

**Living Wages and the San Francisco Economy:
The Benefits and the Costs**

First Release

Michael Reich***

Peter Hall**

Fiona Hsu*

Bay Area Living Wage Research Group

Center on Pay and Inequality
Institute of Industrial Relations
University of California
Berkeley, CA 94720

June 1999

***Ph. D., Professor of Economics, UC Berkeley

**Ph. D. student, City and Regional Planning, UC Berkeley

*B.A., Economics and Sociology, May 1999, UC Berkeley

Contents

Background and main findings	1
Living wages, pay rates and inequality trends in San Francisco	5
<i>The living wage concept</i>	5
<i>The needs of San Franciscans</i>	6
<i>Comparison to Living Wages in other cities</i>	7
<i>Alternative approaches: minimum wage laws and antipoverty programs</i>	8
Scope and methods of this study	9
The benefit analysis	11
<i>Pay and health coverage increases for service contract workers</i>	11
<i>Pay increases for home health care workers</i>	12
<i>The demographic composition of benefiting workers</i>	12
<i>Wage push: indirect pay increases for other workers</i>	13
<i>Multiplier benefits to the city economy</i>	14
The cost analysis	17
<i>Increased costs to contractors</i>	17
<i>Costs to the city budget: the pass-through analysis</i>	18
<i>Costs of wage push</i>	19
<i>The County's increased costs of home health care workers</i>	20
Some limitations of this study	22
Concluding comments and summary benefit-cost matrix	23
Data notes	25
List of tables	27
Table 1 to Table 14	28
References	42
Acknowledgments and author biographies	44

Background and main findings

Background

Since 1996 over 35 cities in the United States, including eight in California, have adopted Living Wage laws for workers on municipal service contracts, and an equal number are considering such a policy. A Living Wage level, defined as a self-sufficiency standard, has been estimated for San Francisco at upwards of \$14 per hour for a full-time worker with one or more dependents. Most of the ordinances, including the proposal for San Francisco, fall short of this standard.

This report discusses the impact of the parts of the proposed living wage ordinance that cover the employees of city service contractors, both the for-profit firms and the nonprofit organizations, as well as the workers who are home health care aides. We examine each of these groups separately because their situations differ considerably.

A subsequent release of this report, still in progress, will also address the part of the proposed ordinance that covers the city's lease contracts. Most of the lease contracts involve city-owned land in the Port of San Francisco and at San Francisco International Airport. Although this component of the proposed ordinance would cover a larger number of workers, it will only generate small costs to the City's budget, and only insofar as lease values are affected.

Main Findings

Drawing upon a detailed analysis of current city contracts and other data sources, we have estimated the principal benefits and costs of the proposed ordinance to the city's budget, to its economy and to its people.

- *How high is the living wage and what does the ordinance cover?*

The proposed Living Wage Ordinance, as currently being considered by the San Francisco Board of Supervisors, calls for a wage of \$11 per hour, indexed to future inflation, and health benefits or additional pay (as provided by a health coverage cost formula). This standard is higher in nominal terms than any others yet enacted. After controlling for different costs of living in other cities, it becomes similar to or lower than living wage levels recently enacted in Baltimore, Boston and Miami, and about ten percent higher than the levels established recently in Los Angeles, Oakland and San Jose.

The proposed ordinance covers employees of organizations who work on service contracts with the City of San Francisco; it does not apply to employees working on other projects. It also covers home health care workers employed through the Independent Health and Social Services (IHSS) program and employees of companies that lease property from the City. The stated purposes of the ordinance are to improve the living conditions of the targeted workers and to improve the quality of city services for all of the city's residents.

- *Does San Francisco need a Living Wage Ordinance?*

A Living Wage Ordinance would help combat the declining affordability of living and raising a family in the City. We estimate that approximately 32 percent of the workers in the Bay Area earn less than \$11 per hour. With the continued polarization of wages and decline of middle-income jobs, low-wage workers cannot keep up with the City's rising living costs. San Francisco ranks the highest among Bay Area counties in the percentage of children living in poverty and it is well above average among U.S. cities in earnings inequality measures.

- *How many contractors and workers are covered by the ordinance?*

Excluding exempted goods contractors, small businesses and companies that already are required to pay prevailing wages, over 200 for-profit and nearly 300 nonprofit organizations have service contracts, worth a total of \$728m, that are covered by the proposed ordinance. Three-fourths of the contract dollars go to only 100 contractors. About 12,400 employees of profit-making and nonprofit organizations work on these city contracts.

In addition, about 6,650 home health care workers and over 30,000 employees who work on city property are also covered by the proposed ordinance.

- *How many workers would benefit and in what amount?*

We estimate that about 5,200 employees of the city's service contractors would benefit from the proposed Living Wage ordinance. About 4,500 workers would receive an average pay increase of \$2.43 per hour or over \$4,300 per year. A smaller, partly overlapping number of workers--4,200—would gain by getting health benefits. A further 6,650 home health care workers, who work a total of 7.6 million hours per year and are employed through the IHSS program, will also benefit, receiving an additional \$4 per hour.

In total, nearly 12,000 low-wage earners working in San Francisco would receive an additional \$50.3m in wages and \$11.2 million in health benefits each year. The benefiting workers represent about 2.5 percent of total employment in San Francisco. We are still in the process of estimating how many additional employees who work on city property would obtain pay increases; those numbers could be of comparable magnitudes.

- *What is the demographic composition of the benefiting workers?*

Relative to the city's labor force, the workers receiving mandated pay increases will be primarily female (61 percent overall and over 70 percent among home health care workers), and disproportionately Latino (21 percent) and Asian and Pacific Islander (30 percent). The benefited African-American workers are proportional to their numbers in the city's workforce (11 percent).

- *Would there be indirect pay increases because of "wage push"?*

There may be some indirect benefits of the Living Wage ordinance to additional workers. Employers may be pushed into providing pay increases that are not required by the proposed

ordinance to some workers who are now paid just below \$11 or up to \$13 per hour. We estimate this wage push effect will be experienced by an additional 1,350 workers and amount to \$3.7m per year.

- *How much will employers' costs increase?*

If the covered service contractors made no adjustments other than to increase their employees' pay rates and health coverage, we estimate that the direct costs of the proposed Living Wage ordinance would amount to a payroll increase of \$31m.

This increased cost includes the greater health coverage but not the wage push, and divides roughly equally between profit-making companies and nonprofit organizations. It represents about four percent of the last complete (1997-8) year's \$728m total cost of contracts for covered firms and organizations. As another comparison, the City's General Fund is expected to grow by 5.9 percent next year.

Economic theory as well as experience in other cities predicts that economic entities make adjustments in response to changes in incentives. We expect to see changes in competition for bids, in reduced worker turnover and absenteeism, and in the utilization of human resources, so that the cost increases in reality would be significantly lower. The adjustment possibilities will vary considerably among for-profit and nonprofit organizations and will grow over time.

- *How much of the cost increases would be passed through to the city's budget?*

Based upon other cities' experiences, we estimate conservatively that most of the increased costs to nonprofit organizations, and no more than one-third of the increased costs to profit-making companies, would need to be passed on to the city's budget. Some nonprofit organizations may be able to absorb some of the cost increases, but it seems prudent to assume otherwise. The total for-profit and nonprofit pass-through costs amount to \$21.3m.

The city would also have to pay its share of the increase in home health care costs not covered by Federal and state sources. This amount is \$16.7m for the IHSS workers.

The 4,200 workers who gain health insurance will make reduced demands upon the city's public health budget. This saving could reduce city costs by about \$5.7m.

The expected increased costs to the City therefore add up to \$32.3m: 21.3m for workers on contracts plus \$16.7m for home health care workers less \$5.7m savings in public health care costs.

This estimate does not include the lease contracts, but we expect such costs to be very small. This estimate also does not include any pass-throughs because of wage push. Costs would be reduced as productivity gains and increases in the quality of city services would be expected with the increase in worker pay. Any waivers granted to contractors would reduce both the costs and the benefits. State and Federal payments for antipoverty programs would be reduced by a small amount, producing minor savings for those government entities.

- *Would the city economy benefit?*

Based upon the experience in other cities, we do not expect that the proposed ordinance would have adverse impacts on the city's business climate, on unemployment, or the relocation of economic activity outside the city. The quality of services should improve.

The proposed ordinance would result in additional income for the city's economy of about \$20.8m per year (and therefore additional sales tax revenue). This benefit derives from two sources. The City would in effect leverage external funds that are mandated to pay a considerable portion of the increased home health care costs, and low-wage households tend to spend a higher proportion of their income within the city and on locally produced goods and services.

