



# EXAMINING THE EVIDENCE



## THE IMPACT OF THE LOS ANGELES LIVING WAGE ORDINANCE ON WORKERS AND BUSINESSES



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The authors take full responsibility for the contents of this report, and are responsible for any errors or omissions it may contain.

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# **EXECUTIVE SUMMARY**

## **ABOUT THIS STUDY**

This study represents the most definitive analysis of a living wage law's impact on workers and employers. It provides important new insights on the effects of living wage policies, which have been adopted by more than 120 local governments around the country.

The study's findings are based on three original random-sample surveys of workers and firms. Random sampling techniques ensure that survey findings are representative of the entire population being studied. The surveys include:

- A survey of 320 workers affected by the Los Angeles Living Wage Ordinance, conducted after the pay increase had taken place. This is the first such survey ever completed.
- A survey of 82 firms affected by the Los Angeles Living Wage Ordinance.
- A control group survey of non-living wage firms in similar industries, which provides a baseline for comparison in order to isolate the impacts of the living wage.

## **ABOUT THE LIVING WAGE**

Living wage laws set wage and benefit standards for companies that do business with the government, such as service contractors, as a means to improve the quality of contracted jobs and increase the standard of living for low-income workers.

The first living wage law was passed in Baltimore in 1994. Over the past 11 years, many of the largest cities in the country, including New York, Boston, San Francisco and Chicago, have passed living wage laws, as have scores of smaller cities.

In 1997, Los Angeles became one of the first major cities to pass a living wage law. The ordinance currently (as of 2004-2005) requires firms to pay either \$10.03 per hour, or \$8.78 with a \$1.25 per hour contribution to health benefits, and to provide 12 paid days and 10 unpaid days off per year.

## **GENERAL FINDINGS**

- The Los Angeles Living Wage Ordinance has increased pay for an estimated 10,000 jobs, with minimal reductions in employment.
- The number of jobs where pay was increased is among the largest in the nation, after New York and San Francisco.
- Although the living wage has not prompted firms to set up health benefits plans, some firms have improved their existing plans or extended coverage to more workers, affecting 2,200 jobs.
- Most workers affected by the living wage are in poor or low-income families.
- Most firms affected by the law have adapted to the living wage without eliminating jobs. Employment reductions amounted to one percent of all affected jobs, or an estimated 112 jobs.
- Employers have recovered some of the increased costs of the living wage through reductions in labor turnover and absenteeism.
- Firms have adapted to the remaining costs in a variety of ways, including cutting fringe benefits and overtime, hiring more highly trained workers, cutting profits and passing on costs to the city or to the public.
- While workers and their families have experienced measurable gains from the living wage, 31 percent of workers still lack health benefits and 44 percent rely on government assistance, including the Earned Income Tax Credit.

## **WHAT JOBS ARE AFFECTED BY THE LIVING WAGE?**

- Sixty-four percent of jobs affected by the living wage are at Los Angeles International or Ontario airports.
- Major affected occupations include airline service workers, janitors, parking attendants, food service workers and retail clerks.
- Most affected jobs are in firms that are service contractors to the city (41 percent), or service contractors to the airlines (37 percent).

## **ARE LIVING WAGE WORKERS IN POOR OR LOW-INCOME FAMILIES?**

- The L.A. Living Wage Ordinance affects primarily poor and low-income families.
- Seventy-one percent of workers affected by the living wage have a high school education or less, and only four percent of affected workers are teenagers.
- On average, affected workers have been in the labor force for 19 years, and 86 percent work full-time.
- Compared to L.A. County low-wage workers, workers affected by the living wage are more likely to be women, to be African-American and to be single mothers.
- We used data on L.A. County low-wage workers to estimate the family incomes of workers affected by the living wage, because the two groups share many common characteristics.
- Fifteen percent of L.A. County low-wage workers fall below the Federal Poverty Guidelines, a measure of severe poverty.
- More than 40 percent of low-wage workers in L.A. County fall below 200 percent of the poverty guidelines. This is arguably a more realistic measure of poverty status, since many workers at this income remain eligible for government assistance.
- Nearly 70 percent of low-wage workers in L.A. County can be considered low-income. They fall below a self-reliance standard, which measures the actual cost of living expenses in Los Angeles County.
- Workers affected by the living wage are likely to have lower family incomes than L.A. County low-wage workers.

## **WHAT IS THE IMPACT OF THE LIVING WAGE ON WAGES?**

- Pay for an estimated 8,000 jobs has been increased to meet the requirements of the ordinance. The average mandatory pay increase was 20 percent, or \$2,600 per year.
- The wage gain for the current workforce is smaller than the original pay increase because some of the original workers have left and workers from higher-paying jobs have been hired. For the workers in affected jobs at the time of the survey, the average raise was \$1,300 per year, or about half as much as the pay increase for the original workforce.
- Voluntary raises affecting an estimated 2,000 additional jobs have been given mostly to maintain pay differentials between higher- and lower-paid workers. These raises average \$0.75 per hour, or \$1,300 per year.

- An analysis of three prototypical families, representing 68 percent of affected workers, shows that workers keep 70 percent or more of their wage gains after taxes.
- A similar analysis shows that most workers and their families will likely retain their eligibility for anti-poverty programs. Three percent of affected workers, who are single parents relying on Section 8 or Food Stamps, are likely to face reduced eligibility for these programs.

### **WHAT IS THE IMPACT OF THE LIVING WAGE ON BENEFITS?**

- The \$1.25 health care differential is not sufficient to encourage firms to initiate health plans for workers if they do not already offer such plans. The health care differential is less than the average cost of job-based individual health benefits in California, which was \$1.49 per hour for a full-time worker in 2003.
- However, the living wage has improved health benefits for an estimated 2,200 jobs by encouraging employers who already provide benefits to improve their plans or extend coverage to more workers. Benefits have been reduced for 140 jobs in order to cut costs.
- Even after the living wage, 31 percent of workers are uninsured and 54 percent of workers' children rely on public health insurance or are uninsured.
- Almost 60 percent of workers who receive the higher wage in lieu of health benefits say they would accept the lower wage in exchange for free employer-provided health insurance. Three out of four workers who receive the lower wage say they would not trade their health benefits for a higher wage.
- Living wage firms offer workers two more paid days off per year as a result of the ordinance, an increase of 23 percent. However, some workers report being discouraged from taking days off or being penalized for doing so.

### **WHAT IS THE IMPACT OF THE LIVING WAGE ON EMPLOYERS AND THE WORKPLACE?**

- Employers have cut costs by making small reductions in employment and fringe benefits. Employment reductions total an estimated 112 jobs, representing one percent of all living wage employment in affected firms. Employers cut benefits for less than five percent of living wage jobs in affected firms, including cuts in health benefits, merit pay and bonuses.
- Use of overtime has declined, representing a further reduction in labor costs. Training for new hires stayed the same at living wage firms, while non-living

wage firms have increased their training, representing a relative decrease for living wage firms.

- Labor turnover has declined as a result of the ordinance. Current rates of turnover at living wage firms average 32 percent, compared to 49 percent at comparable non-living wage firms. These turnover reductions represent a cost savings for the average firm that is 16 percent of the cost of the wage increase, based on various estimates of the cost of replacing a low-wage worker.
- The ordinance has had no impact on the use of part-time workers, the intensity of supervision, the tendency to fill vacancies from within or the use of equipment and machinery.
- Firms have not actively displaced workers in order to hire workers who are better qualified, and most firms have not changed hiring standards as a result of the ordinance.
- Compared to the original workforce, workers hired after the living wage have similar levels of education, are of similar age, and are no less likely to be members of racial or ethnic minority groups.
- New hires are more likely to be male and to have higher levels of formal training. Fifty-six percent of new hires are male, compared to 45 percent of workers hired before the living wage. Twenty-two percent of new hires had formal training before being hired, while only 12 percent of workers hired before the law had such training. These changes occurred primarily through normal attrition at the firms. They suggest somewhat diminished job opportunities in city contract work for women and for workers with less formal training, as compared to before the ordinance.

## **Chapter 1 : Introduction**

Local governments are increasingly turning to living wage policies as a means to improve job quality for low-income workers. To date, more than 100 local governments around the country have passed living wage ordinances.<sup>1</sup> Living wage laws set wage and benefit standards for workers employed by government contractors or other firms that have a financial relationship with the government. These laws have, in part, been a response to the stagnation of state and federal minimum wages, which have failed to keep pace with inflation. In addition, these laws represent a reaction to the growing interest in contracting out city services as a means to cut costs, a strategy that advocates argue penalizes the low wage workers who perform city services. However, despite the prominence and continued growth in the number of living wage ordinances, only a handful of retrospective studies of firms have been published on the impacts of these laws. This study is the first to combine a random sample survey of affected firms and workers, a control group analysis of low-wage employers, and a matched firm and worker dataset. These elements make us confident that our survey results both isolate the effects of the living wage and accurately represent the experiences of living wage workers and firms.

As living wage laws have grown in popularity, so have debates about their effectiveness. Although these laws typically raise standards for just a small segment of jobs in a local labor market, they can focus public discussion on the issue of job quality. Proponents of the law argue that the city should not be a low-wage employer, and that living wage policies put much-needed money in the pockets of low-income families, while also setting standards that have an impact beyond those directly affected by the law. Business groups have made similar arguments as those made against minimum wage hikes: that living wage laws will result in job reductions, harm small businesses, and will hurt the very population the policy is intended to serve. This study evaluates the experience in Los Angeles in order to determine what actually occurred after the living wage went into effect in that city, as well as provide broader lessons that contribute to the national debate.

### **Provisions of the Los Angeles Living Wage Ordinance**

The City of Los Angeles' Living Wage Ordinance is broad in scope and expands on the living wage laws used in some other cities that only cover service contractors. The Los Angeles law covers lessees and concessionaires that operate on city land. The law covers thousands of low wage workers at Los Angeles International Airport (LAX) who work as janitors, airline service workers, retail clerks, and food service workers. The L.A. ordinance also covers several thousand workers at other locations around the city. Although few living wage ordinances around the country cover airport workers, the L.A. ordinance is not unique in this respect. Other cities with airport living wage policies include San Francisco, Oakland, San Jose, and Denver.

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<sup>1</sup> See the Association of Community Organizations for Reform Now website at <http://www.acorn.org/> for a complete listing of Living Wage Ordinances.

The law has been in place since 1997, and applies to firms and their subcontractors in the following categories: city service contractors, firms that lease city property, firms that receive \$1 million or more in economic development subsidies, and firms that have concession agreements with the city, such as food service and retail firms at the Los Angeles International Airport. The ordinance mandates a two-tier hourly wage, with an annual cost of living increase. The wage level for the period from July 2004 through July 2005 is \$10.03, or alternatively \$8.78 with a \$1.25 per hour contribution to employee health benefits. The living wage rate is increased annually to correspond with adjustments in the amount paid to city employees from their pension fund, which has grown at about the rate of inflation.<sup>2</sup> The \$1.25 health benefit credit is not adjusted. Since the law was implemented, the state's minimum wage has been raised three times. In 1997-1998, the higher tier living wage was 1.7 times the state minimum wage while today (2004-2005) it is 1.5 times the state minimum wage.

The ordinance also mandates twelve paid days off per year, and ten unpaid days off. Employers can negotiate an exemption to the ordinance if they are subject to a collective bargaining agreement. Non-profit organizations whose chief executive officers earn a salary less than eight times the lowest wage paid employee are exempt, except in the case of childcare providers, which are always covered.

The LWO goes into effect when a new agreement is approved or an existing agreement is renewed, modified or extended. Consequently, it takes time for the ordinance to impact all of the workers targeted by the law. Employees on different contracts have received the raises and the other benefits of the ordinance at different times, depending on when an agreement was signed or modified.

### **History of the Los Angeles Living Wage Ordinance**

Los Angeles was one of the first major cities to adopt a living wage law. When the Los Angeles law passed in 1997, only a handful of cities, including Baltimore, had passed living wage laws that applied to service contractors. Los Angeles' living wage law was not the first worker protection law to apply to the city's service contract sector, however. In 1995, the City Council adopted the nation's first Service Worker Retention Ordinance (SWRO). Passage of the law was prompted by the plight of workers facing displacement at LAX. In the early 1990s, about one thousand unionized retail and food service jobs at LAX were threatened when the Airport Department sought to replace LAX's long-time concessionaire with national chains. This move prompted the formation of a labor/community coalition that lobbied for passage of the SWRO. The SWRO covers the same class of workers as the Living Wage Ordinance—service workers employed by city contractors, financial assistance recipients and workers on city-owned land. The law ensures that when a contract changes hands the new employer retains workers from the prior contract or lease for at least 90 days.

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<sup>2</sup> From 1998 through 2003, the average annual rate of growth for both the living wage and the Los Angeles-Riverside-Orange County Consumer Price Index has been about 3 percent.

Like the SWRO, the Living Wage Ordinance represented a reaction to the growing concern about the public costs of contracting out city services. Proponents of contracting out argue that private companies can deliver better services at lower costs than government can. Living wage law proponents countered that contracting out displaced the costs onto a different part of the public sector by creating poor quality jobs that forced workers to seek government assistance. A coalition of labor unions, community organizations, and clergy initially proposed a living wage of \$7.50 per hour with an additional two dollars that could either fund employee health insurance or higher wages. The proposal also called for 20 paid days off. The compromise legislation that the city eventually adopted included a lower wage, \$7.25 per hour and a \$1.25 differential for health insurance, in addition to twelve paid and ten unpaid days off per year.

In its first year, the Los Angeles Living Wage Ordinance was administered by the city's Bureau of Contract Administration (BCA). After a city-commissioned report criticized the BCA's enforcement of the LWO (Sander and Lokey, 1998), the city amended the Living Wage Ordinance in January of 1999 and removed the enforcement responsibility from the BCA. The City Council was given the authority to designate the administrative agency, and selected the office of the City Administrative Officer to enforce the ordinance, which aggressively implemented and enforced the ordinance. In 2004, after our surveys of employers and workers were already completed, enforcement authority reverted to the BCA.

The 1999 amendment made some other important revisions to the ordinance. The amendment clarified the intent of the law, which was to cover city facilities frequented by the public, such as LAX, Ports O'Call Village (a restaurant and retail center in San Pedro) and recreation centers operated by the Department of Recreation and Parks. It also ensured that airlines and their subcontracted workers (security screeners, janitors working for the airlines, wheel chair runners, and baggage handlers) were covered by the law, a matter that had been a point of contention between the airlines and living wage advocates. The amended living wage law created a small-business exemption for lessees with annual gross revenues of less than \$350,000 (in 1999) and seven or fewer employees.

A separate ordinance, passed in 1998, ensured that direct city employees not already covered by a collective bargaining agreement were also covered by the provisions of the Living Wage Ordinance. In 2003, the city's redevelopment agency passed a living wage policy that mirrors the requirements in the original ordinance, and applies to employees of real estate developers who receive public subsidies and their subcontractors—such as security guards and janitors—but not to developers' commercial tenants. The CRA policy also applies to the agency's own contractors. The surveys conducted for this study do not include the firms and workers that were affected by these living wage policies, only those affected by the original 1997 L.A. City ordinance.



## The Living Wage at LAX

The implementation of the Living Wage Ordinance occurred in the context of a multi-union organizing campaign at LAX targeting low-wage workers. In 1998, labor and community groups launched Respect at LAX, a partnership between national and local labor groups and local community and religious organizations.<sup>3</sup> Many low wage jobs at the airport were covered by collective bargaining agreements even before the launch of the Respect at LAX campaign. In all, there are 59,000 jobs at the airport. About 9,600<sup>4</sup> of those jobs are at firms that gave raises to meet the requirement of the ordinance. Of those, 92 percent<sup>5</sup> (or 8,800) were covered by a collective bargaining agreement at the time of our survey (2001-2003). An estimated 2,200 jobs at the airport became union after they became subject to the living wage ordinance, and due to the efforts of the Respect at LAX campaign.

Many of the unionized firms are technically not subject to the ordinance, which allows firms to “opt-out” of the ordinance, if the union agrees to such a provision in the collective bargaining agreement. However, by raising the wage floor, the living wage

| <b>Timeline of the Los Angeles Living Wage Ordinance</b> |   |
|--|---|
| May 1997   | Los Angeles Living Wage Ordinance adopted by City Council   |
| 1998   | Respect at LAX Campaign to expand unionization at LAX is launched.  |
| 1998   | A separate ordinance ensures that city workers are covered by the provisions of the Living Wage Ordinance.            |
| January 1999   | Living Wage Ordinance is amended to cover city facilities frequented by the public, including LAX.                    |
| 1999   | Respect at LAX wins contracts for 800 food service workers, including 200 previously unorganized workers.             |
| 2001   | Respect at LAX campaign wins contracts for more than 1,000 previously unorganized retail and airline service workers. |
| Late 90's-2001   | City negotiates separate living wage agreements with developers of subsidized projects.                               |
| 2003   | City's redevelopment agency adopts living wage law that mirrors the city law  |

enabled many unions to bargain better compensation packages. For example, some already-unionized sectors, such as janitorial and parking jobs at the airport, provided family health benefits before the living wage, but had starting wages below the living wage level. For these firms, the living wage enabled the unions to negotiate a wage increase into their contracts.<sup>6</sup>

The presence of a union campaign at the airport has two implications for our findings.

1) The Los Angeles ordinance may be better enforced than some others

<sup>3</sup> LAANE, an author of this report, was part of the Living Wage Coalition and continues to participate in the Respect at LAX collaboration.

<sup>4</sup> A total of 69 percent of all jobs at firms that gave mandated raises due to the ordinance are located at the airport. The margin of error is ± 10 percent.

<sup>5</sup> The margin of error is ± 11 percent.

<sup>6</sup> Interview with Ray Witmer, Teamsters Local 911 and Eddie Iny, SEIU Local 1877.

due to the ongoing and active involvement of labor unions and community groups in the law's passage and implementation. Therefore, we may see more of a benefit to workers than we otherwise would.

2) Firms may negotiate an exemption to the ordinance if their employees agree to it. Typically, workers will trade a better benefits package for wages that are lower than those required by the ordinance. In some cases, employers may not have credited the ordinance for improved benefits that resulted from this bargaining dynamic. In addition, the employer survey did not ask employers to measure improvements in areas not covered by the ordinance like pensions or seniority provisions.

Another distinguishing feature of LAX workers and firms is that they were heavily impacted by economic repercussions of the September 11<sup>th</sup> attack. Indeed, one large segment of the jobs—pre-board screeners—was federalized while interviews were still being carried out. The screener positions are now federal Transportation Safety Administration jobs, and are no longer covered by the Living Wage Ordinance. As the screeners were covered by the ordinance at the time of the interviews, they are represented in our sample. In order to isolate the impact of the Living Wage Ordinance from changes due to the post-9/11 downturn in the tourism industry, the Worker Survey was altered following the September 11<sup>th</sup> attack. Workers were asked to provide information about their experiences after the passage of the Living Wage Ordinance and prior to 9/11. About 64 percent of the worker survey sample consists of airport workers, virtually all of them interviewed after the 9/11 attack.

## **Research Questions**

Our research questions reflect the policy debates that typically occur when a living wage ordinance is proposed:

*What is the extent of the wage impact on covered firms and jobs?* In the early stage of a living wage campaign, policymakers must usually rely on estimates of the impact of the policy on covered firms and jobs based on industry data and economic theory. This study answers such basic questions as: How many firms—and what type of firms—are covered by the ordinance? How many jobs were subject to both mandatory and voluntary pay increases due to the law?

*Does the living wage affect primarily low-income workers?* Some critics of living wage laws have charged that the majority of benefits do not go to low-income adults. This study includes an analysis of the demographics and the estimated income of living wage workers.

*Has the living wage brought about significant improvements in the lives of workers and their families?* Increases in earnings can be accompanied by an increase in taxes and reductions in eligibility for government programs. We look at the after-tax benefits of the pay increase due to the living wage, and its impact on program eligibility. Finally, we also asked workers to identify ways in which they benefited from the law.

*How does the living wage affect health coverage?* The two-tier wage structure was designed to encourage employers to offer affordable health insurance to their low wage workers. This study evaluates the effectiveness of the \$1.25 health insurance differential, and the obstacles faced by employers who do not provide affordable insurance to their low wage workers.

*Does the living wage lead to job reductions or other negative impacts on workers?* Job reductions are a widely predicted consequence of living wage laws. This study evaluates the extent of job reductions due to the ordinance, and investigates the extent of other cost cutting strategies employed by firms, including reductions in benefits, training and overtime.

*Does the living wage lead to a change in the workforces?* If employers are required to increase wages, they may seek to hire workers with better skills or qualifications. Some critics of living wages argue that such laws will ultimately exclude the type of workers that are the intended beneficiaries and reduce opportunities for less skilled workers.

*Are there benefits to employers from raising wages?* Higher wages can also lead to cost savings for employers, such as lower turnover, higher productivity, and lower rates of unscheduled absenteeism.

*Are there benefits to taxpayers from raising wages?* Low wage workers who receive raises may pay more federal taxes and be eligible for fewer government programs, saving taxpayers money.

This study does not evaluate the cost to the city of the living wage policy, which may be passed along to local taxpayers. Other topics not addressed by the study include the impact of the living wage on the quality of city services and the bidding process for city contracts, all of which are important subjects in debates on living wages.<sup>7</sup> Finally, the study does not evaluate the impact of the living wage on workers or firms who have left the city contract sector since the passage of the ordinance.

Most of the existing studies of living wage ordinances are prospective studies, which predict the impact of a proposed policy.<sup>8</sup> These studies usually make projections based on theoretical assumptions and using publicly available government data on industries, firms, and workers. In addition to the many prospective studies that have been completed, there are a handful of studies analyzing the impact of living wage ordinances after they have been passed and fully implemented. Most of these studies rely on original surveys of firms subject to living wage ordinances.<sup>9</sup> In addition, two of these studies

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<sup>7</sup> The City had already contracted with Richard Sander for such a study.

<sup>8</sup> These include Alunan et al. (1999), Employment Policies Institute (1999), Pollin and Brenner (2000), Pollin and Luce (1998), Reich et al. (1999), Reich and Hall (1999), Reynolds (1999), Tolley et al (1999), Williams and Sander (1997), and Zabin et al. (1999).

<sup>9</sup> Brenner (2003), Reich, Hall, and Jacobs (2003), Sander and Lokey (1998), and Weisbrot and Sforza-Roderick, 1996.

include worker surveys (Niedt, et al. 1999 and Reich et al 2003). Neumark and Adams (2005) does not include original survey data, but rather analyzes Current Population Survey data across cities to test for the effects of living wage policies

## **Methodology**

Three original surveys are the main data sources for this analysis: a survey of living wage employers, a survey of living wage workers, and an employer control group survey. The living wage employer and worker surveys were directed by David Runsten. The employer control group survey was directed by David Fairris. The surveys are described below. A more detailed description of the survey methodology is included in Appendix A.

*Living Wage Employer Survey:* The City of Los Angeles' enforcement database was used to identify contracts with low wage workers. The lists of firms were stratified by industry and occupational groupings before a random sample of employers was taken. Firms whose wages and benefits levels were already at or above the requirements of the ordinance were screened out of the sample. In all, surveyors conducted in-person interviews with managers in 82 firms from the summer of 2001 through the spring of 2003. The results from this survey are referred to as the Living Wage Employer Survey.

*Living Wage Worker Survey:* Lists of workers were obtained from the random sample of living wage employers before a random sample of workers was selected. The Living Wage Worker Survey was conducted in-person, often at the respondent's house. From the spring of 2001 through the summer of 2003, 320 interviews were conducted. About 44 percent of workers interviewed were hired before the ordinance went into effect at their firm, and the remainder were hired afterwards. Those hired before the ordinance went into effect at their firm (the stayers) were asked to compare their experiences prior to the living wage raise with their experiences after the raise. Those coming into the living wage jobs (the joiners) were asked to compare their living wage jobs to their previous jobs at non-living wage firms. We were unable to interview those workers who left the contract sector after the living wage ordinance came into effect at their firm (the leavers).

*Survey of Diversity in Human Resource Practices (SDHRP):* A third survey was conducted by David Fairris and Mark Brenner in the Spring and Summer of 2002. The survey sampled firms in the same industries as those in the Living Wage Employer Survey but not covered by a living wage law. This survey of 210 non-living wage firms was explicitly designed to mirror the size and sectoral distribution of the firms in the living wage survey. This survey provides a baseline for changes that occurred in the broader economy during the same time period as that covered by the living wage survey. Findings from this control group analysis were published earlier this year in the journal *Industrial Relations* (Fairris 2005). Following Fairris, we exclude airport firms from the control group analysis. Although we do not present it, we have conducted the same analysis including the airport firms. Where the findings are significantly different including the airport, we discuss those differences. For the questions where there is no

control group equivalent, we analyzed the entire living wage sample, including airport firms.

The control group analysis allows us to isolate impacts on firms due exclusively to the living wage ordinance. However, not all the questions asked of living wage firms were also asked of the non-living wage firms. Consequently, we lack a control group comparison for some of our data. We do have strong evidence, however, that living wage firms are able to isolate the sole impact of the living wage and report it accurately. For example, firms were asked what they would pay employees subject to the living wage, if there were no such ordinance. In other words, they were asked to isolate the impact of the living wage on wages, excluding other factors. The average hypothetical hourly wage for an entry-level worker was \$7.32, almost exactly the same as the average hourly wage actually paid to entry-level workers by the non-living wage firms, which was \$7.34. This makes us reasonably confident about our ability to identify the impact of the living wage in those instances when the Employer Survey specifically asks about responses to the law.

In addition to these three main data sources, we compare our findings to two government data sources that provide information on low wage workers: the Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP), prepared by the U.S. Department of the Census. The comparison allows us to see how the demographics and other characteristics of living wage workers compare to their low wage counterparts in the state and county. The CPS, which is conducted by the Census for the Bureau of Labor Statistics, is a monthly survey of about 50,000 households and is the primary source of information for labor force characteristics for the U.S. population. The SIPP is a national household survey used to examine income sources of individuals and families, and participation in entitlement programs, such as Food Stamps.

## **Overview of the Report**

In Chapter 2, we provide an overview of the number of firms and types of jobs affected by the ordinance. In Chapter 3—“Who are Living Wage Workers?”—we provide a demographic profile and estimates of the family income of workers who were in the affected living wage jobs at the time of the survey. Where possible, we compare the living wage workers to low wage workers in similar industries in Los Angeles County. Chapter 4 explores the impact of the raise and time off provisions of the ordinance on the employment policies at living wage firms and on the workers occupying living wage jobs at the time of the survey. Chapter 5 examines the effectiveness of the health insurance wage differential, and details the sources of insurance for low wage workers and their families. Chapter 6 examines how much of the raise workers are able to keep after taxes, and how the increase in income affects their eligibility for government programs. This chapter also analyzes workers’ responses to questions about how their lives actually changed due to the ordinance. Chapter 7, entitled “Impact on Employers and the Workplace,” explores firms’ response to the Living Wage Ordinance. This chapter investigates the extent of job reductions, and other cost cutting strategies. This chapter assesses positive impacts of the ordinance on firms, such as reductions in turnover and

changes in employee absenteeism. Finally, in Chapter 8, we offer some conclusions and policy implications, based on the report's findings.

### **Terms Used in This Report**

Throughout this report, we use the following specific definitions of firms, jobs and workers:

*Covered firms:* All firms with contracts covered by the living wage. Some firms did not have to increase pay because wages for all jobs were at or above the living wage level.

*Covered jobs:* All jobs on contracts covered by the living wage. Wages for some jobs were not increased because they were at or above the living wage level.

*Affected firms:* Firms that were required to raise wages to comply with the living wage. These are the firms in the Living Wage Employer Survey.

*Covered jobs in affected firms:* All jobs on contracts covered by the living wage within affected firms. Wages were increased for some of these jobs through mandatory and voluntary raises. Wages for some jobs were not increased at all because they were at or above the living wage level.

*Covered workers in affected firms:* All workers on contracts covered by the living wage within affected firms.

*Affected jobs:* Jobs where mandatory wage increases were given to comply with the living wage. This does not include jobs where wages were increased through voluntary raises.

*Affected workers:* Workers in the affected jobs, who were the subject of the Living Wage Worker Survey.

## Chapter 2 : Overview of Living Wage Firms and Jobs

This report focuses on the firms and workers that are most affected by the living wage: the firms that were required by the law to increase wages, which were the focus of the employer survey, and the workers in the jobs where pay was increased, who were the focus of the worker survey. Before exploring these groups, this chapter first gives an overview of the financial agreements with the city that are subject to the living wage and the number of jobs that represents. Then, we estimate the number of firms and jobs that have been actually affected by the living wage, based on information from the employer survey and the City’s database of contracts subject to the living wage.

“Affected firms” are defined as those firms that were required to raise wages in order to comply with the living wage. “Affected jobs” are those where mandatory pay increases were given. Affected firms gave both “direct raises,” which are mandatory wage increases, and “indirect raises,” which are non-mandatory. Indirect raises can either increase pay for workers above the level of the living wage, or increase pay for workers who are not subject to the living wage.

### Direct and Indirect Raises

|                        |  |
|------------------------|--|
| <i>Direct raises</i>   | Mandatory raises given to comply with the ordinance  |
| <i>Indirect raises</i> | Voluntary raises given above the level of the living wage or to workers who are not subject to the living wage |

Focusing on the affected firms in our survey, we provide an overview of their basic characteristics, including industry, occupation, type of financial agreement with the city, size, whether employees are unionized, and other characteristics. We compare these characteristics to various sources of comparative firm data in order to explore whether affected living wage contractors are a select group, with characteristics that differentiate them from other firms.

### Types of Agreements Subject to the Living Wage

The Los Angeles living wage ordinance applies to firms and their subcontractors that have the following types of financial relationships with the city:

**Service contractors:** These firms perform a wide range of services for the City, including the following: janitorial services, security guard services, parking lot operations, social services, landscape maintenance, tree trimming, brush clearance, bus services, and a wide variety of miscellaneous services, including customer service, recreation services, and others. Although the majority of services are provided by low-wage workers, some services are provided by higher-paid professionals, including engineering, public relations, and legal services.

**Concession operators:** Concessionaires contract with the city to operate a business on city property, and typically agree to pay the city a percentage of the revenue generated by that business. Businesses operated by concessionaires include retail shops, restaurants and fast food stands, and recreation and entertainment establishments. Since

concessionaires operate on city property, they may also have a lease with the city. The majority of concession operators are located at LAX and Ontario Airports, and operate food service and retail establishments. Other concessionaires are located at city golf courses and recreation centers.

**Other firms that lease or license city property:** These include airlines, which lease terminals and other areas at the airport. They also receive permission from the City to land airplanes, considered by the City to be a license. Their subcontractors that operate at the airport are also subject to the ordinance, which include firms that provide baggage and other passenger services, and janitorial contractors.

**Economic development subsidy recipients:** These are firms that receive \$1 million or more in subsidies within one year, or more than \$100,000 per year on an ongoing basis, for the purpose of promoting economic development or job growth. There are only two subsidy recipients whose workers are subject to the living wage ordinance. In part, this is because the City has not granted a large number of development subsidies in recent years. Moreover, subsidy projects that have been approved often take years to build, and therefore have not been completed.

Most development subsidy projects are coordinated by the L.A. Community Redevelopment Agency (CRA), which is a state-chartered, quasi-independent agency, and therefore was not covered by the original 1997 ordinance. In 2003, however, the CRA passed a living wage policy that mirrors the requirements in the original ordinance, and applies to employees of real estate developers receive public subsidies and their subcontractors, but not to developers' tenants. This policy means, for example, that if a developer builds a shopping mall with CRA assistance, janitors and security guards hired by the developer would be subject to the ordinance, but not retail shops or restaurants that lease space in the mall. The CRA policy also applies to contractors the agency employs directly. The living wage surveys conducted for this report did not include any of the firms or workers affected by this policy.

In this report, firms that have any of the above relationships with the city will be referred to as **“city contractors,”** and their workers who are subject to the ordinance will be described as working **“on the city contract.”**

### **Exemptions to LWO**

There are a variety of exemptions to the LWO. The more significant ones include the following:

- Service contracts that are less than three months long or for less than \$25,000. An example is tree trimming contracts, which are often for specific streets, and are therefore short-term and low value.
- Contracts for the construction of buildings or infrastructure.



- Contractors who have a collective bargaining agreement (CBA) with a union that includes language specifying that the provisions of the CBA shall supercede the provisions of the LWO. For example, a union might accept a lower wage level in exchange for a higher contribution to health benefits or increased paid days off. Although many firms are technically exempt from the ordinance through this provision, we included such firms in our surveys if they said that the living wage ordinance had led to an improvement in wages or benefits through the collective bargaining process.
- Non-profit firms in which the executive director's hourly wage rate is less than eight times the hourly wage rate of the lowest-paid worker, except for childcare firms, which are subject to the ordinance in all cases.
- Small businesses that lease or license city property, but not small business service contractors, may apply for a renewable two-year waiver from the living wage. This exempts many of the businesses operating on city-owned property at Olvera Street, an historic neighborhood in downtown Los Angeles, and Ports of Call, a restaurant and retail complex at the Port of Los Angeles. Small businesses are defined as those employing no more than seven employees and with annual gross revenues below a specified threshold, which is adjusted on an annual basis. The revenue threshold for fiscal 2004-2005 is \$391,637.
- Employees of a lessee or licensee who work in an area of city property that is not visited by the members of the public or who perform work that could not feasibly be performed by city employees. This exemption largely applies to the airport. Examples include employees who work in secure areas, such as on the airport tarmac, and employees of taxi companies and cargo airlines.

### **Jobs Covered by the Living Wage Ordinance**

An estimated 22,000 jobs in 475 firms are subject to the requirements of the living wage ordinance, or “covered” by the ordinance (Table 2.1). Pay was increased for 9,584 of these jobs, or 44 percent of all covered jobs, based on results from the employer survey and information from the City’s database of living wage covered contracts. The remaining 56 percent of jobs already paid at or above the levels required by the living wage, even before those jobs became subject to the ordinance. About half of these jobs, approximately 6,200, are at the airlines.<sup>10</sup> Other jobs above the level of the living wage include professional services, such as legal and engineering, and managers. For more information on jobs where pay was not increased, see Appendix B.

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<sup>10</sup> We did interview two airlines, neither of which raised wages for any employees due to the living wage. These airlines are not included in the living wage firm survey data. An analysis done by the City of L.A.’s CAO office of payroll records submitted by the airlines in 2002 showed that most airline employees make more than \$10 per hour. (At the time, the living wage was \$9.52) Although it is possible that raises were given to some airline employees, in order to provide a conservative estimate of the number of jobs where pay was increased, we have excluded the airlines.

**Table 2.1 Jobs Covered by the L.A. Living Wage Ordinance**

|                                  | <b>Number of Jobs</b> | <b>Percent of All Covered Jobs</b> |
|----------------------------------|-----------------------|------------------------------------|
| Jobs where pay was increased     | 9,584                 | 44%                                |
| Jobs where pay was not increased | 12,416                | 56%                                |
| Total                            | 22,000                | 100%                               |

Source: Living Wage Employer Survey, weighted by number of subject workers, and the City of Los Angeles Living Wage Contractor Database.

### **L.A. Living Wage Compared to Other Cities**

Although a minority of covered jobs were affected by the ordinance, the nearly 9,600 affected jobs makes the L.A. ordinance one of the largest in scope in the nation. Very few retrospective studies have been completed that provide estimates of affected jobs, but the comparative data that is available shows that most local governments with living wage ordinances have fewer than 9,000 jobs covered by the living wage.<sup>11</sup> Only the cities of New York and San Francisco could have larger numbers of jobs where pay was increased. New York City's ordinance, passed in 2002, will be phased in over several years and is expected to raise wages for 59,000 jobs by 2006, most of them in the homecare industry (Brennan Center, 2002). In San Francisco, Michael Reich's retrospective study found that pay was increased at an estimated 8,000 airport jobs due to the living wage (Reich, 2003).<sup>12</sup> His prospective study predicted that an additional 13,500 jobs, including service contractors, homecare workers, and port workers, would be affected by the San Francisco law.

