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Dear Sonoma County Board of Supervisors,

I am a research professor of economics at the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst. For over ten years, I have analyzed the economic impact of living wage and minimum wage proposals in states and municipalities across the country. My colleagues at PERI and I brought together much of this work in our 2008 book, *A Measure of Fairness: The Economics of Living Wages and Minimum Wages in the United States,* published by Cornell University Press.

Recently, I wrote a fiscal impact analysis of a living wage proposal put forth by a coalition of Sonoma County community, faith, and labor organizations titled, "An Assessment of the Fiscal Impact of the Proposed Sonoma County Living Wage Ordinance."[1] The consultants at Blue Sky Consulting Group (BSCG) reviewed the findings of my study in their report, "Strategies to Reduce Poverty in Sonoma County: An Analysis of the Impact of a Living Wage and Other Poverty Reduction Strategies on Sonoma County." In large part, the fiscal impact estimates by BSCG of the Coalition's living wage proposal are consistent with the estimates that I published in my PERI research report. My comments below will focus on assessing the living wage policy proposed by BSCG more broadly, rather than review the fiscal cost estimates figures.[2]

In this letter, I will first provide some figures on the problem of low-wage jobs and the working poor in Sonoma County to fill, in part, what is missing from the BSCG report. My goal is to provide you with more complete information for assessing the need

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[1] See: http://www.peri.umass.edu/236/hash/9e130421fc4c56d5c2159fdab57cdf84/publication/625/

[2] The BSCG released a preliminary version of its report to the public on 11/21/2014, only a few days prior to the County Supervisors Special Board Meeting on 11/24/2014 at which the report would be discussed. At the request of North Bay Jobs with Justice (NBJWJ), I originally wrote a letter reviewing some aspects of the BSCG's report on 11/24/2014 in order to provide some feedback in time for the County Supervisors Special Board Meeting that day. This is a revised and expanded version of that letter. At no point during this process did anyone affiliated with NBJWJ exercise any authority over the final contents of this letter.

for a meaningful living wage policy. Unfortunately, the BSCG report primarily discusses—and, as I will argue below, overstates--the living wage policy's potential trade offs of negative employment effects and fiscal costs. At the same time, they omit any discussion of the scope of the problem that a living wage policy aims to address. Such a discussion would have provided you with important information for weighing the need for this specific type of policy intervention against the policy's potential trade-offs.

The moral principle that animates living wage campaigns across the country is that anyone working full-time should not live in poverty. Living wage ordinances allow municipal governments to advance this goal by requiring employers that do business with local public agencies pay, at minimum, a living wage. The need for a living wage ordinance in Sonoma County is clear. Based on Labor Department data, I estimate that one out of four poor adults in the Sonoma County works full-time year-round but still does not have enough income to meet their basic needs. These working-poor adults suffer from low-wages, not inadequate employment. Moreover, the California Employment Development Department (EDD) projects that the types of jobs that these workers currently hold—such as in retail, accommodations and food services, health care/social assistance—will add the largest numbers of jobs to Sonoma County's economy by 2020. A living wage policy directly targets the problem of low-wage employment that generates a significant number of working poor in Sonoma County.

I will also argue below that the BSCG report overstates the potential negative employment effect of the $15.00 living wage proposal. The limited research that exists on the employment effects of living wage ordinances to date suggests little to no negative impact on employment. Finally, both the BSCG's report and my own report confirm that the Coalition's proposed living wage would have a modest fiscal impact on the County.

The BSCG report proceeds to recommend a living wage policy that includes a $13.00 wage standard that, as I argue below, does not serve as a meaningful living wage for the average Sonoma County household. Based on the demographics of workers in Sonoma County, a more appropriate living wage rate would be in the range of $19.00 ($15.00 to $16.00, assuming employer-provided health benefits, or up to $22.10, assuming no employer-provided health benefits). Based on the demographics of workers in Sonoma County, a more appropriate living wage rate would be in the range of $19.00: $15.00 to $16.00 if employers provide health benefits and $22.00 assuming no employer-provided health benefits. The coalition of labor, faith, environmental and community organizations that unveiled a proposed living wage law for the County last September recommends a living wage rate of $15.00 (without health benefits).

Moreover, BSCG recommends a living wage policy that excludes from coverage, in particular, In-Home Supportive Service (IHSS) workers and non-profits. By limiting its coverage, the BSCG effectively recommends a living wage policy that suffers from what it itself views as, "the most compelling criticism of living wage policies…their limited reach as a poverty reduction strategy. Because these policies primarily affect workers at firms contracting with the local government…" (p.13). BSCG estimates that these exemptions, combined with its recommended lower $13.00 living wage rate, would reduce the number of covered workers from approximately 7,000 workers (under the Coalition's proposal) to only 147 workers—equal to less than one-tenth of one percent of the County's workforce.

