw a reduction in Food Stamps. But most living wage workers who are single parents (92 percent) do not make use of the Food Stamp program.

In summary, the experience of the Los Angeles Living Wage Ordinance shows that the law had measurable positive impacts on workers. Workers saw real wage gains that had a positive—if not a transformative—impact on their lives. Most of these wage gains go to workers in poor or low-income families, who can likely use the extra income to help

meet the high cost of living in Los Angeles. As predicted by some economists, the ordinance did cause a slight shift in the demographics of the workforce, with workers becoming more male and more highly trained, but they remain the same in many respects, as they continue to be mostly non-white workers with a high school education or less. Cost cutting strategies employed by a minority of firms had minimal impact on workers, with job reductions at less than 1 percent. Firms also saw reductions in turnover and absenteeism, allowing them to recoup some of the cost of higher wages. More attention needs to be paid to the health insurance differential if it is to really encourage employers to provide affordable insurance to their workers. Likewise, social service agencies may merit special attention since they may be disproportionately impacted by the ordinance.

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## Appendix A: Survey Methodology

This research project was started as a joint venture between economists at the University of California and LAANE. The City of Los Angeles had contracted for a study of the fiscal impacts of the LWO on the City itself,[166] but no one planned to interview the workers. In cooperation with the City, we set out to survey not only the firms affected by the ordinance, but their workers as well.

The project began in 2001 and has continued through the end of 2004. The early stages of the project were devoted to developing and pilot-testing the firm and worker survey questionnaires, as well as working with the City to transform their enforcement database into something we could use as a sampling frame. We also convened an academic advisory board for the project, and we incorporated their comments into the design of the study.

This methodological appendix discusses the various surveys that constitute the basis for this report.

### Design of the Living Wage Employer and Worker Surveys

The goal of the project was to conduct a survey of workers in jobs where pay was increased to meet the requirements of the Los Angeles City Living Wage Ordinance. In order to interview these workers, it was necessary first to identify firms that were covered by the ordinance and that might have low-wage workers, and then to take a sample of these firms and talk to their management in order to be able to identify and sample the affected workers.

Therefore, we adopted a two-stage cluster sampling approach—first sample the firms, then sample the workers within the sample of firms—because taking a random sample of all covered workers would have been too costly. We used the database maintained by the city[167] to develop lists of covered firms, focusing on those firms deemed by the city to employ significant numbers of low-wage workers. These firms, in industries such as janitorial and landscape maintenance, are categorized as "priority one" by the city. Other firms, labeled "priority two," certify that all their employees earn at least $2 per hour above the living wage, and "priority three" firms certify that all of their employees earn at least $15 per hour.[168] We examined the priority two firms and concluded that the classification was properly done and that we would miss very few low-wage workers by focusing on the priority one firms. In fact, we had to screen out many of the priority one firms because they had no workers impacted by the law.

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[166] Richard Sander's study has never been completed. However, he has written up various findings over the years and we reference these in different parts of this report. The unfinished nature of his research demonstrates just how difficult these studies are.

[167] At the time of the survey, the database was kept by the Contractor Enforcement Section of the City Administrative Officer. It is now kept by the Office of Contract Compliance of the Bureau of Contract Administration.

[168] See Appendix B for a fuller discussion of this database and a breakdown of the numbers of firms in the different categories.

We developed a database that stratified the priority one firms into the following groups:

- Airlines
- Airline services, including security screening, baggage handling, and skycaps
- Janitorial
- "Outdoors work," including landscape maintenance, brush clearance, tree trimming
- Retail and food service
- Security and parking
- Social services
- Transit
- Miscellaneous, including golf courses, amusements, citation processing, etc.

