

Executive Summary

Three years after Cleveland's Fair Employment Wage Ordinance went into effect, this new report from Policy Matters Ohio finds that it has resulted in modest pay raises for a small number of workers, has not resulted in a substantial increase in contract costs, and has prevented only one financial assistance agreement from going forward according to the city. Loose record-keeping requirements in the law have made it difficult to fully assess the impact of the ordinance and limited enforcement has reduced the law's effectiveness.

The ordinance, passed in June 2000 and popularly referred to as the Living Wage law, requires that a higher minimum wage be paid by the city and certain employers contracting with or receiving financial assistance from the city. The current required wage, \$9.34 an hour, is indexed to the Consumer Price Index to rise with inflation.

Of the roughly 9,500 people working for the city of Cleveland, previous Policy Matters research found that about one percent, slightly less than 100 employees, received wage increases as a result of the ordinance. Eight city employees received raises last year after the most recent required increase in the wage, and some employees may have benefited from earlier increases. All other city employees were already earning above the threshold.

Service Contracts

Over three years, the Cleveland ordinance has covered 39 service contracts with 27 contractor companies who together employ 7,392 workers, according to data reported by the vendors. This is roughly three percent of the contractors with whom the city does business. Other contracts were not covered because they were for uncovered services, for goods instead of services, or because the size of the employer or the size of the contract was too small. Not all of the 7,392 employees are covered, but the exact total is uncertain because of the way the data is currently reported. The vast majority of covered employees were already paid above the required wage.

The city's purchasing department reported that contract costs have not increased, and that no employers with whom the city contracts have voiced concerns to them about the requirement. Although the law covers subcontractors, they have not been monitored.

Financial Assistance Agreements

Out of 47 financial assistance deals reviewed for compliance by the city, the law covers only six – Gateway Electric, International Steel Group (ISG), Minolta Business, NEON, Sysco, and Vocational Guidance Services (VGS). These six covered agreements apply to an estimated 2,318 employees and total \$39,560,164. The non-profit Vocational Guidance Services increased the wages of twelve of its 206 workers by about 45 cents an hour each to comply with the second living wage level of \$8.70 per hour.

Some financial assistance agreements that would be covered have remained "contract pending" during the law's three-year period, and others were exempt because the firms employed too few people. The lion's share of covered financial assistance is for a \$35

million tax abatement for Sysco, a large food distributor that is moving to Cleveland from Bedford Heights.

Only one employer, Container Compliance, appears on the city's list of "Financial Assistance Projects the City was unable to Assist". The company produces steel, plastic, and fiber drums for recycling, and employed 21 people, some of whom earned less than the required wage, when it applied for a \$160,000 loan and \$25,000 grant from the city. The city reported that the loan and grant would have allowed the firm to add five additional employees.

Health Insurance

Most companies covered under the law offer health insurance, although at least four do not. One company, US Cotton, requested and was granted an exemption from the living wage requirement because it argued that if health insurance costs were included in its hourly compensation to employees, the hourly employee payment would exceed the living wage even though hourly wage payments did not.

More than half of the 111 communities with living wage ordinances include a provision that requires higher wage compensation for those employers that do not provide health insurance. In those ordinances, the average required increase in hourly compensation for workers not provided insurance is \$1.46.

Recommendations

1. The ordinance should be amended to require higher compensation for employees who are not provided with affordable health insurance.
2. To enable better monitoring and enforcement, reports should be enhanced as follows:
 - A. Those bidding on service contracts or requesting financial assistance should be asked to report, clearly and directly:
 - i. Number of Ohio-based employees
 - ii. Wages of all Ohio-based employees
 - iii. Percent of new hires to come from the city of Cleveland
 - B. After being granted a contract or a financial assistance agreement, all employers should be asked to report semi-annually:
 - i. Number of Ohio-based employees
 - ii. Wages of all Ohio-based employees

Conclusion

The living wage ordinance has had a modest positive impact on a small number of Cleveland workers. The city has not detected increased contract costs and the city has recorded only one financial assistance agreement that could not proceed because of the requirement. Improved reporting and monitoring should improve the effectiveness of this ordinance.