Instead of a meaningful living wage policy, the BSCG report recommends a set of income support, job training, and education-related programs. Relying only on income support programs or programs to promote greater skills among workers, however, fails to address a central policy challenge facing Sonoma County and the U.S. economy more broadly: the problem of generating decent-paying jobs that provide households entry into middle-class status.

Finally, I will argue that living wage and minimum wage policies, income supports, and job training programs should be viewed as operating more effectively together, in a complementary way. My own research with my PERI colleague Dr. Robert Pollin, for example, found that robust wage floors combined with income supports such as the Earned Income Tax credit (EITC) result in greater improvements in the living standards of low-income households compared to when each policy operates alone.[3]

For these reasons, I urge the Sonoma County Board of Supervisors to consider applying practical economic guidelines for implementing a meaningful living wage policy rather than following the recommendations of the BSCG report.

Low-Wage Work: A Significant Driver of Poverty in Sonoma County

The guiding principle of a living wage is that anyone working full-time should not have to live in poverty; people should at minimum be paid a living wage. This moral case for a living wage is, for most, self-evident.

The failure of our national labor standards to make meaningful progress towards this goal generated a wave of living wage campaigns during the mid-1990s when the federal minimum wage had fallen to 60 percent of its 1968 peak (in inflation-adjusted terms). Today, more than 120 municipalities operate with their own living wage ordinances.

A resurgence of living wage campaigns has emerged in recent years. Wage stagnation has not only characterized the nation's slow recovery from the Great Recession of 2008-09, it has also cumulatively frustrated American households over roughly the last three decades. The average wage of workers today is basically no higher than where it was in 1979. At the same time, workers are now nearly twice as productive as their 1979 counterparts, and the country is nearly twice as rich per capita than in 1979.

Both the Coalition and the authors of the BSCG report include a living wage as part of their poverty reduction strategies. However, in place of the robust $15.00 living wage ordinance proposed by the Coalition with broad coverage, the BSCG's living wage

[3] See: http://www.peri.umass.edu/fileadmin/pdf/published_study/PERI_WorkPay.pdf .

proposal would cover a negligible share of the Sonoma County workers (0.06 percent) and would have a lower $13.00 living wage. The BSCG report instead outlines an anti-poverty program that focuses almost entirely on a range of income support policies and programs that promote greater educational attainment or skill development among workers.

In making its recommendations, the BSCG's report does not provide you with any way to assess the extent to which poverty derives from inadequate employment, inadequate skills, inadequate wages, or inadequate support for those who are not in the labor force. This again is critical information for you to determine how to prioritize the various anti-poverty tools available. In what follows, I document how low-wage work significantly contributes to poverty in Sonoma County.

A comprehensive profile of the poor in the area is beyond the scope of this letter. However, in order to have a meaningful discussion of an anti-poverty policy agenda I provide here a summary profile of the poor in the area based on my analysis of Labor Department data from 2012-2014.[4] According to this data, more than one in four (27 percent) Sonoma County adults and their families have income levels insufficient to meet their basic needs.[5] Crucial for any effort to reduce poverty is identifying what obstacles prevent these adults and their families from meeting their basic needs.

Most of these 98,000 poor adults—66 percent, or about 65,000—participate in the workforce by either working or looking for work. I refer to these adults as the working poor. In other words, for about two-thirds of poor adults inadequate employment, inadequate wages, or both, prevent them from escaping poverty. Most of the other one-third of adults who cannot cover their basic living expenses requires income supports unrelated to employment. These adults are nearly all retired, disabled, homemakers, or students.

A closer look at the employment status of these 65,000 working poor adults reveals that nearly 40 percent work full-time year-round (i.e., at least 35 hours per week and 50 weeks per year). For these workers, inadequate employment is not the primary problem, inadequate wages are. These full-time workers typically earned $26,000 annually, or about $13.50 per hour. This means that among all 98,000 adults in Sonoma County whose household incomes cannot cover their households' basic needs, one in four

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[4] Specifically, I analyzed the Annual Social and Economic data files of the Current Population Survey from 2012 to 2014. My sample includes only Sonoma County residents except in the case of identifying occupations of the working poor and the specific composition of working poor households. For those figures, I looked at households from the consolidated statistical area (CSA), the San Jose-San Francisco-Oakland CSA to increase my sample size.

