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# Living Wage Laws & Communities:

Smarter Economic  
Development,  
Lower Than  
Expected Costs

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## Introduction

In one of the most pronounced local policy trends in recent years, scores of cities and counties across the United States—more than one hundred as of July 2003—have adopted local “living wage” laws. Under these laws, employers receiving city contracts or city business subsidies must pay full-time workers a wage sufficient to support themselves and their families at a subsistence level.

The policy goals driving these initiatives—that hard work should be rewarded with adequate pay and benefits, and that taxpayer dollars should not support jobs that leave workers and families in poverty—have found broad support among local lawmakers and the public.

## Questions Asked

In assessing the value of living wage laws as policy tools, it is important to understand their costs and benefits for communities. Especially in a time of budget deficits and job losses, local policymakers have had two key questions about these laws:

- Will they increase the costs of city contracts?
- Will they limit the ability of cities to use business subsidies to increase the number of good jobs in their communities?

To answer these questions, we asked local government officials in communities with living wage laws to examine the impact of these laws after they were implemented. We have collected their findings in this report. Significantly, local government officials found:

- Only small increases in city contract costs as a percentage of city budgets—and less than initially expected.
- No significant adverse effects on city business subsidy programs—and in some cases such programs were actually strengthened.

By collecting the actual findings of government officials in communities that have implemented living wage laws, this report provides detailed information that may be valuable to other communities considering whether to enact similar laws.

<b>Jobs Covered by Living Wage Laws</b>	
The living wage laws analyzed in this report apply to jobs generated under two types of city programs:	
<b>City Contracts</b> Cities (and other local governments) employ private contractors to provide a range of services for the government and the public. Living wage laws require firms that perform city service contracts to pay their workers a “living wage”—generally set between \$8 and \$12 per hour—and to provide health benefits.	<b>City Business Subsidies</b> In order to attract or retain jobs in their communities, some cities offer taxpayer-funded business subsidies—usually in the form of grants, tax abatements or below-market bonds or loans—to employers that pledge to open or retain facilities in the community. Living wage laws require employers receiving city business subsidies to pay their workers a living wage and to provide health benefits.

## Key Findings

**For city contracts, local officials reported that cost increases have been small and less than initially expected.**

- For most cities, contract costs increased by less than 0.1% of the overall local budget in the years after a living wage law was adopted. See Table 1 on page 6.
- Generally, in each city a few contracts involving large numbers of low-wage workers—for example, contracts for janitorial or security guard services—increased substantially in price. For these few contracts, the contracting businesses submitted higher bids, or negotiated for higher prices, to perform the city work once the living wage requirement took effect.
- But the officials interviewed found that most contracts increased little, if any, in cost. In many cases, contracting employers were reported to have absorbed much or all of the additional labor costs without demanding increased funds from the cities.
- Living wage requirements encouraged some local governments to institute competitive bidding for contracts that had not been put out for bid in many years, reportedly yielding savings for the cities.
- In localities that extended living wage requirements to contracts for human services such as home healthcare or child care, cost increases were slightly larger—ranging from 0.3% to 2.79% of local human services budgets—although still quite moderate overall. See Table 2 on page 7.
- These increased costs reflect both the high concentrations of low wages among city-contracted caregivers, and the fact that cities have sometimes agreed to automatically pay for some or all of the increased wage costs for such contracts because of the vital nature of human services and the budgetary constraints faced by the non-profit agencies that often provide these services.

**For city business subsidy programs, local officials reported that they could still attract desired business development, and that living wage laws often reinforced smarter economic development focused on creating higher quality jobs.**

- Local officials reported that only in a very few instances did living wage requirements that applied to business subsidy programs limit their ability to attract desirable employers to their communities. See Table 4 on page 12.
- Many business subsidy programs already emphasized attracting high-wage jobs, so living wage laws effectively formalized and reinforced existing practices.
- Some local officials reported that a living wage requirement increased public support for their business subsidy programs by assuring taxpayers that public funds would be spent to attract only high-wage jobs.
- Relatively few local officials reported using their business subsidy programs to attract jobs in low-wage sectors such as retail, since such jobs are less beneficial to local residents and the economy than higher paying jobs. The few that did use subsidies to attract retail jobs reported that they were still generally able to attract such employers, although some cities renegotiated subsidy packages or chose to exempt some businesses from the living wage requirement.

## Background: What Is a “Living Wage” Law?

Over the past decade, increasing numbers of cities and counties across the United States have adopted “living wage” laws.<sup>1</sup> These local laws typically require that in order to receive service contracts or business subsidies from the local government, employers must agree to pay their workers a wage higher than the current federal and state minimum wages. The “living wage” label communicates that the higher wage levels required—typically from \$8.00 to \$12.00 per hour—are closer to the pay that full-time workers need to support themselves and their families at a subsistence level.<sup>2</sup> The goal of living wage laws, according to many local governments, is to create city contracting and business subsidy programs that prioritize high-wage job creation and do not inadvertently perpetuate poverty. Frequently, living wage laws index the “living wage” at or above the federal poverty level and require employers to provide benefits, such as health care and paid leave.

Cities and counties have long relied on private contractors to provide a range of services for both the government and the public. In recent decades this practice has only increased. Work needed by local governments such as guarding and cleaning public buildings, maintaining public parks, and staffing publicly-owned facilities ranging from parking garages to convention centers is now often performed by employees of private contractors. For some local governments, especially counties, service-contracting programs may also include the purchase from non-profit agencies of human services such as childcare or home healthcare for low-income local residents.