- *Do the benefits outweigh the costs?*

Putting all the benefits and costs together and comparing them is complex because of the unequal distribution of who benefits and who pays. The experience for the nonprofit contractors is especially difficult to predict and we expect that waivers for some will be desirable. Nonetheless, it is clear that for a modest investment of the city's budget the proposed ordinance would meet its goals of raising living standards for the designated beneficiaries while improving the quality of city services for all. It would do so without harm and with probable benefit to the city's economy. We expect that the completion of our analysis of the city's lease contracts will reinforce this conclusion.

- This study was carried out by researchers from the University of California, Berkeley, Institute of Industrial Relations. We have been studying living wage and pay and inequality issues for the San Francisco Bay area and the wider economy. To conduct this study, we have used the city's list of contracts as well as widely accepted government data on pay and employment as our sources. This report represents the first comprehensive attempt to determine the impact of the San Francisco Living Wage Ordinance on a sector-by-sector basis.

Living wages, pay rates and inequality trends in San Francisco

The living wage concept

The idea of a living wage is simple: workers should be able to support themselves and their dependents at a basic self-sufficiency standard on the earnings they receive from their employers. Applied to cities, a living wage mandate asserts that public entities such as local governments should participate only in contracts that meet self-sufficiency pay standards. Most Americans support the concept that employers should pay a self-sufficiency standard. Yet, many full-time workers today earn less than a living wage, and there is widespread concern whether cities and employers can afford to meet living wage standards.

The estimate for a self-sufficiency wage in San Francisco appears high when one first hears it summarized as \$14 per hour (for a worker and one dependent), since this pay level is well over twice the current minimum wage. But an examination of self-sufficiency budgets using San Francisco's cost of living, presented in Table 1, shows that they contain modest expenditure levels that cover only basic necessities.

The proposed Living Wage Ordinance, as currently being considered by the San Francisco Board of Supervisors, calls for a wage of \$11 per hour and health benefits (or \$1.50 additional pay). Since it is indexed to inflation, the rate could increase in future years. The proposed ordinance covers employees of organizations who work on service contracts with the City of San Francisco and does not apply to other employees of the organization. It also covers home health care workers employed through the Independent Health and Social Services (IHSS) program and employees of companies that lease property from the City. The ordinance would be phased in over time as service or lease contracts are renewed. Goods contracts, service contractors with five employees or less, and contractors with less than \$25,000 in annual business with the city would be exempt. The coverage of the proposed ordinance is broader than in most other cities in including home health care workers and employees of nonprofit organizations.

The needs of San Franciscans

With the declining affordability of raising a family in San Francisco, the City ranks the highest among Bay Area cities in the proportion of children living in poverty. Specifically, 21 percent of San Franciscans under age 18 live in poverty; the poverty rate among related children age 5-17 in families is 20 percent.¹ Yet low-income households have been affected the most by rising living costs. As Bhatia, Mann and Reiter (1999) point out, San Francisco ranks well above average among U.S. cities in earnings inequality.

Of the Bay Area's waged and salaried workers, in 1998 31.5 percent earned below the \$11 per hour rate proposed in the San Francisco Living Wage Ordinance, as is shown in Table 2. In San Francisco the wage rates of local jobs have polarized, as many middle income jobs have declined in number, and the new jobs being created are overwhelmingly at the high and low ends of the income scale.

¹ U.S. Census Bureau, "Model-Based Income and Poverty Estimates for [Bay Area Counties], California in 1995".

The California Employment Development Department's ten highest growth occupations for San Francisco, 1995-2002, demonstrate this polarization in pay. Seven of their high growth occupations paid median wages less than it would cost an adult working full time with one child to live in San Francisco in 1996 (less than \$14.50/hr). Five of these occupations paid median wages less than it would cost two adults, both working full-time, with one child, to live in San Francisco (less than \$8.20/hr). The remaining three high growth occupations paid median wages over \$22 per hour: general managers and top executives; systems analysts; and computer programmers.

It is illuminating to examine pay rates in the industries that typically do business with the City and that would be affected by the Living Wage Ordinance. The majority of these industries have a smaller portion of their respective workforces earning less than \$11/hr than is typical of the regional economy as a whole. Most firms and organizations that do contract work with the City fall into the following industry groups: Construction and Engineering Services; Health; Education; Social Services; Consulting, Legal and Business Services; Transportation and Utilities; and Miscellaneous. In each of these industries, from 21 percent to 32 percent of the workers are paid below \$11/hour. However, prevailing wages in City construction projects reduce the number of low-wage workers in that industry still further.

Income self-sufficiency is dependent on one's particular household or family circumstances. Since households today are diverse in the number of wage earners, pay rates, health insurance, hours worked, the number and age of dependents, and so forth, a particular "living wage" for one person may be inadequate for another. In San Francisco in 1990, about 35 percent of households earned less than \$25,000 per year (see Table 3). Some of these households consist of single people for whom the self-sufficiency standard is lower (\$7.81 in 1996).² However, while 44 percent of all San Francisco earners live alone, only 39 percent of those earning below \$11 per hour live alone.

Since there cannot be multiple living wage rates for differently situated individuals, a single rate must be selected with the knowledge that it will be inadequate for some, although an improvement over no change at all.

Comparisons to Living Wages in other cities

San Francisco's high cost of living particularly affects low wage households, and so in comparing the proposed living wage level with those introduced elsewhere, it is important to take into account the substantially higher costs of housing, transportation and health care in San Francisco relative to other cities. The Cost of Living Index for San Francisco is 74.2 percent higher than the national average. Compared to other cities that have passed living wage ordinances, San Francisco's cost of living is 74 percent higher than in Baltimore, 25 percent higher than in Boston and 58 percent higher than in Miami.³ Housing costs play the important role here: San Francisco's housing costs three times the national average, about three times that

²In 1990 in San Francisco about 39 percent of households contained one person. This proportion is higher than elsewhere: in the entire State of California, only 23 percent of households contain one person; in Los Angeles, 28 percent. U.S. Bureau of the 1990 Census Look-up Tables, www.census.gov.

in Baltimore, over one and a half times that in Boston, and over two and three-quarters times that in Miami.

As a result, the enacted living wage rates of \$7.70 in Baltimore, \$8.23 in Boston and \$8.56 in Miami cannot be compared directly with \$11 in San Francisco. If San Francisco's living costs applied in these other cities, the adjusted living wage levels become \$13.38 in Baltimore, \$10.29 in Boston and \$13.53 in Miami. These comparisons, which are documented in Table 4, suggest that the proposed living wage level is similar to or lower than those introduced elsewhere in the country.

Table 4 also compares the San Francisco proposal with three Californian cities that have passed living wage ordinances: Los Angeles, Oakland and San Jose. Adjusting again for different living costs among cities, we find that the proposed San Francisco level is about ten percent higher, which is not out of line with these other cities.

Alternative approaches: minimum wage laws and antipoverty programs

Minimum wage policy might be thought to be an alternative to the Living Wage Ordinance. Indeed, long-standing legislation in California mandates the Industrial Welfare Commission to set the state's minimum wage at a level that is a living wage. However, actual minimum wage rates have not met this standard for many years. Although minimum wages have increased recently, to \$5.75 in California, they remain well below living wage budgets. Indeed, they remain well below 1968 levels (in constant dollars), while U.S. productivity has increased by over fifty percent. If the 1968 minimum wage of \$7.40 (in constant 1998 dollars) had kept pace with productivity increases, it would pay \$11.32 in 1998.⁴

In principle, the city could set a municipal minimum wage that is higher than the State level and that would apply to all workers in the city. If the rate were set as high as \$11 per hour, such a policy could cause economic problems because footloose employers could relocate to neighboring jurisdictions. A municipal living wage ordinance avoids this problem because it applies only to those employers who must locate within the city's boundaries to serve the city's needs.

It has been argued that Federal and state antipoverty programs, such as Food Stamps and MediCal, and wage subsidies such as the Earned Income Tax Credit (EITC), better serve the targeted population and at no cost to the city's budget or employers. Yet the current take-up rate for these programs among eligible low-wage earners is very low and the generosity of some of these programs has been declining. The city could increase take-up rates for Food Stamps by better publicizing these programs. It would thereby better serve households without any employed workers, but it would not meet the needs of many employed low-wage workers.

³ Sources: U.S Bureau of Labor Statistics, *Monthly Labor Review and CPI Detailed Report*. Statistical Abstract of the United States, 1996 Table 749, "Cost of Living Index-Selected Metropolitan Areas: Third Quarter 1995".

⁴ One source of declining pay, but by no means the only one, arises from past outsourcing of local public-sector jobs. Although the original justification for privatization involved gains in efficiency, these generally have not occurred. Lower costs to cities instead have derived primarily from lower wage rates.

Wage subsidy programs, like the EITC, have attractions in the short run for helping low-wage employed household heads. But because they reduce rather than enhance incentives for employers and workers to increase their productivity, government wage subsidies cause substantial economic harm in the longer run. More important, earning income through a living wage provides dignity for an individual and a family that cannot be obtained from government transfer payment programs.