[5] I identify adults as poor if they live in households with incomes at or less than 250 percent of the official poverty line. This income-to-poverty line ratio is roughly equal to the lowest family budget (M.I.T) among those listed in Table 1 below compared to the U.S. Census Bureau's poverty income threshold for a family of four (with two children).

are in this position because they do not earn a high enough hourly rate at their full-time job.[6] Note that the typical worker in these circumstances earns a wage rate that exceeds the $13.00 living wage rate that the BSCG's report recommends. This observation underscores the inadequacy of the BSCG's living wage proposal.

These workers typically earn these low wages in occupations like personal care workers (the occupational category that includes IHSS workers), janitors, and desk clerks in industries such as retail, health care/social assistance, accommodations and food services. These are the same types of jobs that the California EDD projects will add the most jobs in Sonoma County over the next ten years. According to its 2010-2020 projections, the top three occupations with the most job openings are cashiers, retail salespersons, and wait staff. In fact, over 2010-2020, the EDD projections indicate that by 2020, two out of five jobs will pay an average of less than $15.00.

Low-wage jobs therefore can be expected to take up a large share of the future job opportunities in the County. In order to both reduce poverty and prevent future poverty, improving the quality of available jobs needs the County's focused attention. A living wage policy is designed to directly address the problem of low quality jobs in Sonoma County.

To sum up, one out of four poor adults work full-time year-round but do not earn enough to meet the basic needs of their households. Moreover, these workers are typically employed in the occupations that the California EDD projects will add the most jobs to the Sonoma economy over the next ten years. As a result, working poor adults can continue to expect low-wage jobs to make up a significant share of their available employment opportunities in the County and operate as a major obstacle to moving out of poverty. In fact, by 2020, two out five jobs in Sonoma County will pay less than $15.00 per hour. To provide these households a way out of poverty and entry into middle-class status requires a sufficient supply of decent-paying jobs.

These labor market trends are not unique to Sonoma County. Nationally, the Labor Department consistently projects that many of the occupations that will add the greatest number of jobs to the U.S. economy over the next ten years will also pay low wages. These also include occupations such as retail salespersons, food preparation and serving workers, and personal care aides.

As noted above, effective programs that provide income supports as well as improve workers' skills certainly merit County investments. A meaningful, but smaller, share of Sonoma County's poor adults—about one in three—is not part of the labor force. For such residents, income supports unrelated to work are crucial. Improving workers' skills may also enable workers to achieve higher earnings in jobs that require them. At

[6] Among the 66 percent of poor adults in Sonoma County that participate in the workforce, 40 percent work full-time year-round. Therefore, 26 percent (66 percent x 40 percent = 26 percent) of poor adults cannot earn enough to meet their basic needs even while working full-time all year.

the same time, as I noted above, job growth in Sonoma County will be largest among low-paying jobs. Neither income supports nor job training can address the need for the County to promote decent-paying jobs.

Among U.S. workers more broadly, obtaining more skills has not guaranteed better pay. Over the past 30 years, U.S. workers have increasingly become more educated.[7] Between 1979 and 2011, the share of workers with some college experience increased from 41 to 64 percent, an increase of 23 percentage points. Nevertheless, over this same time period, the percent of workers earning the low-wage of $10 per hour or less remained at about one-quarter of the U.S. workforce. In other words, low-wage workers have become better educated while the share holding low-wage jobs has remained unchanged from 1979-2011. As a result, the percent of workers earning $10 per hour or less with some college education increased from 25 percent to 43 percent, an increase of 18 percentage points.

The income supports, job training and education programs recommended by the BSCG report do not address this fundamental problem of low-wage work facing Sonoma County, and the U.S. economy more broadly. As a result, I recommend that the anti-poverty programs that the BSCG report recommends be viewed as complementary to, not a substitute for, a robust living wage policy.

The BSCG-recommended anti-poverty programs, moreover, may operate more effectively if they are paired with a meaningful living wage policy, rather than without one. This is for the following reasons:

First, focusing narrowly on income subsidies in the absence of robust labor standards risks subsidizing low-wage employment. Income supports for workers effectively supplies low-wage employers with a larger pool of workers than would otherwise be the case. This potentially reduces the pressure such employers will feel to raise their wages, putting downward pressure on wages.