### **Jobs Affected by the Ordinance**

This report focuses on the firms that had to increase wages in order to meet the requirements of the ordinance, which were the firms interviewed in the living wage employer survey. Screening for the employer survey revealed that the wage impact was the primary effect of the ordinance; firms did not improve health benefits without also raising wages. An estimated 148 firms gave pay increases as a result of the living wage.<sup>13</sup> Pay for 7,735 jobs in these firms was increased through mandatory raises, as shown in Table 2.2. In addition, nearly 40 percent of these firms (58 firms) gave non-mandated wage increases, known as "indirect raises." These indirect raises affected 1,849 jobs. Most of the indirect raises increased wages vertically, above the level required by the ordinance, in order to maintain wage differentials among workers subject

<sup>11</sup> L.A. County data comes from an interview with Lorena Gomez of the LA County Office of Affirmative Action Compliance, which coordinates living wage enforcement. Data on other local governments is from unpublished research by Stephanie Luce, University of Massachusetts, Amherst Labor Center and Mark Brenner, Political Economy Research Institute, University of Massachusetts, Amherst.

<sup>12</sup> In San Francisco, wages were raised both through the Quality Standards Program and the Minimum Compensation Ordinance. 5,400 jobs received mandated wage increases and another 2,550 jobs received non-mandated increases.

<sup>13</sup> The results of the employer survey were extrapolated to all firms affected by the living wage. For more background on the City's Living Wage Contractor Database, and a detailed explanation of the methodology used to derive the estimates in this section, see Appendix B.

to the living wage. A few firms increased wages horizontally, in order to maintain wage parity between living wage affected workers and low-wage workers not working on city contracts. More detailed information about the indirect raises is presented in Chapter 4. Ten firms improved their health benefits plans or expanded coverage to more workers to meet the requirements of the ordinance. An estimated 2,236 jobs were affected by those improvements. The impact of the ordinance on health benefits is explored further in Chapter 5.<sup>14</sup>

**Table 2.2: Estimated Number of Firms and Jobs Affected by Living Wage Requirements**

| Type of LWO Impact            | # of Firms | # of Jobs |
|-------------------------------|------------|-----------|
| Wages increased               | 148        | 9,584     |
| Mandatory raises              | 148        | 7,735     |
| Non-mandatory indirect raises | 58         | 1,849     |
| Health benefits increased*    | 10         | 2,236     |

Sources: Living Wage Employer Survey, weighted by number of subject workers, and the City of Los Angeles Living Wage Contractor Database.

\*Jobs with health benefits increases overlap with jobs with pay increases.

It is important to note that our estimates of jobs affected by the City of Los Angeles’ living wage ordinance are based on data from 2001 and 2002, and there has been one significant change in the number of jobs since that time. In November 2002, 1,200 subcontracted airline security screener jobs were transferred to the federal government’s Transportation Security Administration as a response to the events of September 11.<sup>15</sup> Pay for the jobs is above the level of the living wage, and they are no longer subject to the ordinance. The only factor offsetting this decline in the number of jobs affected by the living wage is the rolling implementation of the ordinance, which means that some firms with long-term contracts have likely become subject to the ordinance since 2002.<sup>16</sup>

Nearly 150 firms were required to raise wages to comply with the living wage. Within these affected firms, there are nearly 14,000 jobs on living wage contracts, as shown in Figure 2.1. We define these jobs as **“covered jobs in affected firms.”** Pay was increased for some of these jobs through direct and indirect raises, while pay for some jobs was not increased at all. This group of jobs is of particular importance in Chapter 5, dealing with health benefits, and Chapter 7, dealing with workplace changes such as job reductions. This is because changes such as health benefits or job reductions may affect all jobs on living wage contracts, whether or not wage increases were given. Data on

<sup>14</sup> We were unable to estimate the number of jobs where paid days off were increased. Firms that increased paid days off due to the living wage employ more than 8,000 living wage workers, but because paid days off policies are often based on job tenure at the firm, these changes may not have affected all workers subject to the living wage in these firms.

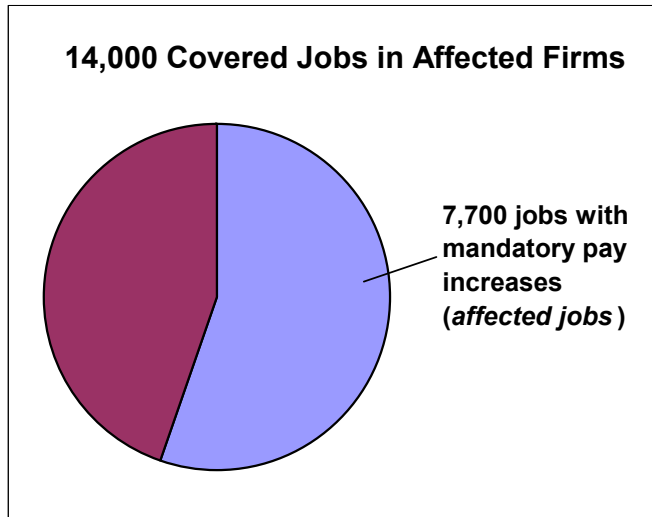
<sup>15</sup> *Los Angeles Times*, “LAX Fills Its Screen Team,” November 5, 2002.

<sup>16</sup> Many of the largest employers, such as airport concessionaires and airline service firms, have already become subject.

<sup>22</sup> A living wage establishment is defined as a physical location that employs living wage workers, and for some firms, includes non-living wage employment. A firm may have one or more establishments.

covered jobs in affected firms is derived from the living wage employer survey, weighted by the number of workers on living wage contracts.

**Figure 2.1: Jobs in Affected Firms**



Source: Living Wage Employer Survey and City of Los Angeles Living Wage Contractor Database

### **Overview of Affected Firms**

The following section presents data on firm characteristics and employment. The distribution among industry groups varies for firms and jobs, as shown in Table 2.3. Airline service, security, and parking firms make up less than 10 percent of all affected firms. However, because the number of affected jobs tends to be larger for these firms, over half of all directly affected jobs are in these industries.

Since our employer survey in 2002, the most significant change in the composition of living wage jobs has been the federalization of 1,200 security screeners. Therefore, we present data for directly affected jobs as they were at the time of our survey (including screeners), and current data, which excludes screeners. Before federalization, airline services jobs represented nearly a third of all directly affected jobs, while today they make up less than 20 percent.

Finally, the miscellaneous group includes firms that did not fit into any other category, and is therefore quite diverse. Some examples include firms that provide customer service, bus services, home health care, and firms that operate game and amusement centers on city property.

**Table 2.3: Living Wage Affected Firms and Jobs by Industry Groups**

| Industry Group          | % of Affected Firms | % of Affected Jobs | % of Affected Jobs Without Screeners |
|-------------------------|---------------------|--------------------|--------------------------------------|
| Airline Services        | 3%                  | 30%                | 19%                                  |
| Janitorial              | 13%                 | 12%                | 14%                                  |
| Landscape Maintenance   | 10%                 | 2%                 | 3%                                   |
| Miscellaneous           | 23%                 | 8%                 | 9%                                   |
| Retail and Food Service | 23%                 | 10%                | 11%                                  |
| Security and Parking    | 6%                  | 31%                | 35%                                  |
| Social Service          | 23%                 | 8%                 | 9%                                   |

Source: Living Wage Employer Survey, weighted by firm and by number of jobs where mandatory raises were given.

N = 82 Margin of error ranges from  $\pm 3\%$  to  $\pm 11\%$

Living wage affected jobs include a variety of occupations (Table 2.4). Before federalization, nearly one-third of affected jobs were airline service employees, which include baggage handlers, wheelchair attendants, and security screeners. Even after federalization, airline service jobs still make up the largest single category. Another thirty percent of affected jobs are janitors and cashiers. Other sizable occupational groups include parking attendants and food service workers. Several occupations can be found in multiple industries. For example, cashiers may be employed by retail, food service, or parking firms. Even janitorial jobs are found in other industries, such as social service where, for instance, janitors are employed in homeless shelters.

**Table 2.4: Affected Jobs by Occupation**

| <i>Type of Job</i>              | <b># of Affected Jobs</b> | <b>% of Affected Jobs</b> | <b>% of Affected Jobs Without Screeners</b> |
|---------------------------------|---------------------------|---------------------------|---|
| Airline service workers†        | 2,415                     | 30%                       | 19%   |
| Janitor                         | 1,127                     | 14%                       | 16%   |
| Cashier                         | 966                       | 12%                       | 14%   |
| Parking attendant               | 725                       | 9%                        | 10%   |
| Food service worker             | 644                       | 8%                        | 9%  |
| Child care worker               | 322                       | 4%                        | 4%  |
| Retail clerk                    | 242                       | 3%                        | 4%  |
| Security guard                  | 242                       | 3%                        | 3%  |
| Customer service representative | 161                       | 2%                        | 3%  |
| Driver                          | 161                       | 2%                        | 2%  |
| Landscape maintenance worker    | 161                       | 2%                        | 2%  |
| Usher                           | 81                        | 1%                        | 2%  |
| Other                           | 886                       | 11%                       | 13%   |

Source: Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given. N=82

The margin of error ranges from  $\pm 2\%$  to  $\pm 10\%$

†Includes skycaps, wheelchair attendants, and screeners

Table 2.5 displays additional basic characteristics of living wage affected firms and the percent of affected jobs in each type of firm, both before and after the federalization of the screeners. The majority of affected jobs are located at LAX or Ontario airports, because the largest affected employers are concentrated at the airport. In terms of the type of relationship firms have with the city, nearly 70 percent of affected firms are service contractors, but these firms represent only about half of affected jobs currently. Airline service firms, which are subcontractors to the airlines, represent only 6 percent of all affected firms, but nearly 30 percent of all current directly affected jobs. There are very few firms that are economic development subsidy recipients or lessees. Although the airlines do lease airport terminals and other facilities, they were not included in the survey because they did not give significant raises to their employees.

**Table 2.5: Characteristics of Affected Firms**

|  | <b>% of Affected Firms</b> | <b>% of Affected Jobs</b> | <b>% of Affected Jobs Without Screeners</b> |
|--|----------------------------|---------------------------|---|
| Located at airport                     | 28%                        | 64%                       | 58%   |
| Service contractor                     | 67%                        | 41%                       | 48%   |
| Service subcontractor to airlines      | 6%                         | 37%                       | 27%   |
| Concessionaire                         | 24%                        | 15%                       | 17%   |
| Economic development subsidy recipient | 0.5%                       | 7%                        | 8%  |
| Lessee                                 | 0.4%                       | 0.2%                      | 0.3%  |
| Subcontractor                          | 12%                        | 41%                       | 32%   |
| Subsidiary of another firm             | 30%                        | 55%                       | 52%   |
| Non-profit firm                        | 23%                        | 8%                        | 9%  |

Source: Living Wage Employer Survey, weighted by firm and by number of jobs where mandatory raises were given.

N = 82 Margin of error is ranges from  $\pm 1\%$  to  $\pm 11\%$

Compared to establishments in similar industries in L.A. County, living wage affected establishments are more likely to be large.<sup>22</sup> Over a third of living wage affected establishments have more than 100 employees, while only 2 percent of L.A. County establishments do (Table 2.6). Less than half of all living wage affected establishments have fewer than 20 employees, compared to over 80 percent for establishments in similar industries in L.A. County.

**Table 2.6: Establishments by Size Category**

| <b>Size Category</b>  | <b>% of Living Wage Affected Establishments</b> | <b>% of All Establishments in Similar Industries in L.A. County*</b> |
|-----------------------|---|--|
| 1 to 19 employees     | 43%   | 83%  |
| 20 to 49 employees    | 18%   | 11%  |
| 50-99 employees       | 3%  | 4%   |
| 100-499 employees     | 30%   | 2%   |
| 500 employees or more | 6%  | <1%  |
| N                     | 78  | 67,600   |

Source: Living Wage Employer Survey and 2001 County Business Patterns, U.S. Census Bureau  
Margin of error for Living Wage Survey ranges from  $\pm 4\%$  to  $\pm 11\%$

\*Industries include the following NAICS codes: 44 Retail Trade, 56 Administrative and Support and Waste Management and Remediation Services, 624 Social Assistance, 71 Arts, Entertainment, and Recreation, 722 Food Service and Drinking Places, 81293 Parking Lots and Garages.

Living wage affected jobs in Los Angeles are also much more likely to be unionized than jobs overall in California (Table 2.7). Nearly two-thirds of living wage affected jobs are unionized, compared to only 17 percent of all jobs state-wide (Milkman and Rooks, 2003). In fact, the rate of unionization for living wage affected jobs is comparable to the rate for public sector jobs, which, at 54 percent, is the most heavily unionized sector in the state.

Some of this high union density can be attributed to a multi-union organizing drive at the Los Angeles airport, which was undertaken in 1998, the same year the living wage was extended to airlines and their subcontractors. This campaign was successful in organizing 2,200 workers, which included 16 percent of all living wage affected jobs. Even before this campaign, however, 41 percent of affected jobs were already unionized, a much larger proportion than for jobs in the state as a whole.

**Table 2.7: Unionization**

|                              | <b>% of Living Wage Affected Firms</b> | <b>% of Living Wage Affected Jobs</b> | <b>% of All Jobs in CA</b> | <b>% of All Public Sector Jobs in CA</b> |
|------------------------------|--|---------------------------------------|----------------------------|--|
| Unionized before living wage | 14%                                    | 41%                                   | Not available              | Not available                            |
| Unionized in 2002            | 15%                                    | 64%                                   | 17%                        | 54%                                      |

Source: Living Wage Employer Survey and Current Population Survey 2001 and 2002, as analyzed in Milkman and Rooks (2003)

Living Wage Employer Survey N=82

Margin of error for living wage employer survey ranges from ±8% to ±10%

### **Additional Living Wage Jobs Not Covered by the Original Ordinance**

There are other jobs in Los Angeles that are subject to living wage requirements, but they are not included in this study because they are not covered by the original 1997 ordinance (see Table 2.8). We did not include any of the following groups in our surveys.

A separate city ordinance, enacted in 1998, raised wages for approximately 900 city jobs that were previously below the living wage standard.<sup>25</sup> The majority of these jobs are part-time or intermittent positions that supplement regular staff during peak work times. Affected jobs include summer youth job program staff and summer camp staff, school crossing guards, and election staff.

The living wage surveys also did not include several subsidized development projects that are subject to living wage requirements but are not covered by the original ordinance. The L.A. Community Redevelopment Agency (CRA) is a major source of economic development subsidies for projects in the City of Los Angeles. Although the 1997 living

<sup>25</sup> A 1998 memo prepared by the L.A. City Administrative Officer listed the number of jobs where wages would be increased under the ordinance.



wage ordinance covers recipients of city economic development subsidies, it does not cover CRA projects, because the CRA is a state-chartered, quasi-independent agency. The CRA passed its own living wage policy in 2003, as previously discussed. In the late 1990's, before the passage of this policy, the CRA attached living wage requirements to three of the economic development projects it funded.

Under these agreements, developers and their subcontractors are required to comply with the provisions of the 1997 living wage ordinance. In addition, some of the low-wage jobs in these developments are unionized, which has raised wages and benefits standards. These three projects are in the city council district of the sponsor of the living wage ordinance, former Councilmember Jackie Goldberg, and the living wage requirements were attached as a result of community and political organizing by living wage proponents. The projects are the Hollywood/ Highland theater, hotel and retail complex; the Arclight Cineramadome movie theaters; and the Sunset and Vine retail and housing complex. These projects have been constructed, are now in operation, and include approximately 400 low-wage jobs that are subject to living wage requirements or union collective bargaining agreements.<sup>26</sup>

**Table 2.8: Other Jobs Subject to Living Wage Requirements**

| Category   | Number of Covered Low-Wage Jobs |
|--|---------------------------------|
| City jobs where pay was increased by 1998 City Ordinance                         | 900                             |
| Existing CRA economic development subsidy projects with living wage requirements | 400                             |
| Total  | 1,300                           |

Source: CAO, CRA, owners of affected development projects

## Conclusion

The Los Angeles living wage ordinance raised wages for an estimated 9,600 jobs in 150 firms. Wages were raised for 7,700 jobs through mandated raises that were given to meet the requirements of the ordinance. Another 1,900 jobs were affected through non-mandated indirect raises. In addition to wage increases, 10 firms improved health benefits or extended coverage to more workers in order to meet the requirements of the living wage, and those improvements affected 2,236 jobs. The wage increases brought about by the L.A. ordinance make it one of the largest in scope in the nation. Only ordinances in New York City and San Francisco raised wages for a larger number of jobs. In addition to the impact of the original ordinance, pay was increased for another 900 city jobs through a subsequent ordinance, and another 400 low-wage jobs are subject to living wage requirements in negotiated legal agreements with developers.

More than 60 percent of the jobs affected by the L.A. city living wage are at the Los Angeles or Ontario Airports, and most affected jobs are found in firms that are service contractors for the city or for the airlines, as opposed to concessionaires or economic

<sup>26</sup>Because these agreements are not subject to the 1997 living wage ordinance, they are not included in the city's regular living wage enforcement process.

development subsidy recipients. The most common living wage affected occupations are airline service workers, janitors, cashiers, parking attendants, and food service workers. Living wage affected establishments are larger compared to those in similar industries in L.A. County. Finally, nearly two-thirds of living wage affected jobs are unionized. This is even higher than the rate of unionization for public sector jobs, which is the most highly unionized sector in both California and the nation.

### Chapter 3 : Who Are Living Wage Affected Workers?

The living wage ordinance resulted in mandatory pay increases for an estimated 7,700 jobs on city contracts. In 2002,<sup>27</sup> we conducted a survey of the workers in those jobs, referred to in this chapter as *living wage affected worker* or *affected workers*. In order to explore who benefits from the living wage, this chapter presents demographic information from the worker survey. We detail the gender, racial, and ethnic composition of the workforce, as well as the percentage who are immigrants. We explore whether workers are young and at the start of their working careers, or whether they are older and well into their working lives. In order to determine whether workers are supporting families, we present an overview of workers' family characteristics, such as marital status and number of dependent children. We also calculate the percentage of affected workers who live in different types of families. In order to determine whether living wage affected workers are different from other low-wage workers, we also present data from the Current Population Survey (CPS) on the characteristics of workers earning similar wages in similar industries in Los Angeles County.<sup>29</sup>

One of the most important questions about affected workers is whether they are part of low-income families. Because one of the commonly-stated goals of living wage policies is to reduce poverty or improve living standards for low-income families, a key research question is whether living wage affected workers are part of poor or low-income families. Demographic characteristics are an important predictor of family income. In addition, we use data from the CPS on the family incomes of low-wage workers in L.A. County to

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<sup>27</sup> The survey began in late 2001 and continued until the middle of 2003, but the majority of interviews were conducted in 2002.

<sup>29</sup> The Economic Policy Institute conducted the analysis of CPS data presented in this chapter. We used the CPS Outgoing Rotation Group (ORG) and selected people who worked in the last week and reported earning from \$6.75 to \$11.99 per hour. In order to have a large enough sample to select workers only in the same industries, we combined 2002 and 2003 data, and we selected workers up to \$11.99, which is slightly higher than the living wage level at the time of the survey. (In 2002-2003, the higher wage level was \$9.52 per hour.) The average wage of the CPS workers is \$9.40, very similar to the average wage of workers affected by the living wage, which is \$9.53. Although we selected only workers in similar industries as the living wage workers, the occupational mix may be different, which could account for some of the differences between the two groups. The industries selected include the following NAICS codes: 44 Retail Trade, 56 Administrative and Support and Waste Management and Remediation Services, 624 Social Assistance, 71 Arts, Entertainment, and Recreation, 722 Food Service and Drinking Places, 81293 Parking Lots and Garages.

estimate the family incomes of living wage affected workers. We analyze what percentage of low-wage workers fall below a variety of poverty measures, including the federal poverty guidelines, 200% of the federal poverty guidelines, and basic-needs budget thresholds, which measure the actual cost of basic necessities for families in Los Angeles County. We do not evaluate whether the living wage is more or less effective than other public policies in decreasing poverty.

### **Gender, Age, and Labor Force Tenure**

Compared to low-wage workers in similar industries in Los Angeles County, living wage affected workers are more likely to be women. Fifty-seven percent of living wage affected workers are women, compared to 45 percent of low-wage workers in L.A. County (Table 3-1).

Living wage affected workers are well into their working careers and are older than workers in L.A. County in similar industries. Only four percent of living wage affected workers are teenagers, compared to 14 percent of low-wage workers in L.A. County. Teenagers are more likely to live with their parents, who tend to have higher incomes. Teenagers are therefore less likely to be living in low-income families than older workers are. The lower proportion of teenagers among living wage affected workers suggests that living wage affected workers are more likely to be low-income than are low-wage workers in L.A. County.<sup>30</sup>

The age difference between living wage affected workers and low-wage workers in L.A. County is evident in all age groups. Nearly 60 percent of living wage affected workers are 35 or older, while less than 40 percent of low-wage workers in L.A. County are in that category. Given that living wage affected workers are older, it is not surprising that they have many years of experience in the labor market. On average, living wage affected workers have been working for 19 years, and half the workers have been in the labor force for at least 17 years.

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<sup>30</sup> There has been much debate over whether wage mandates, such as living wage policies and minimum wage increases, are well-targeted to low-income families. See, for example, Neumark 2003, and the discussion in *Economic Development Quarterly*, February 2005.

**Table 3.1: Gender, Age, and Years in the Labor Force**

| <b>Sex</b>  | <b>Living Wage Affected Workers</b> | <b>L.A. County Low-Wage Workers in Same Industries<sup>†</sup></b> |
|---|-------------------------------------|--|
| Female  | 57%*                                | 45%*   |
| Male  | 43%*                                | 55%*   |
| <b>Age</b>  |                                     |  |
| 16-19   | 4%*                                 | 14%*   |
| 20-34   | 37%*                                | 50%*   |
| 35 and over                                       | 58%*                                | 36%*   |
| Average Number of Years in Workforce Since age 16 | 19                                  |  |
| N   | 320                                 | 1,188  |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

<sup>†</sup>Includes all workers earning \$6.75 to \$11.99 per hour.

\*The difference between living wage workers and L.A. County workers is statistically significant at the 95% confidence level.

### **Race/Ethnicity and Immigrant Status**

Half of all living wage affected workers are Latino, while nearly 30 percent are African-American. Another 12 percent are Asian or Pacific Islanders, as shown in Table 3-2. Compared to low-wage workers in L.A. County in similar industries, more than three times as many living wage affected workers are African-American, while fewer are Latino and White. This higher concentration of African-Americans in living wage jobs may be related to the fact that African-Americans tend to be employed in the public sector. Among low-wage workers, African Americans make up 8% of the overall L.A. county workforce, but 19% of the public sector workforce.<sup>31</sup> It is also likely due to the concentration of African-Americans in the neighborhoods surrounding LAX.

Approximately half of living wage affected workers are immigrants, but they tend not to be recent immigrants. Affected workers who are immigrants have been in the U.S. for 16 years on average, five years longer than the average for low-wage workers in L.A. County. Most foreign-born living wage affected workers are from Mexico and Central America. The remaining foreign-born workers come from several regions of the world including Asia, Africa, and South America.

<sup>31</sup> Economic Policy Institute analysis of CPS Outgoing Rotation Group, 2002 and 2003 combined.

**Table 3.2: Race, Place of Birth, and Years in U.S.**

|   | <b>Living Wage Affected Workers</b> | <b>L.A. County Low-Wage Workers in Same Industries<sup>†</sup></b> |
|---|-------------------------------------|--|
| Latino  | 51%*                                | 64%*   |
| African or African-American                     | 29%*                                | 8%*  |
| Asian/Pacific Islander                          | 12%                                 | 8%   |
| White   | 8%*                                 | 19%*   |
|   |                                     |  |
| Foreign-born                                    | 53%                                 | 56%  |
| Mexico  | 17%                                 |  |
| Other Latin America                             | 18%                                 |  |
| Asia  | 9%                                  |  |
| Africa  | 6%                                  |  |
| Caribbean                                       | 2%                                  |  |
| Other   | 2%                                  |  |
|   |                                     |  |
| Mean Years in United States (if not born in US) | 16*                                 | 11*  |
| N   | 320                                 | 1,188  |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group 2002 and 2003 combined.

<sup>†</sup>Includes all workers earning \$6.75 to \$11.99 per hour.

\*The difference between living wage workers and L.A. County workers is statistically significant at the 95% confidence level.

### **Full-time/Part-time Status**

The great majority (86 percent) of living wage affected workers work full-time, either at their living wage job or by combining that job with another job (Table 3-3). This suggests that the earnings of affected workers are an important source of support for themselves and their families. These are not workers who are able to work less than full-time by relying on the income of other family members. Seventy-one percent of affected workers work full-time (35 hours per week or more) at their living wage job.<sup>32</sup> The percentage of workers who work full-time varies significantly by industry. For example, 100 percent of affected workers in landscape firms and 84 percent of those in airline service firms work full-time while only 59 percent of affected workers in the retail and food service industries and the security and parking industries work full-time.<sup>33</sup> Another 15 percent of affected workers work full-time by combining their part-time living wage job with another job. The remaining 14 percent work part-time.

<sup>32</sup> Five percent of all workers are employed by firms that do not offer year-round work on city contracts, and they may work full- or part-time during those periods. For example, some landscape firms only contract with the city for a few months to complete a particular project. Other firms do not operate on a year-round, full-time basis.

<sup>33</sup> The association between industry and full-time/part-time status is statistically significant at the 0.01 level.

**Table 3.3: Living Wage Affected Workers by Full-Time/Part-Time employment status**

|   | <b>% of Affected Workers</b> |
|---|------------------------------|
| Work full-time*   | 86%                          |
| Work full-time at living wage job                                     | 71%                          |
| Work full-time by combining part-time living wage job with second job | 15%                          |
| Work part-time  | 14%                          |

Source: Living wage worker survey.

N=320 The margin of error is +/- 5%.

\*35 hours per week or more

### **Worker Educational Characteristics**

The living wage ordinance mostly affects workers who do not have high levels of education. The great majority (71 percent) of living wage affected workers have a high school education or less (Table 3-4). One in five have attended some college, while very few have completed a bachelor's degree. These proportions are similar to those of low-wage workers in L.A. County. Currently, 14 percent of living wage affected workers attend college, with more attending a community college than a four-year college.

**Table 3.4: Educational Characteristics**

|  | <b>Living Wage Affected Workers</b> | <b>L.A. County Low-Wage Workers in Same Industries<sup>†</sup></b> |
|--|-------------------------------------|--|
| Highest Level of School Completed            |                                     |  |
| High School or less                          | 71%                                 | 68%  |
| Some college                                 | 21%                                 | 25%  |
| College degree or higher                     | 8%                                  | 7%   |
| Currently Enrolled in High School or College |                                     |  |
| Community college                            | 10%                                 |  |
| Four year college                            | 4%                                  |  |
| High school/GED                              | 1%                                  |  |
| N  | 320                                 | 1,188  |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

<sup>†</sup>Includes all workers earning \$6.75 to \$11.99 per hour.

### **Worker Family Characteristics**

The majority of living wage affected workers are single, which is similar to low-wage workers in similar industries in L.A. County, as shown in Table 3-5. A significant minority of living wage affected workers (40 percent) have dependent children living in

their household. Affected workers living with dependent children have two on average, which is also similar to low-wage workers in L.A. County. The proportion living with dependent children is similar between the two groups, which may seem surprising given that living wage affected workers are older. On the one hand, living wage affected workers are less likely to be teenagers, which would suggest that they are more likely to have dependent children. However, nearly a quarter (24 percent) of living wage affected workers are over fifty, which suggests that they may have adult children, rather than dependent children.

**Table 3.5: Family Characteristics**

|   | <b>Living Wage Affected Workers</b> | <b>L.A. County Low-Wage Workers in Same Industries<sup>†</sup></b> |
|---|-------------------------------------|--|
| <b>Marital Status</b>                       |                                     |  |
| Single                                      | 58%                                 | 60%  |
| Married                                     | 42%                                 | 40%  |
| <b>Dependent Children</b>                   |                                     |  |
| Do not have dependent children in household | 60%                                 | 65%  |
| Have dependent children in household        | 40%                                 | 35%  |
| Average number of dependent children        | 2                                   | 2  |
| N   | 320                                 | 1,188  |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

<sup>†</sup>Includes all workers earning \$6.75 to \$11.99 per hour.

We classified workers into several family types based on whom they reported living with, as shown in Table 3-6. Fifty-five percent of living wage affected workers live with either a spouse, domestic partner, or dependent children, similar to low-wage workers in L.A. County. Nearly a quarter of affected workers are part of two-parent families with children under 18, also similar. Sixteen percent of affected workers – the overwhelming majority of whom are female (95 percent) – are single parents of children under 18. This is more than double the proportion for low-wage workers in L.A. County. Another 15 percent of affected workers live with a spouse or domestic partner, but not with any young children of their own, which is similar to low-wage county workers. The remaining 41 percent of workers we defined as “single” – that is, they are adults over 18 who do not live with a spouse, domestic partner, or dependent children.<sup>34</sup> Although the proportion of low-wage county workers is lower, the difference is not statistically significant. Living wage affected workers who are single do not necessarily live alone, in fact, only 14 percent of living wage affected workers report living alone. Most single affected workers live with other family members or roommates. Only 1 percent of

<sup>34</sup> However, it should be noted that 9 percent of these workers are in fact legally married. Since all but two of these workers are immigrants it could be that these workers have spouses living in their country of origin. Another possible explanation why some married workers live alone is that they might be separated from their spouse. “Separated” was not an option listed on the survey and only in a few cases did workers offer that they are living separately from their spouse.



affected workers are teenagers under 18, which is similar to the proportion among county low-wage workers.

**Table 3.6: Family Types**

| Family Type  | Living Wage Affected Workers | L.A. County Low-Wage Workers in Same Industries <sup>†</sup> |
|--|------------------------------|--|
| Couple with children under 18 in the household                             | 24%                          | 28%  |
| Both parents working   | 17%                          | 16%  |
| One parent working   | 7%                           | 12%  |
| Single parent with children under 18 in the household                      | 16%*                         | 7%*  |
| Couple with no children under 18 in the household                          | 15%                          | 12%  |
| Single adult 18 and over (does not live with spouse or dependent children) | 44%                          | 49%  |
| Teenagers under 18   | 1%                           | 4%   |
| N  | 320                          | 1,188  |

Source: Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.

<sup>†</sup>Includes all workers earning \$6.75 to \$11.99 per hour.

\*The difference between living wage affected workers and L.A. County workers is statistically significant at the 95% confidence level.

### Income and Poverty Status of Living Wage Affected Workers

The living wage worker survey did not gather reliable information on family income.<sup>35</sup> The best source of such data for low-wage workers in L.A. County is the Current Population Survey (CPS), which we used to estimate the family incomes of living wage affected workers.<sup>36</sup>

<sup>35</sup> The worker survey did not collect this information for several reasons: workers were often interviewed at or near the workplace, so they did not have access to financial records, workers who were interviewed were not always the person responsible for keeping track of the family finances, and survey interviewers often did not have access to other family members or to financial records. As a result, the survey asked workers for their family income, but two-thirds of workers were unable to answer this question. The survey also asked workers to select among various family income categories. Eighty percent of workers answered this question. Of those workers, 40 percent said that their family income was less than \$20,000 per year and two-thirds said it was less than \$30,000. However, further analysis of this data revealed that reported family income was too low to be reliable. It is likely that workers' responses did not include all other family members' income, and all sources of non-wage income.

<sup>36</sup>For the analysis of family income, we used the Current Population Survey March Supplement, 2002 and 2003 combined. We used the same selection criteria as the previous analysis (people who worked in the last week and reported earning from \$6.75 to \$11.99 per hour), except for the selection of similar industries, which we unable to do because of small sample size.

As we have seen, the characteristics of living wage affected workers are quite similar to those of low-wage workers in the county. However, they differ in several respects. Living wage affected workers are less likely to be teenagers, and they are more likely to be African-American, to be female, and to be single parents. Living wage affected workers who are immigrants have been in the U.S. five years longer than similar low-wage workers in the county. Except for years in the U.S., all the other differences between the two groups would suggest that living wage affected workers have lower family incomes. Therefore, using CPS data on low-wage workers in L.A. County is likely to be an overestimate of family incomes and an underestimate of the poverty status of living wage affected workers.<sup>37</sup> However, this is the best available data to estimate the family incomes for living wage affected workers.

In order to determine whether low-wage workers are members of poor or low-income families, we used three different measures:

***Federal Poverty Guidelines:*** The federal guidelines are best seen as a measure of extreme poverty. In recent years, researchers and government officials have argued that the federal poverty line, set in 1963, is an inadequate measure of the minimum income needs of families (Citro and Michael, 1995, Bernstein et al., 2000, Ruggles, 1990.) The federal poverty line is based on the cost of the basket of food necessary to satisfy the caloric needs of a family. To generate a dollar figure for poverty, the government multiplies the cost of the food basket by three. Such an approach does not take into account that costs vary greatly in different parts of the country. In addition, the federal poverty line is not indexed to housing, child care and healthcare costs, expenses that take up an increasing share of family income. The 2002 federal poverty guideline was \$18,100 per year for a family of four.

***200 Percent of Federal Poverty Guidelines:*** This standard offers a more realistic definition of poverty. The federal government itself bases income eligibility levels for many anti-poverty programs—including Food Stamps, Section 8 housing assistance, Reduced Price School Meals, and the Earned Income Tax Credit—at levels that are higher than the federal poverty guidelines, as shown in Table 3-7. Other government anti-poverty programs, such as the State of California’s subsidized child care and its subsidized health care program (Healthy Families),<sup>38</sup> have eligibility thresholds that are even higher than 200 percent of the poverty guidelines. We chose 200 percent as the threshold to represent eligibility for anti-poverty programs, and to serve as our definition of poverty for this report. 200 percent of the 2002 Federal Poverty Guidelines was \$36,200 per year for a family of four.

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<sup>37</sup> We only rely on the CPS for family income information. All other data about living wage workers comes from the employer and worker surveys.

<sup>38</sup> Healthy Families is California’s version of the State Children’s Health Insurance Program, a federal program that provides health insurance to low-income children.

**Table 3.7: Income Thresholds for Major Anti-Poverty Programs, 2002**

| <b>Anti-Poverty Program</b>             | <b>Income Threshold for Family of Four</b> | <b>% of Federal Poverty Guidelines</b> |
|---|--|--|
| Food Stamps                             | \$23,532                                   | 130%                                   |
| Section 8 housing vouchers              | \$27,550                                   | 152%                                   |
| Reduced Price School Meals              | \$33,485                                   | 185%                                   |
| Earned Income Tax Credit                | \$34,178                                   | 189%                                   |
| California subsidies for child care     | \$39,000                                   | 215%                                   |
| Healthy Families subsidized health care | \$45,252                                   | 250%                                   |

Sources: U.S. Department of Agriculture, U.S. Department of Housing and Urban Development, California Department of Health Services, Internal Revenue Service, California Department of Education.

**Self-Reliance Budgets:** Largely in response to the inadequacy of the federal poverty guidelines, various research organizations have devised monthly budgets based on actual living expenses, in an effort to determine the income needed to support a family without government assistance in different regions of the country.<sup>39</sup> These budgets vary according to family type and include estimated expenses for necessities such as housing, food, and childcare. They do not include such items as savings for college or retirement, or family trips. The budgets assume that families are paying market rates for necessities such as childcare and healthcare.<sup>40</sup> In reality, many working families go without healthcare or rely on family or friends for childcare. Among living wage affected workers, 43 percent of single parents and 64 percent of workers whose spouses also work report that a member of their family provides childcare for their children, presumably for free or at reduced cost.

In addition, self-reliance budgets are based on the nuclear family, and only include spouses and children, unlike the federal poverty guidelines, which include extended family. In reality, many low-income workers live with extended family members or roommates in order to make ends meet. Among living wage affected workers, 42 percent live with people other than members of their nuclear family. The self-reliance budget, then, represents an ideal standard that would allow an individual or a nuclear family to live independently if they wish to do so, without having to rely on government anti-poverty programs or low-cost childcare from family and friends. Families that fall below this standard may not necessarily be poor, but they can be considered low-income. Table 3-7 lists the components of the self-reliance budgets used in this analysis by family type.

