

Impacts of the proposed Living Wage Ordinance for The City of Petaluma: City Employees, Contracts, Leases, Franchises, Agreements and Grants

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1. Summary

This report contains an analysis of the fiscal impact to the City of Petaluma of their proposed Living Wage Ordinance. The purpose of this report is to help City officials make an informed decision regarding its potential costs and benefits. According to our analysis, the proposed Ordinance would have the following impacts:

Table 1: Potential Impacts

| | |
|--|------------------------|
| Potential number of workers benefiting | 48 |
| Potential average benefit per affected worker | \$2,977 |
| Potential total cost of implementation | \$220,463 |
| Potential total cost to City of implementation | \$175,429 ² |
| Potential percent change in the City budget | 0.1% |
| Potential cost per resident | \$3.12 |

The rest of the report is organized as follows.

- Part 2 describes the proposed ordinance,
- Part 3 outlines the methodology and data sources used in this analysis,
- Part 4 contains the analysis of the proposed Living Wage Ordinance, and
- Part 5 contains the report's conclusions and appendices

¹ Ms. Mayer began work on this project in collaboration with Dr. Zabin while she was a graduate student at UC Berkeley.

² This represents potential costs to the City only; experience elsewhere in regards to implementation of living wage laws suggests that increased funding for nonprofit contractors may be available from a variety of private and public sources including foundations, charitable organizations, major donors, and county and state government. Also, nonprofits may choose to internally reallocate resources to comply with living wage laws. See David Reynolds and Judith Vortkamp (2000), *Impact of Detroit's Living Wage Laws on Nonprofits*. Center for Urban Studies and Labor Studies at <http://www.laborstudies.wayne.edu/research/2000report.pdf> Wayne State University; and Mark Brenner and Stephanie Luce (2006) *Living Wage Laws in Practice: The Boston, New Haven, and Hartford Experience*. Political Economy Research Institute, <http://www.umass.edu/peri/pdfs/RR8.pdf> University of Massachusetts.

2. The Proposed Ordinance

The proposed Living Wage Ordinance for the City of Petaluma is similar to the Living Wage Ordinances passed in Sebastopol and Sonoma (see <http://www.livingwagesonoma.org>).³ The ‘living wage’ has been set at \$13.20 per hour (a wage of \$11.70 per hour plus a minimum health benefit valued at \$1.50 per hour) and 12 days of compensated leave per year. To eliminate inflation-based depreciation, this wage level would be adjusted annually (on July 1) based upon the San Francisco-Oakland-San Jose Consumer Price index published by the Bureau of Labor Statistics. The proposed Living Wage Ordinance will cover all City employees, City contracts with for-profit firms where the contract is greater than \$10,000 per year, and City grants and contracts with non-profit organizations where the grant or contract is greater than \$75,000 per year. Also covered are organizations leasing property or receiving franchises from the City with gross annual receipts greater than \$350,000 per year, and organizations that receive financial aid greater than \$100,000 from the City. Other criteria also apply: for-profit and non-profit firms must have more than six employees, and an employee must spend more than 20% of his/her time under City contract in order to be covered under the Ordinance. Leaseholders must have more than 25 employees. The following fiscal impact analysis is based on an ordinance with the characteristics just listed.

3. Methodology and Data

The purpose of this analysis is to measure the potential fiscal impact of the proposed Living Wage Ordinance on the City of Petaluma. The methodology followed in preparing this report replicates that of academic analyses developed for previous prospective studies of Living Wage Ordinances.⁴ This approach requires identifying all workers in Petaluma potentially affected by the Living Wage Ordinance. Once they have been identified, we use their wage and benefit data to ascertain the cost of compliance for the City and for businesses, as well as the benefits to the employees.

To conduct this analysis, the City of Petaluma, Office of the City Manager provided the following information:

- City job classifications, with information on benefit coverage and wages for all employees earning less than the proposed living wage.

³ The Living Wage Coalition of Sonoma County has indicated that there will be no major differences between the ordinance approved by the City of Sonoma in 2004 and the one which will be proposed for the City of Petaluma in 2006.

