DATE ISSUED:	April 19, 2004	REPORT NO. 04-081 Rev. (see pages 2 and 21 for changes)
ATTENTION:	The Committee on Rules, Finance and Intergovernmental Relations Agenda of April 21, 2004	
SUBJECT:	City Manager's analysis of proposed Responsible Wage and Benefits Ordinance	

SUMMARY

Issue - Should the Rules Committee accept the City Manager's analysis of the proposed Responsible Wage and Benefits Ordinance?

Manager's Recommendation – Accept the City Manager's analysis of the proposed Responsible Wage and Benefits Ordinance. If the Rules Committee decides to forward the policy issue to the City Council, instruct the City Manager and the City Attorney to construct a revised ordinance that more closely matches the City's requirements.

Other Recommendations – None.

Fiscal Impact – Fiscal impact is dependent upon which version of the proposed ordinance the City Council chooses to adopt, if any. If adopted, this proposal should be discussed in conjunction with the Fiscal Year 2005 Proposed Budget due to any potential fiscal impact.

EXECUTIVE SUMMARY

During the November 5, 2003 meeting of the Committee on Rules, Finance and Intergovernmental Relations, the Center on Policy Initiatives (CPI) submitted a proposed Responsible Wage and Benefits Ordinance, otherwise known as a Living Wage Ordinance (LWO). The City Manager and City Attorney began an analysis of the ordinance, and initiated a dialogue with stakeholder groups in the community to better understand the potential impacts of its implementation. Subsequently, on March 1, 2004, a revised draft ordinance was submitted by CPI. At this time, both drafts have been reviewed, and this report presents an overview of findings.

Due to limitations in available research, as well as the unavailability of data, the analysis of the potential impact of the proposed LWO is incomplete. Preliminary findings indicate that the City of San Diego, the City's service contractors and subcontractors, financial assistance recipients, and city facility employers, would all experience a cost increase if the proposed ordinance(s) were to be implemented. The table below summarizes the preliminary estimates of impacts to the groups covered in the ordinances. Some of the information on specific wage and benefit rates paid by other organizations was not available as the analysis was conducted, and further analysis may be warranted if the City of San Diego chooses to pursue the implementation of a Living Wage Ordinance.

	November Draft		March Draft	
Employer Group	**# Impacted**	**Estimated Cost**	**# Impacted**	**Estimated Cost**
City of San Diego	1,323 employees	$7,932,000	478 employees	$797,125
Service Contracts (Including MADs)	159 contracts	$3,845,338*	142 contracts	$1,528,117*
Social Service Contracts (CDBG)	33 contracts	Not Available	33 contracts	Not Available
Financial Assistance Recipients	51 agencies	Not Available	4 agencies	Not Available
City Facility Employers	4 facilities	$3,806,981**	4 facilities	Not Available
~~Administration/Compliance~~		~~$4,000,000~~		~~$4,000,000~~
Administration/Compliance		$400,000		$400,000
		~~$19,584,319~~ **$15,984,319**		**~~$6,325,242~~** **$2,725,242**

* Estimated cost for Service Contracts is the middle of the range provided in the discussion on Page 11.
** Estimated cost for City Facility Employers includes only the impact to the Convention Center Corporation. Impact analysis for Qualcomm and the Sports Arena has not been completed.

It is unclear whether either of the proposed ordinance(s) would achieve their intended goals: reduce the number of families living in poverty, and the number of people without health insurance in the City of San Diego. More intensive analysis of each of the impacted groups could help illuminate the best mechanism for addressing these concerns.

BACKGROUND

On November 5, 2003, CPI and the San Diego Living Wage Coalition presented a proposal for the City of San Diego Responsible Wage and Benefits Ordinance to the Rules Committee. During that meeting, the Committee referred the draft ordinance to the City Manager and the City Attorney for review of its potential impacts on City budget, the methods for determining sustainable wage and benefit levels, and the potential benefits to workers, family and community. In addition, the City Manager and City Attorney were directed to seek input and concerns from key stakeholder groups. The following analysis incorporates input garnered from discussions with stakeholders, including, but not limited to, CPI, the San Diego Regional Chamber of Commerce, the San Diego Association of Non-Profits, the San Diego Commission for Arts and Culture, and numerous individual organizations and City departments.

November Draft Ordinance

The proposed Responsible Wage and Benefits Ordinance (also known as the Living Wage Ordinance) presented to the Rules Committee on November 5 sets forth the following requirements:

- Employees would be paid a "responsible" or "living" wage rate of $11.95 per hour, to be upwardly adjusted each year using the consumer price index for San Diego.

- Employees, regardless of hours worked, would be provided health benefits for themselves and their dependants in one of two ways:

    - Employees would be paid an additional "Health Benefits Supplement" rate of $2.53 per hour, again adjusted upwardly each year using the CPI-U for Medical Care in San Diego; or,

    - Employers would pay at least $2.53 per hour towards the existing employer-provided health plan for each employee.

- Employees, regardless of hours worked, would receive "at least ten compensated days off per year for sick leave, vacation, or personal necessity leave at each covered employee's request. Such days off would vest at the end of the applicable pay period. Part-time employees would accrue compensated days off in increments proportional to that accrued by full-time employees."[1]

The following employers would be expected to comply with the provisions of this ordinance:

- City of San Diego.

- Employers that have entered into one or more service contracts with the City, if the combined annual value of payments exceeds $25,000 and the term of service is in excess of 30 days. Subcontractors of these employers are also covered.

- Organizations and businesses that receive financial assistance from the City, if the combined annual value of financial assistance agreements exceeds $50,000. On-site subcontractors of these financial assistance recipients are also covered.

- Businesses that have employees who regularly perform work on-site at any facility in which the City has an ownership interest (i.e. Qualcomm Stadium and

[1] *City of San Diego Responsible Wage and Benefits Ordinance*, Section 22.4110.

the Convention Center).

March Draft Ordinance

CPI submitted a revised draft ordinance to City staff on March 1, 2004 (hereafter referred to as the March draft ordinance). The March draft ordinance effects the following changes to the November draft ordinance:

- March draft ordinance sets the living wage rate at $10.00 per hour, rather than $11.95 per hour, to be phased in over two fiscal years: $9.00 per hour in FY2005 and $10.00 per hour in FY2006, to be upwardly adjusted each year using the consumer price index for San Diego.

