Living Wage Study for Cuyahoga County

A Report From

Policy Matters Ohio

June, 2007

Background on the Study

On August 1, 2005, the Cuyahoga County Office of Procurement and Diversity issued an RFP (3724) for a living wage study for the county. Policy Matters Ohio submitted a bid for this proposal and on November 17, 2005, was approved by the Board of County Commissioners to complete the study. The study did not begin until the following spring and was completed in June 2007.

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Policy Matters Ohio is a nonprofit, nonpartisan research institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

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I. Introduction

In the early 1990s, as incomes for the poorest workers were declining and poverty rates were rising, especially for families with children, grassroots movements advocating living wage laws began appearing across the country.[1] Arguing that the government should not subsidize employers who pay less than a "living wage," these campaigns worked to enact living wage ordinances. This movement coincided with an increase in privatization of traditional government services to outside contractors. These ordinances varied, but most required companies that contract with or receive assistance from municipal and/or county governments to pay wages above federal or state minimum wage levels. Additionally, many ordinances have provisions regarding health care coverage for employees.

This paper, completed under contract with Cuyahoga County, describes current living wage ordinances around the country; reviews existing literature on these laws; and considers the impact on for-profit and nonprofit employers, employees, and government. We then examine living-wage requirements in large U.S. counties and Ohio cities, with a special focus on the city of Cleveland and Lakewood experiences. We then consider the potential effect on Cuyahoga County. We review recent county contracts, summarize a survey we conducted of county contractors and consider in particular the possible effect on the Small Business Enterprise program and economic development grants the county receives from the state and federal governments. We also consider potential impacts on county financial aid. We conclude with recommendations for a county living wage requirement.

II. Literature Review

The first living wage law passed in Baltimore in 1994. Since then, the policy has spread. By 2006, approximately 120 cities and counties had enacted such laws.[2] Table 1 shows the number of ordinances approved each year since 1994, the average value of the wage requirements and how that value compares to the federal minimum wage.

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[1] Weldon, S. Laurel and Harry Targ, "From Living Wages to Family Wages?" *New Political Science*, Vol. 26, No. 1, March 2004

[2] ACORN, "Living Wage Successes" (May 2006); Jeff Thompson and Jeff Chapman, "The Economic Impact of Local Living Wages," Economic Policy Institute (February 2006)

Table 1

First-Year Living Wage Ordinances				
Year	Number of ordinances	Nominal average wage	Real average wage (in 2006 dollars)	Percentage of the federal minimum wage
1994	1	$6.10	$8.21	118%
1995	2	$8.03	$10.55	156%
1996	7	$7.18	$9.19	139%
1997	8	$7.98	$10.00	155%
1998	8	$8.96	$11.07	174%
1999	15	$9.18	$11.11	178%
2000	15	$9.50	$11.12	184%
2001	24	$10.37	$11.81	201%
2002	17	$10.46	$11.72	203%
2003	14	$10.22	$11.20	198%
2004	3	$10.55	$11.26	205%
2005	8	$9.54	$9.85	185%
2006	7	$10.12	$10.12	197%

Source: Mark Brenner and Stephanie Luce (2005) “Living Wage Laws in Practice” PERI; ACORN (2006) “Living Wage Resource Center”; and author’s calculations. Real wages were calculated using the CPI-U-RS as a deflator. Based on wage in first year of ordinance implementation and on the wage level without health benefits in cases where multiple wage levels are stipulated. Data for 2003-2006 does not contain a complete list of ordinances and was obtained from the ACORN “Living Wage Resource Center.”

Living wage laws differ in scope of workers covered, benefits included, and definition of what constitutes a living wage. Most define the living wage in relation to the federal poverty line. Ordinances often set the wage at the level that a full-time, year-round worker would need to support a family of three or four at anywhere from 100 to 130 percent of the poverty level. Many laws take into account the cost of living in the region in question, resulting in considerable variation in wage levels across the country. Most ordinances have some method of indexing the wage level on an annual or bi-annual basis because of changes to the Consumer Price Index (CPI) and federal poverty levels. At the end of 2002, 60 of the 95 living wage ordinances had some method of wage indexing.[3] As of 2006, living wage levels ranged from a low of $6.25 in Milwaukee County to a high of $13.20 in Sebastopol, California.[4] The average living wage of those enacted in 2006 was $10.12 an hour, if health benefits were included.

Coverage and Benefits

Living wage laws differ in benefit requirements. Some ordinances, especially those passed early in the movement, have no provisions for benefits. Others include benefit requirements for healthcare coverage and paid vacation time. Ordinances approved in 2006 that considered health coverage required, on average, a two dollar per hour increase in the living wage if the position did not provide health insurance.[5] This provision is

[3] Brenner and Luce (2005), p. 8.
[4] ACORN (2006) Living Wage Resource Center.
[5] Author’s calculation based upon living wage ordinances recorded by ACORN (2006) “Living Wage Resource Center.”

designed to promote health insurance coverage, reward employers who provide this essential benefit, and recognize the cost of providing these benefits. As of December 2002, 66 percent of living wage ordinances included a health benefits clause.[6]

In addition to benefits and wage levels, living wage laws vary in scope of coverage. Some ordinances mandate a living wage only for companies that have contracts with the city or county. Others include those companies that receive financial incentives and assistance in the form of subsidies or tax breaks from the city or county. Ordinances also differ in terms of which workers within covered firms are included. Most mandate a living wage only for those employees who work in a position covered by the government contract or incentive, while some include all workers within the covered firms. Unlike the minimum wage, most living wage laws cover only a small portion of workers within the county or municipality. However, some cities, including Washington, D.C., and more recently, New Orleans, Santa Fe, and San Francisco, have attempted to expand the scope of coverage to all workers within the municipality – effectively setting a city-wide minimum wage above the federal or state requirement. The table below, adapted from Brenner and Luce (2005), displays the differences in coverage of living wage ordinances through 2002. The vast majority (91 percent) of living wage ordinances cover city service contractors while less than half cover subcontractors. Slightly more than 40 percent of ordinances had living wage requirements for firms receiving economic assistance from the city or county. For instance, a 2006 living wage ordinance in Manchester, Connecticut required a living wage of $11.06 for companies with at least 25 workers and receiving a tax benefit of $25,000 or more.

Table 2

Living Wage Ordinances with Selected Coverage		
Ordinances that cover:	Number	Percentage of total
City service contractors	86	91%
City service subcontractors	44	46%
Firms receiving economic assistance	39	41%
Direct city employees	23	24%
Concessionaires, lessees, or tenants of city-owned land	13	14%
Employers in a geographic region	1	1%
Source: Mark Brenner and Stephanie Luce (2005) of living wage ordinances up to 2002.		

Living wage laws vary in exemptions and ranges of coverage. Sometimes small businesses, as defined in the law, and some nonprofit organizations are exempted.[7] Ordinances may have varying requirements based on number of employees, annual budget, pay ratio of the top to bottom employee, or contract amount. Many small businesses and nonprofits have small contracts, which exclude them from coverage. For instance, in Nassau County, New York, the ordinance requires a living wage of $9.50 an hour for county contracts valued at more than $25,000. Contracts below the threshold are exempt from the living wage ordinance.

[6] Brenner and Luce (2005), p. 8.
[7] Thompson and Chapman (2006)

Impacts of Living Wage Ordinances

A number of studies have examined the effect of living wage laws on businesses, governments, and workers. Studies of existing living wage laws suggest that most businesses are able to absorb cost increases through increased worker productivity and business opportunities. In some cases, while salary costs increased, overall costs for businesses decreased because of better performance by their workers. Local governments have also seen only slightly higher contract costs and in some instances, increased bidding. The living wage has also shown positive effects for workers, helping families better afford basic needs.[8] These areas are further discussed below.

The Living Wage and Businesses

Most case studies have found that living wage ordinances are associated with higher productivity and lower turnover. Traditional living wage laws cover only a small number of firms within a county or municipality and only a small proportion of the workers within those firms. The Economic Policy Institute estimates that most living wage ordinances cover less than 1 percent of the local workforce.[9] This means that the law has little effect on overall business climate. The cost of living wage ordinances to most businesses – excluding "high-impact firms," such as hotels and restaurants, which employ a considerably higher proportion of low-wage workers – amounts to only 1-2 percent of production costs.[10] For example, a 2000 study of the Los Angeles living wage proposal by Robert Pollin and Stephanie Luce estimated the average living wage cost at 1.5 percent of total production costs.[11] A similar study by Pollin in 2002 estimated the cost of a living wage proposal in New Orleans at only 0.9 percent of operating costs.[12] In comparison, the study estimated average profit margins for firms covered by living wage ordinances range from 10 to 20 percent of production costs.

Variations in living wage ordinances make general conclusions about the effect of the laws difficult. Thus, most studies are single case studies that either predict effects on firms or provide analysis after the ordinance is in place. Predictive studies often estimate anticipated costs to municipalities and firms. However, several follow-up studies have found the costs to businesses and municipalities are considerably less than anticipated. This could stem partly from weak enforcement.[13]

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[8] Thompson and Chapman (2006); Economic Policy Institute, "Living Wage" (October 2001); Pollin, Robert, "Evaluating Living Wage Laws in the United States: Good Intentions and Economic Reality in Conflict?" (2003); Elmore, Andrew J. "Living Wage Laws and Communities: Smarter Economic Development, Lower than Expected Costs" (November 2003)

[9] Thompson and Chapman (2006)

[10] Economic Policy Institute, "Living Wage" (October 2001); Brenner and Luce (2005); Pollin (2003).

[11] Pollin, Robert and Stephanie Luce. (2000) The Living Wage: Building a Fair Economy. New York: The New Press.

[12] Pollin, Robert, "Evaluating Living Wage Laws in the United States: Good Intentions and Economic Reality in Conflict?" (2005)

[13] Dana Williams (2004) "Cleveland's Living Wage Law: A Three-Year Review." Policy Matters Ohio: http://www.policymattersohio.org/living_wage.htm.

Firms can deal with the increased costs of higher wages in several ways. First, higher wages often lead to lower worker turnover and higher worker productivity. In those cases, the firm becomes more productive, making up for the increased cost. A second option is to slightly increase bids for contracts. A third possibility is to absorb costs by slightly reducing profit margins on municipal contracts.

Some firms make up for increased initial costs through compressed wage scales. A study of the impact of Boston's living wage law by Brenner and Luce (2005) found that 39 percent of firms reported lowering profits to absorb the increased costs of the law. An additional 25 percent of businesses reported adjusting to the law by taking advantage of increased employee effort and morale. Similarly, a 2005 study of the impact of the Los Angeles living wage law found cost savings through decreased turnover for firms complying with the living wage. "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."[14] In Baltimore, Boston, Los Angeles, and San Francisco, firms experienced lower turnover among affected employees, which reduced costs associated with hiring, firing, and training. A study of home health care workers in San Francisco found that worker turnover decreased by 57 percent after the living wage ordinance was enacted. The same study in San Francisco found that annual turnover, a large problem among airport security screeners, decreased from 95 to 19 percent.[15]

The difficulty estimating profits and total costs to firms of a living wage ordinance is well-recorded. Thompson and Chapman in their 2006 review of existing literature note "The cost-savings associated with increased productivity generally are extremely difficult to calculate, and no living wage research to-date has attempted to measure them" (p.16). Qualitative studies also find positive results for firms. A 1999 study found improved attitudes, higher morale, and increased desire to stay in their jobs among affected workers in Baltimore.[16] Previous studies, such as Preamble's 1996 study, found improved attitudes and reduced turnover in Baltimore.[17] The study by Fairris et al. in 2005 found that Los Angeles firms experienced less turnover and absenteeism among affected employees. A study of New England firms did not find any effect on turnover and absenteeism, but reported greater work effort and productivity.[18]

Studies find little evidence that contract costs increase. For example, the New England study found that only 15 percent of businesses responded to the law by raising bids for city contracts. Total annual contracting costs for the city of Boston fell after the adoption of the living wage ordinance. In a survey of Los Angeles firms affected by the living

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[14] David Fairris et al. (2005) "Examining the Evidence: The Impact of the Los Angeles Living Wage Ordinance on Workers and Businesses," P. 5. http://www.losangeleslivingwagestudy.org/.

[15] Candace Howes. (2005) "Living Wages and Retention of Homecare Workers in San Francisco." *Industrial Relations* 44 (1): 139-163.

[16] Christopher Niedt et al. (1999) "The Effects of the Living Wage in Baltimore. Working Paper Number 119. Economic Policy Institute. http://www.epinet.org/Workingpapers/BUILD.pdf.

[17] Preamble Center for Public Policy. (1998) "Baltimore's Living Wage: Response to Critics."

