EXAMINING THE EVIDENCE

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About This Report

This report was made possible by funding from the Ford Foundation, Los Angeles World Airports and the University of California Institute for Industrial Relations.

This is a summary of a longer report, written by the same authors and with the same title. The full report contains more detailed statistical and methodological information, including an appendix on survey methodology. The full report can be downloaded in PDF format at ***www.iir.ucla.edu/research/research.html***, and ordered in hard copy at ***www.LosAngelesLivingWageStudy.org***.

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The employer and worker surveys were multi-year projects that required dedication, tenacity and organizational prowess from many people. Nicole Drake, Edith Mendez and Carolina Sarmiento were the heart and soul of the worker survey team. Nicole coordinated the team, and also conducted many of the employer interviews, while Edith and Carolina conducted many of the worker interviews. Other worker surveyors included: Marjeli Cruz, Ariane Dalla Dea, Martha Gonzales, David Marquardt, Eli Naduris-Weissman, Blanca Novelo and Judith Stevenson. This team spent countless hours outside worksites and at kitchen tables in order to find and interview the 320 workers who agreed to share their stories with us. Ana Garcia and Socorro Sarmiento piloted the initial survey and helped refine the questions. Anna Garcia also translated the survey into Spanish. The employer survey team included Jamie Goodwin-White, Loh Sze Leung, Sarah Gray Ramsey, Amy Willis, Eric Schwimmer, Erwin Letona and Tarecq Amer. Jamie also designed the data entry platform for the employer survey. Rita Davila, Nicole Drake, Jamie Goodwin-White, Edith Mendez, Carolina Sarmiento, Eric Schwimmer and Amy Willis spent many arduous hours entering and cleaning survey data.

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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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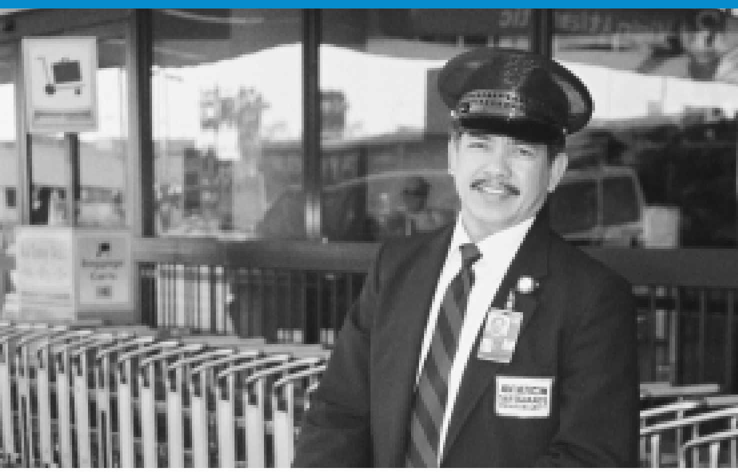
EXECUTIVE SUMMARY



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 poor or low-income.
- 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, a significant minority still lacks health benefits and relies on government assistance.

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 fringe 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

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Local governments are increasingly turning to living wage policies as a means to improve job quality for low-income workers. To date, more than 120 local governments around the country have passed living wage ordinances.[1]

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 increasing privatization of city services as a means to cut costs, a strategy that living wage advocates argue only shifts the costs, as low-wage subcontracted workers have to rely on government assistance to get by.

The living wage movement is a relatively recent phenomenon, having begun in 1994 with Baltimore, Maryland's living wage ordinance. Likewise, research on living wages is a relatively new field, and only a handful of retrospective studies have been published on the impacts of these laws.

This is the first living wage study to include a random sample survey of affected workers and firms. Random sampling techniques ensure that survey findings are representative of the entire population being studied. Combined with the control group analysis of low-wage employers, the random sample surveys make us confident that our study both isolates the effects of the living wage and accurately represents 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 typically made the same arguments as those made against minimum wage hikes: that living wage laws will result in reductions in employment, will 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 to provide broader lessons that contribute to the national debate over living wage legislation.

PROVISIONS OF THE LOS ANGELES LIVING WAGE ORDINANCE

The City of Los Angeles' Living Wage Ordinance is broad in scope and expands on the model used in some other cities of a living wage law that only covers service contractors. The Los Angeles law also 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. It also covers several thousand workers at other locations around the city.

The key provisions of the L.A. ordinance are listed in Table 1.1. The ordinance was passed in 1997, but individual firms become subject to it when they enter into a new agreement with the city, or their existing agreement is renewed, modified or extended. Consequently, it takes time for the ordinance to cover all of the workers targeted by the law. Employees on different contracts have received the raises and other benefits of the ordinance at different times, depending on when an agreement was signed or modified.

The ordinance mandates a two-tier hourly wage, which was designed to encourage employers to pay for health coverage for their living wage workers. The living wage rate is increased annually in July to correspond with adjustments in the amount paid to retired city employees from their pension fund, which has grown at about the rate of inflation.[2] 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.

TABLE 1.1

Key Elements of L.A. Living Wage Ordinance

Date of Passage	May 1997
Firms Subject to Ordinance	■ Service contractors ■ Firms that operate concessions, such as retail shops, on city property ■ Firms that lease city property, such as airport terminals ■ Firms that receive $1 million or more per year in economic development subsidies ■ Subcontractors of above firms
Wage Level	$10.03 per hour in 2004–2005, indexed to increase annually
Health Benefits Differential	Employers can choose to pay either the higher wage ($10.03), or a lower wage ($8.78) with a $1.25 contribution to employee health benefits. The health benefits differential is not indexed.
Paid Days Off	12 per year, pro-rated for part-time employees
Unpaid Days Off	10 per year, pro-rated for part-time employees

HISTORY OF THE LOS ANGELES LIVING WAGE ORDINANCE

Los Angeles was one of the first large cities to adopt a living wage law. When the Los Angeles law passed in 1997, only a handful of cities had passed living wage policies that applied to service contractors. The Los Angeles ordinance may have had a more substantial impact than some others because of two factors: the city's aggressive implementation and enforcement of the ordinance, and a multi-union organizing campaign at LAX targeting low-wage workers. A year after the law's passage, a city-commissioned report found that the ordinance was not well enforced (Sander and Lokey, 1998). In response to this report, and to pressure from living wage advocates, the city amended the ordinance in 1999 and moved the enforcement responsibility into a different city agency, which vigorously implemented and enforced the ordinance.

Implementation of the Living Wage Ordinance occurred in the context of the Respect at LAX campaign, a partnership between national and local labor unions and community and religious organizations, which began in 1998.[3] This campaign advocated for an expansion of the ordinance to apply to airlines and their subcontractors (including airline service and janitorial firms), which the City mandated in the 1999 amendment to the ordinance. In addition, this campaign organized 2,200 low-wage workers into unions, all of whom were in firms that were affected by the living wage ordinance.

Even before this campaign, 6,600 jobs affected by the living wage were already covered by union collective bargaining agreements.[4] Many of these jobs 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 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.[5]

Another distinguishing feature of workers and firms at LAX is that they faced major economic repercussions due to the terrorist attack of September 11, 2001.[6] 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.[7]

Timeline of the Los Angeles Living Wage Ordinance at LAX

May 1997	Los Angeles Living Wage Ordinance adopted by City Council
1998	Respect at LAX Campaign to expand unionization at LAX is launched.
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.

RESEARCH QUESTIONS ADDRESSED BY THIS STUDY

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

- ***Does the living wage affect primarily low-income workers?*** Critics of living wage laws have argued that many low-wage workers are not in poor families, and that the wage increase will go to families that are not in need of additional income.
- ***Has the living wage brought about significant improvements in the lives of workers and their families?*** This includes an analysis of the after-tax wage gain and the impact on eligibility for government assistance programs.
- ***What is the extent of the wage and benefit impact on covered firms and jobs?***
- ***Does the living wage lead to employment reductions or other negative impacts on workers?***
- ***Does the living wage lead to a change in the workforce?*** If employers are required to increase wages, they may seek to hire workers with better skills or qualifications.
- ***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 administering the living wage policy, nor any increase in the costs of contracts covered by the policy, both of 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. These are all important subjects in debates on living wages.[8] 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.[9] These studies usually make projections based on theoretical assumptions and 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.[10] In addition, two of these studies include worker surveys.[11] One retrospective study does not include original survey data, but rather analyzes Current Population Survey data across cities to test for the effects of living wage policies.[12]

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.

Living Wage Employer Survey: We conducted a random sample survey of 82 firms that raised wages in order to meet the requirements of the ordinance. Interviews were conducted in-person at the worksite, from the summer of 2001 through the spring of 2003.

Living Wage Worker Survey: Through the employer survey, we obtained lists of workers in the jobs where mandatory pay increases were given. The lists were used to conduct a random sample survey of 320 workers. Surveys were conducted in-person, from the spring of 2001 through the summer of 2003. The survey did not include workers who were employed at the time of living wage implementation but had left by the time the survey was conducted.

Survey of Diversity in Human Resource Practices (SDHRP): This random sample survey of a control group of 210 non-living wage firms was conducted to investigate a variety of research questions, but designed to mirror the size and industry distribution of the firms in the living wage survey.[13] The survey was conducted by mail and phone in the spring and summer of 2002. 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. The full results of the control group analysis are presented in Fairris (2005).

This report is based largely on findings that are statistically significant, which means that there is a small probability that the results occurred by chance. In addition, many of the findings of the report are the product of multiple regression analyses, which were used to isolate the effects of the living wage. In these analyses, other factors which may influence outcomes are held constant, making us confident that our results represent the impact of the living wage. This abridged report contains very little information about statistical significance or multiple regression analysis. For complete statistical and methodological information, please see the full report, available at www.iir.ucla.edu/research/research.html and www.LosAngelesLivingWageStudy.org.

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.

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Chapter 2

OVERVIEW OF LIVING WAGE FIRMS AND JOBS

KEY FINDINGS

- The L.A. Living Wage Ordinance has raised pay for nearly 10,000 jobs, a total that is among the largest in the nation.
- The ordinance has improved health benefits for 2,200 jobs.
- Affected firms are primarily in the following industries: airline service, parking, security, janitorial, retail, food service and social service.
- Most affected jobs are at Los Angeles International Airport.
- Sixty-four percent of jobs affected by the living wage are unionized, compared to only 17 percent of all jobs in California, and 54 percent of public sector jobs in the state.

This chapter primarily focuses on the jobs and firms that were affected by the requirements of the living wage ordinance. We present data on the number of jobs affected, and the type of impact. In addition, we detail various characteristics of affected jobs and firms, including industry, occupation, rate of unionization and other characteristics.

Direct and Indirect Raises

Direct raises	Mandatory raises given to comply with the ordinance.
Indirect raises	Voluntary raises given above the level of the living wage or to workers who are not subject to the living wage.

MOST JOBS COVERED BY THE LIVING WAGE WERE NOT AFFECTED

An estimated 22,000 jobs in 475 firms are subject to the requirements of the living wage ordinance, or *covered* by the ordinance. Pay was increased for 9,584 of these jobs, or 44 percent of covered jobs (Figure 2.1), 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 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 with the airlines.[14] Other jobs above the level of the living wage include professional services, such as legal and engineering, and managers.

NUMBER OF AFFECTED JOBS AMONG THE LARGEST IN THE COUNTRY

Although a minority of covered jobs were affected, the 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 affected by the living wage.[15] Only the cities of New York and San Francisco 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

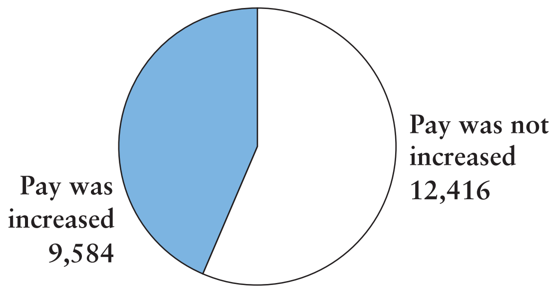
Company Profile

"Top Service"* is a small minority-owned janitorial firm with less than 20 employees. The company has been contracting with the city since 1996, the year before the living wage was passed. Eighty percent of the firm's business comes from city contracts, but most of these contracts are worth less than $25,000, and therefore are not subject to the ordinance. On the positive side, the owner of the company likes the living wage because it "puts bidders on the same level, more or less," and disqualifies bidders that bid too low. In addition, the city has absorbed some of the cost increases of the living wage by increasing reimbursement. However, the city does not cover all of the increased costs, and there is still pressure to be the lowest bidder. This squeeze has meant the owner earns a "very slim" profit on his living wage contracts.

**All firm names are pseudonyms to protect the confidentiality of survey participants.*

FIGURE 2.1

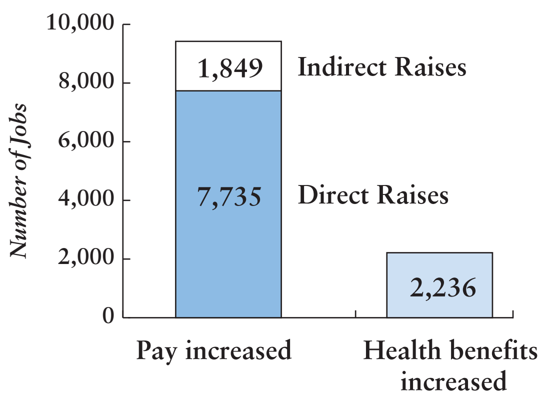
Jobs Covered by L.A. Living Wage Ordinance



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

FIGURE 2.2

Estimated Number of Jobs Affected by Living Wage Requirements



Sources: Living Wage Employer Survey, weighted by number of subject workers, and the City of Los Angeles Living Wage Contractor Database. Note: Jobs with health benefits increases overlap with jobs with pay increases.

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).[16] 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.