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<sup>39</sup> This report uses the needs-based budgets developed by the California Budget Project (2003) for all family types except married couples with no children, for which we use the National Economic Development and Law Center budget (Pearce, 2003). Income for families in the CPS was inflated to 2003 using the Consumer Price Index.

<sup>40</sup> We adjusted the healthcare costs to account for the fact that 31% of low-wage workers in L.A. County have family health insurance provided by their employer or the employer of someone in their family. For those workers, we deducted 75% from the cost of their health insurance, which is the average portion of the premium for family health benefits paid by employers in California who provide health benefits to their employees, from the 2003 California Employer Health Benefits Survey (Henry J. Kaiser Family Foundation et al., 2002).

**Table 3.8: Self-Reliance Budget for Various Family Types**

| <b>Monthly Expenses</b> | <b>Single Adult</b>           | <b>Single Parent†</b>       | <b>Couple, No children</b>    | <b>Two Parents, One Working†</b> | <b>Two Working Parents†</b>   |
|-------------------------|-------------------------------|-----------------------------|-------------------------------|----------------------------------|-------------------------------|
| Housing/Utilities       | \$638                         | \$967                       | \$807                         | \$967                            | \$967                         |
| Child Care              | \$0                           | \$954                       | \$0                           | \$0                              | \$954                         |
| Transportation          | \$290                         | \$290                       | \$469                         | \$290                            | \$522                         |
| Food                    | \$190                         | \$465                       | \$358                         | \$667                            | \$667                         |
| Health Care††           | \$197/<br>\$49                | \$495/<br>\$124             | \$238/<br>\$60                | \$595/<br>\$149                  | \$595/<br>\$149               |
| Miscellaneous           | \$173                         | \$342                       | \$187                         | \$422                            | \$422                         |
| Taxes                   | \$330                         | \$528                       | \$308                         | \$385                            | \$689                         |
| <b>Monthly Total</b>    | <b>\$1,819</b>                | <b>\$4,041</b>              | <b>\$2,367</b>                | <b>\$3,327</b>                   | <b>\$4,817</b>                |
| <b>Annual Total††</b>   | <b>\$21,823/<br/>\$20,050</b> | <b>\$48,490/<br/>44,035</b> | <b>\$28,404/<br/>\$26,262</b> | <b>\$39,920/<br/>\$34,565</b>    | <b>\$57,800/<br/>\$52,445</b> |

Source: Pearce (2003) for the couple with no children, and California Budget Project (2003) for all other family types.

† Assumes two children

†† Healthcare costs were decreased by 75% for workers with employer-based family health insurance.<sup>41</sup>

Comparing the family incomes of low-wage workers to these three measures yields the results shown in Table 3-8. This analysis takes into account workers' family size and structure.<sup>42</sup> Only fifteen percent of low-wage workers are in severe poverty, falling below the federal poverty guidelines. However, most people below the poverty guidelines are not working, so it is not surprising that the living wage does not primarily affect this group.<sup>43</sup> Using the standard of 200 percent of the poverty guidelines as a more realistic measure of poverty status, 43 percent of low-wage workers are poor. These workers meet the income eligibility criteria for several government anti-poverty programs. Finally, the majority of workers, or 69%, can be considered low-income. They fall below a self-reliance standard for Los Angeles County, and would likely have difficulty making ends meet without sharing housing or relying on government assistance or informal childcare. The remaining 31% of low-wage workers are not low-income.

Compared to low-wage workers in the county, living wage affected workers are likely to have lower family incomes. The income gains from the living wage, then, are likely to affect predominantly poor and low-income families.

<sup>41</sup> See previous note.

<sup>42</sup> To compare family income to the federal poverty guidelines and twice the federal guidelines, we generally followed the Census Bureau definitions of the family, which include extended family members. For the self-sufficiency standard, we included only the nuclear family in the calculation of family income.

<sup>43</sup> In 1998, 59 percent of people in poverty age 16 and over in the U.S. did not work (Dalaker 1999).

**Table 3.9: Percentage of Low-Wage Workers Whose Estimated Family Income Falls Below Low-Income Thresholds**

|  | <b>% of Low-Wage Workers in L.A. County<sup>†</sup></b> |
|--|---|
| Earning below Federal Poverty Guidelines           | 15%   |
| Earning below 200% of Poverty                      | 43%   |
| Earning below self-reliance budget for L.A. County | 69%   |
| N  | 277   |

Source: Economic Policy Institute analysis of Current Population Survey March Supplement, 2002 and 2003 combined.

<sup>†</sup>Includes all workers earning \$6.75 to \$11.99 per hour. The sample size was too small to select workers in the same industries as the Living Wage Survey.

### **Conclusion**

Living wage affected workers are well into their working careers, having worked for nearly twenty years on average. They are older than low-wage workers in L.A. County in similar industries and are less likely to be teenagers. Only 4 percent of living wage affected workers are teenagers, compared to 14 percent for low-wage workers in L.A. County. In addition, nearly 60 percent of living wage affected workers are 35 and over, while less than 40 percent of low-wage workers in L.A. County are in that age group. Living wage affected workers also differ from low-wage workers in L.A. County in that they are disproportionately female (nearly 60 percent) and African-American (30 percent), both groups that historically have been paid less and given fewer opportunities in the labor market. Living wage affected workers are typical of low-wage workers in L.A. County in that they are predominantly Latino and predominantly immigrants. More than 70 percent of living wage affected workers have a high school education or less, also similar to other low-wage workers. Nearly 90 percent of living wage affected workers work full-time, either at their living wage job, or by combining their living wage job with other jobs.

Approximately half of living wage affected workers live with either their dependent children or spouses and domestic partners, similar to low-wage workers in L.A. County. Forty percent live with their children who are under 18, and 42 percent are married, similar to other low-wage workers in the same industries in L.A. County. Affected workers living with their dependent children have two on average, also the same as low-wage workers overall. Living wage affected workers are more likely to be single parents—16 percent of affected workers, compared to 7 percent of low-wage workers in the county.

An analysis of low-wage workers in L.A. County reveals that only 15 percent fall below the federal poverty guidelines, and are living in severe poverty. This is not surprising, given that the majority of people below the poverty line are not working. Using the more realistic standard of twice the poverty guidelines as a measure of poverty, more than four out of ten workers are in poverty. These workers and their families would qualify for

several government anti-poverty programs based on income eligibility criteria. Self-reliance budgets, which take into account regional differences in the cost of living, can be used a measure of low-income status. They represent an ideal standard that would allow an individual or a nuclear family to live independently if they wish to do so, without having to share housing or depend on government anti-poverty programs and informal childcare. Using this standard, nearly 70 percent of low-wage workers are in low-income families. Compared to low-wage workers in the county, living wage affected workers are likely to have lower family incomes, because they are less likely to be teenagers, and are more likely to be female, African-American, and single parents.

## Chapter 4 : Wages and Time Off Policies

The living wage ordinance has three main provisions intended to improve the quality of life for low-wage workers in the city’s contract sector. The first provision raises the wage floor, the second sets a minimum standard for paid and unpaid time off, and the last is a two-tier wage structure intended to provide an incentive for firms to offer affordable health insurance. The impact of the first two provisions of the ordinance is examined in this chapter.

The most important feature of the living wage ordinance is its potential to raise wages of low-wage workers. By setting a higher minimum wage in a discrete sector of the economy, the city altered—to a small degree—the types of jobs available to low-skilled workers in Los Angeles. A higher wage floor can have a variety of effects on a labor market, both direct and indirect. Our survey of firms and workers focused primarily on the direct effects of the mandated raise, both on the jobs affected by the raise and on the workers who occupied them at the time of the survey. In Chapter 2, we estimated that the mandated raise affected 7,735 jobs, which we refer to

as *affected jobs*. In this chapter, we explore how wages at those jobs have changed. In addition, we examine how the workers employed in those occupations at the time of the Living Wage Worker Survey, referred to as *affected workers*, experienced the increase in pay at those jobs. In order to understand the impact of the pay increase, we divide affected workers into two categories—those hired before the ordinance went into effect at their firm and those hired after. In addition, there is a third group of workers we did not interview who left their firm after the ordinance went into effect. (See Text Box)

Of course, the wage provisions of the Living Wage Ordinance impact a broader range of workers than those who received a mandated raise. A sizable minority of firms reported that they gave raises to workers whose wages were already above the living wage threshold. Another group of firms gave raises to workers at their firms who do not work on city contracts covered by the ordinance. We analyze which firms gave these raises

### Worker Survey Terminology

We divide respondents to the worker survey into two categories—stayers and joiners—according to when they were hired at the affected firm. In addition, there is a third category of worker we did not interview—those who left their firm after it became subject to the ordinance. These categories are described in detail below.

- **Stayers:** These workers were employed at living wage firms before they became subject to the ordinance. These workers were asked to compare their current wage to their wages before the living wage ordinance went into effect at their firm.
- **Joiners:** These workers joined living wage firms after the ordinance went into effect. We compared the wages at their living wage job to wages at their previous job.
- **Leavers:** These workers were employed at the time the living wage went into effect, but left their jobs before our worker survey took place. We were unable to interview these workers to find out how the law affected them.

and why. Finally, we examine how the time-off provisions of the ordinance affected firm policy regarding paid and unpaid days off.

This chapter relies on the Living Wage Worker Survey and Employer Survey. We also make substantial use of the control group analysis of the Living Wage Employer Survey (Fairris 2005).

### **Raising the Floor**

The richness of our data—which includes a living wage employer survey, an employer control group survey, and a living wage worker survey—allows us to analyze the pay increase at affected jobs in several ways, and to compare results. Our first analysis relies on the survey of living wage employers. They were asked to compare current starting wages for low-wage occupations affected by the living wage ordinance at their firm with wages of similar occupations at their other establishments that were unaffected by the ordinance. The difference between the average current starting wage and the average counterfactual wage reported by firms provides one account of how entry-level pay at living wage jobs has changed. In addition, a control group analysis was conducted comparing starting pay for the largest low-wage occupation at living wage firms to starting pay at a comparable group of firms that are not covered by the ordinance. The difference between the control group’s increase in starting pay and that of the living wage employers provides another perspective on how those entry-level jobs have changed. Using either method, firms report an average increase in starting wages of about \$1.65 per hour.

**Counterfactual wage:** Starting wages at living wage firms absent the Living Wage Ordinance.

Of course, firms typically do not employ only entry-level workers in low-wage occupations. The data from the worker survey provide a mix of all affected workers, not just entry-level. In order to estimate how pay for affected jobs has increased due to the ordinance, we calculated the raise for the stayers. In this analysis, the stayers represent the workforce that was in place at the time the living wage went into effect. Since that time, the workforce has changed as turnover has brought in joiners to replace the leavers. In order to estimate the wage gain for the current workforce, we calculated the raise using the entire worker dataset, which takes into account the joiners’ wages at their previous jobs.

*Living Wage Employer Survey:* In order to determine how entry-level jobs were impacted by the Living Wage Ordinance, we asked firms to report the current starting wages for employees in low wage occupations and what those wages would have been absent the Living Wage Ordinance. By subtracting the counterfactual wage from the current starting wage, we can determine how entry-level jobs were impacted by the law.<sup>44</sup>

<sup>44</sup> For this analysis we excluded firms that were new to city contracting (that is, firms that had not held city contracts before the living wage ordinance became law). We excluded these firms because new firms entered into city contracts with the knowledge that their firm would become subject to the ordinance, and may represent a different type of firm than those originally subject to the law.



On average, firms reported a \$1.65 (or 22 percent) difference between the current starting wage for the firms' low-wage occupations and the counterfactual wage, as shown in Table 4-1.<sup>45</sup> On average, firms reported an average starting wage of \$9.16 at the time of the interviews, just eight cents under the higher living wage rate in 2001-2002. The average counterfactual wage was \$7.51, about one dollar above the minimum wage in 2002. Eighty-five percent of the firms reported a difference of more than \$1.00 between the starting wage and the counterfactual wage. Only two firms reported a counterfactual wage that was higher than the current starting wage. One firm reduced the starting wages for low-wage occupations in order to compensate for increased vacation days, and another firm reduced starting wages to account for increased health insurance costs. As explained below, the counterfactual wage is very credible since it closely matches the starting wage of control group firms not subject to the living wage ordinance.

**Table 4.1: Mean Starting Wage and Counterfactual Starting Wage at Living Wage Firms**

|                            |        |
|----------------------------|--------|
| Mean Current Starting Wage | \$9.16 |
| Mean Counterfactual Wage   | \$7.51 |
| Mean Difference            | \$1.65 |

Source: Living Wage Employer Survey

Note: Firms that did not have a city contract prior to becoming subject to the Living Wage Ordinance are excluded from this analysis.

N=66

*Control Group Analysis:* Living wage firms were also asked to report starting wages for employees in low wage occupations prior to their company becoming subject to the ordinance. The difference between the current starting wages and the starting wages paid prior to the living wage were then compared to changes experienced by a control group of non-living wage firms in similar industries in Los Angeles County (See Fairris 2005).<sup>46</sup> These firms were asked to report changes in pay over the past two years. As shown in Table 4-2, living wage employers reported an average increase in starting wages of \$2.39 for the largest low wage occupation at their firm. This increase was significantly greater than the average increase reported by the control group, which

<sup>45</sup> We reported the average raise weighted by the firm in order to compare these results to the control group analysis. The firm average could be misleading insofar as it does not take into account differences in employment levels among firms. The difference between the current starting wage and the average counterfactual wage is \$1.35 when weighted by number of affected workers at each firm.

<sup>46</sup> For the purposes of the control group, we examined how wages in the largest low wage occupation were impacted by the ordinance. By contrast, Table 1 examines the difference between the average current starting wage and the average counterfactual wage for *all* low wage occupations. In addition, airport firms are excluded from the control group analysis due to comparability issues described in Chapter 1. It should be noted that for airport firms, the *difference* between the current starting wage and counterfactual wage for entry-level workers was significantly lower than it was for non-airport firms (\$1.29 compared to \$1.86). The difference appears to be due to the fact that airport firms had higher counterfactual wages, i.e. airport workers would be making more money than non-airport workers absent the living wage ordinance. It is also important to note that the control group analysis includes firms that are new to city contracting.

reported an average increase of \$0.73 per hour over a two-year period.<sup>47</sup> The increase in entry-level pay at non-living wage firms was \$1.66 less than the increase reported by living wage firms. After controlling for a variety of factors, including establishment size and union status, the increase in entry-level pay at living wage firms was \$1.74 greater than at non-living wage firms.<sup>48</sup>

It is also important to note that the mean counterfactual wage for non-airport living wage firms (\$7.32) is strikingly similar to the mean current starting wage reported by the control group firms (\$7.34). In other words, living wage firms would be providing the same entry-level pay as control group firms absent the living wage.

**Table 4.2: Change in Entry Level Pay for the Largest Low Wage Occupation**

|                     | Living Wage Firms (Std. Dev.) | Non-Living Wage Firms (St. Dev.) | Difference         | Difference with Controls |
|---------------------|-------------------------------|----------------------------------|--------------------|--------------------------|
| Change in Wage      | \$2.39<br>(0.89)              | \$0.73<br>(0.50)                 | \$1.66**<br>(0.11) | \$1.74**                 |
| Current Wage        | \$9.14<br>(0.57)              | \$7.34<br>(0.61)                 | \$1.80**           | \$1.71**                 |
| Wage Before         | \$6.75<br>(0.90)              | \$6.61<br>(0.73)                 | \$0.14<br>(0.14)   |                          |
| Counterfactual Wage | \$7.32<br>(0.85)              | \$7.34†<br>(0.61)                | -\$0.02<br>(0.14)  | \$0.01                   |
| N                   | 47                            | 111                              |                    |                          |

Source: Living Wage Employer Survey and Survey of Diversity in Human Resource Practices (Fairris 2005).

†In the case of the control group, the counterfactual wage is the same as the current starting wage.

\*\*Statistically significant at the 0.05 level.

Note: This analysis does not include firms at the airport. The regression analysis controlled for establishment size, non-profit status, industry, whether the firms were independent operations, and union status.

*Worker Survey:* The firms we surveyed reported increases in starting wages at the time they became subject to the law. But firms typically employ a mix of entry-level and more senior workers in low wage occupations. The more senior workers would be

<sup>47</sup> Non-living wage firms gave sizable raises due to the increases in the California minimum wage during the period of the interviews. The California minimum wage increased from \$5.75 to \$6.25 in 2001 and from \$6.25 to \$6.75 in 2002.

<sup>48</sup> The implementation of the Living Wage Ordinance could have spanned a period as long as 1997 to 2002 in the firms we interviewed. Meanwhile, the control group firms were only asked about changes between 2000 and 2002. However, when the control group firms were compared to a subset of living wage firms with only a two-year span between the interview date and the implementation of the living wage ordinance, the difference between the two groups remained virtually the same. The regression analysis controlled for establishment size, non-profit status, industry, whether the firms were independent operations, and union status.

expected to see a smaller raise than their entry level counterparts, as they would be earning a higher wage prior to the living wage increase. In order to estimate the typical pay increase at a living wage job, we analyzed the raise experienced by a subgroup of workers—the stayers—who were in place at the time the living wage went into effect at their firm. These workers represent those employed at the time of the living wage increase. The stayers, who had varying degrees of experience and tenure on the job, received an estimated average pay increase of \$1.48. This result controls for the changing level of the state minimum wage over the study period,<sup>49</sup> and closely resembles the \$1.35 difference between the average starting wage and the counterfactual wage reported by employers (when it is weighted by the number of affected workers at the firm).

Using the average hourly increase of \$1.48, we estimate an average annual pay increase for the affected job at \$2,590.<sup>50</sup> (This can also be thought of as the average pay increase for workers at the time the living wage was implemented at their firm.) We can multiply the estimated average annual increase in salary for the stayers by the total number of jobs impacted by the mandatory raise (7,735) to derive an estimate of the aggregate increase in pay for those jobs: \$20 million.

As mentioned, there are two categories of workers we surveyed—the stayers hired before the ordinance took effect at their firm and the joiners hired after. The new workers—or joiners—do not see the same benefit from the raise as those who were there at the time of the survey. The joiners compared their wages at their living wage job to those they received at their previous job. On average, they received a 2 percent increase of \$0.21 per hour, as shown in Table 4-3.<sup>51</sup> After controlling for a several factors, including worker demographics, the differences between stayers' and joiners' average pay raise remains statistically significant.

Joiners received lower average raises than stayers because they held jobs that were higher paying (on average) than those held by stayers before they received the living wage raise.

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<sup>49</sup> In many cases, workers did not know what their wages were directly before and after the living wage raise, and reported instead their current wage and a wage some time prior to becoming subject to the ordinance. In order to bring those two wages closer together in time and to distinguish the effects of the living wage from concurrent minimum wage increases, we indexed their “before” wages to the minimum wage at the time they reported it, and applied that percentage to the minimum wage at the time the worker received their living wage raise. Likewise, we adjusted the “after wage” by indexing it to the living wage at the time they reported it, and multiplying that ratio by the living wage rate at the time of the raise. In this analysis, we include workers from all firms--those that are new to city contracting and those that are not. Workers employed at firms that are new to the contract sector are, with few exceptions, joiners—that is to say they were hired explicitly to staff the contract.

<sup>50</sup> On average, the workers we surveyed worked for 35 hours per week for an estimated 50 weeks per year (including paid vacation).

<sup>51</sup> In a difference of means test, the difference between the stayers and joiners raise was statistically significant at the 0.01 level. In addition, Fairris and Fernandez-Bujanda (2005) conducted a multiple regression analysis of the raise variable that controls for changing union status, changing health benefits, time elapsed between “before” and “after” wage observations, and minimum wage period, among other variables. This isolates the true impact of the living wage—as opposed, say, to the difference in union status or health benefits coverage between the city contract and non-contract sector. In this analysis, the stayers' raise was also significantly higher than the joiners' raise (at the 0.01 level).

A few joiners had exceptionally high “before” wages, resulting in a substantial pay decrease for these workers.<sup>52</sup> These joiners may have been displaced from their previous job. A few of these joiners appear to be older workers who changed jobs in order to have less strenuous work. For example, a 53-year-old man, who lives with his son and grandchildren, worked in higher-wage construction jobs for several years before becoming a full-time parking attendant at a living wage firm. Although changing jobs entailed a \$10.45 per hour pay cut, he said working at the construction firm was too dangerous. A 67-year-old single man worked as a mechanic before switching to a living wage security firm. He now works full-time as a security guard and earns over \$8 per hour less than what he earned before going to work at his living wage job. Some other joiners who experienced a pay decrease after changing to a living wage job had previously held relatively more skilled and higher-paying positions, with titles such as banquet supervisor, instructor, and floor manager.<sup>53</sup>

Altogether, the workers surveyed received an average raise of \$0.74 or \$1,295 per year. This raise represents the average gain for workers after accounting for the new workers at the firm. The raise is about half the size of the pay increase at the average living wage job.

**Table 4.3: Mean and Median Living Wage Raise Experienced by Stayers and Joiners**

|             | Mean Raise | Percent Increase in Mean Hourly Wages | Median Raise | Percent Increase in Median Raise | N   |
|-------------|------------|---------------------------------------|--------------|----------------------------------|-----|
| Stayers     | \$1.48**   | 20%                                   | \$1.47       | 21%                              | 99  |
| Joiners     | \$0.21**   | 2%                                    | \$0.88       | 12%                              | 142 |
| All Workers | \$0.74     | 9%                                    | \$1.06       | 14%                              | 241 |

Data Source: Living Wage Worker Survey

\*\*The difference between the mean stayer and joiner raise is statistically significant at the 0.05 level.

Note: Joiners are workers who were hired after their firm became subject to the ordinance, while stayers are those hired before their firm became subject to the law.

<sup>52</sup> Indeed, the median raise for the joiners was \$0.88, more than four times as high as the mean raise, and may better represent the experience of the typical joiner.

<sup>53</sup> Chapter 7 includes a more complete discussion of the difference in characteristics between the stayers and the joiners.

## Indirect Raises

In addition to providing the mandated raise, 40 percent of firms reported providing non-mandated raises, resulting in pay increases for an estimated 1,900 additional workers. These raises resulted from workers receiving either a “vertical” or “horizontal” indirect wage increase, sometimes called a “ripple raise.” Some covered workers already earning above the living wage rate received a vertical wage increase typically due to employers’ desire to preserve the differential in wages between their affected and unaffected workers. Low-wage workers in affected firms who were not employed on city contracts sometimes received horizontal wage increases. Firms raised wages for these workers often in order to maintain wage parity within the firm. These two types of indirect raises are discussed in more detail below.

### *Vertical Wage Increase*

Thirty-nine percent of affected firms said they gave non-mandated raises to an estimated 1,537 workers in order to maintain wage differentials on city contracts.<sup>54</sup> On average, these workers received a non-mandated raise of \$0.73,<sup>55</sup> about half the size of the average mandated pay increase. Using these assumptions, their average annual pay increase would be \$1,278 due to the non-mandated raises.<sup>56</sup> On aggregate, these workers received a \$1.9 million pay increase over the course of the year.<sup>57</sup>

It appears that the vertical wage push mostly affected other low wage workers. With only one exception, firms gave vertical wage increases only to workers making less than \$14 per hour. On average, the non-mandated raise was given to workers who earned up to \$1.03—or 12%—more than the living wage.

Firms provided several reasons for giving vertical non-mandated raises. Many firms said they did so to maintain fairness in the wage structure, while others cited employee complaints, particularly among supervisors making only slightly more than the workers they oversee. Other firms said the vertical raise made it easier to recruit supervisors.

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<sup>54</sup> The 95% confidence interval is  $\pm 11$  percent.

<sup>55</sup> The 95% confidence interval is  $\pm \$0.19$ .

<sup>56</sup> Estimates on the number of workers to receive non-mandated raises and the amount of those raises come from Living Wage Employer Survey data and wage band data from the Survey on Diversity in Human Resources Practices. We multiplied the estimated average annual increase in salary for those receiving a ripple raise by the number of workers impacted by the raise to derive an estimate of the annual pay increase for those jobs.

<sup>57</sup> In order to estimate the annual pay increase for workers receiving the non-mandated vertical raise, we assume that they work for 35 hours per week (as do living wage workers) and are employed by a living wage contractors for 50 weeks per year, on average.

### *Factors explaining the vertical wage increase*

In order to determine which factors make a firm more likely to give vertical non-mandated raises, we conducted a multiple regression analysis.<sup>58</sup> This analysis revealed that unionized firms were much more likely to give vertical non-mandated raises.<sup>59</sup> In fact, being a union firm virtually guaranteed that a vertical wage push would take place at the firm. This may be because union contracts include wage scales, which are often based on skill level and tenure at the firm. Since wages are known to all employees through the contract, there may be more pressure in union firms to maintain the same wage differential when the contract is renegotiated. Finally, unions are commonly concerned with issues of fairness, and provide structures for collective action that may increase the pressure to raise wages.

In addition, the analysis found that the greater the percentage of covered workers (in affected firms) who received mandatory raises, the more likely the firm was to raise the pay of covered workers earning above the living wage. For every percentage point increase in the ratio of affected to unaffected workers on the contract, the odds of giving non-mandated vertical raises increases more than 50 times.<sup>60</sup> This may be because the more workers who receive a raise, the more it becomes known throughout the firm, creating pressure to increase wages. Similarly, the smaller the establishment the larger the likelihood of a vertical wage increase. With a decrease of 100 workers, the odds of a firm giving non-mandated raises to covered workers increase by 62 percent.<sup>61</sup> In small establishments, news of raises may spread more easily than in large ones. In fact, managers at several large firms explained that workers not covered by the law were not aware of the higher wages paid to the workers on the city contract, and they preferred to keep it that way.

### *Firms that did not give indirect raises*

The affected firms that did not give indirect raises gave a variety of reasons. Many firms said workers who were unaffected by the mandated raise already earned well above the living wage level, so the living wage did not generate concern about inequities in their wage structure. Other firms said they could not afford to give any indirect raises. Still others said that higher-paid employees already received regularly scheduled raises, through a union contract or the firm's policy, or that they preferred to give merit raises or bonuses.

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<sup>58</sup> The analysis was an ordered logistic regression which included the following variables: the size of the living wage raise, industry, union status, percentage of covered workers who received a raise, whether the firm is a subsidiary, size of establishment, and whether the firm had a city contract before becoming subject to the living wage. Six firms that reported they had no employees earning between the living wage level and \$12 per hour were excluded from the analysis. Due to missing data, the analysis was conducted with a reduced sample of 54 firms.

<sup>59</sup> This relationship is statistically significant at the 0.10 level.

<sup>60</sup> This relationship is statistically significant at the 0.10 level.

<sup>61</sup> This relationship is statistically significant at the 0.10 level.

### *Horizontal Wage Increase*

Only three firms, representing 3 percent<sup>62</sup> of the sample, said that they gave non-mandated raises to employees who were not covered by the living wage ordinance. We estimate that those raises affected 312 employees.

- ❑ One customer service firm said that they gave raises to all their employees who were paid below the living wage level up to the level of the living wage. According to the firm's manager, there was a "shift in company strategy" toward becoming a high-wage employer that recruited better quality employees and provided better services to the city. This firm, which has many other city and county contracts, succeeded in passing its living wage costs on to the City of Los Angeles, and may have done the same with other public contracts as well.
- ❑ Two social service agencies gave raises to their lowest-paid workers. One firm, which already provided full-time workers with employer-paid health benefits, raised the entry-level wage for the entire organization to the lower tier of the living wage.<sup>63</sup> Managers explained that because the organization is a religious non-profit, they want to pay a "just wage." The other firm, which employs 700 workers in L.A. County and operates in three other counties around the state, also gave raises organization-wide. The manager cited the living wage as a motivation, as well as their desire to decrease employee turnover. They found they were training employees and then losing them to other firms that paid higher wages. This organization also gave raises to covered workers already making more than the living wage level, which makes it likely that the ordinance led to a change in the entire wage structure of the firm.

### **Time Off**

Another important provision of the Living Wage Ordinance is the requirement that covered employers provide 12 paid and 10 unpaid days off annually to full time workers (with part-time workers receiving time off on a prorated basis). On average, firms affected by the mandated pay provisions of the law increased paid days off from 14 to 17 days, as shown in Table 4-4. (Those firms exclusively affected by the vacation provisions of the law were not surveyed). Most affected firms (58 percent) did not make a change in their paid-time-off policy due to the living wage ordinance. However, affected firms that did increase paid time off represent the majority of covered jobs in affected firms (also 58 percent),<sup>64</sup> as the larger firms were more likely to make changes.

On average, affected firms increased their unpaid days off by two days, from 9 unpaid days off to 11 unpaid days off per year.<sup>65</sup> However, most affected firms (74 percent) did

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<sup>62</sup> The margin of error is  $\pm$  3 percent.

<sup>63</sup> Thirty-five percent of workers in this firm are part-time and do not receive health benefits

<sup>64</sup> The margin of error is  $\pm$  11 percent.

<sup>65</sup> The difference between average unpaid days off provided before the living wage and unpaid days off provided after the living wage is significant at the 0.05 level.

not make changes to the unpaid days off policy due to the living wage ordinance.<sup>66</sup> A quarter of affected firms made changes that ranged from adding six to 10 days unpaid vacation. These firms represent more than 20 percent of covered jobs in affected firms.

**Table 4.4: Average Days Off Granted by Affected Firms Annually Before and After the Living Wage Ordinance**

|   | Before Living Wage | After Living Wage | Difference | N  |
|---|--------------------|-------------------|------------|----|
| Total Paid Days Off                               | 14.4               | 17.4              | 3.1***     | 81 |
| Total Unpaid Days Off<br>(Sick and Personal Days) | 9.1                | 11.0              | 1.9**      | 36 |

Source: Employer Survey, weighted by firm

\*\*Significant at the 0.05 level

\*\*\*Significant at 0.01 level

In order to isolate changes due to the living wage ordinance, the change in paid days off at living wage affected firms was compared to changes made by the control group firms over time, as shown in Table 4-5.<sup>67</sup> (See Fairris 2005). Non-living wage firms from the control group reported an average increase in paid days off of less than half a day over a two-year period while affected firms reported an average increase of almost three days.<sup>68</sup> After netting out the increase in paid days off experienced by non-living wage firms we find that the living wage was responsible for an increase of about two and a quarter paid days off. After controlling for other factors, such as union status and industry, the net difference is 1.7 days, a 23 percent increase. The estimated dollar value of the increase in paid time off is \$126, which is the average current wage of living wage workers (\$9.37) times the 13 ½ -hour annual increase in paid days off due to the ordinance.

<sup>66</sup> The margin of error is  $\pm$  15 percent.

<sup>67</sup> The control group analysis was conducted on a sub-group of living wage firms—those not at the airport. However, there was no significant difference between the change in paid days off made by living wage firms at the airport vs. those made by firms not at the airport.

<sup>68</sup> Non-living wage firms were asked about a change in days off over a two-year period while living wage firms were asked about changes made since they became subject to the Living Wage Ordinance.



**Table 4.5: Average Change in Paid Days Off Granted by Living Wage Affected and Non-Living Wage Firms**

|                         | Living Wage Mean<br>(Standard Deviation) | Non-Living Wage Mean<br>(Standard Deviation) | Difference       | Difference with Controls <sup>69</sup> |
|-------------------------|--|--|------------------|--|
| Current Paid Days Off   | 10.13<br>(6.78)                          | 7.59<br>(6.94)                               | 2.54*<br>(1.31)  | 1.42<br>(1.23)                         |
| Paid Days Off Before    | 7.36<br>(7.67)                           | 7.10<br>(6.90)                               | 0.26<br>(1.35)   | --                                     |
| Change in Paid Days Off | 2.77<br>(5.15)                           | 0.49<br>(2.12)                               | 2.28**<br>(0.84) | 1.66*<br>(0.92)                        |
| N                       | 39                                       | 98   |                  |  |

Source: Living Wage Employer Survey and Survey of Diversity in Human Resource Practices (See Fairris 2005).

\*Statistically significant at the 0.10 level; \*\*Statistically significant at the 0.05 level.

Note: Airport firms were excluded from the mean for Living Wage firms.

### *Compliance Issues*

In spite of the increases in paid days off, the worker survey revealed that some firms may not be fully complying with the days off provision of the ordinance. Eight percent of workers reported compliance problems with the paid time off provision of the ordinance, which allows time off to be used for sick leave, vacation, or personal necessity. Two percent<sup>70</sup> of workers volunteered that their employer was not providing them with paid vacation time or was reluctant to do so. Five of the eleven workers were employed at two food service firms as dishwashers and foodservice crew members. More than half were full time workers. Six percent<sup>71</sup> of the workers volunteered that they either did not know sick days were available or that they feared their employer would penalize them for taking sick time. More than half of these workers were employed in the security/parking industry, and most of them were full time workers. “Sick days do not exist to this firm,” said one janitor. A security guard said, “They take it out of our pay and change us to a different work site.” Because so many workers volunteered that their employers were not providing them with paid time off, there may be compliance problems with respect to this provision of the ordinance.

<sup>69</sup> The regression controlled for establishment size, non-profit status, independent operation, union status, and industry group. The difference between living wage and non-living wage firms was significant at the 0.05 level. With controls, the difference was significant at the 0.1 level. (See Fairris, 2005).

<sup>70</sup> The margin of error is  $\pm$  2 percent.

<sup>71</sup> The margin of error is  $\pm$  3 percent.

## Conclusion

Due to the mandated wage increase, average pay at the affected jobs rose by \$1.48 per hour, or about \$2,600 per year. In aggregate, pay at the 7,700 affected jobs was increased by \$20 million annually. Overall, the workers we surveyed (stayers and joiners) received an average raise of \$1,295, about half the size of the pay increase at living wage jobs. The workers we surveyed included “stayers”—those hired before the living wage went into effect at their firms and “joiners”—those hired after. The new workers, or joiners, experienced a significantly lower increase over their previous job than those hired before, bringing down the average increase for the workers we surveyed.

Because of the richness of our data, the average pay increase at the affected jobs was estimated in several ways using the Employer Survey, the Worker Survey, as well as a control group analysis. The \$1.48 per hour pay increase at affected jobs comes from the Worker Survey. These findings were based on the raise that the stayers--workers employed in those jobs prior to their firm becoming subject to the law--received. Living wage firms also provided data on pay at jobs covered by the law. These living wage firms reported the current starting pay of living wage jobs and the wages firms would have paid these workers in the absence of the law (counterfactual wages). We calculated the increase in starting pay at living wage jobs by subtracting the counterfactual wage from the current starting wage, producing a result that was very similar to the average stayer raise: starting pay at the average job increased by \$1.35 per hour. Finally, a control group analysis that compared entry-level pay increases at a similar group of firms not covered by the ordinance to our sample of affected firms further bolsters our findings. On average, firms increased pay at entry-level jobs by about \$1.65 due to the ordinance, according to analyses of both sets of firm survey data. The increase in starting pay at affected jobs derived from the Employer Survey is therefore consistent with what workers themselves report--and is bolstered by a control group analysis of firms not covered by the ordinance--suggesting that these findings are highly reliable.<sup>72</sup>

Forty percent of firms reported providing non-mandated raises. Most of the firms gave non-mandated raises out of a desire to preserve the differential in wages between workers at the establishment who were affected by the raise provisions of the law and those who were not. These “vertical” raises resulted in an estimated average pay increase of \$0.73, about half the size of the mandated pay increase at affected jobs. On aggregate, more than 1,500 workers received a \$1.9 million pay increase. On average, firms gave vertical raises to covered workers who earned up to 12 percent (or \$1.03) more than the living wage. With one exception, firms gave vertical wage increases only to workers making less than \$14 per hour. A much smaller group of firms (3 percent) provided “horizontal raises,” increasing wages for their lowest paid workers who *are not* employed on city contracts. These raises were given to more than 300 workers in order to maintain wage parity within the firm.

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<sup>72</sup> We chose to use the stayer raise derived from the Worker Survey to represent change at living wage jobs because the questions in the employer survey focused only on increases in starting pay at living wage jobs. By contrast, the stayers’ raise represents the average increase in pay at all affected jobs.