When localities adopt living wage laws, firms that bid for and win city contracts must agree to pay their workers the wages and benefits specified. While many of the first generation of living wage laws exempted from coverage human services contracts performed by non-profit agencies, recent ordinances—especially those adopted at the county level—have increasingly included such programs in their coverage. In promoting living wages for contracted human services workers, local governments emphasize that this sector contains some of the largest concentrations of publicly subsidized low-wage workers, and that low pay in human services programs contributes to staff retention and recruitment problems that can compromise the quality of care provided.<sup>3</sup>

Many living wage laws also cover local business subsidy programs. Such programs are generally designed to attract or retain desirable jobs in a locality by providing taxpayer-funded subsidies—usually in the form of grants, tax abatements or below-market bonding or loans—to businesses that pledge to open or retain facilities there. Some local business subsidy programs focus chiefly on attracting individual firms to the community. Others focus on subsidizing development projects that will attract clusters of businesses or large numbers of consumers, such as sports stadiums, convention centers or large-scale commercial zones. Local governments explain that by applying living wage standards as eligibility criteria for companies seeking city business subsidies, they maximize the return on taxpayer dollars by targeting the subsidies to employers that create better paying jobs.

Living wage laws vary considerably in coverage and scope. Some laws exempt certain categories of city contractors, such as non-profit agencies. Many apply the requirements only to service contracts or business subsidy awards above a specific size, or to firms with at least a certain number of employees. Most laws require employers to pay the higher wages and benefits only during the time that employees actually perform the publicly funded work. Under some laws, the city or county may grant exemptions to individual firms that demonstrate that they cannot reasonably afford to pay their employees a living wage due to budgetary or other constraints.

## Methodology

In order to examine the effects of living wage laws on local governments, we interviewed officials and administrators from twenty cities and counties that had enacted and implemented living wage laws at the time the study was done. The information in this report was provided by local officials in twenty cities and counties—the entire group of cities and counties that, by late 2001, had both (1) a living wage law that had been in force for at least one year, and (2) the administrative capacity to produce cost impact estimates, formal internal evaluations, or other empirical assessments of the effects of their laws.<sup>4</sup> In many cases, localities had conducted the necessary analysis to report on the effects of their living wage in just one of the two focus areas—service contracts and business subsidies—but not both. Combining larger cities like San Francisco, CA and San Antonio, TX with medium-sized cities like Oakland, CA and smaller cities like Madison, WI and Warren, MI, the study reflects the experiences of a broad range of communities.

In compiling this report, we (1) conducted structured interviews with government administrators and lawmakers; and (2) analyzed studies done by the localities themselves. In all these communities, some sort of centralized authority possessed information on the local government’s experience with its living wage law. In some localities, this took the form of an administrator charged with overseeing implementation. In a number of the communities, the locality had conducted a formal review of the law’s impact that examined its effects on costs of city contracts or on the operation of city business subsidy programs. We focused our questioning on the living wage laws’ effects on the local governments’ contract costs and city business subsidy programs. In an effort to limit the possible effects of biases by lawmakers and administrators—biases either in favor of or against the living wage policy—we attempted wherever possible to draw data from several sources, including interviews with different city officials and written city reports or analyses.

While this report does not reveal every aspect of the effects of these laws, the experiences and analyses of local officials with firsthand knowledge offer important insights into the impact of living wage laws.

## Relationship to Other Research

As the first comprehensive overview of the direct experiences of a group of cities and counties with living wage laws, this report adds to our understanding of the effects of these policies.

Our findings that living wage laws have resulted in only modest cost increases for cities are consistent with most of the existing research on living wages. Studies conducted prior to the adoption of living wage laws have projected their likely cost impacts on both the payrolls of city contractors and on prices for city contracts. Most have predicted that only a portion of the higher wage costs would be passed on to cities in the form of higher contract prices.<sup>5</sup> As more living wage laws have been enacted, researchers have begun to use actual city contracting and budget data to assess the impact of living wage laws in individual cities after their implementation. Several studies analyzing city contract prices relatively shortly after living wage laws were adopted found that cost increases were generally modest.<sup>6</sup> More comprehensive recent research analyzing contract costs in three cities several years after living wages were implemented found that contract costs decreased in real terms in the aggregate, although some individual contracts increased in price, particularly those that were bid on an hourly basis and that involved large concentrations of low-wage workers.<sup>7</sup>

One recent study attempted to assess *indirectly* the impact of living wage laws on local economies by looking for trends in regional poverty and employment data in cities with living wage laws.<sup>8</sup> However, because only a tiny percentage of workers covered by living wage laws are included in those regional data sets, the study's approach and findings have been called into question by other researchers.<sup>9</sup>

## Findings

### City Contracts: Lower Than Expected Costs

We interviewed administrators and lawmakers from a total of fourteen cities and counties to assess the degree to which living wage laws increased the costs of city service contracts. (Six other localities from the total of twenty cities and counties studied were able to assess the impact of living wage laws on their business subsidy programs, but not on their service contracts.) One would expect that requiring higher wages would result in some increase in the cost of service contracts. However, as summarized in the following tables, the reported increases in service contract prices were consistently very small—generally ranging between 0.003% and 0.079% of the localities’ budgets.

Locality	City Budget	Contract Cost Increase	Increase as a % of City Budget
Alexandria, VA	\$395,636,000	\$265,000	0.067%
Berkeley, CA	\$289,546,000	\$229,000	0.079%
Cambridge, MA	\$296,467,000	\$150-\$200,000	0.067%
Hartford, CT	\$422,667,000	\$160,000	0.038%
Hayward, CA	\$135,400,000	\$9,000	0.006%
Madison, WI	\$159,000,000	\$29,000	0.018%
New Haven, CT	\$511,071,000	\$20,000	0.003%
Pasadena, CA	\$493,596,000	\$240,000	0.049%
San Jose, CA	\$645,000,000	\$40,000 <sup>10</sup>	0.006%
Warren, MI	\$136,490,000	\$60,000	0.040%
Ypsilanti, MI	\$13,000,000	\$6,000	0.044%
Ypsilanti Twship, MI	\$24,745,000	\$0 <sup>11</sup>	0.0%

As expected, contract costs did increase modestly as a result of living wage laws:

- Cost increases for mid-sized cities—Alexandria, VA, Berkeley, CA, Cambridge, MA, Hartford, CT, New Haven, CT, Pasadena, CA, and San Jose, CA—ranged from \$40,000 to \$265,000.
- Smaller cities—Hayward, CA, Madison, WI, Warren, MI, and Ypsilanti, MI—reported minor cost increases of between \$10,000 and \$60,000.
- These service contract cost increases represent a very small proportion—in all cases less than 0.08%—of the cities’ operating budgets.<sup>12</sup>
- This modest impact led most administrators to report that contract costs as a whole did not increase significantly after passage of a living wage law.<sup>13</sup>

As Madison’s comptroller stated, “[from a] city-wide view, the actual fiscal impact [of the living wage law] has been negligible.”<sup>14</sup>

However, administrators did note significant increases in costs for specific contracts in sectors involving labor-intensive work performed by large numbers of low-wage workers. In some localities, several such contracts increased substantially in cost:

- In Hartford, a contract for security services, the first contract covered by the city’s living wage law, increased by \$160,392 or 30.5% from the year before.<sup>15</sup>
- Two of the 23 contracts covered by the Alexandria, VA living wage law increased by over 20%, with an average increase of 10.6%.<sup>16</sup>
- Similarly, Warren, MI reported a contract price increase of \$61,848 or 22% from the previous year following the re-bidding of its janitorial contract.<sup>17</sup>
- Compliance with Berkeley’s living wage law caused that city’s security contract to increase from \$55,000 to \$114,000, doubling in price.<sup>18</sup>

These significant increases are not surprising given living wage laws’ focus on increasing pay for workers at the bottom of the economic scale. One would expect contracts for labor-intensive services such as security, groundskeeping, and janitorial services to increase because such contracts usually employ a large low-wage workforce.

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The living wage laws in the above cities generally did not cover contracts for social services such as home healthcare or child care, which typically involve large concentrations of low-wage workers. Human and social services contracts were not covered in many communities, either because such services tend to be provided by counties rather than cities, or because some of the earlier living wage laws exempted non-profit human services providers from coverage.

However, three of the localities studied—Berkeley, CA, Dane County, WI, and San Francisco, CA—did have substantial contracting programs in the human services area that were covered by their living wage laws. Moreover, unlike most cities, these localities were able to provide more refined data showing the increase in contract costs as a percentage of the annual human services contracting budget rather than as a percentage of the overall municipal budget. We therefore list these increases as a percentage of their human services budgets with the reminder that, as a percentage of the overall municipal budget, these costs would be substantially smaller. In all three cities, the impact on the overall city budget was still manageable. But these figures indicate that cities planning to cover human services programs under their living wage laws should prepare for modest increases in their human services budgets to accommodate the higher labor costs.

Human services contracts covered by living wage laws saw slightly larger average cost increases than did other categories of contracts:

<b>Locality</b>	<b>Budget for Human Services Contracts</b>	<b>Cost Increase for Human Services Contracts</b>	<b>Increase as a % of Human Services Budget</b>
Berkeley, CA	\$6,099,000	\$170,000	2.79%
Dane Cty, WI	\$112,000,000 <sup>19</sup>	\$338,000 <sup>20</sup>	0.3%
San Francisco, CA	\$312,000,000 <sup>21</sup>	\$3,714,000 <sup>22</sup>	1.01%

- Berkeley, CA saw costs increase in its human services budget by \$170,000 to meet its living wage requirement of \$9.75 an hour.
- Dane County, WI increased its human services budget by \$676,000 between 2001 and 2002 in order to raise the minimum wages of approximately 645 full-time human services personnel to \$8.53 an hour.<sup>23</sup>
- San Francisco increased its human services contracts by \$3,714,000 in order meet its living wage requirement of \$9.00 an hour.<sup>24</sup>

Although these increases were among the largest average increases reported by the localities reviewed in this study, they still represent a modest proportion of these local governments' human services budgets. The largest proportional increase occurred in Berkeley, CA, where the human services contracts totaling \$6,098,578 increased by 2.79% as a result of the living wage law. In San Francisco, where the human services contract budget is \$312 million, the living wage resulted in a cost increase of approximately 1%. The increase in Dane County represents a 0.3% increase in the locality's current

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**These experiences suggest that local governments that extend living wage laws to non-profit human services programs can anticipate slightly larger — but, overall, still quite modest — increases in the costs of such contracts.**

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\$112 million human services budget. These experiences suggest that local governments that extend living wage laws to non-profit human services programs can anticipate slightly larger—but, overall, still quite modest—increases in the costs of such contracts.

In preparing for implementation of their living wage laws, several cities made budget impact projections based on the assumption that contractors would pass through the entire cost of the increased wages to the city in the form of higher contract prices. However, all of the cities that did so reported to us that their projections substantially overestimated the actual impact that their living wage law had on local contracting costs. As shown in Table 3, actual cost increases ranged from 30% to 50% lower than projections.

Locality	City Budget	Projected Increase	Actual Increase	Difference
Alexandria	\$385,636,353	\$500,00	\$265,988	-47%
Berkeley	\$289,546,000	\$479,425	\$228,800	-52%
Cambridge	\$296,466,580	\$300,00	\$150-200,000	-33%–50%
Pasadena	\$493,596,335	\$340,000	\$240,000	-30%

Other reports from local governments suggest that many localities experienced smaller contract price increases than they anticipated:

- In Dane County, an analysis of four contracts involving low-wage work that county staff had projected would increase in cost revealed that only one did so (by 10.2%) from 2001 to 2002, while the other three contracts actually decreased in cost.<sup>26</sup>

- The New Haven Controller reported that “we originally thought [that the living wage law would have] a significant impact [on agency budgets].” However, reports from agencies after the first year of implementation show that New Haven contracts have never exceeded their line in the budget, despite the law’s increased coverage as more contracts have been re-bid with the living wage requirement.

These modest cost increases suggest that only a portion of the higher labor costs resulting from living wage laws end up being passed on to cities in the form of higher contract prices.

## **Factors That May Account for Limited Impact on Contract Costs**

The modest increases in contract costs resulting from living wage laws have surprised some observers and have led to an examination of why this is the case. The experiences reported to us by the cities and counties in the sample suggest that two factors contribute to this result: the small number of covered service contracts that involve large concentrations of low-wage workers, and an evident capacity of many contractors to absorb a portion of the higher labor costs.