- March draft ordinance sets initial health benefits supplement rate at $2.00 per hour, rather than $2.53 per hour, for FY2005, to be upwardly adjusted each year using the consumer price index for San Diego.

- March draft ordinance excludes City of San Diego employees from coverage.

- March draft ordinance increases the threshold for financial assistance recipients from a combined annual value of $50,000 to a combined annual value of $500,000.

- March draft ordinance limits the definition of "City Facility" to the following four facilities: Qualcomm Stadium, San Diego Sports Arena, San Diego Convention Center, and City Concourse.

The following sections of this report discuss each of the major provisions of both draft ordinances in detail, and include analyses of the potential fiscal and organizational impacts.

DISCUSSION

According to the Economic Policy Institute, 71 local governments had implemented living wage policies as of October 2001. Included in that list are the following California municipalities: Berkeley, City of Los Angeles, County of Los Angeles, Oakland, Pasadena, San Fernando, San Francisco, San Jose, Santa Clara, Santa Cruz, and Ventura.[2] The characteristics of the policies vary, but all intend to ensure that public monies are not used to contract with or subsidize employers who pay poverty-level wages. "The most

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[2] Table: Living Wage Ordinances Currently In Place. Economic Policy Institute, 2003: http://www.epinet.org/content.cfm/issueguides_livingwage_lwo-table.

common coverage – and also the most narrow – is restricted to companies under contract with the city. Some living wage laws also impose the wage on companies receiving business assistance from the city. The least common coverage is that imposed by cities on themselves to cover city employees."[3] The living wage level is usually the wage a full-time worker would need to support a family above the federal poverty line, ranging from 100% to 130% of the poverty measurement. The wage rates specified by living wage ordinances range from a low of $6.25 in Milwaukee to a high of $12 in Santa Cruz. In addition to setting wage levels, many ordinances also have provisions regarding benefits (such as health insurance and paid vacation), labor relations, and hiring practices.

The debate over living wage ordinances has much in common with that surrounding minimum wage legislation. Proponents, including CPI and the San Diego Living Wage Coalition, offer that the adoption of living wage policies at the local level allows workers to become self-sufficient, decreases the reliance on taxpayer-funded health and social services, improves the economic prosperity of the community through increased consumer spending, and creates efficiencies in business by improving morale and reducing employee turnover.

Opponents, however, contend that such policies have a detrimental impact on precisely that segment of the population they had originally intended to help. They suggest that implementation of living wage policies results in staffing decreases as employers adjust to higher payroll costs. The substitution effect is also referenced as one of the outcomes of increasing the wage floor: jobs become more desirable as wages are increased, attracting more highly qualified workers to compete and inevitably displace the lower-wage, often less qualified workers currently employed. Moreover, competition for contracts suffers as private employers choose to look for contracts elsewhere, rather than comply with the new wage policy. New minimum wage thresholds have also been shown, historically, to increase the price of goods and services as companies pass on higher payroll costs to the consumer. And finally, opponents to the living wage offer that the tremendous increase in administrative costs leads to cuts in local programs, leaving fewer resources to assist lower-income families.

A major problem for policymakers is that in spite of the number of jurisdictions that have adopted living wage ordinances over the past decade, most of the published studies on the issue are theoretical in nature and were written prior to adoption and implementation, rather than based on empirical evidence. However, as noted by CPI in their presentation of the key provisions of the proposed Responsible Wage and Benefits Ordinance, the Public Policy Institute of California did in fact complete a systematic analysis of the actual effects of living wages on the expected beneficiaries. Published in 2002, David Neumark's study describes how living wage laws work and assesses whether the policies achieve their primary policy goal. Although the Center on Policy Initiatives is correct in stating that this study "found that Living Wage ordinances have been effective in reducing poverty,"[4] it is important to note the magnitude of the impact. Neumark arrived

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[3] David Neumark. *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families*. Public Policy Institute of California, 2002: p. *v*.

[4]

at the following conclusions:

1. A 50 percent increase in the living wage (over the minimum wage) would, over the course of a year, raise average wages for workers in the bottom tenth of the wage distribution by 3.5%.

2. A 50 percent increase in the living wage would reduce the employment rate for workers in the bottom tenth of the skill distribution (or equivalently, of the predicted wage distribution) by 7 percent, or 2.8 percentage points.

3. A 50 percent increase in the living wage would reduce the poverty rate by 1.8 percentage points.

4. The evidence points to sizeable wage gains for unionized municipal workers when narrow living wage laws covering city contractors are enacted.

Although his study suggests that on net, living wages "may provide some assistance to the poor,"[5] Neumark also recommends that policymakers consider alternatives for poverty reduction when determining whether or not to adopt a living wage policy.

The central question to consider is whether the proposed living wage is the most effective and efficient means of reducing poverty. One of the alternative mechanisms chosen by several governments (including Montgomery County, Maryland in 1999, and Denver, Colorado in 2002) is a local match to the Earned Income Tax Credit, or EITC. In an empirical study of 47 metropolitan statistical areas completed by the Employment Policies Institute in 2003, it was concluded that an EITC match program better targets poor families than both narrowly-defined (Boston) and broadly-defined (Detroit) living wage ordinances. The March draft ordinance for San Diego falls somewhere between these two categories. "Forty-two percent of the families that could benefit from a narrowly-defined living wage ordinance have incomes in the lowest 20th percentile, while 64 percent of families that could benefit from a broadly-defined living wage ordinance have incomes in the lowest 20th percentile. In contrast, 99 percent of families that benefit from EITCs have family incomes in the lowest 20th percentile."[6] Moreover, the authors estimated that working families experienced an average increase of $3,419 in income following the adoption of a narrowly-defined living wage ordinance, but that the average benefit from a local EITC match program would be $5,233.

CALCULATION OF THE LIVING WAGE

As noted in the Background section, CPI submitted a revised draft ordinance on March 1, 2004 which reduced the proposed wage and benefits supplement rates from what was initially presented to the Rules Committee in November, 2003. The November draft

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[5] David Neumark. *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families*. Public Policy Institute of California, 2002: pp. *x*.