The living wage also led to an increase in paid time off. Firms increased paid days off from 14 to 17 days per year, on average, and total unpaid days off increased from an average of 9 to 11 days. After accounting for general increases in paid time off in a control group of non-living wage firms, the net increase in paid days off for living wage firms was two and a quarter days. That increase is worth about \$169 to the average living wage worker. However, eight percent of workers volunteered that they did not have full access to the sick and vacation days they are owed, suggesting that there may be a compliance problem with regard to paid days off.

## Chapter 5 : Health Insurance

The intent of the LA Living Wage Ordinance’s two-tier wage structure was to encourage city contractors to provide affordable health insurance to their employees. Under the law, affected firms that offer health benefits to their affected workers may pay an hourly wage that is as much as \$1.25 less than the higher living wage rate. In return, they must contribute the differential to their employee’s health insurance. Contributions to employee benefit plans are not subject to payroll taxes, while wages are, creating a financial incentive for firms to provide benefits. Firms whose employee compensation does not meet the living wage standard would face a smaller cost increase if they complied with the ordinance by paying the lower wage with benefits.

### How the \$1.25 Per Hour Health Differential Works

- It is the employer’s choice whether to pay the higher wage or the lower wage with benefits. They may also allow their employees to choose.
- The employer can provide a health benefits plan costing less than \$1.25 per hour, as long as the difference is passed on to the employee in wages.
- The employer may not require an employee to pay a co-premium, unless the cost of the health benefits is greater than \$1.25 per hour. In that case, the employer may require a co-premium of the amount greater than \$1.25.
- If the employer requires a co-premium, the employee has the right to choose the higher wage without benefits.

The City originally drafted an ordinance that allowed affected firms to pay a \$2.00 per hour differential. But a city-commissioned study recommended a \$1.25 per hour differential, the amount eventually settled on (Williams et al. 1997). Unlike the living wage itself, the hourly health care contribution is not adjusted annually for inflation.

This chapter investigates whether the law encourages employers to provide health insurance to their employees. We also examined what other factors—beside the living wage ordinance—might encourage firms to offer affordable health insurance. In addition, we provide a profile of affected workers, their insurance rates, and how much it costs them to obtain health insurance from their employers. Finally, we interviewed affected firms about the costs and obstacles to providing health insurance to their workers.

Much of the data in this chapter comes from the Living Wage Worker Survey, and applies to “affected workers,” or the 7,700 workers that are in jobs where pay was increased through mandatory raises. We also present data on “covered workers (or jobs) in affected firms,” which refers to the broader group of 14,000 workers (or jobs) on contracts covered by the living wage within affected firms. We present data for this group because changes in health benefits may affect all workers on living wage contracts, whether or not they received mandatory raises. Data for this group of workers is derived from the Living Wage Employer Survey, weighted by number of covered jobs. We also

make substantial use of a control group analysis of the Living Wage Employer Survey (Fairris 2005).

### Implementation of the Ordinance

An estimated 73 percent of the 148 affected firms say they comply with the ordinance by offering workers the higher wage.<sup>73</sup> (Many of these firms also make a contribution to health benefits, but, nevertheless, comply by paying the higher wage.) About 16 percent of the firms comply by paying the lower living wage plus a contribution to benefits while 10 percent allow their employees to choose between the higher or lower wage in addition to benefits. (See Table 5-1.) A few firms comply with the ordinance in both ways, depending on the type of worker. For example, one firm offers the higher wage to part-time workers and the lower wage plus benefits to full-time workers.

Although a small percentage of firms comply with the ordinance by paying the lower wage and health benefits, these firms represent 45 percent of covered jobs in affected firms, as firms that comply by making a contribution to health insurance tend to be bigger. Thus, a majority of covered workers are employed in firms that either allow workers to choose the option of receiving a higher wage or a lower wage with benefits—or that pay the lower living wage plus a contribution to health insurance.

**Table 5.1: Means of Compliance with the Living Wage Ordinance Weighted by Firms and Workers Employed at Living Wage Firms**

|                                      | Percentage of Affected Firms | Percentage of Covered Jobs in Affected Firms† |
|--------------------------------------|------------------------------|---|
| Higher wage                          | 73%                          | 46%   |
| Lower wage plus benefits             | 16%                          | 45%   |
| Employees can choose                 | 10%                          | 6%  |
| Some receive lower wage, some higher | 1%                           | 1%  |
| Other                                | <1%                          | 1%  |
|                                      | 100                          | 100   |

Source: Living Wage Employer Survey  
N=82

Note: The margin of error ranges from  $\pm 2$  percent to  $\pm 11$  percent.

†The firm survey was weighted by the number of workers covered by the ordinance in order to derive these percentages. “Covered jobs at affected firms” refers jobs on living wage contracts at firms affected by the living wage ordinance.

Since many firms that comply by paying the higher living wage also offer health insurance, we wanted to see if their workers were, in fact, taking advantage of that insurance and how these workers’ insurance rates differed from workers employed at

<sup>73</sup> The margin of error is  $\pm 11$  percent.

firms paying the lower living wage.<sup>74</sup> For this analysis, we used data from the worker survey to analyze the self-reported insurance status of each worker. Almost three-quarters of workers<sup>75</sup> employed in firms that comply by paying the lower wage plus a contribution to health benefits are insured by their living wage employer compared to only 12 percent of workers in firms that pay the higher wage. (See Table 5-2). Workers employed in firms that pay the higher wage are more likely to be uninsured. Close to half of these workers report not having any health insurance while only 13 percent of workers in firms that pay the lower wage are uninsured.<sup>76</sup>

**Table 5.2: Worker Insurance Status by Employer Means of Compliance**

| <b>How workers are insured</b> | <b>Firm pays higher living wage</b> | <b>Firm pays lower living wage</b> |
|--------------------------------|-------------------------------------|------------------------------------|
| Living wage employer           | 12%                                 | 73%                                |
| Other private insurance†       | 30%                                 | 13%                                |
| Government                     | 12%                                 | 2%                                 |
| Not insured                    | 46%                                 | 13%                                |

Source: Worker Survey and Living Wage Employer Survey  
N=281

Note: The margin of error ranges from  $\pm 5$  to  $\pm 8$  percent. The difference in percentage of workers insured in firms paying the higher versus the lower wage is significant at a 0.01 level. Firms that comply with the ordinance in multiple ways were excluded from this analysis. The workers, in this case, are limited “affected workers”—those affected by the mandated raise provisions of the ordinance.

†Other private insurance includes the worker’s other employer, spouse’s or domestic partner’s employer, parent’s insurance or self-insured.

### **Effect of the Living Wage Ordinance on Provision of Health Benefits**

Although one quarter of firms comply with the ordinance by allowing some or all of their employees to opt for health insurance, the Living Wage Ordinance, on its own, has not significantly increased the number of firms offering health insurance to low wage workers. Only one firm moved from not offering health insurance to their low wage employees to offering them benefits because of the Living Wage Ordinance. A non-union janitorial firm chose to pay the lower minimum and provide a \$1.25 contribution to health insurance for its 16 living wage employees who received mandatory raises.

A control group analysis of firms with similar characteristics and in similar industries as the Living Wage firms bolsters the finding that the health insurance differential did not induce firms to provide health insurance to their low wage workers. (See Table 5-3.) A group of Los Angeles County firms that are in the same industries and that employ low-

<sup>74</sup> Some higher wage firms that offer health insurance also contribute to the insurance premium while others do not.

<sup>75</sup> In this case, we are referring to “affected workers”—that is workers affected by the mandated raise provisions of the living wage ordinance.

<sup>76</sup> The margin of error is  $\pm 6$  percent.

wage workers but are not covered by the ordinance were asked about whether they currently provide employer-paid health benefits to their low wage workers and whether those benefits were provided two years prior. (See Fairris 2005.) Establishments at LAX were excluded from the Living Wage Employer survey for the comparison with the control group since the Survey of Diversity in Human Resource Practices (SDHRP) did not include comparable firms to those at the airport. The results of the SDHRP were then compared to the changes in the provision of benefits that occurred after firms became subject to the LWO. (Living wage affected employers were also asked a longer set of questions about the provision of health benefits before and after becoming subject to the ordinance.) Both surveys found no significant change in the provision of employer-paid health insurance benefits over time, suggesting that the tax savings provided by the \$1.25 differential is not a sufficient incentive to induce firms to initiate health coverage.

Interestingly, the Living Wage affected firms were about twice as likely to provide employer-paid benefits to their workers as the control group firms. About 49 percent of affected firms provide employer-paid health insurance to their workers on living wage contracts, compared to 24 percent of the control group firms who offer those benefits to their employees. The difference between living wage and non-living wage firms diminishes slightly in a multiple regression analysis that controls for establishment size, union status, industry grouping, and other factors, but remains substantial and significant.<sup>77</sup> Consequently, living wage affected firms appear to be a distinctive group of firms that are much more likely to provide employer-paid health insurance than non-living wage firms, although the ordinance did not significantly contribute to the difference.

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<sup>77</sup> The regression analysis also controlled for non-profit status and whether the firm was a subsidiary of larger firm.

**Table 5.3: Provision of Employer-Paid Health Benefits to Low Wage Workers by Living Wage Affected and Non-Living Wage Firms Over Time**

|   | Non-Airport Living Affected Wage Firms<br>(Std. Dev.) | Non-Living Wage Firms<br>(Std. Dev.) |
|---|---|--------------------------------------|
| Firms Currently Providing Employer-Paid Health Benefits to Low Wage Workers | 49%<br>(0.51)   | 24%<br>(0.43)                        |
| Firms Providing Employer-Paid Benefits Before to Low Wage Workers           | 44%<br>(0.50)   | 23%<br>(0.42)                        |
| N   | 45  | 136                                  |

Source: Living Wage Employer Survey and Survey of Diversity in Human Resource Practices (SDHRP)  
 Note: The Survey of Diversity in Human Resources did not include employers who operate at an airport. Consequently, airport firms were excluded from the Living Wage Employer Survey for the purpose of this comparison. The difference in the provision of health benefits between living wage and SDHRP firms is statistically significant at the 0.05 level. The margin of error for this table ranges from  $\pm 7$  percent to  $\pm 15$  percent.

Although only one firm began offering health insurance due to the Living Wage Ordinance, another six firms made improvements to their benefits. Several firms made benefits available to more employees than had access before, and several firms increased their contributions to their employee benefit plans. (See Table 5-4.) The firms that improved the value of their benefits made the following changes:

- Two of the companies that increased their contribution to benefits were non-union security firms. They reported paying the lower wage plus a contribution toward health benefits in order to save money on payroll taxes. One of the two firms provides an individual plan that costs exactly \$1.50 per hour for each employee. The health benefits fluctuate depending on the hours employees work so that if an employee misses a few days of work benefits are reduced accordingly. At the other firm, management reported lower workers' compensation expenses and improved worker retention as a result of providing health benefits that cost them \$1.25 per hour for each affected employee.
- A unionized food service firm increased the value of benefits for its living wage employees as part of its contract negotiations.
- A social service organization extended its health insurance to part-time workers in response to the ordinance.
- A unionized concession firm at the airport that paid 75 percent of its employees' health benefits prior to the living wage began covering the full cost of healthcare after the implementation of the ordinance, and as part of a collective bargaining agreement.
- A unionized parking firm extended its health benefit plan to part-time workers.



Not all firms that made changes to their plans reported improvements. In two instances, firms said that they reduced the value of their benefits in response to the ordinance. The firms that reduced the value of their benefits made the following changes:

- One firm pays the higher minimum for three months after hiring an employee, and then gives workers the choice of continuing to receive the higher minimum or receiving a lower wage with benefits. A manager said most workers chose the higher wage, but he added that the cost of complying with the ordinance prompted him to lower his contribution to health benefits, thus decreasing the quality of the firm’s plan.
- A non-profit social service provider did not increase its health plan contribution (in order to keep up with the rising costs) as much as it otherwise would have.

Overall, a relatively small percentage of firms (7 percent) either added or improved their benefits. But a slightly larger percentage of covered workers in affected firms stood to benefit from those changes, as larger firms tended to make changes to their plans. A total of 2,236 workers—or 17 percent of covered workers in affected firms—benefited from positive changes to their benefit plans while 140 workers (1 percent of covered workers) experienced a reduction in benefits. Sometimes the improvements only affected workers who received raises due to the ordinance while other times it affected all workers covered by the law. For example, two union firms increased the value of benefits for all workers covered by the law as part of contract negotiations. (See Table 5-4.)

**Table 5.4: Employer Changes to the Provision of Health Benefits Due to the Living Wage Ordinance**

|                                   | Percentage of Affected Firms | Percentage of Covered Jobs in Affected Firms <sup>†</sup> |
|-----------------------------------|------------------------------|---|
| Health benefits remained the same | 91%                          | 82%   |
| Improved or added health benefits | 7%                           | 17%   |
| Reduced health benefits           | 2%                           | 1%  |
| Total                             | 100%                         | 100%  |

Source: Living Wage Employer Survey  
N=72

Note: A union firm that paid some workers below living wage with no contribution to health benefits and others above the living wage with a contribution to health benefits was excluded from this analysis. The margin of error for this table ranges from ± 3 percent to ± 11 percent. “Covered jobs at affected firms” refers jobs on living wage contracts at firms affected by the living wage ordinance.

<sup>†</sup>For this analysis, we determined the number of covered workers within each firm that experienced improvements or reductions in their firms’ health benefits.

We might expect firms paying a lower wage with a contribution to health insurance to be the ones to make changes to their health plans. Since they are contributing to health insurance as a means of complying with the law, they might have an incentive to improve their plan in order to meet the \$1.25 per hour requirement. Indeed, firms that comply with the ordinance by making a contribution to health benefits for some or all of their

employees are significantly more likely to have improved their health plans than those that complied by paying the higher wage.<sup>78</sup> Only one firm that pays the higher living wage made improvements--a unionized company located at LAX that faced the additional pressure of contract negotiations.

### ***Worker Experience of Benefits Before and After the Living Wage***

We examined the worker survey to evaluate whether the changes firms reported making influenced rates of insurance. Each worker gave details about what type of insurance they and their family members had, and whether they were insured through their employer prior to the Living Wage Ordinance. Overall, 21 percent of affected workers moved from *not having* insurance through their employer to *having* insurance through their living wage employer. Given the above findings, it is probably less the living wage ordinance than the city contract effect that accounts for these results. Most workers who acquired employer-paid benefits (70 percent) were hired after the ordinance went into effect at their firm. These new workers likely received benefits they did not possess before by virtue of joining the city service contract sector. About 30 percent of workers who moved from not having insurance through their employer to having insurance from their living wage employer were hired before the ordinance went into effect. However, it is difficult to attribute all of this movement to the Living Wage Ordinance. A closer examination of the data reveals that these workers were not concentrated in firms that reported making positive changes to their health plans. In addition, the survey question did not capture all the possible scenarios that might account for why workers would move from not having insurance through their employer to receiving insurance from the Living Wage employer. For example, they may have sought insurance from their living wage employer after their spouse lost access to family insurance because she lost her job. In that case, the change in insurance status resulted from a change within the worker's family, not the living wage ordinance.

### **Access to Affordable Health Care**

There are several ways to evaluate the extent to which affected workers and their families have access to affordable health care. Through the worker and employer survey, we examine the following measures:

1. Offer rates: The rate at which the firms they work for offer health insurance to their living wage employees.
2. Participation rates: The extent to which living wage workers participate in their company's health insurance plan.
3. Cost to the employee: The cost of the plan is measured in terms of employee contributions to insurance premiums.

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<sup>78</sup> The difference between higher wage and lower wage firm was statistically significant at the 0.001 level.

## Offer Rates

Affected firms were much more likely to offer health insurance than other similar employers, according to most measures used. However, living wage firms are much less likely to offer health insurance than the City, which provides fully family health insurance to most direct employees. So as to be able to use comparative data, we analyzed offer rates in three different ways:

1. The rate at which affected firms offer employer-paid health insurance to low wage workers was compared to the offer rate of a control group of non-living wage firms in Table 5-3 above.
2. The rate at which affected firms offer health insurance (regardless of subsidy) to low wage workers was examined in Table 5-5 to give a fuller picture of the behavior of living wage firms.
3. The percentage of affected firms offering health insurance to any workers permits a comparison to national data on low wage employers.

The control group analysis, discussed above, revealed that affected firms are twice as likely to offer employer-paid health insurance to their low wage employees as non-living wage firms in similar industries.<sup>79</sup> Affected firms were also asked whether they offered any health insurance—whether employer-paid or not—to their low-wage workers. Some 62 percent of all affected employers said they offer health insurance to their low wage workers. More than half of the affected firms offer family health insurance to their living wage workers, while 11 percent of firms offer only individual health plans.<sup>80</sup> However, a greater proportion of workers than firms appear to be impacted by these policies. Three quarters of covered workers in affected firms are employed at firms that offer some form of health insurance plan to living wage workers. (See Table 5-5.)

In order to compare living wage firms' offer rates to national survey data, we looked at what proportion of firms offer health insurance to any employee. An estimated 79 percent of affected employers offer health insurance (some of it employer-paid) to at least some employees. Nationally, an estimated 52 percent of low wage employers offer health insurance to at least some of their employees (Henry J. Kaiser Family Foundation et al. 2002).<sup>81</sup>

While living wage firms appear to provide more generous health insurance benefits than other firms, they do not compare favorably with the City of Los Angeles, which might otherwise employ contract workers. All city employees are eligible for full family health insurance (or an in-lieu cash payment for those who decline) provided they work more than 20 hours in a two-week period.<sup>82</sup>

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<sup>79</sup> The control group comparison did not include living wage firms at LAX. The other offer rates discussed in this section include all firms interviewed.

<sup>80</sup> The margin of error is  $\pm 11$  percent.

<sup>81</sup> Low-wage employers are defined as firms where at least 35 percent of employees earn less than \$20,000 per year.

<sup>82</sup> Employee Benefits Division, Personnel Department, City of Los Angeles, June 17, 2004.

**Table 5.5: Rate at which Affected Firms Offer Health Insurance (Weighted by Firm and Covered Workers in Affected Firms)**

|  | Percent of Affected Firms | Percent of Covered Workers in Affected Firms |
|--|---------------------------|--|
| Offers health insurance to low wage workers†                   | 62%                       | 74%  |
| Offers only individual health insurance to Living Wage workers | 11%                       | 5%   |
| Offers family health insurance to Living Wage workers          | 51%                       | 69%  |
| No health insurance offered                                    | 38%                       | 26%  |

Source: Living Wage Employer Survey (weighted by firm and workers employed at those firms) N=79

Note: The margin of error for this table ranges from  $\pm 5$  percent to  $\pm 12$  percent. The table includes any firm that offers health insurance whether or not it is subsidized.

### Participation Rates

Living wage affected workers appeared to be marginally more likely to have employer-based health insurance than other low wage workers in Los Angeles County, according to the Worker Survey. Their children appear to be much more likely than poor children in the county to have employer-based insurance. However, a sizable minority of affected workers and their families lack health insurance. Thirty-five percent of workers are uninsured or have a family member who lacks health insurance.

Individual insurance: Although three-quarters of workers are employed in firms that offer health insurance to their low wage employees, a much smaller percentage of workers actually make use of it, according to the worker survey. An estimated 41 percent of affected workers interviewed reported that they received health coverage through an employer subject to the living wage ordinance. Another 18 percent are covered by job-based insurance from a non-living wage employer, either through their spouse, parent or another job. An estimated 31 percent are uninsured, and 7 percent are on Medi-Cal. (See Table 5-6).

About 69 percent of affected workers have some sort of health coverage, while the remaining 31 percent are uninsured. This rate compares somewhat favorably to the insurance rate among low-wage workers in Los Angeles County, where 61 percent reported having some sort of health insurance in 1999. About 59 percent of workers had *job-based* health coverage, compared to 52 percent of low wage employees in Los Angeles County in 1999. (Pollin et al. 2000, Table 8.9).<sup>83</sup> As discussed earlier, the higher rate of insurance is likely due to the contractor effect, not to the living wage law.

<sup>83</sup> The insurance rates are for Los Angeles County workers who earned between \$7.41 to \$9.10 in 1999, a wage band that overlaps with the living wage rate at the time.

Another point of comparison is the rate at which employees make use of insurance that is offered to them. Sixty-nine percent of employees working in firms that offer health insurance to living wage workers report participating in their living wage employers' health insurance plan. This rate is statistically identical to what is found among low-wage workers in California, where 72% of eligible workers participated in their employers' health plan, according to a UCLA study. (Brown 2002, Exhibit 17).

Spousal Insurance: About 40 percent of affected workers say they are married or living with a domestic partner. Of those, about 21 percent say their spouses or domestic partners received insurance through a living wage affected employer.

Dependent insurance: Thirty-nine percent of those interviewed have children under the age of 18. Fifteen percent of the children of affected workers are uninsured, 18 percent receive health insurance through their parent's living wage affected employer, 43 percent receive health insurance through any employer, and 39 percent receive health insurance through a government program, either Medi-Cal or Healthy Families.

**Table 5.6: Sources of Health Insurance for Living Wage Affected Workers and Their Families**

|                                   | Respondent | Spouse/Partner | Children (under 18) |
|-----------------------------------|------------|----------------|---------------------|
| Uninsured                         | 31%        | 23%            | 15%                 |
| Employment Based Insurance Source |            |                |                     |
| Living Wage Employer              | 41%        | 21%            | 18%                 |
| Other employer†                   | 18%        | 42%            | 25%                 |
| Individually purchased insurance  | 3%         | 3%             | 2%                  |
| Public Health Insurance           |            |                |                     |
| Medi-Cal                          | 7%         | 8%             | 26%                 |
| Healthy Families                  | 0%         | 0%             | 13%                 |
| Other††                           | <1%        | 3%             | 0%                  |
| TOTAL                             | 100        | 100%           | 100%                |
| N                                 | 314        | 86             | 223                 |
| Margin of Error                   | ±2% to ±5% | ±4% to ±10%    | ±2% to ±6%          |

Source: Worker Survey

†Other employer includes employer for workers with more than one job, spouse’s employer, and parents’ employer.

††Includes the Medicare HMO Secure Horizons, National Guard, Veterans Benefits, GI Bill.

### *Consequences of Being Uninsured*

A total of 35 percent of affected workers are uninsured or have a family member who is uninsured.<sup>84</sup> The health problems for which uninsured workers or their uninsured family members needed medical attention ranged from common infections and the flu to more serious problems like pneumonia, diabetes, a hernia, and a brain aneurysm. Lack of insurance also prevented workers from visiting the dentist for toothaches, the optometrist for glasses, and from seeking medical attention for injuries.

Workers with more serious health problems explained that they ultimately were forced to seek medical attention after some delay. But their lack of insurance meant that these workers incurred a significant expense, particularly those who sought treatment at a hospital emergency room. Other workers found different ways to treat their medical problems. Some sought cheaper care in Mexico or at a medical clinic, while others

<sup>84</sup> The margin of error is ± 6 percent.

simply used home remedies. Some of the stories workers told about the consequences of being uninsured included:

- A worker was hit in the head with a rock and went into debt for a \$3,000 CAT scan. Since he first visited the hospital he has continued to have pain but has not sought further medical attention because he cannot afford it.
- A worker had bone spurs in her foot but could not afford the MRI or yearly medical check-ups to resolve the problem.
- A worker had a bad stomach infection and ultimately paid \$1,300 out of pocket for care and missed three weeks of work to recover.
- A worker's husband has needed to use a colostomy bag for many years, but without insurance to cover the expenses involved, the couple spends about \$6,000 a year out of pocket.

### **Cost to the Employee**

Living wage affected firms require lower employee contributions to health insurance premiums than other California employers, but those premiums may still be too high for many workers. The Living Wage Employer Survey asked firms what employees are required to contribute to health insurance premiums in order to participate in the company's least expensive health plan. In order to understand the costs faced by living wage workers, we weighted the results by the number of covered workers at each firm.

On average, covered workers in affected firms who are offered health insurance are required to pay a monthly premium of \$22 for individual insurance. This is somewhat lower than the \$29 per month average that all employees in California pay for individual coverage. The \$79 average premium that covered workers in affected firms pay for family coverage is substantially lower than the \$153 per month that California workers pay on average for family coverage (The Henry J. Kaiser Family Foundation 2003, Chart 11).<sup>85</sup>

Because the monthly contribution is the largest cost burden and there is such a wide spread in payments--from \$0 to \$185 for individual plans and \$0 to \$577 for family—we decided to examine this variable more closely. Table 5-7 displays the average monthly employee contributions divided into quintiles for firms offering individual and family health care. Over half of the workers (58 percent) have access to free individual plans while 80 percent have access to plans for \$55 per month or less. Twenty percent of workers work for firms whose individual plans require monthly contributions between \$56 and \$185 per month.

Likewise, over half of the workers (56 percent) have access to family plans that require no monthly employee contribution. However, 40 percent of workers are employed by

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<sup>85</sup> California premiums for 2002 were used to make the data comparable to the Worker Survey data.

firms that require monthly contributions of at least \$68 to participate, and 20 percent have access to family plans costing between \$153 and \$577 per month.

The size of the required employee contribution to health insurance is negatively correlated with whether a worker has insurance through his or her living wage employer, suggesting that cost is, indeed an obstacle for many living wage workers wishing to obtain health insurance.<sup>86</sup> In other words, the more a worker is required to contribute to health insurance costs the less likely she is to have coverage through her living wage employer.

**Table 5.7: Workers' Contribution to Monthly Premiums by Quintile**

| Quintile† | Monthly Contributions |        |
|-----------|-----------------------|--------|
|           | Individual            | Family |
| 20        | \$0                   | \$0    |
| 40        | \$0                   | \$0    |
| 60        | \$28                  | \$68   |
| 80        | \$55                  | \$152  |
| 100       | \$185                 | \$577  |

Source: Employer Survey (Weighted by Covered Workers in Affected Firms) N=60, column 1 and N=45, column 2

†Contribution at which x% of workers pay less and (100-x)% pay more.

### **Obstacles to Providing Affordable Health Care**

Considering that most firms comply with the living wage ordinance by paying the higher minimum, it is likely that firms face obstacles to providing their low wage employees with affordable health insurance. We examined obstacles faced by two overlapping groups of firms: 1) those firms that comply with the Living Wage Ordinance by paying the higher wage. (Some of these higher wage firms offer health insurance to their living wage employees and some do not), and 2) those firms that do not offer health insurance to low wage employees.

As mentioned above, 73 percent of affected firms comply with the ordinance by paying the higher living wage. Over a third of these firms reported that their employees prefer this option to a lower wage plus benefits. Managers at some higher wage firms, for example, say few of their workers would actually take advantage of the plan if offered one so providing health care is not cost-effective for the employer. Other respondents said they could only provide individual health insurance for the required \$1.25 per hour contribution, but their workers prefer a family health plan. When faced with the decision between individual health care or a higher wage, they said their workers chose the latter. Another obstacle to providing benefits is the difficulty and cost of administering a health plan, cited by about one-third of employers who pay the higher wage.

<sup>86</sup> The two variables have a moderate degree of negative correlation. (The correlation is -0.478 and is significant at the 0.01 level.) The data for this analysis comes from the Living Wage Employer Survey and the Worker Survey.



Affordability is a barrier for about a quarter of higher-wage firms whose managers say they have been unable to find a low-cost health care plan that enables them to comply with the ordinance. Finally, a few respondents report that they offered employees health insurance prior to the ordinance, but that their hourly contribution to the plan failed to satisfy the ordinance requirements. These respondents may have misunderstood the provisions of the ordinance that allow firms to pay a premium that is lower than \$1.25 provided they make up the difference and give employees the option to opt for the higher wage. (See Table 5-8.)

**Table 5.8: Obstacles to Providing Affordable Health Insurance**

|  |   |
|--|---|
| Firms that Comply with the LWO by Paying the Higher Wage†          |   |
| <i>Why do firms pay the higher living wage rate?</i>               | <ul style="list-style-type: none"> <li>— Employees prefer higher wage (34%)</li> <li>— Higher wage is easier to administer (31%)</li> <li>— A low-cost health plan is hard to find (24%)</li> </ul> |
| N=57   |   |
| Firms that Do Not Offer Any Health Benefits to Living Wage Workers |   |
| <i>Why don't firms offer health insurance to covered workers?</i>  | <ul style="list-style-type: none"> <li>— Too expensive (62%)</li> <li>— Firms can't compete with other contractors (23%)</li> <li>— Administrative burden (18%)</li> </ul>                          |
| N=23   |   |

Source: Living Wage Employer Survey

Note: Percents do not add to 100 percent because respondent could provide more than one answer.

†Some higher wage firms offer health insurance to their living wage employees and some do not.

About 38 percent of affected firms do not offer health insurance to their covered employees. Of these, 62 percent say that health insurance is simply too expensive to provide. Related to cost, just under a quarter of the employers feel that their company cannot remain competitive with other contractors if it contributes to worker health insurance plans. Another significant proportion of firms (18%) reports that offering health insurance poses too much of an administrative burden on the firm.

Other reasons respondents cite for not offering health benefits have to do with the particular characteristics of their labor force. For example, some companies employ a significant proportion of part-time or seasonal workers who never become eligible for the firms' health plan. Others claim that high employee turnover makes it too costly to provide health insurance. One firm, for instance, reports that many of its workers return to Mexico for a few months out of the year. Since the workforce is constantly changing, offering health care is not cost-effective for the firm.

State and national employer surveys have identified firm size as a significant predictor of whether a firm offers health insurance. Nearly all large California employers (with 200 or more employees) offered health insurance to their employees in 2003, while only 59 percent of the smallest businesses do (those with 3 to 9 employees). (The Henry J. Kaiser

Family Foundation et al. 2003, Chart 11).<sup>87</sup> Nationally, 61 percent of small firms offered health insurance in 2002 compared to 99 percent of large firms. (The Henry J. Kaiser Family Foundation et al 2002, Exhibit 2.1).<sup>88</sup> What these national surveys do not reveal is how many firms that offer health insurance extend it to their low-wage employees. Our sample did not reveal any trends with regard to establishment size. We uncovered cases where small businesses faced obstacles to providing affordable health insurance to low-wage employees, and also some very large employers that did not offer health insurance to their low-wage employees.

For example, a minority-owned firm with ten employees on its living wage contract had offered a Kaiser health plan previously but stopped because employees were unwilling to pay a co-premium. Likewise, a family-owned landscape maintenance firm that employs nine people pays higher wages because it is easier to administer, less costly to the firm, and, according to managers, preferred by the employees. On the other hand, a very large firm with 2,500 employees in LA County does not offer health insurance to its low-paid janitors due to cost considerations and a desire to be the lowest bidder. In addition, a large company that caters to entertainment venues does not offer health insurance to its 80 employees because they are temporary, seasonal workers.

### **Firm Characteristics**

We would expect certain firms to be more likely to offer affordable health insurance to their employees than others. For example, smaller firms tend to face greater cost burdens than larger firms, and therefore are likely to require larger employee contributions than other firms. Unions generally negotiate with employers for more generous health plans, and so we would expect more union workers to be insured. We conducted a multiple regression analysis in order to isolate the factors that contribute to a firms' provision of health insurance. The analysis is limited by the small number of firms interviewed. Nevertheless, we make some significant findings.

#### *Proportion of Living Wage Workers*

The greater the proportion of affected workers at the establishment, the less likely a firm is to offer health insurance to their low wage workers when other factors, including industry group, number of employees, and union status, are held constant. In addition, the greater the proportion of affected workers, the higher the monthly co-payment is for individual insurance.<sup>89</sup> Indeed, when discussing obstacles to providing health insurance, firms with large proportions of affected workers were more likely to complain of high costs than other firms.<sup>90</sup>

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<sup>87</sup> California premiums for 2002 were used to make the data comparable to the Worker Survey data.

<sup>88</sup> Small firms are defined as firms with less than 200 employees.

<sup>89</sup> Proportion of affected workers is significant at a 0.01 level.

<sup>90</sup> On the other hand, those firms with few affected workers that did not offer health insurance typically complained of the administrative burden of providing health insurance for only a handful of employees.

## *Union Status*

Three-quarters of union firms interviewed offer health insurance to their low wage workers compared to 59 percent of non-union firms.<sup>91</sup> However, in a multiple regression analysis that controls for other factors, union firms are not significantly more likely to offer health insurance to their low-wage workers, nor are low-wage workers at unionized establishments significantly more likely to be insured. However, the odds of having a family member insured by a living wage employer was six times greater for workers in unionized establishments than for workers in non-union establishment, when other factors are held constant. Not surprisingly, among firms that offer insurance, union firms require lower than average contributions to family health insurance than non-union firms. The required monthly contribution to participate in family health insurance is \$126 less on average than for non-union workers when other factors are held constant.<sup>92</sup> There were three union firms that did not offer health benefits to their low wage employees: two firms whose workers only recently unionized and a firm represented by an independent union not affiliated with the AFL-CIO. Nationally, union firms are 61 percent more likely to offer health benefits than non-union firms. (The Henry J. Kaiser Family Foundation 2002, Exhibit 2.3).

### **Is \$1.25 Per Hour Enough?**

The health insurance differential was set in 1997 with the passage of the Los Angeles Living Wage Ordinance. From 1999 through 2002, the cost of health insurance premiums grew at an average annual rate of 9 percent, compared to 3 percent for overall inflation. (The Henry J. Kaiser Family Foundation 2002).<sup>93</sup> If the health differential had kept pace with rising health insurance costs, it would have equaled \$2.02 in 2003. Consequently, it is also useful to look at whether \$1.25 per hour could purchase the average job-based individual health insurance plan, estimated at \$259 per month by a 2003 survey of California firms. (The Henry J. Kaiser Family Foundation 2003, Chart 11). Using this figure, an employer would need to dedicate \$1.49 per hour toward health insurance in order to fully cover the premium for a full time worker. (See Table 5-9.) The employer would need to pay an estimated \$4.09 per hour to cover that same worker with family insurance. Living wage workers work 35 hours per week on average, indicating the hourly cost to the employer would be higher for some living wage workers.

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<sup>91</sup> Because of the small number of union firms interviewed, the margin of error is  $\pm 25$  percent.

<sup>92</sup> Union status is significant at the 0.1 level.

<sup>93</sup> Data from Exhibit 1.2 were used to calculate the annual rate of growth. Data on premium increases reflect the cost of health insurance premiums for a family of four.

**Table 5.9: Average Premium Costs in California, 2003**

|                             | Average Annual Premium | Average Monthly Premium | Average Hourly Premium for Full Time Worker |
|-----------------------------|------------------------|-------------------------|---|
| Individual health insurance | \$3,102                | \$259                   | 1.49  |
| Family health insurance     | \$8,504                | \$709                   | 4.09  |

Source: The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, California Employer Health Benefits Survey, 2003, Chart 11.

Note: Table shows worker and employer contributions combined.

In 2002, the California state legislature passed Assembly Bill 2178 in order to make it easier for living wage employers to purchase low-cost health insurance. The bill expanded the definition of small employer to including living wage firms, and thereby made them eligible to purchase health insurance in the small group market, regardless of how many employees the firm has. A health insurance broker is currently marketing a plan that costs \$1.25 per hour for certain living wage employers. The plan is suitable for about three-quarters of living wage employers, in particular firms with more than six employees and without a preponderance of older workers. But the basic plan has a cap on the number of doctor visits patients are allowed before they must satisfy a deductible, and could require a large out-of-pocket expense if the worker is hospitalized.<sup>94</sup>

### ***Worker Attitudes toward Health Insurance***

Survey results show that most workers would be willing to trade some of their wages in order to have affordable health benefits. Fifty-eight percent of workers who are paid the higher wage report that they would be willing to have their wages reduced by \$1.25 per hour in order to gain access to an employer-sponsored individual health plan at no cost to them. A third of workers who currently earn the higher wage would be willing to take a \$2.50 per hour pay cut if it meant their employer would offer them free family health insurance. Conversely, over three-quarters of workers who are paid the lower wage plus health benefits would *not* give up their access to employer-provided health care for a \$1.25 per hour wage increase. It is important to note that the actual cost of individual health insurance is, on average, greater than the \$1.25 health differential. The same point can be made about the cost of family health insurance. As shown in Table 5-9, the average hourly premium for a full time worker in California is \$1.49 for individual health insurance and \$4.09 for family health insurance. Still, these low wage workers' willingness to sacrifice pay for health insurance is notable.