Scope and methods of this study

The two main sources of direct benefits and costs from the proposed Living Wage Ordinance that have been estimated for this study involve the service contracts with the City and the County, and the County's home health care program.

The base data for the benefit and cost analysis of the service contracts was a list of 1997/8 Vendors supplied by the Controller's Office of the City of San Francisco. This information included 2,152 contracts with a combined value of \$1.559bn awarded to 884 firms and nonprofit organizations.

Using the American Business Directory and other business data sources, we determined the Industrial Sector classification and the size of most of the contractors. We then excluded the contractors (and contract amounts) that are exempt from the proposed ordinance, including:

- Firms with 5 people or fewer.
- Contracts under \$25,000.
- Contracts covered by prevailing wage laws (i.e., contracts in the construction sector).⁵
- Contracts with wholesale and retail goods providers.
- Vending contracts identified as interdepartmental and intergovernmental transfers.

Following the principle of conservative estimation, we did not exclude any service contracts where there was any doubt (for example, given time constraints we were not able to identify and exclude trust money related contracts). Therefore, we erred on the side of over-estimating the value of contracts, and thus the overall costs of the Ordinance.

This procedure gave us detailed information on the service contracts that may be affected by the Living Wage Ordinance, by sector and type of contractor. This information is summarized in Table 5. In the last fiscal year, the City of San Francisco awarded \$728.4m in contracts to 507 firms and nonprofit organizations that would be affected by the proposed ordinance.

We also analyzed the size distribution of the affected contracts:

Of the 1,295 contracts valued at \$728.4m, over three-quarters of contract value (78 percent or \$569m) went to the top 100 service contractors. At the other end of the spectrum, the smallest 100 service contractors only accounted for 1 percent (\$7.6m) of contract value.

A similar pattern is visible when we look at for-profit firms and nonprofit organizations. The top 50 contracting firms account for 84 percent (\$311m) of the \$367.9m for-profit firm service contract value, while the bottom 50 only account for 1 percent (\$3.7m). The top 50 nonprofit contractors account for 71 percent (\$257m) of the \$360.5m nonprofit service contract value, while the bottom 50 only account for 1 percent (\$3.9m).

Consequently, it is likely that most of the aggregate impact of the Living Wage Ordinance will be felt in a small number of relatively large firms and nonprofit organizations. It

⁵ See Reich (1996) for a discussion of prevailing wage laws and their economic impact.

is also likely that many of the contractors offer services that are much more specific than the overall data indicate, which suggests that their share of the relevant “market” is correspondingly greater.

The benefit analysis

We discuss here our estimates of pay and health coverage increases among workers on service contracts. We then examine pay increases for home health care workers, the demographic composition of benefiting workers, and indirect pay increases because of wage push. Finally, we discuss the multiplier benefits to the city economy, resulting primarily from an external injection of income for home health care workers.

Pay and health coverage increases for service contract workers

Our methodology proceeded on a sector-by-sector basis. Using the number of hours per average worker, as well as the average wage in each sector, and the sector's ratio of labor costs to total revenue, we first estimated the number of workers in each sector who are covered by the ordinance.⁶ We then made use of the wage distribution in each sector to estimate the number of workers and their pay levels, who fall below the \$11 level. This calculation gave us the number of workers who would benefit from the ordinance and their average increase.⁷ These results are shown in Table 6 (all numbers have been rounded).

Of the 5,200 employees of contractors who will benefit from the Living Wage Ordinance, approximately 4,500 will receive an average \$2.43 per hour more in wages. This increase translates into an extra \$4,374 per year for each worker (assuming 1800 hours of work per year, the average for all affected workers). The aggregate transfer of income to low wage households amounts to up to \$19.8m per year.⁸

Of the 5,200 workers who will benefit from the Living Wage Ordinance, we estimate that approximately 4,200 of these will benefit by gaining health insurance. The value of this coverage would be derived from a health coverage cost formula and has been estimated by the city at around \$1.50 per hour. Using this estimate, the aggregate value of the health benefits, assuming an average 1,800 work hours per year, amounts to \$11.2m. The pay and health benefits together then amount to \$31.0m.

The increase in health coverage means that many previously uninsured workers will receive ongoing care from a primary care physician. Fewer will develop preventable health conditions and fewer will use more expensive emergency room and other public and community health care facilities.

The reduced usage of public and community health care facilities will translate into savings for the city, which we have estimated as follows. For the 1999-2000 proposed budget,

⁶ The number of covered workers is an estimate of the total number of workers employed by vending firms and nonprofits that do work on City contracts. They represent the total group of potential beneficiaries of the Ordinance, but many of them already earn above \$11 per hour and have health insurance. The number of covered workers is smaller than the number of workers in all vending firms and nonprofit organizations because not everyone in these firms/nonprofits works on City contracts.

⁷ The number of benefited workers is an estimate of the number of people who work on City contracts and who earn less than \$11 per hour or do not have health insurance. These workers are the direct beneficiaries of the Ordinance.

⁸ It is important to emphasize that the cost increases to the city will be different from these wage gains because the amount of cost pass-throughs must be determined. We address this issue in the cost analysis section of the report.

\$97.5m of the \$514m that the Department of Public Health would allocate to the Community Health Network comes from the city's General Fund.⁹ The remainder derives from Federal and State reimbursements as well as insurance payments and patient co-payments for services. These funds pay for San Francisco General Hospital, Laguna Honda Hospital and a network of community clinics. The city will also spend \$32.3m for Substance Abuse and \$45.7m for Mental Health programs at city facilities. The General Fund contribution to these city health services adds up to \$175.5m

According to the 1998 report of the Mayor's Blue Ribbon Commission on Universal Health Care, these facilities treat 71,000 uninsured patients, or 55 percent of the city's uninsured population, for episodic or routine care, which works out to \$2,472 per uninsured patient. If 55 percent of the 4,200 previously uninsured workers had used public health facilities, the savings would be as much as \$5.7m per year. Thus, coverage of a further 4,200 workers could improve their health care and yet reduce health costs to the City.

Pay increases for home health care workers

Approximately 6,650 home health care workers in San Francisco are employed through the IHSS public authority. These workers will gain increases of \$4 per hour; since they already receive health benefits additional coverage would not be provided. Recognizing the large variation in hours worked of individual workers, we used the aggregate figure of 7.6 million hours per year and estimated that the aggregate benefits to IHSS workers amount to \$30.2m per year.

Adding together the workers on service contracts and the home health care workers, we estimate that nearly 12,000 low-wage earners working in San Francisco would receive pay gains amounting to an additional \$50.3m per year as a direct result of the proposed ordinance. To this figure, we then add the value of the health benefit coverage (\$11.2m) and obtain a total of \$61.5m in increased pay and health benefits.

The demographic composition of benefiting workers

Using Current Population Survey data (see Data Notes for details), we find that 52 percent of workers earning less than \$11 per hour lived in households earning less than \$25,000 per year, while only 21 percent lived in households earning more than \$50,000 per year (see Table 7). For the entire Bay Area working population, only 28 percent live in households earning less than \$25,000 per year. These data indicate that the proposed living wage ordinance will primarily improve the living conditions of low-wage households, although some higher income households will also benefit.

The directly benefiting workers will be 61 percent female and 39 percent male. The proposed ordinance will have a disproportionate effect on females, mainly because almost three-quarters of home health care workers are women. Table 8 compares the gender composition of the affected and total labor force in San Francisco County.

⁹ This figure excludes \$20m allocated for jail health services.

The directly benefiting workers will be 38 percent nonHispanic white, 11 percent African-American, 0.5 percent native American, 30 percent Asian and Pacific Islander, and 21 percent Latino, indicating that the proposed ordinance will have a disproportionately positive effect on Latinos and Asians. Table 9 compares the ethnic composition of the affected and total labor force in San Francisco County.

Wage push: indirect pay increases for other workers

Although the proposed ordinance mandates pay increases only for workers who are paid less than \$11 per hour, it is reasonable to ask whether employers would feel pressure to raise the pay of other workers as well. Such wage push pressure would be expected to arise primarily from workers just above the living wage level, since most pay comparisons involve workers in closely related job classifications. Pay increases might be required in order to maintain relative pay differences for those with longer service, more skills or responsibility, or other job-related factors. These indirect effects, which we have called “wage push,” have also received such labels as “wage creep,” “ripple effects” and “wage contour effects”.

An accurate accounting of such increases depends upon our knowledge of the rigidities and flexibilities of the occupational wage structure. The current state of such knowledge is imperfect. Although relative wage structures have compressed in the past, notably in the 1960s and 1970s, in more recent decades they have widened. In the past three years they have stabilized and in some instances have narrowed. A large literature by economists has debated the relative importance of market-based and institutional-based causes of these patterns. Nonetheless, we can draw upon recent experience with minimum wage increases and with living wage ordinances in other cities to develop some reasonable estimates.