[6] Dr. Mark D. Turner and Dr. Burt S. Barnow. *Living Wage and Earned Income Tax Credit: A Comparative Analysis*. The Employment Policies Institute, 2003: p. 5.

ordinance proposed an initial wage of $11.95 per hour, with a benefits supplement rate of $2.53 per hour. The March draft ordinance proposes an initial wage of $10.00 per hour (phased in over two fiscal years), with a benefits supplement rate of $2.00 per hour. Since we do not have information on the methodology employed to calculate the latter rates, the following discussion will focus primarily on the original proposal.

The living wage of $11.95 per hour was calculated based on research done by CPI. According to the proposed LWO, this rate would "enable a full-time worker to support a family at a level that meets basic needs and avoids economic hardship,"[7] for a family comprised of two working adults and two school-aged children. The following table is an excerpt from a publication on CPI's website: *Making Ends Meet, 2003 Update*.

Basic Needs Family Budget		
Two Working Adults and Two School-Age Children		
Food	$	594.50
Housing & Utilities	$	1,408.00
Childcare	$	741.52
Healthcare	$	213.70
Transportation	$	409.27
Phone	$	98.82
Household Supplies	$	170.93
Clothing & Personal Care	$	133.13
Net Monthly Expenses	**$**	**3,769.87**
Net Yearly Expenses	**$**	**45,238.44**
CA Income Taxes	$	(0.26)
Federal Income Taxes	$	160.17
FICA Taxes	$	325.53
Total Monthly Taxes	**$**	**485.44**
Total Yearly Taxes	**$**	**5,825.28**
Yearly Income = Expenses + Taxes	**$**	**51,063.72**
Hourly Wage (Per Adult)	**$**	**12.27**
Avg. Out-of-pocket Health Care Premium	$	0.32
Self Suffiency Wage	**$**	**11.95**

Based on comparisons with household budgets calculated by other organizations (i.e. Wider Opportunities for Women), $11.95 per hour per working adult seems to be an appropriate, even conservative figure for the San Diego area. As CPI noted in their summation of findings, this budget includes only essential needs and leaves out items like entertainment, homeowner/renter insurance, life insurance, and savings.

One concern about this calculation, however, is that the two-parent, two-child family

[7] *City of San Diego Responsible Wage and Benefits Ordinance – Proposed Key Provisions*. Center on Policy Initiatives, October 2003: p. 2 of 7.

household comprises only 9.5% of the total Family Households in the San Diego area, according to information compiled by SANDAG based on the 2000 Census.[8] Much more common is the Family Household with no children, which comprises over 65% of the total. Moreover, if national census data is used as a poverty model for San Diego, single-parent families make up more than 59% of all families living in poverty.[09] Therefore, it may be inappropriate to calculate the living wage based on the assumption of two adults working full-time to support two school-aged children.

The budget method is just one of a variety of methodologies used by municipalities in the determination of the appropriate living wage since the initiative began in 1994. Five of these methods are described in "A Path to Prosperity: Preparing our Workforce," published in December 2002 by the San Diego Workforce Partnership.

- The first method in which a living wage can be determined is through a process of negotiation between local policymakers and labor unions and living wage advocates. Example: Santa Cruz, California.

- Some jurisdictions choose to set their living wage rates at some multiple of the federal or state minimum wage. Example: Hudson County, New Jersey.

- Other communities have determined that the prevailing wage methodology, where standard wages (usually determined through union negotiation) are set for the region for each industry and occupation, is their preferred method for determining a living wage. Example: New York City, New York.

- A fourth method for setting a living wage is the use of the Federal Government's Poverty Guideline. "Living wage rates have been set based on the official Poverty Guideline in three different ways. The first technique involves setting the hourly wage rate equivalent to the Poverty Guideline for a given family size. In the second, the wage is set as some higher percentage of the Poverty Guideline. Third, the Guideline, a national statistic, is adjusted up by a geographically specific cost of living differential, in effect tailoring the poverty level to a geographic region."[00] Approximately 25 percent of living wages are set based on some variation of this method. Example: San Jose, California.

  The following are standard multiples of the 2003 United States Department of Health and Human Services Poverty Guidelines[01], which are used to determine financial eligibility for various programs:

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[8] Census 2000 5% PUMS File; PUMS Areas: 1, 2, 3, 4, 5, 6, and 14. Compiled by SANDAG. Children is defined as those under 18 years old.

[09] Census 2000, Poverty Rate Comparison: Census 2000, Current Population Survey (CPS), and Census 2000 Supplementary Survey (C2SS).

[00] *A Path to Prosperity: Preparing our Workforce*. San Diego Workforce Partnership, December 2002: p. 95.

[01] *Federal Register*, Vol. 68, No. 26, February 7, 2003, pp. 6456-6458.