We divided each stratum into large firms (>=50 workers on the city contract or lease) and small firms (< 50 workers on the city contract or lease) and took a random sample of each. We sent a letter requesting their participation to each firm in the sample, along with a letter from the City of Los Angeles instructing them that they were required to cooperate as part of their contract with the City. We then called the sampled firms to conduct a preliminary screening, to make sure they had raised wages in order to comply with the ordinance. Based on this screening of firms for the employer survey, there were no firms that only improved benefits to comply with the ordinance, without also raising wages. We would then arrange for an in-person interview with management. Since we needed to talk to management in order to obtain a list of workers, we decided to conduct formal interviews with the firms and we wrote a questionnaire for this purpose (see Appendix __ for a copy of the Employer Survey). These interviews typically lasted one to two hours and were conducted with owners, personnel managers, or other management, or at times with all of these. In this report, the results of these interviews are referred to as the **Living Wage Employer Survey**.

Considerable effort went in to analyzing and completing the city's database of contracts. Because contracts were constantly being renewed, the contractors were changing as we conducted the survey. We would call firms only to find that they no longer held a contract with the city and hence were no longer willing to cooperate with the survey. At first we thought we would interview some of these firms (and workers from these firms) to see what had happened after the Living Wage Ordinance no longer applied to the firms, but this proved impossible. Almost no one would cooperate and we had no way for the City to compel them to participate. This was such a problem that in two instances the contract expired after we interviewed the firm and as a result the firms refused to provide contact information for the workers. Therefore, there were only two interviews conducted with firms—both small—that did not have current city contracts when we took a sample, and six interviews with firms whose contract expired between the time we selected them and we interviewed them. This study does not specifically address what happened in the firms that no longer have a city contract.

Instead of trying to interview firms with expired contracts, then, we began screening them out at the initial contact stage, along with the firms that did not have workers affected by the Living Wage Ordinance. This tended to exhaust the sampling frame. Therefore, as the survey progressed we periodically added the new groups of

contractors into the database and took samples of them separately in the same manner that we took the initial sample. This was necessary due to the significant lag time between the signing of a contract and its entry into the database, on average 6 months.

It is important to reiterate that the Living Wage Employer Survey was not designed as a sample of all firms *subject* to the living wage ordinance, but was instead an artifact of our attempt to interview the workers *affected* by the wage provision of the law. It is a random sample of firms with *affected* workers, but we interviewed only as many firms as was necessary to generate minimum numbers of workers in the different strata. Consequently, it is not a large sample; the sample size is 82. In the end, we interviewed workers at 62 of these firms.

We over-sampled the large firms for cost and clustering reasons. However, most of the workers impacted by the Living Wage Ordinance are in a relatively small number of firms, mainly at the airport. Excessive clustering could easily lead to a study of the airport and provide little information about the other sectors. In order to obtain information about workers in all affected occupations, as well as from union and non-union firms, we decided to limit the number of workers at any one firm.

Therefore, at the second stage of the sample, to limit the clustering, we adopted a rule of sampling one out of every five workers, but no more than 10 workers in a firm—any firm with 46 or more workers is represented by a sample of 10. The one exception to this rule is the airline services industry, where extensive consolidation has occurred at the airports in the wake of 9/11, and where a few firms employ many thousands of the workers subject to the ordinance. For each of these large airline services firms, we took a sample of 20 workers.[169]

In every instance, we requested a payroll list with the name, occupation and date of hire of the affected employees. We then took a random sample and tried to work with management to contact the selected workers. We stratified the workers in the sampled firms into occupational groups whenever possible, in order to provide as broad a range of experiences as possible. This was possible in 11 of the 62 firms where workers were interviewed. We attempted to further stratify workers by whether they were at the firm before the living wage ordinance took effect or were hired afterwards, in order to be able to compare these experiences. This was possible in 13 of the 62 firms. This latter stratification allowed us to compare the experiences and characteristics of the "stayers" to the "joiners." However, there was no way to contact the workers who separated voluntarily or involuntarily from the firms after the LWO took effect, the "leavers."