The best wage-push analysis of minimum wages is by Card and Krueger (1995), who examined the impact of minimum wage increases upon the pay of above-minimum workers. They found that the indirect effects did indeed concentrate at just above the new minimum. The percentage pay increase for those just above the new minimum averaged less than half of what the workers at the old minimum received. In other words, recent minimum wage increases have led to some compression of the wage structure.¹⁰ This compression is not surprising in historical perspective, since wage inequality in the 1990s has been higher than at any other period since the Bureau of the Census began collecting reliable data in 1947.

Card and Krueger’s results do not apply directly to a living wage ordinance, but they are very suggestive. Since the increases contemplated by the ordinance are greater, in percentage terms, than the minimum wage increases studied by Card and Krueger, the indirect effects may also be greater. On the other hand, minimum wage increases apply to all low-wage workers in the labor market, while living wage ordinances apply only to a small percentage. Consequently, the indirect effects may be restrained by larger labor market forces and could be somewhat smaller. These two considerations work in opposite directions and probably cancel each other.

¹⁰ Sachdev and Wilkinson (1998) obtain similar findings for the United Kingdom. Both studies find negligible adverse employment effects. See also Reich (1999).

It therefore seems reasonable to translate Card and Krueger's findings as suggesting that if the largest increase in San Francisco were about \$4 per hour, an increase of up to \$2 per hour might occur for workers currently paid \$11 per hour. The total wage bill would not go up proportionately, however, because there are fewer workers at the more skilled and supervisory levels that receive higher pay. As Table 2 indicates, the number of workers earning between \$11 and \$13 is less than one-third the number earning less than \$11.

Using the underlying data for Table 2 on the proportion of workers at each pay level, we have assumed that each worker currently earning \$9 to \$11 would actually receive \$11.50 per hour after the Living Wage is implemented. We have also calculated the cost of bringing all workers who are currently paid between \$11 and \$13 up to \$13. We estimate that these indirect wage gains could amount to \$3.7 million for employees of contractors, which translates into an indirect effect of about 15 to 20 percent on top of the mandated pay increases. As it turns out, this wage-push proportion matches precisely the amount found by Sander and Lokey (1998) in their eighteen-month follow-up study of the effects of the Los Angeles living wage ordinance.

Multiplier benefits to the city economy

The pay and health coverage gains of the proposed Living Wage Ordinance that we have discussed to this point are summarized in Table 10. These gains will result in further changes in income flows and spending patterns within the city. The question we consider next is whether these changes can be expected to have any net aggregate impact on the City economy.

Regional economic development theory suggests that a local economy will grow when there is a net injection of income from an external source (Bendavid-Val 1991). The amount by which the economy grows further in response to an injection of a given income quantity is proportional to the size of the multiplier effect. The multiplier effect occurs because income recirculates within a local economy as it is re-spent by recipients before it leaks out in the form of taxes, payment for imports and other transfers out of the local economy. In general, the larger and more economically diverse an area, the less likely is money to leak out, since consumers are more likely to purchase from local producers. In such areas we tend to find larger multiplier effects. Conversely, very small areas, where people spend more of their money on imports, tend to have smaller multiplier effects.

Multiplier effects also differ with the income distribution. Higher-income people are more likely to travel outside an area to consume, are more likely to consume imports, pay more taxes, and save more. Thus, for every dollar received by an affluent person, we expect a smaller multiplier effect in a local economy than if the same dollar were given to a poorer person.

Of course, because of commute patterns, not all income earned by people working in San Francisco is spent within the City. In 1990 73.5 percent of San Francisco's workers in households earning less than \$25,000 lived in San Francisco.¹¹ To be conservative, we have assumed that 70 percent of the additional income earned as a result of the Living Wage ordinance is available for re-spending locally.

¹¹ This figure was calculated using 1990 Population Census data obtained from the Metropolitan Transportation Commission's Web site.

Applying these principles to San Francisco, we argue that three important multiplier-related effects will result from the proposed living wage ordinance. We present estimates of each of these in Table 11.

First, there is an injection of external income because a portion of the increased wages of home health care workers will be paid from federal and state sources. This amount is \$9.6m (see Table 11).

Second, compared to income received by more affluent households, a greater portion of the increased wages paid to employees by service contractors and to home health care workers by the county will be spent in the local economy. This redirection of income flows occurs because lower income earners are subject to lower Federal and state tax rates and because they spend more of their income than do higher-income households. The greater tax and savings rates among affluent households are well documented.¹² Putting these considerations together, we conservatively estimate that 10 percent of the income gained by benefiting workers will result in a further net increase in local consumption expenditure.¹³ As shown in Table 11, the wage gains that will be spent in San Francisco amount to \$25.6 million. Multiplying by 10 percent, we obtain \$2.6m additional income for the local economy.¹⁴

Third, the sum of the outside injection (\$9.6m) and additional income (\$2.6m), or \$12.2m, will be subject to local multiplier effects. We have assumed a personal income multiplier of 1.7, since these are relatively poor households with a high marginal propensity to consume locally. For a larger and more economically diverse area, the multiplier is generally assumed to be larger; the Bureau of Economic Analysis recommends a multiplier of 2.04 for the State of California.¹⁵ For a smaller and less economically diverse area, the multiplier is generally assumed to be smaller; a multiplier of 1.38 was found to be reasonable for estimating the effects

¹² According to the 1996-7 Bureau of Labor Statistics Consumer Expenditure Survey, households in the Western Region earning less than \$20,000 per year paid no more than 3.5 percent of income in personal taxes, while those earning over \$50,000 per year paid over 10 percent of income in personal taxes. These figures conform to federal and state personal income tax scales. For example, the effective federal tax rate for a married individual with two dependents earning \$25,000 was 2.9 percent in 1996, while it was 14.4 percent for the same individual earning \$75,000 (*Statistical Abstract of the United States, 1997: The National Data Book*. Bureau of the Census, US Department of Commerce. 1997). In terms of state taxes, individuals earning \$25,000 paid an effective 1.2 percent in state taxes in 1996, while those earning \$75,000 paid 3.5 percent (*California Statistical Abstract - 1998*. Department of Commerce, State of California. 1998).

¹³ Strictly speaking, to make this estimate we need to know the income levels of households from whom the income originates, which involves a hypothetical (i.e., unknowable) counterfactual case. Given the difference in tax and savings rates between low-wage and average-income households, a 10 percent estimate is conservative. In any case, most of the net gains in the calculation derive from the much larger injection from outside.

¹⁴ Note that we have not included the benefits of wage push here, even though some portion, below 10 percent, will be redirected within the local economy. Reductions in Federal and state expenditures for the poor resulting from the ordinance would not cause substantial losses to the city because most of such expenditures are concentrated among households with no employed earners and because of the very low take-up rate for such programs among the eligible low-wage employed. In this respect we differ from the arguments made by Benner and Rosner (1998) in their report on a living wage for San Jose.

¹⁵ Martin and Associates. *The Local and Regional Economic Impacts of Oakland International Airport*. Report Prepared for the Port of Oakland, September 1997.

within Merced County of the Castle Air Force Base closure.¹⁶ A multiplier of 1.7 implies that approximately 40 cents of each additional dollar received by a resident is re-spent locally. This is a reasonable multiplier for an area of San Francisco's population, geography and income distribution.

Our estimate of the net result of these effects is shown in Table 11. The total of \$50.3m in increased wages to directly affected individuals could result in an additional \$20.8m net benefit to the City economy.¹⁷ Insofar as low-wage earners cluster in particular neighborhoods, the multiplier benefits may be more concentrated in some parts of the city than in others. We have not attempted to assess this effect.

¹⁶ Bradshaw, Ted. "Which Impact: The Local Impact of Base Closure Needs Closer Examination". Working Paper 602, Institute of Urban and Regional Development, UC Berkeley. December 1993.

¹⁷ Studies of Living Wage ordinances in other cities either ignored the multiplier effects or concluded that they were negligible. See, for example, Neidt et al (1998) for Baltimore; Luce and Pollin (1998) for Los Angeles; and Williams and Sander (1998) for Los Angeles. In these cities a major external injection was not a factor and the proportion of the city's workers affected by the ordinance was much smaller. The San Francisco case is different in these respects. See Zabin (1997) for a comparison of the two Los Angeles studies and Spain et al 1998 for an analysis of Oakland.

The cost analysis

In this section we examine increased costs to contractors and the portion of these costs that are likely to be passed through to the City. We also examine the costs of increased wages for the home health care workers and the portion of this increase that is likely to fall on the County.