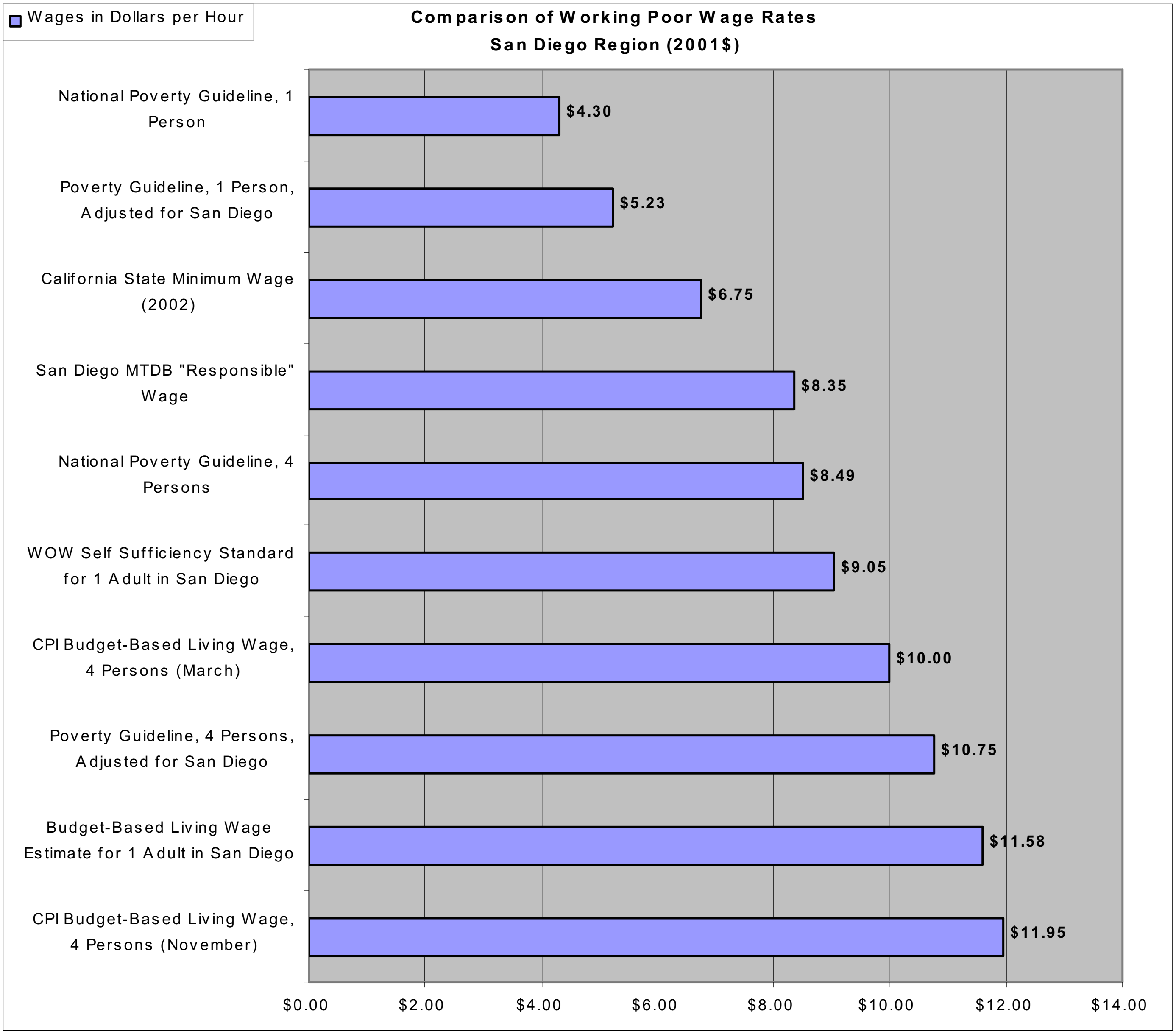
	3-Person Family	Hourly Wage*	4-Person Family	Hourly Wage**
FPG* **	$ 15,260	$ 7.34	$ 18,400	$ 4.42
125% FPG	$ 19,075	$ 9.17	$ 23,000	$ 5.53
150% FPG	$ 22,890	$ 11.00	$ 27,600	$ 6.63
175% FPG	$ 26,705	$ 12.84	$ 32,200	$ 7.74
200% FPG	$ 30,520	$ 14.67	$ 36,800	$ 8.85
300% FPG	$ 45,780	$ 22.01	$ 55,200	$ 13.27

* Assuming one adult working 2,080 hours per year.
** Assuming two adults working 2,080 hours per year.
*** FPG - Federal Poverty Guidelines

- The fifth method discussed in the San Diego Workforce Partnership document is the needs-based budget approach, the same method used by the Center on Policy Initiatives to calculate the $11.95 per hour wage for the proposed LWO. This method estimates the cost of basic needs like food, rent, childcare, utilities, clothing, and transportation for the region to determine the income necessary for self-sufficiency. Example: Richmond, California.

The following chart can be found in Chapter 5 of “A Path to Prosperity: Preparing our Workforce,” with the exception of the two bars representing CPI’s proposals for the living wage, which were added for comparative purposes.[02]

[02] *A Path to Prosperity: Preparing our Workforce*. San Diego Workforce Partnership, December 2002: p. 101.



Each method has its own merits and drawbacks. The needs-based budget approach chosen by CPI is beneficial in that it may be tailored to the regional characteristics that impact cost of living. The problem, however, is that there is no standardized determination of what basic needs for a family are, and which data sources should be used to determine the cost of those needs. It has been suggested that one of the reasons for the popularity of the Poverty Guideline is that it is the standard often used to determine eligibility for means-tested assistance programs, such as Head Start and the Food Stamp Program. The March draft ordinance prepared by CPI proposes a wage that falls between the WOW Self-Sufficiency Standard for 1 Adult in San Diego and the Poverty Guideline for 4 persons, adjusted for San Diego.

CITY OF SAN DIEGO

In the November draft ordinance, the City of San Diego was one of the employer groups mandated to comply with the new wage and benefit rates. CPI included City employees in order to "ensure that the City meets the same standards in its own operations"[03] as it requires of its contractors. As noted in the Neumark analysis, the least common coverage group in living wage policies is municipal employees. No other large city in California has a living wage policy that covers its own employees. The reasons for this are unclear, but it is possible that fiscal and organizational constraints are two of the major contributing factors. The March draft ordinance does not include City employees as one of the groups of covered employees, and CPI has indicated that City wages will be addressed in a separate policy in the near future.

Although the March draft ordinance no longer has a direct impact on the wages paid to City employees, City wages may increase as "living wage laws [reduce] the incentives for cities to contract out work that would otherwise be done by municipal employees, which in turn would be expected to increase the bargaining power of municipal unions and lead to higher wages."[04] In fact, David Neumark studied the effects of contract-only living wage policies on unionized municipal workers and estimated that the implementation of a living wage that exceeds the minimum wage by 50% would raise the wages of unionized municipal workers by approximately 7.5%.[05]

The following table illustrates the initial cost to increase wages of impacted City employees to match the rates in both the November and March draft ordinances. The March scenario is hypothetical, as there is no guarantee that the labor organizations would negotiate wages up to these levels when the City employee contracts are renegotiated for Fiscal Year 2006.

	NOVEMBER DRAFT ($11.95/hr wage and $2.53/hr benefits supplement)		MARCH DRAFT ($10.00/hr wage and $2.00/hr benefits supplement)	
	Benefited	Non-Benefited	Benefited	Non-Benefited
FTE	66.00	1,257.00	2.00	476.00
Avg Hourly Wage	$10.73	$11.51	$9.97	$10.39
Mandated Rate	$11.95	$14.48	$10.00	$12.00
Differential	$1.22	$2.97	$0.03	$1.61
Annual Cost	$167,000	$7,765,000	$124.80	$797,000

03 *City of San Diego Responsible Wage and Benefits Ordinance – Proposed Key Provisions*. Center on Policy Initiatives, October 2003: p. 2 of 7.