IMPACT ON WAGES AND HEALTH BENEFITS

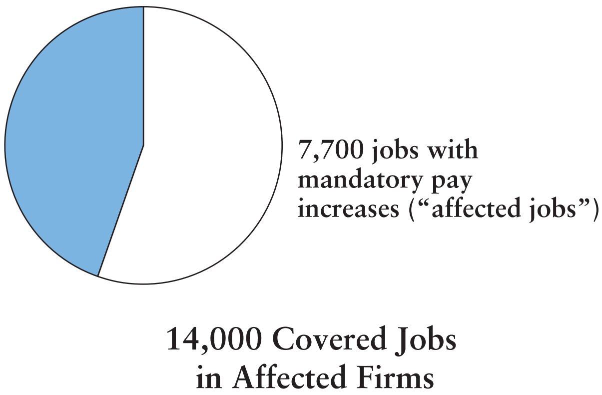
This report focuses on the firms covered by the Los Angeles ordinance that had to increase wages in order to meet its requirements, referred to as affected firms. These were the firms interviewed in the Living Wage Employer Survey. Screening for the employer survey revealed that the wage impact was the 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.[17] These affected firms increased pay for 7,735 jobs through mandatory raises, as shown in Figure 2.2.

In addition, nearly 40 percent of affected firms (58 firms) gave non-mandated wage increases, known as "indirect raises." These indirect raises affected 1,537 jobs. Most of the indirect raises increased wages vertically, above the level required by the ordinance, in order to maintain wage differentials among workers covered by the living wage. A few firms increased wages horizontally, in order to maintain wage parity between living wage workers and low-wage workers not working on city contracts. Finally, 10 firms improved health benefits to meet the requirements of the ordinance, affecting 2,236 jobs.

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 2002. Since then, 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, 2001.[18] This federalization has reduced the number of jobs affected by the living wage. The only factor offsetting this decline 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.

FIGURE 2.3

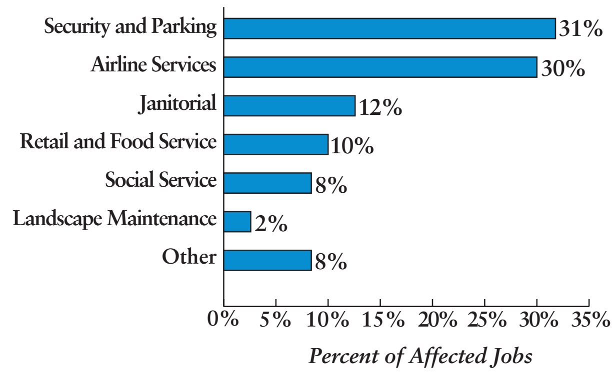
Covered Jobs in Affected Firms



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

FIGURE 2.4

Living Wage Affected Jobs by Industry Groups



Source: Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given. N = 82. Margin of error ranges from ±3% to ±11%.

COVERED JOBS IN AFFECTED FIRMS

Nearly 150 firms raised wages to comply with the ordinance. Within these affected firms, there are nearly 14,000 jobs on living wage contracts, as shown in Figure 2.3. 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, which addresses health benefits, and Chapter 7, which examines 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 covered jobs in affected firms is derived from the Living Wage Employer Survey, weighted by the number of workers on living wage contracts.

CHARACTERISTICS OF LIVING WAGE AFFECTED FIRMS AND JOBS

Most Common Industries and Occupations

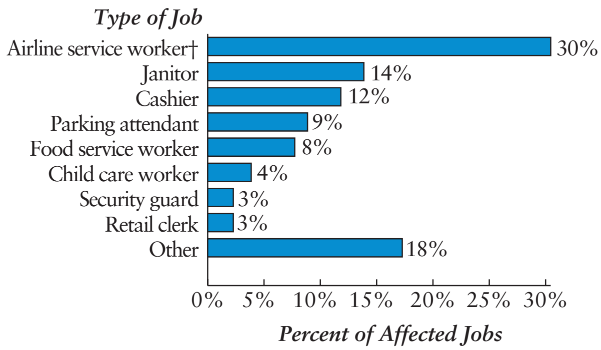
Figures 2.4 and 2.5 show the distribution of affected jobs among industry groups and occupations. Over half of all affected jobs are in the airline service, security and parking industries. Eight percent of affected firms did not fit into a particular industry category, including firms that provide customer service, bus services and home health care. Nearly one-third of affected jobs are airline service occupations, which include baggage handlers, wheelchair attendants and security screeners.[19] Another 30 percent of affected jobs are janitors and cashiers. Other sizable occupational groups include parking attendants and food service workers.

Airport and Type of City Agreement

Figures 2.6 through 2.8 display additional basic characteristics of the jobs affected by the living wage. The majority of jobs affected by the living wage are located at LAX or Ontario airports,

FIGURE 2.5

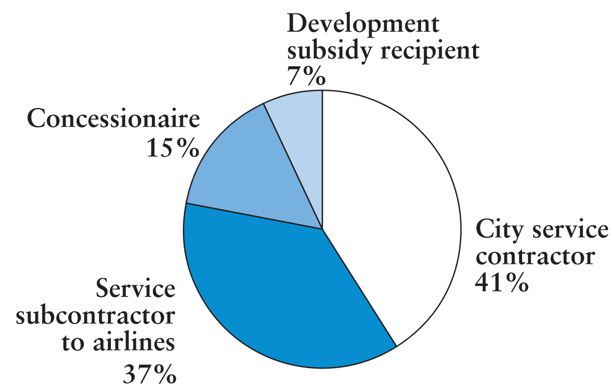
Living Wage Affected Jobs by Occupation



Source: *Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given. N=82. The margin of error ranges from ± 2% to ±10%.*
†Includes skycaps, wheelchair attendants, and screeners.

FIGURE 2.7

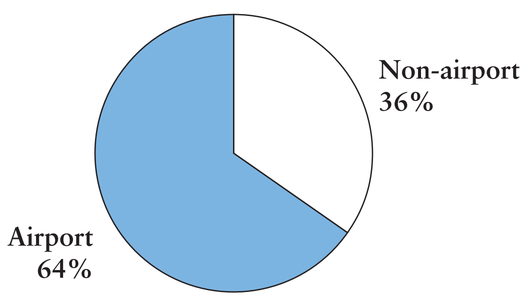
Percentage of Affected Jobs by Type of City Contract



Source: *Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given.*
Margin of error ranges from ±1% to ±11%.

FIGURE 2.6

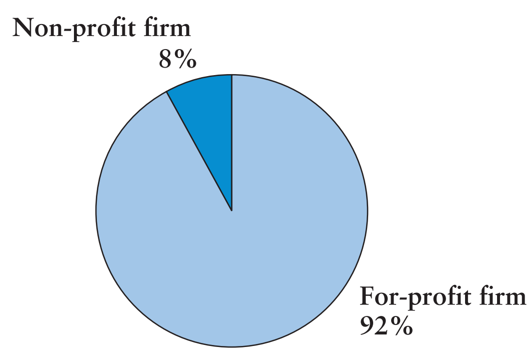
Percentage of Affected Jobs at LAX and Ontario Airports



Source: *Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given. Margin of error is +-10%.*

FIGURE 2.8

Percentage of Affected Jobs by Non-Profit Status



Source: *Living Wage Employer Survey, weighted by number of jobs where mandatory raises were given.*
Margin of error is ±8%.

because the largest affected firms are concentrated at these airports. Nearly 80 percent of affected jobs are found in firms that are service contractors, as opposed to concessionaires or subsidy recipients. These service contractors are divided into two roughly equal groups: firms that contract directly with the City (and their subcontractors), and firms that contract with the airlines. Very few affected jobs are found in non-profit firms, because the City does not spend a significant portion of its budget on social services, and because of an exemption in the law which excludes non-profit organizations where the executive director's pay is less than eight times what the lowest-paid employee earns.

Unionization

Jobs affected by the living wage are much more likely to be unionized than are jobs overall in California. In fact, the rate of unionization for

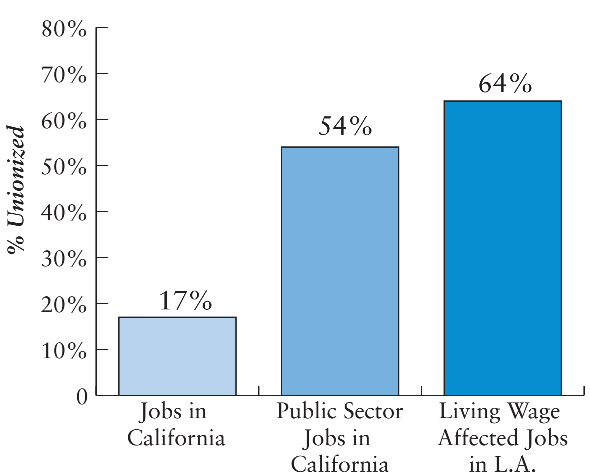
Company Profile

"E-Z Clean" is a janitorial firm with less than five percent of its employees in L.A. County working on living wage contracts. This firm began contracting with the city in 1998, after the passage of the ordinance. The starting wage for its employees on non-living wage contracts is just above the minimum wage. Although labor costs are higher on the living wage contracts, the company has been able to pass the costs on to the city. The company's CEO believes that the living wage has increased the firm's opportunities to bid successfully on city contracts. According to him, it has leveled the playing field, and made the bidding process easier for "scrupulous companies" like his that comply with labor laws and have fair compensation practices. All in all, the living wage has encouraged him to seek more contracts with the city.

affected jobs is comparable to the rate for public sector jobs, which, at 54 percent, is the most heavily unionized sector in the state (Milkman and Rooks, 2003). Some of this high union density is due to the Respect at LAX campaign, which organized 2,200 workers, representing 16 percent of all jobs affected by the living wage. 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.

FIGURE 2.9

Unionization



Source: *Living Wage Employer Survey and Current Population Survey 2001 and 2002, as analyzed in Milkman and Rooks (2003). Margin of error for Living Wage Employer Survey is ±10.*

AN ADDITIONAL 1,300 JOBS HAVE BEEN AFFECTED BY THE LIVING WAGE MOVEMENT IN LOS ANGELES

There are other jobs in Los Angeles that are subject to living wage requirements, but they are not included in the living wage surveys or addressed in this study because they are not covered by the original ordinance. A separate city ordinance, enacted in 1998, raised wages for approximately 900 city jobs that were previously below the living wage standard.[20] 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 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. In the late 1990s, before the passage of this policy, the CRA attached living wage requirements to three of the economic development projects it funded in the Hollywood area. These projects included the Hollywood/Highland theater, hotel and retail complex; the Arclight Cineramadome movie theaters; and the Sunset and Vine retail and housing complex.

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 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.[21]

WHO ARE LIVING WAGE WORKERS?

KEY FINDINGS

- 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.
- Forty percent of affected workers live with their dependent children.
- 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.

The living wage ordinance resulted in mandatory pay increases for an estimated 7,700 jobs on city contracts. In 2002,[22] we conducted a survey of the workers in those jobs, often referred to in this chapter as *living wage affected workers*. Whether these workers are in low-income families is a key policy question. This chapter presents demographic information from the worker survey, which is an important predictor of income status.

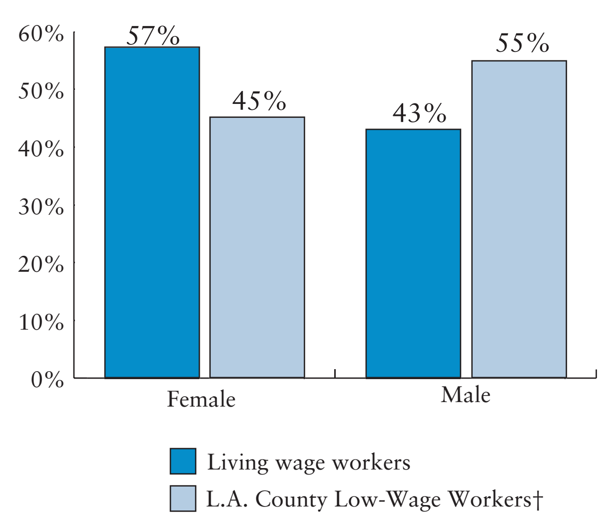
In order to explore the question further, we present data from the Current Population Survey (CPS) on the family incomes of low-wage workers in Los Angeles County.[23] Because we are using this data to estimate family incomes for living wage affected workers, we selected workers in the CPS who work in similar industries and earn between $6.75 (the California minimum wage) and $11.99 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. We compare the characteristics of the two groups in order to determine whether living wage affected workers are more likely than other low-wage workers to be low-income.

LIVING WAGE AFFECTED WORKERS ARE OLDER AND ARE MORE LIKELY TO BE WOMEN

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,

FIGURE 3.1

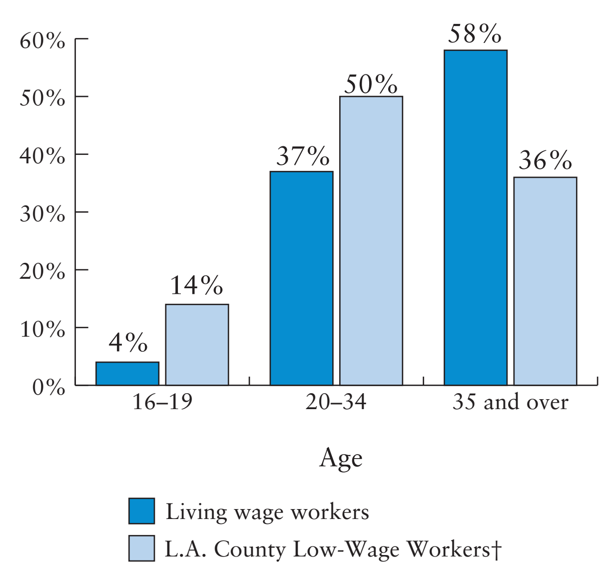
Gender of Living Wage Affected Workers and L.A. County Low-Wage Workers



Source: *Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.*
†Includes all workers earning $6.75 to $11.99 per hour in similar industries.
The difference between living wage and L.A. County low-wage workers is statistically significant at the 95% confidence level.

