

THE IMPACT OF A LIVING WAGE ORDINANCE ON THE CITY OF CORAL GABLES

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EXECUTIVE SUMMARY

I. Proposed Living Wage Ordinance for the City of Coral Gables

A coalition of local organizations and individuals has urged the city of Coral Gables to pass a living wage ordinance to raise the wages of the lowest paid workers on the city's payroll and on the payrolls of the city's contractors. Miami-Dade County, Miami Beach, Broward County, and others have passed such ordinances. A living wage ordinance ordinarily requires that wages be paid at or above the poverty line for a family of four, and that health care coverage (or its equivalent in monetary payment) be provided.

This study assumes that a city ordinance would closely parallel the Miami-Dade County ordinance. The proposed ordinance would cover (1) all employees of the city, and (2) employees of locally based service contractors conducting city business through a contract with the city. The required pay levels would be \$9.44 per hour if health care coverage is provided, and \$10.81 per hour if it is not. This amount would be adjusted yearly for inflation.

II. Previous Research on Living Wage Ordinances

Research on what has occurred elsewhere after implementation of living wage ordinances is briefly reviewed. Two studies of Baltimore, one of the cities of Boston, New Haven, and Hartford, and one of a number of California cities are reviewed. All deliver positive assessments: costs to the city rise very little or sometimes even decline, poverty is reduced, "disemployment" (increased unemployment) impacts are insignificant, etc. No major negative impacts have been found (as opposed to predicted), to the best knowledge of the author.

III. Likely Costs to the City of Coral Gables of a Living Wage Ordinance

Analysis of the six city contracts that would be affected by the ordinance and the city's payroll data for workers earning less than \$10.81 per hour shows that the bulk of the costs would be through city contracts.

The city has no full time workers earning less than \$10.81 per hour, so its only additional direct personnel costs would be for part time employees. The additional cost of raising them all to \$10.81 per hour (assuming the city does not want to offer them healthcare coverage) would be \$162,763.55.

The cost of raising the pay of all city contractor employees to \$10.81 (assuming that they do not have health care coverage) would be \$658,592.36.

Adding the two together, the upper limit of extra compensation costs would be **\$821,355.91**. This is an “upper limit” figure, because it was arrived at by making the “worst case” assumption in every case where assumptions needed to be made.

IV. Analysis and Conclusions

There are two likely sources of cost reductions from the above figures as well as two likely sources of cost increases. The potential cost reductions come from (1) an “efficiency wage” effect, whereby efficiency will increase at the higher wage through reductions in employee turnover, absenteeism, tardiness, and the like; and (2) contractors not passing through to the county the entire additional labor costs. Both of these will likely reduce the final cost, but we do not put a magnitude on these factors in this study.

The potential increased costs come from (1) monitoring costs for the city, which will use city personnel to implement and monitor the ordinance, and (2) “ripple effect” costs, to the extent that employers grant wage increases beyond those required by the ordinance itself. Again, we do not attempt to quantify these additional costs in this study, but we emphasize that both of these factors are under the city’s control and are not mandatory under an ordinance. If the city chooses to handle both issues wisely, additional costs can be greatly minimized.

In the estimation of the author, the additional potential savings will outweigh any additional potential costs, so the final cost is likely to be less than the \$822,000 calculated above. **Final costs will probably be between \$700,000 and \$822,000.**

Whether the benefits of a living wage ordinance justify this small cost is a political decision for the Coral Gables City Commissioners to make. In our estimation, the well known anti-poverty benefits and the small cost make adoption of a living wage ordinance a very attractive option.

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INTRODUCTION

A coalition of local organizations and individuals has urged the city of Coral Gables to pass a living wage ordinance to raise the wages of the lowest paid workers on the payroll of the city and its contractors. Miami-Dade County, the city of Miami Beach, Broward County, and several other municipalities across the state of Florida have already passed such ordinances. A living wage ordinance ordinarily requires that wages be paid at or above the poverty line for a family of four, and that health care coverage (or its equivalent in monetary payment) be provided.

To date, despite expressed interest from various city officials, the city has not yet developed and considered a living wage ordinance. One important piece of information that public officials have asked for is what the likely cost of such an ordinance would be. The following is a very brief study of the likely impact of a living wage ordinance on the city of Coral Gables. Emphasis has been given to the costs involved, although city officials should bear in mind the benefits such an ordinance is also likely to bring the city and its inhabitants.