04 David Neumark. *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families*. Public Policy Institute of California, 2002: p. *ix*.

05 David Neumark. *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families*. Public Policy Institute of California, 2002: p. 121.

As the above table shows, the additional cost to the City of San Diego if the November draft ordinance was implemented would be approximately $7.9 million. If the labor organizations were able to successfully negotiate wages consistent with the March draft ordinance, it would cost an estimated $800,000. These estimates do not include the upward pressure on higher salary classifications as wages are adjusted to maintain the increments within the City's classification structure.

SERVICE CONTRACTORS

The second of the employer groups covered by the proposed LWO is service contractors and their subcontractors. Service Contractor is defined on page 6 of 26 of the draft ordinances as "a Business that has entered into one or more Service Contracts, under which the combined annual value of payments is in excess of $25,000. A Business shall not be considered a Service Contractor if all Service Contracts it enters into in a given calendar year have a combined term of less than 30 days and involve payments of less than $100,000." Contracts for the purchase or lease of goods, products, equipment, supplies, or other property and construction contracts are not covered by this ordinance. Small businesses with fewer than five employees, company-wide, are also exempt from the provisions of the LWO.

As was previously stated, there is little empirical analysis available that would help predict the impact of the proposed LWO on both the behavior of the City's service contractors and the cost of the contracts themselves. Two well-documented studies both focused on Baltimore, the first municipality to adopt a living wage ordinance, in 1994. The first study was conducted by the Preamble Center in Washington D.C. two years after the ordinance was passed. The main findings appeared to support the assertions of living wage advocates: of companies that were interviewed before and after the ordinance was enacted, none reported reductions in staffing levels in response to higher wage requirements; the cost of compliance was minimal, with annual allocations amounting to only 17 cents per capita; although the average number of bids declined in the first year, the decline was not statistically significant because the bidding process was still competitive; and the real cost of city contracts actually declined after the ordinance went into effect.

The second study was conducted by the Economic Policy Institute (EPI), and examined the impact of the Baltimore ordinance after two years of operation. The conclusions of this study were similar, but more conservative in nature. EPI found that although the ordinance resulted in no significant financial cost to the city, a relatively small number of workers were positively affected. Additionally, the study again indicated minimal expenditures on the part of the city for the purposes of ensuring contractor compliance with the ordinance, but explained that non-compliance in terms of paying the living wage and/or providing adequate payroll documentation was a significant problem that impacted both the effectiveness of the ordinance and the ability of the Institute to analyze the costs and benefits.

It is also important to note that the wages mandated by the Baltimore ordinance were substantially less aggressive than those proposed by CPI. The Baltimore ordinance required that city contractors pay their employees $6.10 per hour (in 1994 dollars) and increase the wage in steps to $7.70 within 5 years. A much larger impact would be projected in the City of San Diego than Baltimore, perhaps similar to the impact of the living wage on the City of Los Angeles. According to a city-funded study conducted by the Empirical Research Group at UCLA based on contractor data from 1997 through 2002, private firms were found to pass back to the city 100% of the added payroll costs due to the living wage policy.[06] "In fact, some companies charged more than the added payroll costs. E. Douglass Williams, an economics professor at the University of the South and co-author of the Los Angeles Study, says some contractors may merely multiply billing rates by the percentage of the living-wage increase, raising overhead expenses, which he says should remain fixed."[07]

The City of San Diego Purchasing Division provided a list of all non-professional service contracts as of November 14, 2003. As of that date, the City had 315 contracts totaling $30.1 million. For the purposes of this analysis, it is assumed that the City's contractual needs do not vary radically from year to year, and that most contracts are either renewed or replaced as they expire. Only those contractors whose cumulative contract value exceeds $25,000 would be affected by the new wage requirements in the proposed living wage ordinance. Of the 315 contracts, 239 of them met the 30-day, $25,000 threshold indicated in the proposed LWO, for a total of $29.3 million.

As the City does not currently require its service contractors to submit payroll information with bid packets, for each contract and occupation, a wage rate that is believed to be the best statistical representation of the mean hourly wage paid to service workers in the San Diego Metropolitan Statistical Area was used (as of 2001, the most recent Bureau of Labor Statistics study published). Subsequently, it was estimated how much each contract would increase were employers to increase wages to the base rates specified in both the November and March drafts of the living wage ordinance, assuming that contractors pass through 100% of their increased payroll costs. An impact range was calculated for each wage level: a minimum increase to the cost of the City's service contracts that would result from a wage increase if all contracted employers currently provide sufficient health insurance to their workers, and a maximum increase that would result from a wage increase if none of the contracted employers currently provide health insurance. Realistically, one would anticipate that the overall payroll increase would fall somewhere in the middle of that range, assuming that some workers under these contracts are currently insured and some are not.

The November draft ordinance specified a low wage of $11.95 and a high wage of $14.48. Based on those figures, the estimated increase to the City's service contracts would fall between $2,444,206 and $5,246,469. The March draft ordinance specified a

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[06]*Inside the Living Wage: A Study of the Los Angeles LWO in Operation, 1997-2002* (Working Title of Study conducted by the Empirical Research Group. Study results were included in *The CQ Researcher*. Congressional Quarterly Inc., September 27, 2002: pp. 777 and 788.
[07]*The CQ Researcher*. Congressional Quarterly Inc., September 27, 2002: p. 777.

low wage of $10.00 and a high wage of $12.00. Based on those figures, the estimated increase to the City's service contracts would fall between $562,491 and $2,493,744. Both of these ranges are based solely on an analysis of the City's contracted wage levels, and are not inclusive of soft costs such as payroll tax increases and contractor compliance costs. One additional element that must be considered is that the impact will naturally phase in as contracts expire, rather than immediately upon implementation of the policy. Given the current contract list, we would anticipate that half of the contracts would be impacted in the first fiscal year and half in the following fiscal year.