⁴ See Zabin, Reich and Hall (1999). *Living Wages at the Port of Oakland*. Report of the Center for Labor Research and Education (IIR), UC Berkeley; and Reich, Hall and Hsu (1999). *Living Wages and the San Francisco Economy: The Benefits and the Costs* (In two releases). Report of the Bay Area Living Wage Research Group (IIR), UC Berkeley. (Both are available on-line at <http://iir.berkeley.edu/livingwage/>) Also see fiscal impact reports prepared by UC researchers Peter Hall and Marcee Harris for ordinances implemented by the City of Sebastopol (2003) and City of Sonoma (2004) at <http://www.livingwagesonoma.org>.

- The contact information for:
 - All non-profit organizations receiving grants and with current contracts with the City for all organizations receiving more than \$75,000 in contracts or loans/grants greater than \$100,000.
 - All for-profit organizations with current City contracts greater than \$10,000.
 - All City leaseholders and franchise holders.⁵
 - All City financial aid recipients.⁶

Using the contact information provided by the City of Petaluma, a brief survey was sent to all for-profit and non-profit city contractors to obtain specific information on the size and nature of the contractual arrangement, employment levels, hours worked, wages and benefit coverage. A separate survey was also sent to all leaseholders and franchises requesting similar information. These surveys are included as Appendices.

In total, 107 surveys were distributed. All contractors, leaseholders and financial aid recipients not responding to the survey were then interviewed by phone in order to obtain the appropriate information.⁷ The interview and follow-up process occurred mostly between February and July, 2005.

4. Analysis of the Proposed Living Wage Ordinance

Once wage and benefit data was collected from the relevant employers, it was possible to determine the number of potentially affected workerx and the cost of raising the wages and benefits to comply with the Ordinance. Additionally, we were able to estimate the amount of that cost that would be borne by the City. The results of this analysis are presented below, broken out by the six categories of employment arising from City activities.

4.1 City Employees

⁵ No contact information was provided for franchise holders because all pay above the proposed living wage and/or no employees dedicate 20% of their time to City projects.

⁶ No contact information was provided for financial aid recipients because there are none in the City at this time.

⁷ Seventeen of the contractors, financial aid recipients and leaseholders did not respond to the written survey or two telephone calls. Therefore, we are unable to directly quantify the effect of the proposed Ordinance on these organizations. Most of the contractors spend less than 20% of their time on City contracts, making them exempt from the Ordinance. Others are likely to pay wages over the threshold. However, it is possible that potentially affected employees have not been included in this report, and thus it may underestimate the total effect of the proposed Ordinance. These contractors are: Geoff Hornsby, C. Hardy Construction, Riverwalk Streetscape, Dyett and Bhatia, TruGreen Land Care, Phoenix Group, Bill Pardini Trucking, NDTStichler, North Bay Landscape Management, Miller Pacific, Landesign Construction, Crawford, Multri and Clark Associates, Construction Management Services, ConserVision Consulting, Basin Street Properties, ArcSine Engineering, Rooster Run Golf Course. A number of the firms which did not respond to the survey are professional consulting/engineering firms which certainly pay well above the living wage level and any given employee would not work 20% of their time on city business. Hence these firms would not be covered. There are a few landscape contractors which might be covered, if they employ more than six workers and a worker spends more than 20% of their time on city business.

Based on our analysis of the City's data, there are 12 City employees currently paid below the living wage, all of whom are part-time. Collectively, these workers earn \$71,435 annually in wages and benefits. Complying with the Ordinance would raise this total to \$83,163 a difference of \$11,728. Factoring in the additional tax burden for the employer, the total cost of compliance would be \$13,035 per year.⁸ Because these are City employees, the entire cost would be borne by the City.

4.2 Grants / contracts with non-profit organizations

In the 2003/2004 fiscal year the City issued eight grants and contracts with non-profit organizations of \$75,000 or more. Of those, four are exempt from the Ordinance because they did not have employees that dedicated sufficient time to work covered by the contract, or they did not have any employees earning below the living wage. The four non-exempt non-profit organizations all have employees who would be covered by the Ordinance. Each is discussed below. Cumulatively, the cost of compliance of these four organizations would be \$57,316 per year.⁹

The *Petaluma People Service Centers (PPSC)* has eight full-time employees that would be impacted by the proposed Ordinance. Collectively, these workers earn \$235,088 annually in wages and benefits. Complying with the Ordinance would raise this total to \$252,023, a difference of \$17,305. Factoring in the additional tax burden for the employer, the total cost of compliance would be \$19,375 per year.

