

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

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1. Purpose and Summary of this report

This report updates and amends my earlier report prepared in May 2003. In that report I provided estimates of the costs and benefits of the proposed Living Wage Ordinance for the City of Sebastopol as applied to city employees and service contractors.¹ The report concluded that the direct impacts of the policy were modest; for a small cost, the policy will bring an increase in the welfare of a small number of workers, and a commensurate improvement in the quality of city services. After additional analysis, this finding remains essentially unchanged.

In this report I present estimates of the costs and benefits of the proposed Living Wage Ordinance as it applies to city employees, service contractors, lessees, franchisees, and recipients of financial assistance. The analysis is organized around each of these categories. The revised estimates indicate that between 15 and 18 low-wage workers will receive wage and/or benefit increases worth an average of almost \$2,000 per worker per year under the proposed policy. This would cost employers a total of between \$33,000 and \$39,300 per year. The lower bound of this estimate represents the immediate short-term impact of the ordinance, while the upper bound represents the maximum likely impact should currently vacant City positions be filled. It is likely that most of this cost will be borne by the City. This represents no more than 0.5% of the 2002/3 City Budget, and between \$4.20 and \$5.00 per resident per year.

The remainder of the report is organized as follows:

- Section 2 discusses the assumptions, data and methodology used to compile this report.
- Section 3 examines the impacts on each category of employer covered by the proposed Living Wage ordinance.
- Section 4 presents the aggregate impacts of the proposed Living Wage ordinance.
- Section 5 concludes the report.

¹ In the earlier report I estimated that between 8 and 13 low-wage workers would receive wage and/or benefit increases worth an average of approximately \$2,250 per worker per year under the proposed policy. This would cost employers a total of between \$20,300 and \$32,300 per year, to be phased in over a period of up to three years. It is likely that most of this cost will be borne by the City. This represents no more than 0.4% of the 2002/3 City Budget, and between \$2.58 and \$4.11 per resident per year.

2. Assumptions, Data and Methodology

The proposed Living Wage Ordinance for the City of Sebastopol is assumed to follow the 2002 Revised Living Wage Ordinance for the City of Santa Rosa in all respects (see www.livingwagesonoma.org), except as noted here. The 'living wage' has been defined as \$14.00 per hour (comprised of a wage of \$12.25 per hour, plus health benefits valued at \$1.75 per hour), and 12 days of compensated leave per year. Employer paid-taxes are estimated to be 11.15% of wages and health benefits. Only contracts with for-profit firms in excess of \$10,000 per year, and grants and contracts with non-profit organizations in excess of \$20,000 per year would be covered by the proposed Living Wage ordinance.² These thresholds are lower than those proposed for the City of Santa Rosa. Various other exemptions apply; for example employers with fewer than 6 employees and workers in training positions are not affected by the proposed ordinance.³

The City of Sebastopol supplied the following information:

- A list of City Job Classifications, with information on benefit coverage.
- A list of non-profit organizations receiving grants / contracts in the 2003/4 Fiscal year.
- A list of current City Contracts.
- A list of city franchise holders.
- A list of city leaseholders.
- A list of miscellaneous agreements and Joint Powers Authorities.
- Contact names and numbers.
- Additional information was provided verbally by Susan Kelly (Assistant to the City Manager / Engineering Director), Ron Puccinelli (Finance Director), Kitty MacKay (Police) and collected from the City web site (<http://www.ci.sebastopol.ca.us>).

The methodology followed in preparing this report has been successfully developed in previous prospective studies of Living Wage Ordinances.⁴ Using the contact information provided by the City of Sebastopol I interviewed 35 representatives of firms, non-profit organizations and agencies to obtain specific information on the nature of the contractual arrangement, employment levels, hours worked, wages and benefit coverage.⁵ The report indicates where there are information gaps, and the likely influence of these gaps on the overall estimate. The report estimates wage and benefit improvements for directly covered workers and those that may experience a spillover effect⁶, as well as costs to employers.

² These thresholds were provided by the Living Wage Coalition; determining the final level of these thresholds is a policy matter for the Council. It should be noted that living wage ordinances elsewhere often differentiate between for-profit and non-profit service contractors because it is assumed that they have a different ability to absorb labor cost increases, owing to a variety of factors such as staffing ratios and consumer demand conditions.