6-to-6 Program

The March draft ordinance added a definitional distinction that was ambiguous in the previous version. Page 6 of 26 of the March draft ordinance exemplifies Service Contract, stating that "Such services include, but are not limited to, janitorial, security, landscaping, childcare, parking and other services vital to the functioning of the city." Thus it is made clear that in addition to the service providers that are contracted through the Purchasing Division, organizations such as those that participate in the City's 6-to-6 Program are also subject to the provisions of the ordinance if their contracts exceed $25,000 annually. The following table shows the Fiscal Year 2004 6-to-6 Program contracts, with estimates of daily attendance and minimum staff required based on a State-mandated ratio of one childcare provider for every 15 students:

6 to 6 Program Budget/Staffing Distribution per Partner Organization						
			Average Daily Attendance			
Agency		# Schools Served	AM	PM	Minimum Staff	Budget
Bayview Baptist		1	42	77	6	$ 108,000
Center for Community Solutions		1		75	5	$ 135,000
Del Mar Union School District	*	2		20	2	$ 15,000
Harmonium, Inc.		68	2,750	5,300	354	$ 7,540,000
Holy Family Church		1	40	120	8	$ 110,000
Mt. Erie Baptist Church		1	40	87	6	$ 72,000
New Hope Church		1	60	87	6	$ 106,000
Our Lady of Angels / Our Lady of Guadalupe		2	115	185	13	$ 250,000
Poway Unified School District	*	14		110	8	$ 125,000
Our Lady of Sacred Heart School		1	45	135	9	$ 143,000
Saint Jude Academy		1	45	145	10	$ 143,000
Saint Rita's		3	30	75	5	$ 110,000
San Diego Reads		2	175	210	14	$ 280,000
San Diego Unified School District		8	280	800	54	$ 1,200,000
YMCA / CRS & YFS		47	2,700	5,000	334	$ 6,000,000
Social Advocates for Youth		34	1,200	2,700	180	$ 3,900,000
Solana Beach School District	*	2		10	1	$ 5,000
South Bay Union School District / Boys & Girls Club	*	7	325	450	30	$ 120,000
Sudanese English Project		1		50	4	$ 82,000
Union of Pan Asian Communities		1	40	80	6	$ 83,000
All Stars		1		100	7	$ 97,000
San Pasqual	*	1		5	1	$ 5,000
Sweetwater	*	2		100	7	$ 38,000
TOTAL		**202**	**7,887**	**15,921**	**1,070**	**$ 20,667,000**

* Scholarship programs may not exceed budgeted award.

As is clear in the table, only three agencies (shaded in the table) would be excluded from the ordinance based on contract amount. The remaining 20 agencies, with City contracts totaling $20,642,000, provide an estimated 24,000 children with morning and/or afternoon childcare each year. Should the March draft ordinance be implemented, initial estimates indicate a payroll increase that falls between $3.4 million and $7.6 million. If no additional resources are allocated to accommodate this payroll increase, staffing cuts of between 160 and 300 childcare workers could be necessary. Due to the required 1 to 15 staff to student ratio, the 6-to-6 Program availability could be reduced from between 2,400 to 4,500 students.

MAINTENANCE ASSESSMENT DISTRICTS

Among the 315 contracts on the list used in the preceding analysis, are the landscaping contracts funded by the Maintenance Assessment Districts (MADs) located in the City of

San Diego. Currently, the Park and Recreation and Community and Economic Development (C&ED) Departments manage 40 districts (39 MADs and one Property and Business Improvement District, or PBID). The majority of these are managed directly by a City employee, normally a Grounds Maintenance Manager. Through the Purchasing Division, Park and Recreation and C&ED competitively bid contracts to provide landscaping and related services in the City-managed districts. The Grounds Maintenance Manager oversees and manages the day-to-day operations of the contractor.

Based on the proposal from CPI, most of the contracts administered by Park and Recreation and C&ED for City-managed and self-managed districts would be impacted by the proposed Living Wage Ordinance. This would result in an increase in cost to both City-managed and self-managed Maintenance Assessment Districts. Assuming the current pay rate is $8 to $10 an hour (excluding benefits), and that rate was increased to $10 to $12 an hour, the percentage increase would be 15% to 20%. A key variable is whether benefits are currently paid by the contractors.

For instance, the Carmel Mountain Ranch Maintenance Assessment District contracted for landscape maintenance of medians, rights-of-way, and other areas within the community. In this example, the total contract value for the year's maintenance was $155,258. According to the time task costs included in the bid package submitted to the Purchasing Division by the vendor, the City was charged $10.00 per hour for the majority of tasks completed. Assuming that the employees of this landscaping contractor were paid 75% of the hourly charge (leaving 25% for the contractor's cover overhead expenses), the additional labor costs attributable to the March draft ordinance would fall between $22,000 and $40,000, depending on whether or not the contractor provides health insurance. On average, 3 to 4 contracts of this size are funded by each District, which would indicate an average additional cost of approximately $110,000 should the March draft ordinance be implemented.

Since most Maintenance Assessment Districts are built out and do not have sizable reserves, such a cost increase would likely result in financial difficulties for the districts. Usually, there are two options for districts in this predicament: reduce services to cut costs or raise assessments to increase revenue. While most districts are able to raise their assessments by the San Diego Urban Consumer Price Index, that rate has not exceeded 6% in the past seven years.

Therefore, a district with minimal reserves would have difficulty raising the additional 15% to 20% in assessments necessary to cover the costs of the living wage proposal. Under the guidelines of Proposition 218, affected parcel owners voted to establish their MADs by a simple majority vote. Any increases in their assessments beyond the amount authorized by the Assessment Engineer's Report (including the maximum authorized assessment and cost indexing factors) would require another vote and ballot of the affected parcel owners. The district would have to be balloted and voted again in order raise those assessments. Community members may disagree with reballoting their districts, since an external force is imposing the ballot requirement on them. The community members did not request a new ballot, but they may feel obligated to reballot in order to pay for the increased cost of services.

Ultimately, all MADs could potentially require either assessment increases or reduced services to correspond to the increased costs of services. It is possible that the affected residential and commercial improvement areas will vocalize that City services are too expensive as a result of the living wage ordinance, and some may vote to disband their district altogether. Based on discussions with various Community MAD Oversight Committees, many citizens do not want the imposition of living wage on their district and feel that it would cause undue financial hardship to undergo the reballoting process to raise assessments.

A reballoting effort costs approximately $30,000 to $60,000 per district, depending on the size of the district, scope of the improvements to be maintained, and number of affected parcels. As part of this process, the City would retain an assessment engineer in accordance with Proposition 218 to identify land use and determine an appropriate assessment for various property owners. The Park and Recreation and Community and Economic Development Departments would need to incur costs to manage the reballoting process, and the City would also incur costs to print, mail, and count the ballots. If all affected MADs and the PBID were impacted, the cost to reballot would likely exceed $2 million. Since most MADs do not carry sizeable reserves, they would not be able to afford this reballoting effort without support from another fund.

