



## LEGISLATIVE ANALYST REPORT

TO: MEMBERS OF THE BOARD OF SUPERVISORS

FROM: PAULA VLAMINGS, Legislative Analyst

DATE: December 16, 1999

RE: **Comparison of Living Wage Studies**

This report provides the Board with a comparison of the key differences between the Economic Impact Study conducted by Dr. Michael Potepan and Dr. Brian Murphy of San Francisco State University (SFSU study), October 1999, and The Benefits and Costs of a Living Wage study by Dr. Michael Reich of the University of California at Berkeley (UC study), October 1999. This comparison is intended as an aid in the review of the Living Wage Task Force's recommendations on the proposed living wage ordinance.

### EXECUTIVE SUMMARY

The studies by San Francisco State University and UC Berkeley provide different cost and benefit amounts with regard to paying a living wage of \$11 an hour in San Francisco. The focus of the SFSU study was to determine the economic impact of paying a living wage in San Francisco. The SFSU study provided direct and indirect costs for different wage levels, as well as policy choices with regard to scope and scale of a living wage ordinance. The UC study differs slightly in its focus in that it was conducted as a cost benefit analysis to determine not only costs of a living wage, but also whether or not the long-run net benefits would outweigh the costs. *Additionally, for various reasons both studies provided revisions to their original reports, which consequently narrowed the differences in the cost of a living wage ordinance.*

Generally, there are three key differences in the two studies: 1) The number of employees covered under the ordinance, 2) The cost of the ordinance in terms of the amount to be passed through to the City, and associated costs of a living wage, and 3) The benefits associated with the ordinance. These differences are summarized and analyzed below:

ANALYSIS

**1) Number of Workers Covered -**

Workers	SFSU	UC
<b>Service Contracts</b>		
Total:	15,437	12,700
<b>Leaseholders</b>		
Airport:	11,285	11,600
Port	5,096	2,600
Water, Parks & Rec., Misc.	<u>3,428</u>	<u>n/a</u>
Total:	19,809	14,200
<b>TOTAL:</b>	35,246	26,900

The difference in the totals stems from the data sets used by each study. Both studies were able to use only a rough approximation as to the number of service contractors. The Purchasing Department was not able to retrieve the kind of data asked for by both studies because its financial monitoring systems were not designed with the intention of providing research data. Therefore, each study picked the vendors they thought to be appropriate from the lists provided. Also, the UC study used 1997 information from the Purchasing Department, and the SFSU study used 1998 information from the Purchasing Department. The UC study identified 507 firms with service contracts, and the SFSU study identified 764 firms with service contracts that would be subject to the ordinance. The different data sets and the difficulty in generating a comprehensive list of service contractors account for the differences in the final totals of estimated employees covered by the ordinance.

According to Professor Reich (UC study), another possible explanation for the difference in the number of workers is sampling error and/or bias. He believes the SFSU study's survey responses from the Port to be unusually high and the cost figures possibly inflated; the SFSU study addresses this in its addendum. Professor Reich also thought sampling error and/or bias may exist with regard to the number of service contractors, however according to the SFSU analysts, they are reasonably certain that the numbers for the service contracts are accurate.

Two other factors contributed to the difference in the number of workers covered. The UC study did not include miscellaneous leaseholders such as the Water Department and the Parks and Recreation Department. The SFSU study did include those departments and they account for an additional 3,428 employees. Both the UC study and the SFSU study included workers affected by the wage push and horizontal wage push. Wage push refers to the pressure within an organization to increase pay for those earning at or just above the living wage, and horizontal wage push refers to the pressure by employers to equalize pay for workers not subject to the ordinance but doing the same or similar work as those earning a living wage. With regard to part-time workers, the SFSU study counted them separately while the UC study counted part-time workers proportionately in full-time equivalents.

## 2) Costs

(cost in millions)	SFSU	UC
<b>Service Contracts</b>		
Total:	\$81.7*m	\$64.1m
<b>Leaseholders</b>		
Airport:	\$69.4*m	\$59.1m
Port	<u>\$35.2*m</u>	<u>\$18.2m</u>
Total:	\$104.6*m	\$77.3m
<b>Administration</b>	<b>\$1.75m</b>	<b>Not Addressed</b>
<b>TOTAL:</b>	<b>~\$212*m</b>	<b>\$141.4m</b>
<b>Pass Through to City</b>	<b>\$74.1m</b>	<b>\$27.2m</b> (\$6.7m to for-profit firms and \$20.5 passed through to City by non-profit firms).