[18] Brenner and Luce (2005).

wage ordinance, 70 percent reported no change in their attitudes toward city contracting while 19 percent said they were less likely to seek city contracts and 11 percent stated it was easier to compete for contracts under the wage ordinance.[19]

In several studies, David Neumark and Scott Adams find slight decreases in employment related to municipalities adopting living wage ordinances.[20] Other researchers have critiqued these studies harshly, finding problems in data, methodology and case selection. For instance, the large-scale econometric studies by Neumark and Adams use Current Population Survey (CPS) data for local analysis. Critics argue that CPS data is inappropriate for local use, particularly given the very limited coverage of local living wage ordinances.[21] In 2004, U.S. Census Director Charles Louis Kincannon indicated that the CPS is not the data source to be used for local level analysis but rather the American Community Survey could be used.[22]

Studies have not found that firms replace their existing workforce. The New England study found that none of the Boston firms responded by excluding less-skilled workers.[23] Similarly, the Los Angeles study found that 80 percent of affected firms maintained their hiring standards. The same study in Los Angeles found no evidence of existing workers being replaced, even among the 20 percent of firms that changed their hiring standards. Moreover, employment reductions due to the living wage amounted to only one percent of affected jobs in Los Angeles.[24]

Firms in Los Angeles saw some cost savings because lower turnover meant lesser spending to replace workers who left. According to Table 3 below, the average cost of replacing a worker is $2,262.

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[19] Fairris et al. (2005), p. 52.

[20] Scott Adams and David Neumark. (2005) "The Economic Effects of Living Wage Laws: A Provisional Review." *Urban Affairs Review* 40(2): 210-45; David Neumark and Scott Adams. (2000) "Do Living Wage Ordinances Reduce Urban Poverty? Working Paper Number 7606. *National Bureau of Economic Research*. Several more papers by these two authors cover the same topics.

[21] For a more detailed discussion on the Neumark and Adams series of papers, see Thompson and Chapman (2006) and Robert Pollin (2005) "Evaluating Living Wage Laws in the United States: Good Intentions an Economic Reality in Conflict?" *Economic Development Quarterly* 19 (1): 3-24.

[22] See Director Charles Louis Kincannon. (August 26, 2004) **"**News Conference on 2003 Income and Poverty Estimates from the American Community Survey." U.S. Census Bureau: http://www.census.gov/Press-Release/www/2004/2004IncPov-Kincannon.html**.**

[23] Brenner, Mark and Stephanie Luce, "Living Wage Laws in Practice: The Boston New Haven and Hartford Experiences" (2005)

[24] Fairris et al. (2005).

Table 3

Estimated cost of replacing a worker		
Source of Estimate	**Industry**	**Cost Estimate**
Fairris (2005)	Various	$807
Pollin and Brenner (2000)	Hotel, Retail, and Restaurant	$2,009
Business Week interview of Wal-Mart (2004)	Retail	$2,500
Hinkin and Tracy (2000)	Hotel	$1,332 - $5,965
Frank (2000)	Retail Grocery	$3,752
Policy Matters Ohio (2007)	Various	$2,000
Average of above estimates	***Various***	***$2,262***

Source: Adapted from Fairris (2005).
Note: For the Policy Matters Ohio (2007) survey, the question asked the cost of replacing a non-managerial worker and not specifically a low-wage worker. The reported $2,000 statistic is the median. The Policy Matters survey is described below and included in the appendix.

Living Wage Ordinances and Nonprofit Organizations

Few studies have analyzed how living wage ordinances affect nonprofit organizations and whether this sector differs. The Center for Urban Studies and the Labor Studies Center at Wayne State University analyzed the impact on nonprofit organizations of the City of Detroit's living wage ordinance.[25] This 2000 study surveyed nonprofits affected by the wage ordinance, asking them questions about their budgets, staff, pay scales, and opinions about the ordinance. The majority of nonprofit organizations had implemented the living wage law, had not experienced financial hardships because of the law, and had not laid off workers because of compliance. At the 64 responding nonprofits, at least 1,739 employees had benefited from coverage by the living wage ordinance. Half of the nonprofit employer respondents supported the living wage ordinance while 29 percent opposed it, and the rest were neutral.

The study found that "there was no significant correlation between a nonprofit's size, budget, employment levels, or type of work and its experience under the living wage" (1). This finding led the researchers to recommend including nonprofit employers in living wage ordinances. The minority of firms that reported problems implementing the wage ordinance did not indicate overall budget problems. The challenge was in how to realign funds, given the limited flexibility in nonprofit budgeting. The study recommended clear guidelines and enforcement for all employers. The report also called for targeted supplemental funds if implementing the ordinance required more than a certain proportion of a nonprofit's annual operating budget or municipal receipts. For nonprofit youth employment and training organizations, the study recommended exemptions from the ordinance.

[25] David Reynolds and Jean Vortkamp (2000) "Impact of Detroit's Living Wage Law on Non-Profit Organizations" *Center for Urban Studies and Labor Studies Center*, Wayne State University: http://www.laborstudies.wayne.edu/research/2000report.pdf.

Other living wage ordinances have exemption provisions for some or all nonprofit organizations. In Ypsilanti, Michigan, nonprofits can be exempt from the ordinance if they can show compliance would be harmful to their operations. Los Angeles, California, has a provision that exempts nonprofits where the CEO earns less than eight times the lowest paid full-time worker. Cities such as Chicago and Madison, Wisconsin provide subsidies for nonprofits who comply with the living wage ordinances. Most recently, a Maryland state living wage law excludes nonprofit organizations completely. (See additional discussion on pages 13-14 coverage of nonprofits at major counties and Ohio cities)

<u>Costs to Government</u>

Living wage ordinances do not lead to substantial city and county costs. The most detailed analysis found that actual costs were, on average, one-tenth of one percent of the overall budget. City administrators tended to overestimate potential cost of ordinances.[26] The City of Boston illustrates this point. Fifteen percent of businesses reported that they would respond by increasing the cost of their bids. But the study found that contract costs fell 17 percent after Boston implemented its living wage law. Similarly, contract costs declined 12 percent in New Haven, after the city implemented its living wage ordinance. In Hartford, CT, contract costs rose by 33 percent because the contracts were bid on a unit-cost basis rather than the total value of the work. Such an arrangement allows firms to apply "cost-plus" markups and thus makes it much easier for contracting firms to pass the costs of the living wage increase on to the government.

The 2003 study by Andrew J. Elmore showed slightly lower contract costs to cities with living wage ordinances. In a study of 20 cities and counties with living wage requirements, Elmore found contract cost increases in the range of 0.003 and 0.079 percent of the city/county budgets. Costs for contracts involving "high-impact" firms increased at a significantly higher rate.[27] The majority of contracts were not high-impact. The cost increases for human service contracts were larger than for other contracts, ranging from 0.3 percent of the government's human services budget to 2.79 percent of the budget. A 1999 review of Baltimore's living wage ordinance found that city contract costs declined when adjusted for inflation.[28] In sum, the research to date shows some variation, but the overall trend is that living wage ordinances do not significantly increase contract prices above the rate of inflation.

Living wage laws can increase the competitiveness of higher-paying firms, which can lead to more firms bidding on a contract. The city of New Haven's controller Mark Pietrosimone speaks to this effect when he says that the living wage ordinance "puts all vendors on equal footing…[and] it has leveled off undercutting." In New Haven, two out of three security guard contracts and one out of two temporary office assistance contracts

[26] Thompson and Chapman (2006).
[27] Elmore, Andrew J., "Living Wage Laws and Communities: Smarter Economic Development, Lower than Expected Costs" (November 2003)
[28] Niedt et al. (1999).

saw an increase in the number of bidders after implementation of the living wage law.[29] Other studies have found little change in the number of firms bidding on contracts.[30]

Worker Well-being

Surveys in Los Angeles and in the New England region found that the vast majority of workers covered by living wage ordinances were full-time, non-college degree workers. In the New England area, workers were on average 32 years old, and more likely to be African-American and female than the overall population. Studies of the New England area and Miami-Dade County found that workers worked, on average, 43 hours a week.[31]

Several studies have attempted to examine benefits of the living wage for covered workers. Overall, these studies find a positive impact on workers' lives. The Los Angeles study found that 7,700 workers received raises of an average of $1.48 an hour under the living wage ordinance. For these workers, this gain equals $2,600 more each year. In addition to workers directly affected by the ordinance, 1,900 other workers received indirect, non-mandated raises, demonstrating a spillover effect on other jobs.[32] The study in New England found that workers who earned less than the living wage in 1998 earned $2.10 more on average after the law was enacted, and that the proportion of families living in poverty fell from 41 to 28 percent. The percentage living in severe poverty fell from 34 to 13 percent. The researchers in this study attributed more than half of the drop in severe poverty and about a quarter of the drop in poverty to the law.[33]

In contrast to other poor workers, those living just above the poverty line did not experience significant improvements in their situations as a result of the living wage ordinance. The New England researchers concluded that while the living wage ordinance there has been fairly effective in lifting workers out of poverty, it has not lifted all workers out of poverty, nor has it enabled low-wage workers to meet all their basic needs.[34] The Los Angeles study mirrors these findings. In that study, 36 percent of affected workers reported improvements in quality of life as a result of the law, including improved housing conditions, greater economic stability, and an increased ability to save for the future, among others. The study also exposes the limits of the living wage law as an anti-poverty program: 81 percent of affected workers said that their wages still did not provide enough to meet all of their basic needs and 44 percent continued to rely on at least one government anti-poverty program.[35]

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[29] Brenner and Luce (2005).
[30] Mark Brenner. (2004) "The Economic Impact of Living Wage Ordinances." Working Paper Number 80. *Political Economy Research Institute*: http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_51-100/WP80.pdf.
[31] Brenner and Luce (2005); Bruce Nissen and Jen Wolfe Borum (2006) "A Difference that Matters: The Impact of the Miami-Dade Living Wage Ordinance on Employees Covered by the Ordinance." Research Institute on Social and Economic Policy, Center for Labor Research and Studies: http://risepfiu.org/reports/A_Difference_that_Matters.pdf.
[32] Fairris et al. (2005).
[33] Brenner and Luce (2005).
[34] Brenner and Luce (2005).
[35] Fairris et al. (2005).

Implementing a living wage requirement could reduce the government benefits some workers receive because of their income levels, and by the same token, the costs of providing such benefits. These benefits include food stamps, the federal earned income tax credit (EITC), Medicaid and subsidized child care, among others. This wouldn't have a direct impact on the county's own expenditures, but would reduce state and federal spending for such benefits.[36] Figuring the potential total impact of such changes is not possible because benefits depend on family income levels, the number of children, medical expenditures and utilities, among other things. However, the county's Department of Employment and Family Services calculated some months ago that a family of three with one minimum-wage worker and two children in child care might receive up to $26,573 worth of benefits in a year, more than half of it in subsidized full-time child care.[37]

The study of the Los Angeles living wage ordinance found that, among government assistance programs, only Section 8 and food stamp eligibilities were sensitive enough to small changes in income to be affected by the wage increase. Furthermore, the study found that very few workers affected by the living wage – in fact, only two percent - reported relying on these forms of government assistance, and less than one percent of affected workers saw a decrease in benefits.[38] The number of claimants for the Earned Income Tax Credit (EITC), claimed by some 22 percent of living wage employees, saw little change and was comparable to the current state level. There was also little change in use of other government assistance programs such as school lunch programs and insurance. The study concludes "even while earning the living wage, a sizable minority of workers are still poor enough to qualify for government assistance" (Fairris et al., p. 41).

A study of workers affected by the living wage ordinance in Miami-Dade County, Florida found similar positive outcomes.[39] This 2006 report surveyed 78 workers covered by the living wage ordinance. The median increase in hourly pay for workers was $2.75, accounting for $5,720 per year. Solid majorities of workers reported positive effects on ability to pay for housing, transportation, other bills, and debt reduction. The chart below is adapted from Nissen and Wolfe Borum's 2006 report.