FIGURE 3.2

Age Distribution of Living Wage Affected Workers and L.A. County Low-Wage Workers



Source: *Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.*
†Includes all workers earning $6.75 to $11.99 per hour in similar industries.
All differences between living wage and L.A. County workers are statistically significant at the 95% confidence level.

compared to 45 percent of low-wage workers in L.A. County (Figure 3.1).

Living wage affected workers are well into their working careers and are older than workers in L.A. County in similar industries (Figure 3.2). Only four percent of living wage affected workers are teenagers, compared to fourteen 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 they are more likely to be low-income than are low-wage workers in L.A. County.[24]

Workers affected by the living wage tend to be older than low-wage workers in L.A. County. 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.

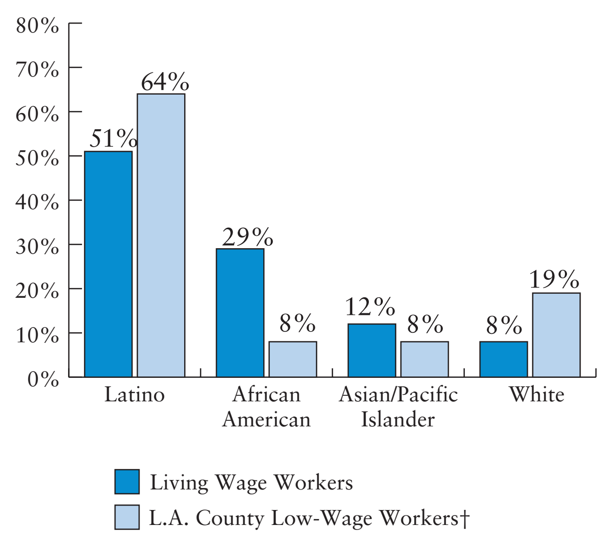
HALF OF LIVING WAGE AFFECTED WORKERS ARE LATINO, AND HALF ARE IMMIGRANTS

Half of all workers affected by the living wage are Latino, while nearly 30 percent are African-American. Another 12 percent are Asian or Pacific Islander, as shown in Figure 3.3. 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 affected 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 percent of the overall L.A. County workforce, but 19 percent of the public sector workforce.[25] It is also likely due to the concentration of African-Americans in the neighborhoods surrounding L.A. International Airport.

Approximately half of workers affected by the living wage are immigrants (Figure 3.4), but they tend not to be recent immigrants. Living wage 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 workers affected by the living wage are from Mexico and Central America. The remaining foreign-born workers come from several regions of the world including Asia, Africa and South America.

FIGURE 3.3

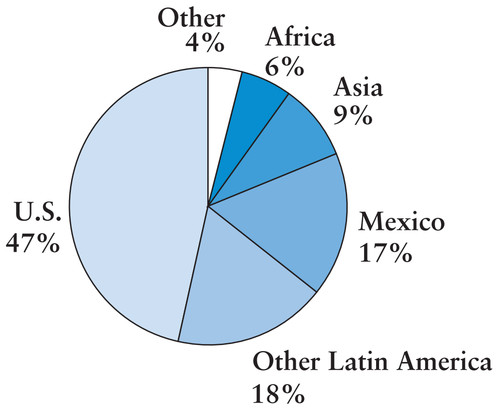
Race/Ethnicity of Living Wage Affected Workers and L.A. County Low-Wage Workers



Source: *Living Wage Worker Survey and Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group, 2002 and 2003 combined.*
†Includes all workers earning $6.75 to $11.99 per hour in similar industries.
The difference between living wage and L.A. County low-wage workers for all racial/ethnic groups except Asian/Pacific Islanders is statistically significant at the 95% confidence level.

FIGURE 3.4

Place of Birth of Living Wage Affected Workers



Source: *Living Wage Worker Survey. Margin of error ranges from ±2% to ±5%.*

MOST LIVING WAGE AFFECTED WORKERS WORK FULL-TIME

The great majority (86 percent) of workers affected by the living wage work full-time, either at their living wage job or by combining that job with another job. This suggests that the earnings of living wage 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 living wage affected workers work full-time (35 hours per week or more) at their living wage job.[26] Another 15 percent work full-time by combining their part-time living wage job with another job. The remaining 14 percent work part-time.

MOST LIVING WAGE AFFECTED WORKERS HAVE A HIGH SCHOOL EDUCATION OR LESS

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 (Figure 3.5). One in five 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. Ten percent attend community college and only four percent attend a four-year college.

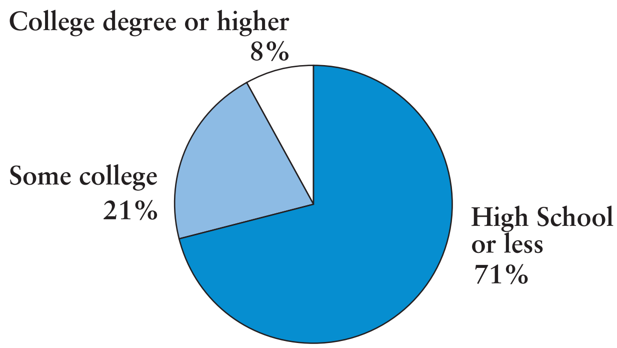
MANY LIVING WAGE AFFECTED WORKERS ARE SUPPORTING FAMILIES

More than 40 percent of workers affected by the living wage are married (Figure 3.6). This proportion is similar to low-wage workers in similar industries in L.A. County. A significant minority of living wage affected workers (40 percent) have dependent children living in their household. These workers live with two dependent children on average, which is also similar to low-wage workers in L.A. County.

Workers affected by the living wage can be divided into several family types, depending on who lives in their household, as shown in Figure 3.7. Fifty-five percent of affected workers live with either a spouse, domestic partner or dependent children.[27] The remaining 41 percent we defined as "single" — that is, they are adults over 18 who do not live with a spouse, domestic partner or dependent children. Single workers affected by the living wage do not necessarily live alone. In fact, only 14 percent of affected workers report living alone. Most single workers affected by the living wage live with other family members or roommates.

FIGURE 3.5

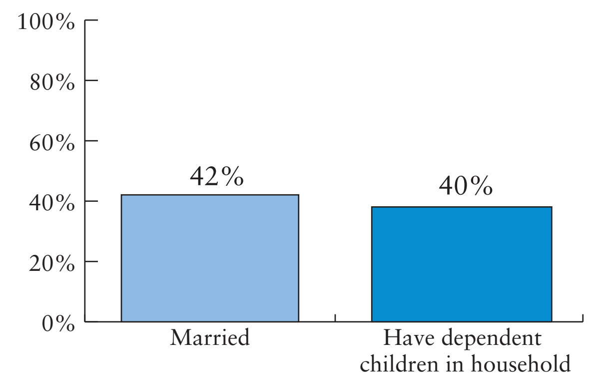
Highest Level of School Completed for Living Wage Affected Workers



Source: Living Wage Worker Survey. Margin of error ranges from ±3% to ±5%.

FIGURE 3.6

Family Characteristics of Living Wage Affected Workers



Source: Living Wage Worker Survey. Margin of error is ±5%.

Only one percent of affected workers are teenagers under eighteen.

For nearly all the family types, the proportions among living wage affected workers and low-wage workers in L.A. County are similar. The only exception is single parents. Sixteen percent of living wage affected workers are single parents, while only seven percent of low-wage county workers are. The vast majority (95 percent) of single parents affected by the living wage are female.

MEASURING POVERTY AND LOW-INCOME STATUS

The Living Wage Worker Survey did not gather reliable information on family income.[28] The best source of such data for low-wage workers in L.A. County is the Current Population Survey (CPS), which we use to estimate the family incomes of living wage affected workers.[29]

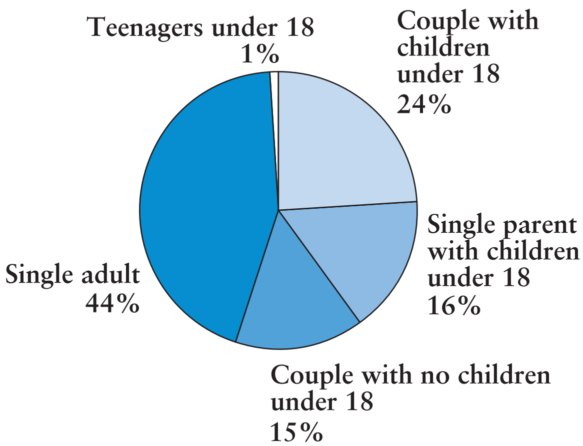
Worker Profile

"Charisse"* is a 28-year-old African-American single mother living in South Central Los Angeles with her 10-year-old son, Michael. She has worked as a case manager for a welfare-to-work program since August 1999. Initially, Charisse was paid at the minimum wage rate, but in July of 2000 the living wage took effect at her place of work and she received a pay raise. However, even with the pay increase, she has not really noticed an effect on her overall prosperity, because living expenses for her and her 10-year-old son, Michael, have increased along with her pay. Instead of her current wage of $9.52, Charisse feels a wage rate of $13 per hour would better allow her to meet her expenses. She relies on a Section 8 housing subsidy, and the federal school meals program. Although she receives health insurance through her employer, her son's medical coverage is through the state Healthy Families program.

** All worker names are pseudonyms to protect the confidentiality of survey participants*

FIGURE 3.7

Family Types of Living Wage Affected Workers



Source: *Living Wage Worker Survey. Margin of error ranges from ±1% to ±5%.*

Worker Profile

"Esmeralda" is a janitor at a unionized company at Los Angeles International Airport. She is 40 years old and has been working at the airport since 1995. She lives in South Los Angeles with her three children — an adult son and daughter, and a six-year-old son. Her daughter is married, and her son-in-law and baby granddaughter also live with her, along with her adult niece. Esmeralda came to the U.S. in 1993 from Guatemala, where she was only able to obtain an education through the third grade. Esmeralda already had family health benefits before the living wage, which covered herself and her youngest son, but she was only making around minimum wage. The pay increase under the living wage has enabled her to buy more clothes and little extras for her children, and she finds it easier to afford food. The living wage has made her feel as though she's "not drowning anymore."

As we have seen, the characteristics of living wage affected workers are quite similar to those of low-wage workers in L.A. 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, on average, 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 overestimate the family incomes and underestimate the poverty status of living wage affected workers.[30] 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 — and living wage affected 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 health care costs, expenses that take up an increasing share of family income. The 2002 Federal Poverty Guideline for a family of four was $18,100 per year.

200 Percent of Federal Poverty Guidelines: This standard offers a more realistic definition of poverty. The federal government itself sets 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 3.1. Other government anti-poverty programs, such as the State of California's subsidized child care program and its subsidized health care program (Healthy Families),[31] 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. Two hundred percent of the 2002 Federal Poverty Guidelines was $36,200 per year for a family of four.

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.[32] These budgets vary according to family type and include estimated expenses for items such as housing, food and child care. 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 child care and health care.[33] In reality, many working families go without health care and rely on family or friends for child care. Among living wage workers, 43 percent of single parents and 64 percent of workers whose spouses also work report that a member of their family provides child care 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 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 child care from family and friends. Families that fall below this

TABLE 3.1

2002 Income Thresholds for Major Government Anti-Poverty Programs

Anti-Poverty Program	*Income Threshold for Family of Four*	*% of Federal Poverty Guidelines*
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.*

TABLE 3.2

Self-Reliance Budgets for Various Family Types

Monthly Expenses	*Single Adult*	*Single Parent†*	*Couple, No children*	*Two Parents, One Working†*	*Two Working Parents†*
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††	$49/$197	$124/$495	$60/$238	$149/$595	$149/$595
Miscellaneous	$173	$342	$187	$422	$422
Taxes	$330	$528	$308	$385	$689
Monthly Total	$1,819	$4,041	$2,367	$3,327	$4,817
Annual Total††	$20,050/$21,823	$44,035/$48,490	$26,262/$28,404	$34,565/$39,920	$52,445/$57,800

Sources: *Pearce (2003) for the couple with no children, and California Budget Project (2003) for all other family types*
†Assumes two children.
††Health care costs were decreased by 75% for workers with employer-based family health insurance.[34]

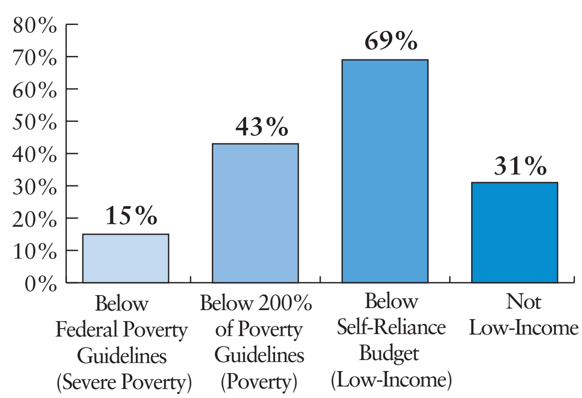
standard may not necessarily be poor, but they can be considered low-income. Table 3.2 lists the components of the self-reliance budgets used in this analysis by family type.

MOST LOW-WAGE WORKERS ARE POOR OR LOW-INCOME

Comparing the family incomes of low-wage workers in L.A. County to these three measures yields the results shown in Figure 3.8.[35] Only fifteen percent of low-wage workers are in severe poverty, falling below the Federal Poverty Guidelines. Most people below the poverty guidelines are not working, so it comes as no surprise that the living wage does not primarily affect this group.[36] 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

FIGURE 3.8

Percentage of L.A. County Low-Wage Workers† Whose Family Income Falls Below Low-Income Thresholds



Source: *Economic Policy Institute analysis of Current Population Survey March Supplement, 2002 and 2003 combined.*
†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 Worker Survey. N=277

of workers, or 69 percent, 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 child care. The remaining 31 percent 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.