We found that with the encouragement of the city, most of the firms agreed to participate in the study. However, in a number of instances we had to have the City's enforcement agency call the firm, or if that didn't work we had the City contracting department that controlled the firm's contract call them. Without this assistance from the City, the survey would not have been possible. Only in one case did we fail to interview any firm from one of the industry/firm size strata. Small airline service companies, most of which are subcontractors to airlines that have leases, uniformly refused to cooperate. Airport management was unable to convince them or their airline contractors to cooperate and we found we had no further recourse. Therefore, this study does not include the

[169] However, due to the difficulties of locating workers at the airport, we actually interviewed 11, 14, and 19 workers at these three firms.

experiences of airline service contractors with fewer than 50 employees, some 20 firms. Apart from this stratum of small airline service contractors, 16 firms refused, implying that about 84 percent of the firms sampled were interviewed.

Remarkably, only seven firms that we interviewed refused to supply us with the names of their employees. However, a great deal of follow-up work was required to actually obtain the worker lists that were promised. We hired a full-time staff person for a year just to do this follow-up. As a result of these refusals, as well as other factors, the worker sample is drawn from a total of 62 firms.

Another area that proved to be quite labor-intensive was obtaining home contact information for the sampled workers. In some cases, the employers were willing to provide home phone numbers, but in many cases they refused to release such personal information. In those cases, we sent interviewers to the work site to find the selected workers and arrange interviews. These visits often took hours because of the unpredictability and variability of workers' schedules.

We paid the workers $25 for their participation and usually conducted the interviews away from the job site, often in the workers' homes or wherever they felt most comfortable. All interviews were conducted in person in either English or Spanish.[170]

In this report, the results of this survey are reported as the **Worker Survey** (see Appendix __ for the questionnaire). This survey has a sample size of 320. Approximately half of the workers are at an airport (LAX or Ontario) and half are in other sectors of the economy. About 44 percent of the workers were hired by the firms before the Living Wage Ordinance was applied to the firm and 56 percent after. Some 76 workers refused to be interviewed, which is to say our response rate was 81 percent. Difficult groups included the skycaps, who received many tips and did not want to discuss them, and security guards—29 refusals were in big airline service firms and 11 refusals occurred at one security guard firm.

**Employer Control Group Survey**

A third survey was conducted by David Fairris and Mark Brenner. This survey consisted of a random sample of firms in the same industries as those in the Living Wage Employer Survey, but none of which were city contractors. The purpose of the survey was to provide a control group against which to compare the results of the Living Wage employer survey. In this report the results or comparisons from this survey are reported as the **Survey of Diversity in Human Resource Practices (SDHRP)**. This survey has a sample size of 210 firms. A two stage stratified sampling approach was used in which establishments were first divided into the industry sectors used in the living wage survey. Within each sector, the establishments were further divided into large (>50 employees) and small establishments. The SDHRP survey questions were patterned after the living wage survey. The SDHRP survey was conducted from the fall of 2001 to the fall of 2002. There are some differences between the SDHRP and the Living Wage Employer Survey that are worth noting. The living wage survey was conducted in person while the SDHRP was a mail-in survey that also involved considerable telephone follow up.

[170] It turned out that most of the immigrants who were native speakers of other languages were working in jobs that required English proficiency.

Unlike the Living Wage Employer Survey, the SDHRP did not have the official endorsement of the City of Los Angeles and consequently there was a lower response rate (23 percent). Both surveys asked firms retrospective questions. The living wage firms were asked to compare their experiences before the law went into effect to their experiences after the law went into effect. SDHRP firms were asked to compare the current experiences to their experiences two years pior to the interview, based on preliminary evidence from the living wage survey that showed that the average living wage firm came under the ordinance in the middle of 2000. Nevertheless, there was variation in the time that living wage firms became subject to the law, and this could influence results especially in the case of wage changes. In such cases, a subgroup of firms with "before" dates that are more tightly distributed around the "before" dates of the nonliving wage establishments were also examined. Findings from this control group analysis are forthcoming in *Industrial Relations.*

## Appendix B:

## Methodology For Estimating Numbers of Living Wage Firms and Jobs

We estimated numbers of living wage firms and jobs by using data from both the living wage employer survey and the database of all living wage contractors kept by the City of Los Angeles. This database, called the Living Wage Contractor Database, is used by the City to track compliance with the provisions of the Living Wage Ordinance. The database was created by the City's Bureau of Contract Administration (BCA), a division of the Department of Public Works, which was the first agency to enforce the LWO after its passage in 1997. Enforcement was transferred in 1999 to the Contractor Enforcement Section of the City Administrative Officer (CAO), which maintained the database from 1999 to June of 2004. In July of 2004, enforcement was transferred back to BCA, which now maintains the database in its Office of Contract Compliance. We used the database both as a sampling frame and also to estimate the number of living wage jobs.