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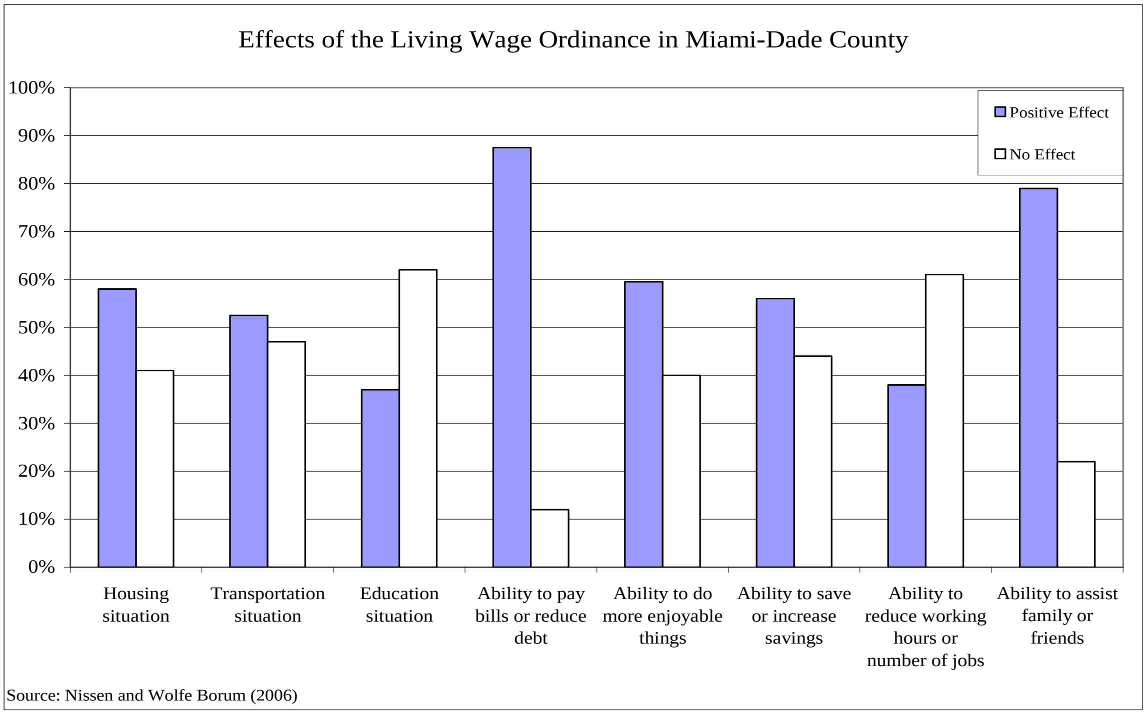
[36] Joe Gauntner, director of employment and family services, noted that the only exception would be the disability assistance program, under which the county's financial contribution depends on its volume under the program the previous year.

[37] Benefits for Working Families, received from Joe Gauntner, April 2007. The benefits covered included food stamps, the earned income tax credit, Medicaid and child care. The department had to make a number of assumptions to arrive at its figures, such as the extent of medical costs and child care, so this is a not a precise estimate. It assumed family gross income of $14,248 a year, based on the $6.85 hourly state minimum wage.

[38] Fairris et al. (2005).

[39] Nissen and Wolfe Borum (2006).

Figure 1



<u>Other Counties and Ohio Cities</u>

Many living wage requirements were approved in the late 1990s but new communities continue to add these protections regularly. The Maryland legislature in April approved the first state-level living wage covering companies with state service contracts, requiring hourly pay of $11.30 in the Baltimore-Washington corridor and $8.50 in rural areas of the state.[40] Wayne County, Michigan, instituted its current living-wage provisions last December, when it made other amendments to its procurement code.[41] Cook County, Illinois, amended its living wage ordinance in April to improve inflation adjustment and enforcement.[42]

Cuyahoga County's existing living-wage requirement, approved in 2003, covers employees of the Board of County Commissioners. The current required wage is $9.96 an hour. This is based on the original requirement of $9.20 an hour, which has been adjusted upward each year based on the Consumer Price Index. However, there currently are no employees directly benefiting from the requirement, since the lowest starting wage is

[40] Smitherman, Laura, "Md. will be the first state to provide 'living wage,'" *The Baltimore Sun*, April 10, 2007. The law exempts nonprofit employers and those with fewer than 10 employees, as long as the contract is not for more than $500,000.

[41] The county commission originally had approved a living wage in 2004, when it simply adopted the City of Detroit's ordinance.

[42] Interview with Kathleen Oskandy, chief of staff for Cook County Commissioner Roberto Maldonado, May 16, 2007. The Cook County ordinance, like Wayne County's, sets the living wage to 100 percent and 125 percent of the federal poverty level for a family of four, depending on whether health-care benefits are provided. Cook County stipulates that under the lower wage, the employee health benefit contribution can't exceed 25 percent of the insurance premium.

$10.38 an hour. No full-time employees were affected when the requirement was approved in 2003, and there have not been any complaints. Joseph Nanni, director of the Office of Human Resources, reports no administrative or processing time in connection with the living wage.[43]

Table 4 provides some details on living-wage provisions in U.S. counties with more than 1 million people and in Ohio cities. These include both urban counties, such as Los Angeles, CA., and Wayne, MI., and suburban, such as Nassau, N.Y..:

Table 4

Living Wage Requirements at Large U.S. Counties and Ohio Cities

Counties	**Service contract threshold**	**Employment threshold**	**Financial assistance threshold**	**Wage Level (with and without health care)**
Los Angeles CA	$25,000	20	no	$9.64/$11.84
Cook IL	0	none, but only full-timers covered	certain property-tax incentives	$9.43/$11.78
Miami-Dade FL	$100,000	none	no	$10.27/$11.76
Wayne MI	$50,000	10 (for nonprofits only)	$50,000	$10/$12.50
Broward FL	$100,000	none	no	$10.63/$12.02
Suffolk NY	$10,000	10	$50,000	$10.02/$11.41
Nassau NY	$25,000	none	$50,000	$9.50/$11.00
New York City NY	Greater than small purchases limit set in city charter	none	no	10/$11.50
Philadelphia PA	$10,000 for-profit /$100,000 non-profit	5	$100,000	$9.37 ($10.72 on 7/1/07)
Ohio Cities				
Cincinnati	$20,000	none	no	$9.14/$10.70
Cleveland	$25,000	20-for profit /50 non-profit	$75,000	$10
Dayton	$100,000	50	no	$9.93/$11.41
Lakewood	$25,000	20-for-profit /50-non-profit	$75,000	$10.56/$11.70
Toledo	$10,000	25 for service /50 for fin. assistance	$100,000	$10.57/$12.50

Source: Policy Matters Ohio, from the counties and cities. Los Angeles County: Businesses with 20 or fewer employees and less than $1 million in annual revenue are exempt. Cook County wage is shown at level approved by board of commissioners, not yet adjusted for 2007 poverty levels as required. Nassau County wage rate goes up to $10.50 in 2008 and $12.50 in 2010 and after that it is adjusted by the Consumer Price Index; $1.50 health care adjusted by CPI. Wayne County sets coverage threshold of 10 employees and $1 million in annual expenditures for nonprofit service contractors only. Philadelphia: For-profit service contractors must have $10,000 in contracts over 12 months and more than $1million in annual gross receipts. Nonprofit service contractors are covered if they have $100,000 in city contracts over 12 months. Law also covers recipients of city leases, concessions or franchises of more than $25,000, and public agencies which receive contracts for more than $10,000. Cleveland ordinance has 50-employee minimum for nonprofits, 20 for for-profits; highest-paid employee at nonprofit must make more than five times what the lowest-paid does. Lakewood's is similar, except it uses an eight-to-one ratio. Some ordinances also have other exclusions for nonprofits.

[43] E-mail communication from Joseph Nanni, June 1, 2007.

Some general conclusions can be made based on the living-wage laws of large counties and Ohio cities:

1. Thresholds for minimum dollar amount of service contract coverage vary from zero in Cook County, Illinois, to $100,000; most common is $25,000, as in Cleveland and Lakewood.
2. A number of jurisdictions have no set employment thresholds for covered employers, below which the law does not apply. The majority that do include most Ohio cities with living-wage laws, and usually set the minimum at 10 or 20 (50 for nonprofits in Cleveland and Lakewood, provided the pay of their most highly compensated employee is less than a specific multiple of that of the lowest-paid employee. See below).
3. Researcher Stephanie Luce found in her survey covering living-wage laws through 2002 that 41 percent covered economic assistance.[44] A somewhat higher share of laws in major counties and Ohio cities – 8 out of 14 – cover some forms of financial assistance. Threshold amounts of assistance vary from $50,000 to $100,000.[45]
4. The overwhelming majority of the laws have a two-tier wage, with a higher amount for those not offering a specified level of health care. The amount of health care specified is always the equivalent of $1.14 an hour or more, and ranges up to $2.50 an hour. Cities and counties have different ways of defining this.
5. Most local living wage requirements mandate pay of at least $10 an hour. The vast majority are well over $11 when health-care benefits are not provided. Most of the wage levels are indexed either to the Consumer Price Index or the federal poverty level.
6. Most of the laws also have some restrictions on coverage of nonprofits, and some, such as Miami-Dade County, exclude them from coverage altogether.

One clause that has been adopted in a number of jurisdictions grants exemptions to nonprofits when the differential in salary between the highest- and lowest-paid employee is no greater than a given ratio. Cleveland, for instance, allows exemptions for nonprofits with fewer than 50 employees when that ratio is less than 5 to 1; in Lakewood, exemptions are allowed for small nonprofits with a ratio of less than 8 to 1.

Some living-wage laws allow for waivers or hardship exemptions. Lakewood allows exemptions when a loss of profitability would result in the elimination of jobs, or a loss in profits that would substantially impact the employer's long-term stability. However, most of the biggest counties with living-wage requirements have no such provisions. Of course, regardless of specific provisions, elected representatives can always deem it

[44] Luce, *Fighting for a Living Wage*, Cornell University Press, 2004, p. 46.

[45] The Cleveland law is supposed to cover the actual benefit to the recipient of the aid – for instance, the value of a lower-than-market interest rate on a loan – as opposed to the sum total of the assistance. Cook County's law covers certain property-tax incentives.

reasonable to grant exceptions, as the City Council did in Toledo last year for a Costco store that received financial assistance.[46]

Suffolk County, N.Y., population 1.47 million, has lower wage thresholds for child-care providers than for other employers covered by its law, which extends to service contracts over $10,000 and financial assistance worth more than $50,000. Its living-wage thresholds, with and without health care benefits, are $9.25 and $10.50, respectively, for child-care providers and $10.02 and $11.41 for others. Both for-profit companies and nonprofits may receive one-year exemptions from the law if their highest-paid employee earns less than six times the lowest wage paid, or if they can document a hardship because the law would increase their expected budget by more than 10 percent over the previous year. Nonprofits and child-care providers are eligible for supplemental payments to meet increased payroll expenses if they prove they cannot afford it. However, only a small number of providers – seven or eight – have sought the extra payments, according to Brenda Rosenberg, director of the local law compliance unit.[47] Under the recently implemented law in neighboring Nassau County, N.Y., there is to be a contingency fund to help nonprofits that can prove hardship pay the living wage.[48] However, funds have not yet been appropriated for it. This is one option Cuyahoga County could consider if it adopts a living-wage requirement.

Wayne County, Michigan, excludes small nonprofits with 10 or fewer employees or less than $1 million in annual expenditures. It also excludes contracts that are funded at least 50 percent or more by federal grants. That ensures that the county does not have to spend additional funds supporting its Head Start program, according to Muddasar Tawakkul, Wayne County assistant corporation counsel. Absent the exclusion, he said, additional funding would have to come from the county's general fund.[49]

<u>Literature Review: In Sum</u>

In general, the literature on living wage ordinances shows that these laws can have a modest positive effect on poverty and worker well being. There is little effect on contract costs, employment levels, and profits. In some instances, turnover can be reduced and productivity increased by these requirements. Enforcement of living wage laws is often weak but the overall effect of the laws is to reduce poverty and assist affected workers in meeting basic needs.

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[46] Troy, Tom, "Council Overrides Mayor to Clear Way for Costco," *The Toledo Blade*, April 26, 2006. Overriding a mayoral veto, the council decided that Costco was substantially within the living-wage law of $10.57 an hour though its pay was slightly below that level.
[47] Interview with Brenda Rosenberg, April 12, 2007.
[48] Interview with Michael Kelly, deputy county attorney, May 23, 2007. Nassau County excludes child-care providers from its living-wage law.
[49] Interview with Muddasar Tawakkul, April 25, 2007.

III. The Cleveland Law

The Cleveland Fair Employment Wage Law, passed in June 2000, went into effect January 1, 2001. It covers contracts worth at least $25,000 for janitorial, security, clerical, building, maintenance, automotive repair and food services, parking lot attendants, home health care aides, waste management, landscaping, towing, carpentry, urban forestry, housekeeping, street maintenance and repair and sidewalk maintenance and repair.

The ordinance also covers recipients of city financial assistance valued at more than $75,000.[50] For both service contractors and recipients of assistance, the ordinance covers only those for-profit employers with at least 20 employees, and nonprofit employers with at least 50 employees and a salary ratio between the highest- and lowest-paid employee of more than 5 to 1.

Construction wages covered by prevailing wage, federal, or state law are exempted, as are employees covered by collective bargaining agreements, individuals in job training programs, employees of commercial retail establishments, persons under 18 and some others. Contractors who sell goods to the city are also not covered.