Chapter 4

WAGES AND TIME OFF POLICIES

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KEY FINDINGS

- Mandated pay increases raised wages for the average affected job by 20 percent, or $2,590 per year.
- The average mandated pay increase for the workforce in place at the time of the worker survey was $1,295, because workers hired after the living wage came from higher-paying jobs.
- Forty percent of affected firms gave non-mandated indirect raises to an estimated 1,900 workers. The average raise was $1,300 per year.
- Most of these indirect raises were vertical raises given in order to maintain wage differentials between higher- and lower-paid workers covered by the living wage.
- The average affected firm increased paid days off by 1.7 days (23 percent) due to the living wage, and unpaid time off by 2 days (22 percent). Some workers report that their employers penalize them for taking paid time off or discourage them from doing so.

The living wage ordinance resulted in mandatory wage increases for 7,700 jobs, referred to as *affected jobs*. In this chapter, we explore how wages at those jobs have changed. In addition, we examine how workers employed in those occupations four to six years after the passage of the ordinance experienced the increase in pay at those jobs. We refer to these workers as *affected workers*. We divide affected workers into the following three categories.

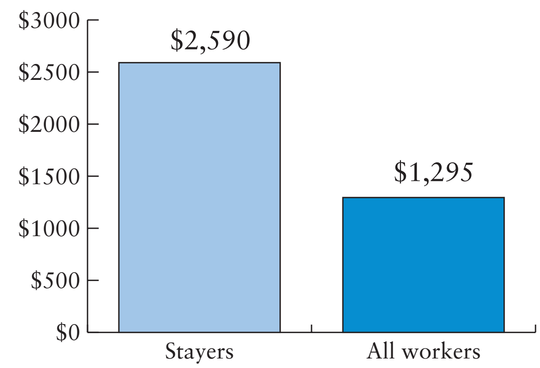
Categories of Affected Workers

- ***Stayers:*** These workers were employed at affected firms before the living wage went into effect. 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 affected 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.

In addition, this chapter discusses a broader group of jobs and workers, which we refer to as *covered jobs in affected firms* or *covered workers in affected firms*. This group includes the 14,000 jobs on contracts covered by the living wage within affected firms, and the workers in those jobs at the time of living wage implementation. Wages for some jobs and workers in this group were not increased at all because they were at or above the living wage level.

FIGURE 4.1

Average Annual Wage Increase for Stayers and for All Affected Workers



Source: *Living Wage Worker Survey.*

RAISING THE FLOOR

In order to estimate the typical pay increase for affected jobs, we analyzed the raise experienced by a subgroup of affected workers — the stayers — who were in place at the time the living wage went into effect at their firm. These workers represent the workforce at the time of the living wage increase. The stayers received an estimated average pay increase of $1.48 or 20 percent, due to the living wage, after adjusting for the minimum wage increases that occurred during the same time period.[37] Based on this average hourly increase, the estimated average annual pay increase for an affected job is $2,590 (Figure 4.1).[38] Multiplying the annual increase by the total number of jobs affected by the mandatory raise (7,735), the estimated aggregate increase in pay for those jobs is $20 million per year.

Since the initial living wage raises, some affected workers (the leavers) have left and joiners have been hired to replace them. In fact, joiners comprised 53 percent of the affected workforce at the time of the worker survey. The average wage gain for the entire affected workforce at the time of the survey, including both stayers and joiners, is $0.74 (14 percent), or $1,295 per year. This is about half the size of the pay increase for the average affected job. This is because the joiners, on average, came from higher-paying jobs and therefore saw a smaller wage gain than the stayers (see Fairris and Bujanda 2005). The average wage gain for joiners was two percent, or $0.21 per hour.[39]

A few joiners had exceptionally high "before" wages, resulting in a substantial pay decrease for these workers, which brought down the average raise for the joiners. These joiners may have been displaced from their previous jobs. A few of these joiners appear to be older workers who changed jobs in order to have less strenuous work. A 67-year-old single man worked as a mechanic before switching to a position at 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 higher-skilled and higher-paying positions, with titles such as banquet supervisor, instructor and floor manager.[40]

A SIGNIFICANT MINORITY OF AFFECTED FIRMS GAVE INDIRECT RAISES

In addition to providing mandated raises, 40 percent of affected firms reported providing non-mandated raises, sometimes called "ripple raises." These indirect raises affected an estimated 1,900 additional workers at the time of living wage implementation. Most of these were "vertical" raises that went to covered workers in affected firms already earning above the living wage rate, in order to preserve the differential in wages between lower- and higher-paid workers. Thirty-nine percent of affected firms said they gave vertical indirect raises to an estimated 1,537 workers in order to maintain wage differentials on City contracts. On average, these workers received a raise of $0.73 per hour, or $1,278 per year, about half the size of the mandated raise for affected jobs.[41] On aggregate, these workers received a $1.9 million pay increase over the course of the year.[42]

It appears that the vertical indirect raises mostly affected other low-wage workers. With only one exception, firms gave vertical wage increases solely 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 percent — more than the living wage.

The affected firms that did not give indirect raises offered 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 indirect raises.

A few firms with low-wage workers who were not employed on City contracts also gave horizontal wage increases to those workers, in order to maintain wage parity within the firm. Only three firms, representing 3 percent of the sample, gave such raises, which affected an estimated 312 workers. One customer service firm said that it gave raises to all its 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.

INCREASES IN TIME OFF WERE MODERATE

The living wage requires that employers provide 12 paid and 10 unpaid days off annually to full-time workers (with part-time workers receiving time off on a pro-rated basis). Results from the

Company Profile

"Fly Right" is a national airline service firm that provides baggage handling and passenger services as a subcontractor to various airlines. Its living wage operations are unionized. When the living wage went into effect, the firm gave vertical indirect raises to employees earning up to $13 an hour in order to maintain the wage spread and because the manager thought "it was the right thing to do." The airlines have increased reimbursement to the firm to make up some of the cost increase of the living wage. Although company profits have declined on the contract, according to the manager the decline is not significant. Employee turnover declined due to the pay increase, although absenteeism increased. This is because the company's interpretation of the ordinance was that employees can take a paid day off at any time, for any reason, without approval in advance. This has caused significant operational difficulties for the company.

control group analysis show that the average living wage affected firm increased paid days off by 1.7 days due to the ordinance, an increase of 23 percent. For the average affected worker, this increase in paid time off has a dollar value of $126 per year.[43] Most affected firms (58 percent) did not make a change in their paid time off policy due to the ordinance. However, firms that did increase paid time off represent the majority of covered jobs in affected firms (also 58 percent), as the larger firms were more likely to make changes.[44]

On average, affected firms increased their unpaid days off by two days, from nine unpaid days off to eleven unpaid days off per year, which represents an increase of 22 percent.[45] However, most affected firms (74 percent) did not make changes to the unpaid days off policy due to the living wage ordinance. A quarter of affected firms made changes that ranged from adding six to ten days unpaid vacation. These firms represent more than 20 percent of covered jobs in affected firms.

SOME WORKERS DO NOT HAVE ACCESS TO PAID TIME OFF

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, which allows time off to be used for sick leave, vacation or personal necessity. Eight percent of affected workers reported compliance problems with the paid time off provisions of the ordinance. Two percent of affected workers volunteered that their employer was not providing them with paid vacation time or was reluctant to do so. Six percent of affected 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. "Sick days do not exist at 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 a significant minority of affected 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. Some of these worker responses were clustered in particular firms or industries, suggesting that the problems may be more significant in certain areas.

Chapter 5

HEALTH INSURANCE

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KEY FINDINGS

- The living wage did not induce affected firms to initiate health benefits plans for workers.
- However, the living wage led to improvements or expansion of existing benefits plans for more than 2,200 jobs.
- Benefits reductions due to cost cutting affected 140 jobs.
- Even before the living wage, City contractors were more likely to offer employer-paid health benefits than were comparable firms that are not City contractors.
- One in three affected workers remains uninsured after the living wage, and more than half of affected workers' children either rely on public insurance programs or are uninsured.
- The majority of affected workers earning the higher wage are willing to trade some of their wages for no-cost health benefits. Three out of four affected workers receiving the lower wage would not give up their health benefits for the higher wage.

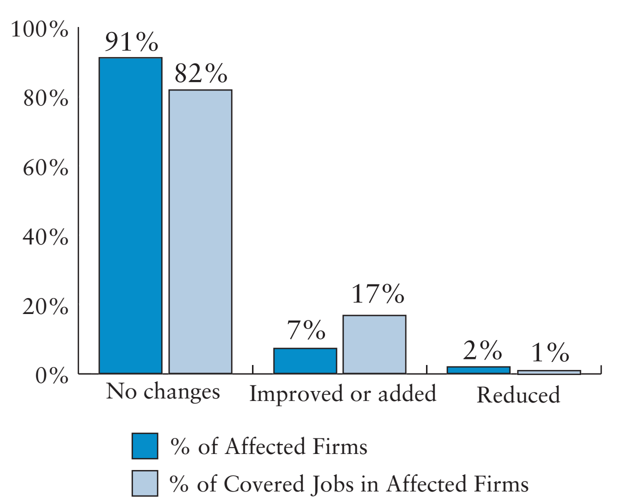
The L.A. Living Wage Ordinance's two-tier wage structure was intended to encourage employers to provide affordable health insurance to their employees affected by the living wage. Employer contributions to health benefits are not subject to payroll taxes, while wages are, creating a financial incentive for affected firms to pay the lower wage with 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.

In this chapter, we evaluate the success of this provision of the ordinance. We examine whether affected workers and their children receive health insurance through their employers, through government programs or are uninsured.

Much of the data in this chapter comes from the Living Wage Worker Survey, and applies to *affected workers*, or those 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 all workers (and jobs) on contracts covered by the living wage within affected firms. This is because changes in health benefits may affect all workers on living wage contracts, whether or not they received mandatory raises.

FIGURE 5.1

Changes in Health Benefits for Firms and Jobs



Source: Living Wage Employer Survey, weighted by number of workers on living wage contracts. The margin of error ranges from ± 3 percent to ± 11 percent.

How the $1.25 Per Hour Health Differential Works

- **It is the employer's choice whether to pay the higher wage or a lower wage with a contribution to benefits. Employers 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.**

LIVING WAGE DID NOT PROMPT AFFECTED FIRMS TO INITIATE HEALTH PLANS, BUT SOME FIRMS IMPROVED EXISTING PLANS

The living wage ordinance did not prompt affected firms to initiate health benefits plans if they were not already providing them. A control group analysis of living wage and non-living wage firms showed no significant change in the percentage of affected firms that provided employer-paid health benefits before and after the living wage. This suggests that the tax savings provided by the $1.25 differential is not a sufficient incentive to induce firms to initiate health coverage.

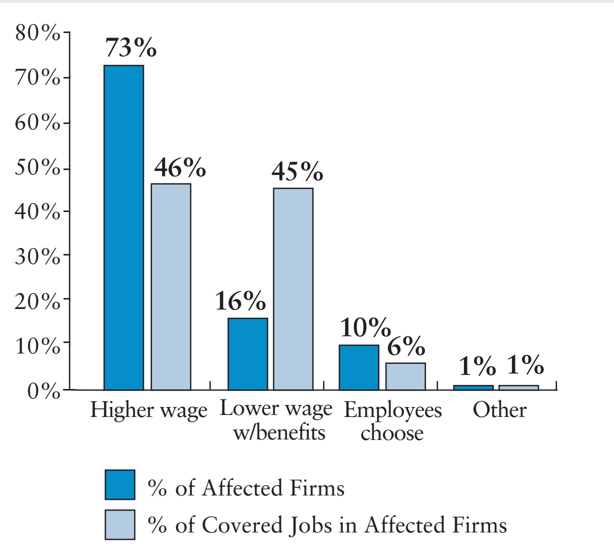
The main effect of the living wage was to induce affected firms that already provided health benefits to their low-wage workers to improve benefits or extend them to more workers. Findings from the Living Wage Employer Survey show that seven percent of affected firms either improved existing health benefits for low-wage workers or extended the benefits to more workers due to the living wage (Figure 5.1). Those firms improved benefits for 2,236 jobs, representing 17 percent of covered jobs in affected firms. Two percent of affected firms reduced their contribution to benefits, citing the increased costs of required wage increases under the ordinance. These reductions affected 140 jobs, or 2 percent of covered jobs in affected firms.

ABOUT HALF OF WORKERS RECEIVE THE LOWER WAGE OR CAN CHOOSE

Fifty-one percent of covered workers in affected firms either receive the lower wage with health benefits or can choose between the higher and lower wage (Figure 5.2). Although a small percentage of affected firms comply with the ordinance by paying the lower wage and providing

FIGURE 5.2

Means of Compliance with the Living Wage Ordinance



Source: *Living Wage Employer Survey, weighted by firm and by worker. The margin of error ranges from ± 2 percent to ± 11 percent.*

benefits, these firms tend to be larger. As a result, they represent a substantial percentage of covered workers in affected firms (45 percent). Many of the affected firms that pay the higher wage also offer health insurance to some or all of their covered workers, but not at a level that conforms with the strictures of the law. Among affected firms that pay the higher wage, almost half of covered workers lack any form of health insurance.

CITY CONTRACTORS ARE MORE LIKELY TO OFFER HEALTH INSURANCE

Firms affected by the living wage are more than twice as likely to offer employer-paid health insurance than are non-living wage firms in similar industries, according to a survey of control group firms. While 49 percent of living wage affected firms offer employer-paid health insurance to their employees on living wage contracts, only 24 percent of control group firms do so for their employees. This difference cannot be attributed to the living wage, because it predates the law's implementation. Thus it appears to be due to the characteristics of the City contractor sector. In addition, living wage affected firms require lower employee contributions to health insurance premiums than do other California employers (The Henry J. Kaiser Foundation 2003, Table 11). More than half of covered workers in affected firms are employed at firms that provide free individual and family health insurance to at least some of their low-wage workers.