Increased costs to contractors

We used Bureau of Labor Statistics and Census data sources to estimate the additional labor costs of the Living Wage Ordinance to firms in each sector (see Data Notes for more details). These costs were calculated for a living wage rate of \$11 per hour and an estimated health benefit cost of \$1.50 per hour. These costs were attributed to every worker in our database who earned less than \$11 per hour, and to all workers who reported that their employer did not provide them any paid health insurance. For each sector we estimated these numbers from Current Population Survey data for the Bay Area for 1996 to 1998.

We estimated the expected increased labor cost of the Living Wage ordinance for service contractors using the following model:

Estimated labor cost increase = A * B * C, where

A = current contract value

B = percent of revenue accounted by labor costs¹⁸

C = percent increase in labor costs required to achieve compliance

We performed this calculation on a sector by sector basis, as shown in Table 12. From this procedure we estimate that the total costs of compliance among contracting for-profit firms and nonprofit organizations will be around \$31m.

Table 12 also provides information on which sectors account for most of the estimated increase in labor costs, and expresses the increase as a percentage of total contract value. The service contractors likely to be most heavily impacted by the ordinance include Social Services and Health nonprofit organizations, and the for-profit firms whose sectors have not been classified. In general, those contractors who currently pay lower wages, and for whom labor costs account for a higher proportion of revenue, will be most heavily affected by the proposed ordinance.

Table 13 highlights the wage issue, showing the average hourly wage of employees earning less than \$11 per hour, by sector and type of employer. It shows that in general, for-profit firms pay lower wages than do the nonprofits.¹⁹ This difference is most notable in the relatively labor-intensive health, education and social services sectors.

¹⁸ The expected ratio of labor costs to total revenue per sector was collected from Bureau of Economic Analysis, Department of Commerce, *Gross Product by Industry, 1995–97*, by Sherlene K.S. Lum and Brian C. Moyer.

¹⁹ The entire wage distribution among for-profit firms is more dispersed in each sector than it is for nonprofits, indicating a higher degree of wage inequality. However, among those earning less than \$11 per hour, there are no significant differences in the degree of earnings dispersal between for-profit firms and nonprofits. Thus, we do not expect to find any concentrations of particularly low-paid workers in the sectors of the affected vendors.

The large increases in labor costs expected among nonprofits occur because of the scale of the contracts going to this sector, rather than the size of the wage gap. The only sector in which nonprofits pay significantly lower wages is the “consulting, legal, computer, business, finance and insurance” sector. However, the small value of contracts going to this sector results in a small absolute increase in estimated labor costs.

We have been able to check our estimates against one official source. The City’s Department of Public Health estimated that living wage ordinances of \$10 and \$12 per hour respectively would result in a \$1.8m and \$4.7m increase in their service contract costs. Although their estimates appear to have included more contracts than ours (which we have classified as ‘other’ or possibly as ‘social services’), our estimate of \$3m increased service contract costs in the health sector for an \$11/hr living wage is very much in line with their estimate.²⁰

Two further points suggest that we may have over-estimated the costs of the proposed ordinance. First, we estimated the cost increases associated with the ‘other’ sector by using the wage distribution for all Bay Area employees and average percentage labor share of revenue. Given the limitations of the data – most contracts and firms included here were not classified – this assumption is reasonable. As noted above, it is likely that some contracts included here are in fact exempt from the ordinance. Thus our estimate is likely to be inflated. Second, this estimate is conservative since we ascribed health benefit costs to all workers who reported that their employer was not paying health benefits. Thus we have included in our cost estimates those workers who may already be covered by spousal, domestic partner or other health benefit arrangement.

This \$31m cost increase will not occur entirely in the first year after the Living Wage Ordinance is implemented, since some contracts are of multi-year duration. We have not investigated the mechanics of phasing in the ordinance over time. If many contracts are of a shorter duration, as may especially be the case among the nonprofit organizations, some selection rules might be necessary to implement a gradual phase-in procedure.

Costs to the city budget: the pass-through analysis

Only a portion of the increased service contract costs will be passed through to the City of San Francisco. We expect that most of the increased costs to nonprofit organizations and no more than one-third of the increased costs to profit-making companies would be passed on to the city. This amounts to an estimated \$21.3m pass-through from service contractors. (We discuss the County’s share of the increase in home health care costs separately below.)

Follow-up studies of Baltimore (two years later) and Los Angeles (eighteen months later) found surprisingly small pass-through rates of increased wage costs. Although neither report was able to study potential explanations in any depth, we offer the following possible reasons.

²⁰ The DPH estimate appears as an appendix to Bhatia, Mann and Reiter (1999) and is based upon responses to surveys to their vendors. Most of the vendors’ responses referred to their total organization rather than to the portion on city contracts. DPH adjusted their responses accordingly.

First, it is possible that enhanced attention to vendor contracts resulted in a more competitive bidding environment. The for-profit firms previously may have received higher than necessary mark-ups and put in new bids with lower profits. This factor was especially important in Los Angeles.

Second, potential bidders with higher wage rates but with higher levels of service quality previously were deterred, but now could enter the bidding process on a more level playing field.

Third, some opportunities for cost savings are always present when pay is increased, even when staffing levels for direct labor may seem inflexible. For example, turnover, absenteeism and supervisory requirements are all known to fall with higher pay. Turnover costs associated with hiring and training new workers are higher than is usually understood, even among low-skill jobs.²¹ They are likely to be even more important whenever quality of service is related to continuity and reliability of the service providers, as is the case for child care and home health care.

Over the longer term, employers facing higher costs become more motivated to search for innovations that would increase worker and job productivity. Workers and employers who are more likely to be in a longer-term employment relation are also more likely to engage in employee training, as the costs can be amortized over a longer period and the employer is more likely to gain the benefits if the worker is still around. Although these improvements are documented, their magnitudes do require further research. For this reason, we have not placed any dollar values on their impacts.

In sum, it is incorrect simply to assume that for-profit contractors would engage in a full cost pass-through. Experience elsewhere suggests that only a minority percentage might be passed on. To be conservative, we have assumed a one-third pass-through rate on the for-profit contracts.

Although many of the same considerations apply to the nonprofit contractors, for the purpose of conservative estimation, we assume that all of their cost increases would be passed through. The reasons for different pass-through assumptions include: nonprofits may have fewer opportunities to make adjustments, given the fixed nature of their services; they may not have the financial reserves available to for-profit companies, and they may be in less competitive sectors because they are more specialized. Since San Francisco is pioneering in including nonprofit contracts under the living wage ordinance, it seems prudent to develop actual experience and then construct future estimates.

Costs of wage push

As discussed above, it is possible that the Living Wage will have some compression or spillover effects within service contract firms and organizations. As before, for this estimate, we assumed that each worker currently earning \$9 to \$11 would actually receive \$11.50 per hour

²¹ For documentation of some of these points in general, see Brown, Nokata, Reich and Ulman (1997). For correlations among pay, turnover and quality of janitorial service, see Moye (1999). For data and discussion on the relation of turnover to pay among home health care workers, see Feldman (1993). On the larger relationship among pay, training and benefits, see Ghilarducci and Reich (forthcoming).

after the Living Wage is implemented. We also assumed that each worker currently earning \$11 to \$13 would receive \$13 per hour after the Ordinance is enacted. The estimation procedure we used was similar to the methodology employed above.

We find that the indirect cost effect of the Living Wage will be \$3.7m. Again, it is important to emphasize that only some of these increased costs will be passed through to the city. Since these indirect increases are not mandated by the proposed ordinance, it is not clear whether they would or should be assumed by the city. Yet they do represent real cost increases to the contractors. We have not attempted any analysis of this question.

The County's increased costs for home health care workers

Some 6,650 home health care workers are employed by the IHSS public authority to provide services to sick and aged people. Currently these workers earn \$7 per hour, plus health benefits worth \$1.05 per hour and some employer paid-taxes.

The costs of employing these workers are shared among the Federal Government, the State of California and San Francisco County, using a complex funding formula. The matching Federal contributions per hour worked amount to about 51 percent of the cost, but they apply only to time spent on primary care (about 80 percent of the hours worked) and are limited to a ceiling set at twice the minimum wage. The State's 33 percent matching share of contributions per hour worked apply only up to the minimum wage, but this limit would be relaxed considerably if a bill currently before the state legislature--AB16-- were enacted and funded. The State contribution would then apply to a ceiling of twice the minimum wage and for all hours worked. The County is responsible for paying the share remaining after the Federal and State contributions are determined.

These considerations imply that the County's increased costs will consist of two parts. One part reflects its current share of costs, but proportionally higher at any pay increase above \$7 per hour. A second part, which will involve a larger share of the costs, occurs because a portion of the increase to a living wage bumps into the ceilings set by the Federal and State governments. This ceiling becomes effective because twice the minimum wage (\$11.50) falls short of the full costs of employing a home health care worker with a living wage of \$11 per hour, health benefits and employer-paid tax. Again, AB 16 is a large unknown for this calculation.