The living wage was initially set at $8.20 an hour, with increases to $8.70 on Oct. 1, 2001, and $9.20 on Oct. 1, 2002. Thereafter, it was to be adjusted annually based on the Consumer Price Index for Northeast Ohio published by the U.S. Department of Labor, Bureau of Labor Statistics. The wage rose to $10 an hour in October 2005, and was frozen there by Cleveland City Council last year.[51]

City employees are covered by the living wage. The vast bulk of city employees earn more than that amount, and thus have been unaffected. However, some have seen their pay levels adjusted. In October 2005, when the hourly wage was increased to $10, 147 of the city's 8,863 employees received a raise to that amount.

Under the ordinance, employers are required to declare the number of employees they have and how many they would have if the contract or financial assistance were awarded; describe the health insurance they offer, if any; list existing service or assistance contracts they have with the city; and affirm that they will comply with the law if a service or assistance contract is awarded.

Between 2001 and the first quarter of 2005, the Cleveland ordinance covered 50 service contracts with 34 vendors who employ 11,130 workers, according to data reported by the contractors.[52] Not all of these employees were actually covered by the law, but the exact number is uncertain because of the way the data was reported (see further discussion

[50] Tenants and leaseholders of financial-assistance recipients that use the property improved with the assistance also are covered by the law. The law also covers subcontractors, although apparently they have not been monitored.

[51] City of Cleveland Ordinance No. 1580-06, passed Sept. 25, 2006. *The City Record*, Oct. 4, 2006.

[52] The number of workers excludes those employed by one covered contractor, Recycle America, which was listed as employing 49,233 employees. The inclusion of this figure, which clearly is far higher than the Ohio employment of the company, illustrates the flaws in how the data on the law are collected.

The vast bulk of the city's contracts are not covered by the law because of its scope, excluding as it does contracts for goods and various services. According to separate data from the Fair Employment Wage Board, more than a third of those service contracts that otherwise fit under the definition of the law between 2001 and 2004 were not covered because the contractor's employment was under the law's threshold. The FEWB also found that a large majority of financial-assistance awards did not fall under the law either because the employment by the recipient was too low, or because the assistance did not amount to at least $75,000.[53]

In 2005, the city had 830 contracts for more than $10,000, worth a total of $98.8 million.[54] Between 2001 and the first quarter of 2005, service contracts covered under the law averaged just under a dozen a year, totaling an average of $15.4 million annually. While a couple of contracts were under $50,000, all but a handful were worth more than $100,000. Thus, while some larger contracts were covered under the living wage, less than 2 percent of contracts were covered.

The city's economic development department, which has been charged with monitoring and compliance, has not had anyone specifically assigned to that function since 2005.[55] Project managers in the economic development department make applicants for financial assistance aware of the law, and purchasing officials include the required forms in bid documents. Thus, employers continue to fill out schedules describing how many employees they have, health insurance they offer and their current contracts with the city, and to sign affidavits attesting that they will comply with the law. However, data on which contractors and financial-assistance recipients have been covered by the law has not been compiled since mid-2005.

Brian Reilly, the city's economic development director, traces the reduction in compliance efforts generally to budget cuts for the department. He believes that the department needs to focus on bringing new business and people to the city, and those efforts need to take priority over compliance efforts such as monitoring of the Fair Employment Wage Law. Reilly said the monitoring function is going to be turned over to

[53] Fair Employment Wage Board Report – 2005. See appendix. Some numbers in the FEWB report differ from those in this report, in part because some financial-assistance deals it listed as "pending" did not come to fruition.
[54] The city also spent another $8.8 million on purchases of less than $10,000. Interview with James E. Hardy, commissioner, division of purchases and supplies, April 9, 2007.
[55] In a Feb. 21, 2006, letter, then FEWB Chairman John M. Gallo noted that for the previous year or more, there had not been a consistent staff person assigned to compliance and data collection, "and when there was one, it often appeared that this work was a low priority compared to other duties." Letter from John M. Gallo to Greg Huth, director, economic development, Feb. 21, 2006.

the Office of Equal Opportunity, which already collects some similar information for other programs.[56]

2) Bids and costs

James E. Hardy, the city's commissioner of the Division of Purchases and Supplies, said the living wage has not come up as an issue for him. While perhaps employers bidding for city contracts wouldn't do so, Hardy said, “No one has ever said, “I can’t bid because of that.”

Hardy has been trying to figure out what impediments exist to bidding for city contracts. The department did a survey, soliciting comments on the bidding process, and no prospective contractor mentioned the living wage. “If there was a broad objection to that, it would have surfaced,” Hardy said. The survey was included with every bid form that the department sent out for a two-year period, and if the respondent wasn’t bidding, they were asked to fill out the questionnaire. “What’s noticeable is, it never comes up,” said Hardy, who has been in his job since January 2005.

Hardy said that the city has a robust pool of bidders for services covered under the living-wage ordinance[57]. The only exception, he said, is the janitorial contract for the West Side Market, which lacks bidders because it is a demanding contract requiring a great deal of both labor and machinery, which few companies have.

Waste disposal is by far the most significant service in contract dollar value covered by Cleveland’s living-wage, according to records between 2001 and early 2005, a trend we think has continued. Altogether, 16 waste-disposal contracts amounted to $46.2 million out of the total of $65.5 million in service contracts covered by the ordinance, or 70 percent of the total.

The advent of the living-wage law in 2001 had no appreciable effect on the number of bids for City of Cleveland waste-disposal contracts. Republic Services of Ohio Hauling LLC; American Landfill Inc., a division of Waste Management; Browning-Ferris Industries of Ohio Inc.; and J& J Refuse Inc., a Kimbel Co., were bidding on such contracts in 1999 and continued to do so in 2005 or 2006, along with others such as Kurtz Bros. Inc.[58]

City of Cleveland officials did not respond to requests for information on costs of waste-hauling contracts. However, it is improbable that the city’s costs on these contracts were

[56] Interview with Brian Reilly, City of Cleveland economic development director, April 5, 2007.
[57] Some contracts for professional services are handled by other departments besides the division of purchases and supplies, which were not specifically contacted for this report.
[58] Policy Matters Ohio examined bid documents for City of Cleveland waste-disposal contracts between 1999 and 2006 to reach this conclusion.

affected by the living wage, since contractors had probably already been paying a wage above the new requirement.[59]

3) Economic development

A number of employers, including Vocational Guidance Services (12), Tenable Protective Services (about 50) and Oatey Co. (6 to 8),[60] have increased wages for some of their employees as a result of the Fair Employment Wage law. However, the exact number of private-sector employees who have received higher wages because of the Cleveland law is not possible to discern. Forms used by the city do not require employers to state how many employees would be covered by the law; how many are paid less than the living wage, and if so, how much; or how many will receive pay increases. Rather, they ask for the number of current employees and the number of employees if a contract is awarded, questions that are interpreted differently by each service contractor or financial-assistance recipient. While employers are required to keep payroll records for three years following termination of their agreement with the city, the city has not requested such records.

Under the law, the Cleveland City Council may grant hardship exemptions to the law under certain circumstances. One exemption has been approved by the council since the law went into effect. US Cotton received an exemption in 2004 after it successfully argued that its health insurance and other benefits should be considered. While that led to discussion of a possible two-tier arrangement like that in most living-wage laws, with one wage level for companies offering a requisite level of health insurance and a higher wage level for those that do not, no change in the ordinance was made.[61] As it stands, the ordinance calls for the city to give preference to a prospective service contractor who provides "reasonable" health insurance to its covered employees who work 30 or more hours a week.[62] The preference is not to be given if the contractor's bid exceeds the lowest bid by 5 percent. Commissioner Hardy said he knew of no instance in which the health-care preference had affected the outcome of a bid.[63]

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[59] Jerry Ross of American Landfill said in an April 30, 2007, interview that his company was doing so. Ronald Luri of Republic noted in a 2004 interview with Policy Matters Ohio that his company's Cleveland operation had been paying more than the living wage.

[60] City of Cleveland officials estimated the number of Oatey employees who received pay increases. Oatey did not respond to Policy Matters Ohio requests for information.

[61] The city's Fair Employment Wage board included in recommendations it adopted in October 2005 a change in the ordinance to include such a "health care wage." Under the recommendation, employers offering health care benefits requiring employee contributions of no more than 15 percent of wages would be required to pay $9.50 an hour, while the Fair Employment Wage for covered employees who did not receive health-care benefits was to be at least $10.50 an hour. See *Proposed Changes to Living Wage Law*, Adopted by the FEWB on Oct. 19, 2005, in appendix. This proposal defines health benefits in the same way as the Lakewood statute.

[62] The ordinance defines 'reasonable' if the health care insurance is comparable or superior to that offered by the City of Cleveland to its own employees based on employee contributions, deductibles, co-payments, whether dental insurance is provided and the range of services provided. See Cleveland Fair Employment Law, Section 189.031

[63] Conceivably, a bidder could win a city contract with the health-care preference through a request-for-proposal handled by one of the city's departments, not the division of purchases and supplies. While Policy Matters Ohio has not checked with each department, there is no reason to believe this has happened.

The service-contracting element of the law is to be enforced largely through employee complaints.[64] No such complaints have been received, according to the economic development department. No employer has been found out of compliance with the law, and no contract has been terminated or contractor debarred from future financial assistance for failure to comply with the law.

City economic development officials said they have heard complaints from some companies that the Fair Employment Wage can affect their overall wage schedule, causing them to also raise wages for employees at higher pay levels. The department also hears general complaints that city requirements of various kinds including the living wage make it too hard to do business. However, only one company, Container Compliance, has been publicly identified as turning down city financial assistance because of the living wage law. The city reported at the time that the loan and grant would have allowed the firm to add five employees to its existing workforce of 21.

City of Cleveland economic development officials say that for many companies the living-wage ordinance is no problem. Some of the largest employers affected by the ordinance already paid the living wage.

4) Operation of the Cleveland law

The Cleveland Fair Employment Wage Board is charged under the law with reviewing the effectiveness of the ordinance and making recommendations on issues relating to living wage policy. In January 2006, the board sent a review of the law, including recommendations it had adopted the previous October, to City Council President Martin J. Sweeney. Its recommendations included:

- Create a two-tier living wage like that in place in many other municipalities, depending on health-care availability. Employers offering health care benefits requiring employee contributions of no more than 15 percent of wages would be required to pay $9.50 an hour under the proposal, while the Fair Employment Wage for covered employees who did not receive health-care benefits was to be at least $10.50 an hour.[65] (see appendix for details)
- Limit the exclusion for employees of commercial retail establishments to those of less than 40,000 square feet;
- Reduce the hour requirement for coverage from at least 30 hours a week to at least 20 hours a week;

[64] Employees are to be informed of the law's existence through a notice "posted in a conspicuous place frequented by Covered Employees in the Covered Employer's workplace(s)." Cleveland Fair Employment Law, Section 189.03(e)(1). While it had someone assigned to monitor compliance, the city did checks to be sure the signs were posted.

[65] *Proposed Changes to Living Wage Law*, Adopted by the Fair Employment Wage Board on Oct. 19, 2005. See appendix. This proposal defines health benefits in the same way as the Lakewood statute, except that the Lakewood statute defines health benefits as meaning single coverage that costs no more than 15 percent of employee wages.

- Make service contractors responsible for compliance by their subcontractors, and financial-assistance recipients responsible for compliance by their contractors, subcontractors, tenants and leaseholders.
- Require additional reporting, and
- Expand payroll inspection to cover service contractors.

The FEWB also proposed changes to be made administratively in one of the forms filled out by contractors and financial-assistance recipients to allow for better analysis of the law's impact (See appendix for a copy of the board's recommended form. Policy Matters Ohio also previously proposed a new form, which is included at the back of the attached 2004 report).

Last October, City Council froze the required hourly wage level at $10, when it otherwise would have gone up to $10.30. A number of reasons figured in the council's action. Council apparently believed that the law didn't sufficiently take benefits paid by employers into account; that oversight was at best limited and it was hard to find anyone who could answer questions about it;[66] and that the required wage amount shouldn't keep rising because of the state of the Cleveland economy. With the exception of Lakewood, other municipalities and the county have not adopted a similar law, as had been anticipated. Council is having more research done on the living wage and what its impact has been in other communities with such laws, without a specific timetable. However, if the council action was intended to put the brakes on while more study was done of the law, it also ignored the report earlier in the year by the Fair Employment Wage Board and recommendations the board had made. As noted, one recommendation was for a two-tier wage, allowing employers that offered a stipulated level of health-care benefits to pay a lower hourly amount.

The council has good reason to believe that the Cleveland law needs improvements. In addition, monitoring of the law has been so lax that it is difficult to get a full reading on its benefits. Concerns that the law is reducing potential business activity in the city appear to be based more on hearsay than on actual evidence, given the scant public record of such. As noted above, only a small minority of financial-assistance deals wind up falling under the law.

IV. The Lakewood Living Wage

The Lakewood ordinance, passed in 2003 and effective in 2004, covers similar services to those covered by the Cleveland law.[67] Under the ordinance, the living wage rate is $10.56 an hour this year at companies that provide single health-care coverage that does

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[66] The Fair Employment Wage Board has not met regularly in the past year, as it is supposed to do under the Cleveland Fair Employment Law. Its chairperson resigned earlier this year.