### **Relatively Few Service Contracts Have Large Concentrations of Low-Wage Workers**

One reason why the cost impact of living wage laws tends to be so small is that, in most localities, relatively few of the covered service contracts involve large concentrations of low-wage workers. To begin with, most living wage laws incorporate minimum size thresholds that exclude from coverage small businesses or businesses with small city contracts. Among those service contracts that are covered, many involve relatively few workers whose pay must be raised to meet the living wage standard. In most cities it is only a handful of contracts—typically those for janitorial and security guard services—in which substantial numbers of workers must be given raises in order to meet the living wage. This is particularly true for city-level living wage laws, which seldom cover non-profit human services programs—the service contracting area generally involving the largest concentrations of low-wage staff.

However, the limited number of covered service contracts involving large concentrations of low-wage workers does not fully explain the small contract cost increases that cities have experienced. As explained earlier, several cities found that contract cost increases were substantially lower than projected—projections that generally took into account the distribution of low-wage workers under the covered contracts.

### **Contractors Absorbed Some of the Labor Cost Increases**

Based on reports from cities and counties, a second key factor contributing to limited contract cost increases appears to have been contractors absorbing some of the new labor costs rather than fully passing them on to the localities through higher contract prices.

Why did contractors absorb some of the costs?

First, the enactment of living wage laws led several local governments to open for competitive bidding some contracts that had not been subject to this process for some time. Many

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**A policymaker in Ypsilanti Township, MI remarked that the Township’s major contracts had “more bidders than ever before, at even better rates.”**

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administrators believe that this newly competitive contracting environment led contractors to be more willing to absorb some of the increased costs associated with the living wage law in order to remain competitive and secure the highly valued contracts. A policymaker in Ypsilanti Township, MI remarked that the Township's major contracts had "more bidders than ever before, at even better rates." She attributed the lower bids to the living wage law, which subjected contracts to a competitive bidding process with fixed wage and benefit requirements. In order to remain competitive, bidders had to "be tighter and provide less of a profit margin."<sup>28</sup> In fact, an administrator from Alexandria found that "[t]here have been some competitive advantages to rebidding. We have seen some incumbents who lost on the second go-round, and it may be due to the bidding process."<sup>29</sup> Contractors plainly saw the contracts as desirable despite costs associated with the living wage laws.

Similarly, costs appear to have been kept down in circumstances where cities negotiated directly with their contractors to share the cost increase. For example, in the first year that it implemented its living wage law, the Pasadena Purchasing Department projected the additional labor costs that the living wage mandate would generate on five service contracts, and negotiated for a cost split between the city and the contractors, with the contractors absorbing nearly half of the total labor cost increase.<sup>30</sup>

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**A study of living wage costs at the San Francisco International Airport found that higher labor costs were partially offset by savings to the companies in the form of reduced employee turnover and increased productivity.**

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In addition, some contractors appear to have absorbed some of the living wage-related labor cost increases, even in the absence of a competitive bidding process.

- For example, an analysis by the San Jose Contract Compliance office found that in San Jose's contract with the city's convention center, the living wage requirement increased labor costs by 4%, yet the cost of the contract increased by only 1.5%.<sup>31</sup> The city's analysis concluded that 61% of the increased costs were simply absorbed by the convention center.
- In Hayward, CA, after examining the payroll records of all service contracts covered by the city's living wage law, Hayward's auditor concluded that service contractors changed their pay scales to comply with the living wage requirements without demanding an increase in the contract prices from the city. The auditor attributed the contractors' willingness to absorb the increased labor costs to the modest size of the cost increases created by the living wage on most city contracts.<sup>32</sup>
- The director of purchasing of San Francisco remarked that the living wage law was a "non-event" among for-profit service contractors, and that contractors typically paid the living wage requirement without complaint or a request to modify in the contract.<sup>33</sup>

These reported experiences of cities and counties generally suggest that where service contracts reflect generous or above-market profit margins (as may be the case for contracts that have not been competitively bid for some time) and a living wage law increases labor costs modestly, contractors are likely to absorb a significant share of the increased labor costs. On the other hand, where contracts have small, defined profit margins and involve large concentrations of low-wage workers (as is often the case for non-profit human services contracts), the cost increases resulting from a living wage law will be larger and it may be necessary for the local government to bear a greater proportion of them.

Finally, contractors may have absorbed some of the increased labor costs because the costs were offset by savings resulting from decreased turnover and higher productivity among the workers whose wages rose because of the living wage requirements. When the Pasadena Budget Administrator interviewed contractors affected by that city's living wage requirement, a number reported that the higher wages had reduced turnover in their workforces.<sup>34</sup> This finding is consistent with studies that have concluded that living wage laws generate countervailing savings for employers that offset a portion of the increased labor costs. For example, a study of living wage costs at the San Francisco International Airport found that higher labor costs were partially offset by savings to the companies in the form of reduced employee turnover and increased productivity.<sup>35</sup>

## **City Business Subsidies: Smarter Economic Development**

City and county business subsidy programs typically provide taxpayer-funded grants, tax abatements or subsidized loans to businesses that in exchange pledge to create or retain jobs in the locality. In recent years, localities have begun to include such programs under their living wage laws. As explained by staff in the cities and counties in our study, doing so effectively establishes a city policy that business subsidies must be reserved for creating better-paying jobs in the locality. Our investigation examined the experiences of cities and counties that have extended living wage requirements to their business subsidy programs. Our aim was to learn whether cities and counties found such requirements impeded the efficacy of their programs.

### **Employers Have Continued to Seek City Business Subsidies in Localities Where Subsidized Jobs Must Pay a Living Wage**

Local policymakers have sometimes voiced concerns that living wage laws could harm local economies by deterring firms from participating in business subsidy programs—and therefore from locating or remaining in a community. Some have feared that it might be unrealistic to recruit businesses willing to pay higher wages and that a living wage requirement might prevent a city from attracting minimum wage employers—businesses that, while perhaps less valuable to the local economy, might nonetheless offer some benefits such as generating sales tax revenue.