The study is based on the assumption that a city ordinance would closely parallel the ordinance already in place since 1999 for Miami-Dade County. Thus, it assumes that the ordinance would cover (1) all employees of the city, and (2) employees of locally based service contractors conducting city business through a contract with the city. It assumes that required hourly pay levels will be comparable to those of the county's ordinance, which are adjusted yearly to keep up with increases in the cost of living. As of October 1, 2004, the county's required pay levels are \$9.44 per hour if health care coverage is provided, and \$10.81 per hour if it is not.

THEORETICAL ARGUMENTS ABOUT A LIVING WAGE

Arguments concerning living wage ordinances are similar to those concerning minimum wage legislation. Proponents argue that workers at the lowest wages cannot earn an adequate income unless the government sets a "wage floor"; the wealth of the country is being more unevenly and inequitably divided; that "living wages" keep families intact and are supportive of strong families; workers gain greater self sufficiency; that the government gains because of lowered need for social services; communities gain through increased consumer spending in the community; and that even employers gain through higher morale and efficiency with lower turnover of employees.

Opponents tend to rely on the ideological belief that the market should be the ultimate determinant of economic distribution; they see any deviation from a strictly "free market" approach as creating distortions and inefficiencies. Beyond purely ideological arguments, they argue that a living wage ordinance will cost the government too much; that it will likely lead to unemployment; administrative costs will be huge; competition for city contracts will decrease; and that the "wrong signal" will be sent to the business community, thus discouraging investment in the area.

This report will not enter into the ideological debate, but will confine itself to the likely empirical effects of passage of a living wage ordinance. Much of the previous research on living wage ordinances gives some indication of the likely impacts.

PREVIOUS RESEARCH ON LIVING WAGE ORDINANCES

To date over 110 municipalities and counties and other public entities in the United States have passed living wage ordinances, and a fair amount of research has been done on living wage impacts. They break down into two types: prospective studies, such as the present one, that predict the likely impact if a living wage ordinance is passed, and retrospective studies, which look back at the actual impact after passage.

Both types of studies are valuable, but of course the retrospective ones are probably the most valuable because they tell you what actually happened, as opposed to future projections of what will happen. Predictions of the future inevitably rely on assumptions, and are therefore less likely to be entirely reliable.

This study cannot review all the studies conducted on living wage ordinances. The interested reader is referred to several web sites that contain a large number of them.¹ Here we will confine our attention to the main “after-the-fact” retrospective studies, because they are the most reliable and most important.

Two studies looked at the impact of the Baltimore living wage ordinance, passed in 1994. The first study, conducted in 1996, examined the impact after one year in operation (Weisbrot and Sforza-Roderick, 1996). The study found evidence supporting nearly all of the claims of proponents, and was unable to find any of the negative consequences predicted by opponents. Main findings were:

- * The real cost of city contracts actually decreased after the ordinance went into effect. For the average contract (weighted by its share in the sample), this decline was statistically significant.
- * Of companies interviewed that held contracts before and after enactment of the law, none reported reducing staffing levels in response to the higher wage requirements.
- * The cost to taxpayers of compliance has been minimal, with the city allocating about 17 cents per person annually for this purpose.
- * The average number of bids per contract declined from 1994 to 1995, but this decline was not statistically significant, nor did it affect the competitiveness of the bidding process as manifested in actual contract costs.
- * There is no evidence that businesses have responded negatively to the passage of the ordinance. In fact, the value of business investment in the City of Baltimore actually increased substantially in the year after passage of the law.

¹ Three sources giving listings of such studies (two with a favorable view toward living wage ordinances and one with an extremely negative view) are the following: www.umass.edu/peri/resources/livingwages.htm, www.epinet.org/content.cfm/issueguides_livingwage_livingwage, and www.epionline.org/lw_publications.cfm.

The second study examined the impact after two years of operation (Niedt, Ruiters, Wise, and Schoenberger, 1999). The overall conclusions were similar to those of the previous study:

- * The living wage ordinance has had positive effects on a relatively small number of workers in Baltimore without significant financial cost to the City.
- * Due to the prevalence of part-time and seasonal work, however, living wages do not always amount to living incomes. Greater consideration must be given to increasing and stabilizing hours worked.
- * The small financial impact on the city suggests that living wages could be paid more generally in the private and non-profit sectors with a relatively low impact on costs and competitiveness.
- * Evidence suggests that higher wages and hours improve the stability and reliability of the workforce.
- * Non-compliance in terms of paying the living wage and/or providing adequate payroll documentation remains a significant problem, affecting the impact of the living wage ordinance and our ability to analyze that impact.
- * The benefits of the living wage may be threatened by the effects of welfare reform.