Second, in my research with my colleague Dr. Pollin, we found that the impact of the income supports provided by the EITC combined with a relatively high minimum wage had the largest positive impact on the living standards of single mothers with a high school degree or less. Our findings suggest that this is because a robust minimum wage combined with a relatively high EITC benefit draws more single mothers into the workforce into better paying jobs. By contrast, when an EITC program operates on its own, in the absence of a reasonable minimum wage standard, these women's increased employment fail to significantly raise their earnings.

Complementarities may also exist between minimum wage and living wage policies and the worker skill development programs recommended by the BSCG's report.

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[7] See: http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/magazine___journal_articles/Fall_2012_Wicks-Lim.PDF

By reducing economic insecurity and instability among low-wage workers, living wage and minimum wage policies can improve the ability of low-wage workers to seek out and participate in job-skill trainings, such as English language classes.[8] Such potential cross-pollination between the two policy efforts—improved job quality and increased job training for low-wage workers—again, underscores the need for serious consideration of a meaningful living wage policy.

A Note About Potential Negative Employment Effects

The BSCG report identifies negative employment effects as a potential trade-off of the proposed living wage ordinance. Their review of past research overstates the evidence of a trade-off between minimum wages and employment. Moreover, they do not make clear that the most systematic reviews of past studies have found that the empirical evidence shows no discernible employment effect from minimum wages.

In my view, the basic terms of this debate today remain as eminent Harvard economist Richard Freeman described two decades ago in 1995, "The 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," (p. 883, emphasis in original).[9]

Of course, any assessment of past research is subject to the reviewer's own bias. However, one of the most systematic and objective ways to summarize a body of research is to do so with the use of a statistical technique called meta-analysis. Meta-analysis is a kind of "study of studies" where researchers use the results across multiple studies to measure a statistical relationship. Fortunately, two studies of this kind have been done on the minimum wage-employment question.

The BSCG report already notes the meta-analysis by Belman and Wolfson (2014) in which they examined 439 estimates from 23 different studies mostly published since 2000.[10] Belman and Wolfson conclude that, "…if negative effects on employment are present, they are too small to be statistically detectable. Such effects would be too modest to have meaningful consequences in the dynamically changing labor markets of the United States." (p. 178). However, for unstated reasons, the BSCG report seems to discount the Belman/Wolfson findings by introducing the next study (by the Congressional Budget Office) in their discussion as: "Perhaps the most relevant analysis

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[8] This is one of the conclusions drawn in a 2014 report titled, "Economic Prosperity Strategy: Improving Economic Opportunity for the Bay Area's Low- and Moderate-Wage Workers," commissioned the Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG).
[9] Freeman, Richard. 1995. "What will a 10%...50%...100% Increase in the Minimum Wage Do?" *Industrial Labor and Relations Review* 48(4): 830-884.
[10] Wolfson, Paul J. and Dale Belman. 2014. *What Do Minimum Wages Do?* (Kalamazoo, MI: W.E. Upjohn Institute).

of how a proposed minimum wage increase might impact employment…" They provide no basis whatsoever for qualifying the CBO report as "the most relevant analysis."

A second meta-analysis, published in 2009 by economists Hristos Doucouliagos and T.D. Stanley, seems at least as relevant as the CBO report, if not more so. In this study, they examined over 1,000 estimates from 64 different minimum wage studies published from 1972 to 2007. They conclude that, "Two scenarios are consistent with this empirical research record. First, minimum wages may simply have no effect on employment…Second, minimum-wage effects might exist, but they may be too difficult to detect and/or are very small." (p. 423). [11]

In other words, these systematic reviews of past studies on minimum wage employment effects draw this same conclusion: past research on the minimum wage and employment indicates that, on average, the effect is either zero or near zero.

Why does the minimum wage appear to have no discernible impact on employment for low-wage workers? Economic theory, after all, predicts raising the price of anything, in this case low-wage workers, will reduce demand for that thing, all else equal. The fact is that when a minimum wage goes up, all else does not remain the same. Businesses have other ways to adjust to the minimum wage because they operating in a changing economy. And, based on my own research with my colleagues at PERI, the cost increases from minimum wages that businesses experience tend to require only small adjustments.[12]

What are the other ways businesses could adjust? First, the workers who get raises become more attached to their jobs, reducing worker turnover. This saves employers money by reducing their spending on recruiting, hiring, and training new workers. Second, if the economy is growing, as is typically the case and as it is now, then businesses' revenues tend to rise by virtue of operating in a healthy economy. This normal revenue growth can help to offset costs associated with a minimum wage hike just as it would with any other increase in the costs of doing business. Also, in the context of a healthy economy, businesses can raise their prices modestly and this can generate even greater revenue growth to cover any cost increases. In other words, businesses have available alternative adjustment channels to minimum wage increases so that they can raise the pay of their lowest-wage workers without cutting back on jobs. Finally, reducing one's workforce has its own costs: lower staffing can make it more difficult for firms to maintain their existing level of operations, and retain or expand their customer base. As a result, businesses turn to other ways, aside from reducing employment, to adjust to cost increases from minimum wages, especially when the cost increases are modest.