An analysis of firm and worker characteristics revealed that certain types of affected firms are more likely to offer health insurance or to insure workers. The larger the proportion of low-wage workers a firm employs, the less likely a firm is to offer health insurance to its affected employees. The odds of having a family member insured by a living wage affected employer are six times

Company Profile

"Professional Security Services" is a security company that has various public sector contracts in Southern California and has been contracting with the City since before the living wage law was passed. Prior to the living wage, the company offered health benefits, but employees had to pay the entire cost. Because of the living wage, the firm now contributes to the benefits plan and pays employees the lower wage. According to the manager, the firm enjoys a cost savings because health benefits expenditures are not subject to payroll taxes. In addition, the manager believes the provision of paid benefits has led to a decline in workers' compensation claims, which lowers the cost of workers' compensation insurance. Finally, the manager said that the addition of paid health benefits has improved the company's ability to retain workers.

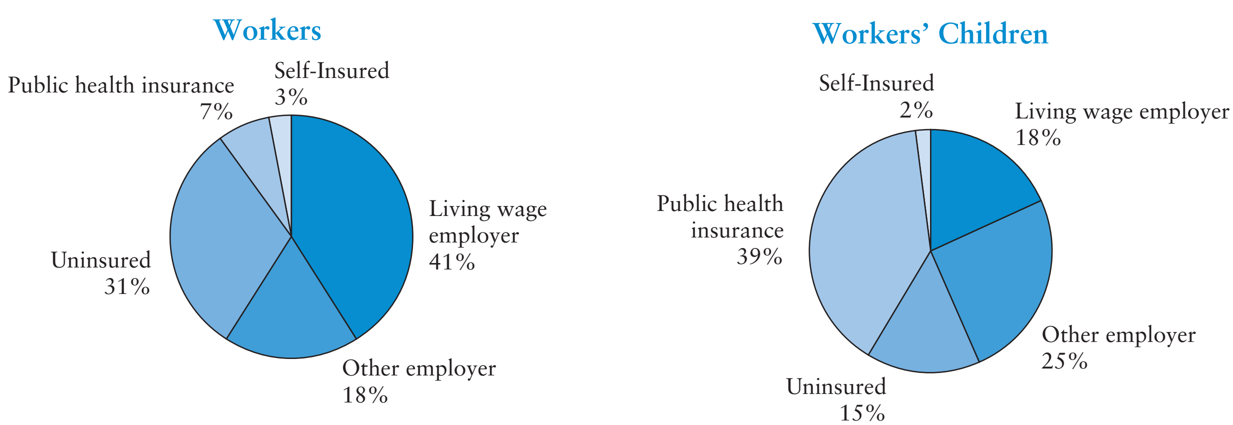
greater for affected workers in unionized establishments than for affected workers in non-union establishments. Not surprisingly, among affected firms that offer insurance, union firms require lower contributions to family health insurance than do non-union firms. The required monthly contribution for union workers to participate in family health insurance is $126 less on average than for non-union workers.

ALMOST ONE-THIRD OF WORKERS AFFECTED BY THE LIVING WAGE LACK HEALTH INSURANCE

A substantial number of workers affected by the living wage and their children are uninsured or rely on public insurance. Almost one-third of affected workers (31 percent) are uninsured, while another 7 percent rely on public insurance. An estimated 15 percent of affected workers' children are uninsured, while 39 percent rely on public insurance. Living wage affected workers have much lower rates of insurance than do workers

FIGURE 5.3

Sources of Insurance for Living Wage Affected Workers and Their Children



Source: Living Wage Worker Survey. Margin of error ranges from ±2% to ±10%.

Worker Profile

Born and raised in Mexico, "Esteban" is 35 years old and has lived in the U.S. for the past 14 years. He is married with 4 children — ages 6, 7, 10 and 12 — and lives in Lennox. He has worked for a landscaping company since February 1999. Neither Esteban nor his wife has health insurance. His children, one of whom has asthma, rely on Medi-Cal for their coverage. Recently, Esteban contracted a stomach infection and was out of work without pay for three weeks. Without insurance, Esteban had to pay $1,300 in out-of-pocket expenses to cover his medical costs for treating the condition.

who are directly employed by the City of Los Angeles, most of whom have access to full family health insurance. 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 and diabetes.

OBSTACLES TO PROVIDING HEALTH INSURANCE

The majority of affected firms comply with the ordinance by paying the higher wage, suggesting there may be obstacles to providing health insurance for $1.25 per hour. The most common reason higher-wage firms cite for not paying the lower wage and providing health insurance 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 affected workers would prefer benefits over a higher wage. Nearly 60 percent of affected workers paid the higher wage said they would take a $1.25 per hour pay cut in exchange for free individual benefits, and one-third also said they would take a $2.50 pay cut in order to receive free family health insurance. Affected workers receiving the lower wage also seemed to value their health plans, with 75 percent saying they would not give up their access to health insurance for a $1.25 per hour increase

It will be difficult for employers to offer benefits that are affordable to affected workers with the current $1.25 differential, which is less than the average cost of health insurance for a full-time worker in California. The cost of the average job-based individual health insurance plan is estimated at $259 per month by a 2003 survey of California firms (The Henry J. Kaiser Foundation 2003, Table 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. The employer would need to contribute an estimated $4.09 per hour toward health insurance to provide that same worker with family coverage. Indeed, many affected employers cited the difficulty of finding a low-cost plan as a reason for not offering health benefits to their workers on living wage contracts.

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Chapter 6

IMPACT ON WORKERS AND THEIR FAMILIES

KEY FINDINGS

- In an analysis of three prototypical living wage affected families, workers kept more than 70 percent of their wage gain after taxes.
- Most affected workers would likely retain their eligibility for government assistance. A small minority of single parents are most likely to see a decrease in benefits, representing less than one percent of all affected workers.
- Thirty-six percent of affected workers said that the pay increase had brought about improvements in their quality of life.
- More than 80 percent of affected workers said that the living wage was not enough to allow them to meet their basic needs, and more than 40 percent of affected workers rely on at least one government anti-poverty program, including the Earned Income Tax Credit.

Pay for the average worker affected by the living wage increased by $1,295 per year. In this chapter, we explore how this raise impacted workers and their families. An increase in wages can also mean higher taxes and reduced eligibility for government assistance programs, like the Earned Income Tax Credit or Food Stamps. We calculate the after-tax income gain and the impact of the raise on workers' eligibility for government assistance programs. In addition, we present results from the worker survey on changes in quality of life for affected workers and their families.

THREE PROTOTYPICAL AFFECTED FAMILIES

Both taxes and public program eligibility depend on workers' family size and income. We developed three prototypical families, based on our survey data on living wage affected workers: a single worker with no dependent children,[46] a two-parent family with two income earners,[47] and a single-parent family. These family types account for 68 percent of all affected workers. A sizable percentage of affected workers and their families are either uninsured or rely on public health insurance (38 percent of workers and 50 percent of their children). We assume that our prototypical workers — and their spouses and children — lack employer-paid health insurance both before and after they receive their living wage raise, and are reliant on public health care programs. This is so we can evaluate the impact of the pay increase on their eligibility for those health care programs.

Table 6.1 presents the unique characteristics of each family type from the Living Wage Worker Survey, combined with family income data on low-wage workers in L.A. County from the Current Population Survey.[48] For both single-parent and two-parent families, the average number of dependent children is two. The two-parent family, with double the earning power, has more than twice the income of the others.

In terms of the living wage raise, affected workers who are parents received a considerably greater boost in their average annual salary than did affected workers with no dependent children. 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 on average than did men because they started at a lower wage on average.[49] In the case of affected 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 were hired before the living wage

TABLE 6.1

Prototypical Living Wage Affected Families

	Single worker	*Two Working Parents*	*Single Parent Family*
Average number of children under 18	None	2	2
Annual raise	$1,098	$1,869	$1,680
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.*

went into effect at their firm.[50] As discussed in Chapter 4, these workers received significantly higher raises than did those hired after the ordinance went into effect at their firm.

Overall, our prototypical affected workers retain between 71 and 76 percent of the wage increase after taxes. Table 6.2 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 $1,098. 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 more to lose from reductions in the amount of her Earned Income Tax Credit than do the other prototypical affected workers.

TABLE 6.2

Annual Gains for Prototypical Affected Families and Government Due to Wage Increase

	Single Worker	*Two Parent Family*	*Single Parent*
Worker Gains			
After-tax income increase	$839	$1,370	$1,190
Percentage of living wage increase retained by workers	76%	73%	71%
Government Gains			
Federal government	$249	$406	$476
State government	$10	$93	$15
Total government gains	$259	$499	$491

Sources: *Living Wage Worker Survey, Economic Policy Institute analysis of Current Population Survey March Supplement, 2002 and 2003 combined, Internal Revenue Service, California Franchise Tax Board.*

MOST AFFECTED WORKERS LIKELY TO RETAIN ELIGIBILITY FOR GOVERNMENT PROGRAMS

Low-wage workers receiving a raise due to the living wage may face a loss of eligibility for government assistance programs, or a decrease in the value of their benefits. These changes would also translate into savings for government.

In order to understand the impact the ordinance might have in this area, we examined our three families' eligibility for Food Stamps, Medi-Cal, Healthy Families, federal Section 8 rental housing vouchers and school meal subsidies.[51] Of those programs, only Section 8 and Food Stamps were affected by the wage increase, because benefits levels for these programs are sensitive to small changes in income. As income increases, the dollar value of benefits declines. However, results from the Living Wage Worker Survey show that the majority of affected workers do not rely on Section 8 or Food Stamps. Section 8, in particular, is not widely available because of long waiting lists to get into the program.[52] Only two percent of living wage affected workers report using Section 8, and the same percentage rely on Food Stamps.

Of all the family types, the single parent is the most likely to experience a decrease in benefits. Although she remains eligible for Section 8, her subsidy decreases by $504 per year (Table 6.3). Similarly, she remains eligible for Food Stamps, but her annual benefits decline by $624. Most single-parent workers affected by the living wage do not rely on these programs, although they are significantly more likely to rely on government assistance than are affected workers belonging to other family types. Less than 12 percent of single-parent workers affected by the living wage rely on Section 8 housing vouchers, and about 6 percent rely on Food Stamps. For a single-parent worker relying on both of these programs, the living wage would not be a net income gain. Based on survey data, a small group of single-parent workers

TABLE 6.3

Decrease in Public Program Benefits for Prototypical Affected Families

Affected Programs	*Single Worker*	*Single Parent Family*
Food stamps	$0	-$624
Section 8	-$329	-$504
Total	-$329	-$1,129

***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 of the Current Population Survey's March Supplement, 2002 and 2003 combined.*

Worker Profile

"Louise," a resident of Lakewood, is a 53-year-old African-American woman with four grown children. She works as a parking lot cashier in a unionized position at the Los Angeles International Airport, where she has been employed since 1997. In 1998, the living wage took effect at her firm and she received a wage increase, although much of the raise was eaten up by increases in her expenses. Louise receives health insurance through her employer, but the fees for her coverage have increased. Not long after she got her pay raise, the landlord raised the rent for her apartment. Louise reported that without the living wage raise, she would not have been able to pay the higher rent. Nevertheless, Louise has taken a part-time job providing security at a church near her home. She states that if she were to receive $15 per hour, she would be able to cover her current living expenses without a second job.

affected by the living wage (less than one percent of affected workers) rely on both programs and would potentially fall into this category. This group amounts to fewer than 30 out of the 7,700 workers who received raises.[53]

The prototypical single worker sees a $329 reduction in eligibility for Section 8, but only one of the single workers surveyed reported receiving Section 8 housing vouchers, so it is unlikely that very many affected workers would face a loss in Section 8 eligibility. The two-parent family, because of its higher income, is not eligible for any of the programs before or after the living wage.

The small decline in eligibility for government programs experienced by our prototypical families translates into a slight revenue savings for government. The prototypical single-parent worker would lose Section 8 eligibility (valued at $504 a year) and Food Stamp eligibility (valued at $624).[54] Applying the rate at 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, single parents would lose on average $135 per year in benefits, and the federal government would be the beneficiary. About 1,300 of workers affected by the living wage are single parents, so the government would gain about $174,000 annually from this group of workers in aggregate, according to this scenario.

SOME AFFECTED WORKERS SAW IMPROVEMENTS IN QUALITY OF LIFE

The majority of workers we surveyed did not experience 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 earning the living wage at an airline services firm they were able to buy a house together for their families.

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 that 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 was implemented at their firm. 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. The only changes that were associated with the wage increase, other than those previously mentioned, were changes in spending on entertainment, such as taking the family to the movies or out to dinner. The higher the raise an affected worker received, the more likely they were to report spending more on entertainment.

Quality of Life Changes Reported by Affected 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 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 in the context of the rising cost of living in Los Angeles County. 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 health care — was rising at a much faster rate than any wage mandate.

From 1999 to 2003, the time period during which many workers affected by the living wage received their raises, the average annual rate of growth for the living wage rate was three percent, about the same as the rate of growth of the Consumer Price Index, as shown in Figure 6.1.[55] The California minimum wage rate, which was raised twice during this period, grew at an average rate of 4 percent per year.

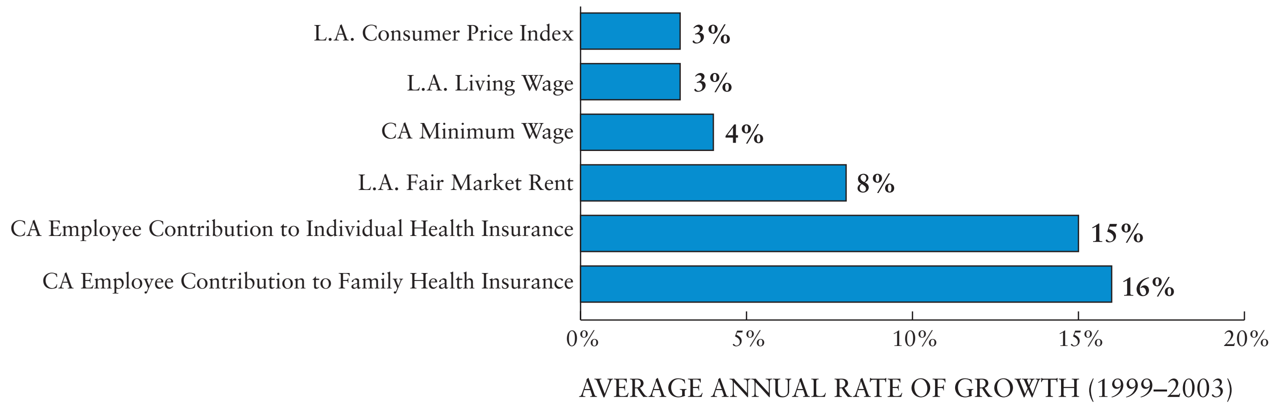
Housing costs — which make up a large share of a low-income family's budget — have increased more dramatically. The average annual growth rate for the Fair Market Rent in Los Angeles was eight percent during the same period.[56] Meanwhile, the cost to employees of health insurance has grown even more rapidly, with employees' share of individual and family premiums increasing at an average annual rate of 15 and 16 percent, respectively.