³ The proposed Living Wage Ordinance may need to be amended to clarify that interns receiving course credit at a University or College are exempt from the Ordinance.

⁴ See Zabin, Reich and Hall (1999). *Living Wages at the Port of Oakland*. Report of the CLRE (IIR), UC Berkeley; and Reich, Hall and Hsu (1999). *Living Wages and the San Francisco Economy: The Benefits and the Costs* (In two releases). Report of the Bay Area Living Wage Research Group (IIR), UC Berkeley. [Both are available on-line at <http://iir.berkeley.edu/livingwage/>]

⁵ No Census or other secondary wage, benefit or employment data was used to compile this report.

⁶ Living Wage Ordinances may result in higher wages for workers not directly covered by the ordinance because of what are known as spillover effects. Economists typically distinguish between (1) vertical spillovers, raises within the firm that are designed to maintain the wage hierarchy, and (2) horizontal spillovers, raises within the firm to

3. Identification of covered workers

In order to estimate the impact of the proposed Living Wage ordinance, we examine the six categories of employment arising from City activities separately (see Table 1). These are city employees, and employees of non-profits, contractors, leaseholders, franchisees and miscellaneous agencies. In each case we identify the number of employees that will be covered by the proposed Living Wage ordinance.

Table 1: Employment resulting from City of Sebastopol activities

Category	All Grants / Contracts / Agreements	Affected Grants / Contracts / Agreements	Employees affected by proposed living wage	Comments
City Departments	-	-	12	3 positions currently vacant
Non-profit contracts / grants	7	1	6	All employees of Sebastopol Community Center; 4 receive direct increases, 2 spillovers
Service Contracts	19	1	(12)	Up to 12 Middle Way clients earning sub-minimum wages work on contract – may secure waiver
Leaseholders	14	0	0	
Franchisees	6	0	0	
Miscellaneous Agencies	7	1	(1)	Potential coverage of Burbank Housing Development Corporation employee

Note: Only includes grants to non-profits >\$20,000 and city contracts >\$10,000 per year. Grant/contract values rounded off to nearest thousand dollars.

3.1 City Employees: There are 3 full-time city positions (2 laborers, 1 police aide) that pay less than \$12.25 per hour, at least for some portion of the salary scale. These positions are currently filled, receive benefits and are assumed to receive at least 12 days paid leave. The proposed Living Wage Ordinance will raise the starting wage of these positions to, or slightly above, the living wage level and this increase will ripple up through the pay scales for these positions. However, there are unlikely to be spillovers to other permanent city positions since all have pay scales starting above \$14 per hour with benefits.

Nine part-time and/or temporary positions without benefits pay below the living wage level. The proposed Living Wage Ordinance will raise the pay in all of these positions to

maintain wage parity between covered and uncovered workers or raises in other firms that are competing in the same labor market as the covered firm. Empirical studies of minimum wage increases indicate that spillover effects attenuate rapidly; in other words, an increase in the wage floor does raise the wages of those just above the new wage floor, but does not shift the entire wage structure upwards. Hence such wage policies result in wage compression (for a review and application to California see Reich and Hall (2001). "A small raise for the bottom". In: Lincoln, J and P Ong., (eds), *The State of California Labor*. Institute of Industrial Relations: Berkeley). Current research indicates the spillover effects of living wage ordinances are more limited than those associated with minimum wages because they typically do not affect all the workers in a given labor market, but that they are similarly attenuated and so do contribute (modestly) to overall wage compression.

the mandated level.⁷ Of these, 6 are currently filled and 3 are vacant. I have estimated cost increases for the City both at the current employment levels and assuming that vacant positions are filled. I collected specific information on the number of usually hours worked for these positions (for example, 15 hours per week worked by crossing guards).

- 3.2 Grants / contracts with non-profit organizations: In the 2003/4 fiscal year only one grant / contract with a non-profit organization (*Sebastopol Community Center*) exceeded the \$20,000 threshold.⁸ Although grants have been larger in previous years before the current fiscal constraints, city officials do not expect grants to rise substantially in the foreseeable future. Hence, it is unlikely that any will be large enough to be covered by the proposed City Living Wage Ordinance.