In order to assess whether businesses might be deterred from participating in business subsidy programs because they are unwilling to pay higher wages to their employees, we looked at ten cities with a living wage requirement for subsidized economic development projects: Duluth, MN; Los Angeles, CA; Minneapolis, MN; Oakland, CA; San Antonio, TX; San Francisco, CA; Toledo, OH; Warren, MI; Ypsilanti, MI; and Ypsilanti Township, MI. These ten cities represented all of those nationally that had had a living wage requirement for subsidized economic development projects in place by 2000—a year before the study began—and where we were able to identify a city administrator able to assess the impact of the living wage policy on the city program.

We interviewed policymakers and economic development personnel in these cities, and examined reports prepared by the economic development departments of Duluth, MN, Toledo, OH and Oakland, CA to determine whether businesses have continued to participate in business subsidy programs in localities where subsidized jobs must pay a living wage. As Table 4 on the next page shows, almost no adverse impact on subsidized economic development projects could be detected.

Overall, administrators concluded that the requirement to pay a living wage and health benefits to employees did not result in fewer applicants for business subsidies.<sup>36</sup> In fact, a number of cities reported banner years for economic development in 2001, with correspondingly low local unemployment levels.<sup>37</sup> Administrators who noted a decline in economic development since 2001 attributed this to general economic conditions, rather than to business concerns about the living wage requirement.

<b>Table 4: Impact of Living Wage Laws on City Business Subsidy Programs, 2001</b>			
<b>Locality</b>	<b>Type of Projects</b>	<b>Number of Projects with Living Wage Conditions Each Year</b>	<b>Number of Projects Cancelled Because of Living Wage Law</b>
Duluth, MI	Health Care, Technology	2	0
Los Angeles, CA	Mixed Use	3	0
Minneapolis, MN	Technology	6-7	0
Oakland, CA	Mixed use	1	0
San Antonio, TX	Technology, Finance, Manufacturing	4	0
San Francisco, CA	Mixed use	1	1
Toledo, OH	Industrial	n/a	0
Warren, MI	Industrial, Manufacturing	4-6	0
Ypsilanti, MI	Industrial	1	0
Ypsilanti Township, MI	Technology, Industrial	5	0

- Minneapolis, which has had a living wage requirement in effect since 1998, has seen no drop in applications for business subsidies under its economic development program, and no complaints from businesses since it implemented its living wage policy.<sup>38</sup>
- In San Antonio, which last year expanded its living wage policy to incorporate a base living wage standard for all of business subsidy recipients’ employees, the Economic Development Department successfully recruited a grocery firm to locate its meat distribution plant in the city, which is expected to create 40 new jobs at or above the \$8.75 living wage rate.<sup>39</sup> In negotiating the project, the company raised no objections to the wage requirement.<sup>40</sup>
- In Toledo, which experienced a drop in applications for subsidized loans for machinery and equipment in 2001, the economic development administrator attributed the decrease to current economic uncertainties—not the obligation to pay a living wage.<sup>41</sup>
- Similarly, administrators in Los Angeles and Oakland attributed any reduction in retail development to the recent decline in tourism, rather than the living wage requirement.

**Limited Impact Even on Business Subsidy Programs That Target Employers in Lower Paying Sectors Such as Retail**

Generally, few cities use economic development funds to subsidize the creation or retention of jobs in low-wage sectors such as retail. Many localities do not see providing business subsidies to retailers, whose employees generally earn at or just above the minimum wage, as the best use of scarce economic development dollars. As Karen Lovejoy Roe, Supervisor of Ypsilanti Township, explained, “the Township Board . . . feels that if you are going to cut a person’s taxes to promote economic development, it’s only worthwhile if the employees are making a decent living standard.”<sup>42</sup> As a result, few of the localities provided subsidies directly to retail establishments.

However, more communities do choose to subsidize mixed-use development projects, which may include some combination of office, housing, and retail space. The economic development departments in San Francisco, Oakland, and Los Angeles have mandated that developers of mixed-use development projects make efforts to ensure that their retail tenants pay the living wage rate. In these instances, local governments have had mixed success with retail establishments.

- In Oakland, city officials reported that two retail development projects had been cancelled in recent years, but attributed the result to factors other than the living wage law.<sup>43</sup>
- In Los Angeles, developers of two subsidized projects, including the Staples Center stadium development project, agreed without complaint to the living wage requirement, while a third project proceeded by exempting some retail and restaurant staff from the requirement.<sup>44</sup>
- In San Francisco, a supermarket, while claiming that it paid its employees a living wage, chose not to accept a business subsidy package citing a desire not to be subject to the living wage reporting requirement.<sup>45</sup>

Generally, cities reported that the overall economic climate and traditional economic development concerns were the dominant factors in decisions by developers whether to seek or accept public business subsidies for economic development projects involving retail components. Cities interviewed, such as Oakland, attributed developer decisions not to pursue subsidized retail development projects chiefly to traditional considerations, such as project location, availability of parking, and consumer spending, rather than the applicability of a living wage requirement.

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Finally, the experiences of these cities and counties suggest that living wage requirements may help cities in directing public funds away from retail projects that often bring fewer returns to their communities. In fact, Oakland's experience indicates that the failure of its proposed retail projects may have been a blessing in disguise. Using the same land and fewer taxpayer resources, Oakland sold most of the city property originally slated for retail development to a telecommunications manufacturer, which is expected to create 1,200 high-wage jobs without requiring city subsidies.<sup>46</sup> The remainder of the property is being developed into an automotive facility by a unionized firm that pays its employees at or above the living wage requirement. Thus, even where a living wage requirement limits the feasibility of economic development strategies focused on low-wage sectors such as retail, this may help cities in re-directing business subsidy resources towards other sectors that more readily yield good jobs for the community.

