

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

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1. Introduction and Summary

The purpose of the proposed Living Wage Ordinance for the City of Sonoma (including the City's Community Development Agency)

is to ensure that employees of the City, those working on contracts with the City, and those working for firms and non-profits receiving substantial grants, loans, financial assistance, leases, concessions, franchises and other forms of support from the City, earn a 'living wage' with benefits. The purpose of this report is to present estimates of the likely impact of the proposed Living Wage Ordinance for the City of Sonoma as applied to city employees, service contractors, lessees, franchisees, and recipients of financial assistance.

This report updates the estimates contained in our February 2004 report. It is based on further discussion and information about the impact of the proposed ordinance. The key revisions are as follows:

The impact on direct city employees as estimated by city staff is accepted. Seven employees will receive additional pay, leave and health benefits costing \$12,300 per year.

The employment status of Sonoma Valley Visitors Bureau employees has been confirmed. Ten employees will receive additional pay, leave and health benefits costing \$24,500 per year.

The Proposed Ordinance has been revised to exempt volunteers, including part-time firefighters and firefighters with EMT certification. It is estimated that approximately 40 Emergency Medical Technicians and Paramedics will receive additional pay, leave and health benefits costing up to \$104,700 per year.

The estimates indicate that 57 low-wage workers will receive wage, leave and/or health benefit increases worth an average of up to \$2,270 per worker per year under the proposed policy. This will cost employers a total of up to \$141,400 per year. It is likely that most of this cost will be borne by the City. This represents up to 0.9% of the 2002/3 City Budget, or up to \$15.49 per resident per year.

A significant proportion of the estimated benefits and costs accrue because part-time EMTs and Paramedics working for the City are covered by the proposed policy. If these groups were not covered under the policy, the cost to employers would be reduced to \$36,800 per year, and only 17 workers would benefit.

In summary, t

he proposed Living Wage Ordinance will generate modest but very tangible direct benefits for low-wage workers, while the indirect effect of the proposed policy is that it enhances the position of the City of Sonoma as an economic actor committed to the protection of the livelihoods of workers.

The estimates contained in this report were generated using actual employment, wage and health coverage data for the employees of the City Departments, Service Contractors and Non-Profit Organizations likely to be covered by the ordinance. They are based on assumptions about the likely exemptions and waivers to be granted should the proposed policy be implemented.

The following section discusses the assumptions, data and methodology used to compile this report.

Section 3 examines the impacts on each category of employer covered by the proposed Living Wage ordinance. Section 4 presents the aggregate impacts of the proposed Living Wage ordinance and Section 5 provides a conclusion.

2. Assumptions, Data and Methodology

A Living Wage Ordinance for the City of Sonoma was introduced in March 2003 (see www.livingwagesonoma.org)

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Note that we have assumed that the Ordinance will establish \$13.20 per hour as the minimum value of wages and health benefits, and that the 12-day paid leave benefit is pro-rated for part-time employees.

The following information was requested from the City of Sonoma, and was provided by Carol Giovanatto, Assistant City Manager and Mike Fuson, City Manager:

City job classifications, with information on wages, benefit coverage and work hours.

Names, contact information and contract details regarding:

○

Non-profit organizations receiving grants / contracts.

○

For-profit service contract-holders.

○

City franchise-, concession- and lease-holders.

○

Recipients of financial aid, grants, fee waivers and other forms of assistance.

○

Contracts, joint ventures, partnerships and other arrangements that the City entered in order to purchase or provide services with other Cities and/or public agencies.

The methodology followed in preparing this report has been successfully developed in previous prospective studies of Living Wage Ordinances.

[\[4\]](#)

Using the contact information provided by the City of Sonoma, we interviewed thirty representatives of firms, non-profit organizations and agencies to obtain specific information on the size and nature of the contractual arrangement, employment levels, hours worked, wages and benefit coverage. The report estimates wage and benefit improvements for directly covered workers and those that may experience a spillover effect

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, as well as costs to employers.

3. Identification of covered workers

In order to estimate the impact of the proposed Living Wage ordinance we examine six categories of employment arising from City activities separately (see Table 1). These categories include city employees, public agency employees, non-profit employees, service contractors, leaseholders and franchisees. The remainder of this section outlines the number of employees that will be covered by the proposed Living Wage ordinance.

Table 1: Employment resulting from City of Sonoma activities

Category	All Grants / Contracts / Agreements	Affected Grants / Contracts / Agreements	Employees benefitting	Comments
City Departments	-	-	47	7 regular employees; 40 part-time EMTs and Paramedics
Public agencies	3	0	0	
Non-profit contracts / grants	1	1	10	Sonoma Valley Visitors Bureau
Service Contracts	16	0	0	12 Service Contracts

				2 Construction Contracts 2 Public Sector Contracts
Leaseholders	8	0	0	
Franchisees	3	0	0	

Note: Only includes grants to non-profits >\$75,000 and city contracts >\$10,000 per year.