<sup>94</sup> Telephone Communication with George Park, Jr., Chairman and CEO of Park Family Insurance, June 22, 2004.

**Table 5.10: Worker Attitudes Toward Health Insurance**

|  |
|--|
| <p><b>Receives Higher Tier Living Wage Rate:</b></p> <ul style="list-style-type: none"><li>• 58% would take a \$1.25 pay cut to have no-cost individual health insurance</li><li>• 33% would take a \$2.50 pay cut to have no-cost family health insurance</li></ul> |
| <p><b>Receives Lower Tier Living Wage Rate:</b></p> <ul style="list-style-type: none"><li>• 75% would not give up their access to health insurance for a \$1.25 wage increase</li></ul>  |

Source: Worker Survey

N=176 (high wage workers) and 128 (low wage workers)

The margin of error for this table ranges from  $\pm 7$  percent to  $\pm 8$  percent.

A sizable minority of workers (23 percent) had been given the option of receiving a lower wage and health insurance and yet had chosen not to accept it. Twenty-nine percent of these workers decided not to participate in the plan because it was either unaffordable or of poor quality. Several workers, for example, did not believe it was worth it to accept a lower wage in exchange for a health plan that required a significant worker contribution. Another significant proportion of these workers (28%) chose not to participate because they needed the higher wage for other expenses. Only a small group of these workers (13%) declined to participate because they already were covered by another insurance plan through a family member or the government.

## Conclusions

The Living Wage Ordinance had a small but measurable impact on firm behavior, resulting in improvements in health insurance plans for about 2,236 jobs and benefit reductions for about 140 jobs. The ordinance did not induce firms to move from not offering employer-paid health insurance to their low wage workers to offering this benefit. But overall, a small percentage of firms (7 percent) made positive changes to their existing health plans—from increasing their employer’s contribution to health benefits to expanding benefits to cover part time workers. The two percent of firms that cut benefits said they decreased the value of the benefits paid to living wage workers. Firms that comply with the ordinance by making a contribution to health benefits are significantly more likely to have improved their benefits upon becoming subject to the law than those that choose to pay the higher wage, suggesting that the health differential was, indeed, the impetus for the change.

Overall, firms affected by the Living Wage Ordinance are about twice as likely to provide employer-paid health insurance to affected workers than low wage employers in the same industries that are not covered by the law. But the difference is most likely to due to the distinctive characteristics of the contract sector, not the living wage law. Living wage affected workers, on the other hand, are only marginally more likely to be covered by employer-provided health insurance than other low-wage workers in Los Angeles County. In any case, a sizable number of workers remain without insurance. More than one-third of workers are uninsured or have a family member who is uninsured. An estimated 15 percent of workers’ children are uninsured, while 39 percent rely on

public insurance. Furthermore, living wage workers experience much lower rates of insurance than city employees, most of whom have access to full family health insurance.

Most firms (73 percent) comply with the ordinance by paying the higher wage, suggesting that there are obstacles to providing affordable health insurance to their living wage employees.<sup>95</sup> The most common reason firms cite for not paying the lower wage is that employees prefer the higher wage. However, if employers were able to offer health benefits at no cost to workers, survey results show that most workers would prefer benefits over a higher wage. Nearly 60 percent of higher wage workers said they would take a \$1.25 per hour pay cut in exchange for free individual benefits, while three out of four of workers receiving the lower wage say they would not give up their benefits for a \$1.25 per hour increase.

Consequently, the real barrier to getting firms to opt for the lower wage appears to be the challenge of finding a plan that costs them \$1.25 per hour and the difficulty of administering the plan. The health differential—which has stayed constant as health care costs have increased—is lower than the average cost of employer-paid health benefits for a full-time worker, which was \$1.49 hour in California in 2003. Family coverage is even more costly, averaging \$4.09 per worker per hour. Unionized living wage companies have demonstrated the greatest success in providing affordable family coverage for their workers.

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<sup>95</sup> Firms at the San Francisco airport responded somewhat differently to that city's living wage law. About 70 percent complied by paying the lower wage plus health insurance compared to only 16 percent in Los Angeles. However, it appears that the labor market conditions—and not San Francisco's Quality Standards Program—explain the San Francisco-based establishments' decision to comply by paying the lower wage plus benefits. See Reich et al. 2003: 42-3.

## Chapter 6 : Impact on Workers and Their Families

In Chapter 4, we found that pay for the average living wage affected worker we surveyed increased by \$1,295 per year.<sup>96</sup> In this chapter, we explore the impact this raise had on those workers and their families. We also examine the impact of the pay increase on the tax burden and the eligibility for government programs of three prototypical workers. The prototypes are based on the most common family types we found among affected workers. In addition, we asked how the lives of affected workers and their families have actually changed since the living wage ordinance—from their leisure time to their household expenditures. Workers lives may change due to factors other than the living wage. Whenever possible, we use multiple regression analyses to relate the changes they experienced (since becoming subject to the ordinance) more directly to increases in their wages. We also explore the question of whether the living wage provides workers with enough income to meet their basic needs. Finally, in this chapter, we discuss a byproduct of the living wage ordinance that is not captured by the Living Wage Worker Survey—the city’s decision to contract in about 400 jobs after the law was enacted in 1997, which allowed the workers to retain their jobs and become city employees. Interviews with union and city officials suggest that the Living Wage Ordinance contributed to the City’s decision to transform some private sector city contract jobs into better-paying city jobs.

This chapter relies primarily on the Living Wage Worker Survey. In addition, we use data on low-wage workers and their families from the Current Population Survey, a joint project of the Census and the U.S. Bureau of Labor Statistics to estimate family income, and from the Census Bureau’s Survey of Income and Program Participation.

### Impact of Living Wage on Prototypical Affected Families

An increase in wages can also mean higher taxes and reduced eligibility for government programs, like the Earned Income Tax Credit (EITC) or Food Stamps. The amount of taxes affected workers pay before and after the living wage depends on their family type and their family income. We developed three prototypical affected families, based on our survey data on living-wage-affected workers: a single worker, a two parent family with two income earners and two children, and a single parent family with two children. These family types account for 68 percent of all living wage affected workers. The single worker category excludes workers who are 21 or under and living with their parents, as some of these workers may still be supported by their parents.

In Table 6.1, we report the unique characteristics of each family, based on data from the Worker Survey and data on low-wage workers in L.A. County from the Current

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<sup>96</sup> This figure combines both wage increase for workers hired before the ordinance went into effect at their firm (the stayers) and the increase for those hired after (the joiners.) For the stayers, we compared their wages before they became subject to the ordinance to their “after” wages. Joiners were asked to compare pay at their living wage job to pay at their previous job. As discussed in Chapter 4, joiners received significantly lower pay increases than stayers.

Population Survey.<sup>97</sup> We indicate the average number of dependent children, the raise due to the living wage, hours worked per week, and annual income. For example, the worker in the two-parent family has two children, received a \$1.01 raise due to the Living Wage Ordinance, and works an average of 37 hours per week at his living wage job. According to CPS data, L.A. County low-wage workers in two-parent families with both parents working had an average family income of \$44,208.<sup>98</sup> Those with one parent working earned on average \$21,823. The prototypical worker comes from a dual income family because the partners of most living wage workers (72 percent) also work.

We find that living wage affected workers who are parents received a considerably greater boost in their average annual salary than single workers. In the case of single parents, the higher raise is related to the large proportion of women—94 percent of these workers are women (compared to 50 percent of single workers), and women in our sample received higher raises than men on average because they started at a lower wage on average.<sup>99</sup> In the case of workers from two-parent households, the difference between their average raise and that of single workers is related to the significantly greater proportion of workers in this group who are “stayers,” i.e. were hired before the living wage went into effect at their firm.<sup>100</sup> As discussed in Chapter 4, stayers received significantly higher raises than joiners—those hired after the ordinance went into effect at their firm.

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<sup>97</sup> For the analysis of family income, we used the Current Population Survey Annual Demographic Survey, 2002 and 2003. We selected all people in L.A. County who worked in the previous week and reported earning a wage between \$6.75 and \$12.00 per hour. We calculated family income based on the nuclear family, including only spouses and dependent children, and not other extended family members. This method best suited our analysis of the impact of the raise on taxes and public program eligibility, because taxes are likely to be based on the nuclear family, and many public programs determine eligibility based on the nuclear family.

<sup>98</sup> Seventy-two percent of living wage workers in two-parent families report that their spouse works.

<sup>99</sup> In a difference of means test, gender was significant at the 0.01 level. The gender difference did not appear to be due to different proportions of stayers and joiners among men and women. Comparable percentages of male and female workers are stayers and joiners.

<sup>100</sup> Single workers are significantly more likely to be joiners than workers from other family types (at the 0.01 level.)



**Table 6.1: Prototypical Living Wage Affected Families**

|  | Single worker <sup>101</sup> | Two Parent Family | Single Parent Family |
|--|------------------------------|-------------------|----------------------|
| Average number of children under 18                              | 0                            | 2                 | 2                    |
| Hourly raise   | \$0.45                       | \$1.01            | \$0.96               |
| Average hours of work per week at living wage job                | 36                           | 37                | 35                   |
| Percent of all living wage affected workers                      | 35%                          | 24%               | 16%                  |
|  |                              |                   |                      |
| Average annual family income for low-wage workers in L.A. County | \$17,028                     | \$44,208†         | \$17,702             |

Source: Data for all characteristics except family income are from the Living Wage Worker Survey. Family income data comes from the Economic Policy Institute's analysis of the Current Population Survey's Annual Demographic Survey, 2002 and 2003 combined.

†The family income figure is for couples with two working parents.

### Impact of Federal and State Taxes on Wage Gain

In Table 6.2, we see how the prototypical affected workers' annual incomes are affected by taxes.

- The *single worker* experiences a \$1,098 annual pay increase, bringing his family's total annual pay to \$18,126. His federal income taxes increase by \$165 while his FICA taxes rise by \$84 annually. He does not pay state income taxes, but increases his contribution to California disability insurance by \$10 annually. He does not qualify for either the child care credit or the EITC before or after the raise. His after-tax income increases by \$839 per year.
- The *worker from the two parent, dual income family*—like the single worker—sees an increase in FICA taxes and in state disability insurance due to the living wage raise. His after-tax pay increase comes to \$1,370.
- We see a similar pattern with the *single parent*, with FICA taxes and state disability insurance contributions increasing. But her federal income tax increase is offset by her ability to claim a higher federal child care credit. On the other hand, her Earned Income Tax Credit declines by \$347 annually due to the raise, and her total after-tax gain is \$1,190.

The analysis assumes that workers take advantage of the EITC and the child care tax credit. At least 22 percent of all workers, including 31 percent of single parents, 25 percent of workers in couples with children, and 25 percent of single workers, as we

<sup>101</sup> Single workers are defined as those who do not live with a spouse, domestic partner, or dependent children. They do not necessarily live alone, however. This group excludes workers who are 21 years old or younger who live with their parents.

define them, make use of EITC.<sup>102</sup> (See Table 6.3.) Studies estimate that about 75 percent of eligible tax filers participate in the program, with certain populations (like Latinos and families with more than two children) less likely to participate. (Stewart 2004, U.S. Department of Agriculture 2004, White 2001, and Phillips 2001). An eligible affected worker who did not make use of the EITC would experience a bigger gain from a pay increase—as they would have less to lose in the form of government transfer payments.

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<sup>102</sup> Thirty percent of workers said they did not know whether they had filed for the EITC on their last tax return. However, we included *all* workers (whether or not they knew they had filed for the EITC) in the denominator when calculating the proportion of workers who filed for the credit. Consequently, these proportions constitute an underestimate of the number of workers who had actually filed for the EITC. The margins of error is  $\pm 5$  percent.

**Table 6.2: Change in Earnings and Taxes Before and After the Living Wage for Prototypical Affected Families**

|    | Family Income                       | Single    |           |          | Two Parent |            |          | Single Parent |            |          |
|----|-------------------------------------|-----------|-----------|----------|------------|------------|----------|---------------|------------|----------|
|    |                                     | Before LW | After LW  | Change   | Before LW  | After LW   | Change   | Before LW     | After LW   | Change   |
| 1  | Worker annual earnings from lw job  | \$15,390  | \$16,488  | \$1,098  | 15,152     | \$17,020   | \$ 1,869 | \$13,528      | \$ 15,208  | \$ 1,680 |
| 2  | Gross Family Earnings               | \$17,028  | \$18,126  | \$1,098  | 44,208     | \$46,077   | \$ 1,869 | 17,702        | \$ 19,382  | \$ 1,680 |
| 3  | Federal income tax                  | (\$1,099) | (\$1,264) | \$ (165) | (3,056)    | \$ (3,319) | \$ (263) | \$ (181)      | \$ (348)   | \$ (167) |
| 4  | FICA tax                            | \$(1,303) | \$(1,387) | \$ (84)  | \$(3,382)  | \$(3,525)  | \$ (143) | \$1,354       | \$ (1,483) | \$ (129) |
| 5  | California state income tax         | \$ -      | \$ -      | \$ -     | \$ 858     | \$ 934     | \$ (76)  | \$ -          | \$ -       | \$ -     |
| 6  | State disability insurance          | \$ (153)  | \$ (163)  | \$ (10)  | \$ (398)   | \$ (415)   | \$ (17)  | \$ (159)      | \$ (174)   | \$ (15)  |
| 7  | After-tax earned income (2+3+4+5+6) | \$14,473  | \$15,312  | \$ 839   | \$38,230   | \$39,752   | \$ 1,370 | \$16,007      | \$ 17,377  | \$ 1,370 |
| 8  | Child Care Tax Credit               | \$ -      | \$ -      | \$ -     | \$1,008    | \$ 1,008   | \$ -     | \$ 181        | \$ 348     | \$ 167   |
| 9  | Earned Income Tax Credit            | \$ -      | \$ -      | \$ -     | \$ -       | \$ -       | \$ -     | \$ 3,254      | \$ 2,907   | \$ (347) |
| 10 | Disposable income (7+8+9)           | \$14,473  | \$15,312  | \$ 839   | \$39,238   | \$ 40,760  | \$ 1,370 | \$19,442      | \$ 20,632  | \$ 1,190 |

Source: Family prototypes were derived from the Living Wage Worker Survey. Income data comes from the Economic Policy Institute's analysis 2002 and 2003 Current Population Survey (Annual Demographic Survey). The analysis selected L.A. County residents who worked in the previous week and reported earning a wage between \$6.75 and \$12.00 per hour. Family income is based on the nuclear family, including only spouses and dependent children, and not other extended family members.

**Table 6.3: Living Wage Affected Worker Program Participation Rates by Family Type**

|                                  | <b>Couple with no kids under 18</b> | <b>Single, no kids under 18</b> | <b>Single parent</b> | <b>Two parents of children under 18</b> | <b>Total</b> |
|----------------------------------|-------------------------------------|---------------------------------|----------------------|---|--------------|
| Medi-Cal***                      | 9%                                  | 8%                              | 26%                  | 16%                                     | 12%          |
| National School Lunch Program*** | 0%                                  | 4%                              | 35%                  | 23%                                     | 13%          |
| Women, Infants, and Children***  | 2%                                  | 0%                              | 27%                  | 16%                                     | 8%           |
| Healthy Families***              | 2%                                  | 3%                              | 12%                  | 16%                                     | 7%           |
| Food Stamps**                    | 2%                                  | 0%                              | 6%                   | 1%                                      | 2%           |
| Section 8***                     | 0%                                  | 0%                              | 12%                  | 0%                                      | 2%           |
| Public Housing                   | 2%                                  | 0%                              | 6%                   | 4%                                      | 2%           |
| Welfare***                       | 0%                                  | 0%                              | 10%                  | 3%                                      | 2%           |
| EITC**                           | 13%                                 | 25%                             | 31%                  | 24%                                     | 22%          |

Source: Worker Survey  
N=320

Note: This table does not include columns for single workers under 23 who are living with their parents, although they are included in the total.

\*Family type is significant at the 0.1 level. \*\*Family type is significant at the 0.05 level. \*\*\*Family type is significant at the 0.01 level.

Overall, our prototypical affected workers retain between 71 and 76 percent of the wage increase after taxes. Table 6.4 sums up gains for the affected workers in our prototypical families and government savings from the increased taxes our prototypical workers pay. The single worker sees his pre-tax annual income rise by \$1,089. He retains 76 percent of that increase—or \$839. The government sees a \$259 annual increase in tax revenue, with the majority of that increase—\$249—going to the federal government in the form of higher FICA taxes and federal income taxes. A similar pattern holds true for the couple with two children, who retain 73 percent of the raise. The single parent retains a lower percentage—71 percent—of her living wage raise because she has the more to lose from reductions in her eligibility for the EITC than the other prototypical workers.

**Table 6.4: Annual Gains for Affected Workers and Government Due to Wage Increase**

|  | Single Worker | Two Parent | Single Parent |
|--|---------------|------------|---------------|
| <u>Worker Gains</u>  |               |            |               |
| 1 Pretax income increase   | \$ 1,089      | \$ 1,869   | \$ 1,680      |
| 2 After-tax income increase  | \$ 839        | \$ 1,370   | \$ 1,189      |
| 3 Income lost to higher taxes (1-2)                                      | \$ (259)      | \$ (499)   | \$ (491)      |
| 4 Percentage of living wage increase retained by workers (2/1)           | 76%           | 73%        | 71%           |
| <u>Federal Government Savings</u>  |               |            |               |
| 5 Federal Income Tax   | \$ 165        | \$ 263     | \$ 167        |
| 6 FICA   | \$ 84         | \$ 143     | \$ 129        |
| 7 EITC Savings   | \$ -          | \$ -       | \$ 347        |
| 8 Childcare Tax Credit Cost  | \$ -          | \$ -       | \$ (167)      |
| 9 Total (5+6+7+8)  | \$ 249        | \$ 406     | \$ 476        |
| <u>State government savings</u>  |               |            |               |
| 10 Higher state income taxes   | \$ -          | \$ 76      | \$ -          |
| 11 Higher disability insurance   | \$ 10         | \$ 17      | \$ 15         |
| 12 Total (10+11)   | \$ 10         | \$ 93      | \$ 15         |
| 13 Total Government Savings (9+12)                                       | \$ 259        | \$ 499     | \$ 491        |
| 14 Additional tax income as a percentage of living wage increase (13/1)* | 24%           | 19%        | 29%           |

Source: Table 6.2.

\* Does not include employer's share of payroll tax.

### Impact of Wage Gain on Eligibility for Government Programs

Low-wage workers receiving a raise due to the living wage may also face a decline in eligibility for government programs, such as Food Stamps. These declines also translate into savings for government. In order to understand how the ordinance might affect eligibility for government programs, we examined our three affected families' eligibility for Food Stamps, Medi-Cal, Healthy Families, federal Section 8 rental vouchers, and school meal subsidies.<sup>103</sup>

Key to this analysis is whether and how affected workers (and their families) are insured since public health insurance constitutes one of the largest government subsidies to eligible low wage workers. Despite being more likely to possess health insurance paid for by their employer, a sizeable percentage of living wage affected workers and their families are either uninsured or rely on public health insurance—38 percent of affected workers and 50 percent of their children. For the purposes of this analysis, we assume

<sup>103</sup> Medi-Cal is California's Medicaid health care program. Healthy Families is a state and federally funded health coverage program for children in low income families who are above the income eligibility level for Medi-Cal.

that our prototypical affected workers and their spouses lack health insurance both before and after they receive their living wage raise, and are reliant on Los Angeles County Health Services, which provides health services to the uninsured. We assume that the children in the prototypical families would rely on public health insurance before and after becoming subject to the Living Wage Ordinance if they are indeed eligible.<sup>104</sup> This is so we can evaluate the impact of the pay increase on their eligibility for public health insurance programs, such as Medi-Cal and Healthy Families.

### *Single Workers*

Of the seven programs listed in Table 6-5, the single worker is only eligible for Los Angeles County Health Services and Section 8 rental assistance. The single worker would experience a \$329 decline in his eligibility for Section 8 vouchers. However, many of those eligible for Section 8 vouchers do not participate in the program due to lack of knowledge about the program, long waiting lists and the reluctance of some landlords to accept them.<sup>105</sup> Only one of the single workers surveyed said they rely on Section 8 housing vouchers so it is unlikely that very many workers would be impacted by a loss in Section 8 eligibility.<sup>106</sup> The single worker would remain reliant on Los Angeles County Health Services before and after the living wage ordinance.

### *Two-Parent Family*

Members of the two-parent family, the highest income family of the three, see very little change in eligibility for government programs. The family is ineligible for most anti-poverty programs before and after the living wage, but remains reliant on the county for health services. Unless the parents purchase private insurance for their children, the children would also be reliant on the county for health services before and after their living wage raise.

### *Single-Parent Family*

The single parent family has the most to lose in terms of eligibility for government programs. She experiences a \$504 annual decline in eligibility for Section 8 vouchers and a \$624 annual decline in eligibility for Food Stamps, a program that was used by more than half of eligible Californians in 2001. (U.S. Department of Agriculture 2004). Her children remain eligible for public insurance before and after the increase. The decline in eligibility for government subsidies is offset by \$1,189 increase in disposable income. The analysis of the single parent prototype reveals that the living wage increase would not be a net income gain for a worker relying on Food Stamps and living in a Section 8 subsidized apartment. However, the vast majority of living wage workers who are single parents do not rely on these programs. Nonetheless, they are significantly more likely to rely on government assistance than are workers belonging to other family

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<sup>104</sup> The average per person cost estimates for Medi-Cal, Healthy Families, and Los Angeles County Health Services were derived from data provided by the agencies responsible for those programs.

<sup>105</sup> In early 2004, there were about 84,000 families on the waiting list in Los Angeles for Section 8 housing vouchers. See Stewart 2004.

<sup>106</sup> Toikka et.al. (2005) found that more living wage workers will lose benefits. However, that study did not take into account participation rates for the various government programs. The study also found that single-parents are the most likely to experience a reduction in government assistance.

types.<sup>107</sup> (Almost 12 percent of living wage affected workers who are single parents rely on Section 8 housing vouchers, while about 6 percent of those who are single parents rely on Food Stamps.<sup>108</sup>)

Table 6.6 illustrates how our prototypical single parent would experience the living wage raise depending on her use of government programs. If she did not rely on any program, she retains 71 percent of her \$1,680 raise, as discussed above. If she were reliant on Food Stamps, she retains 44 percent of her raise, and if she were reliant on Food Stamps and Section 8, her raise would be virtually wiped away. She would retain only 4 percent of her raise. A small group of single parent workers affected by the living wage (less than 1 percent of affected workers) rely on both Section 8 and Food Stamps and would potentially fall into this category. This amounts to fewer than 30 out of the 7,700 affected workers who got mandatory raises.

Another potentially vulnerable group may be couples with only one parent working. These families—who represent 7 percent of our sample—have lower family incomes than families with two working parents and may be more reliant on government programs.

Only one worker—a skycap at the airport—reported losing his Section 8 benefit due to the living wage raise. He said he was able to cover his entire rent without the assistance, and that he would rather be earning the living wage and lose his eligibility than earn the minimum wage.

### **Benefit to Government from Loss in Eligibility**

The loss in eligibility for government programs could constitute a revenue savings for government. But in our analysis of prototypical affected workers the change in eligibility affects just two programs, and only single parents in our survey make use of these programs. The prototypical single parent affected worker would lose Section 8 eligibility (valued at \$504) and Food Stamp eligibility (valued at \$624).<sup>109</sup> (See Table 6-5.) If we apply the percentage in which those programs are used by single parents in our survey (6 percent and 12 percent respectively) to the dollar amount of the loss in eligibility for the prototypical single parent, then single parents would lose on average \$135 in benefits, and the federal government would be the beneficiary. About 1,300 of the living-wage-affected workers are single parents so the government would gain about \$174,000 annually from this group of workers in aggregate, according to this scenario. (Of course, the government will also gain from increased payroll taxes due to the higher wages paid to living wage workers in general.) What is more striking about this analysis is that these prototypical workers continue to be eligible for between \$4,200 and \$15,400

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<sup>107</sup> An analysis was conducted examining program use by family type (single worker, two parent family, single parent family, and couple without children.) A chi square test of family type by food stamp and Section 8 housing voucher use was significant at the 0.1 level and the 0.5 level, respectively. The pattern was the same for other government programs.

<sup>108</sup> The margin of error is  $\pm$  12 percent.

<sup>109</sup> One of the children in the single parent family would also move from relying on Medi-Cal to relying on Healthy Families, which would marginally decrease the public cost of medical care.

in government assistance even after receiving their living wage raise. These figures do not include the \$2,900 in EITC benefits also available to our prototypical single parent.



**Table 6.5: Changes in Eligibility for Government Assistance Programs for Prototypical Affected Families**

| Benefit                   | Single         |                |                 | Two Parent     |                |             | Single Parent    |                 |                   |
|---------------------------|----------------|----------------|-----------------|----------------|----------------|-------------|------------------|-----------------|-------------------|
|                           | Before LW      | After LW       | Change          | Before LW      | After LW       | Change      | Before LW        | After LW        | Change            |
| Food stamps               | \$ -           | \$ -           | \$ -            | \$ -           | \$ -           | \$ -        | \$ 2,580         | \$1,956         | \$ (624)          |
| Medi-Cal                  | \$ -           | \$ -           | \$ -            | \$ -           | \$ -           | \$ -        | \$ 1,240         | \$1,240         | \$ -              |
| Healthy Families          | \$ -           | \$ -           | \$ -            | \$ -           | \$ -           | \$ -        | \$ 1,068         | \$1,068         | \$ -              |
| LA County Health Services | \$1,849        | \$1,849        | \$ -            | 5,546          | \$5,546        | \$ -        | \$ 5,546         | \$5,546         | \$ -              |
| Section 8                 | \$2,692        | \$2,362        | \$ (329)        | \$ -           | \$ -           | \$ -        | \$ 4,565         | \$4,061         | \$ (504)          |
| School Meals              | \$ -           | \$ -           | \$ -            | \$ -           | \$ -           | \$ -        | \$ 1,082         | \$1,082         | \$ -              |
| WIC                       | \$ -           | \$ -           | \$ -            | \$ -           | \$ -           | \$ -        | \$ 456           | \$ 456          | \$ -              |
| <b>TOTAL</b>              | <b>\$4,540</b> | <b>\$4,211</b> | <b>\$ (329)</b> | <b>\$5,546</b> | <b>\$5,546</b> | <b>\$ -</b> | <b>\$ 16,536</b> | <b>\$15,408</b> | <b>\$ (1,128)</b> |

Source: The agencies responsible for each program provided the eligibility information used to estimate benefits for each prototypical worker. Income data comes from the Economic Policy Institute's analysis 2002 and 2003 Current Population Survey (Annual Demographic Survey). The analysis selected L.A. County residents who worked in the previous week and reported earning a wage between \$6.75 and \$12.00 per hour. Family income is based on the nuclear family, including only spouses and dependent children, and not other extended family members.

**Table 6.6: Scenarios of Government Program Usage for Single Parent Prototype**

|  | Not Reliant on Food Stamps, Section 8 | Reliant on Food Stamps | Reliant on Food Stamps and Section 8 |
|--|---------------------------------------|------------------------|--------------------------------------|
| Living wage pre-tax income increase                | \$ 1,680                              | \$ 1,680               | \$ 1,680                             |
| Income lost to higher taxes                        | \$ (491)                              | \$ (491)               | \$ (491)                             |
| <b>Net government transfers</b>                    |                                       |                        |                                      |
| Food Stamps  | \$ -                                  | \$ (624)               | \$ (624)                             |
| Medi-Cal   | \$ -                                  | \$ -                   | \$ -                                 |
| Healthy Families                                   | \$ -                                  | \$ -                   | \$ -                                 |
| LA County Health Services                          | \$ -                                  | \$ -                   | \$ -                                 |
| Section 8  | \$ -                                  | \$ -                   | \$ (504)                             |
| School Meals                                       | \$ -                                  | \$ -                   | \$ -                                 |
| WIC  | \$ -                                  | \$ -                   | \$ -                                 |
| <b>TOTAL</b>                                       | \$ -                                  | \$ (624)               | \$ (1,128)                           |
| <b>Net income increase</b>                         | \$ 1,189                              | \$ 565                 | \$ 61                                |
| <b>Percentage of New Income Retained by Worker</b> | 71%                                   | 44%                    | 4%                                   |

Source: Table 6-5.

### The Living Wage and Quality of Life Changes

#### Quality of Life Changes Reported by Workers

- Improved housing conditions
- Better able to support family
- Bought better car
- More money for college
- Greater economic stability
- Less stress
- Able to live better
- Able to save money

The majority of affected workers we surveyed did not report dramatic quality of life changes due to the living wage law. But a significant minority of affected workers (36 percent) reported improvements due to the living wage ordinance—from quitting a second job, to purchasing a car, to being financially independent enough to leave an abusive husband.

- Six percent of affected workers attributed improvements in their housing situation to the living wage ordinance. A married mother of two was able to move her family out of her parents’ house and into their own apartment after receiving the living wage. Another young woman said that when she and her sister began working for a living wage airport screener firm they were able to buy a house together for their families. A woman said the wage increase gave her the ability and confidence to leave her abusive husband and take her children with her.

- Two percent of affected workers said they are better able to support their families with the extra income from the living wage, including a janitor and mother of two from Central America whose husband had recently lost his job. A landscape worker with two children purchased life insurance with his additional income.
- Three percent of workers said that being paid the living wage raise reduced their stress. A janitor and mother of three said that because of the living wage she does not feel like she is “drowning” anymore. A screener at the airport said that she began to feel more “tranquil” when she began being paid the living wage because it has enabled her to pay off her credit card debt.

It is important to note that 77 percent of affected workers reported not knowing what the Living Wage Ordinance was at the outset of the survey. Many of those workers were, nevertheless, aware they received a raise at the time the Living Wage Ordinance went into effect at their firm. Because not every worker was aware of the ordinance and knew when it went into effect, workers were asked a series of questions about changes that had occurred since the date the ordinance went into effect at their firm. In the case of workers hired after the ordinance went into effect at their firm, they were asked to compare their experiences at their current job to experiences at their previous job. They were asked about changes in spending on entertainment, remittances to family members, use of vacation and sick time, supplemental jobs, and time with family. We conducted multiple regression analyses on most questions to determine whether the size of the raise was associated with the changes experienced by workers.<sup>110</sup> The only changes that were attributable to the raise, other than those previously mentioned, were changes in spending on entertainment, such as taking the family to the movies or out to dinner. Almost a quarter of workers said they spent more money on entertainment after the raise while 11 percent said they spent less, and the higher the raise worker the received, the more likely they were to report spending more on entertainment.<sup>111</sup>

### **The Living Wage and the Rising Cost of Living**

As we evaluate the impact of the living wage on affected workers’ lives, it is important to place the wage increases due to the ordinance in the context of the rising cost of living in Los Angeles County. In order to provide a sense of how living costs were increasing during the time affected workers received their raises, we calculated the average annual growth rate of the living wage and the minimum wage levels (due to mandated increases), and several cost of living indicators during the period from 1999 to 2003.<sup>112</sup> (The living wage workers we surveyed experienced their wage increase at different times between 1997 and 2003.) As shown in Figure 6.1, the average annual rate of growth for the living wage level, from 1999 to 2003, was 3 percent, about the same as the rate of

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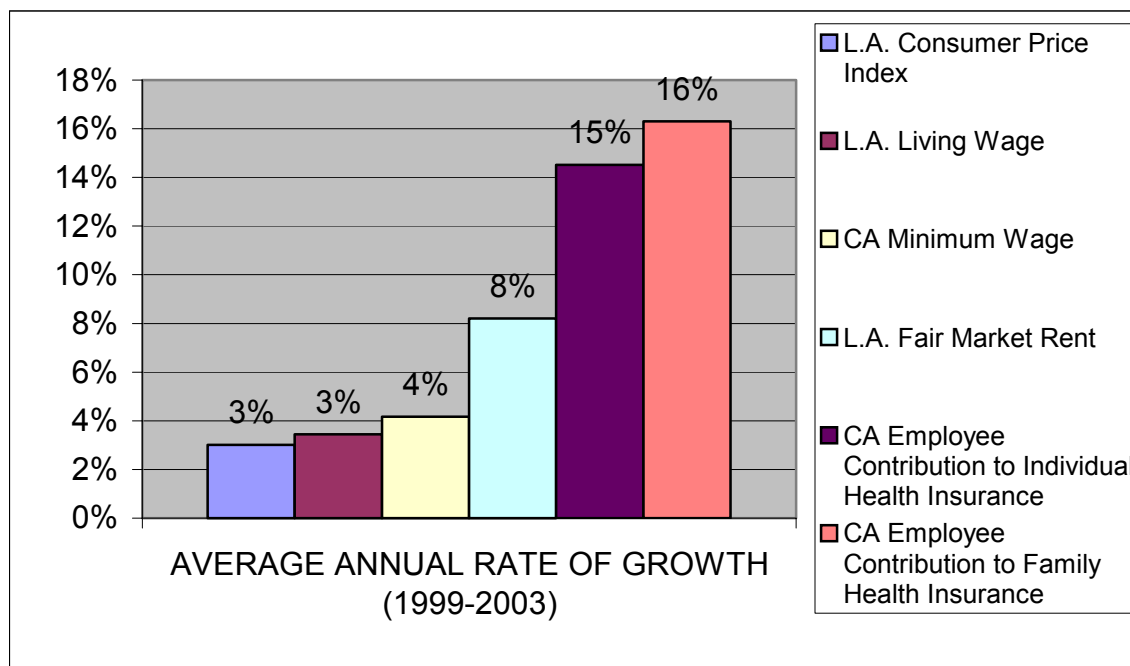
<sup>110</sup> We did not conduct a multiple regression analysis on remittances due to the small number of workers who sent remittance to their family members both before and after the Living Wage Ordinance.

<sup>111</sup> For an increase of \$1 in the raise received due to the ordinance, the odds of workers spending more on entertainment increase by 20 percent, according to an ordered logistic regression that controlled for the size of the raise, whether they were hired before or after the living wage went into effect at their firm, union status, sex, age, race, years of schooling, immigration status, tenure on the job, average hours worked per week, whether they are seasonal, and family type. The raise is significant at the 0.05 level.

<sup>112</sup> Health data were not available prior to 1999.

growth of the Consumer Price Index.<sup>113</sup> The California minimum wage level, which was raised twice during this period, grew at an average rate of 4 percent per year. Housing—which makes up a large share of a low income family’s budget—has grown more dramatically. The average annual growth rate for the Fair Market Rent in Los Angeles was 8 percent during the same period.<sup>114</sup> Meanwhile, the cost to employees of health insurance has grown even more dramatically, with employees’ share of individual and family premiums increasing at an average annual rate of 15 and 16 percent respectively. While the living wage and the minimum wage were growing during this period, the cost of living was also rising, and the cost of certain necessities—such as housing and healthcare—was rising at a much faster rate than any wage mandate.

**Figure 6.1 Annual Rate of Growth for the LA Living Wage, California Minimum Wage and Select Cost of Living Indicators (1999-2003)**



Sources: Kaiser Family Foundation and Health Research and Educational Trust, *California Employer Health Benefits Survey, 1999-2003*.; National Low Income Housing Coalition, *Out of Reach, 1998-2003*.

### Is the Living Wage Enough?

Given this context, it is not surprising that the great majority of affected workers (81 percent) say that the level at which the living wage is set is not sufficient to meet their needs and those of their families. We asked the workers how much they would need to earn to be able to support their families, assuming their employer would provide full family health benefits. On average, affected workers said they would need to be paid \$13 per hour to be able to support their families – about \$5 more per hour than the lower-tier

<sup>113</sup> The CPI is for the Los Angeles-Riverside-Orange County area.

<sup>114</sup> The FMR for Los Angeles is defined by the federal Department of Housing and Urban Development as the dollar amount below which 40 percent of the standard quality rental housing units rent.

living wage in 2002, when most workers were asked this question. Adding in the cost of benefits would, of course, bring the wage higher and would depend on the family composition of the worker. Using the wages supplied by the workers and available health insurance cost data, workers are saying that they would need between \$15.14 and \$17.85, depending on their family type.