[67] Like the Cleveland law, it covers service contracts for more than $25,000. Exclusions under the Lakewood law are similar to those in Cleveland. For-profit employers are covered only if they have more than 20 employees, while not-for-profit employers must have 50 employees or a salary ratio between the lowest- and highest-paid employee of more than eight to one (In Cleveland, the ratio is five to one). See Lakewood Living Wage Affidavit in the appendix for other exemptions.

not exceed 15 percent of monthly wages, and $11.70 for employees at companies that do not provide such coverage.

Lakewood officials said that the living wage has improved work performance for the one contract that it has covered: Temporary workers hired to collect yard waste between March and December. “We are getting employees who are ready and willing to be here and work because they’re getting a wage that they can live off of,” said Carol Rothgery, a unit manager in the city’s Division of Refuse and Recycling.[68] “They don’t mind coming in and working 5, 5½, 6 hours because they’re still making more than they would working somewhere else at $7 an hour for 40 hours.” Previously, the city couldn't depend on the temporary workers showing up for work. “If we didn't have a living wage, I would say we’d be unhappy with the employees we were getting like we were before the living wage," Rothgery said. " … we are absolutely getting people who are more qualified to do the job, more willing to do the job, and are more reliable." The city has seen an increase in costs, but according to Rothgery, “We’ve increased our efficiency, so we can accommodate the extra cost.”

Employers who have received other Lakewood contracts covered by the living wage law, such as those for heating, ventilating and air conditioning, and refuse-hauling, already pay more than the living wage rates, said Kim Smith, purchasing manager.[69] Covered contractors must sign an affidavit attesting that they will pay at least the living wage rate. The affidavit says in addition:

> I further certify that 1) there shall be no retaliation against any employee of our company or our subcontractors who claim violation of the provisions of the Living Wage ordinance or reports or testifies regarding an alleged violation; 2) our company will post a notice provided by the City stating that the employees may be subject to this Living Wage ordinance, and 3) that our company will twice yearly give to our employees a notice stating that the employee may be subject to the living wage ordinance and explaining the current living wage amount with and without single medical coverage.[70]

Smith provides employers with two posters, one in English and one in Spanish, that must be posted in a conspicuous area. The city has not received any employee complaints about employer compliance with the law.

The Lakewood ordinance also covers employers receiving financial assistance valued at more than $75,000. Since the law was implemented, only one company has been covered under the financial-assistance provisions of the law, according to Aldryck Bennett, assistant director of planning and development for the city.[71] That company already was paying considerably more than the living wage level, he said. Other recipients of financial assistance either have received less than the $75,000 minimum or have been

[68] Interview with Carol Rothgery, April 13, 2007.
[69] Interview with Kim Smith, March 28, 2007
[70] Living Wage Affidavit, City of Lakewood
[71] Interview with Aldryck Bennett, May 1, 2007.

retailers, which also are not covered. Bennett said he had told one company that asked for a subsidy and was trying to play off Lakewood against other communities that the city couldn't give one because it didn't pay the living wage. The law "forces your limited resources to go to companies that pay better wages," Bennett said. While he believes the living wage doesn't cause companies to increase pay and produce higher wages for the average worker, Bennett said it forces government to be more disciplined with subsidies and to think harder about the jobs it subsidizes, which he considers a good thing.

V. Contract Analysis

In order to assess how a wage requirement could impact the County's contract costs and procedures, Policy Matters analyzed the 2006 calendar year contracts from Cuyahoga County. By looking at these contracts, we are better able to understand the dollar value of contracts and what type of vendor successfully won the contract. Policy Matters received two separate contract lists for 2006. The county Office of Procurement & Diversity (OPD) provided a list of 677 contracts. The County Clerk of the Board provided a second list, which contained all of the OPD contracts and an additional 759 County contracts that did not go through the OPD. Both lists included contracts for services, goods, and construction, and dealt with multiple vendor types, including for-profit firms, nonprofit organizations, and municipalities.

The OPD list contained contracts obtained through competitive bid processes, known as requests for proposals (RfP), sole source, and yearly renewal contracts at a predetermined unit price known as "term" contracts. Service contracts within the OPD list are for business, maintenance, janitorial, and health services. The Clerk's list contained the above contracts as well as those exempt from bidding or not processed through OPD. Service contracts for social services such as adoption and other residential services that do not pass through the OPD are recorded through the Clerk's office.

In total, 179 of the 1,344 county contracts, accounting for $121,379,866 of the total $421,123,823 in value, were for goods or construction.[72] The table below provides detailed information about each contract list. We removed contracts for goods and construction, which are generally not covered by living wage ordinances. However, we included all contracts that appeared to include services even if some goods might be included. Another 157 contracts, worth $57,254,566, were awarded to municipalities and state operated universities, which receive funds through block grant and other community programs. These, too, have been removed from Table 5 below (Like Table 5, Tables 6, 7 and 8 also exclude goods and construction contracts and those awarded to municipalities and state-operated universities). Service contracts represented 75 percent of the Clerk contracts and 65 percent of the OPD list.

[72] Another 94 items were included in the contract list, but were adjustments to other contracts that rarely affected their overall value.

Table 5

Service Contracts			
	Number of Contracts	Total Contract Value	Median Contract Value
OPD Contracts	439	$66,050,494	$20,047
Clerk Contracts	569	$168,356,145	$40,000

Source: Office of Procurement & Diversity, Clerk of the Board

The table below shows the number, overall cost, and median contract value for contracts from the Clerk and the OPD, and shows distinctions between nonprofit and for-profit entities. There are about an equal number of contracts at for-profit and nonprofit organizations, but the nonprofit contracts tend to be for higher values. Most contracts are with nonprofit organizations and are for such services as adoption services, treatment programs and other social services.

Table 6

Overview of County Service Contracts				
	OPD Contracts		Clerk Contracts	
	Nonprofit Organizations	For-profit Firms	Nonprofit Organizations	For-profit Firms
Number of Contracts	128	311	359	210
Total Contract Value	$19,796,232	$46,254,262	$147,272,526	$21,083,619
Median Contract Value	$93,253	$16,000	$63,763	$24,750

Source: Office of Procurement & Diversity, Clerk of the Board

The chart below displays the largest ten contracts in dollar value for the OPD and Clerk's contracts. The ten largest contracts with the OPD are for-profit vendors while the nine largest recorded by the Clerk's Office are to nonprofit organizations.

Table 7

Large Service Contracts in Cuyahoga County					
Vendor	Contract Dollar Amount	Service Description	Vendor	Contract Dollar Amount	Service Description
OPD			Clerk's Contracts		
Diebold Election Systems	$3,966,708	Voting Equipment and Related Services	The Cleveland Christian Home	$4,555,000	Residential Services
Michael Baker Jr.	$3,141,646	GIS Professional Services	Specialized Alternatives for Families & Youth of Ohio	$3,812,111	Residential Services
Midwest Medical Staffing	$3,021,824	Professional Physicians Services	Starting Point	$3,346,648	Child Care Home Regional System
SOGETI USA	$3,000,000	Case Management Systems	Hunger Network of Greater Cleveland	$2,200,000	Food Distribution Program
CGI-AMS	$2,990,000	Case Management and Document Imaging System	Pressley Ridge Schools	$2,000,000	Residential Services
IBM	$2,309,923	Software License and Support on Enterprise Server	The Twelve of Ohio	$1,847,059	Residential Services
Fifth Third Bank	$2,000,000	Corporate Credit Card Program for Duty-Related Travel Requirements	House of New Hope	$1,818,602	Residential Services
Ace Taxi Service	$1,800,000	Transportation Services	Lutheran Metropolitan Ministry	$1,813,840	Emergency Shelter Service
CGI-AMS	$1,411,411	Client Information Management System and Services	Ohio Youth Advocate Program	$1,750,000	Residential Services
Advantage Health Care	$1,400,000	Toxicology Services for Drug Testing Program	LNE & Associates	$1,600,000	The Building Hope Project

Source: Office of Procurement & Diversity, Clerk of the Board

The table below displays the contract values for those under $25,000, a level often used as a "cut-off" for a living wage ordinance, as it is in Cleveland and Lakewood. Nearly half of the OPD and 37 percent of the Clerk's contracts were $25,000 or less in total value. The average contract value for small contracts is less than half of the $25,000 threshold.

Table 8

Service Contracts Less than $25,000		
	OPD Contracts	Clerk Contracts
Number of Contracts	211	215
Average Contract Value	$9,133	$11,203
Aggregate Contract Value	$1,917,878	$2,397,452
Percent of all service contracts	47%	37%

Source: Office of Procurement & Diversity, Clerk of the Board

Thus, out of a total 1,008 service contracts worth $242,489,391, 582 contracts worth $238,174,061, would be covered by a living-wage requirement for services over $25,000, excluding those for goods or construction and those to municipalities. Though these 582 contracts account for 58 percent of the total number, they represent 98 percent of the total $242.5 million in contracts. Overall, then, such a living wage requirement would cover 43 percent of all county contracts, worth 57 percent of the total amount.

VI. Survey Analysis

In order to better understand the firms that bid and hold contracts with Cuyahoga County, Policy Matters Ohio conducted a survey of firms, municipalities, and nonprofit organizations that had contracts with the county in 2005. Policy Matters identified approximately 1,100 survey participants from a list maintained by the Office of Procurement & Diversity and the Clerk of the Board. We removed from the list reimbursed volunteers, because they were not contractors, and construction and goods-providing firms, because they would be unlikely to be affected by a living wage requirement.

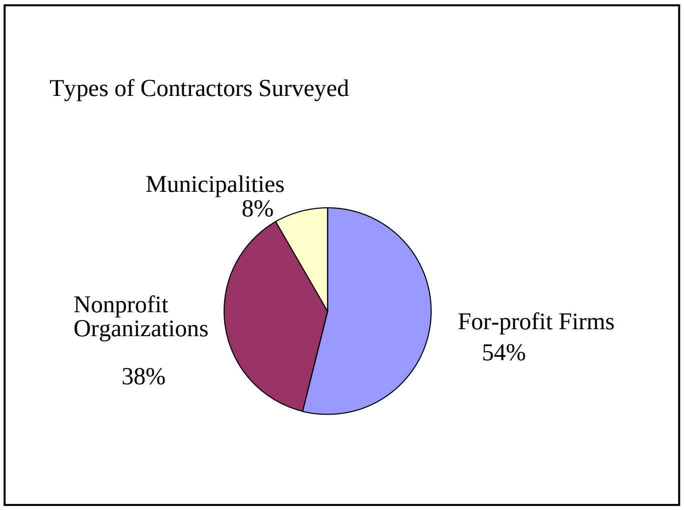
The survey was designed to better understand the impact of a wage requirement on contractors. The survey asks about personnel, wage rates, payroll information, health benefits, hiring and discharge of employees, and costs of various day-to-day actions.[73] Additionally, the survey asks if firms are part of the county's Small Business Enterprise Program (SBE), which focuses on promoting contracts for minority, female, and small businesses as described below,[74] and whether firms do business with the City of Cleveland, which has a living wage ordinance for certain service contractors. Finally, the survey asks about general operating concerns and workforce issues.

The survey was mailed to a total of 1,100 contractors, of which 243 responded. The majority of respondents were for-profit firms. A total of 131 for-profit firms answered the

[73] See appendix for a copy of the survey.
[74] See Section VII on the SBE program for a discussion of those survey results.

survey, representing 54 percent of all respondents. Nonprofit organizations made up 38 percent or 92 of the total respondents. Municipalities made up the smallest portion of survey respondents, with 20 responding for slightly more than 8 percent of the total. Municipalities are excluded from the analysis because their contracts are for the Exterior Maintenance Program, Neighborhood System of Care Program, or other grant programs that do not involve contract bidding or request for proposals. This was a high response rate for a voluntary survey, and exceeded previous survey response rates for county contractors.

Figure 2



Source: Policy Matters survey of county contractors

The vast majority of for-profit and nonprofit respondents were single-location establishments. This may ease enforcement of a local wage requirement, which can be more complicated if companies have multiple locations not in the covered area.