Moreover, the pay of home health care workers is also subject to collective bargaining negotiations. It is possible that home health care workers might receive a pay increase negotiated between labor and management before the ordinance is implemented. In that case, the wage cost increases that are attributable to the ordinance will be correspondingly lower.

The cost projections, in other words, involve a number of complexities and uncertainties. AB 16 may or may not be enacted and funded, its passage might occur before or after a living wage ordinance, and other pay increases may occur in any case. Given the range of possible scenarios, we elected to follow a medium cost prediction.

We therefore estimate the increased costs to the County of the IHSS program using two offsetting assumptions. First, that AB16 is funded to fully cover the State's share. This assumption over-estimates the State contribution, since the State is likely to provide only part of the needed funds. And second, that no pay increase is negotiated before the implementation of the ordinance, which over-estimates the probable cost of the ordinance. Using these assumptions, we find that the total costs to the County would be \$16.7m, as shown in Table 14.

As discussed above, there are likely to be some offsetting savings. Higher pay among home health care workers can be expected to result in lower turnover, reduced absenteeism, better quality care and other improvements in the delivery of home health care services. As previously mentioned, we do not attempt to quantify the reduced costs here.

Rather than summarize the cost analysis at this point, we have deferred it to the section below on concluding comments and a summary benefit-cost matrix.

Some limitations of this study

We have tried to derive defensible estimates and when in doubt have tended to over-estimate costs and under-estimate benefits of the proposed Living Wage Ordinance. Nonetheless, like all research efforts, this study is constrained by the availability of the relevant data. Specifically, for all wage-related estimates, we do not have contractor-level wage rates or employment levels and have relied instead on wage and employment data at the detailed-industry level, gleaned from government surveys. These data have been collected by independent and unbiased federal agencies, and may therefore be superior to data that are collected using self-reporting survey methods. Government data may, however, contain certain systematic biases. For example, if service contractors on average are more efficient producers, they may be paying higher than average wages. We would then be over-estimating the costs of the ordinance by using average data for the entire industry.

Related to the above point, the limitations of the Current Population Survey sample size frequently require us to use earnings estimates for the entire Bay Area, rather than for San Francisco County. To the extent that San Francisco wages differ from those elsewhere in the Bay Area, biases will have been introduced. For more details on the CPS data, see the Data Notes below.

We have also not attempted to estimate any wage effects on workers in the same for-profit or nonprofit organization who are doing similar work but not for a government contract. In some cases, employers may face pressure to pay increases for all workers because of the principle of equal pay for equal work. Such pressure, it should be noted, has not been felt in the construction sector, where firms often maintain dual wage scales for unionized and nonunionized projects. The experience with Living Wage ordinances in Baltimore and Los Angeles suggests that such pressures among firms will be minimal.

The situation for nonprofit organizations may be different and again there is no prior experience to serve as a guide. However, some nonprofit organizations receive funding from foundations and from charitable contributions and one would expect that such contributing sources would support a living wage policy. Others may be more dependent upon Federal and state sources or income from goods and services provided and may be more at risk. Prudence suggests that some waivers may be necessary in demonstrable hardship cases. Any granted waivers from the ordinance would result in both lower costs and lower benefits than we have estimated here.

Finally, it is important to repeat that we have not included the employees on lease contracts in this analysis. Most of these leases are located at San Francisco International Airport or at the Port of San Francisco. The number of workers potentially covered under lease contracts could be several times greater than those discussed here. However, a larger but as yet unknown number are likely to be higher paid and so would not be affected. The costs to the city would occur as the leases, many of which are long-term, are renegotiated. Most of these costs would involve potentially lower rents, and while we expect the amounts to be small, again the estimated amounts are as yet unknown.

Concluding comments and summary benefit-cost matrix

This report has assessed many of the benefits and costs for service contracts and home health care associated with the proposed Living Wage Ordinance for the City of San Francisco. If passed in its current form, the chief benefits of the ordinance will be enjoyed by a modest group of affected workers. The impact of this benefit for those individuals cannot be overstated. Other benefits of the proposed ordinance, which are more difficult to quantify, include increased productivity and some expansion of the city economy. Against these benefits must be weighed some real costs. Some of these costs will be felt within firms that employ benefiting workers. The City itself can expect a relatively modest fiscal impact.

The following matrix summarizes the key costs and benefits for the city:

	Costs	Benefits
City Finances	<p>\$21.3m contractor pass-through for pay and benefits (less any waivers) <i>plus</i> \$16.7m home health care cost increases <i>less</i> \$5.7m savings in reduced public health expenditures <i>equals</i> \$32.3m</p> <p>[To be added: reduced rents on renegotiated lease contracts. Effect expected to be small.]</p>	<p>Enhanced quality of city services</p> <p>Productivity gains</p>
City Economy	<p>\$9.7m to contractors (excludes \$21.3m pass-through above) <i>plus</i> \$3.7m wage push <i>equals</i> \$13.4m</p> <p>[To be added: costs to employers on lease contracts]</p>	<p>\$65.2m (pay and health benefits, less any waivers) for 13,000 workers (includes \$3.7m wage push effects)</p> <p>\$20.8m multiplier effect for entire city</p> <p>[To be added: pay increases to workers on lease contracts]</p>

As the matrix indicates, the aggregate benefits outweigh the aggregate costs, even in the short-run. The net benefit over cost occurs partly because of the increased contributions of \$13.8m from the Federal and state governments and partly because of the \$20.8 multiplier effect. The long-run net benefit would be greater, as the productivity and quality effects emerge.

Since, however, the costs and benefits will not be distributed evenly, we urge attention to detail in designing the implementation of the program. Some contractors, particularly among the nonprofits, may need special waivers, and the appropriation in the City budget should allow flexibility for greater cost pass-throughs than we have estimated.

Given the uneven distribution of gains and losses reported here, economists do not possess objective criteria to calculate whether the overall benefits sufficiently outweigh the costs and therefore represent a worthwhile investment for the city. We can state confidently that the ordinance would generate a modest transfer from the City Budget, city firms, and external sources, to the intended beneficiaries of the ordinance without posing harm to the overall economy or the city's finances. Indeed, considerable net benefit to the city economy is likely. Although we have not yet completed our analysis of the lease contracts, we expect the results reported here will not change substantially. We conclude that the proposed ordinance would achieve its stated objectives of lifting the targeted workers to self-sufficiency and improving the quality of city services.

Data Notes

Listing of Service Contractors (Vendors)

The listing of vendors, provided by the City Controllers office, covers firms that are contracting services with the city through the 1997/1998 fiscal period. The listing is comprised of vendor name and address, contract amount, department origin, and employment status.

American Business Directory

The ABD is a CD-ROM database available at the Long Library, Haas Business School, UC Berkeley. The ABD contains information on U.S companies and business organizations based on various governmental business and chamber of commerce directories, corporate annual reports, and other public information sources. The ABD provided the Standard Industrial Classification codes, and the sales and employment Class estimates for the firms listed in the vendor list.

Current Population Survey

The CPS is a monthly survey of about 50,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics. It is the primary source of information on the labor force characteristics of the U.S. population, as well as earnings, hours of work and other employment indicators, and demographic and occupational characteristics. CPS data were used to formulate wage distributions for the affected employment sectors, and to present the demographic characteristics of the affected employment population.

For estimates involving personal earnings, we used the March Supplement of the Current Population Survey for 1996-1998 for the Bay Area Statistical Area. We combined three years of data in order to increase the sample size to a reliable level. This survey allowed us to construct an income distribution and employment database of over 3,000 individuals. Using this database we were able to estimate the proportion of workers in each sector likely to be affected by the living wage ordinance, as well as the costs of bringing them into compliance.

For wage estimates, we adjusted for inflation using the Bureau of Labor Statistics San Francisco-Oakland-San Jose Wage Earner CPI deflator. We estimated hourly pay as either the reported hourly wage for workers paid by the hour or, for salaried workers, as the annual wage and salary divided by total hours worked (hours worked per week times weeks worked).

To reduce measurement error in computing hourly pay, we excluded all earners whose estimated wage was less than \$1, who worked less than 10 weeks during the year, or who normally worked less than 10 hours per week.

County Business Patterns

CBP is an annual data series that contains regional and county-level economic data by industry. We used CBP for data on employment and annual payroll by industrial sector. If we were unable to find an acceptable estimate of the number of employees in a specific firm, we used the average number of employees per establishment for the appropriate industrial sector.

IHSS Cost Estimates

We used data from the Department of Health Services provided to us by MaryRuth Gross of Local 250 of the Service Employees International Union.