Single parent workers were significantly more likely than other affected workers to say that the living wage is not enough (See Table 6-7). Single workers living alone were the least likely to report that the living wage is not sufficient, though the majority still felt it was not enough. Despite differences in workers' opinions about the adequacy of the living wage, there is little variation among family types in the hourly wage workers believe they would need to earn to be able to support themselves and their families. At the high end, affected workers who are part of two parent households reported needing an average hourly wage of \$13.76 and full family health insurance, while at the low end, single parent workers said they require a wage of \$12.17 per hour and full family health insurance on average. In addition, about 14 percent of full-time living wage affected workers have a supplemental job, suggesting that even a full-time job is inadequate for some affected workers.

**Table 6.7: Percent of Affected Workers Who Believe the Living Wage Is Not Enough to Support Their Families by Family Type**

|  | <b>Single parent</b> | <b>Two parent</b> | <b>Single</b> | <b>Couple</b> | <b>All Workers</b> |
|--|----------------------|-------------------|---------------|---------------|--------------------|
| Say living wage is not sufficient  | 98%                  | 87%               | 70%           | 89%           | 80%                |
| Average wage workers believe they need to support family (not including family health insurance) | \$12.17              | \$13.76           | \$13.65       | \$13.14       | \$13.30            |
| Average wage (including the cost of health insurance) †  | \$16.26              | \$17.85           | \$15.14       | \$16.12       | \$16.22            |
| Number of workers  | 34                   | 76                | 98            | 43            | 251                |

Source: Living Wage Worker Survey, The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, California Employer Health Benefits Survey, 2003, Chart 11.

Differences in the percentage of workers who believe the living wage is not sufficient are statistically significant at the 0.01 level.

Note: Domestic partners are included in the couple and two-parent family categories. The family type does not differentiate between workers who live with extended families and those who do not.

†For parents who are workers, we assumed the cost of health insurance was \$4.09. The cost for single workers was assumed to be \$1.49. The cost for couples was \$2.48 (2 x \$1.49). The data come from the Kaiser survey cited above.

## **Use of Anti-Poverty Programs**

Another way to approach the question of whether the living wage allows affected workers to meet their basic needs is to examine their use of anti-poverty programs. The Living Wage Worker Survey asked if workers were using a variety of anti-poverty government assistance programs at the time of the interview. The data suggests that, even while earning the living wage, a sizable minority of affected workers are poor enough to qualify for government assistance.

As previously discussed, a small percentage of affected workers rely on Section 8 and Food Stamps, programs which are sensitive to small changes in income. However, a significant portion of affected workers rely on other programs, even after receiving the wage increase. Thirty percent of affected workers said they or their children made use of at least one anti-poverty program other than the EITC (See Table 6-8). In addition, one in five affected workers said they claimed the Earned Income Tax Credit on their last tax return. In all, forty-four percent of workers surveyed reported that their family either claimed the EITC or was using at least one of the anti-poverty programs listed in Table 6-8. Commonly used programs include: Medi-Cal, California's Medicaid program; the School Lunch Program, which provides free or reduced-price meals; Women, Infants and Children (WIC) Nutrition Program, which provides food and counseling on nutrition; and Healthy Families, which provides health care coverage for low-income children. Living wage affected workers' rates of participation in these programs are comparable to the rates for low-wage workers overall in California, in those programs for which data are available.

**Table 6.8: Participation Rates in Government Anti-Poverty Programs**

| <b>Anti-Poverty Program</b>                                    | <b>% of Living Wage Affected Workers</b> | <b>% of California Low-Wage Workers†</b> |
|--|--|--|
| Medi-Cal   | 12%                                      | 20%                                      |
| National School Lunch Program                                  | 12%                                      | Not available                            |
| Women, Infants and Children (WIC) Nutrition Program            | 9%                                       | Not available                            |
| Healthy Families   | 7%                                       | Not available                            |
| Food Stamps  | 2%                                       | 3%                                       |
| Section 8  | 2%                                       | 2%                                       |
| Public Housing   | 2%                                       | Not available                            |
| Welfare  | 2%                                       | 1%                                       |
| Using at least one of the public welfare programs listed above | 30%                                      | Not available                            |
| Claimed Earned Income Tax Credit with last tax return          | 22%                                      | Not available                            |
| Using EITC or any of the public welfare program listed above   | 44%                                      | Not available                            |
| N  | 320                                      | 13,291                                   |

Source: Living Wage Worker Survey and 2002 Survey of Income and Program Participation analyzed by the Center for Economic and Policy Research.

†Includes workers who earn \$6.75-\$11.00 per hour and were working at least 15 hours per week.

Margin of error for Living Wage Workers Survey ranges from  $\pm 2$  percent to  $\pm 5$  percent.

Research has shown that rates of participation in government programs are lower than rates of eligibility, so it is likely that even more living wage affected workers are eligible for these programs, but do not participate. (See Stewart 2004, U.S. Department of Agriculture 2004, White 2001, and Phillips 2001). In addition, certain immigrants are ineligible for many of these programs. Although the Living Wage Worker Survey did not collect information about legal status, over half of affected workers are immigrants, as discussed in a previous section. It is likely that some affected workers have incomes low enough to qualify for these programs, but do not participate due to their legal status.

## How Much Is Enough?

In recent years, researchers and government officials have argued that the federal poverty line, set in 1963, is an inadequate measure of the minimum income needs of families.<sup>115</sup> The federal poverty line is based on the cost of the basket of food necessary to satisfy the caloric needs of a family. To generate a dollar figure for poverty, the government simply multiplies the cost of the food basket by three. Such an approach does not take into account that costs vary greatly in different parts of the country. In addition, the federal poverty line is not indexed to housing, child care and healthcare costs, expenses that take up an increasing share of family income. Several research and policy organizations have devised self-reliance budgets, which are based on living expenses in different regions, and represent the income needed by different family types in order to live independently, without sharing housing or relying on government assistance or informal child care.<sup>116</sup>

Table 6.9 illustrates how the living wage measures up to a self-reliance budget for several different family types in Los Angeles County. Based on these estimates, a single person with no dependents would need to earn about \$10.50 per hour at a full-time job to be self-reliant. This hourly wage is about a dollar higher than the higher tier living wage in 2002-2003. A single parent, on the other hand, would need to earn more than \$23 per hour, mainly due to child care and health insurance costs. Couples with children and one parent working require a wage of about \$19 per hour, assuming that the spouse who does not work is able to care for the children. Still, this wage is almost \$10 over the higher-tier living wage. Finally, families with two working parents would require an hourly wage of about \$14 (for each working parent)—over \$4 more than the higher-tier living wage. Low-wage workers do not typically purchase such services as child care and health insurance on the open market, as discussed in Chapter 3. But the self-reliance wages are not dramatically higher than what living wage affected workers themselves say they need, when health insurance is factored into the equation.

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<sup>115</sup> For a fuller discussion, see Citro et al. 1995: 17-96.

<sup>116</sup> We used the “basic needs budget” developed by the California Budget Project (Oct 2003) for this analysis.



**Table 6.9: Comparison of Living Wage to Self-Reliance Budget by Family Type**

|   | <b>Self-Reliance Budget<br/>(Includes Health Care costs)</b> |               |                          |                     |
|---|--|---------------|--------------------------|---------------------|
|   | Single Adult   | Single Parent | Two Parents, One Working | Two Working Parents |
| Monthly Total   | \$1,819  | \$4,041       | \$3,327                  | \$4,817             |
| Annual Total  | \$21,823   | \$48,490      | \$39,920                 | \$57,800            |
|   | <b>Self-Reliance Wage Compared to Living Wage</b>            |               |                          |                     |
| Basic Needs Family Hourly Wage (2002-2003)  | \$10.49  | \$23.31       | \$19.19                  | \$13.89†            |
| Higher-Tier Living Wage Rate in 2002-2003 as a Percentage of Basic Needs Family Hourly Wage | 91%  | 41%           | 50%                      | 69%                 |
|   | <b>Difference Between Self-Reliance Wage and Living Wage</b> |               |                          |                     |
| Difference  | \$0.98   | \$13.80       | \$9.68                   | \$4.38              |

Source: California Budget Project (Oct 2003).

Note: The CBP analysis assumes two children in the household of working parents. On average living wage workers who are single parents or married parents have two children under 18 in the household.

†This is the wage each of the two working parents in the family would need to earn, for a combined hourly wage of \$24.36.

### **Contracting Back in City Jobs**

One of the benefits to workers not captured by our surveys is the effort made by the City of Los Angeles to bring work performed by low-wage subcontracted workers “in-house,” and transition these workers into city civil service positions. In all, 460 jobs have been contracted in since the enactment of the Living Wage Ordinance in 1997. Compensation for these city jobs includes full family benefits, pension benefits, and a starting wage that exceeds \$12.00 per hour. Consequently, moving from a private company to a city job typically represents a step up for low-wage workers, even for some workers already covered by a union contract.

There may have been multiple motives for the city’s decision to bring these private sector jobs in-house. However, interviews with city and union officials suggest that the ordinance played a role for a large portion of those jobs.<sup>117</sup> According to Scott Lager, Airport Maintenance Superintendent at Los Angeles World Airports, the living wage factored into the decision to contract in 350 custodial jobs at the airport. “Because of the living wage, the custodial wages for the contract employees went up substantially, so it certainly narrowed the gap between what the city custodians made and what [employees

<sup>117</sup> Neumark (2004) discusses how living wage ordinances may reduce incentives for cities to contract out low-wage work, and how wages for unionized city workers have increased as a result of living wage ordinances.

of the] contractors made.”<sup>118</sup> In other words, if the city pays for increased wages of subcontracted workers then there is no great savings from contracting out work.

In 1997, shortly after the passage of the Living Wage Ordinance, the City of Los Angeles contracted in 30 janitors at the Central Library after the workers testified before the City Council and filed complaints alleging the private contractor had failed to pay payroll taxes, workers compensation, and did not provide adequate safety equipment. The contract did not fall under the living wage at the time, but the passage of the ordinance helped bring the problem to light, according to Tony Royster, Assistant General Manager of Administration and Building Support with the Department of General Services. “After the passage of the living wage, there was more scrutiny of contracts as they related to wages,” Royster said.<sup>119</sup>

Workers who are contracted in usually receive a training wage that is lower than the wages received by city workers during a 6 to 18-month probationary period.<sup>120</sup> The city has a program to transition contract workers into city jobs.

## Conclusion

The wage gains from the living wage still make a financial difference to living wage affected workers even after taxes are subtracted from the gain. In an analysis of three prototypical affected families—a single worker, a two-parent family with two income earners, and a single-parent family—workers kept between 71 and 76 percent of their wage gain after taxes. That meant between \$839 and \$1,370 in additional disposable income for those families. The federal government is the public entity that experiences most of the gain from increased taxes paid by affected workers. The government claimed between \$259 and \$499 in increased income, FICA tax, and a reduced Earned Income Tax Credit. More than 95 percent of that gain went to the federal government for each family type.

The prototypical single worker and single parent worker saw a decline in eligibility for Section 8 Housing vouchers, a program that is used by only 2 percent of living wage workers. The single parent family also saw a \$624 annual reduction in food stamp eligibility that (along with a \$504 reduction in Section 8 benefits) could offset her \$1,189 wage gain. Other low income families—such as a family in which only one parent works—might also lose eligibility due to a living wage increase. Most living wage affected workers, including single parents, do not make use of these programs, although single parents are significantly more likely to rely on them than are other workers. About 6 percent of single-parent workers who are affected by the living wage say they use Food Stamps and 12 percent rely on Section 8 rental subsidies. As our prototypical affected workers did not see dramatic losses in eligibility, the federal and state government would not likely see large revenue gains due to workers becoming ineligible for government programs.

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<sup>118</sup> Telephone interview, July 10, 2003

<sup>119</sup> Telephone interview, November 22, 2004.

<sup>120</sup> Interview with Teresa Sanchez, Local 347, October 6, 2004.

At least 36 percent of affected workers reported improvements in their lives as a result of the living wage, from less stress to being able to buy a car to being better able to face a financial emergency. Yet most affected workers do not report dramatic quality of life changes since receiving the raise. This is not surprising since other costs, like housing and healthcare, have been increasing at a faster rate than the living wage. About 80 percent of affected workers said the living wage was not enough to meet their needs and those of their family. Across family type, affected workers said they would need about \$13 per hour plus free family health insurance to afford life in Los Angeles. A sizable minority of affected workers rely on some form of government assistance, indicating that their wages may not be enough to cover their basic needs. More than forty percent of affected workers' families either rely on government assistance programs (such as Medi-Cal or Food Stamps) or claim the federal EITC on their tax returns. The living wage ordinance is too low even for a single person, according to a self-reliance budget for Los Angeles. The self-reliance budget measures the income needed by different family types in order to live independently, without sharing housing or relying on government assistance or informal child care.

Another impact of the living wage ordinance has been to prompt some city departments to contract back in city jobs. The ordinance was in part responsible for bringing 380 city contract jobs in-house. Workers who move from private sector service contractors into a city job would likely experience a pay increase. The city also provides its workers with full family health insurance and pension benefits that are typically more generous than what can be found among low-wage private sector employers.

## Chapter 7 : Impact on Employers and the Workplace

This chapter examines whether changes have occurred in the workplace due to the living wage, including how affected firms have responded to the increased cost of the ordinance, and whether worker behavior has changed as a result of the wage increase. Firms may respond to the increased costs, for example, by reducing employment, cutting costs in other areas, or hiring more highly-qualified workers. Workers may respond to the higher wages by becoming less likely to quit their jobs, reducing turnover costs for employers and potentially mitigating some of the increased costs of the living wage.

Results from the Living Wage Employer Survey show that the majority of firms did not report major changes due to the living wage, though many of the predicted effects of the ordinance have indeed taken place for some firms.<sup>121</sup> The lack of widespread changes may be due to the moderate size of the wage increase. The lack of changes may also be explained by some firms' ability to pass on the increased costs of the living wage to the city, to the prime contractor, or to customers. Although we have only limited survey data in this area, we did find evidence that some firms have been able to pass on some or all of their increased costs, although other firms have not.

Finally, this chapter examines whether the living wage has changed the attitude of affected firms about contracting with the city, and whether there have been changes in the kinds of firms that have low-wage city contracts. By setting a higher wage and benefit standard, the living wage may attract different types of firms into city contracting, and discourage others.

The analysis in the chapter is derived largely from the two employer surveys—the Living Wage Employer Survey and a survey of non-living wage firms in the same industries, which provided a control group (the Survey of Diversity in Human Resource Practices or SDHRP).<sup>122</sup> Many of the questions on the Living Wage Employer Survey had a counterpart on the non-living wage survey, but some did not. When we have comparable data from both surveys, we present it, but we exclude living wage firms that operate at an airport from these results. This is for two reasons. First, the non-living wage survey did not include any firms that operate at an airport, and also because the events of September 11<sup>th</sup> may have influenced the responses of airport firms. Although we do not present it, we have conducted the same analysis including the airport firms. Where the findings are significantly different including the airport, we discuss those differences. For results from the Living Wage Employer Survey where there is no comparable data from the control group, we analyze the entire living wage sample, including airport firms.

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<sup>121</sup> The living wage employer survey was basically restricted to firms that had a current living wage contract with the city. It is possible that other firms had stopped bidding on living wage contracts entirely, and the consequences for those firms and their employees would not be captured by our survey. However, we have anecdotal evidence from numerous city officials involved in contracting that suggests that firms have not left city contracting due to the living wage. Interviews with six city officials overseeing contracting decisions in the major departments that have living wage contracts did not identify any cases where firms left city contracting due to the living wage.

<sup>122</sup> The full results of the control group analysis are presented in Fairris 2005.

In this chapter, we present data on *covered jobs in affected firms*, which refers to all jobs on contracts covered by the living wage within the affected firms. We present data on this group of jobs because employer responses to the living wage may affect all jobs on living wage contracts, whether or not pay was increased. We also present data on *affected workers*, who are the workers in jobs where pay was increased to comply with the ordinance.

## **Cost Pass-Through**

Firm responses to the living wage are likely to be influenced by whether they must absorb the increased cost or whether they can pass the cost on to someone else. Costs may be passed on to the city, the customers, or in the case of a subcontractor, to the prime contractor. The Living Wage Employer Survey asked affected firms if they were able to pass on any of their increased costs to the city or to the prime contractor. Nearly 60 percent of the firms we interviewed were unable or unwilling to provide an answer. Of the 40 percent that responded, half said they were able to pass through at least some of their costs. And of these firms, nine firms said that they were able to pass on 100 percent of their increased cost. Although large amounts of missing data prevent us from drawing broad conclusions, this is suggestive that some amount of cost pass-through is indeed taking place. Based on qualitative evidence from the interviews, we were able to discern some patterns in cost pass-through, which we found is likely to be influenced by the type of financial arrangement the firm has with the city. We identified the following types of agreements:

**Service contracts with payments based on labor costs:** Under this type of billing mechanism, firms are reimbursed for their hourly labor costs and paid an additional amount, based on a percentage of labor costs, to cover overhead and profit. Because firms are directly reimbursed for their labor costs, it is likely to be easier for them to pass on the increased costs of the living wage. In our interviews, we found two examples of firms with these types of service contracts who not only passed on their increased living wage costs, but also increased their reimbursement from the city so much that they increased their profit margins. These firms increased their hourly labor billing rate to cover the costs of the living wage. At the same time, they maintained the same percentage overhead charge. The overhead was therefore calculated on a larger base amount, and increased in value. One contractor described how his profit margin had increased because it is based on a percentage of labor cost, which is larger now due to the living wage. Another contractor stated quite frankly, “The more I pay, the more I make.”

**Service contracts paid by the job or at a fixed price for services:** Other service contractors are paid a fixed total amount for completing a job or providing specified services. We found examples of this with brush clearance firms, which are paid for clearing a certain geographical area. Some social services providers complained that their reimbursement from the city is fixed, because the city sets a ceiling for certain types of social service spending, which is then allocated among different agencies, and not subject to revision during the year. As a result, their reimbursement has not increased to account for the cost of complying with the living wage ordinance.

**Concessions and leases:** Concessionaires typically pay monthly rent in the form of a percent of gross revenue to the city, with a minimum annual guaranteed rent. In order to pass costs on to the city, they would have to decrease their payments or increase them at a lower rate. We did not collect sufficient information on concessionaires to generalize about their ability to pass on costs. Lessees include airlines and cargo operators. Airlines pay the city through a variety of different mechanisms, including landing fees and leases of terminals and other airport facilities. The airlines did not have to make significant wage and benefit increases for their employees due to the living wage, but their airline service and janitorial subcontractors did. Qualitative evidence from airline subcontractors tells us that the airlines absorbed some of the costs of the living wage. It is unlikely that the airlines have been able to pass these costs on to the city. According to the Chief Financial Officer of Los Angeles World Airports, the city agency that operates LAX and Ontario airports, it would be very difficult for the airlines to pass on their living wage costs to the airport. She likened the relationship to that of a landlord and tenant operating under a long-term lease, where the tenant has no ability to negotiate a change in rent when the tenant's cost increase.<sup>123</sup>

Besides passing costs on to the city, some affected firms may also be able to increase their prices to customers. Many affected firms, such as airlines, food and retail concessionaires, parking lot operators, and child care centers, charge the public for their services. In our survey, five firms said they had increased prices to the public.<sup>124</sup> Three were concessionaires and two were child care providers. Firms are often limited in their ability to increase prices, because of restrictions imposed by the city. Concessionaires at the airport and city golf courses and parking firms reported being limited in this way.

## **Reduction in Employment**

### *Extent of Job Reductions*

Declines in the level of employment are a widely predicted consequence of living wage laws. Employers are expected to reduce jobs in response to the increased cost of labor. The findings of the Living Wage Employer Survey indicate that while most affected firms did not reduce employment, some did so. The survey asked if affected firms had changed staffing due to the living wage. Four out of five affected firms surveyed (81 percent) reported that they did not cut jobs on their living wage contracts due to the living wage ordinance (Table 7-1). Firms that did cut jobs were asked to quantify the job loss.<sup>125</sup> Based on these results, an estimated 112 jobs on living wage contracts in Los

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<sup>123</sup> Telephone interview with Karen Sisson, Chief Financial Officer at LAWA, on July 3 and 24, 2003.

<sup>124</sup> Although there was not a specific question in the employer survey about increased prices to customers, several firms volunteered the information in open-ended questions.

<sup>125</sup> We restricted the analysis of job reductions only to firms that already had a city contract before becoming subject to the living wage. Firms that entered into contracting after the living wage would have no reason to reduce staffing due to the living wage. There may have been some decrease in employment if a contract changed hands, and the new contractor used fewer employees to staff the contract. This would not be included in our analysis.

Angeles were eliminated due to the living wage mandate.<sup>126</sup> This number represents 0.8 percent of all covered jobs in affected firms , and 1.4 percent of affected jobs.

**Table 7.1: Employment Reduction in Affected Firms**

|   |      |
|---|------|
| Percent of affected firms that did not cut jobs         | 81%  |
| Percent of affected firms that cut jobs                 | 19%  |
| Jobs cut as a percent of covered jobs in affected firms | 0.8% |
| Total number of jobs cut due to living wage             | 112  |

Source: Living Wage Employer Survey N=66

Margin of error for percent of firms that cut jobs is  $\pm 9\%$ . Average job loss is weighted by covered workers. Firms that did not have a city contract before becoming subject to the ordinance were excluded.

Some firms did not reduce employment because of the small impact of the living wage on them: either the number of workers affected was small or the size of the required raises was minimal. Firm interviews revealed two additional reasons why job reductions were limited. As discussed in the previous section on cost pass-through, several affected firms reported that the city had increased reimbursements on their contracts enough to cover the entire cost of the living wage. In addition, several affected firms reported that staffing levels on their contracts are determined by the client. According to the two parking firms we interviewed, the city plays a large role in determining staffing levels. One firm reported that the city will assess a fine if they don't abide by the mandated staffing standards. Three out of the five airline service firms we interviewed stated that the airlines determine how they staff the contract, and that the airlines hadn't required them to make changes after the living wage was adopted.

### **Impact on Firms that Cut Staff**

Although the majority of affected firms in the survey did not reduce employment, 11 firms, representing 19 percent of affected firms, did so.<sup>127</sup> Looking more closely at this group, we calculated the reduction in jobs at each firm as a percentage of all workers on living wage contracts at the firm. Using this measure, staff reductions ranged from 2 percent to 41 percent of covered workers in these 11 firms, with an average reduction of 21 percent.<sup>128</sup> Two firms in the survey reported extremely high percent staff cuts of 41 percent and 40 percent, while the rest of the firms reported cuts of 20 percent or less. Although the two highest cuts were very large in percentage terms, because the firms are

<sup>126</sup> Each firm reported the number of jobs cut due to the living wage, from which we calculated the jobs cut as a percent of total employment on living wage contracts for each firm. The average for all firms surveyed, weighted by the number of covered workers, was 0.8%. In order to derive the absolute number of jobs cut, we applied this percentage to our estimate of the total number of covered workers in affected firms, which we derived from the city's living wage contractor database. The 95% confidence interval is  $\pm 1\%$ , resulting in a range of 0 to 252 jobs lost. See Appendix B for the methodology used to estimate the number of covered workers from the city database.

<sup>127</sup> Again, the analysis is restricted to firms that already had a city contract before becoming subject to the living wage.

<sup>128</sup> Unlike the percentages in the previous sections, the staff cut percentages from here forward are weighted by firm, not by the number of employees covered by the living wage.

small, they represent very few actual workers—the 41 percent cut affected twelve workers and the 40 percent cut affected four workers.

The firm with the highest percent cut is a small concessionaire that had approximately 30 employees before the living wage. The concession owner has a lease with the city and his payments are based on the revenue generated by the concession. According to the owner, his profitability decreased so much in one area of his operation due to the wage increase, that he decided to close that section entirely, laying off 12 workers. The other firm with a large percent staff cut is a small janitorial firm, with only 6 employees. The owner reported that he tries to keep the value of his contracts under the \$25,000 threshold for coverage, so that they will be exempt from the living wage. Although the owner reported having 14 city contracts, only 2 were large enough to be subject to the ordinance. The owner reduced staff not by laying off workers, but by reducing overall staff hours on the contract. He gave the example of having one employee work 8 hours a day, instead of having two employees working for 6 hours apiece. Although he reported that he is able to pass on some of the increased costs of the living wage in his bids, he must also worry about being the lowest bidder.

### **Factors Explaining Job Reductions**

All of the eleven firms in the survey that cut staff were in the social service, janitorial and miscellaneous industries. Qualitative evidence from interviews with social service firms provide some explanation for the staff reduction experienced by this industry. All but one of the social service firms that cut staff complained that the city would not increase reimbursement on their contracts to help cover the costs of the living wage. In addition, all but one of the firms in this industry are non-profit organizations. Social service non-profits typically operate with tight budgets, and do not have much excess revenue. This means that they cannot absorb the living wage cost by reducing their profit margins, as other firms might be able to do. The combination of tight finances and the unwillingness of the city to increase contract reimbursement led to the staff cuts seen among these firms.

The social service organizations that cut staff operate programs such as homeless services, job training and placement, disabled services, child care, and transportation services. One agency that provides job training and placement reported hiring fewer welfare-to-work employees. This agency hires workers on welfare at a lower wage, and once their eligibility period expires, the agency gives them a raise up to the living wage level. The manager stated that without the living wage, he would hire more people at a lower wage to see how they work out. Now he only hires the very best of the welfare workers. The manager estimated that this change affected two low-wage positions out of his entire covered staff. Another social service agency reported that the increased costs of the living wage have led to a decline in the level and quality of services provided to the community. This agency, which provides a variety of social services, has negotiated with the city to reduce performance rates on some of their contracts. The manager we interviewed reported cutting three teachers at a child care center from a staff of eight, and reducing the number of children being served.



In order to determine which factors are related to larger staff cuts, we conducted a multiple regression analysis. The dependent variable is the number of jobs cut at each firm as a percentage of all workers on living wage contracts at the firm.<sup>129</sup> The results of this analysis show that firms with unionized employees on living wage contracts experienced slightly smaller percent staff cuts, although the relationship is only marginally statistically significant.<sup>130</sup> The smaller staff cuts experienced by union firms may be explained by the increased job protections provided by unions. Union contracts sometimes include protections against layoffs, or requirements for advance notice. In addition, unions provide structures for collective action that may prevent or reduce layoffs.

Legislators considering a living wage policy are often concerned that it will disproportionately harm small businesses. Indeed, in our survey, the two firms that reported the largest percent staff cuts were both small businesses. The results from the multiple regression analysis suggest that small businesses experienced a slightly greater percentage reduction in jobs, although the relationship is only marginally statistically significant.<sup>131</sup>

### **Other Cost-Cutting Measures**

Faced with the increased costs of the living wage, affected firms may cut costs in other areas. The Living Wage Employer Survey asked firms about changes in benefits, overtime hours, and training for new hires.

#### ***Reductions in benefits***

Results from the survey show that 89 percent of affected firms did not reduce benefits for their employees on living wage contracts as a result of the increased costs of the ordinance, as shown in Table 7-2. The 11 percent of firms that did make changes represent 5 percent of covered jobs in affected firms, or 700 jobs. Three firms reported that they either reduced or eliminated bonuses, while two other firms reduced or eliminated their merit raise policy. Two firms reduced their financial contributions to health benefits, as previously discussed in Chapter 4. Finally, one firm that operates a restaurant stopped giving its employees free meals.

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<sup>129</sup>The analysis included the following variables: union status, industry, the size of the wage increase, the percentage of firms' total costs spent on labor, the percentage of employees who received a raise, whether the firm is at the airport, whether the establishment is independent or a subsidiary, whether the firm had a contract with the city prior to the living wage ordinance, and whether the firm is a non-profit organization. The multiple regression was conducted on a reduced sample of 49 firms due to missing data.

<sup>130</sup> Staff reductions for union firms were 4% less than those for non-union firms. This relationship is significant at the .20 level.

<sup>131</sup> The living wage survey did not collect information about the number of employees at each firm. It did collect data on the number of employees at the living wage establishment, but a small establishment may be part of a larger firm and is not necessarily a small business. In order to test for a disproportionate impact on small business, we created an interactive variable that separates out the effect of establishment size for independent firms and subsidiaries. For independent establishments, a decrease in size of 100 workers is associated with an 4.1 percentage point increase in staff cuts. This relationship is statistically significant at the .20 level.

**Table 7.2: Reductions in Employee Benefits**

|  | <b>% of Affected Firms</b> | <b>% of Covered Jobs in Affected Firms</b> |
|--|----------------------------|--|
| Did not reduce benefits  | 89%                        | 95%  |
| Reduced benefits   | 11%                        | 5%   |
| Reductions included the following: <ul style="list-style-type: none"><li>• Reduction or elimination of bonuses</li><li>• Reduction in health benefits</li><li>• Reduction or elimination of merit raises</li><li>• Elimination of free meals</li></ul> |                            |  |

Source: Living Wage Employer Survey, weighted by firm and by covered workers  
N=80. Margin of error =  $\pm 7\%$

### ***Reduction in Overtime and Training***

The control group analysis shows that living wage affected firms decreased both use of overtime and training for new hires relative to non-living wage firms.<sup>132</sup> To measure changes in overtime, firms were asked whether overtime hours had decreased, stayed the same, or increased. These answers were converted to a numeric scale of 0 to 2, with 0 being a decrease, 1 no change, and 2 an increase. These numeric scores were then averaged to create a change in overtime indicator. The lower the average, the greater the decrease in overtime. The results of this analysis show that living wage affected firms decreased overtime for their workers on city contracts, while non-living wage firms actually *increased* overtime slightly during the same period. (see Table 7-3). In a multiple regression analysis that controlled for a variety of other factors that may influence overtime hours, including union status and industry, the mean change in overtime score for the living wage firms is lower than that of the non-living wage firms, and this difference is statistically significant.<sup>133</sup>

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<sup>132</sup> The non-living wage survey measured these changes for the establishment, and the living wage survey measured changes for workers on city contracts.

<sup>133</sup> The multiple regression analyses in this section controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry.

**Table 7.3: Changes in Overtime and Training for Living Wage Affected Firms and Non-Living Wage Firms**

|                    | <b>Living Wage Mean (St. Dev.)</b> | <b>Non-Living Wage Mean (St. Dev.)</b> | <b>Difference (St. Dev.)</b> | <b>Difference with Controls (St. Dev.)</b> |
|--------------------|------------------------------------|--|------------------------------|--|
| Change in Overtime | 0.85<br>(0.36)                     | 1.05<br>(0.47)                         | -0.20**<br>(0.06)            | -0.21**<br>(0.07)                          |
| N                  | 48                                 | 169                                    | 217                          | 217  |
| Change in Training | 1.00<br>(0)                        | 1.09<br>(0.34)                         | -0.09**<br>(0.03)            | -0.05*<br>(0.03)                           |
| N                  | 46                                 | 122                                    | 168                          | 168  |

Source: Living Wage Employer Survey and SDHRP

\*Statistically significant at the 0.10 level

\*\*Statistically significant at the 0.05 level.

The control group analysis also revealed differences between living wage and non-living wage firms regarding changes in hours of training for a new employee. According to human capital theory, workers must pay for on-the-job training if the training improves their general skills. One way workers may pay for training is through temporarily reduced wages during the training period. Under a living wage mandate, wages cannot be adjusted in this way, which could lead to a reduction in job training for living wage workers. In addition, substitution of more experienced or higher-skilled labor could result in less need for entry-level job training.

Similar to the overtime question, firms were scored on a numeric scale of 0 to 2, depending on whether training for a newly-hired worker decreased, stayed the same, or increased. Although living wage affected firms did not change the amount of training for their workers on city contracts, non-living wage firms showed a small increase in training during the same period. Controlling for a variety of other factors which may influence training, the mean score on the change in training indicator for living wage affected firms is lower than that of the non-living wage firms, and this difference is statistically significant. Thus, the firms under the living wage mandate have not kept pace with the small increases in training seen in the non-living wage sector.<sup>134</sup>

### **Changes in the Workforce**

Affected firms may respond to the living wage not only by cutting costs, but also by trying to get more value for the wages they pay. For example, firms may seek to hire employees who have more experience, skills, or education, a practice known as labor-labor substitution. These changes in hiring standards may decrease opportunities for low-skilled workers, and could change the composition of the workforce so much that the living wage no longer benefits the workers it was intended to. This chapter examines the

<sup>134</sup> When the airport firms are included in the control group analysis, the difference in training disappears. This is because training increased relative to the control group for airport firms. However, this is likely due to the impact of September 11. Several airport firms reported that training on security had increased after 9/11.

question of whether the living wage workforce has changed using two approaches. The Living Wage Employer Survey asked affected firms if they had changed their hiring standards due to the living wage, and also if they had observed a change in the makeup of their workforce since the living wage was enacted. In addition, using data from the Living Wage Worker Survey, we divided the affected workers into those hired before the living wage and those hired after, and then compared the two groups based on a variety of characteristics, in order to assess whether those characteristics changed after the living wage went into effect.<sup>135</sup>

### ***Changes in Hiring Standards and Workforce Makeup Reported by Firms***

The majority of affected firms, nearly 80 percent, reported that they did not change their hiring standards for workers on city contracts, as shown in Table 7-4. Of those who did, many said they are now seeking to hire applicants with better qualifications, including higher skill levels, more job experience, more education, and better English skills. One child care provider actually restructured the jobs covered by the living wage, by eliminating one teacher's aide position and replacing it with a higher-skilled and educated child care teacher. A janitorial firm reported hiring workers who were "more responsible" and had better English skills. The manager believed that the higher quality of workers has led to better service provision. However, a manager at a social service non-profit, located in the inner city, saw several drawbacks to the stricter hiring standards she adopted after the living wage. Since they were paying more for living wage positions, she increased the qualifications for hiring and the responsibilities for those positions. This made it more difficult to hire applicants from the local community, and she began to hire more people from outside the area. Besides decreasing job opportunities for local residents, she felt that the new hires don't have the same community service mentality.

In addition, two firms reported that they no longer hire teenagers, only adults. A concessions operator explained that he can't justify hiring teenagers when he could hire older workers who have a family to support. Another concessions operator at a golf course used to hire high school students who were interested in learning golf, but now only hires adults. Although a significant minority of affected firms did change their hiring standards, it is important to note that we found no evidence of existing workers being fired or pushed out in order to hire different workers.<sup>136</sup> Affected firms applied their new hiring standards to positions that became available through normal processes of turnover and attrition.

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<sup>135</sup> This analysis of worker characteristics does not include the "leavers," those workers who were employed at the time the firm became subject to the living wage, but have since left the firm, because we were unable to interview this group. Workers who have left may be different from workers who have stayed, and therefore the stayers may not present a fully accurate portrait of the workforce at the time of living wage implementation.

<sup>136</sup> The employer survey included an open-ended question about any changes in staffing that had occurred since the living wage. If employers were firing workers in order to replace them with more skilled staff, this question would have elicited that information. Indeed, one firm answered this question by saying that one lower-skilled teacher's aide position was eliminated and a higher-skilled teacher was hired instead due to the living wage.

**Table 7.4: Change in Hiring Standards**

| Type of Change   | % of Affected Firms | % of Covered Jobs in Affected Firms |
|--|---------------------|-------------------------------------|
| Did not change hiring standards  | 79%                 | 85%                                 |
| Changed hiring standards   | 21%                 | 15%                                 |
| Changes included the following: <ul style="list-style-type: none"> <li>• Hiring workers with more job skills or work experience</li> <li>• Hiring workers with more education</li> <li>• Hiring adults, not teenagers</li> <li>• Hiring more “responsible” workers</li> <li>• Hiring workers with better English skills</li> </ul> |                     |                                     |

Source: Living Wage Employer Survey

Margin of error =±9%

N=80

The majority of affected firms (87 percent) reported that the makeup of the workforce on city contracts had not changed (Table 7-5).<sup>137</sup> Qualitative evidence suggests that some affected firms that intended to change their hiring standards may not have been able to hire a different type of worker because the applicant pool did not change enough after the living wage. A manager at a non-profit organization that provides homeless services said she had hoped that the higher wages would attract a better applicant pool, but that this had not been the case. Two airline services firms reported that the living wage did not change the applicant pool at LAX significantly, but that the raises for security screeners that were implemented after 9/11 did attract more experienced and better educated applicants. These screener wages were significantly higher than the living wage—approximately \$13 per hour in most cases, or \$3.50 above the level of the higher tier of the living wage at that time. According to one manager, this wage increase also attracted applicants from outside the immediate area, unlike the majority of existing employees, who live near the airport. It is likely that the level of the living wage was not high enough for affected firms to hire more qualified applicants, but that they would be able to do so at higher wage levels.