Table 9

Number of establishments at contracting firms		
	Single/Independent Firms	Multiple Establishment Firms
For-Profit	88%	12%
Nonprofit	92%	8%

Source: Policy Matters Ohio survey of county contractors

Nearly three quarters of the 5,468 employees at the for-profit firms make more than ten dollars an hour. Of full-time employees, 90 percent already earn this wage level. About half of part-time employees already earn more than ten dollars an hour. Therefore, a requirement that only full-time workers be paid more than ten dollars an hour would change the wage rate of only a very limited number of these workers. A requirement that included part-time workers would raise the wages of a larger number of employees. It is also important to note that this survey asked employers for wage levels as of December

2006, prior to the Ohio minimum wage increase in January 2007, so some employees may now have higher wages.[75]

Table 10

For-Profit Firms 131 Surveyed Businesses			
Employees who earn:	Full-time Employees	Part-time Employees	Average Hours Per Week for Part-Time Employees
Less than $7.00	19	1	35
$7.01 to $10.00	394	665.5	20
$10.01 or more	3726	663	22

Source: Policy Matters Ohio survey of county contractors

At responding nonprofit organizations, 83.3 percent of employees make more than ten dollars an hour. Compensation is higher for full-time employees – more than 90 percent of full-time employees at responding nonprofits make more than ten dollars hourly. Well over half of part-time employees (60 percent) also make more than ten dollars an hour. However, there are a significant number of part-time, nonprofit employees who make well under this threshold – less than seven dollars an hour at the time of the survey. More than nine percent of the overall nonprofit employees reported on in the survey made under this threshold. Of part-time, nonprofit employees, more than a quarter fell into this very low-wage range.

Many of these very low-paid employees were also working a very small number of hours. On average, the part-time employees who are paid less than $7.00 an hour are working only 18.5 hours a week.

Table 11

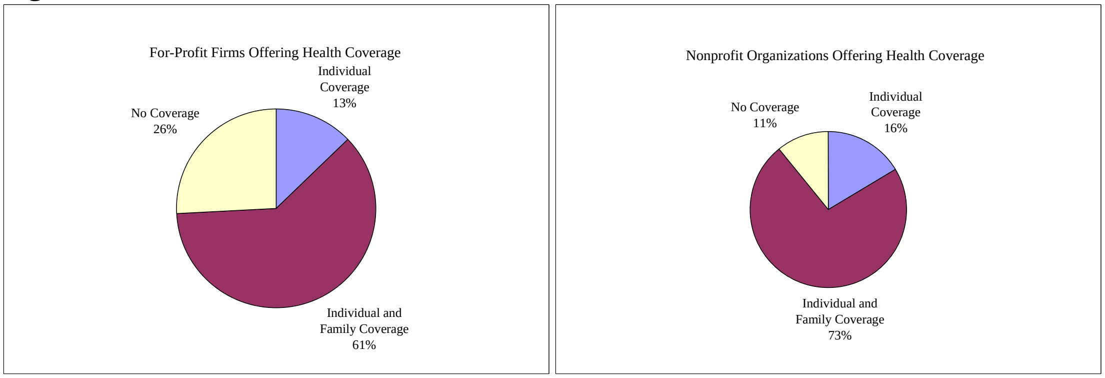
Nonprofit Organizations 92 Surveyed Organizations			
Employees who earn:	Full-time Employees	Part-time Employees	Average Hours Per Week for Part-Time Employees
Less than $7.00	13	959	18.5
$7.01 to $10.00	385	337	21
$10.01 or more	6326	2125	22

Source: Policy Matters Ohio survey of county contractors

The majority of respondents report offering some type of health coverage. Nearly three-quarters of for-profit firms and 89 percent of nonprofit organizations offer some health coverage. The survey also asked what percentage of non-managerial employees receive health benefits. For-profit firms indicated that on average 57 percent of non-managerial employees receive health benefits, while nonprofits reported that 63 percent of their non-managerial employees receive benefits.[76]

[75] A small number of surveyed employers answered a separate question and said they had raised wages to comply with the higher minimum wage. See discussion below.
[76] Some respondents indicated for this question that while they offer benefits for non-managerial employees, many employees do not take them.

Figure 3



Source: Policy Matters Ohio survey of county contractors

Respondents also indicated that contracts from Cuyahoga County constituted a very minor part of their gross receipts – for-profit contractors responding get 5 percent of their gross receipts from county contracts on average, and nonprofit responders get 11 percent of their gross receipts from county contracts on average.

The 223 respondents combined employed 15,613 people, or about 70 people each on average. Over a three-year period, the for-profit respondents reported having replaced 23 workers on average, and the nonprofit respondents reported having replaced 50 employees on average. Respondents reported significant replacement costs. For-profit and nonprofit respondents estimated that the median cost of replacing a nonmanagerial employee was $1,700 and $2,000, respectively.[77] The median for all surveyed firms was $2,000.

Table 12

Hirings, layoffs and replacement costs at responding employers			
	Average Number of Workers Hired or Recalled Since January, 2004	Average Number of Workers Laid-off or Quit Since January, 2004	Median Cost of Replacing a Non-managerial Worker
For-profit Firms	23	22	$1,700
Nonprofit Organizations	50	46	$2,000

Source: Policy Matters Ohio survey of county contractors

Of for-profit firms, 25 percent indicated they had experienced labor shortages in the past three years while 75 percent had not experienced shortages. For nonprofit organizations, 30 percent indicated they had experienced labor shortages and 68 percent had not during the same time period. Nonprofit organizations reported raising their wages more than for-profit firms in the last three years. Very few respondents reported increasing their wages due to the recent minimum wage increase in Ohio.

[77] The median is used for this statistic because two survey respondents indicated extremely high replacement costs that are outliers.

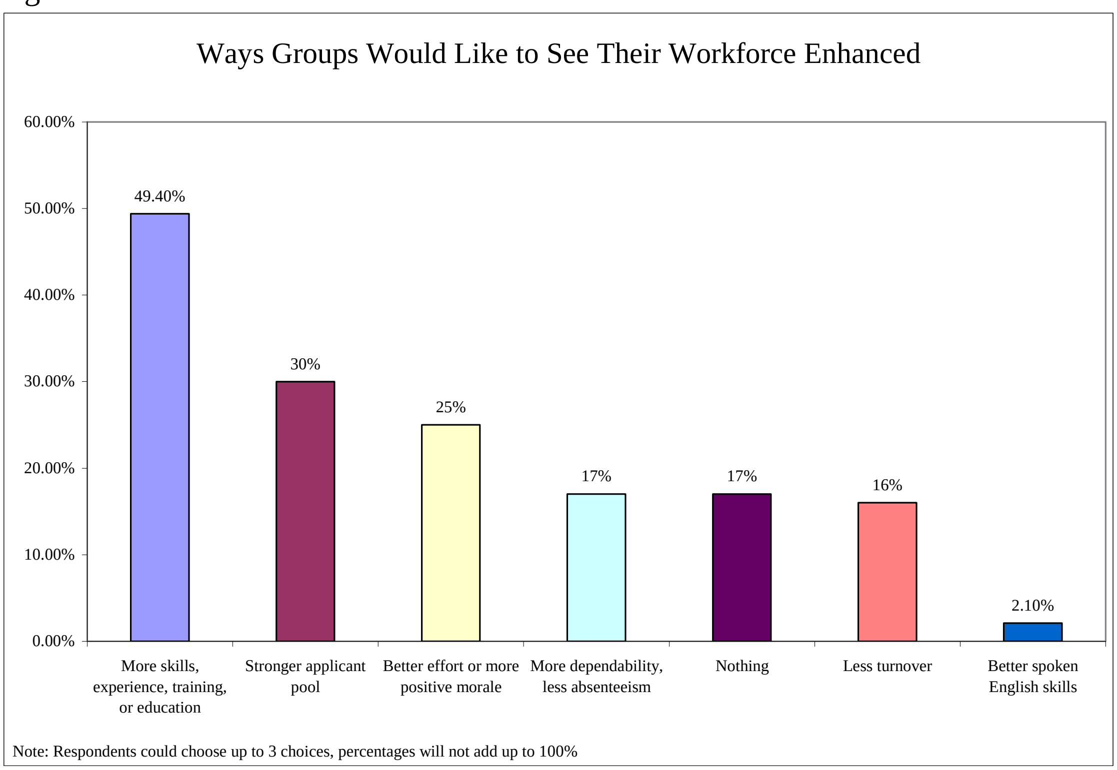
Table 13

Survey Response: Have you raised wages since January 2004 to attract more workers?				
	Yes, for reasons other than recent minimum wage increase	Yes, only to comply with recent minimum wage increase	No	Don't Know/Unsure
For-profit Firms	51%	3%	45%	1.5%
Nonprofit Organizations	76%	0%	20%	4%

Source: Policy Matters Ohio survey of county contractors

Some research has found evidence of less worker turnover, increased productivity, and less absenteeism after a living wage ordinance was enacted.[78] As the chart below reveals, survey respondents were interested in their workforce having more skills, experience, training, and education. Respondents also want to see a stronger applicant pool. It is possible that a living wage could help firms attract more skilled, experienced, and educated workers. For workers, having better wages and health care could improve training and productivity.

Figure 4



Source: Policy Matters Ohio survey of county contractors

[78] See also Section IV of this report on the Lakewood law.

Slightly more than half of nonprofit respondents do business with the City of Cleveland as well as Cuyahoga County. Of for-profit respondents, 44 percent reported that they have a city contract. While not all of these firms are covered by the city's living wage ordinance, adjustment to a county requirement could be easier since some respondents are already subject to the city wage requirement.

Table 14

County contractors – do they have city contracts?			
	Currently Do Business with the City of Cleveland	Currently Do Not Do Business with the City of Cleveland	Don't Know/Unsure/Have Done So in the Past but Not Currently
For-profit Firms	44%	50%	5%
Nonprofit Organizations	53%	42%	4%

Source: Policy Matters Ohio survey of county contractors

In sum, our survey had several findings that help shape a proposed living wage:

- Nine out of ten respondents have only a single establishment, making enforcement of a requirement relatively simpler.
- More than 90 percent of full-time employees at for-profit and nonprofit respondents already earn above ten dollars an hour.
- At for-profit respondents, nearly three quarters of all employees make more than ten dollars an hour.
- At for-profits, about half of part-time employees earn more than ten dollars an hour.
- Therefore, a requirement that only full-time workers be paid more than ten dollars an hour would change the wage rate of only a very limited number of affected workers. A requirement that included part-time workers would raise the wages of a larger number of employees.
- At responding nonprofit organizations, 83.3 percent of employees make more than ten dollars an hour.
- Well over half of part-time employees (60 percent) also make more than ten dollars an hour.
- A significant number of part-time, nonprofit employees make well under this threshold – less than seven dollars an hour at the time of the survey. This was more than nine percent of the overall nonprofit employees reported on in the survey. Of part-time, nonprofit employees, more than a quarter fell into this very low-wage range.
- Many of these very low-paid employees were also working a very small number of hours. On average, the part-time employees who are paid less than $7.00 an hour are working only 18.5 hours a week.
- Nearly three-quarters of for-profit firms and 89 percent of nonprofit organizations offer some health coverage. Of non-managerial employees, 57 percent of for-profit and 63 percent of nonprofit employees receive some health coverage.
- Contracts from Cuyahoga County constituted a minor part of respondents' gross receipts – under ten percent overall, although higher for nonprofits.
- Both for-profit and nonprofit respondents estimated that it costs them $1,700 or more to replace a non-managerial employee.

- Of for-profit firms, 22 percent indicated they had experienced labor shortages in the past three years while 68 percent had not experienced shortages. For nonprofit organizations, 30 percent indicated they had experienced labor shortages and 68 percent had not during the same time period.
- Perhaps predictably, respondents would like to see the education and training levels of their employees improved, and would like to get a stronger applicant pool for job openings.
- Slightly more than half of nonprofit respondents and slightly less than half of for-profit respondents do business with the City of Cleveland as well as Cuyahoga County.

The findings lead to several conclusions. Because few are part of chains, enforcement of a wage requirement should be simpler. Because the large majority of employees are already paid more than ten dollars an hour, a requirement at around this level should not be costly to impose. However, the fact that part-time employees are much more likely to earn less highlights the need to include part-timers if we want the requirement to protect more workers.

Most respondents offer some health coverage but a large minority of employees do not receive benefits – close to 40 percent overall, though the health coverage is higher among nonprofits. This reinforces that health coverage would be the more important protection than wage coverage in many ways, and speaks in favor of having a two-tiered structure where employers who offer health coverage can have more flexibility in the wage requirement.

These firms do experience substantial labor shortages and quite a bit of turnover. Respondents recognize that it can be costly to replace workers. There is also a desire for a stronger applicant pool. All of these factors point to potential benefits of a living wage requirement for contractors – by having a floor for wages and benefits, they are likely to experience lower turnover, fewer labor shortages, and slightly improved qualifications among applicants.

Finally, adjustment to a county requirement could be easier since some respondents are already subject to a wage requirement from the City of Cleveland.

VII. Small Business Enterprise Program

Cuyahoga County has a Small Business Enterprise program for vendors, housed in the Office of Procurement & Diversity. The SBE program was designed to encourage bidding and competition of local businesses with smaller staffs, with a specific focus on minority- and female-owned firms. According to the Small Business Enterprise Program Policies and Procedures manual of 2006,

> "the objective of this SBE program is to promote and encourage full and open competition in the procurement of goods and services by BOCC; encourage all Cuyahoga County's personnel involved with procurement and contracting activities to maintain good faith efforts and appropriate purchasing procedures; to protect the BOCC from becoming a passive participant in any unlawful

> discrimination; and to otherwise spur economic development in the public and private sectors of the Cuyahoga County economy."