SOCIAL SERVICE CONTRACTORS

Social Service Contractor is defined on page 6 of 26 of the March draft as "any recipient of Community Development Block Grants (CDBG) Social Service contracts." Although the definition itself is ambiguous as to whether the Social Service Contractor group is a subset of Service Contractors or of Financial Assistance Recipients, CPI has informally indicated that social service contracts are intended to be treated as part of the Service Contractor group. Thus, any organization in receipt of CDBG social service contracts with a combined annual value exceeding $25,000 would be expected to comply with this ordinance. Based on initial review, approximately 33 agencies providing contracted services totaling $3.7 million in Fiscal Year 2004 would be covered under the proposed LWO (see attached list).

These organizations may also apply annually for a one-year exemption from Covered Employer status. Annual applications for this temporary waiver would include "an explanation of the severe economic hardship to the Social Service Contractor or the substantial negative impact on services that would result from compliance…"[08] with the ordinance. Only non-profit organizations receiving CDBG funding, however, would be eligible for this waiver based on the aforementioned definition of Social Service Contractor. Moreover, through an ongoing dialogue with the Commission for Arts and Culture, the San Diego Association of Non-Profits (SANDAN), and a number of representatives from local community service providers, there are concerns regarding the

[08] *City of San Diego Responsible Wage and Benefits Ordinance (MARCH DRAFT)*, Section 22.4105.

hardship waiver for the following reason: social service providers (i.e. homeless shelter and literacy workers) are paid comparatively low wages. Should those organizations be exempted from the provisions of the LWO on the grounds that there is no funding to support the payment of higher wages, then the under-valuation of social service providers will be perpetuated.

FINANCIAL ASSISTANCE RECIPIENTS

The third of the employer groups covered by the proposed LWO is financial assistance recipients and their subcontractors. Employers in this category are covered provided that they have entered into one or more financial assistance agreements with a combined annual value exceeding $500,000. Financial Assistance is defined on page 5 of the March draft ordinance as "funds or actions of economic value, provided to a business or through the approval of the City, for the purpose of encouraging, facilitating, supporting, or enabling economic development or job creation or retention…[and] does not include generalized financial assistance such as that provided through broadly applicable tax reductions or services performed by City staff to assist a Business."

Much like the issue of impacts to service contractors, there is very little research available on the impact to non-profit organizations covered by a living wage ordinance. In theory, for-profit employers can always, if needed, tap into profits to pay for wage increases, non-profits rely upon a fixed income often restricted to specific expenditures. Therefore, even small wage increases may have to be generated by cuts elsewhere, or passed along in increased contract cost to the City. The Brennan Center at NYU surveyed contract administrators in 14 living-wage cities, and found that "the largest pass-throughs occurred when living-wage laws applied to nonprofit human services. In San Francisco, with a $9-an-hour wage floor, the City's human-services contract jumped $3.7 million under the living-wage law – 1% of the City's $312 million human-services budget."[19]

Numerous other concerns have been raised about the impact of the proposed LWO on financial assistance recipients.

- The increase in salary would have to be across the board for all staff at an agency, not just those performing work on City contracts.
- The cost of providing full health coverage to all part-time employees regardless of the number of hours worked per week may be too burdensome for many social service providers, quite a few of whom rely heavily on part-time and seasonal employees.
- The higher wage requirement may disadvantage an agency or business in the competitive bidding process. Many social service providers bid for contracts not only with the City, but also with the County and other municipalities. If wages were increased to meet the City's new policy, the bids of those agencies for work outside the City would likely be much higher than the bids from organizations not working on City contracts. This might result in the reluctance on the part of various agencies to bid for City contracts.

[19] *The CQ Researcher*. Congressional Quarterly Inc., September 27, 2002: p. 778.

Based on the Fiscal Year 2004 Special Promotional Programs budget, those organizations in the Financial Assistance Recipient group that would be impacted include:

- San Diego Convention and Visitors Bureau
- San Diego Film Commission
- San Diego Regional Economic Development Corporation
- San Diego Opera Association

Organizations just under the $500,000 contract threshold include:

- San Diego Bowl Game/Holiday Bowl
- Globe Theaters
- La Jolla Playhouse
- Museum of Contemporary Art, San Diego
- Reuben H. Fleet Space Theater and Science Center/San Diego Space and Science Foundation
- San Diego Museum of Art
- San Diego Natural History Museum/San Diego Society of Natural History
- San Diego Symphony Orchestra, Inc.

EMPLOYERS AT CITY FACILITIES

The last of the employer groups covered by the proposed LWO is City Facility employers and their subcontractors. City Facility is defined on page 4 of 26 of the March draft ordinance as: "…any of the following facilities, in which the City has an ownership interest and/or which is a City Agency: Qualcomm Stadium, San Diego Sports Arena, San Diego Convention Center, and City Concourse." Impacted businesses at these facilities are employers of one or more employees that perform any of the following services:

custodial	security
concessions/retail sales	food service or preparation
parking services	office/clerical
landscaping	maintenance
ushers	ticket takers
housekeeping	laundry
warehouse workers	attendants
cashiers	

For the purposes of this analysis, employers at City Facilities are considered to face the same potential cost increases as Service Contractors. To illustrate this employer group, the Convention Center Corporation distributed a January 2004 report that details the impact of the proposed LWO on the San Diego Convention Center Corporation (SDCCC) Facilities, including the Convention Center, the Concourse, and the Civic Theater, based on the period between November 2002 and October 2003. The study resulted in the following conclusions:

IMPACT GROUPS		
Employees of the Convention Center Corporation		
	Convention Center	$ 1,930,163
	Concourse	$ 324,664
	Civic Theater	$ 292,644
	TOTAL	$ 2,547,471
Contractors and Subcontractors funded by the SDCCC		
	Window Washing	$ 3,480
Contractors and Subcontractors paying commission to the SDCCC		
	Catering	$ 1,256,030
	TOTAL	**$ 3,806,981**

Unfortunately, due to time constraints, the SDCCC was unable to complete a full analysis of the impact to the third group, the contractors and subcontractors from whom the SDCCC receives commission revenue. Therefore the total impact of $3,806,981 is actually a minimum.