**Table 7.5: Change in Workforce Makeup**

| Type of Change Reported by Firm | % of Affected Firms | % of Covered Jobs in Affected Firms |
|---------------------------------|---------------------|-------------------------------------|
| Workforce makeup did not change | 87%                 | 89%                                 |
| Workforce makeup changed        | 13%                 | 11%                                 |

Source: Living Wage Employer Survey

Margin of error is ±7%

N=79

<sup>137</sup> The difference between the 21% of firms that changed hiring standards and the 13% that reported that the makeup of their workforce had changed is not statistically significant.

For firms who said the makeup of their workforce had changed, the changes included hiring more skilled or experienced workers, more educated workers, older workers, and workers with better English skills. None of the firms reported any other demographic changes, such as changes in race or gender.

### ***Changes in worker characteristics***

Results from the Living Wage Worker Survey data comparing the characteristics of affected workers hired before and after the living wage largely corresponded with the employer responses, in that there were not major changes in the workforce. However, this analysis also revealed some differences between the two groups that were not mentioned in the employer surveys. In order to analyze whether affected firms are hiring different types of workers since the living wage, we divided workers into those working on the city contract at the time the living wage went into effect, or “stayers,” and those that were hired afterwards, or “joiners.”<sup>138</sup>

To compare the stayers and the joiners, we conducted a series of multiple regression analyses that measured the differences between stayers and joiners for a variety of worker characteristics, such as sex, race, and various characteristics that measure skill or education, other things held constant.<sup>139</sup> For many characteristics, there were no discernable differences (Table 7-6). The two groups showed no differences in their age at hiring, their years of schooling, whether they are a non-native English speaker, and whether they are currently attending school.

**Table 7.6: Characteristics That Were the Same For Stayers and Joiners**

|  |
|--|
| <ul style="list-style-type: none"><li>• Age at hiring</li><li>• Years of schooling</li><li>• Native English speaker</li><li>• Currently attending school</li></ul> |
|--|

Source: Living Wage Worker Survey  
N=208

For other characteristics, there were differences between the stayers and joiners, as shown in Table 7-7. Among joiners, the proportion who are men is 11 percentage points higher, holding other factors constant.<sup>140</sup> The proportion of affected workers who had participated in a formal job training program before being hired is 10 percentage points

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<sup>138</sup> This analysis excludes workers in firms that began contracting with the city after the passage of the living wage ordinance, or “new firms.” New firms employ 15% of the workers covered by the living wage. However, in our sample, there were very few workers in the new firms who were employed there before the firm began contracting with the city (only 5 workers). Therefore, data on the workers in the new firms does not give us information about changes in employer hiring practices, but rather reveals differences in the types of firms that have entered into city contracting since the living wage. Therefore, we discuss the workers in the new firms in a later section dealing with differences between old and new firms.

<sup>139</sup> The multiple regressions controlled for sex, age at hire, years in school, whether the worker is currently in school, whether English is the worker’s first language, whether the worker received formal training before being hired, race, firm, and occupation. Full regression results and further analysis can be found in Fairris and Fernandez Bujanda 2005.

<sup>140</sup> This difference is statistically significant at the .05 level.

higher among the joiners, although the difference is only marginally statistically significant. In addition, the proportion of affected workers who are Latino is 11 percentage points greater for the joiners, while the proportion who are white is 10 percentage points lower, although the difference in the percentage of Latinos is also only marginally statistically significant.<sup>141</sup> Finally, the last wage earned before the living wage by the joiners was 20 percent higher than that earned by the stayers. In other words, the average wage earned by the joiners at their previous job was higher than the average wage earned by stayers before receiving the living wage raise.<sup>142</sup>

**Table 7.7: Characteristics That Were Different for Stayers and Joiners**

| Worker Characteristic                   | Joiners | Stayers | Difference | Difference with Controls |
|---|---------|---------|------------|--------------------------|
| Male                                    | 51%     | 45%     | 6%         | 11%**                    |
| Received formal training before hiring  | 20%     | 12%     | 8%         | 10%†                     |
| Last wage earned before the living wage | \$8.48  | \$6.27  | 35%        | 20%***                   |
| Latino                                  | 51%     | 41%     | 10%        | 11%†                     |
| White                                   | 4%      | 11%     | -7%        | -10%*                    |

Source: Living Wage Worker Survey N=208

†Statistically significant at .20 level

\*Statistically significant at .10 level

\*\*Statistically significant at .05 level

\*\*\*Statistically significant at .01 level

Some of these changes likely reflect employers' preferences for more highly-skilled workers. Women typically have a more tenuous attachment to the labor market, so the preferences employers expressed for more experienced workers may have resulted in fewer women being hired. However, it is also possible that the decreased proportion of female workers may result from employer discrimination, made possible by the increased wage and the more male-dominated applicant pool that it may generate. The increase in the percentage of workers with formal training is more clearly linked to employer preferences for more skilled employees. Examples of formal training completed by joiners include security guard certification and training in cleaning procedures.

The wage differences between the two groups also may reflect employers' preferences for more highly-skilled workers. Joiners may have earned higher wages before the living wage because they are more highly-skilled, or they may have other desirable characteristics, such as greater intelligence, better personality, or other qualities which are difficult to measure with a survey. However, there may also be other explanations for the difference in wages. First of all, wages are not solely determined by worker skills. Other factors, such as firm labor policies, also play an important role in determining wages. Therefore, the difference in wages may be partially due to the characteristics of the joiners' previous employers, about whom we have little information. In addition, the

<sup>141</sup> The difference in the percentage of Whites is statistically significant at .10 level.

<sup>142</sup> The regression on the last wage earned before the living wage also controlled for minimum wage periods, firm fixed effects, whether the worker received employer-paid health benefits before the living wage, and whether the worker is a union member.

wage difference is affected by a small group of joiners who earned extremely high wages at their previous job, in some cases up to \$18 per hour. Some of these are older workers in their fifties or sixties moving from labor-intensive occupations, such as construction, into the service sector.

Finally, the higher percentage of Latino workers and the lower percentage of white workers is probably not due to the living wage. It may be explained by the broad demographic changes occurring in the Los Angeles labor market, which is increasingly likely to be Latino.<sup>143</sup>

In summary, a comparison of affected worker characteristics suggests that in many respects, the composition of the workforce has not changed, although joiners have had more training, are more likely to be male, and earned higher wages before the living wage. Attracting more highly-skilled workers represents a benefit to employers, since these workers are likely to be more productive and have less need for training and supervision. These changes in the workforce are likely to affect new job applicants, not the labor force that was in place at the time of the living wage increase. These changes represent a loss of job opportunity for new applicants who are women or have less training, as the 10,000 living wage affected jobs are now more difficult for these groups to access.

## **Employer Cost Savings**

This section explores whether affected firms experience costs savings through reductions in employee turnover and absenteeism, and whether employers made changes to increase worker productivity. We compare changes in turnover and absenteeism for living wage and non-living wage firms, as well as current rates of turnover for both groups. In addition, we estimate turnover cost savings as a proportion of the cost of the wage increase

### *Employee Turnover*

A wage increase may lead to a decrease in employee turnover for two different reasons. First, workers may value the job more at a higher wage level, and be less likely to leave voluntarily for a better-paying job. Also, a higher wage level may attract more desirable employees into the hiring pool and enable firms to be more selective in their hiring. Hiring better qualified employees may reduce the rate at which firms discharge employees for poor performance. The control group analysis measured changes in turnover for living wage and non-living wage firms by asking whether turnover increased, decreased or stayed the same. As shown in Table 7-8, although the majority of living wage affected firms experienced no changes in turnover, one-third did see a decrease in turnover, more than double the percentage for non-living wage firms. For the purposes of this study, turnover refers to the percentage of employees that quit or were

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<sup>143</sup> Latinos as a proportion of the population in L.A. County increased from 38% in 1990 to 45% in 2000. U.S. Bureau of the Census.



fired on an annual basis.<sup>144</sup> Living wage affected firms were asked specifically about changes in turnover for workers whose wages were increased due to the living wage.<sup>145</sup>

**Table 7.8: Change in Turnover for Living Wage Affected Firms and Non-Living Wage Firms**

| <b>Change in Turnover</b> | <b>Living Wage Firms</b> | <b>Non-Living Wage Firms</b> |
|---------------------------|--------------------------|------------------------------|
| No change                 | 58%                      | 76%                          |
| Decrease                  | 33%                      | 14%                          |
| Increase                  | 8%                       | 10%                          |
| N                         | 24                       | 63                           |

Source: Living Wage Employer Survey and SDHRP

The analysis comparing changes in turnover for living wage and non-living wage firms may be conducted in a control group setting with establishment controls for a variety of other factors that also affect turnover, such as union status and size. This control group analysis also shows that turnover decreased among living wage firms relative to non-living wage firms. In order to conduct a multiple regression analysis, the change in turnover variable was converted to a numeric scale ranging from zero to two, with zero representing a decrease in turnover, one no change, and two an increase. The results of this analysis show that the mean turnover change score for living wage firms is lower than that of non-living wage firms, as shown in row one of Table 7-9.<sup>146</sup>

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<sup>144</sup>In the living wage survey, the question on turnover asked about workers who quit or were discharged. The non-living wage survey also included workers who were laid off.

<sup>145</sup> The non-living wage survey asked about changes in turnover for the entire establishment. In order to make the results comparable, this analysis includes only those non-living wage firms where the percentage of low-wage workers is more than 60% of the establishment and only those living wage firms where the percentage of workers who received a wage increase is more than 60% of the workers on the city contract.

<sup>146</sup>The multiple regression analyses in this section controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry.

**Table 7.9: Measures of Turnover for Living Wage Affected Firms and Non-Living Wage Firms**

| Turnover Variable   | Living Wage Mean (Std. Dev.) | Control Group Mean (Std. Dev.) | Difference in Means (Std. Dev.) | Difference With Controls (Std. Dev.) |
|---|------------------------------|--------------------------------|---------------------------------|--------------------------------------|
| Change in turnover indicator                              | 0.71<br>(0.62)               | 0.97<br>(.052)                 | -0.26**<br>(0.13)               | -0.39**<br>(0.14)                    |
| N   | 24                           | 59                             | 83                              | 83                                   |
| Turnover rate for largest low-wage occupation in the firm | 21%<br>(28)                  | 49%<br>(61)                    | -28%**<br>(8)                   | -17%*<br>(9)                         |
| N   | 23                           | 113                            | 136                             | 136                                  |

Source: Living Wage Employer Survey and SDHRP

\*Statistically significant at the 0.10 level.

\*\*Statistically significant at the 0.05 level.

Results from the control group analysis also indicate that living wage affected firms have lower current rates of turnover than non-living wage firms, holding other factors constant, as shown in row three of Table 7-9. Looking at turnover just for the largest low-wage occupation in each survey firm, living wage affected firms report turnover rates of 21 percent, while non-living wage turnover is higher, with firms losing nearly half of their workforce in these occupations each year.<sup>147</sup> Controlling for a variety of other factors that influence turnover, the current turnover rate for living wage affected firms is 17 percentage points lower than that of non-living wage firms, and this difference is statistically significant.<sup>148</sup>

Several of the managers interviewed at living wage affected firms were quite aware that turnover was lower among their living wage workers, compared to the rest of their operations and to industry averages. Many of them attributed the decreased turnover to the living wage. According to one manager at a nation-wide janitorial services company, “Higher wages mean less turnover. People [in low-wage jobs] will move for 25 cents.” He said company management has estimated that a wage of \$7.50 to \$8 per hour will keep an employee for a year or two. (At the time of the interview, this was \$1.25-\$1.75 above the minimum wage). He also cited the example of certain high wage locations, such as unionized hospitals and movie studios, where clients pay more for janitorial services and workers make up to \$15 an hour. According to him, at these locations, “workers never leave.”

Another manager had observed a decrease in turnover rates since the living wage and agreed that “the more you pay, the lower the turnover.” According to him, company management has a conscious aim not to provide “throw away jobs,” where employees

<sup>147</sup> The living wage survey did not ask for turnover rates for the largest low-wage occupation. In order to make the results comparable, this analysis excludes those living wage firms that have more than one occupation affected by the mandatory living wage increase.

<sup>148</sup> The multiple regression analysis controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry.

won't stay. This particular manager had previously worked in management at a unionized hotel, which had a higher than average wage scale. He said it was much easier to recruit a quality workforce there than at similar hotels that offered lower wages. A manager at another firm, a food service concessionaire at the airport, said that he had hoped to see turnover drop once the living wage was implemented, and it did. Another manager at a parking firm saw turnover rates decline to 10 percent after the living wage. He explained that although the firm is terminating the same number of workers for poor performance as it did before, fewer workers are resigning, which has decreased overall turnover. According to him, "In the parking world, this is as good as it gets."

Lower turnover rates at living wage affected firms may be related to better health benefits as well as higher wages. However, the control group analysis found that health benefits were not a significant factor in lower turnover rates among living wage firms, although living wage firms were more likely to offer employer-paid benefits than non-living wage firms.<sup>149</sup> However, the variable for health benefits used in the control group analysis divides firms into those that provide employer-paid health benefits, and those that do not. It does not provide a measure of the amount of the employer contribution to benefits, or the cost to the employee to participate. Both of these factors are likely to affect employee participation in health benefit plans. If a firm offers a poor quality plan that is expensive to use, employees may not be likely to use it. Therefore, further research is needed in order to draw strong conclusions on the effect of health benefits on employee turnover.

The decreased turnover rates seen among living wage affected firms represent both potential productivity gains and cost savings for the employer. Lower turnover means more experienced employees, who need less supervision and are more skilled at their jobs. Fewer employees leaving means that fewer have to be hired, leading to decreased spending on recruitment, hiring, and supervisor time spent training new employees. The non-living wage firm survey asked firms to estimate the cost of replacing a low-wage worker, including separation, search, training, and lost productivity while the new employee learns the job. The average cost for to replace one worker for non-living wage firms was \$807.

Other estimates of replacement costs for low-wage workers have been higher (Table 7-10).<sup>150</sup> Robert Pollin and Mark Brenner conducted a survey of hotel, retail and restaurant firms in Santa Monica, California, in 2000. These firms reported an average cost of \$2,009 to replace a non-managerial worker, not including productivity losses. According to *Business Week*, even Wal-Mart, known for its low-cost labor policies, estimates the cost of hiring a new employee to be \$2,500.<sup>151</sup> In another study, researchers at the Cornell University School of Hotel Administration analyzed replacement costs for hotel

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<sup>149</sup> The starting wage of the largest low-wage occupation and whether the firm currently offers health benefits were added to the multiple regression on current rates of turnover. Whether or not the firm offers health benefits is statistically insignificant and does not help to explain lower current turnover rates among living wage firms. The lower turnover rate in living wage establishments is entirely accounted for by the higher wage that prevails there.

<sup>150</sup> This overview of turnover costs is largely taken from Michael Reich's discussion of the issue (Reich 2003).

<sup>151</sup> *Business Week*, "The Costco Way," April 12, 2004, p. 76.

workers in Miami, Florida (Hinkin and Tracey, 2000). Their estimates, which included lost productivity, ranged from \$1,332 for room-service wait staff, to \$3,383 for store clerks, and up to \$5,965 for front-office associates, whose work is similar to customer service agents. Finally, a professor at the University of Dallas, in a study for the Coca-Cola Retailing Research Council, found that the cost of replacing a non-salaried grocery store employee was \$4,297 (Frank, 2000).

**Table 7.10: Cost Estimates of Replacing A Low-Wage Worker**

| Source of Estimate                              | Industry                      | Cost Estimate     |
|---|-------------------------------|-------------------|
| Fairris, University of California, Riverside    | Various                       | \$807             |
| Pollin and Brenner, University of Mass. Amherst | Hotel, Retail, and Restaurant | \$2,009           |
| <i>Business Week</i> interview of Wal-Mart      | Retail                        | \$2,500           |
| Hinkin and Tracy, Cornell University            | Hotel                         | \$1,332 - \$5,965 |
| Frank, University of Dallas                     | Retail Grocery                | \$3,752           |
| Average of above estimates                      | Various                       | \$2,529           |

The costs savings from turnover reduction are significant, even when compared to the increased costs imposed by the living wage. In order to compare the two, we calculate the cost savings as a percent of the cost increase using three estimates of the cost of replacing a low-wage worker: the lowest estimate presented above, the highest estimate, and an average of all the estimates, which was \$2,529 (Table 7-11). Assuming a reduction in turnover of 17 percentage points, based on survey results discussed earlier, the cost savings in turnover reduction ranges from \$137 to \$638 per low-wage worker per year. To estimate the increased costs of the mandatory wage increase, we used the wage raise for the “stayer” workers, which represents the cost to the employer at the time the raise went into effect. The average raise was \$1.48 per hour for each worker. Assuming 35 hours of work for 52 weeks,<sup>152</sup> the annual cost increase is \$2,694 per worker. Therefore, the cost savings from turnover reduction makes up from 5 percent to 24 percent of the cost of increased wages.

<sup>152</sup> The average number of hours worked per week from the living wage worker survey was 35. The worker survey did not collect information on the number of weeks worked per year, so in order to provide a conservative estimate of cost savings, we assumed 52 weeks per year.

**Table 7.11: Calculation of Turnover Cost Savings as a Percent of Cost Increase Due to Mandated Living Wage Raises**

|   | <b>Lowest Estimate</b> | <b>Average of Estimates</b> | <b>Highest Estimate</b> |
|---|------------------------|-----------------------------|-------------------------|
| Cost of replacing a low-wage worker                         | \$807                  | \$2,529                     | \$3,752                 |
| Average turnover reduction for living wage firms            | 17%                    |                             |                         |
| Annual cost savings for one low-wage worker (Row 1 * Row 2) | \$137                  | \$430                       | \$638                   |
| Average hourly cost increase from mandatory raises          | \$1.48                 |                             |                         |
| Average annual cost increase for one low-wage worker*       | \$2,694                |                             |                         |
| Annual cost savings / annual cost increase                  | 5%                     | 16%                         | 24%                     |

\*Assumes 35 hours of work for 52 weeks.

***Employee Unscheduled Absenteeism***

The living wage ordinance could be expected to reduce unscheduled absenteeism in two different ways. If employees value their job more at the higher wage level, they may be less likely to risk the negative consequences of missing work without giving advance notice. Also, if the living wage meant an increase in paid time off, workers may be better able to plan time off in advance. The control group analysis compared the change in absenteeism for living wage and non-living wage firms, using the same three point scale for decrease, stay the same, and increase. An initial comparison shows that both groups showed a slight decrease in absenteeism, with no statistically significant difference between groups (Table 7-12). However, after controlling for a variety of other factors that may influence absenteeism, including union status, living wage affected firms show a greater decrease in absenteeism for workers on the city contract. The conditional mean absenteeism indicator for the living wage firms is 0.16 lower than that of non-living wage firms, and this difference is statistically significant.<sup>153</sup>

**Table 7.12: Change in Absenteeism for Living Wage Affected Firms and Non-Living Wage Firms**

|                       | <b>Living Wage Mean (Std. Dev.)</b> | <b>Control Group Mean (Std. Dev.)</b> | <b>Difference in Means</b> | <b>Difference With Controls</b> |
|-----------------------|-------------------------------------|---------------------------------------|----------------------------|---------------------------------|
| Change in absenteeism | 0.95<br>(0.36)                      | 0.99<br>(0.45)                        | -0.04                      | -0.16**                         |
| N                     | 47                                  | 164                                   | 211                        | 211                             |

Source: Living Wage Employer Survey and SDHRP

\*\*Statistically significant at the 0.05 level.

<sup>153</sup> The multiple regression analysis controlled for the following factors: firm size, non-profit status, whether the firm is independent or a subsidiary, union status, and industry. The difference was statistically significant at the .05 level.

Several managers interviewed explained that they believed that the decrease in absenteeism is due to the higher pay the workers receive. According to one manager, absenteeism has decreased because employees now “have more to lose if they don’t show up.” Another manager at a food service firm agreed, saying that employees value their jobs more because they know they will not receive as high a wage at other jobs.

Although the control group analysis revealed that absenteeism decreased at living wage affected firms, it did not include data from airport firms. Airport firms were more likely to report an increase in absenteeism, compared to non-airport firms. Unlike the control group study, increases and reductions in absenteeism balanced out for airport firms, resulting in no overall decline. All of the airport firms that reported an increase in absenteeism were in the airline services industry. At least one of these firms believed that the ordinance allows workers to take a paid day off without advance notice. The firm’s manager reported that this has been very difficult for the company. However, the living wage ordinance does not prohibit employers from having a policy that vacations or holidays must be scheduled in advance.

***Other Employer Changes to Increase Productivity***

The Living Wage Employer Survey asked if firms had made changes to equipment, machinery or the way the work is done in order to make employees more productive. Most affected firms reported that they had not made these types of changes, although three firms, representing 4 percent of the sample, did make changes (Table 7-13). These firms represent 7 percent of all covered jobs in affected firms. One firm is a janitorial subcontractor that also reported laying off 16 percent of its workforce because of the living wage. This firm bought new machinery to make the workers on the city contract more efficient, increased their workload, and said that workers now have to work faster and harder to get their work done. A manager at another firm, a food service concessionaire at the airport, said they have improved their systems to track costs and productivity on the city contract. They now keep track of sales revenue per worker hour. This has helped them to make staff scheduling decisions and has made their operations more efficient.

**Table 7.13: Employer Changes to Improve Productivity**

| <b>Changes to Improve Productivity</b>   | <b>% of Affected Firms</b> | <b>% of Covered Jobs in Affected Firms</b> |
|--|----------------------------|--|
| Did not make changes   | 96%                        | 93%  |
| Made changes   | 4%                         | 7%   |
| Changes included the following: <ul style="list-style-type: none"> <li>• Bought new machinery to make workers more efficient</li> <li>• Began tracking of sales revenue per worker hour</li> </ul> |                            |  |

Source: Living Wage Employer Survey  
N=80  
Margin of error is ± 4%.

## Changes in Contracting with the City

This section evaluates whether the living wage has resulted in changes in the types of firms and workers on living wage contracts. We examine whether affected firms have changed their attitudes towards contracting with the city, and which types of firms are more likely to do so. In addition, we examine differences between firms that already had a city contract before becoming subject to the living wage, and firms who have entered into contracting with the city since the living wage went into effect.

### *Changes in attitude towards city contracting*

The Living Wage Employer Survey asked firms if the living wage had changed their attitude about contracting with the city. The majority of affected firms, as shown in Table 7-14, reported no change. However, it is important to keep in mind that the survey did not include firms that no longer contract with the city. Some firms may have stopped contracting with the city due to the living wage, and this effect would not be captured by our survey results. At any rate, nearly one-third of affected firms did report a change in attitude. This survey question was open-ended, so the responses do not follow the same pattern as other survey questions about changes. Some affected firms reported that they were less likely to seek city contracts, while others found it easier to compete for city contracts.<sup>154</sup> Due to the small sample size, the difference between the groups that experienced a positive change and those that experienced a negative change is not statistically significant.

**Table 7.14: Change in Attitude Towards City Contracting**

| <b>Change in Attitude</b>            | <b>% of Affected Firms</b> | <b>% of Covered Jobs in Affected Firms</b> |
|--------------------------------------|----------------------------|--|
| No change                            | 70%                        | 74%  |
| Less likely to seek city contracts   | 19%                        | 15%  |
| Easier to compete for city contracts | 11%                        | 11%  |

Source: Living Wage Employer Survey

N=78

Margin of error ranges from  $\pm 2\%$  to  $\pm 10\%$

The firms that said they were less likely to seek a city contract cited the increased costs of the ordinance. One manager at a union janitorial firm said that because the living wage annual increase varies slightly each year, it is difficult to predict costs on the contract and bid appropriately. Since the city will not increase payment during the term of the contract, profits have declined on the living wage contracts. On other contracts, this firm expects a profit margin of at least two percent, but some of the living wage contracts are down to one percent, according to the manager. Another firm, a concession operator at a

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<sup>154</sup> One firm, representing 1 percent of the sample, said it was more likely to seek city contracts, and we combined this response with the “easier to compete” category. This firm experienced an increase in profit margin due to the hourly billing mechanism described at the beginning of this chapter. According to this manager, “If all my contracts were living wage, I’d be in heaven.”

city golf course, agreed that profits have declined because of the living wage. When the contract was renegotiated, the city tried to increase the percent of revenue payment, while also setting limits for prices that can be charged to the public. As a result of this squeeze, the manager said they “weren’t sure they could afford to continue [the contract.]” She believes that larger firms can afford to take a loss to “get a foot in the door” with the city, but that small businesses like hers are at a disadvantage.

On the other hand, some firms reported that the living wage has made it easier for them to compete for city contracts. Many of these firms complained about previously being underbid by other firms who they believe do not comply with basic labor requirements, such as paying minimum wage or carrying worker’s compensation insurance. The phrase used time and again by these firms was that the living wage had “leveled the playing field.” According to one contractor, the living wage “took a big, dark shadow” off of the bidding process by providing a common floor for bids. Before the living wage, managers at this firm felt that the bidding process was “short-sighted” and invariably rewarded the low-wage bidder. They were under serious cost pressure to decrease wages, because the low bidder would always win. Since the living wage, they are able to pay workers a higher wage and not lose out in the bidding process. The owner of a janitorial firm also said that the living wage had helped his company bid on city contracts, because it makes it easier for “scrupulous” companies with fair compensation practices, such as his.

In order to identify which types of affected firms were more likely to report positive and negative changes in attitude, we conducted a multiple regression analysis of attitudinal changes.<sup>155</sup> The dependent variable was whether the firm’s attitude towards city contracting changed in a positive way, a negative way, or stayed the same.<sup>156</sup> This analysis showed that firms with more paid days off were more likely to report positive changes. The Living Wage Employer Survey asked firms how many paid days off they provided to low-wage employees before they became subject to the living wage. The higher the number of paid days off, the more likely the firm was to experience a positive change in attitude.<sup>157</sup> This likely reflects the “level playing field” created by the ordinance, which several firms commented about. Firms with more generous benefits policies are now better able to compete for contracts.

In terms of negative changes in attitude, non-profit firms and smaller establishments were more likely to report them.<sup>158</sup> As previously discussed, several non-profit firms reported cutting staff and complained that the city would not increase payments on their contracts. All the non-profits surveyed provide social services and typically operate with tight budgets, so they were unable to cut back profits as other firms might have been able to

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<sup>155</sup> The analysis was an ordered logistic multiple regression, which included the following variables: industry, whether the establishment is a subsidiary, size of establishment, labor costs as a percentage of total costs, whether firms pay the higher or lower living wage, whether the firm was a contractor before becoming subject to the living wage, and whether the firm is at the airport.

<sup>156</sup> The positive change category combined the one firm that reported being more likely to contract with the firms that said it was easier to contract.

<sup>157</sup> Statistically significant at the .05 level.

<sup>158</sup> For non-profit firms, the relationship is statistically significant at the .05 level. For establishment size, the relationship is statistically significant at the .05 level.



do. In addition, several small establishments cited reductions in profit due to the living wage as the reason for their change in attitude towards city contracting.

### *Changes in Types of Firms*

It is possible that the changes in attitude towards contracting described above may have led to changes in the type of firms that currently hold living wage contracts, as less interested firms drop out of city contracting or firms that offer higher wages and benefits are more able to win contracts. In order to test this, we conducted a multiple regression analysis comparing the characteristics of firms that already had a city contract before the living wage (“old firms”), and those who have entered the city contracting sector since the living wage went into effect (“new firms”).<sup>159</sup> In our sample 21 percent, or 12 firms, are new to city contracting. This analysis shows that new firms are more likely to pay higher wages, even without the living wage. The survey asked every firm what the starting wages for occupations covered by the living wage would be if there were no living wage ordinance. The difference between this “counterfactual” wage and the living wage is one measure of the wage impact of the living wage. The smaller the difference, the higher a wage the firm would pay without the living wage. New firms are more likely to have a smaller difference between the counterfactual wage and the living wage<sup>160</sup>

Although new firms are more likely to pay higher wages in the absence of the living wage, they are not more likely to be union firms. In fact, the opposite is true. While 19 percent of old firms are unionized, less than 1 percent of new firms (only one firm) is unionized.<sup>161</sup> This does not necessarily mean that union firms are exiting the city contract sector. It may be that firms are becoming unionized after entering the city contract sector. Although we did not ask firms if they were unionized before becoming city contractors, we know that living wage firms are much more likely to be unionized than other private sector firms—64 percent of living wage affected jobs are unionized, compared to only 17 percent of private sector jobs in California. California public sector workers are also very likely to be unionized (54 percent of jobs). Furthermore, six firms, employing 23 percent of living-wage-affected workers, became unionized through the Respect at LAX campaign after becoming subject to the living wage. Therefore, the lower rates of unionization among new firms may be due to their recent entry into contracting, and may change over time.

The multiple regression analysis also suggests that new firms are less likely to be small businesses, although the results are not definitive. New establishments are more likely to be subsidiaries of a larger firm, although this relationship is only marginally statistically

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<sup>159</sup> The analysis was a logistic multiple regression that included the following variables: industry, whether the establishment is a subsidiary, size of establishment, labor costs as a percentage of total costs, whether the firm pays the higher or lower tier of the living wage, and the number of paid days off before the living wage ordinance. The multiple regression was conducted on a reduced sample of 42 firms due to missing data.

<sup>160</sup> statistically significant at the .05 level.

<sup>161</sup> The difference between old and new firms is statistically significant at the .10 level. In the reduced sample for the multiple regression, none of the new firms were unionized, so this variable was not used.

significant.<sup>162</sup> New firms that are independent are also more likely to be larger.<sup>163</sup> Since small businesses are small, independent firms, these results suggest that new firms are less likely to be small businesses.

### ***Changes in Types of Workers***

In order to evaluate whether changes in the types of firms entering into city contracting is reflected in changes in the types of workers working on city contracts, we conducted a series of multiple regression analyses that compared workers in old firms who were hired before the living wage went into effect (“stayers”), to workers in new firms, and controlled for industry and occupation.<sup>164</sup> These analyses shows that workers in new firms are older at hire, have more years of schooling, are more likely to be female, and earned a higher wage before becoming subject to the living wage (Table 7-15). Although the greater age, years of schooling, and higher previous wages may be explained by the tendency towards the usage of more skilled labor in the living wage sector, the increase in the proportion of women is more difficult to explain. Workers in new firms are four years younger than stayers, but after controlling for worker characteristics, occupation, and industry, workers in new firms are 11 years older on average than stayers. Older workers are likely to have more job experience and greater job skills. Workers in new firms also have a slightly higher level of education, with 1.2 years more of schooling than stayers. For workers in new firms, their wage at their previous job was 13 percentage points higher than the wage earned by stayers before the living wage. This wage difference may reflect characteristics which make them more productive, but are difficult to measure in a survey, such as intelligence, strength, or personality. Among workers in new firms, the proportion who are women is 18 percentage points higher than it is among stayers. Women typically have fewer years of experience in the labor force and tend to be lower paid, so it is unlikely that this result is due to the higher wages paid by new firms. In sum, the higher wages paid by new firms are reflected in a more experienced and slightly more educated workforce, but they have not led to demographic changes in the workforce.<sup>165</sup>

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<sup>162</sup> Statistically significant at the .20 level

<sup>163</sup> Statistically significant at the .10 level.

<sup>164</sup> The analyses measured the impact of being a stayer or a worker in a new firm on a series of worker characteristics. The analyses controlled for the following factors: industry, occupation, race, years of schooling, whether the worker is currently attending school, whether English is the worker’s first language, whether the worker underwent formal training before hiring, and sex. The analysis compared workers in new firms to both stayers and joiners in old firms. The full regression results and additional analysis can be found in Fairris and Fernandez-Bujanda 2005.

<sup>165</sup> The multiple regression analysis also showed that workers in new firms are more likely to be Latino and less likely to be Asian, but these changes are probably not related to the higher wage paid by the new firms.

**Table 7.15: Characteristics of Stayers in Old Firms and Workers in New Firms**

|   | <b>Workers in New Firms</b> | <b>Stayers</b> | <b>Difference</b> | <b>Difference with Controls</b> |
|---|-----------------------------|----------------|-------------------|---------------------------------|
| Age at hire                             | 33 years                    | 37 years       | -4 years          | 11 years***                     |
| Years of schooling                      | 12.6 years                  | 12.1 years     | .5 years          | 1.2 years *                     |
| Female                                  | 81%                         | 56%            | 25%               | 18%**                           |
| Last wage earned before the living wage | \$7.80                      | \$6.27         | 24%               | 13%***                          |

Source: Living Wage Worker Survey

N=235

\*Statistically significant at .10 level

\*\* Statistically significant at .05 level

\*\*\*Statistically significant at .01 level

## Conclusion

The majority of affected firms and workers have not made changes in response to the living wage mandate. This may be due to the moderate size of the wage increase, which averaged \$1.50 per job at the time of implementation, and continues to increase through annual indexing. A larger wage increase, which could result from either a higher living wage level or lower wages before the living wage went into effect, might induce more widespread or more dramatic firm and worker responses.

Although the majority of affected firms did not make changes, some firms did take cost-cutting steps, which in most cases affected only a small minority of workers. A significant minority of affected firms cut staff, although reductions were minimal—112 jobs, or 0.8 percent of covered jobs in affected firms. Several social service non-profits complained that staff cuts were necessary because the city would not increase reimbursement on their contracts to help cover the increased costs of the living wage. These anecdotes, in combination with the result that non-profits are more likely to report a negative change in attitude towards city contracting, point to the need for the city to look more closely at the reimbursements non-profits receive on living wage contracts. Why some non-profits report hardship while others do not is a question that deserves further investigation. A minority of affected firms also cut costs by reducing benefits such as health benefits, merit raises and bonuses, which affected at most 5 percent of workers on living wage contracts in affected firms. Affected firms decreased overtime hours, in sharp contrast to non-living wage firms, which increased overtime during the same period. Affected firms also kept training for new hires at the same level, while non-living wage firms increased training, representing a relative decrease in training for living wage firms. This may reflect the fact that living wage affected firms are hiring more workers with previous formal training, who do not require as much on-the-job training.

In terms of workforce changes, the worst case scenario— the displacement of the workers who are the intended beneficiaries of the living wage—has not occurred. The majority of affected firms have not changed their hiring standards and reported seeing no changes in the composition of their workforce. A comparison of affected workers hired before and

after the living wage reveals that new hires are no different in terms of age at hiring, years of schooling, whether they are native English speakers, and whether they are currently attending school. The proportion of Latinos has actually increased, while the proportion of whites has decreased, although this is more likely to be a reflection of demographic changes in the labor pool, rather than a result of changes in hiring preferences.

New hires are different in three important ways, however. Among new hires, the proportion of men is 11 percentage points greater and the proportion of workers who have had formal job training before being hired is 10 percentage points greater. Furthermore, the wages earned by new hires in their previous job before becoming subject to the living wage are 20 percent higher (compared to the wages paid by employers before the living wage). This wage difference may reflect employers' preferences for more highly-skilled workers. For employers, attracting better-trained workers means more productive employees and less time and money spent on training and supervision. From the workers' perspective, new applicants who are women or have less training will likely have more difficulty accessing these 10,000 living wage jobs.

Affected firms have also experienced some cost savings following the living wage, which partially mitigates the cost increases. One in three living wage affected firms reported a turnover decrease, which was twice the rate for non-living wage firms. Current rates of turnover are 17 percentage points lower on average at living wage firms than at non-living wage firms. The cost savings from turnover reduction allow living wage affected firms to recoup 16 percent of the costs of the mandatory wage increase. Rates of unscheduled absenteeism for affected firms have declined as well, representing a further cost savings.