\*Total includes health insurance for uninsured workers earning less than \$12.

One obvious difference in the cost of a living wage ordinance is explained by the difference in the number of workers covered. However, other factors are important in explaining the two studies' determination of cost. One is the amount that would likely be passed on to the City; another is the associated costs that go along with a wage increase. The cost of administration of the ordinance for the City is also a factor in determining cost.

The UC study determined the pass through amount for service contracts by estimating that all of the costs to the nonprofit organizations and no more than one-third of the increased costs to all for-profit contractors would be passed on to the City. The UC study stated that its estimates were conservative and based on an average 3.7 percent cost increase among the for-profit firms, with offsetting savings. Therefore, many firms would experience much smaller cost increases and would not need pass-throughs at all.

The SFSU study agrees that it is unlikely that the non-profit service contractors would have the ability to absorb the costs of the ordinance, but it disagrees with the ability of the for-profit firms to absorb the costs. The SFSU study distinguishes between small and large for-profit service contractors, in that it estimates large for-profit contractors could absorb up to 30% while small for-profit firms could not. Therefore, the SFSU study includes all the costs from nonprofit firms, all increased costs for small for-profit contractors, and 70% of the increased costs to the large for-profit contractors would be passed on to the City. Neither study anticipated significant pass through costs to the City on property contracts, although the SFSU study did credit more revenue loss at the Port and the Airport due to renegotiated leases.

The other important factor for the two studies in determining costs is the treatment of associated costs with increased wages, such as compensated time off and medical benefits. Both studies provided revisions to their original reports with regard to these benefits; however, slight discrepancies remain. The SFSU study calculated medical benefits at \$1.00 per hour for workers earning less than \$11 per hour, and the UC study revised its estimate to \$1.25 per hour. The UC study's aggregate estimates are lower, according to Professor Reich, because they used Federal survey data on the probability of employers

paying for health insurance and paid days off. He felt the SFSU study, which used employer survey responses, was too low on this issue.

The cost of administration of a living wage is addressed by the SFSU study only, and is based on a comparative analysis of other cities' administration of a living wage. It recommended a "proactive" approach (a more comprehensive and interactive administrative model) and estimated the cost of a monitoring and evaluation system to be \$1.75 million per year. The SFSU analysts determined that serious administration and compliance requires a dedicated staff with aggressive investigation and contract review.

### 3) Benefits To the City

(cost in millions)	SFSU	UC
<b>City Employees</b>	Annual income and Standard of Living	Wages
<b>City Economy</b>	<ul style="list-style-type: none"> <li>• Multiplier Effect \$15m - \$30m (over a number of years)</li> <li>• Reduced Usage of Public Health ~\$1.5m - \$5m</li> </ul>	<ul style="list-style-type: none"> <li>• Multiplier Effect \$17m (annually)</li> <li>• Reduced Usage of Public Health ~ \$5.7m</li> </ul>

The two studies did not differ greatly on benefits to the City after the revisions had been completed. Benefits for employees would differ only in terms of total wages paid due to any differences in the number of employees covered. The so-called multiplier effect occurs when new resources are injected into a local economy from an external source. For the multiplier effect to occur, the expectation is that goods purchased with the new money must be purchased locally. Both studies were basically in the same range with regard to the estimated multiplier effect on the net benefit to the City economy.

The area where the two studies did differ, although not in significant dollar amounts, is in terms of savings to the City from reduced public health expenditures. The SFSU study found a range of \$1.5m to \$5m to be realistic because of unmet needs at the current budget levels. The UC study estimated \$5.7m and reasoned that if more individuals in need can receive services, it is a benefit to the City regardless of whether or not the public health budget goes up or down. In its revision to the first release, the UC study stated that the savings may be marginally lower than \$5.7 million (it did not state how much lower) since it also found fewer workers would be affected.

### CONCLUSION

The SFSU study found the proposed living wage ordinance to be more costly than the UC study. However, once each of the studies' revisions were addressed, the differences are not particularly significant from a policy perspective. The largest difference between the two studies is the amount of

costs to be passed through to the City, and these costs will be dependent on policy decisions by the Board.

Additionally, the differences between the two studies are even smaller at a \$10 living wage rate, and with an implementation plan that is phased in over time the differences are reduced even more.