The database contains information provided by both the city departments that hold living wage contracts and by the firms themselves. Each living wage contract is a separate record in the database, so a firm with multiple contracts will have multiple records. The database is continually updated as contracts expire and new contracts are negotiated. The database is a historical record of all contracts, so it contains many contracts that have expired. When we first started the project in 2001, there was very little information about airport firms, due to reluctance on the part of the airlines to provide information about their employees or their subcontractors. This information was gradually added over time.

### Contracts and Firms Subject to the Living Wage

We obtained various version of the database from the city, starting in early 2001 and continuing up until late 2003. We chose to use the August 2002 version of the database, because it corresponded in time most closely to when the employer survey was conducted. We had to make several assumptions about records in the database in order to determine which contracts to select.

- **Definition of current contracts:** The contracts had to be selected by date of expiration, because the database contains many contracts that have expired. If we did not select by date, it would result in a large overcount of contracts subject to the ordinance. We therefore selected all contracts with expiration dates after the date we received the database.

  However, the database does not reflect the most current contract information, because of the time lag involved in the various city departments forwarding subject contracts to the city, and the time for city staff to enter the information into the database. On average, contracts are entered into the database six months after the contract term has begun. Therefore, at any given point in time, contracts in the database have expired, but the new contracts that have replaced them have not yet been entered into the database. This results in an undercount of covered

contracts. In order to account for this time lag, we expanded our criteria to include contracts that had expired six months before the date we received the database.

In addition, 20 percent of all subject contracts are missing an expiration date, making it difficult to tell if the contract is current or not. Contracts prior to 1999 are more likely to be missing this information. Subcontractor records are more likely to be missing an expiration date. According to the CAO's office, this may be because the city does not have a contract directly with subcontractors, and the primary contractor often does not set an expiration date. Therefore, we included subcontractor records with missing end dates, but not primary contractor records.

- **Inclusion of union supercession contracts:** We included all contracts where a union collective bargaining agreement supercedes the LWO. In our research, we found that in most cases, wages for workers on such contracts were equal to the level of the living wage or above. In some cases, the LWO enabled unions to negotiate a raise, usually up to the living wage level or higher. In some cases, the wages were already at the living wage level or above. In a very few cases, union contracts include wages lower than the living wage, in return for other benefits such as free family benefits or additional paid days off.

Using these selection criteria, there were approximately 722 contracts, held by 474 firms, subject to the living wage at the time of our survey. The City divides contracts subject to the living wage into three categories, in order to focus its enforcement resources on firms with low-wage jobs, as shown in Table B-1.[171] "Priority 1" contracts are those where services are provided by workers in low-wage occupations, such as janitors, gardeners, security guards, retail clerks, and the like. This is the largest category, with 62 percent of all subject contracts. "Priority 2" contracts are those where firms have certified that all employees working on the contract earn at least $2 per hour above the living wage level. These make up only 5 percent of all subject contracts. "Priority 3" contracts, which make up 23 percent of subject contracts, are those where firms have certified that all employees on the contract earn more than $15 an hour.

**Table B-1: Contracts and Firms Subject to the Living Wage by City Enforcement Priority Level**

| Enforcement Priority | Description | # of Contracts | % of All Contracts | # of Firms |
|---|---|---|---|---|
| 1 | Deemed by the city to employ low-wage workers | 451 | 62% | 244 |
| 2 | Firm certifies all workers earn at least $2/hr. above the | 35 | 5% | 29 |

[171] 17% of contracts were missing a Priority designation. We examined the work performed on the contract, and if it was likely to be performed by low-wage workers, we changed the Priority designation to P1.

| | | | | |
|---|---|---|---|---|
| | living wage level | | | |
| 3 | Firm certifies all workers earn above $15/hr. | 169 | 23% | 161 |
| Not specified | Information missing in database | 67 | 9% | 58 |
| **Total covered by the LWO** | | **722** | **100%** | **474*** |

Source: City of Los Angeles Living Wage Contractor Database.
*Column does not total because some firms are in more than one category. Because the city database is organized by contract, the same firm can have different priority levels for different contracts, depending on the type of work performed.