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

FIGURE 6.1

Annual Rate of Growth for the L.A. 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.

— about $5 more than the lower-tier 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. Combining the wages supplied by the workers and available health insurance cost data, workers would need between $15 and $17 per hour, depending on their family type (see Table 6.4).[57] The higher tier of the living wage at the time most workers were interviewed was $9.52 per hour.

Single-parent workers were significantly more likely than other affected workers to say that the living wage is not enough, while single workers were the least likely to report that the living wage is not sufficient, though the majority still felt it was not enough. There is little variation among

TABLE 6.4

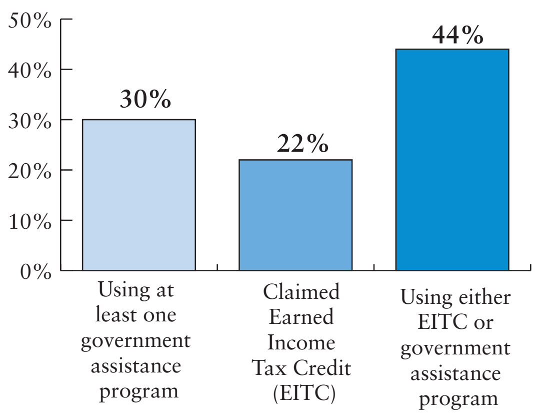
Percent of Affected Workers Who Believe the Living Wage Is Not Enough to Support Their Families (by Family Type)

	Single Parent	*Two Parents*	*Single*	*Couple*	*All Workers*
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.

FIGURE 6.2

Participation Rates in Government Anti-Poverty Programs for Living Wage Affected Workers



Source: *Living Wage Worker Survey. Margin of error ranges from ± 2 percent to ± 5 percent.*

Worker Profile

"Marta" is a 56-year old single mother of five grown children who emigrated from Ecuador 20 years ago. She lives in Burbank with one of her sons, her daughter-in-law and her granddaughter. Before the living wage, Marta worked two full-time jobs. When she received a raise in 2002 at her job with a City janitorial contractor, she was able to quit her second job in the garment industry, which paid only minimum wage. Since her pay increased, Marta has also been able to buy higher-quality, more nutritious food for herself and her family.

family types in the hourly wage affected workers believe they would need to earn in order to be able to support themselves and their families. According to the workers surveyed, the average wage needed for all family types is between $12 to $14 per hour, plus family health insurance.

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 any of a variety of anti-poverty government assistance programs at the time of the interview. The data suggest that, even while earning the living wage, a sizable minority of workers are still poor enough to qualify for government assistance.

As previously discussed, a small percentage of workers affected by the living wage rely on Section 8 and Food Stamps, programs which are sensitive to minor 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 Earned Income Tax Credit (EITC) (see Figure 6.2), with the most heavily used programs being Medi-Cal health insurance, the school lunch program and Women, Infants, and Children (WIC) food subsidies.[58] In addition, one in five affected workers said they claimed the EITC on their last tax return.[59] In all, 44 percent of workers surveyed reported that their family either claimed the EITC or was using at least one other anti-poverty program.[60] Rates of participation in these programs for workers affected by the living wage are comparable to the rates for low-wage workers overall in California, in those programs for which data are available.

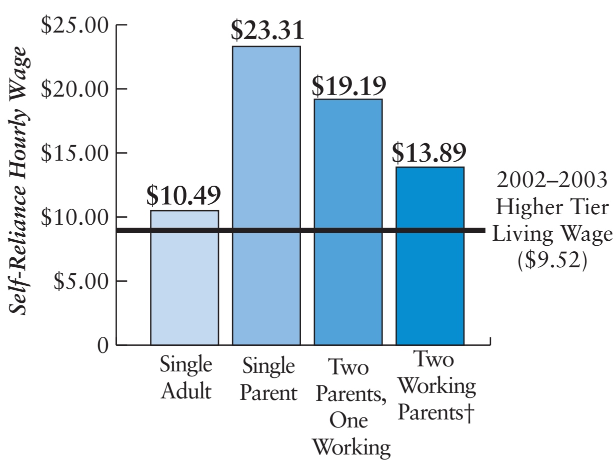
HOW MUCH IS ENOUGH?

As discussed in Chapter 3, the Federal Poverty Guidelines are best seen as a measure of severe poverty, and do not provide an adequate standard to measure the minimum income needed to support a family in Los Angeles. Several research and policy organizations have devised self-reliance budgets, which 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.

Figure 6.3 illustrates how the higher tier wage level of the living wage in 2002–2003 compares to self-reliance budgets for several different family types in Los Angeles County.[61] The wage needed by a single person with no dependents is only about a dollar higher than the living wage level. A single parent, on the other hand, would need to earn nearly $14 more than the living wage level, mainly due to child care and health insurance costs. Couples with children and one parent working require over $9 more than the living wage, assuming that the spouse who does not work is able to care for the children. 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. These self-reliance wage levels are not dramatically higher than what living wage affected workers themselves say they need, when health insurance is factored into the equation.

FIGURE 6.3

Higher Tier Living Wage Level Compared to Self-Reliance Wages (By Family Type)



Source: *California Budget Project (Oct 2003).*
Note: *The analysis assumes two children for all family types except the single workers.*
†This is the wage for each working parent.

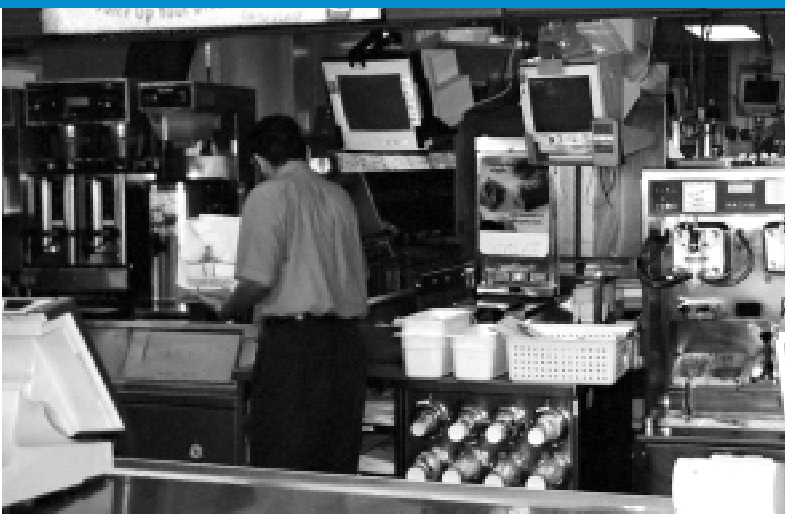
CONTRACTING BACK IN CITY JOBS

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 to transition these workers into civil service positions. In all, 460 of these jobs have been "contracted in" since the enactment of the living wage ordinance in 1997, and the City has a program to transition those workers into City civil service positions. 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.[62]

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.[63] According to an official in charge of janitorial contracting at Los Angeles International Airport, the living wage factored into the decision to contract in 350 custodial jobs at the airport, because if the City pays for increased wages of subcontracted workers, then there is no great savings from contracting out work.[64]

Chapter 7

IMPACT ON EMPLOYERS AND THE WORKPLACE



KEY FINDINGS

- Employment reductions due to the living wage were minimal, amounting to one percent of affected jobs. Eighty-one percent of affected firms have adapted to the living wage without eliminating jobs.
- A minority of affected firms cut costs by reducing benefits such as health benefits, merit raises and bonuses, which impacted at most five percent of covered workers in affected firms.
- Living wage affected firms also decreased overtime and training for new hires, relative to comparable non-living wage firms.
- Affected firms have recovered some of the increased costs of the living wage through reductions in turnover and absenteeism, and by hiring more highly trained workers. Cost savings from turnover reductions represent 16 percent of the cost of the wage increase for the average affected firm.
- Nearly 80 percent of affected firms reported that they did not change their hiring standards due to the living wage. The survey found no evidence of existing workers being fired or pushed out in order to hire different workers.
- Compared to the original workforce, affected workers hired after the living wage have similar levels of education, are of similar age and are equally likely to be members of racial or ethnic minorities.
- Affected workers hired after the living wage are more likely to be male, have higher levels of training and were paid higher wages before the living wage.

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 affected firms did not report major changes due to the living wage, though many of the predicted effects of the ordinance have taken place for some firms.[65] 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 affected 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 affected firms have been able to pass on some or all of their increased costs, although other affected firms have not.

This chapter presents data on affected firms from the Living Wage Employer Survey. This survey also provides 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.

EMPLOYMENT REDUCTIONS WERE SMALL

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 most affected firms did not reduce employment, though a minority did. The survey asked if 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 City contracts due to the living wage ordinance. Firms that did cut jobs were asked to quantify the job loss.[66] Based on these results, an estimated 112 jobs on living wage contracts in Los Angeles were eliminated due to the living wage mandate.[67] This number represents 0.8 percent of all covered workers in affected firms and 1.4 percent of affected workers.

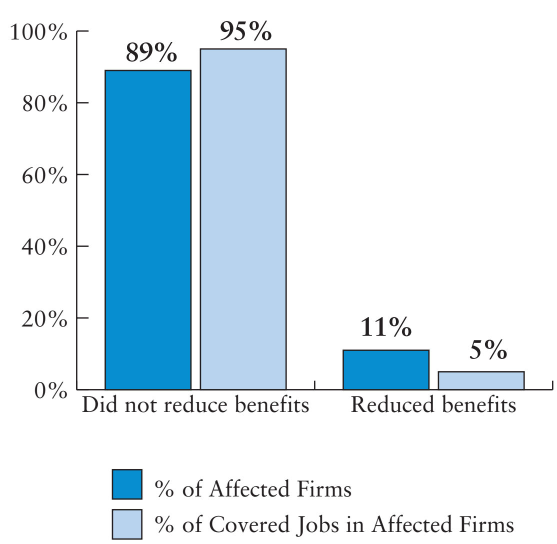
Some affected firms did not reduce employment because of the minor impact of the ordinance on them: either the number of workers affected was small or the size of the required raises was minimal. Firm interviews revealed two additional reasons why job reductions were limited. Several affected firms reported that the City had increased reimbursements on their contracts enough to cover the entire cost of the living wage. In addition, several 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.

The 19 percent of affected firms that did cut staff were either social service providers, janitorial companies or miscellaneous other businesses. Qualitative evidence from interviews with social service firms provides 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.

Certain types of affected firms were more likely to experience larger staff cuts, when measured as a percentage of total employment on living wage contracts for each firm. Unionized firms experienced slightly smaller percent staff cuts, while smaller businesses saw slightly larger percent cuts.[68] Unionized firms may cut fewer jobs because union contracts sometimes include protections against layoffs or requirements for advance notice, and 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. Our survey results do suggest a slightly greater impact on employment for smaller businesses, although the difference is small.

FIGURE 7.1

Reductions in Employee Fringe Benefits



Source: *Living Wage Employer Survey, weighted by firm and by covered workers.*
Margin of error = ±7%.

A MINORITY OF AFFECTED FIRMS TOOK OTHER COST-CUTTING MEASURES

Faced with the increased costs of the living wage, employers may cut costs in other areas. The Living Wage Employer Survey asked affected firms about changes in fringe benefits, overtime hours and training for new hires. 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 Figure 7.1. 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 5. Finally, one firm that operates a restaurant stopped giving its employees free meals.

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. To measure changes in overtime, firms were asked whether overtime hours had decreased, stayed the same or increased.[69] Survey results show that living wage affected firms on average decreased overtime for their workers on living wage contracts, while non-living wage firms actually *increased* overtime slightly during the same period.

Firms reported changes in training for new hires in the same way — whether training had decreased, stayed the same or increased. Although living wage affected firms did not change the amount of training for their workers on living wage contracts, non-living wage firms on average showed a small increase in training during the same period. Thus, firms affected by the living wage mandate have not kept pace with the small increases in training seen in the non-living wage sector.[70]

SOME CHANGES IN THE WORKFORCE HAVE OCCURRED THROUGH NORMAL TURNOVER

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 affect.

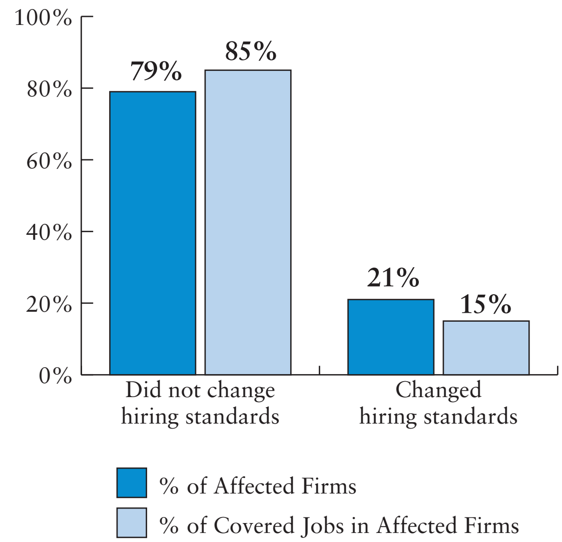
Changes in Hiring Standards

Nearly 80 percent of affected firms reported that they did not change their hiring standards for workers on City contracts, as shown in Figure 7.2. 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. The firms that reported making these changes represent 15 percent of covered jobs in affected firms. 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 more highly skilled and educated child care teacher position. 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.[71] Affected firms applied their new hiring standards to positions that became available through normal processes of turnover and attrition.

