

EXECUTIVE SUMMARY

Since the city of Baltimore passed the first living wage law in 1994, approximately 120 cities and counties have enacted such laws, which require that service contractors and sometimes also economic development aid recipients pay a wage above the state minimum to employees covered by the contract or aid package.

Ordinances often set the living 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. That currently works out to at least \$9.93 an hour for a family of four. The laws differ in scope of workers covered, benefits included, and wage levels. However, most laws, including those in most of the biggest counties, require a higher wage – approximately \$1.50 to \$2 per hour – if health-care benefits are not provided.

Studies of existing living wage laws suggest that most businesses are able to absorb cost increases through increased worker productivity and business opportunities. Traditional living wage laws cover only a small number of workers within a county or municipality so the laws have little effect on overall business climate. 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. Enforcement of living wage laws is often weak, but the laws generally have a modest positive effect on poverty and worker well being.

The City of Cleveland living wage, in place since 2001, covers contractors for some services, financial-assistance recipients and city workers. Between 2001 and the first quarter of 2005, the Cleveland ordinance covered 50 service contracts with 34 vendors who employ 11,130 workers, not all of whom were covered by the law. The vast bulk of the city's contracts are not covered because of the law's narrow scope and exemptions. During that period, the law also covered 10 financial-assistance recipients employing an estimated 2,954 employees, a small minority of employers receiving financial assistance because others fell outside the law's scope.

The Cleveland law has not appreciably affected the number of bids for city service contractors. In a city survey conducted over two years of prospective contractors who decided not to bid for city work, none mentioned the living wage. "What's noticeable is, it never comes up," said James E. Hardy, city commissioner of the Division of Purchases and Supplies.

A small number of workers at contractors or financial-assistance recipients, along with 100-plus City of Cleveland workers, have seen their wages increase because of the law. The exact number is impossible to tell because of lax reporting requirements and monitoring.

Cleveland economic development officials said they have heard general complaints that city requirements impede business, and specific complaints from some companies that the living wage can affect overall wage schedules, causing them to also raise wages for

employees at higher pay levels. However, only one company has been publicly identified as turning down city financial assistance because of the law.

The city's Fair Employment Wage Board has recommended changes in the law, including the adoption of a two-tier wage depending on health care, but its recommendations have not been considered. Last year, City Council indefinitely postponed increases in the living wage.

The City of Lakewood approved a living wage effective in 2004. City officials said that the living wage has improved work performance for the one covered contract, temporary workers hired to collect yard waste. "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.

Policy Matters Ohio analyzed the 2006 calendar year contracts from Cuyahoga County. Altogether, the Office of Procurement & Diversity (OPD) and the Clerk of the Board listed 1,344 county contracts for a total of \$421,123,823. About 336 contracts worth \$178,634,432 are not likely to be covered by a living wage requirement because they were for goods or construction or were awarded to municipalities and state-operated universities. If only service contracts over \$25,000 were covered, 582 contracts worth a total of \$238.2 million – 43 percent of all county contracts, worth 57 percent of the total – could be subject to a living wage with few other exemptions.

Policy Matters also surveyed the 1,100 firms, municipalities, and nonprofit organizations that had contracts with the county in 2005. Some 243 contractors – 131 for-profit firms, 92 nonprofit organizations and 20 municipalities – responded. Our survey had several findings that could help shape a proposed living wage:

- More than 90 percent of full-time employees at both for-profit and non-profit respondents already earn above ten dollars an hour. About half of for-profit part-timers and 60 percent of non-profit part-timers also exceed this threshold already.
- More than a quarter of part-time, non-profit employees made less than seven dollars an hour, as of December 2006. Many of these very low-paid employees were also working a very small number of hours – on average, the part-time employees paid less than \$7.00 an hour work only 18.5 hours a week.
- Contracts from Cuyahoga County constituted a minor part of respondents' gross receipts - under ten percent overall.
- 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 non-profit employees receive some health coverage.

We examined effects on the county's Small Business Enterprise (SBE) program, designed to encourage bidding by small employers and those with minority and female ownership. In 2006, 32 of 680 contracts awarded by OPD had SBE participation. Only six of these contracts, worth \$956,819 to the SBE contractors, were likely to be covered under a living wage. This represents less than one percent of total county contract allocations and less than 12 percent of total awarded to SBE contractors.

A majority of employees at 33 SBE vendors who responded to our survey make more than \$10 an hour. No responding SBE vendors reported paying less than \$7 per hour as of December 2006. We reached only one of the six SBEs that bid as prime vendors, Ace Taxi, whose spokesperson said a living wage ordinance would have minimal impact on operations and bidding. A living wage ordinance could strengthen the overall goals of the SBE program if it reduces low-wage competition that undercuts SBE bidders. Overall, our analysis suggests that the program will be comparatively unaffected by a living wage requirement.

Federal officials and outside experts interviewed did not believe that rules governing economic development contracts would conflict with a living-wage requirement. 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 exempt such employees from coverage. A local requirement's provisions would determine whether it conflicted with any state programs, but neither the Ohio Department of Development nor anyone with whom we spoke cited examples of such conflicts. Of course, drafting language must always take into account the interaction with state and federal law.

Recipients of aid under a number of county economic development programs could be covered if the county adopts a living-wage requirement that covers financial-assistance recipients. Coverage would depend on thresholds and definitions. The board of commissioners would need to decide if borrowers benefiting from its conduit issuances, for example, should be covered by the living wage.

A living-wage requirement would lead to better targeting of economic development assistance 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. These positive results for workers in a city or county have led the state of Maryland, dozens of cities in Ohio and elsewhere, some of the nation's largest counties, including Cook County, IL, and Wayne County, MI, and large city/counties like New York City and Philadelphia to pass living wage requirements. Most commonly, these laws set a \$25,000 threshold for service contractors to be covered. Most of them have some restriction on coverage of nonprofit organizations. Based on our review of research on other ordinances and our own research on the Cleveland and Lakewood ordinances, we recommend that Cuyahoga County enact a living wage with the following provisions.

- 1) Establish a living wage rate covering service contractors on contracts of more than \$25,000, including subcontractors, and recipients of financial assistance worth more than \$75,000;
- 2) Set the initial rate for workers who are offered substantive health insurance at \$9.93 an hour, indexed each year to the amount a worker would have to make in order to attain the federal poverty standard for a family of four. Employers that do

- not offer health insurance would have to pay \$11.86 an hour. The difference is based on what a full-time worker would pay for single health-care coverage, which also should be indexed so it does not deteriorate in value.
- 3) Include exemptions for those employees who are covered by collective bargaining agreements, employed in summer jobs for students, volunteers, those in job training programs and others (see list, p. 38)
 - 4) If the county should decide to cover only those employers with a minimum number of employees, that number should be set at 10.
 - 5) Both full- and part-time workers should be included, and any weekly hours standard should not be set higher than 20. Otherwise, many of the lowest-paid part-time workers would not be covered. The county should echo City of Cleveland language that ensures coverage at employers for jobs newly contracted out after passage of the requirement.
 - 6) Consider including 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.

The county living wage requirement should include some basic monitoring and enforcement practices. This should include required documentation that allows measurement of how many workers have been affected. Specific recommendations for reporting and enforcement are found at the end of the report.