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[11] Doucouliagos, H. and Stanley, T. D. 2009. "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis*," British Journal of Industrial Relations*, 47: pp. 406–428.
[12] This research is compiled in our 2008 book noted above.

What about the case of living wage ordinances? Living wage laws tend to mandate higher wage floors than minimum wage laws. At some point, if the wage floor is set high enough, firms may well find the cost increases difficult to adjust to and turn to reducing their employment levels. At the same time, as BSCG's report notes, living wage ordinances tend to cover many fewer workers and the businesses targeted by such ordinances tend to be limited to those with financial ties to municipal governments. The central question here is, in my view, how large are the cost increases from a proposed living wage ordinance for the covered businesses? And, do these cost increases outweigh the benefits of doing business with the local government? These will be the key determinants as to whether businesses will reduce their employment in response to a living wage, instead of relying on their other adjustment channels. I take up this issue in detail in my own report, released in September 2014, and will discuss this more below.

Research on how businesses have adjusted to living wage ordinances specifically is limited. However, here again the BSCG's review of the current state of research may lead the reader to give more weight to negative employment findings than what the research actually reflects. To date, there is no strong evidence that living wage ordinances have negatively affected employment.

Take for example, the Neumark and Adams study cited in the BSCG report that finds a negative employment from living wages. My PERI colleagues and I published a critique of that study in our 2008 book. Specifically, we replicated Neumark and Adam's main results on employment and then demonstrated how a more accurate accounting of the living wage ordinances in the analyses eliminates any measurable negative employment effect.

A particular challenge to studying living wage employment effects is that the limited coverage of living wage laws makes detecting any employment effect—negative, zero, or positive—difficult with standard labor market data sets, such as that used by Neumark and Adams. For this reason, case studies on living wage ordinances are more likely to detect whether there is any employment effect.

The few case studies on living wage ordinances, which directly surveyed affected employers and workers, indicate that living wage ordinances have no effect[13] or a small negative effect[14] on employment. The only consistent affect is that the ordinances raised wages. In other words, as with the question of the impact of minimum wages, past research on living wages indicates no significant trade off between wages and jobs.

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[13] See: Brenner, Mark and Stephanie Luce. 2005. *Living Wages Laws in Practice: The Boston, New Haven, and Hartford Experiences*. Amherst, MA: Political Economy Research Institute. See also: Hall, Peter, Ken Jacobs and Michael Reich. 2014. "Liftoff: Raising Wages at San Francisco Airport," In *When Mandates Work,* Michael Reich, Ken Jacobs and Miranda Dietz (eds.).

[14] See Fairris, David, David Runsten, Carolina Briones, and Jessica Goodheart. 2005. *Examining the Evidence: The Impact of the Los Angeles Living Wage Ordinance on Workers and Businesses*. Los Angeles: Los Angeles Alliance for New Economy.

This point is important because BSCG uses this trade-off—between higher wages and employment—in part, to justify their recommendation of the lowest possible wage standard and the narrowest coverage for a living wage policy. Given the weak link between living wages and employment, the BSCG report should have given more serious attention to the question of what would constitute a *meaningful* living wage for Sonoma County and *whether* such a living wage would likely result in a negative employment effects. I will come back to this issue in more detail below.

A Note About the Fiscal Impact of the Proposed $15.00 Living Wage

Chief among the concerns for how municipalities can achieve a living wage is the question of the policy's fiscal impact. As I have reported, and the BSCG report has confirmed, the Coalition's proposal for a $15.00 living wage would be in the range of $11-$13 million, or about one percent of the County's total budget. This amount is equivalent to roughly $70 per Sonoma County household. The magnitude of this cost increase to the County of the Coalition's proposal can reasonably be described as modest, as I have in the conclusion my report (p. 26). The BSCG report reaches roughly this same fiscal cost estimate in the section on "fiscal impacts," (p. 23). My cost estimates for the current Sonoma County proposal also fall in the range of past research findings on the fiscal impact of living wage ordinances already adopted by the cities of Sonoma, Petaluma, and Sebastapol.