List of tables

Table 1	Self-Sufficiency Wage Budgets for San Francisco, 1996
Table 2	Bay Area Wage Distribution by Sector
Table 3	SF City Household Income Distribution
Table 4	Cost of Living and Living Wage Comparisons
Table 5	Sectors of City Contractors Affected by the Ordinance
Table 6	Covered and Benefiting Workers in Service Contracts
Table 7	Distribution of Family Income of Bay Area Earners
Table 8	SF Labor Force: Gender Composition
Table 9	SF Labor Force: Ethnic Composition
Table 10	Summary of Pay and Health Coverage Gains
Table 11	Net Income Gains to the City Economy
Table 12	Increased Costs for Service Contractors by Sector
Table 13	Average Hourly Wage of Workers Earning Less Than \$11 per Hour
Table 14	Estimated Increase in IHSS/ Home Health Care Costs

Table 1**Self-Sufficiency Wage Budgets for San Francisco, 1996**

	Adult + Preschooler	Adult + Teenager	2 Adults + 2 Preschoolers
Housing	\$950.00	\$950.00	\$950.00
Child Care	\$560.00	\$0.00	\$1120.00
Food	\$206.50	\$255.40	\$430.10
Transportation	\$62.40	\$62.40	\$124.80
Medical Care	\$139.03	\$162.63	\$206.35
Miscellaneous	\$191.79	\$143.04	\$283.13
Taxes	\$481.14	\$294.84	\$745.21
Earned Income Tax Credit	\$0.00	(\$42.11)	\$0.00
Child Care Tax Credit	(\$40.00)	\$0.00	(\$80.00)
MONTHLY SELF- SUFFICIENCY WAGE	\$2550.86	\$1826.20	\$3779.59
HOURLY SELF- SUFFICIENCY WAGE	\$14.49	\$10.38	\$10.74 <i>per adult</i>

Source: Wider Opportunities for Women

Note: These budgets have not been updated to reflect 1996-1999 inflation, which has been especially high in housing and medical care.

Table 2
Bay Area Wage Distribution by Sector

Sector	Percent of Workers in Wage Class					Total
	up to \$9	\$9-11	\$11-13	\$13-14.49	\$14.5+	
Construction and Engineering Services	12.5	9.9	11.9	7.1	58.7	100
Health	17.1	5.3	12.5	6.4	58.9	100
Education	18.5	13.3	7.6	8.9	51.6	100
Social Services and Community Organizations	17.0	9.8	11.9	5.9	55.4	100
Consulting, Legal, Computer, Business, Finance, Insurance	15.8	9.6	11.1	6.1	57.4	100
Transport, Utilities, Repair Services	20.6	6.9	9.7	4.3	58.5	100
Trade	38.7	14.5	9.9	5.9	31.1	100
Government	9.0	3.1	4.3	3.9	79.6	100
Manufacturing	17.4	5.2	8.1	4.7	64.6	100
Other	37.8	13.0	5.9	4.5	38.8	100
All Sectors	22.1	9.4	9.4	5.8	53.4	100

Source: CPS March Supplement, 1996-1998, Bay Area Counties.

Note: This table includes government employees, few of whom are low-wage.

Table 3
SF City Household Income Distribution

Income Range	Percent of all households
Up to \$10,000	14.4
\$10-15,000	7.4
\$15-25,000	15.1
\$25-50,000	32.3
\$50-75,000	16.5
\$75-100,000	6.9
\$100,000+	7.4
Total	100

Source: 1990 Census, Income Report: San Francisco City.

Table 4
Cost of Living and Living Wage Comparisons

	Living wage ¹ (unadjusted)	Wage adjusted with SF Cost of Living ²	Housing cost Index ³
San Francisco	\$11	\$11	307.6
<i>National Comparisons</i>			
Baltimore	\$7.70	\$13.38	103.4
Boston	\$8.23	\$10.29	188.6
Miami	\$8.56	\$13.53	111.0
<i>Regional Comparisons</i>			
Los Angeles	\$7.39	\$7.91	
Oakland	\$8.00	\$9.28	
San Jose	\$9.50	\$9.69	

Sources: ACCRA Cost of Living Index, Third Quarter 1995, in *Statistical Abstract of the United States 1996*. Wider Opportunities for Women, *Self-Sufficiency Worksheets*.

Notes:

1. Living wage with health benefits. Proposed SF Living wage without benefits is \$12.50.
2. Adjusting factor = SF CofL/City's CofL (using ACCRA Composite Index for Baltimore, Boston and Miami and W.O.W. index for Los Angeles, Oakland and San Jose).
3. National Average =100.
4. Cost data are for the city, except for Boston (PMSA) and Miami (Dade County).

Table 5
Sectors of City Contractors Affected by the Ordinance

Sector	214 For-profit firms		293 Nonprofits	
	Number of Contracts in Sector	Value of Contracts in Sector (\$million)	Number of Contracts in Sector	Value of Contracts in Sector (\$million)
Health	5	0.7	43	62.3
Education	0	0	14	1.8
Social Services and Community Organizations	11	1.7	428	206.5
Consulting, Legal, Computer, Business, Finance, and Insurance	255	155.2	60	16.4
Transportation, Utilities and Repair Services	85	47.7	3	.8
Manufacturing	29	9.9	1	.3
Other Sectors ¹	138	152.7	223	72.4
Total	523	367.9	772	360.5

Source: Authors calculations using SF Controller's Office Vendor List and American Business Directory.

Note:

1. This sector encompasses many firms whose industrial sector classification could not be identified. It is likely that some of the service contracts included here will not be subject to the Living Wage ordinance.

Table 6**Covered and Benefiting Workers on Service Contracts**

Sector	Number of Workers Covered by the Ordinance	Number of Benefiting Workers	
		Full Time Equivalent Workers ¹	Workers
Health	1200	480	500
Education	50	20	40
Social Services and Community Organizations	5800	1900	2300
Consulting, Legal, Computer, Business, Finance, Insurance	1100	500	550
Transport, Utilities and Repair Services	620	230	250
Manufacturing	160	50	60
Other Sectors	3900	1350	1500
Total	12380	4530	5200

Source: Authors calculations using SF Controller's Office Vendor List, American Business Directory and CPS March Supplement, 1996-1998, Bay Area Counties.

Note:

1. A full-time equivalent worker refers to a job of 2,000 hours per year. Since benefiting workers generally work less than this amount, the actual number of benefiting workers is estimated to be slightly higher.

Table 7
Distribution of Family Income of Earners (percent)

Family Income	Earners of more than \$11/hr	Earners of less than \$11/hr	All Earners
Up to \$10,000	1.0	12.1	5.4
\$10-15,000	2.3	12.9	6.6
\$15-25,000	9.3	26.7	16.3
\$25-50,000	34.8	27.4	31.8
\$50-75,000	20.1	7.4	15.0
\$75-100,000	13.5	5.6	10.3
\$100,000+	19.1	7.9	14.6
Total	100	100	100

Source: Authors calculations using CPS March Supplement, 1996-1998, Bay Area Counties.

Table 8

SF Labor Force: Gender Composition

	Affected Labor Force (percent)	Total Labor Force (percent)
Male	39.0	55.7
Female	61.0	44.3

Source: Authors calculations using SF Controller's Office Vendor List and CPS March Supplement, 1996-1998, Bay Area Counties.

Table 9

SF Labor Force: Ethnic Composition

Ethnic Group	Affected Labor Force (percent)	Total Labor Force (percent)
White (nonHispanic)	38.4	46.3
African-American	11	10.5
Native American	0.5	0.9
Asian and Pacific Islander	29.6	24.1
Latino	20.5	18.3

Source: Authors calculations using SF Controller’s Office Vendor List and CPS March Supplement, 1996-1998, Bay Area Counties.

Table 10
Summary of Pay and Health Coverage Gains

Source		Amount
Home health care workers wages:	Paid from Federal sources	\$7.6m
	Paid from State sources	\$6.2m
Subtotal: Non-San Francisco Sources		\$13.8m
Home health care workers wages paid from County sources		\$16.7m
Employees of contractors:	Direct Wage Increases	\$19.8m
	Health Benefits	\$11.2m
	Indirect Increases from Wage Push	\$3.7m
Subtotal: San Francisco Sources		\$51.4m
Total Gains		\$65.2m

Source: Authors calculations using SF Controller's Office Vendor List, IHSS data, and CPS March Supplement, 1996-1998, Bay Area Counties.