## **Factors That May Account for Limited Impact on Local Business Subsidy Programs**

Administrators attributed the living wage laws' limited impact on business subsidy programs to two key factors: (1) the fact that many business subsidy programs were already focused on recruiting businesses in sectors that offer higher wages; and (2) the greater public acceptance of business subsidy programs that they believe living wage policies can generate. At the same time, administrators reported that living wage laws helped sharpen the focus of their business subsidy programs on attracting jobs that generate the greatest benefits for their communities.

### **Firms Targeted by Economic Development Agencies Already Paid Higher Wages**

Several administrators commented that because their business subsidy programs already aimed to recruit firms paying better than average wages, the living wage law did not change their way of operating but rather formalized a pre-existing policy preference. As a consequence, only two cities identified businesses that they sought to recruit with taxpayer subsidies where the employer had to raise some workers' pay in order to meet the living wage standard:

- Duluth reported that in 2000, a health maintenance organization recruited with a public subsidy package raised wages for 95 workers in order to meet the city's living wage standard.<sup>48</sup>
- Toledo reported that in 2000, a telephone answering company seeking a public subsidy raised pay for 25 employees in order to meet the city's living wage standard.<sup>49</sup>
- However, Minneapolis, Warren, Ypsilanti and Ypsilanti Township reported that all jobs at businesses targeted by their economic development programs—chiefly firms in the industrial and technology sectors—already paid a living wage and thus no wage adjustments were required by firms recruited with subsidy awards.<sup>50</sup>

For the majority of the localities, living wage laws did not require changes in the operation of their business subsidy programs because the programs already targeted for recruitment firms that paid living wages.

### **Living Wage Laws Increased Public Confidence in Business Subsidy Programs**

Some cities indicated that their living wage policies actually boosted public acceptance of local business subsidy programs. They found that residents who questioned the value of providing taxpayer subsidies to business were less hostile to an economic development program that guarantees that the jobs created pay at least a living wage. According to a San Antonio economic development agent, the living wage law has “helped eliminate the controversy associated with [the economic development] program [because] . . . groups hostile to incentives in the past aren't as hostile with the living wage component.”<sup>51</sup> A Los Angeles administrator who negotiated with the developer of the Staples Stadium development project echoed this sentiment by noting that project's acceptance of the living wage requirement “aided the developer in getting community support.”<sup>52</sup>

#### **Living Wage Laws Helped Focus Business Subsidy Programs**

Administrators report that living wage laws can help focus business subsidy programs by prioritizing high-wage job creation. For example, the economic development director of Duluth recounted that in the 1970's, when Duluth had one of the highest unemployment rates in the country, the city used tax dollars to attract any jobs it could, regardless of the wage level. However, with a more moderate unem-

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ployment rate in the 1990's, it adopted a living wage law to "formalize a strategy of [promoting] living wage jobs."<sup>53</sup> As a result, Duluth now provides subsidies only to firms such as software and healthcare companies that expand the city's base of better-paying jobs. The manager concluded that the living wage law "sends a strong signal to policymakers that they need to seek higher wage jobs."<sup>54</sup>

In fact, seeking to maximize the number of better-paying jobs supported by their business subsidy programs, some economic development agencies have extended living wage requirements to subsidy projects not actually covered by their local ordinances. The Los Angeles community development agency has applied a living wage requirement for developers seeking public subsidies for retail projects that were not formally covered under the city's living wage law. According to a community development officer, as a result of these projects "we've set a baseline that any redevelopment project of any size has to [pay a living wage]. Anyone that deals with us has got to pay their direct people a living wage. And even if the [living wage law] doesn't cover retail, it gets put on the table."<sup>55</sup>

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San Antonio's living wage law not only provided the city with an incentive to focus on attracting high-wage jobs, but also encouraged its economic development department to think strategically about how to prepare local residents for these positions. Its living wage law helped San Antonio focus its tax abatement pool on recruiting high-wage firms such as Boeing, Chase Bank and a commercial airline overhaul company.<sup>56</sup> Turning then to the task of equipping as many residents as possible with the skills necessary to be hired and advance in these jobs, San Antonio designed a workforce development program that combined worker training, financial assistance for students attending college and technical schools, and apprenticeship placements.<sup>57</sup>

## Conclusion

The experiences of the initial group of twenty cities and counties studied in this report are clear: living wage requirements have not significantly increased contracting costs or adversely affected the operation of business subsidy programs. The overall cost increases were quite low and less than anticipated, generally ranging from 0.003% to 0.079% of the localities' total budgets. In some communities, a few service contracts involving large concentrations of low-wage workers increased in cost more substantially, but increases were still quite modest overall.

The municipalities that extended living wage laws to their local business subsidy programs found that these policies did not prevent them from attracting new businesses to their communities. Several cities found that applying a living wage standard to these programs focused their economic development agencies on recruiting higher wage employers, and in some cases allayed public doubts about the appropriateness of using taxpayer dollars to support private businesses.

This snapshot of the actual effects of fully implemented living wage laws in a range of localities sheds light on the budget and economic consequences of such measures and provides useful guidance for policymakers considering adopting living wage laws in their communities.