The *Sebastopol Community Center* (SCC) is a non-profit organization offering educational and recreational services including music events, classes, crèches, and camps. The City and the SCC have a reciprocal relationship (it is listed in the City Budget as the Recreation Department); the SCC leases and manages various City-owned facilities, and makes these available for official City activities. In addition to an annual payment of \$25,000, the City also provides in-kind maintenance of the facilities used by the SCC to the value of \$23,996. Given the public service nature of the SCC and its close relationship with the City, I recommend clarifying (and amending if necessary) the proposed Ordinance to ensure that this organization and its employees are covered by the Ordinance.⁹

Although the Director of the SCC is the only full-time employee, an additional 11 people work regularly for the SCC. These include the Associate Director, Bookkeeper, the Director of the Pre-School Program and 4 Building Attendants, all earning above the proposed Living Wage level. The SCC hires part-time camp counselors for up to 10 weeks, and some of these positions earn below the proposed living wage level. However, these are likely to be exempt employees (aged under 21 years and working for less than 120 days). The only SCC employees earning below the proposed living wage are two office workers and two teacher's aides working in the Pre-School Program. Two other SCC employees may receive modest wage increases as a result of spillovers. The proposed Living Wage ordinance will cost this employer an estimated \$12,200 per year.

- 3.3 City Contracts: In the 2002/3 financial year, the City let 19 contracts, of which 15 were valued at \$10,000 or more. All but one of these contracts is exempt from, or unaffected

⁷ City staff have suggested that the Ordinance be amended so that part-time city employees not be covered. This would create the undesirable incentive to convert full-time positions into part-time positions, and ignores the fact that many part-time workers would prefer to work full-time and/or hold multiple jobs.

⁸ The proposed Living Wage Ordinance may need to be amended to clarify that non-profits organizations receiving grants are covered under Section 2.60.040c (Non-profit service contractors) and not under Section 2.60.040e (City Financial Aid Recipients).

⁹ City staff have raised the possibility that the employees of the SCC are exempt from the Ordinance because the City grant to the SCC pays less than 20% of the organization's wage bill. However, almost all of the activities of the SCC arise from the relationship between this organization and the City, and so the intent of Section 2.60.030d of the proposed Living Wage Ordinance implies that they should be covered.

by, the proposed ordinance. The one potentially affected contractor (*The Middle Way*) is likely to seek and obtain a waiver. The impact of the living wage ordinance on these contracts is thus likely to be zero.

The reasons why the 14 contractors are not affected are as follows:

- Seven contractors already pay their employees more than the proposed living wage level.
- In four cases, all employees of the contractor devote less than 20% of their working time to the City Contract.
- Three contractors employ fewer than 6 people. Should these contractors choose to expand their operations, their employees may become covered by the proposed Living Wage Ordinance.

The Middle Way is a non-profit organization that finds employment for approximately 30 adults with disabilities (called clients). *The Middle Way* has an open-ended contract currently worth \$20,923 per year to provide landscaping services to the City of Sebastopol. At the time of writing this report I do not have enough information to determine clearly whether the clients working on this contract will be affected by the proposed Ordinance. *The Middle Way* is likely to seek and obtain a waiver, and for this reason the costs of Living Wage coverage for clients have not been included in the aggregate estimate of the impact of the proposed ordinance.

In the earlier report, I estimated the impact of the proposed Living Wage Ordinance assuming that this contract employs 3 clients for approximately 30 hours each per week.¹⁰ If the proposed Living Wage were to be extended without adjustment to the clients of *The Middle Way* working on the City Contract, then the increased wage alone (i.e. to \$12.25 per hour, and excluding health benefits) would cost the employer approximately \$42,000 per year. *The Middle Way* is likely to be able to show that it is unable to comply with this requirement. If the proposed Living Wage, adjusted to reflect the performance level of the client, were to be extended to the clients of *The Middle Way* working on the City Contract, then the increased wage alone (i.e. to \$6.125 per hour, and excluding health benefits) would cost the employer approximately \$9,700 per year. This latter approach to *The Middle Way* contract may be regarded as consistent with the purposes of the proposed Living Wage Ordinance.

In a follow-up interview to prepare this report, the Director of *The Middle Way* indicated that work on this contract has been re-organized, and that now 12 clients work a total of at least 21 hours per week on the City Contract. However, without detailed information on the hours worked by individual clients, I have not been able to determine whether the clients work enough hours to be affected by the Ordinance (i.e. Section 2.60.030d).