These two studies indicate that the more ideological arguments against a living wage ordinance are not well founded. Another study examining the impact of living wage ordinances on Boston, New Haven, and Hartford found that the cost to the city of covered contracts actually fell in the vast majority of cases (Pollin, 2003). This does not, of course, mean that the living wage requirement caused the decrease in costs (although that is theoretically possible, through “efficiency wage” effects making the higher paid workforce more efficient), but it does indicate that any increased costs were so small that they were outweighed by other factors causing overall costs to decrease.

A retrospective study of a number of California cities with living wage ordinances found that they were effective in substantially raising the wages of covered workers, and had an impact on reducing urban poverty (Neumark, 2002). The author, David Neumark, is a well known opponent of minimum wage legislation, so his findings surprised him. Neumark found a small insignificant

“disemployment” effect, meaning that a slight decline in jobs occurred. He had expected this disemployment impact to be much larger than the insignificant amount he discovered.

Thus far the retrospective studies have been overwhelmingly positive. Despite this positive evidence, a prudent public official will still want to know the likely cost if a local living wage ordinance is passed. This study will use very conservative assumptions so that any errors in prediction will be on the side of overstating costs, not understating them. The actual cost to the city is likely to be less than the final projection, but it is safer to err on the side of caution.

LIKELY COSTS OF A LIVING WAGE ORDINANCE

In assessing the effects of implementing a living wage ordinance, one must ask the following questions:

- * Who benefits from the new wage standard and how much?
- * How much will a living wage cost the city of Coral Gables?

The first step is to identify the benefactors. The primary benefactors would of course be individuals earning less than the designated “living wage” either as municipal employees or as workers for contractors used by the city in service industries (janitorial, landscaping, security guard, etc). The families of these individuals would also benefit. The city and its citizens may benefit through a decrease in the level of poverty and all the attendant ills that come with poverty (crime, welfare dependence, etc.) Taxpayers may also benefit from savings through not having to provide health care and public assistance to those now able to support themselves. And even the contractors employing these individuals may benefit through a more reliable and motivated workforce: absenteeism, tardiness, labor turnover, and the like decrease when rates “above the going rate” are paid.

Assuming the ordinance was implemented, to whom would the burden fall? For the increased costs of higher wages and benefits for direct city employees, the burden obviously falls on

the city's budget. For the private contractors, the limited evidence we have to date indicates that they are likely to pass some of any increased costs on to the city, but not all. Those not passed on are handled through internal adjustments within the firm. However, for the purposes of this study we will make a "worst case" assumption for the city: that all additional costs to the contractors will be passed through to the city. We will also, until the end of the analysis, ignore any "efficiency wage" savings, although available evidence indicates that they do exist. In other words, we rely on pessimistic assumptions, to make certain we are not underestimating costs to the city.

The remainder of this study will calculate costs to the city, should it pass and implement a living wage ordinance with the "living wage" set at levels of \$9.44 per hour or \$10.81 per hour, depending on health care coverage. First we will consider the increased cost of paying employees of service contractors with the city a living wage. Then we will consider increased direct costs to the city's payroll from paying all of its employees a living wage.

City Contract Workers

To determine increased cost of city contracts, we rely on a list of city service contractors who would be covered by the proposed ordinance that was supplied to us by the city. Of the ten contractors, four paid wages well above the "living wage", leaving six contractors who would be impacted. We make a "worst case" assumption, and assume that all of the employees with wages below \$10.81 per hour do not have healthcare coverage, and therefore the new wage level will be \$10.81 rather than \$9.44 per hour. The six contracts that would result in pay increases for employees are in the following fields: electrical service, operations and management services, janitorial services, lawn maintenance services, tree trimming, and security service. The increased employee costs in each will be considered in the following sections.

(A) Electrical Service (Daniel Electric)

The electrical service contract employs 5 workers earning less than \$10.81 per hour. Three earn \$10 per hour; one earns \$8 per hour, and one earns \$7 per hour. We assume that all of these are full time employees (again, the “highest cost” assumption). The **total yearly increased compensation costs** of raising all employees to \$10.81 per hour come to \$18,824 plus FICA (7.65%), or **\$20,264.04**.