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. Two airline service 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 September 11, 2001 did attract more-experienced and better-educated applicants. These raises, which were significantly higher than the living wage level, were not included in our analysis of firm or worker impacts. According to one manager, the September 11, 2001 wage increase 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

FIGURE 7.2

Change in Hiring Standards



Source: *Living Wage Employer Survey.*
Margin of error =±9%.

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.

Changes in Worker Characteristics

Using data from the worker survey, we divided the affected workers into those hired before the living wage went into effect (*stayers*) and those that were hired afterwards (*joiners*), 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.[72] Results from this analysis corresponded with the results of the employer survey, in that there were not major changes in the workforce. In many respects, the characteristics of stayers and joiners are the same. 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.

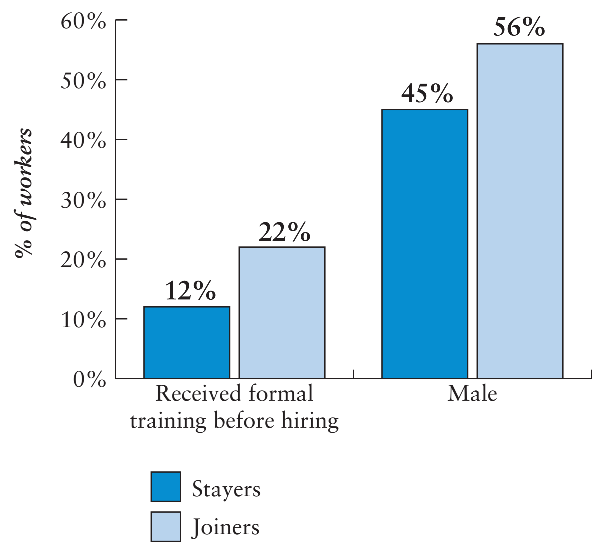
For other characteristics, there were differences between the stayers and joiners, as shown in Figure 7.3. The proportion of affected workers who had participated in a formal job training program before being hired was 10 percentage points higher among the joiners. Examples of formal training completed by joiners include security guard certification and training in cleaning procedures. Joiners were also more likely to be male. Women typically have a more tenuous attachment to the labor market, which may make them less desirable applicants. However, it is also possible that the decreased proportion of female workers may result from employer discrimination, facilitated by the increased wage and the more male-dominated applicant pool that it may generate. Joiners are also more likely to be Latino. This may be due to the broad demographic changes occurring in the Los Angeles labor market, which is increasingly likely to be Latino, rather than simply employer preference for Latinos.[73]

Joiners were also paid higher wages before the living wage compared to stayers. Joiners earned $8.48 on average at their previous job, compared to the $6.27 earned by stayers before the living wage, a difference of 20 percent. This wage difference 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 interpersonal skills or other qualities which are difficult to measure with a survey.

However, there may also be other explanations for the difference in wages, because wages are not solely determined by worker skills. Factors such as employer labor policies can also play an important role. 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 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.

FIGURE 7.3

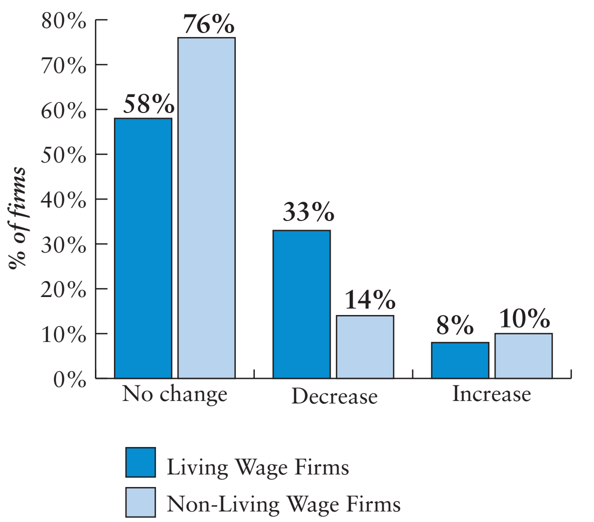
Selected Characteristics That Were Different for Stayers and Joiners



Source: Living Wage Worker Survey. The difference in the proportion of males is statistically significant at the 0.05 level, and the difference in training is statistically significant at the 0.20 level.

FIGURE 7.4

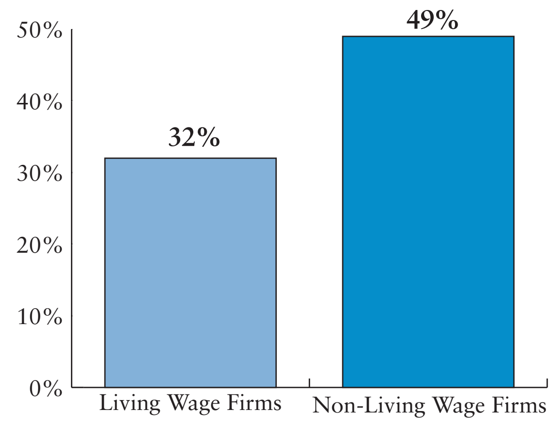
Change in Turnover for Living Wage Affected Firms and Non-Living Wage Firms



***Source:** Living Wage Employer Survey and SDHRP.*

FIGURE 7.5

Current Rates of Turnover at Living Wage Affected Firms and Non-Living Wage Firms



***Source:** Living Wage Employer Survey and SDHRP. The difference is statistically significant at the 0.10 level.*

EMPLOYER COST SAVINGS

This section explores whether the increased costs to employers under the living wage are partially mitigated by costs savings through reductions in employee turnover and absenteeism.

Turnover Reductions

A wage increase or the provision of health benefits may lead to a decrease in employee turnover for two different reasons. First, affected workers may value the job more and be less likely to leave voluntarily for a better-paying job. Also, better wage and benefits 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 by asking whether turnover increased, decreased or stayed the same. As shown in Figure 7.4, 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 annual percentage of employees that quit or were fired. Living wage affected firms were asked specifically about changes in turnover for workers whose wages were increased due to the living wage.[74]

Results from the control group analysis also indicate that living wage affected firms have lower current rates of turnover than non-living wage firms, as shown in Figure 7.5. Looking at turnover just for the largest low-wage occupation in each survey firm, the average current turnover rate at living wage affected firms is 17 percentage points lower than at comparable non-living wage firms. Results suggest that this difference is largely attributable to the living wage ordinance.[75]

Several of the managers interviewed at living wage affected firms were quite aware that turnover was lower among their workers on living wage contracts, 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 nationwide 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."[76]

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 and hiring, and less supervisor time spent training new employees.

Various studies have estimated the cost of replacing a low-wage worker, which usually includes separation, search, training and lost productivity while the new employee learns the job. These estimates range from a low of $807 to a high of nearly $6,000, depending on the workers' occupation and industry, and the methods by which the information was gathered (Table 7.1).[77] The average of these estimates, $2,529, provides a basis for estimating the cost savings from turnover reductions for living wage affected firms.

The costs savings from turnover reduction are significant, even when compared to the increased costs imposed by the living wage. Applying the average turnover reduction for living wage affected firms (17 percentage points) to the average cost of replacing a low-wage worker ($2,529) yields a cost savings of $430 per low-wage worker per year. To estimate the increased costs of the mandatory wage increase, we used the wage raise for the stayers, 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,[78] the annual cost increase is $2,694 per worker. Therefore, the savings from turnover reduction make up 16 percent of the cost of increased wages.

Declines in Unscheduled Employee 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.

TABLE 7.1

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 Massachusetts Amherst	Hotel, Retail and Restaurant	$2,009
Business Week 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

Company Profile

"L.A. Outreach Services" is a non-profit organization that provides services for the homeless. Although costs have increased due to the living wage, the City has not increased reimbursement on the contract. Due to these cost pressures, this organization has kept its spending on health insurance for employees at the same level, while the costs of health insurance plans have increased. The manager expressed concern that the quality of health care would decline as a result. The organization has also eliminated annual merit raises for many eligible workers, a management tool that the company regrets losing. Overall, the ordinance has soured the company's attitude toward City contracting. About one-third of the firm's business comes from the City of Los Angeles, but the manager said the organization is looking for other sources of funding to replace the City contracts.

Firms in the Living Wage Employer Survey were asked whether absenteeism had decreased, stayed the same or increased since the living wage. Results from the control group analysis show that absenteeism decreased on average among living wage affected firms, while non-living wage firms reported no such decrease. Several managers interviewed explained that they believe 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 affected airport firms. Airport firms affected by the living wage 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 affected airport firms, resulting in no overall decline. All of the affected airport firms that reported an increase in absenteeism were in the airline services industry. At least one of these firms interpreted the ordinance to mean that worker can 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.

CHANGES IN CITY CONTRACTING

Some Affected Firms Have Passed On Their Increased Costs

Less than half of affected firms responded to a question about cost pass-through. Of those, about half said they were able to pass through at least some of their costs, in some cases up to 100 percent. 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. We found two examples of affected firms with these types of service contracts that were able to increase their profit margins following the living wage. 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 thus increased in value. One 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. In addition, some social service 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.

Airlines: 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 costs increase.[79]

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 affected firms said they had increased prices to the public.[80] 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.

Attitudes of Most Affected Firms Towards City Contracting Are Unchanged

The employer survey asked affected firms if the living wage had changed their attitude about contracting with the City. The majority of these firms, as shown in Table 7.6, reported no change.[81] The affected firms who did report a change fell into two categories. Some reported that they were less likely to seek City contracts, while others found it easier to compete for City contracts.[82]

Affected firms that said they were less likely to seek a City contract cited the increased costs of the ordinance. One manager at a large union janitorial firm said that because the City will not increase payment during the term of the contract, and the living wage increases every year, profits have declined on their 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.

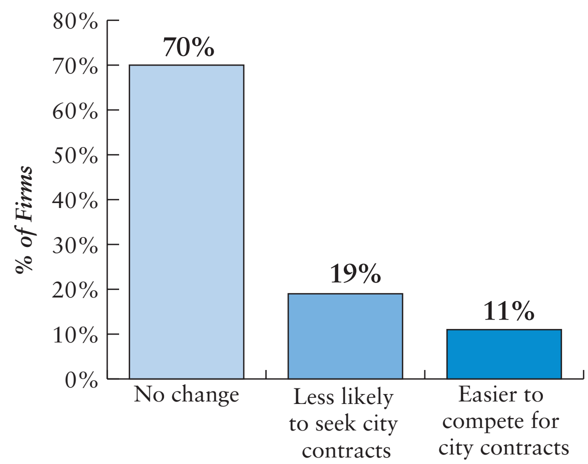
On the other hand, some affected firms reported that the living wage has made it easier for them to compete for City contracts. Many of these firms complained about previously being underbid by other firms which they believe do not comply with basic labor requirements, such as paying

Company Profile

"Park and Go" is a national parking services firm with unionized workers on its living wage contracts. The living wage resulted in wage increases, but not improvements in health benefits, because family coverage was already provided under the union contract. After the living wage increase, turnover declined to a rate of about 10 percent. According to the manager, this is very low for the industry. As he explained, "In the parking world, this is as good as it gets." 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. Absenteeism has declined as well, a change that the manager attributes both to the living wage and to stricter company policies on absenteeism. The living wage has enabled the company to hire a "higher-quality employee." Although the company's costs have risen due to the living wage, it continues to pursue City contracts.

FIGURE 7.6

Changes in Attitude Towards City Contracting



Source: Living Wage Employer Survey. Margin of error ranges from ± 2% to ± 10%. The difference between firms that experienced a positive change and those that experienced a negative change is not statistically significant.

minimum wage or carrying workers' compensation insurance. The phrase used time and again by these firms was that the living wage had "leveled the playing field" by providing a common floor for bids. Before the living wage, managers at one 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.

Several factors are associated with these changes in attitude. Affected firms that provided more paid days off to their low-wage employees before becoming subject to the living wage were more likely to report positive changes in attitude. This likely reflects the "level playing field" created by the ordinance, which several firms cited. Affected 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 affected by the living wage were more likely to report them. 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 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 Characteristics of Affected 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 compared the characteristics of affected firms that already had a City contract before the living wage (*old firms*), and those that have entered the City contracting sector since the living wage went into effect (*new firms*). 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.[83] 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 1 firm) are unionized.

Changes in Characteristics of Affected Workers

In order to evaluate whether changes in the types of firms entering into City contracting are reflected in changes in the types of workers employed on City contracts, we compared workers in old firms who were hired before the living wage went into effect (*stayers*) to workers in new firms.[84] This analysis shows that, on average, affected workers in new firms are 11 years older at hire, are more likely to be female and earned a 13 percent higher wage before becoming subject to the living wage. The greater age and higher previous wages may be explained by the tendency towards the usage of higher-skilled labor in the living wage sector. The increase in the proportion of women is more difficult to explain and bears further examination.

Chapter 8

CONCLUSIONS AND POLICY IMPLICATIONS

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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 attention on issues of job quality and low-wage poverty.

Our findings suggest that living wage ordinances can provide meaningful benefits to workers in poor and low-income families, with minimal reductions in employment. 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 summarize our findings on many of the key policy questions raised by living wage ordinances.

Are workers affected by the living wage in poor or low-income families?

Given their characteristics, affected workers are likely to be in poor or low-income families. More than 70 percent of affected workers have a high school education or less. Only 4 percent are teenagers, compared to 14 percent of low-wage workers in L.A. County. The average affected worker has been in the labor force for 19 years, and nearly 90 percent are working full time. Living wage affected workers are more likely than other low-wage workers in L.A. County to be female (nearly 60 percent), to be African-American (30 percent) and to be single parents (16 percent). Nearly 45 percent of living wage affected workers surveyed said they use a government assistance program or claim 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 affected workers. Only 15 percent of low-wage workers in L.A. County are in severe poverty, with family incomes falling below the Federal Poverty Guidelines. Most people below the poverty guidelines are not working, so it is no surprise 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 in poor families. These workers meet the income eligibility criteria for various government anti-poverty programs. Finally, the majority of low-wage workers in L.A. County, or 69 percent, can be considered low-income. Their family incomes fall below a self-reliance standard for Los Angeles County, and they would likely have difficulty making ends meet without sharing housing or relying on government assistance or informal child care. The remaining 31 percent of low-wage workers are not in low-income families.