¹⁰ Note that my earlier report contained a typographical error that incorrectly stated that each of these clients worked 30 hours per month on the City contract. In fact I was told that they worked 30 hours per week and my calculations reflected this. At \$20,923 per year, 3 people working 30 hours per month represent an hourly contract cost of almost \$20 per hour; this is clearly incorrect for such sub-minimum wage work.

3.4 City Leaseholders: Currently 13 organizations hold leases with the City of Sebastopol.¹¹ Leaseholders will only be covered by the proposed Living Wage Ordinance if they have 25 employees or more, and revenue of \$350,000 or more per year. Other exemption conditions also apply. The result is that no leaseholders are likely to be affected by the proposed Living Wage Ordinance, for the following reasons:

- Eight (seven confirmed, one assumed) leaseholders have too few employees.
- One leaseholder currently receives too little revenue. This leaseholder, the *Western Sonoma County Swimmers*, may be covered by the Ordinance if revenue grows sufficiently, and up to 20 year-round part-time employees could benefit.
- One leaseholder already pays their employees more than the proposed living wage level.
- In three cases, all employees of the leaseholder devote less than 20% of their working time to the city lease.

Note that two leaseholders, the SCC and the *Chamber of Commerce* also have contractual arrangements with the City of Sebastopol, and so may be covered under these provisions of the proposed Ordinance.¹²

3.5 City Franchisees: Currently 6 organizations hold franchises with the City of Sebastopol. Franchisees will only be covered by the proposed Living Wage Ordinance if they have 25 employees or more, and revenue of \$350,000 or more per year. Other exemption conditions also apply. The result is that no franchisees are likely to be affected by the proposed Living Wage Ordinance, for the following reasons:

- Two franchisees have too few employees.
- Two (one confirmed, one assumed¹³) franchisees already pay their employees more than the proposed living wage level.
- In two cases, all employees of the franchisee devote less than 20% of their working time to the city franchise.

3.6 Miscellaneous Agreements and Joint Powers Authorities: The City of Sebastopol has miscellaneous contracts and agreements, including Joint Powers Authority relationships, with 7 organizations. These consist of one proposed financial assistance relationship (with *Burbank Housing Development Corporation*), one non-contractual JPA agreement (with the *Sonoma County Community Development Commission*), and 5 JPA relationships that may be regarded as service contracts for the purposes of the proposed Living Wage Ordinance. None of these JPA service contracts are likely to be affected by the proposed Living Wage Ordinance because all employees devote less than 20% of their working time to City of Sebastopol business. This reflects the fact that the stake of the City of Sebastopol in the county-wide agencies / JPAs is typically no larger than its share of the county population. Furthermore, most employees working in these agencies are

¹¹ According to Mark Wheeler, the Sonoma County Office of Education no longer has a lease with the City.

¹² The proposed Living Wage Ordinance may need to be amended to clarify the coverage of employers with more than one type of contractual arrangement with the City.

¹³ At the time of writing, I was still awaiting a final response from Waste Management; my contact thought it was unlikely that any drivers devoting more than 20% of time to Sebastopol earned less than the proposed Living Wage level, but was confirming this assumption with senior management.

directly employed by the County of Sonoma and so receive wages and benefits above the proposed living wage level.

The *Burbank Housing Development Corporation* proposes combining various funding sources in order to develop and manage 30 rental housing units in the City of Sebastopol. The City Redevelopment Agency will contribute more than \$100,000 to this development and hence this employer will be covered by the proposed Living Wage Ordinance. The Director reports that most of their employees already earn more than the proposed living wage level, and that only one assistant resident manager is likely to earn less. The Director indicated that *Burbank Housing* seeks to be an employer that pays living wages, and it is assumed that this city financial assistant recipient will not change their development plans if the Ordinance is implemented, nor will they pass the additional costs on to the City.

4. Aggregate Impacts of the proposed Living Wage ordinance

Using the information presented in Section 3 (above), we are able to estimate the aggregate impacts of the proposed Living Wage ordinance. This is shown in Table 2. It is assumed that *The Middle Way* will seek and receive a waiver from the City Council.