**Correction of City Database Jobs Information**

We made several corrections to the jobs information in the city database, to address problems with missing data. The calculations are outlined in Table B-1.

**1) Correction of missing jobs numbers:** The city database contains a field for the total number of employees on each contract subject to the LWO, taken from certified payroll records submitted by contractors as part of the enforcement process. In our analysis of the database, we discovered that 49 percent of current contracts subject to the living wage lacked information on numbers of jobs. This was due to the reluctance of firms to provide this information and the lack of city resources to follow up on all covered contracts. To correct the database, we used the records that did contain numbers of jobs to calculate the average number of jobs per contract. For P1 records, we calculated averages for each industry. For P2 and P3 records, we calculated an overall average. We used these averages to fill in the contracts that contained missing data.

According to CAO staff, job numbers for airport contracts were more likely to be blank. One company can have multiple contracts at the airport. CAO staff often entered job numbers by totaling the number of jobs for the entire airport, and entering the total into one contract record, leaving the others blank. For this reason, we only corrected airport records if an employer was missing job numbers for all airport contracts. For non-airport contracts, we filled in all missing records.

**2) Large contracts missing from the database:** In addition, we identified several contracts with large numbers of jobs that were missing entirely from the database. We researched the number of jobs and added them to the database.

**3) Correction based on comparison with employer survey results:** Because there was so much missing information in the database, we compared the information in the database for the 82 firms in our survey with the information collected in the survey interviews, in order to gauge the accuracy of the database.

First, we calculated a weighted average using the data from the city database, giving each firm the same weight that it had in our survey. We then compared this to the weighted average of total jobs covered by the living wage from our survey. The average from the

database was 45 percent below the average from the survey.[172] This is a significant undercount, which we believe is due to missing information in the database, including contracts missing from the database, missing information on expiration dates, and missing and incorrect information on the number of jobs. For example, in order to select current contracts, we selected contracts by date of expiration. If the date of expiration was missing, the contract would not be selected. With 20 percent of records missing the date of expiration, it is likely some current contracts were missed.

In order to correct the undercount, we needed to add 45 percent to the database total. However, we did not interview enough airlines to be able to correct the information in the database for these firms. Therefore, we did not add 45 percent to the total of jobs in the airlines. As shown in Table B-1, first we subtracted the 6,216 jobs in the airlines, then we added the 45 percent adjustment for the undercount, then we added the airline jobs back in.

**Table B-1: Correction of City Database Jobs Numbers**

| Adjustment to Database | Number of Jobs |
|---|---|
| Total jobs on Priority 1 contracts after filling in missing jobs and contracts | 17,102 |
| Less airline jobs (-6,216) | 10,886 |
| Adjustment for database vs. survey results (+45%) | 15,785 |
| Plus airline jobs (+6,216) | 22,001 |
| Corrected total jobs on Priority 1 contracts | 22,001 |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

### Calculation of Total Jobs Subject to Living Wage

After correcting the database, we calculated the total number of jobs subject to the living wage on all current living wage contracts. In order to calculate this total, we started with the corrected total jobs on Priority 1 contracts. Then, we added the 2,177 jobs on Priority 2 and Priority 3 contracts from the corrected city database, as shown in Table B-2.

**Table B-2: Calculation of Number of Jobs Subject to Living Wage**

| Adjustment to Database | Number of Jobs |
|---|---|
| Corrected total jobs on Priority 1 contracts | 22,001 |
| Plus total jobs on Priority 2 and 3 contracts from corrected city database (+2,177) | 24,178 |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

[172] In order to confirm that the city database represents an undercount, we performed the same exercise using another version of the database from March 2002, which is five months earlier, but still near the middle of our survey period. This comparison yielded an even higher city database undercount of 82%. To be conservative, we chose the smaller of the two adjustments.