## End Notes

- 1 Since 1994, more than one-hundred cities and counties have passed local living wage laws, and seventy-five other communities are considering some form of living wage legislation. ACORN Living Wage Resource Center, Living Wage Successes: A Compilation of Living Wage Policies on the Books (*available at* [www.livingwagecampaign.org/victories.php](http://www.livingwagecampaign.org/victories.php) (visited Apr. 16, 2003)). See Greg LeRoy, et al., *Good Jobs First, The Policy Shift to Good Jobs: Cities, States and Counties Attaching Job Quality Standards to Development Subsidies* (2000) (listing cities and counties with wage and benefit requirements as a condition of receiving taxpayer-funded subsidies).
- 2 There is broad consensus among researchers and policymakers that the federal poverty level significantly understates the income that a low-income person needs in order to obtain basic necessities. Developed in the late 1960's based on the assumption that a typical family spends one third of its income on food, the federal poverty level calculates a subsistence standard by tripling the cost of a basic food budget. Because the poverty level does not directly reflect the costs of actual necessities besides food—for example, housing, healthcare, childcare and transportation—it has become increasingly outdated as those other costs have seen substantial inflation over the past thirty years. See Heather Boushey, Chauna Brocht, Bethney Gundersen & Jared Bernstein, *Hardships in America: The Real Story of Working Families*, pp. 5-7 (Economic Policy Institute 2001).
- 3 For example, a Dane County Department of Human Services memorandum states that the inability of human services organizations to pay competitive wages resulted in “difficulty in recruiting qualified staff,” “high staff turnover,” and “increased costs associated with staff recruitment and training.” Dane County Department of Human Services, “Purchase of Service COLA and Living Wage,” p. 1 (July 2000).
- 4 These reporting cities and counties were drawn from an initial list of 29 localities identified as likely to have available cost impact estimates, formal internal evaluations, and/or other observations of the effects of their living wage laws. The following localities were contacted but could not offer any observations or reports on the impact of their living wage laws: Ann Arbor, Boston, Cleveland, Cook County, Detroit, San Fernando, St. Paul and Tucson. While Milwaukee had available some information on the impact of its living wage law, we did not include it because the city was unable to provide an estimate of the increase in the cost of its contracts as a result of the wage requirement.
- 5 See, e.g., Robert Pollin & Stephanie Luce, *The Living Wage: Building a Fair Economy*, pp. 112-14, 119, 121 (1998) (predicting that, in general, the vast majority of contracts will increase in cost by less than 1%, and that contractors will absorb most of that cost); Bruce Nissen & Peter Cattani, *The Impact of a Living Wage Ordinance on Miami-Dade County*, p. 22 (Ctr. for Labor Research & Studies, Fla. Int'l Univ., Oct. 23, 1998) (predicting that the county would pay between 35% and 55% of the increased labor costs). But see Douglass Williams & Richard Sander, *An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance*, pp. 51-52 (Jan. 17, 1997) (predicting that over the long-term, contractors will probably pass through most increased costs to the locality).
- 6 See Mark Weisbrot & Michelle Sforza-Roderick, *Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore's City Ordinance*, p. 11 (Preamble Ctr. for Public Policy, Oct. 1996) (finding no increase in contract prices after the implementation of Baltimore's living wage law); Christopher Niedt et al., *The Effects of the Living Wage in Baltimore*, p. 6 (Economic Policy Inst., Working Paper No. 119, Feb. 1999) (finding that contract prices decreased in real terms after implementation of living wage law); Richard Sander and Sean Lokey, *The Los Angeles Living Wage: The First Eighteen Months*, p. 8 (Nov. 16, 1998) (finding that 56% of studied firms did not pass on any costs to the City, that 27% passed on all increased costs to the city, and that 17% of firms reduced services in response to cost increases).

- 7 See Mark D. Brenner & Stephanie Luce, *The Effect of Living Wage Laws in New England* (Univ. of Mass., Political Economy Research Inst., Research Report, forthcoming 2003) (finding that contract costs decreased in real terms in Boston and New Haven, but increased in Hartford where only two contracts were covered, both of which were bid on an hourly basis and involved large concentrations of low-wage workers).
- 8 See David Neumark, *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families* (Public Policy Institute of California, Mar. 2002).
- 9 See Mark D. Brenner, Jeannette Wicks-Lim & Robert Pollin, *Measuring the Impact of Living Wage Laws: A Critical Appraisal of David Neumark's How Living Wage Laws Affect Low-Wage Workers and Low-Income Families* (Univ. of Mass, Political Economy Research Inst., Working Paper No. 43, 2002).
- 10 San Jose, CA, in 2001 reported that the impact of the city's living wage law largely occurred in one city contract for janitorial services. While that contract had not been previously let, the city arrived at an estimated increased cost by comparing the living wage requirement with the prevailing wages of janitorial services in the region.
- 11 In Ypsilanti Township, only one contract was affected by the living wage requirement, resulting in a small wage increase for one temporary contract employee and a negligible total increase in the cost of the contract. Telephone Interview with Karen Lovejoy Roe, Supervisor, Ypsilanti Township, MI (Jan. 23, 2003) (on file with author).
- 12 This range represents all cities for which we could obtain accurate budget information and which reported an actual cost increase (Alexandria, VA; Cambridge, MA; Hartford, CT; Hayward, CA; New Haven, CO; Pasadena, CA; Madison, WI and Ypsilanti, MI). In addition to reporting their overall operating budgets, Madison and Alexandria were able to share data on their municipal purchasing budgets. The reported living wage contract cost increases represented 0.07% and 0.33% of these cities' purchasing budgets, respectively.
- 13 Administrators in Cambridge, Dane County, Hartford, Hayward, Madison, New Haven, Oakland, Pasadena, San Francisco, Ypsilanti, and Ypsilanti Township all described the contract price increases in their cities as "not significant."
- 14 Telephone Interview with Daniel Bohrod, Comptroller, Madison, WI (Nov. 14, 2001) (on file with author).
- 15 Report by City Manager Saundra Kee Borges to the Mayor and Council Members of Hartford, CT, p. 1 (Mar. 2, 2001) (on file with author). In an unpublished estimate of the cost of its living wage law in 2002, the city found that while one contract increased by \$7,391 or 22.4% over the prior year, none of the four other impacted contracts increased substantially, accounting for the changes in the scope of services.
- 16 Telephone Interview with Jack Pitzer, Director of Purchasing Department, Alexandria, VA (Sept. 17, 2002) (on file with author)
- 17 Telephone Interview with Ronald Guzi, Purchasing Agent, Warren, MI (Nov. 16, 2001) (on file with author).
- 18 Telephone Interview with Public Works Department, Berkeley, CA (Feb. 28, 2003) (on file with author).
- 19 Figure reflects the budget for human services in Dane County for fiscal years 2001 and 2002.
- 20 Figure reflects the average of the annual cost increases for Dane County human services contracts for fiscal years 2001 and 2002.
- 21 Figure reflects the budget for contracts awarded to non-profit agencies in San Francisco in 2001.
- 22 Figure reflects the increased cost for San Francisco's human services contracts in 2001.