There are four categories included in the SBE program: Category (A) Construction; Category (B) Commodities; Category (C) Professional Services; and Category (D) Business Services. Living wage ordinances typically exclude contracts for construction and goods. Categories C and D are applicable to a possible living wage ordinance because they involve services such as janitorial, landscaping, printing, transportation, and travel. An SBE must submit an application and become certified prior to bidding in order to receive proper credit as such an organization. The SBE Program staff also conducts onsite visits to verify SBE status. Participants must have a real and continuing business presence in Cuyahoga County. Manufacturing and mining industry employers must have fewer than 500 employees, and wholesale trade industry employers must have fewer than 100 employees. Gross revenue must be less than $6 million for retail industry, service industry and consultants, and less than $0.75 million for most agricultural industry employers.

The Board of County Commissioners and the Office of Procurement & Diversity set the annual and individual contract goals for SBE participation. Specifically, the Director of the OPD determines the use of an SBE participation goal and can also waive the requirement for particular proposals. The overall SBE goal for a contract can be set as high as 30 percent. This goal is used as an eligibility requirement for the bidding process. If an SBE bids as a prime bidder, they receive an automatic credit of 20 percent toward the SBE participation goal but would need to secure an additional certified SBE contractor(s) for the remaining percent.

The SBE program is relatively new to Cuyahoga County and underwent substantial changes in 2006.[79] Additional staff and monitoring measures were added along with flexibility for the OPD director to adjust SBE participation levels on contracts. Therefore, the following SBE analysis is of the current program and it is likely that more service contractors will bid in the future.

In 2006, there were 32 County contracts that had SBE program goals ranging from 5 to 30 percent. The contracts were for construction, goods, and services, but no goals were set for federally funded projects. The SBE program represents a relatively small proportion of total County contracts and financial allocations. Altogether, OPD awarded 680 contracts in 2006 worth $167,945,740.

Of the 32 projects worth $13.5 million with SBE participation, a total of $8,309,030 was awarded to SBE certified companies.[80] A total of 26 out of the 32 were for construction services or goods and thus unlikely to be covered under a living wage requirement. The six contracts with SBE participants, worth $956,819 to the SBE contractors, were for

[79] Office of Procurement and Diversity (December 20, 2005) "Highlights of Cuyahoga County's New Small Business Enterprise Program."
[80] Thirty-one of these contracts had SBE goals. One other contract without a stated SBE goal was won by an SBE vendor.

services and likely to be covered under a living wage. This represents less than one percent of total County contract allocations. Table 15 below provides information on these six contracts.

In nine of the 32 contracts with SBE participation, SBEs bid as prime contractors receiving the 20 percent credit that is automatic for SBE's bidding as a prime. Of those nine, only three were for service contracts; others were for construction unlikely to be covered by a living wage law. These three contracts, one of which also included an SBE subcontractor, are among those shown in Table 15. Both SBE vendors in the Employment and Family Services contract for transportation services were racial minorities and one was owned by a female. The other SBE contractors that won prime contracts, both for court reporting at Juvenile Court, were not minority owned. One of the court reporting contracts had no SBE goal but the prime bidder was an SBE contractor. As a percentage of the three contracts, these four vendors received just above 30 percent of the total contract amount.

Table 15

Service Contracts with Small Business Enterprise Program Participation							
Department	**SBE Bidding as Prime**	**Total Contract Amount**	**SBE Goal**	**Company and Contract Percentage**	**Race**	**Gender**	**Allotted Funds to SBE**
Employment and Family Services	Yes	$1.8 million	30%	Ace Taxi 20%	Asian	Male	$450,000
				Angelic Transportation 5%	Black	Female	subcontract
Juvenile Court	Yes	$170,000	0%	Mizanin Reporting Services 100%	White	Male	$170,000
Juvenile Court	Yes	$100,000	5%	Mizanin Reporting Services 5%	White	Male	$5,000
Justice Affairs	No	$476,830	30%	Fin and Feathers 35.6%	Black	Male	$169,751.48
Central Services	No	$390,000	30%	Mac Mechanical 2.7% Ferenc Lakeside 28.71%	White White	Female Female	$122,499 subcontract
Central Services	No	$395,680	10%	Quality Kleen Plus 10%	Black	Male	$39,568
Total for SBE Prime Contracts		**$2,070,000**					**$625,000**
Total for non-SBE Prime Contracts		**$1,262,510**					**$331,818.48**
Total for all SBE Contracts		**$3,332,510**					**$956,818.48**

Source: Office of Procurement & Diversity, Small Business Enterprise program

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Senior Contract Compliance Officer Tiffany Jordan indicated that most of the companies she had visited or audited pay their workers a wage well above the minimum wage. Jordan was not immediately aware if they pay living wages.[81] She did not voice any immediate concerns about a living wage ordinance and the SBE program. An analysis of SBE-certified companies in our survey also revealed that the majority of employees make more than $10 an hour. Of the 126 for-profit organizations that responded to our survey, 33 were registered SBE vendors while 36 were unsure of their status. None of the SBE vendors reported paying wages to full- or part-time employees less than $7 per hour. Eleven of the 33 SBE vendors had a total of 96 full-time employees and 191 part-time employees making between $7.01 and $10.00 an hour (all of the employees at two of these eleven companies make in that pay range). According to the survey responses, 396 full-time and 71 part-time employees at 31 SBE companies make more than $10.01 an hour. Table 16 shows wage levels at SBE companies that responded to the survey:

Table 16

Compensation of employees at surveyed firms in the Small Business Enterprise program

	Number of SBE Companies	Full-time Employees	Part-time Employees	Average Part-time Employee Hours
Less than $7.00 an hour	0	0	0	n.a.
$7.01 to $10.00	11	96	191	21
$10.01 or more	31	396	71	20

Source: Policy Matters Ohio survey of county contractors

In our literature review and inquiry of counties with a living wage requirement,[82] no problems with minority or small business programs were reported. Additionally, none of the other localities with living wage ordinances that we queried reported negative effects on small or minority businesses due to these requirements. In addition to sending out surveys to all current vendors with Cuyahoga County, Policy Matters attempted to interview the six SBE vendors that bid as primes. We reached only one, Ace Taxi, whose spokesperson indicated that a living wage requirement would have a minimal impact on their operations and bidding with the County. However, because Ace Taxi leases out cars to other companies, one way to absorb increased costs would be to charge a higher price to car renters. This particular company was more concerned with competing on equal footing with what they called "fly-by-night" companies at Cleveland Hopkins airport.[83]

Based on the findings of previous research, it is also possible that a living wage requirement would make small businesses more competitive with larger firms who can often bid lower by paying their workers less and receiving more contracts and work than smaller businesses. This point is echoed by a bus company vendor in Los Angeles after

[81] Interview with Senior Contract Compliance Officer Tiffany Jordan on March 19, 2007.
[82] See Section II.
[83] Personal Interview with Ace Taxi Company, Divo Bavishi, on April 13, 2007. Since the time of the interview, the city of Cleveland has said it will limit tax service at the airport to three companies, of which Ace is one. "Hopkins to Restrict Cabs," by Susan Vinella, *The Plain Dealer,* May 24, 2007

passage of their living wage ordinance, "We feel more able to compete against businesses that were drastically reducing wages in order to put in a low bid" (Farris et al. 2005, 111). Thus, it is possible that a living wage ordinance could strengthen the overall goals of the SBE program. Overall, our analysis of the program suggests that it will be comparatively unaffected by a living wage requirement.

VIII. Grants

In response to our request, the county development department provided a list of federal and state grants for economic development (see appendix). Later, the county said that some of these grants – specifically, those received from the Ohio Department of Development under the Home Weatherization Assistance Program and Temporary Aid to Needy Families funding for lead remediation work – were not economic development.

We discussed the relevant grants with federal and state officials. Officials elsewhere and outside experts queried by Policy Matters on this issue were unaware of conflicts between other living-wage laws and federal or state grant programs. Federal and state prevailing wage programs cover many construction jobs, but these are pegged at much higher wage levels than living-wage laws. In addition, most living-wage laws, like Cleveland and Lakewood's, exempt prevailing wage employees from coverage.[84]

Federal officials contacted by Policy Matters Ohio said they knew of no conflicts with a local living-wage requirement. Specifically, Lois Betka, a project officer with superfund division of the U.S. Environmental Protection Agency Region 5, said the agency would have no problem with a living wage requirement.[85] The county receives an EPA grant for brownfield remediation. Betka noted that the legislation authorizing cooperative agreements with the states for clean-up, the Comprehensive Environmental Response, Compensation and Liability Act, requires compliance under Davis-Bacon, but the wage rates required are usually the highest.

Jorgelle Lawson, director of community planning and development for the Columbus field office of the U.S. Department of Housing and Urban Development, said her office did not have experience with living-wage laws but knows of no conflicts.[86] (The county receives a number of different grants from HUD – see list in appendix) Lorraine Cooper, labor relations officer at HUD Region V in Chicago, said that living-wage levels generally are below Davis-Bacon wage levels, and if a living wage were higher, that would not be a problem.[87]

The state of Ohio Department of Development (ODOD) did not provide any examples of conflicts between its programs and local living wage ordinances that have existed for

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[84] For instance, Lakewood's law excludes from covered employees "An individual employed in public construction work that is subject to the provision of state or federal law pertaining to wage rates for public works employment." Codified Ordinances of Lakewood, Ohio, Section 113.01, see http://www.conwaygreene.com/Lakewood/lpext.dll?f=templates&fn=main-hit-h.htm&2.0

[85] Interview with Lois Betka, April 4, 2007

[86] Interview with Jorgelle Lawson, April 4, 2007

[87] Interview with Lorraine Cooper, April 9, 2007

some time in five Ohio cities, and none surfaced in our discussions with others. The ODOD chief counsel said in an e-mail that a local requirement's provisions would determine whether it conflicted with any state programs.[88] Of course, drafting language must always take into account the interaction with state and federal law.

The county currently ensures that its economic development grants are in compliance with state and federal requirements such as the Davis-Bacon Act and Ohio prevailing wage rates by interviewing construction workers and checking construction payrolls as each request for payment to a contractor is submitted by an engineer. If there is a variance, according to Harry Conard, business administrator for the county development department, the contractor must provide evidence of restitution before final payment is made. See below for recommendations regarding enforcement of any county living-wage requirement.

IX. County Financial Aid

A number of county financial-assistance programs to companies could be covered under a living wage requirement, if the board of commissioners should follow the example of Cleveland and Lakewood and adopt a requirement that covers such aid. One example would be the county economic development loan fund. Except for two loans of $56,000 and $120,000, respectively, all of the other 13 economic development loans the county made under this program in 2005 and 2006 were for at least $200,000.[89] Thus, a living-wage requirement covering financial assistance of more than $75,000 or $100,000 would cover most such loans the county makes. However, if such assistance were valued only to the extent that the loans were discounted below the market rate, some loans would be below such a threshold.

The Job Creation Tax Credit, one of the State of Ohio's major incentive programs to encourage expansion and location of industry, requires that recipients pay an average of 1½ times the federal minimum wage, or $7.73 an hour. However, that amount should increase to $10.88 an hour when the U.S. minimum goes up, as it is scheduled to do (Congress recently approved an increase to $7.25 an hour, effective in three steps between now and July 2009).

The state awarded 15 JCTCs in Cuyahoga County in 2005, including one to Taylor Chair Co., which also received a $350,000 HUD 108 loan from the county. Information for 2006 was not immediately available from the Ohio Department of Development. However, this program underlines that a general wage standard for companies receiving certain kinds of financial assistance is state policy. While the JCTC requires an average, not a minimum, so some employees can be paid less, it indicates a state policy interest in having wage standards when public money is being spent.

[88] E-mail from Candace M. Jones, April 4, 2007

[89] Funding sources for these loans include HUD 108, HUD Community Development Block Grant, and the county general fund.

The county development department also administers together with MAGNET Inc. a new product development and entrepreneurship loan fund, providing seed money for innovation and new product development. A total of $990,000 in new loans was awarded in the 2006 program year to 26 local entrepreneurs and small businesses. Since the program's creation in 2005, 49 new product development loans have been made, totaling $1,970,000. That's an average of $40,204, so at least on average, most are low enough that they would fall below a $50,000 or $75,000 minimum.

The county also acts as a conduit and issues revenue bonds that benefit both for-profit companies and nonprofit organizations. During 2005 and 2006, the county issued 10 such bonds for a total of $213.6 million.[90] Among the beneficiaries were nonprofit hospitals such as the Cleveland Clinic and Marymount, housing for the elderly and others, Ratner School in Pepper Pike, the Global Country of World Peace, and the for-profit company Corporate Wings.