This fiscal impact would obviously be smaller still if the living wage ordinance covers fewer workers or sets a lower living wage rate standard. As the BSCG report details, with sufficient coverage exemptions such as for IHSS workers and non-profits and a lower $13.00 living wage rate, the cost can be reduced to a negligible amount of $100,000. With these modifications, however, the ordinance's impact would itself be negligible. The BSCG report estimates that the number of affected workers under the Coalition's proposal would fall from more than 7,000 (3.8 percent of the local workforce) to just over 100 (0.06 percent of the local workforce) Sonoma County workers. Simply put, the BSCG report's living wage policy recommendation would almost totally negate the purpose of establishing a living wage standard for Sonoma County, which, after all, is to provide working people in the County with a decent wage standard.

The BSCG report's recommended exemptions and living wage are largely motivated by the goal of reducing the living wage ordinance's costs. But again, both my report and the BSCG report have documented that the costs to the County will be modest. Therefore, the more relevant policy question for the County Supervisors to consider is whether this policy lever will actually promote living wage jobs for their constituents. What should be the "living wage" rate for the County? And, which workers should be covered? I will comment on each question in turn.

What is a Living Wage for Sonoma County?

The BSCG report recommends a $13.00 living wage rate instead of the $15.00 living wage rate proposed by the Coalition. The BSCG report neglects any analysis of the extent to which its recommended living wage rate would set an adequate standard for the Sonoma County workforce. As a result, it makes no claims about the adequacy of its recommended rate to reduce poverty in Sonoma County. Instead, BSCG's report applies one criterion: the lowest wage required to support a minimally decent living standard for some workers. As a result, they chose a living wage equal to the average rate among three published figures for a single adult with no dependents.

As noted by the BSCG report, there is no single accepted methodology for determining a living wage. Several organizations publish geographically specific basic living expenses for different family types that can serve as the basis for determining a living wage rate. These basic budget calculators, however, produce a range of living expense estimates, even for similar family types living in the same region. Additionally, to set a living wage rate, a choice has to be made about which type of household it should support since workers' household budgets vary depending on family size.

An obvious strategy for estimating a reasonable living wage for Sonoma County is to determine what pay rate can achieve a minimally decent living standard for the broad majority of workers and their families. This would fulfill the guiding objective of the living wage ordinance: to insure that anyone working full-time will not live in poverty. BSCG's report, however, fails to provide you with any information to evaluate its policy recommendation based on such criteria.

I examined 2012-2014 data from the Labor Department, to examine the typical Sonoma County household make up. On the basis of that analysis, I can determine what wage rate could be expected to support a minimally decent living standard for the average Sonoma County household.

I first examined whether a single adult with no dependents reasonably describes a typically household in the County. Specifically, I looked at households with at least one worker. Workers include both those with a job as well as unemployed workers seeking jobs. I refer to these households as "working households." [15] I found that among working households, a majority—56 percent—include more members than workforce participants. This means that the majority of workers in the area must help support at least one dependent with their earnings. Among households that cannot cover their basic needs, an even greater share—two-thirds—is composed of families with non-working dependents.[16] I also found that the typical family configuration among working poor households in Sonoma County includes two workers and two dependents. The single

[15] Non-working households – households that include no labor force participants—primarily include elderly adults. These non-working households make up less than 20 percent of all Sonoma County households.

[16] These dependents are primarily made up of children under the age of 15 years old but some dependents are elderly, non-working adults over the age of 64 years, older children (15-18 years old), and adult children between the ages of 18-24.

adult basic budget is therefore inadequate for the majority of working households in the County, particularly poor working households.

Clearly, if the objective of a living wage policy is to insure that no one working full-time should live in poverty, the BSCG's recommended living wage rate is inappropriate. Their recommended wage standard would fail to insure that full time work could cover a minimally decent living standard for the two-thirds of Sonoma County's working poor households that includes dependents. Moreover, such households require a living wage rate sufficient to cover the basic budget of a family of four, including two dependents.

Table 1 below presents five published estimates of such basic budgets along with the hourly rates workers would need to earn, assuming two full-time working adults and two dependents (one pre-school age child; one elementary-school age child), adjusted to reflect 2015 dollars.[17] One additional adjustment must be made to the MIT Budget since the it assumes that in two-adult households with children, one adult would provide free childcare. Since I assume that both adults work, I add to the MIT budget, the childcare costs from its one-adult, two-child family budget.[18] In this table, you can see that the hourly wage rate to meet these budgets ranges between about $15.60 and $22.10, for an average rate of $18.70. This average wage rate exceeds BSCG's recommended $13.00 wage rate by more than 40 percent.