The Boys and Girls Clubs of Petaluma has six part-time coordinators that would be impacted by the proposed living wage Ordinance. Collectively, these workers earn \$62,400 annually in wages and benefits. Complying with the Ordinance would raise this total to \$87,142, a difference of \$24,742. Factoring in the additional tax burden for the employer, the total cost of compliance would be \$26,457 per year.

Committee on the Shelterless (COTS) has three full-time employees that would be impacted by the proposed Ordinance. Collectively, these workers earn \$65,181 annually in wages and benefits. Complying with the Ordinance would raise this total to \$68,987, a difference of \$3,806. Factoring in the additional tax burden for the employer, the total cost of compliance would be \$4,098 per year.

The *Petaluma Visitors Bureau* has four part-time employees that would be impacted by the proposed living wage Ordinance. Collectively, these workers earn \$13,468 annually in wages and benefits. Complying with the Ordinance would raise this total to \$20,333, a difference of \$6,865. Factoring in the additional tax burden for the employer, the total cost of compliance would be \$7,387 per year.

⁸ The employer-paid payroll tax burden for these workers is estimated at 11.15%, based on federal tax levels.

⁹ Some employees currently receive more than the minimum leave detailed in the proposed Ordinance (i.e., 12 days per year), but still are below the living wage. For this analysis, they are assumed to retain their current leave rate.

According to other academic researchers who have studied the fiscal impacts of living wage legislation nonprofit organizations are typically able to “pass through” 100% of increased costs associated with living wage ordinances. In addition, Howard Greenwich’s analysis conducted for the City of Berkeley’s Department of Finance, this pass through occurs because non-profits tend to provide social services “based on a social mission rather than motivated by profit or else nonprofits would face competition from for-profit firms. Thus it is reasonable to assume that nonprofit organizations will have to pass on a high proportion of living wage costs than the for profit contractors, if the same level of service is to be maintained. Although nonprofits can increase efficiency with higher wages as any for-profit employer, there is not room to reduce a profit margin and less capacity to rely on other sources of funding.”¹⁰ The proposed ordinance includes a grace period for nonprofits, who would not be required to comply with the ordinance until three years after approval by the City Council. Thus, the annual pass-through of \$57,316 for these four non profits would occur three years after the ordinance is approved and would require increased funding from private and/or public sources.

4.3 City Contracts

In the 2003/2004 fiscal year, the City let contracts of over \$10,000 to 91 for-profit organizations. Of these contracts, 70 are for professional services, 13 for construction services and 8 are Petaluma Community Development Commission (PCDC) contractors. One professional service contractor, MVP Transportation, is impacted by the proposed Ordinance.

MVP Transportation provides the bus drivers for the City of Petaluma. Fifteen of their full-time drivers receive earnings below the living wage and all of them work 100% time on the City contract. Collectively, these workers earn \$307,786 annually in wages and benefits. Complying with the Ordinance would raise this total to \$446,772, a difference of \$138,986. Factoring in the additional tax burden for the employer, the total cost of compliance would be \$150,112 per year.

For-profit organizations typically pass through significantly less cost than nonprofits. Studies assessing the impacts of living wage ordinances on city contractors suggest that for-profit firms experience cost savings due to reduced turnover and absenteeism, decreased supervisory costs, and increased worker effort and training. Fairris et al surveyed 475 firms in Los Angeles which employ 10,000 workers who received pay and benefit increases due to the adoption of a Living Wage Ordinance by the City of Los Angeles in 1997. He found that “turnover at living wage firms average[s] 32 percent, compared to 49 percent at comparable non-living wage firms.”¹¹ UC researchers investigating the impact of the Living Wage Ordinance passed in 2001 that covers 10,000 workers at the San Francisco International Airport, found there was a 37 percent decrease

¹⁰ Greenwich, Howard (1999) *City of Berkeley Living Wage Analysis*, City of Berkeley Department of Finance. Other valuable research on the topic includes Reich, Hall, and Jacobs (2003) *Living wages and Economic Performance: The San Francisco Airport Model*. Institute for Labor and Employment (IIR) <http://iir.berkeley.edu/livingwage/> UC Berkeley; Reich, Hall, and Hsu (1999) and David Fairris et al (2005) *Examining the Evidence: The Impact of the Los Angeles Living Wage Ordinance on Workers and Businesses* at www.iir.ucla.edu/research/research/html.