The actions that the SDCCC feels would be required should the proposed LWO be implemented include:

- Diverting the City's investment in the Convention Center away from business development and using it to cover the increased payroll expense.
- Reducing personnel at the Convention Center, thereby reducing services provided to clients at that facility.
- Closing the Concourse due to the fact that revenues are insufficient to cover even current operational expenses, let alone increased wage levels.
- Increasing the rental rates, ancillary rates, and concession prices at the Civic Theater, in absence of an increased City subsidy.
- Increasing rates to both patrons and community performing arts groups at the new Balboa Theater, in absence of an increased City subsidy.

Qualcomm Stadium and the Sports Arena may have similar increases to their operations as a result of implementation of a living wage ordinance. The fiscal impact to these organizations has not been analyzed at this time.

<u>COMPLIANCE</u>

One of the major obstacles to effective implementation of living wage policies throughout the country has been monitoring and compliance. The vast majority of living wage ordinances rely on a complaint-driven process to ensure that covered employers are in compliance with new wage and benefits policies. Generally procedures are put in place to allow a worker to lodge a complaint with the city if his or her employer is not paying the mandated wage. There are, however, barriers inherent to this type of procedure: in order for the complaint mechanism to be a successful means of enforcement, workers must be aware of their right to be paid a given wage, and must feel safe giving notice of their employer's violation of the policy without retribution. Both require that the municipality be proactive in its education, community outreach, and notification practices, which would require substantial additional staff time.

The administration of the LWO program would require a focused activity to meet the critical deadlines outlined in the proposed ordinance. All contract language, forms, rules and procedures must be developed. The Equal Opportunity Contracting staff in the Office of the City Manager would be required, on an ongoing basis, to identify covered contracts, coordinate Financial Assistance Agreements (not currently reviewed by EOC staff), receive and respond to complaints, perform investigations, participate in hearing procedures and publish required information on the City's website. Staff must also provide support for a sixteen-member advisory panel as outlined in both draft ordinances.

As indicated in the "Comparison of LWO Administration" (see attached chart), at least five positions would be required to adequately staff an LWO compliance program. In the City of San Diego, these five positions and related expenses would cost approximately $400,000 per year.

When the draft LWO is reviewed from a perspective of accomplishing optimum administration, several concerns arise:

- **Deadlines**: The time frames delineated within the March draft ordinance, of 60 days to Council and 90 days to implementation appear to be problematic. Selecting, securing and educating a staff will take an initial period; developing regulations will require additional time.

- **Advisory board**: An advisory board with sixteen members could prove to be unwieldy and time-consuming to manage. Oversight performance from a smaller group could be equally effective. Most other agencies do not maintain advisory boards.

- **Financial Assistance Agreements**: Identifying these agreements will require development of a process not currently in place and coordination among many different departments.

- **Requests for hardship waivers**: The CCO is assigned to grant waivers based on written requests submitting evidence. It is unclear how many requests there may be.

CONCLUSION

The Rules Committee motion requested an analysis of the potential benefits of the LWO to workers, family, and the community. As mentioned in the Discussion section of this report, there is very little empirical evidence available to help determine the potential for this proposal to positively or negatively impact the San Diego community. Some of the pertinent questions related to this topic, which cannot be answered at this point given the limitations of available research, are:

- How many people in the City of San Diego would benefit from this policy?
- How has the implementation of an LWO affected the cost of living in jurisdictions where it has been applied?
- What percent of employees paid a living wage rise above the poverty level compared with employees in non-living wage jurisdictions?
- Does the demand for, and cost of, social services increase or decrease in living wage communities?
- What impact does the living wage have on redevelopment and attraction of new businesses?
- By what percentage is the number of uninsured reduced by the implementation of a living wage?

The overall cost of this proposal is difficult to estimate at this point. Estimated increases to personnel expenses for City employees include only direct wage and fringe impacts, and do not account for the possible ripple effect within the entire classification system. Additionally, as access to wage and benefits data for contracted employees in the four remaining employer groups is unavailable, estimating cost to both the employers and the City would require more detailed research.

	November Draft		March Draft	
Employer Group	**# Impacted**	**Estimated Cost**	**# Impacted**	**Estimated Cost**
City of San Diego	1,323 employees	$7,932,000	478 employees	$797,125
Service Contracts (Including MADs)	159 contracts	$3,845,338*	142 contracts	$1,528,117*
Social Service Contracts (CDBG)	33 contracts	Not Available	33 contracts	Not Available
Financial Assistance Recipients	51 agencies	Not Available	4 agencies	Not Available
City Facility Employers	4 facilities	$3,806,981**	4 facilities	Not Available
~~Administration/Compliance~~		~~$4,000,000~~		~~$4,000,000~~
Administration/Compliance		$400,000		$400,000
		~~$19,584,319~~		**~~$6,325,242~~**
		$15,984,319		**$2,725,242**

* Estimated cost for Service Contracts is the middle of the range provided in the discussion on Page 11.
** Estimated cost for City Facility Employers includes only the impact to the Convention Center Corporation. Impact analysis for Qualcomm and the Sports Arena has not been completed.

It is unclear whether the proposed LWO is the best way to reduce the poverty level in San Diego. If the Rules Committee agrees to move forward with this concept, it is recommended that the City Manager and City Attorney work to draft an ordinance that is more closely aligned with the City of San Diego's specific needs and available resources. Due to potential costs to the City, the proposal should be discussed in the context of the Fiscal Year 2005 Proposed Budget.

ALTERNATIVES

1. Explore other options to reduce poverty in the City of San Diego, including the EITC match program.
2. Develop a different wage and health benefit amount based on one of the methodologies outlined on pages 6 through 8 of this report.
3. Request that staff continue to work with potentially impacted groups to further develop cost impact estimates.

Respectfully submitted,

Lisa Irvine Financial Management Director	Approved: P. Lamont Ewell City Manager

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ATTACHMENTS

Attachment A	Proposed City of San Diego Responsible Wage and Benefits Ordinance: Draft - October 29, 2003
Attachment B	Proposed City of San Diego Responsible Wage and Benefits Ordinance: Draft – February 29, 2004
Attachment C	Fiscal Year 2004 Community Development Block Grant (CDBG) Allocations
Attachment D	Chart: Comparison of LWO Administration