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[17] These include the three used by BSCG, plus an additional two: 1) the Economic Policy Institute's Family Budget which BSCG excluded because it did not have a single adult budget and 2) the Wider Opportunities for Women's Basic Economic Security Table (BEST). I used the Labor Departments West Urban CPI-All Items Index to update the most recent published figures to 2015 dollars, assuming that the annual rate of inflation will remain constant from 2014 to 2015. I additionally inflate housing costs by ten percent annually from the most recent published budget figures or 2013, whichever is later, to 2015 to account for the large spike in housing costs specific to Sonoma County in recent years. According to an article in the *Press Democrat* ("Rents Soar in Sonoma County," by Robert Digitale, August 10, 2014*)*, the multi-family housing market research firm, Real Answers, estimated that rent for Sonoma County apartments increased about 20 percent from 2012 to 2014. I estimate the tax bill for each budget by assuming that it will remain the same percentage of the household's other expenses as in the most recent published budget.

[18] I assume two full-time working parents for the living wage rate calculation since the average family includes two workers, according to 2013 U.S. Census Bureau figures. At the same time, less than one-third (32 percent) of all families (not just low-income or poor) actually include two full-time year-round workers. The more typical situation (68 percent) is that a family has one full-time year-round worker. If I assumed only one working adult per household, the living wage rates would be higher than those in Table 1, even after assuming that there is an adult that can provide free childcare.

Table 1. Comparing Basic Budget Estimates for a Sonoma County Family of Four

Budget Item	Economic Policy Institute (EPI)	California Budget Project (CBP)	Massachusetts Institute of Technology (MIT)	Insight Ctr. for Comm. Econ. Dev. (ICCED)	Wider Opportunities for Women (WOW)
Housing and Utilities	$1,612	$1,612	$1,716	$1,376	$1,375
Child Care	$992	$1,308	$864	$1,612	$1,404
Food	$784	$901	$789	$834	$792
Transportation	$632	$654	$759	$570	$1,077
Health Care	$1,473	$1,468	$434	$491	$532
Other Necessities	$556	$530	$254	$478	$515
Taxes	$515	$1,194	$597	$732	$1,034
Monthly Total	$6,563	$7,667	$5,412	$6,094	$6,729
Annual Total	$78,757	$92,003	$64,950	$73,128	$80,748
Hourly Wage Required (2 FT/YR Workers)	**$18.93**	**$22.12**	**$15.61**	**$17.58**	**$19.41**
	Average Living Wage: $18.73				

Why is there such a wide range among these budgets? Most of the budget items are actually quite similar across budgets (e.g., housing, food, childcare, and other necessities).[19] The largest differences between these family budgets are driven by whether workers are assumed to have employer-paid health insurance benefits. This not only impacts the size of the "health care" budget item, but also the workers' tax liability since employer-paid health benefits typically come with sizable tax advantages.[20] These budgets make varying assumptions, and as a result, the sum of the health care and tax budget items are noticeably different from each other, ranging between about $1,000 (MIT) and $2,600 (CBP).

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[19] The WOW budget's transportation spending is much higher than in the other budgets because it assumes that with two working adults the household requires two cars, not one. All other budgets appear to assume only one car per household.

[20] For example, workers whose workplace pays for part or all of their health insurance premiums typically do not have to pay any income tax on that form of compensation. Additionally, workers with health insurance benefits can commonly have their portion of their insurance premium taken out of their paychecks "pre-tax," therefore exempting their premiums from any income tax. The MIT, ICCED, and WOW budgets assume that workers receive health insurance benefits but must pay taxes on their portion of health care spending. The EPI and CBP budgets both assume that workers have no employer-paid health benefits, but only CBP assumes that workers must pay taxes on the income they spend on their health care. The EPI budget assumes that workers have some way of receiving tax advantages for their health care spending. These budgets also vary some based on whether they capture local taxes.

In sum, these various budget figures indicate that a more relevant living wage rate–that is, more relevant to the policy's objective—would be in the range of $19.00. If we assume that covered workers also receive employer-provided health insurance, the living wage rate would be around MIT's $15.00 to $16.00. If covered workers do not receive any health benefits from their employers, the living wage rate would instead be in the range of CBP's $22.00.

Another consideration in determining a living wage rate may be the magnitude of the cost increase that covered Sonoma County businesses could experience due to the living wage. As noted above, if businesses face high cost increases relative to their ability to absorb these costs, this could introduce the trade-off between employment and wages.