(B) Operations and Management Services (Gray Line of South Florida)

The operations and management services contract employs 12 workers earning less than \$10.81 per hour. Eleven earn \$10 per hour, and one earns \$10.50 per hour. Assuming that all of these are full time employees, the **total yearly increased compensation costs** of raising all employees to \$10.81 per hour come to \$19,177.60 plus FICA (7.65%), or **\$20,644.69**.

(C) Janitorial Service (South Florida Maintenance)

The janitorial service contract employs 25 workers earning less than \$10.81 per hour. Nineteen earn \$5.15 per hour; two earn \$6 per hour, and four earn \$7 per hour. Assuming that all of these are full time employees, the **total yearly increased compensation costs** of raising all employees to \$10.81 per hour come to \$275,392.00 plus FICA (7.65%), or **\$296,459.48**.

(D) Lawn Maintenance Services (South Florida Maintenance)

The lawn maintenance services contract employs 26 workers earning less than \$10.81 per hour. Five earn \$6 per hour; fourteen earn \$7 per hour, and seven earn \$7.75 per hour. Assuming that all

of these are full time employees, the **total yearly increased compensation costs** of raising all employees to \$10.81 per hour come to \$205,524.80 plus FICA (7.65%), or **\$221,247.44**.

(E) Tree Trimming (Trees, Inc.)

The tree trimming contract employs 8 workers earning less than \$10.81 per hour. Four earn \$7.50 per hour and four earn \$10.50 per hour. Assuming that all of these are full time employees, the **total yearly increased compensation costs** of raising all employees to \$10.81 per hour come to \$30,118.40 plus FICA (7.65%), or **\$32,422.46**.

(F) Security Service (World International Security)

The security service contract employs 7 workers earning less than \$10.81 per hour. All seven earn \$6.50 per hour. Assuming that all of these are full time employees, the **total yearly increased compensation costs** of raising all employees to \$10.81 per hour come to \$62,753.60 plus FICA (7.65%), or **\$67,554.25**.

Adding all these figures together, the total increased compensation costs for service contractors comes to **\$658,592.36**.

City of Coral Gables Employees

The city supplied a list of the number of employees earning less than \$10.81 per hour, and in the case of part time employees, the hours worked over the course of the year 2003. From this list, the total cost of bringing all the city's employees up to \$10.81 per hour was calculated.

The city has no full time employees earning less than \$10.81 per hour. Therefore, there would be no cost regarding full time employees if a living wage ordinance were passed. However, there are a number of part time or unclassified employees who earn less. The city supplied a list of all such employees for the calendar year 2003. Eighty one of these employees earned less than \$10.81 that year, and they worked for wildly varying periods of time. Table 1 shows the breakdown of numbers at each wage level, and the average hours per week they worked throughout the year.

Table 1
Part time Coral Gables Employees at Different Wage Levels, and Average Hours Worked per Week, 2003

WAGE LEVEL	NUMBER	AVG. HRS. WORKED PER WEEK
\$6.55/hour	5	4.74
\$7.28/hour	1	8.96
\$7.50/hour	1	1.45
\$7.64/hour	14	14.26
\$7.65/hour	2	151.52
\$7.78/hour	1	27.11
\$8.07/hour	3	13.74
\$8.14/hour	1	8.78
\$8.32/hour	17	10.01
\$8.74/hour	32	19.82
\$9.38/hour	1	9.51
\$9.72/hour	1	21.02
\$9.83/hour	2	27.25

From Table 1, it is a simple matter of calculating the number of hours at each wage level that would be raised to \$10.81 per hour, and from that to calculate the additional yearly costs. Doing the math, the total comes to \$151,196.98 plus FICA (7.65%), for a total of **\$162,763.55**.

Total Additional Payroll Costs

Total additional payroll costs if all employees of the city and its service contractors were paid \$10.81 per hour, thus comes to \$658,592.36 + \$162,763.55, or **\$821.355.91**. This figure illustrates the total increased payroll costs to all employers. These costs would not all be borne

immediately, because the increased contract costs would only occur when a new contract was negotiated to replace the one in effect prior to passage of the living wage ordinance.

The author believes this is an “upper end” estimate of what the final total costs to the city could be, because it incorporates assumptions that maximize costs to the city beyond what is likely. For example, we assume that **none** of the employees getting a pay raise have health insurance coverage. For those that do, raising the wage to only \$9.44 per hour will cost \$1.37 per hour less than we calculated. Additionally, we assumed that these individuals will have received no pay increase from 2003 until sometime in 2005 when a living wage ordinance would take effect.