Table 11
Net Income Gains to City Economy

Item	Wage Increase	Wage Increase Earned by San Francisco Residents ¹ (70 percent)	First-round increase in local income that gets re-spent		Effect with 1.7 Multiplier ¹
			100 percent of injected income	10 percent of redirected income ¹	
Home health care workers wages paid from county sources	\$16.7m	\$11.7m	N/a	\$1.2m	\$2.0m
Employees of contractors	\$19.8m	\$13.9m	N/a	\$1.4m	\$2.4m
Subtotal: Wage Increases	\$36.5m	\$25.6m	N/a	\$2.6m	\$4.4m
Injected Income²	\$13.8m	\$9.6m	\$9.6m	N/a	\$16.4m
Net Income Gains to City Economy					\$20.8m

Source: Authors' calculations using SF Controller's Office Vendor List, IHSS data, and CPS March Supplement, 1996-1998, Bay Area Counties.

Notes:

Amounts do not add up because of rounding.

1. See text for explanations of assumed proportion of income earned by San Francisco residents, proportion of redirected income spent locally, and multiplier.
2. Increase in home health care workers wages paid from Federal and State sources.

Table 12
Increased Costs for Contractors by Sector

Sector	For Profit firms		Nonprofits		All contractors	
	Cost increase (\$millions)	Increase as percentage of contract value ¹	Cost increase (\$millions)	Increase as percentage of contract value ¹	Cost increase (\$millions)	Increase as percentage of contract value ¹
Health	0.07	6.0	2.9	2.8	3.0	2.9
Education	0	0	0.1	6.1	0.1	6.1
Social Services and Community Organizations	0.1	7.0	10.9	4.7	11.0	4.7
Consulting, Legal, Computer, Business, Finance, Insurance	2.4	1.6	0.4	2.5	2.8	1.7
Transport, Utilities, Repair Services	1.7	3.8	0	0	1.7	3.7
Manufacturing	0.4	3.6	0.02	6.5	0.4	3.7
Other sectors ²	8.8	5.7	3.3	4.5	12.0	5.3
Total	14.6	3.7	16.4	4.2	31.0	3.9

Source: Authors calculations using SF Controller's Office Vendor List and CPS March Supplement, 1996-1998, Bay Area Counties.

Note:

1. See Table 5 for contract value per sector.
2. This sector encompasses many firms whose industrial sector classification could not be identified. It is likely that some of the increased labor costs estimated here will not result from the Living Wage ordinance.

Table 13**Average Hourly Wage of Workers Earning Less Than \$11 Per Hour**

(by sector and type of employer for Bay Area earners)

Sector	Type of employer		
	For-profit firms	Non Profits	All earners ¹
Health	\$8.90	\$9.12	\$9.05
Education	\$8.54	\$9.09	\$8.80
Social Services and Community Organizations	\$8.74	\$9.63	\$9.23
Consulting, Legal, Computer, Business, Finance, Insurance	\$9.39	\$6.16	\$9.33
Transport, Utilities, Repair Services	\$8.34	N/a	\$8.46
Manufacturing	\$8.64	\$9.29	\$8.60
All	\$8.50	\$8.70	\$8.57

Source: Authors calculations using CPS March Supplement, 1996-1998, Bay Area Counties.

Note:

1. This includes all those self-employed, working for government, for-profit firms, nonprofits and households.

Table 14**Estimated Increase in IHSS/ Home Health Care Costs**

	Total Costs	Federal Share of Costs	State Share of Costs	County Share of Costs
<i>Current Costs (at \$7 per hour, 10 percent employer paid tax and \$1.05 per hour health benefit)</i>				
Primary Care ¹		\$ 29.7m	\$13.1m	\$ 9.8m
Other ²		-	\$4.3m	\$ 3.2m
Remainder: County share		-	-	\$ 6.7m
Total	\$ 66.7m	\$ 29.7m	\$17.4m	\$19.7m
<i>Current Costs plus AB16 Enacted and Funded</i>				
Primary Care ¹		\$ 29.7m	\$ 18.1m	\$ 9.8m
Other ²		-	\$ 6.0m	\$ 3.2m
Total	\$ 66.7m	\$ 29.7m	\$ 24.1m	\$13.0m
<i>Costs with Living Wage and AB16 Enacted and Funded</i>				
Primary Care ¹		\$39.0m	\$23.8m	\$14.7m
Other ²		-	\$ 7.9m	\$ 4.8m
Remainder: County share		-	-	\$10.1m
Total	\$100.3m	\$39.0m	\$31.7m	\$29.6m
Increase Due to Living Wage	\$33.6m	\$9.3m	\$7.6m	\$16.7m

Source: Authors calculations using IHSS data.

Notes:

Amounts do not add because of rounding. See text for detailed explanation of county make-ups for state and federal funding shortfalls.

1. Department of Human Services estimates 6,574,000 hours per year are worked in primary care.
2. Department of Human Services estimates 1,051,000 hours per year are worked in other care activities.

References

- Bendavid-Val, Avrom. *Regional and Local Economic Analysis for Practitioners*. Fourth Edition. New York: Praeger. 1991.
- Benner, Chris and Rachel Rosner. *Living Wage: an Opportunity for San Jose*. Working Partnerships, USA. August 1998.
- Bhatia, Rajiv, Jennifer Mann and Randy Reiter. "Living Wage Analysis: Health Benefits of Decreasing the Number of Low-Income Households." Department of Public Health, San Francisco. February 1999.
- Brown, Clair, Yoshifumi Nakata, Michael Reich and Lloyd Ulman. *Work and Pay in the United States and Japan*. New York: Oxford University Press. 1997.
- Card, David and Alan B. Krueger. *Myth and Measurement: the New Economics of the Minimum Wage*. Princeton, NJ: Princeton University Press. 1995.
- Feldman, Penny H. "Labor Market Issues in Home Care." Kennedy School of Government, Harvard University. October 1993.
- Ghilarducci, Teresa and Michael Reich. "MultiEmployer Plans as Solutions to Training and Pension Collective Action Problems." *Journal of Labor Research*. Forthcoming.
- Lehman, Ann. "Living Wage Ordinance's Impact on Women in San Francisco." Prepared for the Commission on the Status of Women, San Francisco. April 27, 1999.
- Luce, Stephanie and Robert Pollin. *The Living Wage: Building a Fair Economy*. New York: the New Press. 1998.
- Moye, Melissa. "Impacts of Quality Building Management and Service on Real Estate Investments." Working Paper, Pension and Investment Program, Service Employees International Union. January 1999.
- Neidt, Christopher, Greg Ruiters, Dana Wise and Erica Schoenberger. "The Effects of the Living Wage in Baltimore." Prepared for The Economic Policy Institute. May 1998.
- Reich, Michael. "Prevailing Wage Laws and the California Economy." Center on Pay and Inequality, Institute of Industrial Relations, UC Berkeley. 1996.
- Reich, Michael. "True Benefits of a Living Wage Figured." *San Francisco Chronicle*. 19 January 1999.
- Sachdev, Sanjiv and Frank Wilkinson. "The Labour Market, the Minimum Wage and the Low Pay Commission Report." ESRC Working Paper 110, ESRC Centre for Business Research, University of Cambridge. December 1998.

Sander, Richard H. and Sean Lokey. "The Los Angeles Living Wage: the First Eighteen Months." Prepared for the City of Los Angeles. November 1998.

Spain, Selena, Tse-Ming Tam and Chris Thomas. "Living Wage Policies Nationwide: An Analysis for the City of Oakland." National Economic Development and Law Center. December 1997.

Williams, E. Douglass and Richard H. Sander. "An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance." Prepared for the City of Los Angeles. January 1997.

Zabin, Carol. "Assessing the Costs and Benefits of the 'Living Wage Ordinance': a Review of the Evidence." Policy Brief, UCLA. January 1997.

Acknowledgments and author biographies

We are grateful for expert research assistance from Michael Ash as well as advice from Robert Pollin, Erica Schoenberger and Carol Zabin. We received support from the Institute of Industrial Relations at UC Berkeley.

Michael Reich is Professor of Economics at UC Berkeley and Director of the Center on Pay and Inequality at the Institute of Industrial Relations at UC Berkeley. A specialist in labor economics, he has published dozens of scholarly articles and nine books, including *Labor Market Segmentation*; *Racial Inequality*; *Social Structures of Accumulation*; and *Work and Pay in the United States and Japan*. He received his Ph.D. in Economics from Harvard University in 1974, has served as Editor of the scholarly journal *Industrial Relations* and as Research Director of the National Center for the Workplace. He was recently appointed to the University of California Advisory Group on the Code of Conduct for Trademark Licensees, which is addressing living wage issues in both the United States and abroad.

Peter Hall received an M.Sc. degree from the London School of Economics in 1995 and is also a graduate of the University of Cape Town in South Africa. He has worked as a research consultant and in local government economic development. He is currently a Ph.D. student in City and Regional Planning at UC Berkeley and a Graduate Student Researcher at IIR. He is especially interested in regional economic development analysis.

Fiona Hsu is a 1999 UC Berkeley graduate with a double major in Economics and Sociology. She recently participated in a student research project that studied living wage proposals for Oakland and Richmond, CA.