The size of any such cost increases will vary, depending on businesses' share of low-wage workers. Restaurants, for example, would face higher costs than construction contractors. Here, the BSCG report does not provide any information as to the actual size of the costs to covered businesses relative to the their ability to absorb such costs. As such, the BSCG study provides no basis for you to assess likely impact of the different living wage rates on local businesses.

In the PERI report, I find that for most covered businesses, the Coalition's proposed $15.00 living wage will increase their costs modestly. County service contractors, for example, will likely experience, on average, a cost increase in the range to 1 percent or less of their total sales revenue. For highly-impacted food service concessionaires that employ a large share of low-wage workers the average cost increase will likely be in the range of 5 percent of their total sales revenue. In other words, if these businesses raised their prices by about 5 percent, holding all else equal, this would fully cover the costs of the proposed $15.00 living wage.

The County may need to assist these type of low-wage employers in adjusting to their increased costs. For example, the County may lower its concessionaire fees. I have, in fact, assumed that the County would do so in my fiscal impact analysis. Such a policy would preserve the goal of establishing a meaningful living wage ordinance that would, at the same time, minimize any potential short-term difficulties for businesses in adjusting to the living wage standard.

Coverage of In-Home Supportive Service (IHSS) Workers

Both the BSCG report's estimates and the estimates in the PERI report document how In-Home Supportive Service (IHSS) workers make up the large majority of the workers that would be covered by the Coalition's proposed living wage ordinance. For this reason, the cost of the proposed living wage ordinance is almost entirely due to their coverage. As I noted in my report, "…when evaluating the merits of the proposed living wage ordinance, County residents will largely need to weigh how they value the principle of paying IHSS workers a wage that more closely approximates a living wage. County residents can expect these raises to both materially improve the living standards of IHSS workers…but also improve the quality of IHSS services to low-income frail elderly and disabled adult County residents," (p. 5).

Whether IHSS workers should be covered by the living wage is, therefore, at the core of this policy debate. An assessment of the merits of the proposed living wage requires some discussion about the IHSS workforce. Such a discussion, however, is nearly entirely absent from the BSCG's report.

The Coalition's living wage proposal would raise the wage rate of IHSS workers from $11.65 to $15.00. IHSS workers provide critical services for some of the County's most vulnerable residents: low income frail elderly and disabled adults. These workers provide the essential care-taking services low-income elderly and disabled adults need in order to live safely and securely in their own homes. Examples of IHSS services include bathing, feeding, transferring between bed and chair, medical equipment assistance, meal preparation, and administering medicine. These services are fundamental to their clients' quality of life.

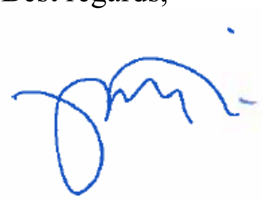
Indisputably, these workers provide a highly valuable service to Sonoma County. If Sonoma County residents agree with the basic principle that workers should earn a living wage, then at minimum, they should support coverage of workers who provide highly valued services. The fact that doing so imposes a modest cost should only strengthen this support.

IHSS services also provide a large cost savings for the public. In my report, I document past research that shows that improved pay for IHSS workers improves IHSS services. Higher quality service, in turn, supports greater use of IHSS services instead of more expensive nursing care facilities. The result is significant cost savings. I estimate that each frail elderly or disabled adult that can remain living in their home with the support of an IHSS worker will save taxpayers in the range of $90,000 annually. This savings clearly outweigh the costs, which are in the range of $21,000 annually. These cost savings that are generated by the home health care services program, however, accrue primarily to the State of California, rather than Sonoma County. In other words, the County's living wage policy would improve the State's budget.

The County may consider being a leader in improving the pay rate for its IHSS workers as a way to build a case for the program's fiscal benefits. If the County takes this action and demonstrates how a higher pay rate for its IHSS workers can produce significant cost savings to the State, this may encourage the State to approve a higher pay rate for IHSS workers in the future. The County would serve to demonstrate how a living wage policy would operate to promote decent-paying jobs, similar to the way that many states have served to demonstrate the impact of increasing the minimum wage for the federal government.

In conclusion, I urge the Sonoma County Board of Supervisors to consider how it could adopt a meaningful living wage policy rather than following the recommendations of the BSCG report. Both my report and the BSCG report have documented that the fiscal impact of the Coalition's living wage proposal will be modest. Moreover, a $15.00 living wage should be viewed as operating to specifically address the significant challenge of improving the quality of jobs available to workers in Sonoma County. Such a policy should enhance the impact of the other social policies, such as income supports, that the BSCG report recommends to reduce poverty.

Best regards,



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