Also, we assume that all additional contractor payroll costs will be passed on the city in the form of higher contract costs. As research elsewhere has demonstrated, contractors usually pass through only a portion of their increased labor costs after passage of a living wage ordinance. In addition, we made no allowance for an “efficiency wage” effect, although evidence indicates that there will likely be one. Workers who are paid “above the norm” tend to be absent less, tardy less often, less prone to quit, to have higher morale and to put in greater effort, etc. The savings from lower employee turnover alone will likely be substantial. None of these savings are incorporated into the calculations used to arrive at the above figures.

Of course there would be other benefits and savings to South Florida residents from adoption of a living wage policy. These “indirect benefits” would be very hard to quantify however, and we make no attempt to do so here. However, it is important to realize that workers who are able to pull themselves out of poverty, perhaps afford the down payment on a modest home, provide for their own health care rather than relying on the emergency room of Jackson Memorial Hospital, send their children on to college rather than making them work to support the

family, etc. become an asset to the region and the county, rather than a “drag” on it, both economically and in civic contributions to the community.

There could be additional indirect costs too, however. The two most significant are potential monitoring costs, and a “ripple” effect cost. Monitoring costs refer to the personnel expenses the city may incur in implementing and overseeing the living wage ordinance. Predicting the cost of this on Coral Gables is difficult, but since we are only talking about six contracts, the cost should be minimal or zero. Monitoring costs are not mandatory and it is up to the city’s discretion as to how the living wage initiative would be implemented and monitored.

The same is true for potential “ripple” effects. The ripple effect refers to pay increases that may be granted beyond what is required by the living wage ordinance. The city and/or city contractors may choose to do this to maintain some degree of pay differentials at the bottom of the wage structure between employees with different skills and/or length of employment. For example, if the new living wage floor is \$10 per hour, will an employer raise the pay of employees previously making \$6.50 per hour and \$9.75 per hour to \$10 per hour? Or will the employee previously making \$9.75 per hour get a larger increase, beyond that required by the law?

This is an issue that is up to employers to decide, but some (perhaps especially the city) will decide to grant additional raises, to maintain a degree of pay differential. It is important to note here that a “ripple effect” pay increase is not mandatory. As long as the city pays contract and municipal employees at the legally mandated level, the extent of a ripple cost would depend solely on the city’s judgment.²

² While the final decision belongs to the city, the author recommends that the city consider implementing pay increases to those below the new living wage level in a manner that compresses, but maintains, the pay differentials. For example, starting with the lowest paid worker, if the new pay structure maintains a 2 cent pay differential for each 10 cent pay differential under the old pay structure, the pay increases would get progressively smaller as you move up the pay scale, eventually decreasing to \$0 at some point between \$1 and \$1.50 above the new “living wage” floor. Differential pay levels are maintained, additional costs are minimized, and the city avoids inadvertently paying wage increases to employees who are in a higher segment of the labor market than that of the living wage beneficiaries.

Determining the size of the ripple effect is perhaps the most challenging issue to address. Because this is entirely a discretionary matter for the city to decide, we can only recommend that the city keep ripple effects to a minimum, using a method similar to that advocated in footnote 2. Because there is no way to predict what the city will decide to do regarding “ripple effect” wage increases, we leave out any estimate here. (We do know that private contractors will make the ripple effect raises minimal, because market pressures will induce them to highly compress the wage differentials at the very bottom of the wage scale. So we are very confident that ripple costs will be very minimal for the city’s service contracts.)

If the city rationally addresses the monitoring and ripple costs, we are very confident that all increased costs will be more than offset by the efficiency wage and partial-pass-through cost savings. Therefore, \$821,355.91 is almost certainly more than an ordinance would cost. It can be considered an “upper limit” of what one could possibly cost, and a more realistic estimate might be around \$700,000.

SUMMARY AND CONCLUSIONS

As illustrated, implementing a living wage in Coral Gables at \$10.81 per hour would cost the city somewhere between \$700,000 and \$822,000. These figures represent an extremely small fraction of the city’s current personnel budget.

This report has focused only on costs, not the benefits of a living wage ordinance. We find the cost to be rather small. Whether this cost is worth the benefits of a living wage is a political decision for the Coral Gables City Commission to make. In the estimation of the author, the well-known anti-poverty benefits and the small cost make adoption of a living wage ordinance a very attractive option.

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