Compared to low-wage workers in L.A. County, living wage affected workers are likely to have lower family incomes because a smaller percentage are teenagers, and a larger percentage are 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 brought about significant improvements for affected 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 a year on average, or an annual aggregate 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 affected firms could maintain pay differentials between workers, adding another $2 million annually in pay increases.

Over time, the workforce has changed, and the wage gains for affected workers hired after the living wage have not been as great. Affected 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 affects of minimum wage increases. For the affected workers at the time of our survey, the average raise was $1,295, about half the size of the pay increase for the affected workers at the time of implementation.

There was considerable variation in the raises affected workers received. Consequently, not all workers we interviewed received significant raises due to the ordinance, and a minority saw a decrease in wages from their previous non-living wage job. Nevertheless, more than one-third of affected workers we surveyed said that the pay increase had a positive impact on their lives. One worker reported being able to leave an abusive husband, others moved into less crowded housing, while some were able to make much-needed purchases (from a new car to children's clothing).

The living wage ordinance did not transform the lives of most affected workers. This is not surprising, however, 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 affected workers said that the living wage was not enough to allow them to meet their basic needs. Some 40 percent of affected 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, affected workers said they would need $13 per hour plus free full family health insurance to truly afford the cost of living in Los Angeles. Although many factors go into setting living wage levels, testimony from affected workers themselves represents 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 off 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 per year to the average affected worker. However, eight percent of affected workers reported that they did not have full access to the sick days and vacation days they are owed, suggesting that there may be a compliance problem with regard to paid days off.

The analysis in this report sheds no light on the changes in wages and benefits of the leavers, who were employed at the time of implementation and left before our surveys were conducted. Survey evidence clearly reveals that few of these workers were forced out of their firms through dismissals. Because these workers left voluntarily, we might conclude that wherever they left for, their current compensation is likely to be at least comparable to their former living wage job. This report has no definitive findings on this topic, however, and so should be viewed as an analysis of the impact of the living wage ordinance on firms and workers in the City contract sector only.

Is the wage gain eaten away by taxes and declines in eligibility for government programs?

Affected workers are likely to keep the majority of the wage gain after taxes, and few are likely to lose eligibility for government programs. In an analysis of three prototypical affected families drawn from Living Wage Worker Survey data — a two-parent family with two income earners, a single-parent family and a single worker — affected workers kept between 71 and 76 percent of their wage gain after taxes.

Affected workers in these prototypical families saw a decline in eligibility for Section 8 housing vouchers, a program that is used by only two percent of workers affected by the living wage. 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 great majority of single parents affected by the living wage do not rely on these programs. None of the affected workers in the prototypical families lost their eligibility for public health insurance, which would represent a significant loss to families with children.

Has the living wage led to a change in the workforce?

Affected workers hired after the living wage went into effect are more likely to be male and are more likely to have had some formal training before being hired, compared to affected workers who were hired before living wage implementation. 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 living wage jobs. Moreover, new hires may possess greater unobservable skills, as suggested by the fact that they have higher previous wages than do workers hired before the living wage took effect.

In spite of the difference between new and old workers, the affected 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.

How does the living wage affect health coverage?

Like many other living wage laws around the country, the L.A. ordinance was designed to encourage employers to offer affordable health insurance to their affected workers. Affected firms 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, affected firms would face a smaller cost increase by paying the lower wage. Our analysis revealed that this incentive did not prompt affected firms to initiate health insurance plans for their affected workers..

Nevertheless, a small group of affected firms improved their existing benefits plans or expanded benefits to more workers in order to comply with the law, changes that led to improvements for about 2,200 jobs. Two percent of affected firms decreased benefits for their workers in response to the ordinance, resulting in benefit reductions for 140 jobs, or one percent of covered workers in affected firms

These modest changes suggest that a $1.25 health differential can cause some affected firms to improve their health insurance plans. But the ordinance has not resulted in significant numbers of affected workers gaining health insurance. Although living wage affected firms are more likely to offer employer-paid benefits than are their non-living wage counterparts, more than 38 percent of affected workers still lack health insurance or use public programs. Affected workers do value health insurance highly, with 75 percent of those receiving the lower wage saying they would not give up their access to health insurance for a $1.25 per hour increase. Similarly, 58 percent of affected workers receiving the higher wage 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 affected 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 affected firms. Encouraging these 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 workplace impacts?

The majority of affected 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. Some affected firms did take cost-cutting steps, which in most cases impacted a minority of workers. A significant minority of affected firms cut staff (19 percent), but these reductions were minimal — 112 workers, or 1 percent of affected workers. A minority of affected firms also cut such benefits as merit increases, free lunches and health benefits, changes that impacted no more than five percent of covered workers in affected firms. Living wage affected firms also decreased overtime and training for new hires relative to comparable non-living wage firms.

Several affected 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 the ordinance, and some firms have numerous covered contracts.

Although negative impacts do not appear to be widespread, some affected 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 were other firms. Given the importance of the work done by these firms — and the difficulty non-profit organizations have in 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 the living wage?

Affected firms have experienced cost savings following the implementation of the living wage, which partly offset the cost increases. One in three living wage affected firms reported a decrease in turnover, which was twice the rate for non-living wage firms. The average current turnover rate at living wage affected firms is 17 percentage points lower than at non-living wage firms, resulting in an estimated cost savings of $430 per affected worker per year. Through these turnover reductions, the average affected firm makes up 16 percent of the cost of the wage increase. Affected firms 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?

Our analysis of prototypical affected workers — a single worker, a couple with children, and a single parent — suggests that living wage laws may provide benefits to taxpayers. Annual federal and state tax receipts increased by a range of $259 to $491, depending on the family type. For each family type, at least 95 percent of the benefits went to the federal government. (State and federal governments would also benefit from increases in employer payroll taxes due to the living wage raise.) In our analysis of prototypical affected workers, the federal and state government did not see substantial potential savings in the area of government assistance.

In summary, the Los Angeles Living Wage Ordinance has had measurable positive impacts on workers. Affected workers saw real wage gains that had a beneficial — if generally 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 affected 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 affected firms had minimal impact on workers, with job reductions of less than one percent. Affected 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.

We hope this report offers a significant contribution to the body of research on living wage legislation, and will provide valuable information to those considering the effects of these policies.

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Endnotes

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

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

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

4. The high union density and presence of a union campaign at the airport may have two implications for our findings. Although we asked firms to isolate the impact of the ordinance alone, we may be measuring some of the benefits to workers from those union campaigns as well. Also, 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.

5. Interview with Ray Witmer, Teamsters Local 911 and Eddie Iny, SEIU Local 1877.

6. About 64 percent of the worker survey sample consists of airport workers, virtually all of them interviewed after the 9/11 attacks. 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 Living Wage Worker Survey was altered following the 9/11 attacks. Workers were asked to provide information about their experiences after the passage of the living wage ordinance and prior to 9/11.

7. As the screeners were covered by the ordinance at the time of the interviews, they are represented in our sample.

8. The City had already contracted with Richard Sander for such a study.

9. 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).

10 Brenner (2003), Reich, Hall, and Jacobs (2003), Sander and Lokey (1998), and Weisbrot and Sforza-Roderick, 1996.

11. Niedt, et al. (1999) and Reich et al. (2003)

12. Neumark and Adams (2005).

13. Many of the questions on the living wage 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, following Fairris (2005). 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 survey where there is no comparable data from the control group, we analyze the entire living wage sample, including airport firms.

14. 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 Employer 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.

15. 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.

16. In San Francisco, wages were raised both through the Quality Standards Program and the Minimum Compensation Ordinance. A total of 5,400 jobs received mandated wage increases and another 2,550 jobs received non-mandated increases.

17. 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.

18. Los Angeles Times, "LAX Fills Its Screen Team," November 5, 2002.

19. Since our employer survey in 2002, the 1,200 security screener jobs, which had been subcontracted by the airlines, became federal government jobs. Without the screeners, 19% percent of living wage jobs are in airline service occupations.

20. A 1998 memo prepared by the L.A. City Administrative Officer listed the number of jobs where wages would be increased under the ordinance.

21. 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.

22. The survey began in late 2001 and continued until the middle of 2003, but the majority of interviews were conducted in 2002.

23. 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 with wages 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.) 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.

24. 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.

25. Economic Policy Institute analysis of CPS Outgoing Rotation Group, 2002 and 2003 combined.

26. 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.

27. 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 as to 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 volunteer that they are living separately from their spouse.

28. 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 fami-

ly 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.

29. 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 were unable to do because of small sample size.

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

31. 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.

32. This report uses the "Basic Family 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's budget (Pearce, 2003), which they term a "Self-Sufficiency Standard." Income for families in the CPS was inflated to 2003 using the Consumer Price Index.

33. We adjusted the health care 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).

34. See previous note.

35. This analysis takes into account family size and structure to determine family income.

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

37. 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 each 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. The $1.48 average raise calculated with these adjustments is similar to results from the control group analysis of firms. After netting out raises experienced by control group firms and controlling for a variety of firm characteristics, the average raise for entry-level jobs at living wage firms was $1.74.

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

39. The joiner's median raise, however, was $0.88, more than four times as high as the mean raise, and may better represent the experience of the typical joiner.

40. Chapter 7 includes a more complete discussion of the difference in characteristics between the stayers and the joiners.

41. Estimates on the number of workers receiving 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.

42. 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 contractor for 50 weeks per year, on average.

43. This is the average current wage of living wage workers ($9.37) times the 13.5-hour annual increase in paid days off due to the ordinance.

44. 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 subject to the ordinance, 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.

45. The control group survey did not ask about unpaid days off, so this analysis was conducted using only results from the Living Wage Employer Survey.

46. 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, as some of these workers may still be supported by their parents.

47. The prototypical worker comes from a dual-income family because the partners of most married living wage workers (72 percent) also work. Those families with one parent working earned on average $21,823.

48. 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 $11.99 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.

49. 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.

50. Single workers are significantly more likely to be joiners than are workers from other family types.

51. 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 that are above the income eligibility level for Medi-Cal.

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

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

54. 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.

55. The living wage workers we surveyed experienced their wage increase at different times between 1997 and 2003, but we focused on 1999–2003 because health data were not available prior to 1999. The CPI is for the Los Angeles-Riverside-Orange County area.

56. 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.

57. 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 $2.98 (2 x $1.49). The data come from Henry J. Kaiser (2003).

58. Public assistance programs included the following: Medi-Cal, National School Meals Program, Women, Infants and Children Nutrition Program, Healthy Families health coverage, Food Stamps, Section 8 housing vouchers, public housing, and Temporary Assistance for Needy Families (Welfare).

59. This is an underestimate of the percentage of workers reliant on EITC. 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, in order to provide a more conservative estimate.

60. 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 workers are eligible for these programs, but do not participate (see Stewart 2004, U.S. Department of Agriculture 2004, White 2001, and Phillips 2001). It is likely that some living wage workers have incomes low enough to qualify for these programs but are otherwise ineligible because the programs exclude certain types of immigrants. Although the worker survey did not collect information about legal status, over half of living wage workers are immigrants.

61. This analysis assumes that workers are working full-time and relying solely on income from wages for their income.

62. 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. Interview with Teresa Sanchez, SEIU Local 347, October 6, 2004.

63. Interviews with Julie Butcher, General Manager, SEIU Local 347, July 38, 2003, and Tony Royster, Assistant General Manager of Administration and Building Support with the Department of General Services, interviewed November 22, 2004. 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.

64. Interview with Scott Lager, Airport Maintenance Superintendent at Los Angles World Airports, July 10, 2003.

65. 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.

66. 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.

67. Each firm reported the number of jobs cut due to the living wage, from which we calculated the jobs cut as a percent of 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 workers on living wage contracts in affected firms, which we derived from the City's Living Wage Contractor Database. The 95% confidence interval is +/- 1%, resulting in a range of 0 to 252 jobs lost. See Appendix B of the full report for the methodology used to estimate the number of covered workers from the city database.

68. Staff reductions for union firms were 4% less than those for non-union firms. 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 a 4.1 percentage point increase in staff cuts.

69.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.

70. 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.

71. 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.

72. Full regression results and further analysis can be found in Fairris and Fernandez Bujanda 2005. This analysis of worker characteristics 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. We discuss the workers in the new firms in a later section dealing with differences between old and new firms. In addition, the 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. If workers who have left are different from workers who have stayed, the stayers would not present a fully accurate portrait of the workforce at the time of living wage implementation.

73. 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.

74. 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. 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.

75. 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.

76. Lower turnover rates at living wage 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. 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 benefits 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.

77. This overview of turnover costs is largely taken from Michael Reich's discussion of the issue (Reich 2003). See Fairris (2005), Pollin and Brenner (2000), Business Week, "The Costco Way," April 12, 2004, p. 76, Hinkin and Tracy (2000), and Frank (2000).

78. The average number of hours worked per week from the Living Wage Worker Survey was 35. The 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.

79. Telephone interviews with Karen Sisson, Chief Financial Officer at Los Angeles World Airports, on July 3 and 24, 2003.

80. Although there was not a specific question in the employer survey about increased prices for customers, several firms volunteered the information in open-ended questions.

81. 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. Interviews with city contracting officials, however, suggest that this has not been the case.

82. This survey question was open-ended, so the responses do not follow the same pattern as other survey questions about changes. 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."

83. The employer 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 current 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 current wage.

84. The full regression results and additional analysis can be found in Fairris and Fernandez-Bujanda 2005. This 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.

EXAMINING THE EVIDENCE:

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

For more information, visit
www.LosAngelesLivingWageStudy.org
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