3.1

City Employees

According to information provided by City staff, there are no full-time positions that pay below the living wage. Two part-time positions are without benefits and/or pay below the living wage level. City staff indicated that an additional 5 employees will receive leave benefits. Assuming that all currently unfilled positions are filled, the estimated cost of these pay, leave and health benefits to the City is \$12,300.

The City of Sonoma also employs 19 Paramedics and 21 EMTs who work on a part-time basis.

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This is in addition to 18 volunteer firefighters and firefighters with EMT certification who, by custom and tradition, are paid the minimum wage (firefighters without EMT certification are paid \$6.75 per hour without health and leave benefits; firefighters with EMT certification are paid \$8.49 per hour). While the volunteers will be exempt from Living Wage coverage, EMTs and Paramedics are more likely to regard their positions as the first step in their careers. Current entry wages are \$11 per hour for paramedics and \$9 per hour for EMTs, without health or leave benefits.

The existing wage differential reflects the higher skill level required of paramedics, and it is likely that some wage differential will be maintained when the Living Wage Ordinance is implemented. The size of the new wage differential depends on bargaining and market forces, and need not necessarily be the same absolute size as the previous differential. Evidence from research on minimum wage increases in the 1990s indicates that there is both a ripple effect and an absolute wage compression when such policies are implemented. This means that some workers earning close to the new minimum wage level actually receive wage increases above the new minimum wage level, but these increases are not as large as those received at the old minimum wage level. In other words, the wage differential is maintained but it is absolutely smaller than before (see footnote 5 above).

We have therefore estimated the costs of the ordinance with EMTs paid \$13.20 per hour, and paramedics paid \$14.20 (a \$1 differential) and \$15.20 (the current \$2 differential) per hour. The cost of the city of these wage, benefit and leave increases will be between \$93,300 and \$104,700 per year.

Although we have not attempted to estimate the turnover, retention, absenteeism and other improved

performance benefits of the proposed Living Wage Ordinance we note that these may be significant in the case of EMTs and Paramedics.

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Furthermore, City staff indicated that cost savings could be achieved if higher wages for part-time paramedics reduced the need to assign tasks to firefighter/paramedics working overtime. This will have the effect of off-setting a portion of the estimated cost increase to the City.

3.2

Relationships with Public Agencies

The City of Sonoma is involved in various contractual relationships with public agencies for protective services; at the time of writing we are aware of three. The first is a contract for police dispatch services with the Sonoma County Sheriff's Department which has been in effect for about nine years, the second is a pending contract for law enforcement services with the Sonoma County Sheriff's Department, and the third is for fire and emergency medical dispatch services with the REDCOM Joint Powers Authority. It was ascertained during the impact study for the Sebastopol Living Wage that employees working in these agencies are directly employed by the County of Sonoma, and that they received wages and benefits above the proposed living wage level. The proposed exemption of part-time firefighters implies that the Valley of the Moon Fire Protection District will not be affected by the Living Wage Ordinance.

3.3

Grants / contracts with non-profit organizations

In the 2002/3 fiscal year one grant /contract exceeding \$75,000 was awarded. The *Sonoma Valley Visitor's Bureau*

is a membership organization made up of more than 300 different businesses that serve visitors to Sonoma Valley. The Bureau operates two visitor centers. They received \$192,000 from the City for visitors' services and economic development activities. Due to the nature of the grant, these employees of the Visitor's Center may effectively be regarded as contracted-out city employees. The Visitor's Center has 10 "Visitor Services Representative" positions that pay under the proposed living wage thresholds. These positions are all filled by part time employees. Using payroll information from the calendar year 2003, we conclude that the Visitor's Center would have to raise their payroll expenses by approximately \$24,500.

3.4

City Contracts

City Contracts: In the 2002/3 financial year, the City let contracts of \$10,000 or more to at least sixteen organizations. Of these, two were for construction, two for protective services, and twelve for professional services. None of the contracts for services will result in wage and fiscal impacts.

A. Services: In the 2002/3 Fiscal year the City let twelve service contracts in excess of \$10,000 for a combined total of at least \$608,000 (some contracts specify a minimum annual payment). The contracts

included professional services such as auditing, engineering and planning services, as well as landscaping and janitorial services.

All of these contracts are exempt from, or unaffected by, the proposed ordinance. The reasons why these contractors are not affected are as follows:

○

Four contractors already pay their employees more than the proposed living wage level.