In a limited number of instances, the county also guarantees debt, as it did with tax-exempt bonds issued for improving Shaker Square, and would be on the hook to pay if the tax increment financing fell short of the amount needed for debt service. There were $2.8 million outstanding in such Shaker Square debt as of January 1.

A living wage requirement covering financial assistance also could extend to some of the county's brownfield redevelopment efforts. In 2006, for instance, the county lent $7.5 million for seven Brownfield Redevelopment Fund projects.

The extent to which recipients of aid from these and other programs would be affected by a living-wage requirement would depend on the coverage threshold and definitions. The Cleveland ordinance, for instance, excludes from coverage financial aid "which is received from another government or other entity with the City acting only as a conduit or fiscal agent for the funds, where the City exercises no control over the identity of any recipient or of the terms of the contract."[91] The board of commissioners would need to decide if borrowers benefiting from its conduit issuances, for example, should be covered by the living wage. If it adopted a minimum threshold like that of Cleveland and Lakewood, in which the value of the aid is calculated relative to the available market rate, some bond issues and loans might not be covered in any event.

X. Summary and Recommendations

A living-wage requirement would lead to better targeting of economic development assistance to higher wage employers and better treatment of workers serving the public. As shown in other localities, living-wage laws can have a modest positive effect on poverty and worker well being. Paying better wages can lead to lower turnover, less absenteeism, and slightly higher productivity, as well as increased accountability in

[90] Bond issuances approved by the Board of County Commissioners during 2005 and 2006 were supplied by the Clerk of the Board.

[91] Cleveland Fair Employment Law, Section 189.01(b). This section also provides that Community Development Block Grant funds are not excluded from living-wage coverage.

spending of public dollars. These positive results have led dozens of cities in Ohio and elsewhere and some of the nation's largest counties, including Cook County, IL, and Wayne County, MI, to pass living wage requirements. However, some living wage laws, particularly those passed early on, would be strengthened by better crafting. For example:
1. Living wage laws that fail to consider whether health insurance is provided may preference employers who pay slightly more in wages but have overall lower compensation. Because health insurance costs are so large and because the need for health insurance is so vital, it is important to take account of whether an employer provides this basic benefit. The two-tier wage levels that are now common provide a good way to address this issue.
2. Laws that don't include any form of monitoring can be easily undermined, as employers may disregard them and their costs and benefits are unknown. Having good compliance procedures in place addresses this issue.
3. Laws that fail to include economic development contracts can miss one of the primary reasons to have a living wage - to ensure that money spent in the name of economic development is actually developing a local economy by providing jobs with some basic standards in place. Including economic development recipients in the law is the best way to ensure that this need is addressed.
4. Laws that exempt all part-time employees, small employers, nonprofits, or smaller contracts can mean that very few workers are protected and can create odd incentives to tinker with the size of the work place, the hours granted to workers, or other details. Limiting exemptions is a good way to have a consistent standard.

Based on our review of research above, we recommend that Cuyahoga County enact a living wage with the following provisions.

<u>Coverage</u>

If enacted, a living-wage requirement should cover service contracts, not goods, as in other living-wage ordinances. A logical threshold for the dollar amount over which contracts should be covered would be $25,000, as in Cleveland and Lakewood. The Cleveland law has a wider scope than most, covering anyone employed by the contractor within the state of Ohio. Most laws cover only the employees directly employed on the covered contracts.[92] To be meaningful, a living-wage requirement also would need to parallel those in a substantial share of other communities that have them and cover subcontractors; otherwise, a requirement could be easily subverted. Among the exemptions that the county may want to consider are those employees who are:
--Covered by collective bargaining agreements;
--Employed in summer jobs or internship programs for students or teenagers, and those under 18, as in Cleveland;
--Volunteers and those in job training programs;
--Working on public construction projects or other work subject to state or federal wage rate laws, and
--Employed by municipalities that are county contractors.

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[92] Luce, *Fighting for a Living Wage*, p. 45

A definition of covered employees also could include the minimum number of hours an employee must work to be covered. Broward County, Florida, covers those who work more than 20 hours a week; Dayton covers those over 36 hours. While some others such as Los Angeles County require full-time employment, Nassau County, N.Y., eliminated its 20-hour-a-week requirement soon after its law went into effect this year. In Cleveland, the minimum is 30 hours, though the Fair Employment Wage board recommended a reduction to 20. The existing living wage program for Cuyahoga County employees requires more than 30 hours a week. However, such a standard would exclude most part-time workers from coverage. According to the Policy Matters Ohio survey of contractors, on average, the part-time employees who are paid less than $7.00 an hour are working only 18.5 hours a week. Thus, a standard of 20 hours still would exclude many of the lowest-paid workers. For that reason, an hours standard higher than 20 would undercut the intent of a county living-wage requirement.

As noted, some living wage laws, such as those in Miami-Dade and Broward counties and New York City, do not require a minimum number of employees for a company or nonprofit to be covered. As noted above, a study on how nonprofits were affected by the City of Detroit's living wage law found that there was no significant correlation between a nonprofit's size, budget or employment levels and its experience under the living wage. Median employment among the 33 SBE companies that responded to the Policy Matters Ohio survey was 12, meaning that half of the companies had employment above and below that amount. If the county should decide that such a threshold is necessary, it could consider a minimum of 10 employees, which is used in Suffolk County, N.Y. (As noted above, Wayne County, Mich., also uses this threshold, but only for nonprofits).

In addition, the county should consider adopting language as in the Cleveland ordinance, which says, "Any new jobs created by the City that are not currently being performed by City employees as of the effective date of this ordinance must be paid a fair employment wage if contracted out, regardless of the number of employees." Some other ordinances, such as Miami-Dade County's, contain similar provisions, while the Los Angeles County law is aimed in particular at services that could be performed by county employees, but are more economically performed by contractors.[93]

The county could also choose to include a waiver provision, under which the board of commissioners could waive the wage requirement in specific, limited circumstances. This could include substantial hardship, represented by a specific proportion of the firm's total budget. In the case of nonprofit service providers, it could include cases in which a service provider is able to demonstrate that it will seriously damage services it can provide, so long as the salary differential between its highest- and lowest-paid employees is no greater than five to one.

Some laws, such as the new Maryland state law, exclude nonprofits altogether. However, such a blanket exclusion in Cuyahoga County would eliminate a large share of its service contracts from coverage. As noted above, nonprofit vendors account for more than 70

[93] L.A. County Online, Living Wage Program. See http://lacounty.info/doing_business/living_wage.htm, accessed May 18, 2007.

percent of the value of county non-construction service contracts.[94] The coverage limitations outlined above, together with the waiver provision, should provide leeway for nonprofits to provide needed services within a living-wage requirement.

The county should also consider including entities that receive financial assistance under a living-wage requirement. As outlined previously, a major State of Ohio financial incentive for economic development includes a general wage standard, as do Cleveland, Lakewood and Toledo, among Ohio cities. Cleveland and Lakewood cover all Ohio employees of companies receiving financial assistance. Covering employees of aid recipients at any location for which aid has been received, as in Cook County, would be a minimum provision for a Cuyahoga County requirement. Using the same $75,000 benchmark as Cleveland and Lakewood do would create a county-wide standard.

Wage levels

Some living-wage requirements are adjusted using the local Consumer Price Index, while others, such as those in Wayne and Cook counties, use some form of the federal poverty line. In contrast to the recent wage freeze in Cleveland, Cook County amended its law in 2005 to adjust wages annually to the poverty level. To ensure the indexing takes place, it acted in April to have its chief financial officer make the annual adjustment. In Los Angeles County, where the living wage is not indexed, the required amounts jumped in May from $8.32 and $9.46, with and without health care, to $9.64 and $11.84, respectively. Indexing the wage base avoids this kind of drastic increase and keeps the compensation levels from declining in real terms, which defeats the purpose of a living-wage law. As noted, most living-wage requirements are indexed in some way, and even then, do not provide wage levels high enough to lift most of those covered out of poverty, based on a worker supporting a family of four.

Based on the federal poverty standard for a family of four, a full-time, year-round worker would have to earn $9.93 an hour.[95] While many experts have criticized this standard as inadequate,[96] it represents a reasonable starting point for a living wage, not including health-care benefits. This amount is slightly below the existing standards in Cleveland and Lakewood, so it would not conflict with them, and is well in line with living-wage requirements in other large counties and Ohio cities. It is also nearly identical to the board of commissioners' existing $9.96/hour standard for its own employees, which is based on 104 percent of the 2003 poverty standard for a family of four, adjusted for inflation.

[94] This also excludes the 13.6 percent of contracts, by value, that are handled by municipalities.
[95] The recently updated Wayne County, Mich., law calls for a $10 hourly wage if health-care benefits are provided and $12.50 if they are, based 100 percent and 125 percent, respectively of the federal poverty standard for a family of four.
[96] See *Making Ends Meet: Basic Family Budgets in Ohio*, by Wendy Patton, Policy Matters Ohio, June 2006, http://www.policymattersohio.org/making_ends_meet_2006.htm

Health Benefits

If the county establishes a living-wage requirement, it should include a health-care component, so that companies offering a substantive health-care plan are allowed to meet a lower wage standard than those that do not. Most living-wage requirements include such a two-tier arrangement. The increasing cost of health benefits and the diminishing share of private employers that offer them have made this a crucial element of compensation and one that varies widely between employers. [97] A living-wage requirement that fails to take this into account does not credit employers that provide this important benefit. Based on a 2005 study, the cost for yearly health coverage for a single person with above average health is about $4,014 in Ohio. [98] Thus, a single full-time worker purchasing coverage for herself pays roughly $1.93 an hour. An hourly health-care benefit of roughly that amount, indexed so it does not deteriorate in value, is reasonable to add to a $9.93 wage requirement.

Enforcement

If the county goes ahead with a living-wage requirement, it should adopt some basic monitoring and enforcement practices. These include requiring covered employers to sign affidavits attesting that they will pay at least the living wage and to inform their employees of the living wage through workplace signs and notices in paychecks, as well as an anti-retaliation provision protecting employees who claim violations or provide information about alleged violations. In Wayne County, covered contractors must sign affidavits that they are in compliance, post signs in workplaces about the ordinance, and permit access to job sites and keep four years of payroll records for monitoring and investigation of complaints.

Any living-wage mandate should make sure that the required documentation allows it to measure how many workers have been affected. Unfortunately, the fuzziness of these forms and lax enforcement by the City of Cleveland make it difficult to say with any precision how many workers have been affected by its living wage law. Attached in the appendix are proposed changes to the City of Cleveland forms from an earlier Policy Matters Ohio report and from the Cleveland Fair Employment Wage Board. If it adopts a requirement, the county also should take more decisive action than Cleveland has to see to it that the requirement is enforced.

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[97] The Board of County Commissioners recognized this in establishing Cuyahoga County's living wage program in 2003, stating that "…fair compensation should also include the provision of health insurance benefits, so as to provide employees of the County with a level of confidence and security which permits these employees to focus their full attention on the quality of their work as well as to insure the highest motivation and best quality of workmanship by employees." It noted further that "the absence of health insurance benefits can negatively affect worker performance and the quality of services delivered and result in increased employee absenteeism." Resolution No. 034201, Oct. 21, 2003.

[98] *Paying a Premium: The Increased Cost of Care for the Uninsured*, July 13, 2005, Families USA, http://www.familiesusa.org/resources/publications/reports/paying-a-premium.html

Monitoring and enforcement should also include:

- spot checks of covered workplaces to make sure that employees are being informed about the law's provisions,
- regular reports by both contractors and aid recipients of payroll records, including how many employees have received pay increases and for how much;
- penalties for employers that do not comply, including potential loss of the contract, payment of the wages withheld along with a monetary penalty, and possible disbarment from future contracts or assistance until in compliance and penalties paid, and
- explanatory information on the county web site about the law.

In Suffolk County, N.Y., a five-person staff oversees monitoring and enforcement of the living-wage law and two others, involving health care and immigration. Brenda Rosenberg, director of the local law compliance unit, said that two persons go out in the field to audit payroll records of covered companies. In some instances, companies inaccurately claimed to be in compliance. This often involved the 12 annual paid days off that the law calls for. The unit does not keep records on the number of employees who have recouped pay as a result. Rosenberg estimates the cost of the two field auditors is $150,000 a year, while the staff of five altogether costs $450,000. Cuyahoga County does not need to provide this level of support, since the requirement would not include paid days off, but it should ensure that at least one full-time employee housed in the Office of Procurement & Diversity should be put in charge of monitoring. That employee would need to coordinate with the Department of Development and the Clerk of the Board to ensure compliance. This individual should report to the board of commissioners on the law after one year, at which time the board should review the adequacy of the staffing.