¹¹ Fairris et al (2005) see footnote 10 for full citation.

in turnover rates for firms covered by the ordinance, compared to those which were not.¹² This reduction in turnover and increase in productivity partially offsets the increase in compensation due to a living wage ordinance, although it is difficult to ascertain the exact benefit. Recent studies suggest that for large firms cost absorption for increased pay and benefits could be more than 50%, and for small firms about 30%, meaning a 50% or 70% pass-through, respectively.¹³

For this study, we assume that MVP transportation passes through 70% of its increased compensation costs to the City (because this is a small firm), resulting in a total increase in City costs of \$105,078.

4.4 City Leaseholders/Franchises

Currently four organizations hold a lease/franchise agreement with the City of Petaluma: ComCast Cable TV, Sonoma County Waste Management, Empire Waste Management and Rooster Run Golf Course. None of those responding to the survey are impacted by the proposed Ordinance because all employees currently earn above the living wage. Rooster Run Golf Course did not respond to the survey or telephone calls and therefore is not included in this estimate.

4.5 City Financial Aid Recipients

There are currently no financial aid recipients receiving grants or loans greater than \$100,000 from the City. Therefore, there is no impact in this area of the proposed Ordinance. However, as redevelopment opportunities are realized within the City of Petaluma, there may be grants that exceed the minimum qualification for inclusion in the proposed Ordinance. This could result in an area of significant impact in the future and could have a positive impact on low wage workers employed by firms receiving economic development assistance from the City. The most comprehensive research about the impact of living wage ordinances on business subsidy programs suggests that living wage laws do not restrict the ability of a municipality to attract employers.¹⁴ A precedent for this type of requirement for recipients of financial assistance was established in 2000 when the City Council mandated that in return for \$2.75million in redevelopment agency funding, the developers of the Petaluma Sheraton agreed to pay their employees a living wage of \$10/hr. with benefits and \$11/hr. without. The developers also agreed to remain neutral if the employees choose to organize a union.¹⁵

4.6 Aggregate Impacts of the proposed Living Wage Ordinance

Using the information presented in Part 4 (above), we are able to estimate the aggregate impacts of the proposed Living Wage Ordinance. This is shown in Table 2.

¹² Reich et al (2003) see footnote 10 for full citation.

¹³ Elmore, Andrew (2003) *Living Wages Laws: Smarter Economic Development, Lower Than Expected Costs*. Brennan Center for Justice. http://www.brennancenter.org/programs/living_wage/elmorereport.html
For an updated discussion see Jeff Thompson and Jeff Chapman (2006), *The Economic Impacts of Local Living Wage*, Economic Policy Institute, <http://www.epi.org/content.cfm/bp170>.

¹⁴ Andrew Elmore (2003) see footnote 13 for full citation.

¹⁵ Eileen Morris "City Gives Final OK to Loan for Sheraton Hotel" Petaluma Argus Courier, Wednesday, December 13, 2000.

Table 2: Aggregate Impacts of the Proposed City of Petaluma Living Wage

| City Activity | Benefiting workers | Average wage and health benefit increase per worker per year | Potential cost to employers per year (includes employer-paid taxes) ¹⁶ | Portion of this cost likely borne by the City |
|-------------------------------|--------------------|--|---|---|
| City employees | 12 | \$977 | \$13,035 | \$13,035 |
| City grantees (non-profits) | 21 | \$2,510 | \$57,316 | \$57,316 |
| City contracts (for profits) | 15 | \$9,266 | \$150,112 | \$105,078 |
| City leaseholders | 0 | Not applicable | Not applicable | None |
| City financial aid recipients | 0 | Not applicable | Not applicable | None |
| Total | 48 | \$4,238 | \$220,463 | \$175,429 ¹⁷ |