○

In three cases, all employees of the contractor devote less than 20% of their working time to the City Contract.

○

Two contractors employ fewer than 6 people.

[\[8\]](#)

○

Three contractors did not provide information, but based on contractual information, we estimate that they would be exempt based on the 20% rule.

B. Construction: In the 2002/3 financial year, two construction contracts for an amount greater than \$10,000 were let. The City of Sonoma conducts most minor maintenance and repair work in-house, and hence only relatively large construction projects are bid out to contractors. It is assumed that in future all of these contracts will be sufficiently large so as to qualify for Prevailing Wage coverage under the relevant state and/or federal regulations (the California State Labor Code and/or federal Davis-Bacon Act). Hence the proposed living wage ordinance is assumed to have no impact on construction contracts.

3.5

City Leaseholders

Currently eight organizations hold leases with the City of Sonoma. Leaseholders will only be covered by the proposed Living Wage Ordinance if they have 25 employees or more, and revenue of \$350,000 or more per year. Other exemption conditions also apply. The current leaseholders are all exempt from the ordinance due to number of employees and the size of their gross annual receipts. One leaseholder, the Sonoma Valley Visitors Bureau is subject to the living wage coverage by reason of its service contract agreement.

3.6

City Franchisees

Currently three organizations hold franchises with the City of Sonoma.

Franchisees will only be covered by the proposed Living Wage Ordinance if they have 25 employees or

more, and revenue of \$350,000 or more per year. Other exemption conditions also apply. The result is that no franchisees are likely to be affected by the proposed Living Wage Ordinance, for the following reasons:

○

One franchisee already pays their employees more than the proposed living wage level.

○

In two cases, all employees of the franchisee devote less than 20% of their working time to the city franchise.

3.7

Miscellaneous

The *Burbank Housing Development Corporation* proposes combining various funding sources in order to develop affordable housing units in the City of Sonoma. The City Community Development Agency is expected contribute more than \$100,000 to this development and hence this employer will be covered by the proposed Living Wage Ordinance. In an interview conducted during the preparation of the impact study for the Sebastopol Living Wage, the Executive Director of *Burbank Housing* reported that most of their employees already earn more than the proposed living wage level. The Director further indicated that *Burbank Housing* seeks to be an employer that pays living wages, and it is assumed that this city financial assistant recipient will not change their development plans if the Ordinance is implemented, nor will they pass the additional costs on to the City.

4. Aggregate Impacts of the proposed Living Wage ordinance

Using the information presented in Section 3 (above), we are able to estimate the aggregate impacts of the proposed Living Wage ordinance. We provide several scenarios based on the assumptions discussed above. This is shown in Table 2.

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

Coverage - as in proposed ordinance with:	Benefiting workers	Average wage and health benefit increase per worker per year	Cost to employers per year (includes employer-paid taxes)	Increase as % of Budget	Cost per resident per year
			\$		
City, SVVB	17	\$1,920	36,800.00	0.23%	\$4.03
City, SVVB, EMT / Paramedic (\$14.20)	57	\$2,090	\$130,100.00	0.82%	\$14.25
City, SVVB, EMT / Paramedic (\$15.20)	57	\$2,270	\$141,400.00	0.90%	\$15.49

The estimates indicate that 57 low-wage workers will receive wage, leave and/or health benefit increases worth an average of up to \$2,270 per worker per year under the proposed policy. This will cost employers a total of up to \$141,400 per year. These impacts will be felt exclusively by the City and one non-profit

agency. It is expected that most of the additional costs will be transferred to the City, given the close nature of the relationship between the City and the affected non-profit, and its relatively inflexible staffing requirements.

This represents up to 0.9% of the 2002/3 City Operating Budget of over \$15 million, or up to \$15.49 per resident per year.

If the proposed ordinance is not applied to EMTs and Paramedics, then it is estimated 17 low-wage workers will receive wage, leave and/or health benefit increases worth an average of approximately \$1,920 per worker per year under the proposed policy. The total cost to employers, which includes employer-paid taxes, will be approximately \$36,800 per year. This represents 0.23% of the total 2002/3 Operating Budget of the City and approximately \$4.03 per year for each of the 9,128 residents of the City.

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.

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The City will incur some one-off 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 provides for a phase-in over a period of up to three years as existing contracts are renegotiated, and covered 501(c)(3) nonprofits are not required to comply until 2007.

According to City staff, this provision does not affect the non-governmental employer that is immediately affected by the ordinance – the Sonoma Valley Visitors Bureau.

(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. It should be noted that recent research suggests that extending living wage coverage to firms receiving business assistance may result in widespread wage increases for low-wage workers.