- 23 Telephone Interview with Travis Myren, Program and Budget Analyst, Dane County, WI (June 26, 2002) (on file with author).
- 24 Interview with Office of Contract Administration, San Francisco, CA (June 25, 2002) (on file with author).
- 25 Dane County was also able to provide the marginal increase for human services costs because of the living wage requirement. The 2001 total expenditures for contracts for human serves was \$92 million, and increased by \$2.6 million above the year before, due to a number of factors, including an increased case load and additional types of services. The \$400,000 increase for this year means that the increase in human service costs associated with the living wage was 14.8-15% of the total increase for the human services budget. Telephone Interview with Travis Myren, Program and Budget Analyst, Dane County, WI (June 26, 2002) (on file with author).
- 26 Myren, *supra* note 25. The County reports that the level of service did not change for these contracts. *Id.*
- 27 Telephone Interview with Mark Pietrosimone, Controller, New Haven, CT (Nov. 1, 2001) (on file with author).
- 28 Telephone Interview with Karen Lovejoy Roe, Supervisor, Ypsilanti Township, MI (Nov. 16, 2001) (on file with author).
- 29 Pitzer, *supra* note 16.
- 30 Memorandum Requesting Increase in Living Wage Rate, City Manager. Pasadena, CA (Dec. 16, 2002) (on file with author).
- 31 Draft Report on Effect of San Jose Living Wage, Office of Equality Assurance, San Jose, CA, p. 9 (May 16, 2002) (on file with author).
- 32 Telephone Interview with Carl Guitonjones, Auditor, Hayward, CA (Dec. 19, 2001) (on file with author).
- 33 Telephone Interview with Judith Blackwell, Director of Purchasing, San Francisco, CA (Nov. 19, 2001) (on file with author).
- 34 Memorandum, Pasadena City Manager, *supra* note 30, p. 2.
- 35 A recent study of the effect of the living wage law in the San Francisco International Airport found that turnover decreased by 60% among surveyed firms where wage costs increased by 10% or more, and that “high-impact” firms also reported improvements in work performance and employee morale. Michael Reich, Peter Hall & Ken Jacobs, *Living Wages and Economic Performance: The San Francisco Airport Model*, pp. 52-63 (Institute of Indus. Relations, Univ. of Calif.-Berkeley Mar. 2003).
- 36 Administrators reported no negative effect from their living wage law on economic development in Cambridge, Hartford, Minneapolis, San Antonio, Toledo, Warren, Ypsilanti Township, and Ypsilanti.
- 37 Duluth, San Antonio, Toledo, and Ypsilanti Township reported a successful year for economic development in 2000, measured by local job growth and low unemployment levels. Duluth had a 20% unemployment rate in the 1980’s, while 2001 unemployment levels were around 4%. Telephone Interview with Tom Cotruvo, Business Development Manager, Duluth, MN (Nov. 13, 2001) (on file with author). In Toledo, the unemployment rate dropped from 5.9% in September, 2001, to 5.5% that November. Telephone Interview with John Sherburne, Commissioner, Department of Development, Toledo, OH (Nov. 19, 2001) (on file with author).
- 38 Telephone Interview with the Minneapolis Community Development Agency, Minneapolis, MN (Nov. 13, 2001) (on file with author).

- 39 William Pack, "City OK's tax break for H-E-B: Grocer plans to expand East Side distribution center," *San Antonio Express-News*, p. 1B (Feb. 14, 2003).
- 40 Telephone Interview with Trey Jacobson, Economic Development Department, San Antonio, TX (Mar. 13, 2003) (on file with author).
- 41 Telephone Interview with John Sherburne, Commissioner, Department of Development, Toledo, OH (Nov. 19, 2001) (on file with author).
- 42 Lovejoy Roe, *supra* note 28.
- 43 Telephone Interview with Jay Musante, Project Manager, CEDA, Oakland, CA (June 28, 2002) (on file with author); Telephone Interview with Jens Hillmer, CEDA, Oakland, CA (June 25, 2001) (on file with author); E-mail from Nancy Nadel, Councilmember, Oakland, CA, to author (Mar. 1, 2002, 7:46 PM EST) (on file with author). *See also* Kara Platoni, "Die Hard: Sears Has Made Its Fortune by Selling Everyday Things to Everyday People. Maybe That's Why It's Oakland's Only Surviving Department Store," *East Bay Express* (Aug. 22, 2001).
- 44 Telephone Interview with John McCoy, Deputy Administrator of Operations, Community Resources Administration, Los Angeles, CA (June 15, 2001) (on file with author); Telephone Interview with Gerry Miller, Assistant Chief Legislative Analyst, Los Angeles, CA (June 14, 2002) (on file with author).
- 45 Telephone Interview with Helen Sause, Deputy Director, Redevelopment Agency, San Francisco, CA (June 21, 2002) (on file with author); Rachel Gordon, "Whole Foods Backs Out of San Francisco Store Deal," *San Francisco Chronicle*, p. A21 (Dec. 19, 2001).
- 46 Musante, *supra* note 43.
- 47 *Id.*
- 48 City of Duluth, MN, Division of Urban Development, Memorandum, "Living Wage Reporting for 2000" (Feb. 2, 2001).
- 49 Sherburne, *supra* note 41.
- 50 Telephone Interview with Tom Zemsta, Economic Development Director, Warren, MI (Nov. 16, 2001) (on file with author); Lovejoy Roe, *supra* note 28.
- 51 Jacobson, *supra* note 40.
- 52 Miller, *supra* note 44.
- 53 Cotruvo, *supra* note 37.
- 54 *Id.*
- 55 McCoy, *supra* note 44.
- 56 Telephone Interview with Trey Jacobson, Economic Development Department, San Antonio, TX (Nov. 14, 2001) (on file with author).
- 57 *Id.*