To provide more context to these figures, Table 3 examines the cost per resident and the percent change in the City budget associated with the proposed Living Wage Ordinance.

| Petaluma residents (2004) ¹⁸ | Cost per resident | Petaluma budget (FY 2005-6) ¹⁹ | Percent of budget |
|---|-------------------|---|-------------------|
| 56,100 | \$3.13 | \$168,442,000.00 | 0.1% |

Note that the following additional considerations apply to these estimates:

- (1) We have assumed that the administrative (monitoring and enforcement) costs of the Ordinance to the City, and of compliance with responsible bidder requirements by City Contractors, are negligible.²⁰ The City will incur some one-time costs to draft appropriate language for requests for bids and contracts, and to establish appropriate procedures, as well as the ongoing costs of implementing the complaints procedure. However, given the scale of the City's contracting, these costs should be relatively small, and arguably should be regarded as part of the normal costs of exercising appropriate regulatory oversight in any contracting-out activity. Note also that the Ordinance is designed so that the main burden of monitoring and enforcement falls on workers and members of the community.
- (2) The Living Wage Ordinance will be phased in over a period of years as existing contracts are renegotiated. For covered non-profit organizations, the Ordinance would not take effect until 2009. Hence some of the costs and benefits of the Ordinance will not accrue immediately.

¹⁶ The 11.15% employer paid taxes is only calculated on wages, not health benefits.

¹⁷ Reynolds and Vortkamp (2000) and Brenner and Luce (2006) see footnote 3 for full citation.

¹⁸ http://www.sonoma-county.org/edb/pdf/2004/2004_sonoma_profile.pdf

¹⁹ <http://cityofpetaluma.net/adminsrv/pdf/budget-summaries/budget-summaries.pdf>

²⁰ Elmore, Andrew (2003) and Thompson and Chapman (2006) see footnote 13 for full citation.

- (3) We have not included estimates of the costs and benefits of extending Living Wage coverage to employees of potential future recipients of City leases, concessions, franchises, or financial aid. This is because future developments are uncertain and such analysis could easily prove inaccurate.
- (4) As discussed in Section 4.3, we assumed a 70% pass-through of costs by for-profit organizations. City cost increases may be substantially less, as shown in Elmore's study and the most recent study by Thompson and Chapman (2006)²¹. Therefore, our overall analysis represents the high-end of potential costs to the City.
- (5) We have not analyzed the potential impact for the Living Wage Ordinance to result in higher wages for those not directly covered, which is known as the "spillover effect". This is because there is no requirement that employers increase wages for other employees, and thus no definitive cost to the City or other employers.²² The small number of workers affected by the ordinance reduce the likelihood of spillover effects.

5. Conclusions

Based on the aforementioned analysis, the proposed Living Wage Ordinance will have a substantial impact on a small number of workers. The costs of the Ordinance will largely be borne by the City, but the impact is minimal: about 0.1% of the overall budget.

Additionally, recent research shows that Living Wage ordinances have improved economic development in the affected communities and have cost much less to implement than most analysts initially expected. In fact, a survey of cities and counties with recently passed Living Wage ordinances found that contract costs of the overall local budget increased by less than 0.1% in the years after the law was adopted.

²¹ Elmore, Andrew (2003) and Thompson and Chapman (2006) see footnote 13 for full citation.

²² Empirical studies of minimum wage increases indicate that spillover effects attenuate rapidly; in other words, an increase in the wage floor does raise the wages of those just above the new wage floor, but does not shift the entire wage structure upwards. Hence such wage policies result in wage compression (for a review and application to California see Reich and Hall (2001). "A Small Raise For The Bottom". In: Lincoln, J and P Ong., (eds), *The State of California Labor*. Institute of Industrial Relations: Berkeley). Current research indicates the spillover effects of living wage ordinances are more limited than those associated with minimum wages because they typically do not affect all the workers in a given labor market, but that they are similarly attenuated and so do contribute (modestly) to overall wage compression Pollin, Robert. (2003). "Evaluating Living Wage Laws: Good Intentions and Economic Reality in Conflict?" *Economic Development Quarterly* at: <http://www.umass.edu/peri/pdfs/WP61.pdf>.