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It is however unlikely that any Sonoma low-wage workers will be affected by this mechanism, given the thresholds for coverage contained in the draft Ordinance (e.g. only City Financial Aid Recipients receiving more than \$100,000 in any twelve-month period would be covered). Two employers received grants in excess of \$100,000 from the City in fiscal year 2004 – the Sonoma Community Center received \$250,000 in

assistance and Sonoma Valley Hospital received \$110,000.

Since both actions will have taken place prior to the effective date of the living wage ordinance, neither employer is impacted by its provisions.

5. Conclusion

From the analysis above, it is clear that the proposed Living Wage Ordinance will have a modest but tangible impact on the workers, firms and City of Sonoma. The relatively modest costs and benefits of the proposed Living Wage Ordinance are a consequence of the fact that Sonoma is a small city with a small budget; therefore the ordinance will have little economic impact. However, some of the services that the City purchases, and that it provides through the Visitor's Center, do employ people at a low wage who will benefit from the ordinance.

A significant proportion of the estimated benefits and costs accrue because part-time EMTs and Paramedics working for the City are covered by the proposed policy. If these groups were not covered under the policy, the cost and benefits of the policy would be significantly reduced.

Notwithstanding this qualification, 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.

[\[11\]](#)

For a relatively small price, the ordinance will bring an increase in the welfare of a small number of workers, and a commensurate improvement in the quality of city services.

[\[12\]](#)

Most importantly, in adopting the proposed Living Wage ordinance, the residents of the City of Sonoma through their elected representatives, would be enhancing the position of the City as an economic actor committed to the protection of the livelihoods of workers.

[\[1\]](#)

Research Associate of the Institute for Labor and Employment, University of California at Berkeley.

[\[2\]](#)

In this report the term 'city' means the City of Sonoma and all City agencies.

[\[3\]](#)

Our first draft report (February 2004) was completed prior to the introduction of an ordinance in the City of Sonoma, and hence the report assumed to follow the Sebastopol Living Wage Ordinance passed in December 2003.

[4]

See Hall (2003) *Impacts of the proposed Living Wage Ordinance for the City of Sebastopol*. Report of the Institute for Labor and Employment, UC Berkeley [Available at www.sonomalivingwage.org]. Also see Zabin, Reich and Hall (1999). *Living Wages at the Port of Oakland*. Report of the CLRE (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 available at <http://iir.berkeley.edu/livingwage/>].

[5]

Living Wage Ordinances may result in higher wages for workers not directly covered by the ordinance because of what are known as spillover effects. Economists typically distinguish between (1) vertical spillovers, raises within the firm that are designed to maintain the wage hierarchy, and (2) horizontal spillovers, raises within the firm to maintain wage parity between covered and uncovered workers or raises in other firms that are competing in the same labor market as the covered firm. 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.

[6]

Note that the number of part-time paramedics, EMTs and firefighters indicated here is the number that appeared on the City's payroll report, and that they were not all employed at the same time. Hence, the total numbers reported here exceed the number of active employees at any given point in time.

[7]

For recent research on the service benefits of the Living Wage, see Reich, Hall and Jacobs (2003). *Living Wages and Economic Performance: The San Francisco Airport Model*. ILE (IIR), UC Berkeley. [Available on-line at <http://iir.berkeley.edu/livingwage/>]. See also Howard Greenwich (1999) *City of Berkeley Living Wage Analysis* prepared by Howard Greenwich under contract for the City of Berkeley Department of Finance, November 1999.

[8]

In the previous version of this report we estimated the impact of Living Wage coverage on Guerrero Janitorial. We have since learned that this firm employs fewer than 6 people.

[9]

See Elmore, Andrew

"Living Wages Laws: Smarter Economic Development, Lower Than Expected Costs". Brennan Center for Justice

http://www.brennancenter.org/programs/living_wage/elmorereport.html

[10]

See Neumark (2002). *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families*. Public Policy Institute of California.

[Available on-line at www.pplic.org]. This research has been the subject of considerable criticism for overstating the effects of the Living Wage: see Brenner, Wicks-Lim, and Pollin (2002). *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. PERI, University of Massachusetts at Amherst (Working Paper Number 43). [Available on-line at <http://www.umass.edu/peri/research.html#lw>]

[11]

Elmore, Andrew

“Living Wages Laws: Smarter Economic Development, Lower Than Expected Costs”. Brennan Center for Justice

http://www.brennancenter.org/programs/living_wage/elmorereport.html

[12]

For recent research on the service benefits of the Living Wage, see Reich, Hall and Jacobs (2003). *Living Wages and Economic Performance: The San Francisco Airport Model*. ILE (IIR), UC Berkeley. [Available on-line at <http://iir.berkeley.edu/livingwage/>]