It is estimated that between 15 and 18 workers will benefit from the ordinance, depending on whether the currently vacant city positions are filled. Workers will receive wage, health and leave benefit increases an average of close to \$2,000 per worker per year. The total cost to employers, which includes employer-paid taxes, will be between \$33,000 and \$39,300 per year. The lower bound of this estimate represents the immediate short-term impact of the ordinance, while the upper bound represents the maximum likely impact (i.e. if current vacancies in the City are filled).

This impact will be felt exclusively by the City and by one non-profit agency with which the City works closely. It is thus expected that almost all of the additional costs will be transferred to the City. The total estimated impact represents between 0.4% and 0.5% of the total 2002/3 Operating Budget of the City of close to \$8.5million, and between \$4.20 and \$5.00 per year for each of the 7,858 residents of the City.

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

Scenario	Benefiting workers	Average wage and health benefit increase per worker per year	Cost to employers per year (includes employer-paid taxes)	Cost per resident per year
City vacancies unfilled	6 Non-profit, 9 City employees	\$1,980	\$33,000	\$4.20
City vacancies filled	6 Non-profit, 12 City employees	\$1,960	\$39,300	\$5.00

Note that the following additional considerations apply to these estimates:

- (1) We have assumed that the administrative (monitoring and enforcement) costs of the Ordinance to the City, and of compliance with responsible bidder requirements by City Contractors, are negligible.¹⁴ The City will incur some one-off costs to draft appropriate language for requests for bids and contracts, and to establish appropriate procedures, as well as the ongoing costs of implementing the complaints procedure. However, given the scale of the City's contracting, these costs should be relatively small, and arguably should be regarded as part of the normal costs of exercising appropriate regulatory oversight in any contracting-out activity. Note also that the Ordinance is designed so that the main burden of monitoring and enforcement falls on workers and members of the community.
- (2) The Living Wage Ordinance will be phased in over a period of up to three years as existing contracts are renegotiated. However, it is expected that the costs and benefits estimated here will accrue within the first year of the Ordinance.

5. Conclusions

The general conclusions of my first report stand. It is clear that the proposed Living Wage Ordinance will have only a very small impact on the workers, firms and City of Sebastopol. The relatively modest costs and benefits of the proposed Living Wage Ordinance are a consequence of three factors. First, the City of Sebastopol has, for the most part, chosen not to contract out city services, and most city employees already earn a living wage. For example, most building maintenance is undertaken by the Public Works Department. Second, the City maintains close ties with a small number of non-profit agencies that provide a variety of public services. Employees in these agencies typically already earn a living wage, or, except in one case, they are likely to be exempt from the provisions of the ordinance. Third, in those cases where the City does purchase services from for-profit firms, the Service Contracts are too small to qualify for coverage under the proposed ordinance.

The direct impacts of the policy are thus modest; for a small cost, the policy will bring an increase in the welfare of a small number of workers, and a commensurate improvement in the quality of city services.¹⁵ However, in adopting the proposed Living Wage ordinance, the residents of the City of Sebastopol through their elected representatives, would be making a policy choice with an important indirect consequence. They would be establishing a minimum employment standard, thus securing the position of the City of Sebastopol as an economic actor committed to the protection of the livelihoods of workers.¹⁶

¹⁴ See Elmore, A. 2002. "The Impact of Living Wage Laws on Service Contracts and Local Economic Development Programs", Paper presented at ILE Graduate Student Conference, UC Santa Cruz. [Report and appendix available on-line at http://www.ucop.edu/ile/conferences/grad_conf/pdf2002/elmore.pdf and http://www.ucop.edu/ile/conferences/grad_conf/pdf2002/elmore_appendix.pdf].

¹⁵ For recent research on the service benefits of the Living Wage, see Reich, Hall and Jacobs (2003). *Living Wages and Economic Performance: The San Francisco Airport Model*. ILE (IIR), UC Berkeley. [Available on-line at <http://iir.berkeley.edu/livingwage/>]

¹⁶ This is especially important given the stated intention of City staff to contract-out services in future. While contracting out and co-operative service arrangements can be an important cost-saving strategy, the Living Wage is designed to discourage contracting out in order to lower wages and benefits. The most recent research on this topic shows that outsourced workers get lower pay, even when firm size, unionization and skill and demographic composition of the workforce are held constant (see Dube, A 2002. "Outsourcing and Wages in Service Occupations." Unpublished paper. Department of Economics, University of Chicago).