Finally, the living wage has led to some changes in contracting patterns with the city. Although most affected firms feel the same about city contracting as they did before the living wage, firms that provided more paid days off before becoming subject to the ordinance find it easier to compete for city contracts. This may reflect the "level playing field" created by the ordinance, mentioned by several firms, which benefits firms with more generous labor policies. Non-profits and smaller establishments report that they are less likely to seek city contracts, although interviews with officials in five different city departments revealed no knowledge of firms that had left city contracting due to the living wage. Firms that have entered into city contracting since the living wage are more likely than other firms to have paid higher wages previously. This may explain why their workers are older at hiring and have slightly more years of education compared to workers hired before the living wage.

## Chapter 8 : Conclusions and Policy Implications

Living wage policies have proliferated across the country as local officials have sought ways to tackle the growth of low wage jobs in their communities. Although these ordinances typically apply to a small section of a given metropolitan labor market, they can focus public discussion on issues of job quality and low-wage poverty. Advocates argue that the public sector should not be a low-wage employer, and that increasing wages will improve the standard of living for poor and low-income workers. Opponents charge that living wage laws lead to job loss, and that many low-wage workers do not live in poor families. Our findings suggest that Living Wage Ordinances can provide tangible benefits to workers in poor and low-income families, with small negative impacts on business. Our findings do not address who bears the costs of the living wage, which may include employers, their customers, city government, and local taxpayers. In this chapter, we situate our findings in the context of the policy debates that surround living wage proposals, and suggest ways the benefits of the policies can be maximized and the negative impacts minimized.

*Are living wage affected workers poor or low-income?*

Given their characteristics, living wage workers are likely to be low-income. More than 70 percent have a high school education or less. Only 4 percent are teenagers, compared to 14 percent of low-wage workers in the county. The average affected worker has been in the labor force for 19 years, and nearly 90 percent are working full time. Living wage workers are more likely than other low-wage workers to be female (nearly 60 percent), to be African-American (30 percent), and to be single parents (16 percent). Indeed, nearly 45 percent of living wage workers surveyed said they use a government assistance program or claimed the Earned Income Tax Credit, even while earning the living wage.

We used data on low-wage workers in L.A County to estimate poverty levels and low-income status for living wage workers. Only fifteen percent of low-wage workers in the county are in severe poverty, falling below the federal poverty guidelines. Most people below the poverty guidelines are not working, so it is not surprising that the living wage does not primarily affect this group. Using the standard of 200 percent of the poverty guidelines as a more realistic measure of poverty status, 43 percent of low-wage workers are poor. These workers meet the income eligibility criteria for various government anti-poverty programs. Finally, the majority of workers, or 69%, can be considered low-income. They fall below a self-reliance standard for Los Angeles County, and would likely have difficulty making ends meet without sharing housing or relying on government assistance or informal childcare. The remaining 31% of low-wage workers are not low-income.

Compared to low-wage workers in the county, living wage workers are likely to have lower family incomes because they are less likely to be teenagers, and more likely to be female, African-American, and single mothers. The income gains from the living wage, then, predominantly affect poor and low-income families, who can likely use the extra income to help meet the high cost of living in Los Angeles.

*Has the Living Wage Ordinance brought about significant improvements for workers and their families?*

The Living Wage Ordinance had a significant impact on pay for workers in affected jobs at the time the ordinance went into effect. An estimated 9,600 workers received direct or indirect raises due to the law. Of those, 7,700 received a mandated raise, estimated at \$1.48 per hour on average. The gain translates into \$2,600 in a year on average or an annual gain of \$20 million. In addition, pay for those jobs increases every year, as the wage level is indexed to increase annually. The remaining 1,900 workers received indirect, non-mandated raises, mostly so firms could maintain pay differentials within the establishment, adding another \$2 million annually in pay increases.

Over time, the workforce has changed, and the wage gains for workers hired after the living wage have not been as great. Workers hired after the living wage went into effect came from higher-paying jobs, and therefore received smaller raises on average, even after adjusting for the effects of minimum wage increases. For the workers at the time of our survey, the average mandatory raise was \$1,295, about half the size of the pay increase for the jobs at the time of implementation.

The pay increase only tells part of the story as workers must pay taxes on their increased earnings. In an analysis of three prototypical families drawn from survey data—a two parent family with two income earners, a single parent family, and a single worker—workers kept between 71 and 76 percent of their wage gain after taxes. Living wage workers in these prototypical families saw a decline in eligibility for Section 8 Housing vouchers, a program that is used by only 2 percent of living wage workers. The single parent family also saw a reduction in Food Stamp eligibility. Combined with a reduction in Section 8, the wage gain of the single parents could be completely offset by the loss of program eligibility. However, the majority of single-parent living wage workers do not rely on these programs. Only 12 percent use Section 8 rental subsidies, and only 6 percent rely on Food Stamps. Other low income families—like one in which only one parent works—might also lose eligibility due to a living wage increase. But again, most living wage workers do not rely on Food Stamps and Section 8, programs that are vulnerable to slight fluctuations in income. None of the workers in the prototypical families lost their eligibility for public health insurance, which would represent a significant loss to families with children.

There was significant variation in the raises workers received. Consequently, not all workers we interviewed received significant raises due to the ordinance, and some joiners even saw a decrease in wages from their previous non-living wage job. Nevertheless, more than one-third of workers we surveyed had compelling stories to tell about how their lives had been changed by the pay increase. One worker reported being able to leave an abusive husband, others reported feeling more tranquil due to the raise, and still others were able to make much-needed purchases (from a new car to children's clothing). But the living wage ordinance did not transform the lives of most workers. This is not surprising given the size of the average raise and the fact that other costs in

Los Angeles County—such as housing and health insurance—have been rising at a rapid rate. Indeed, more than 80 percent of workers said that the living wage was not enough to allow them to meet their basic needs. Some forty percent of workers said they or their family were currently relying on a government assistance program like Medi-Cal or the Earned Income Tax Credit, both indicators of need. Across family type, workers said they would need \$13 per hour plus free full family health insurance to truly afford life in Los Angeles. Although many factors go into setting living wage levels, testimony from workers themselves represent a much-needed contribution to the debate.

The benefits of the living wage go beyond the workers who received the mandated raise. An estimated 1,900 workers received non-mandated raises. In contrast to government assistance programs, living wage policies impact a broader group of workers than those covered under the legal mandate.

The living wage also led to an increase in time off. The average firm increased paid days of increased by 1.7 days, or 23 percent and unpaid days off by 2 days, or 22 percent. The increase in paid days off is worth about \$126 in pay to the average living wage worker. However, eight percent of workers volunteered that they did not have full access to the sick and vacation days they are owed, suggesting that there may be a compliance problem with regard to paid days off. Firm surveys also revealed that some airlines service firms misunderstood the time off provisions of the law, believing that workers could take the time off they were owed as soon as they accrued it, and without approval of management. Consequently, Los Angeles city officials may want to take a closer look at how this aspect of the law is being implemented.

We were unable to interview workers who left city contract firms after the living wage ordinance came into effect, and so we know very little about how the ordinance affected the wages or benefits of these workers. Survey evidence clearly reveals that few of these “leavers” were forced out of their firms through dismissals. Because these workers left voluntarily, we might conclude that wherever they left for, their current well-being is likely to be at least as great as at their former living wage job. This report has no definitive findings on this matter, though, and so should be viewed as an analysis of the impact of the living wage ordinance on work and workers in the city contract sector only.

#### *How does the living wage ordinance affect health coverage?*

Like many other living wage laws around the country, the Living Wage Ordinance was designed to encourage employers to offer affordable health insurance to their low wage workers. Living wage employers may comply with the ordinance by paying either a higher wage or a lower wage and a \$1.25 contribution to health insurance. Because contributions to employee health benefits are not subject to payroll taxes, firms would face a smaller cost increase by paying the lower wage. Our analysis revealed that the living wage ordinance did not prompt firms to extend health insurance coverage to their affected workers. Nevertheless, a small group of firms improved their existing benefits plans or expanded benefits to low wage workers in order to comply with the law, changes that led to improvements for about 2,200 jobs. Two percent of firms decreased benefits

for their workers in response to the ordinance, resulting in benefit reductions for 140 jobs or for about 1.5 percent of the workers who received raises due to the law.

These modest changes suggest that a \$1.25 health differential can cause some firms to improve their health insurance plans. But the ordinance has not resulted in significant numbers of workers gaining health insurance. Although firms in the city contract sector are more likely to offer employer-paid benefits than their non-living wage counterparts, more than 38 percent of workers lack health insurance or use public programs. Workers do value health insurance highly, with 75 percent of lower-wage workers say they would not give up their access to health insurance for a \$1.25 per hour increase. Similarly, 58 percent of higher-wage workers say they would take a \$1.25 per hour pay cut in order to have no-cost individual health insurance.

Health benefits that are affordable for workers will likely be difficult to achieve with the current \$1.25 differential, which is less than the average cost of employer-provided individual health benefits in California. Increasing the differential would also provide a greater payroll tax savings, increasing the incentive for firms. Encouraging firms to provide affordable health coverage for workers' families is a greater challenge. Union firms, with access to union purchasing pools, have demonstrated the greatest success in this area.

*Does the living wage lead to job reductions or other negative impacts?*

The majority of firms we surveyed had not engaged in major cost cutting due to the Living Wage Ordinance. A larger wage increase might have induced more widespread firm responses. Nevertheless, some firms did take cost cutting steps, which in most cases only affected a minority of workers. A significant minority of firms cut staff (19 percent), and these reductions were minimal—112 workers—or one percent of affected workers. A minority of living wage firms also cut such benefits as merit increases, free lunches, health benefits (as discussed above), changes that affected no more than 5 percent of affected workers. Living wage firms also decreased overtime and training for new hires, relative to comparable non-living wage firms. Several firms reported that the enforcement of the ordinance has created an onerous paperwork burden. Firms must submit certified payroll records for each contract covered by ordinance, and some firms have numerous covered contracts.

A minority of firms reported making changes in their hiring standards, and the living wage workforce also became more male and more highly trained after firms became subject to the law. For employers, attracting better-trained workers means more productive employees and less time and money spent on training and supervision. From the workers' perspective, new applicants who are women or have less formal training will likely have more difficulty accessing these 10,000 living wage jobs. Moreover, new hires may possess greater unobservable skills, as suggested by the fact that they have higher before wages than do stayers.



In spite of the difference between new and old workers, the workforce remains unchanged in many important respects. New hires are no different in terms of age at hiring, years of schooling, whether they are native English speakers, and whether they are currently attending school. There has been a significant increase in the proportion of Latinos among new hires, most likely a reflection of demographic changes in the labor pool.

Although the negative impacts appear to be minor, some firms—namely social service organizations—may be disproportionately burdened by the law. Several social service firms complained that they cut staff because they were unable to pass on increased costs to the city. Social service firms were also more likely to report a negative change in attitudes toward city contracting than other firms. Given the importance of the work done by these firms—and the difficulty non-profit organizations have securing funding—the city may want to ensure that its funding for non-profits recognizes their increased costs due to the ordinance.

*Are there benefits to firms from raising wages?*

Employers have experienced cost savings following the living wage, which partly offset the cost increases. One in three living wage firms reported a turnover decrease, which was twice the rate for non-living wage firms. The average current turnover rate at living wage firms is 17 percentage points lower than at non-living wage firms, resulting in an estimated cost savings of \$430 per worker per year. Through these turnover reductions, the average firm makes up 16 percent of the cost of the wage increase. Employers have also benefited from declines in unscheduled absenteeism, and an increased ability to recruit more highly-trained workers.

*Are there benefits to taxpayers from the Living Wage Ordinance?*

Our analysis of prototypical workers—a single worker, a couple with children, and a single parent—suggests that living wage laws may provide benefits to taxpayers, as well. Annual federal and state tax receipts increased by between \$259 to \$491 depending on the family type. For each family type, at least 95 percent of the benefits went to the federal government. (States and federal governments would also benefit from increases in employer payroll due to the living wage raise.) In our analysis of prototypical workers, the federal and state government did not see substantial potential savings in the area of government assistance. Eligibility for Section 8 rental housing subsidies were affected for the single worker prototype and the single parent prototype, but most workers do not use this program. Only the single parents prototype (single parents make up 16 percent of the sample) saw a reduction in Food Stamps. But most living wage workers who are single parents (92 percent) do not make use of the Food Stamp program.

In summary, the experience of the Los Angeles Living Wage Ordinance shows that the law had measurable positive impacts on workers. Workers saw real wage gains that had a positive—if not a transformative—impact on their lives. Most of these wage gains go to workers in poor or low-income families, who can likely use the extra income to help

meet the high cost of living in Los Angeles. As predicted by some economists, the ordinance did cause a slight shift in the demographics of the workforce, with workers becoming more male and more highly trained, but they remain the same in many respects, as they continue to be mostly non-white workers with a high school education or less. Cost cutting strategies employed by a minority of firms had minimal impact on workers, with job reductions at less than 1 percent. Firms also saw reductions in turnover and absenteeism, allowing them to recoup some of the cost of higher wages. More attention needs to be paid to the health insurance differential if it is to really encourage employers to provide affordable insurance to their workers. Likewise, social service agencies may merit special attention since they may be disproportionately impacted by the ordinance.

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## Appendix A: Survey Methodology

This research project was started as a joint venture between economists at the University of California and LAANE. The City of Los Angeles had contracted for a study of the fiscal impacts of the LWO on the City itself,<sup>166</sup> but no one planned to interview the workers. In cooperation with the City, we set out to survey not only the firms affected by the ordinance, but their workers as well.

The project began in 2001 and has continued through the end of 2004. The early stages of the project were devoted to developing and pilot-testing the firm and worker survey questionnaires, as well as working with the City to transform their enforcement database into something we could use as a sampling frame. We also convened an academic advisory board for the project, and we incorporated their comments into the design of the study.

This methodological appendix discusses the various surveys that constitute the basis for this report.

### Design of the Living Wage Employer and Worker Surveys

The goal of the project was to conduct a survey of workers in jobs where pay was increased to meet the requirements of the Los Angeles City Living Wage Ordinance. In order to interview these workers, it was necessary first to identify firms that were covered by the ordinance and that might have low-wage workers, and then to take a sample of these firms and talk to their management in order to be able to identify and sample the affected workers.

Therefore, we adopted a two-stage cluster sampling approach—first sample the firms, then sample the workers within the sample of firms—because taking a random sample of all covered workers would have been too costly. We used the database maintained by the city<sup>167</sup> to develop lists of covered firms, focusing on those firms deemed by the city to employ significant numbers of low-wage workers. These firms, in industries such as janitorial and landscape maintenance, are categorized as “priority one” by the city. Other firms, labeled “priority two,” certify that all their employees earn at least \$2 per hour above the living wage, and “priority three” firms certify that all of their employees earn at least \$15 per hour.<sup>168</sup> We examined the priority two firms and concluded that the classification was properly done and that we would miss very few low-wage workers by focusing on the priority one firms. In fact, we had to screen out many of the priority one firms because they had no workers impacted by the law.

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<sup>166</sup> Richard Sander’s study has never been completed. However, he has written up various findings over the years and we reference these in different parts of this report. The unfinished nature of his research demonstrates just how difficult these studies are.

<sup>167</sup> At the time of the survey, the database was kept by the Contractor Enforcement Section of the City Administrative Officer. It is now kept by the Office of Contract Compliance of the Bureau of Contract Administration.

<sup>168</sup> See Appendix B for a fuller discussion of this database and a breakdown of the numbers of firms in the different categories.

We developed a database that stratified the priority one firms into the following groups:

- Airlines
- Airline services, including security screening, baggage handling, and skycaps
- Janitorial
- “Outdoors work,” including landscape maintenance, brush clearance, tree trimming
- Retail and food service
- Security and parking
- Social services
- Transit
- Miscellaneous, including golf courses, amusements, citation processing, etc.

We divided each stratum into large firms ( $\geq 50$  workers on the city contract or lease) and small firms ( $< 50$  workers on the city contract or lease) and took a random sample of each. We sent a letter requesting their participation to each firm in the sample, along with a letter from the City of Los Angeles instructing them that they were required to cooperate as part of their contract with the City. We then called the sampled firms to conduct a preliminary screening, to make sure they had raised wages in order to comply with the ordinance. Based on this screening of firms for the employer survey, there were no firms that only improved benefits to comply with the ordinance, without also raising wages. We would then arrange for an in-person interview with management. Since we needed to talk to management in order to obtain a list of workers, we decided to conduct formal interviews with the firms and we wrote a questionnaire for this purpose (see Appendix \_\_\_ for a copy of the Employer Survey). These interviews typically lasted one to two hours and were conducted with owners, personnel managers, or other management, or at times with all of these. In this report, the results of these interviews are referred to as the **Living Wage Employer Survey**.

Considerable effort went in to analyzing and completing the city’s database of contracts. Because contracts were constantly being renewed, the contractors were changing as we conducted the survey. We would call firms only to find that they no longer held a contract with the city and hence were no longer willing to cooperate with the survey. At first we thought we would interview some of these firms (and workers from these firms) to see what had happened after the Living Wage Ordinance no longer applied to the firms, but this proved impossible. Almost no one would cooperate and we had no way for the City to compel them to participate. This was such a problem that in two instances the contract expired after we interviewed the firm and as a result the firms refused to provide contact information for the workers. Therefore, there were only two interviews conducted with firms—both small—that did not have current city contracts when we took a sample, and six interviews with firms whose contract expired between the time we selected them and we interviewed them. This study does not specifically address what happened in the firms that no longer have a city contract.

Instead of trying to interview firms with expired contracts, then, we began screening them out at the initial contact stage, along with the firms that did not have workers affected by the Living Wage Ordinance. This tended to exhaust the sampling frame. Therefore, as the survey progressed we periodically added the new groups of

contractors into the database and took samples of them separately in the same manner that we took the initial sample. This was necessary due to the significant lag time between the signing of a contract and its entry into the database, on average 6 months.

It is important to reiterate that the Living Wage Employer Survey was not designed as a sample of all firms *subject* to the living wage ordinance, but was instead an artifact of our attempt to interview the workers *affected* by the wage provision of the law. It is a random sample of firms with *affected* workers, but we interviewed only as many firms as was necessary to generate minimum numbers of workers in the different strata. Consequently, it is not a large sample; the sample size is 82. In the end, we interviewed workers at 62 of these firms.

We over-sampled the large firms for cost and clustering reasons. However, most of the workers impacted by the Living Wage Ordinance are in a relatively small number of firms, mainly at the airport. Excessive clustering could easily lead to a study of the airport and provide little information about the other sectors. In order to obtain information about workers in all affected occupations, as well as from union and non-union firms, we decided to limit the number of workers at any one firm.

Therefore, at the second stage of the sample, to limit the clustering, we adopted a rule of sampling one out of every five workers, but no more than 10 workers in a firm—any firm with 46 or more workers is represented by a sample of 10. The one exception to this rule is the airline services industry, where extensive consolidation has occurred at the airports in the wake of 9/11, and where a few firms employ many thousands of the workers subject to the ordinance. For each of these large airline services firms, we took a sample of 20 workers.<sup>169</sup>

In every instance, we requested a payroll list with the name, occupation and date of hire of the affected employees. We then took a random sample and tried to work with management to contact the selected workers. We stratified the workers in the sampled firms into occupational groups whenever possible, in order to provide as broad a range of experiences as possible. This was possible in 11 of the 62 firms where workers were interviewed. We attempted to further stratify workers by whether they were at the firm before the living wage ordinance took effect or were hired afterwards, in order to be able to compare these experiences. This was possible in 13 of the 62 firms. This latter stratification allowed us to compare the experiences and characteristics of the “stayers” to the “joiners.” However, there was no way to contact the workers who separated voluntarily or involuntarily from the firms after the LWO took effect, the “leavers.”

We found that with the encouragement of the city, most of the firms agreed to participate in the study. However, in a number of instances we had to have the City’s enforcement agency call the firm, or if that didn’t work we had the City contracting department that controlled the firm’s contract call them. Without this assistance from the City, the survey would not have been possible. Only in one case did we fail to interview any firm from one of the industry/firm size strata. Small airline service companies, most of which are subcontractors to airlines that have leases, uniformly refused to cooperate. Airport management was unable to convince them or their airline contractors to cooperate and we found we had no further recourse. Therefore, this study does not include the

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<sup>169</sup> However, due to the difficulties of locating workers at the airport, we actually interviewed 11, 14, and 19 workers at these three firms.



experiences of airline service contractors with fewer than 50 employees, some 20 firms. Apart from this stratum of small airline service contractors, 16 firms refused, implying that about 84 percent of the firms sampled were interviewed.

Remarkably, only seven firms that we interviewed refused to supply us with the names of their employees. However, a great deal of follow-up work was required to actually obtain the worker lists that were promised. We hired a full-time staff person for a year just to do this follow-up. As a result of these refusals, as well as other factors, the worker sample is drawn from a total of 62 firms.

Another area that proved to be quite labor-intensive was obtaining home contact information for the sampled workers. In some cases, the employers were willing to provide home phone numbers, but in many cases they refused to release such personal information. In those cases, we sent interviewers to the work site to find the selected workers and arrange interviews. These visits often took hours because of the unpredictability and variability of workers' schedules.

We paid the workers \$25 for their participation and usually conducted the interviews away from the job site, often in the workers' homes or wherever they felt most comfortable. All interviews were conducted in person in either English or Spanish.<sup>170</sup>

In this report, the results of this survey are reported as the **Worker Survey** (see Appendix \_\_ for the questionnaire). This survey has a sample size of 320. Approximately half of the workers are at an airport (LAX or Ontario) and half are in other sectors of the economy. About 44 percent of the workers were hired by the firms before the Living Wage Ordinance was applied to the firm and 56 percent after. Some 76 workers refused to be interviewed, which is to say our response rate was 81 percent. Difficult groups included the skycaps, who received many tips and did not want to discuss them, and security guards—29 refusals were in big airline service firms and 11 refusals occurred at one security guard firm.

### **Employer Control Group Survey**

A third survey was conducted by David Fairris and Mark Brenner. This survey consisted of a random sample of firms in the same industries as those in the Living Wage Employer Survey, but none of which were city contractors. The purpose of the survey was to provide a control group against which to compare the results of the Living Wage employer survey. In this report the results or comparisons from this survey are reported as the **Survey of Diversity in Human Resource Practices (SDHRP)**. This survey has a sample size of 210 firms. A two stage stratified sampling approach was used in which establishments were first divided into the industry sectors used in the living wage survey. Within each sector, the establishments were further divided into large (>50 employees) and small establishments. The SDHRP survey questions were patterned after the living wage survey. The SDHRP survey was conducted from the fall of 2001 to the fall of 2002. There are some differences between the SDHRP and the Living Wage Employer Survey that are worth noting. The living wage survey was conducted in person while the SDHRP was a mail-in survey that also involved considerable telephone follow up.

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<sup>170</sup> It turned out that most of the immigrants who were native speakers of other languages were working in jobs that required English proficiency.

Unlike the Living Wage Employer Survey, the SDHRP did not have the official endorsement of the City of Los Angeles and consequently there was a lower response rate (23 percent). Both surveys asked firms retrospective questions. The living wage firms were asked to compare their experiences before the law went into effect to their experiences after the law went into effect. SDHRP firms were asked to compare the current experiences to their experiences two years prior to the interview, based on preliminary evidence from the living wage survey that showed that the average living wage firm came under the ordinance in the middle of 2000. Nevertheless, there was variation in the time that living wage firms became subject to the law, and this could influence results especially in the case of wage changes. In such cases, a subgroup of firms with “before” dates that are more tightly distributed around the “before” dates of the nonliving wage establishments were also examined. Findings from this control group analysis are forthcoming in *Industrial Relations*.

## **Appendix B:**

### **Methodology For Estimating Numbers of Living Wage Firms and Jobs**

We estimated numbers of living wage firms and jobs by using data from both the living wage employer survey and the database of all living wage contractors kept by the City of Los Angeles. This database, called the Living Wage Contractor Database, is used by the City to track compliance with the provisions of the Living Wage Ordinance. The database was created by the City's Bureau of Contract Administration (BCA), a division of the Department of Public Works, which was the first agency to enforce the LWO after its passage in 1997. Enforcement was transferred in 1999 to the Contractor Enforcement Section of the City Administrative Officer (CAO), which maintained the database from 1999 to June of 2004. In July of 2004, enforcement was transferred back to BCA, which now maintains the database in its Office of Contract Compliance. We used the database both as a sampling frame and also to estimate the number of living wage jobs.

The database contains information provided by both the city departments that hold living wage contracts and by the firms themselves. Each living wage contract is a separate record in the database, so a firm with multiple contracts will have multiple records. The database is continually updated as contracts expire and new contracts are negotiated. The database is a historical record of all contracts, so it contains many contracts that have expired. When we first started the project in 2001, there was very little information about airport firms, due to reluctance on the part of the airlines to provide information about their employees or their subcontractors. This information was gradually added over time.

#### **Contracts and Firms Subject to the Living Wage**

We obtained various version of the database from the city, starting in early 2001 and continuing up until late 2003. We chose to use the August 2002 version of the database, because it corresponded in time most closely to when the employer survey was conducted. We had to make several assumptions about records in the database in order to determine which contracts to select.

- **Definition of current contracts:** The contracts had to be selected by date of expiration, because the database contains many contracts that have expired. If we did not select by date, it would result in a large overcount of contracts subject to the ordinance. We therefore selected all contracts with expiration dates after the date we received the database.

However, the database does not reflect the most current contract information, because of the time lag involved in the various city departments forwarding subject contracts to the city, and the time for city staff to enter the information into the database. On average, contracts are entered into the database six months after the contract term has begun. Therefore, at any given point in time, contracts in the database have expired, but the new contracts that have replaced them have not yet been entered into the database. This results in an undercount of covered

contracts. In order to account for this time lag, we expanded our criteria to include contracts that had expired six months before the date we received the database.

In addition, 20 percent of all subject contracts are missing an expiration date, making it difficult to tell if the contract is current or not. Contracts prior to 1999 are more likely to be missing this information. Subcontractor records are more likely to be missing an expiration date. According to the CAO’s office, this may be because the city does not have a contract directly with subcontractors, and the primary contractor often does not set an expiration date. Therefore, we included subcontractor records with missing end dates, but not primary contractor records.

- Inclusion of union supercession contracts:** We included all contracts where a union collective bargaining agreement supercedes the LWO. In our research, we found that in most cases, wages for workers on such contracts were equal to the level of the living wage or above. In some cases, the LWO enabled unions to negotiate a raise, usually up to the living wage level or higher. In some cases, the wages were already at the living wage level or above. In a very few cases, union contracts include wages lower than the living wage, in return for other benefits such as free family benefits or additional paid days off.

Using these selection criteria, there were approximately 722 contracts, held by 474 firms, subject to the living wage at the time of our survey. The City divides contracts subject to the living wage into three categories, in order to focus its enforcement resources on firms with low-wage jobs, as shown in Table B-1.<sup>171</sup> “Priority 1” contracts are those where services are provided by workers in low-wage occupations, such as janitors, gardeners, security guards, retail clerks, and the like. This is the largest category, with 62 percent of all subject contracts. “Priority 2” contracts are those where firms have certified that all employees working on the contract earn at least \$2 per hour above the living wage level. These make up only 5 percent of all subject contracts. “Priority 3” contracts, which make up 23 percent of subject contracts, are those where firms have certified that all employees on the contract earn more than \$15 an hour.

**Table B-1: Contracts and Firms Subject to the Living Wage by City Enforcement Priority Level**

| <b>Enforcement Priority</b> | <b>Description</b>   | <b># of Contracts</b> | <b>% of All Contracts</b> | <b># of Firms</b> |
|-----------------------------|--|-----------------------|---------------------------|-------------------|
| 1                           | Deemed by the city to employ low-wage workers              | 451                   | 62%                       | 244               |
| 2                           | Firm certifies all workers earn at least \$2/hr. above the | 35                    | 5%                        | 29                |

<sup>171</sup> 17% of contracts were missing a Priority designation. We examined the work performed on the contract, and if it was likely to be performed by low-wage workers, we changed the Priority designation to P1.

|                                 |  |            |             |             |
|---------------------------------|--|------------|-------------|-------------|
|                                 | living wage level                              |            |             |             |
| 3                               | Firm certifies all workers earn above \$15/hr. | 169        | 23%         | 161         |
| Not specified                   | Information missing in database                | 67         | 9%          | 58          |
| <b>Total covered by the LWO</b> |  | <b>722</b> | <b>100%</b> | <b>474*</b> |

Source: City of Los Angeles Living Wage Contractor Database.

\*Column does not total because some firms are in more than one category. Because the city database is organized by contract, the same firm can have different priority levels for different contracts, depending on the type of work performed.

### Correction of City Database Jobs Information

We made several corrections to the jobs information in the city database, to address problems with missing data. The calculations are outlined in Table B-1.

**1) Correction of missing jobs numbers:** The city database contains a field for the total number of employees on each contract subject to the LWO, taken from certified payroll records submitted by contractors as part of the enforcement process. In our analysis of the database, we discovered that 49 percent of current contracts subject to the living wage lacked information on numbers of jobs. This was due to the reluctance of firms to provide this information and the lack of city resources to follow up on all covered contracts. To correct the database, we used the records that did contain numbers of jobs to calculate the average number of jobs per contract. For P1 records, we calculated averages for each industry. For P2 and P3 records, we calculated an overall average. We used these averages to fill in the contracts that contained missing data.

According to CAO staff, job numbers for airport contracts were more likely to be blank. One company can have multiple contracts at the airport. CAO staff often entered job numbers by totaling the number of jobs for the entire airport, and entering the total into one contract record, leaving the others blank. For this reason, we only corrected airport records if an employer was missing job numbers for all airport contracts. For non-airport contracts, we filled in all missing records.

**2) Large contracts missing from the database:** In addition, we identified several contracts with large numbers of jobs that were missing entirely from the database. We researched the number of jobs and added them to the database.

**3) Correction based on comparison with employer survey results:** Because there was so much missing information in the database, we compared the information in the database for the 82 firms in our survey with the information collected in the survey interviews, in order to gauge the accuracy of the database.

First, we calculated a weighted average using the data from the city database, giving each firm the same weight that it had in our survey. We then compared this to the weighted average of total jobs covered by the living wage from our survey. The average from the

database was 45 percent below the average from the survey.<sup>172</sup> This is a significant undercount, which we believe is due to missing information in the database, including contracts missing from the database, missing information on expiration dates, and missing and incorrect information on the number of jobs. For example, in order to select current contracts, we selected contracts by date of expiration. If the date of expiration was missing, the contract would not be selected. With 20 percent of records missing the date of expiration, it is likely some current contracts were missed.

In order to correct the undercount, we needed to add 45 percent to the database total. However, we did not interview enough airlines to be able to correct the information in the database for these firms. Therefore, we did not add 45 percent to the total of jobs in the airlines. As shown in Table B-1, first we subtracted the 6,216 jobs in the airlines, then we added the 45 percent adjustment for the undercount, then we added the airline jobs back in.

**Table B-1: Correction of City Database Jobs Numbers**

| <b>Adjustment to Database</b>  | <b>Number of Jobs</b> |
|--|-----------------------|
| Total jobs on Priority 1 contracts after filling in missing jobs and contracts | 17,102                |
| Less airline jobs (-6,216)   | 10,886                |
| Adjustment for database vs. survey results (+45%)                              | 15,785                |
| Plus airline jobs (+6,216)   | 22,001                |
| Corrected total jobs on Priority 1 contracts                                   | 22,001                |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

### **Calculation of Total Jobs Subject to Living Wage**

After correcting the database, we calculated the total number of jobs subject to the living wage on all current living wage contracts. In order to calculate this total, we started with the corrected total jobs on Priority 1 contracts. Then, we added the 2,177 jobs on Priority 2 and Priority 3 contracts from the corrected city database, as shown in Table B-2.

**Table B-2: Calculation of Number of Jobs Subject to Living Wage**

| <b>Adjustment to Database</b>   | <b>Number of Jobs</b> |
|---|-----------------------|
| Corrected total jobs on Priority 1 contracts  | 22,001                |
| Plus total jobs on Priority 2 and 3 contracts from corrected city database (+2,177) | 24,178                |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

<sup>172</sup> In order to confirm that the city database represents an undercount, we performed the same exercise using another version of the database from March 2002, which is five months earlier, but still near the middle of our survey period. This comparison yielded an even higher city database undercount of 82%. To be conservative, we chose the smaller of the two adjustments.

## Calculation of Directly Affected Jobs

The calculation to estimate the number of jobs where mandatory raises were given in order to comply with the ordinance is shown in Table B-2. We started with the 17,102 jobs on Priority 1 contracts from the corrected city database.

- 1) **Subtraction of airline employees.** Although airlines are in the Priority 1 category, it is unlikely that they raised their employees wages due to the living wage. Based on analysis by the Contractor Enforcement Section staff of payroll records submitted by the airlines, most airline jobs paid more than \$10 per hour in 2002 and were unlikely to be affected by the LWO. (At the time, the living wage was \$9.52 without benefits.) This was confirmed by two interviews we conducted with airlines, neither of whom raised wages for any employees. Therefore, we subtracted 6,216 airline jobs from the number of affected jobs.
- 2) **Adjustment for unaffected firms and jobs.** Through the firm survey, we found that some jobs on Priority 1 contracts were already above the wage level of the LWO. Some Priority 1 employers reported to our surveyors that the wages for all jobs on living wage contracts were already above the living wage level. Although we did not include these firms in our survey, we kept a record of these cases. In addition, some firms in our survey were required to raise wages only for some jobs on living wage contracts, because pay for some jobs was already above the living wage level.

In order to adjust for these effects, we calculated the weighted average percentage of affected jobs, including both firms in our survey and firms we screened out because they were already above the living wage. The percentage of affected jobs is the number of affected jobs divided by the total number of jobs on the contract. For the firms that already paid above the living wage level, the percentage of affected jobs was 0. The weighted average for all firms was 49 percent. We multiplied this by the number of covered jobs calculated from the city database to arrive at our final estimate of 7,735.

**Table B-2: Calculation of Number of Directly Affected Jobs**

| Adjustment to Database                           | Number of Jobs |
|--|----------------|
| Corrected total jobs on Priority 1 contracts     | 22,001         |
| Less airline jobs (-6,216)                       | 15,785         |
| Less unaffected firms and unaffected jobs (-51%) | 7,735          |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

## Calculation of Jobs on Living Wage Contracts in Affected Firms

We define “affected firms” as those firms that were required to raise wages in order to comply with the living wage. The number of jobs on living wage contracts in affected firms was the basis for our estimates of the number of jobs where indirect raises were given and the number of jobs where health benefits were improved. In order to calculate

this number, started with the corrected total jobs on Priority 1 contracts, as shown in Table B-3. Because airlines were unlikely to be affected, as discussed above, we subtracted the airline jobs. This left us with Priority 1 jobs not including the airlines, which was the sampling frame we used for the employer survey. Based on firm screening for this survey, we found that the firms that gave raises represented 89 percent of the total jobs in this category. Applying this 89 percent to the 15,785 jobs from the database gave us our estimate of 13,974.

**Table B-3: Calculation of Number of Jobs on Living Wage Contracts in Affected Firms**

| <b>Adjustment to Database</b>                | <b>Number of Jobs</b> |
|--|-----------------------|
| Corrected total jobs on Priority 1 contracts | 22,001                |
| Less airline jobs (-6,216)                   | 15,785                |
| Less jobs in unaffected firms (*89%)         | 13,974                |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.

### **Calculation of Affected Firms**

We define “affected firms” as those firms that were required to raise wages in order to comply with the living wage. In order to estimate the number of affected firms, we started with the total number of Priority 1 firms from the city database, which is 244. Because we determined the airlines were unaffected, we subtracted the 29 airlines in the city database. Based on firm screening for the employer survey, we found that affected firms represented 69 percent of all the firms we called. Applying this 69 percent to the 215 firms from the database gave us our estimate of 148.

**Table B-4: Calculation of Number of Affected Firms**

| <b>Adjustment to Database</b>             | <b>Number of Firms</b> |
|---|------------------------|
| Total Priority 1 firms from city database | 244                    |
| Less airline firms (-29)                  | 215                    |
| Less unaffected firms (*69%)              | 148                    |

Source: Authors' analysis of City of Los Angeles Contractor Enforcement Database as of August, 2002.