### Calculation of Directly Affected Jobs

The calculation to estimate the number of jobs where mandatory raises were given in order to comply with the ordinance is shown in Table B-2. We started with the 17,102 jobs on Priority I contracts from the corrected city database.

1) **Subtraction of airline employees.** Although airlines are in the Priority I category, it is unlikely that they raised their employees wages due to the living wage. Based on analysis by the Contractor Enforcement Section staff of payroll records submitted by the airlines, most airline jobs paid more than $10 per hour in 2002 and were unlikely to be affected by the LWO. (At the time, the living wage was $9.52 without benefits.) This was confirmed by two interviews we conducted with airlines, neither of whom raised wages for any employees. Therefore, we subtracted 6,216 airline jobs from the number of affected jobs.

2) **Adjustment for unaffected firms and jobs.** Through the firm survey, we found that some jobs on Priority I contracts were already above the wage level of the LWO. Some Priority I employers reported to our surveyors that the wages for all jobs on living wage contracts were already above the living wage level. Although we did not include these firms in our survey, we kept a record of these cases. In addition, some firms in our survey were required to raise wages only for some jobs on living wage contracts, because pay for some jobs was already above the living wage level.

   In order to adjust for these effects, we calculated the weighted average percentage of affected jobs, including both firms in our survey and firms we screened out because they were already above the living wage. The percentage of affected jobs is the number of affected jobs divided by the total number of jobs on the contract. For the firms that already paid above the living wage level, the percentage of affected jobs was 0. The weighted average for all firms was 49 percent. We multiplied this by the number of covered jobs calculated from the city database to arrive at our final estimate of 7,735.

**Table B-2: Calculation of Number of Directly Affected Jobs**

| Adjustment to Database | Number of Jobs |
|---|---|
| Corrected total jobs on Priority I contracts | 22,001 |
| Less airline jobs (-6,216) | 15,785 |
| Less unaffected firms and unaffected jobs (-51%) | 7,735 |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

### Calculation of Jobs on Living Wage Contracts in Affected Firms

We define "affected firms" as those firms that were required to raise wages in order to comply with the living wage. The number of jobs on living wage contracts in affected firms was the basis for our estimates of the number of jobs where indirect raises were given and the number of jobs where health benefits were improved. In order to calculate

this number, started with the corrected total jobs on Priority I contracts, as shown in Table B-3. Because airlines were unlikely to be affected, as discussed above, we subtracted the airline jobs. This left us with Priority I jobs not including the airlines, which was the sampling frame we used for the employer survey. Based on firm screening for this survey, we found that the firms that gave raises represented 89 percent of the total jobs in this category. Applying this 89 percent to the 15,785 jobs from the database gave us our estimate of 13,974.

**Table B-3: Calculation of Number of Jobs on Living Wage Contracts in Affected Firms**

| Adjustment to Database | Number of Jobs |
|---|---|
| Corrected total jobs on Priority I contracts | 22,001 |
| Less airline jobs (-6,216) | 15,785 |
| Less jobs in unaffected firms (*89%) | 13,974 |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

**Calculation of Affected Firms**

We define "affected firms" as those firms that were required to raise wages in order to comply with the living wage. In order to estimate the number of affected firms, we started with the total number of Priority I firms from the city database, which is 244. Because we determined the airlines were unaffected, we subtracted the 29 airlines in the city database. Based on firm screening for the employer survey, we found that affected firms represented 69 percent of all the firms we called. Applying this 69 percent to the 215 firms from the database gave us our estimate of 148.

**Table B-4: Calculation of Number of Affected Firms**

| Adjustment to Database | Number of Firms |
|---|---|
| Total Priority I firms from city database | 244 |
| Less airline firms (-29) | 215 |
| Less unaffected firms (*69%) | 148 |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.