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## **ECONOMIC ANALYSIS OF SANTA MONICA LIVING WAGE PROPOSAL**

August, 2000

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## TABLE OF CONTENTS

Chapter 1.	Structure of Study and Responses to RFP Questions	1
Chapter 2.	Introduction	10
Chapter 3.	Structure of Ordinance	35
Chapter 4.	Cost Estimates for Covered Coastal Zone Firms	44
Chapter 5.	Alternative Business Responses to Living Wage Cost Increases	61
Chapter 6.	Cost Estimates for Citywide Ordinance	115
Chapter 7.	Cost Estimates for Contractors Only Ordinance	129
Chapter 8.	Low-Wage Workers in the Santa Monica/Los Angeles Area	136
Chapter 9.	City Policies and the Living Wage Ordinance	163
Appendix 1.	An Overview of Recent Living Wage Ordinances	177
Appendix 2.	Sampling Procedures and Estimation Techniques: Firm Survey	188
Appendix 3.	Generating Business Cost Estimates	201
Appendix 4.	Methodology of Ripple Effect Calculations	204
Appendix 5.	Estimating Elasticity of Demand for Santa Monica Hotels	206
Appendix 6.	Overview of Literature on Minimum Wage and Employment	208
Appendix 7.	Minimum Wage Laws, Wage Inflexibility and Recessions	211
Appendix 8.	Estimation of Contractors Only Proposal	222
Appendix 9.	Generating Los Angeles Survey Results with the CPS	226
Appendix 10.	Sampling Procedures and Estimation Techniques: Worker Survey	234
References		250

## **CHAPTER 1. STRUCTURE OF STUDY AND RESPONSES TO CITY RFP QUESTIONS**

### **I. Design of Ordinance**

1. Coastal Zone and Citywide ordinances separately estimated
2. Minimum wage estimated at \$10.75 and \$9.50
3. Benefits include \$1.25 for health and 15 paid days off
4. Coverage exemption for workers receiving at least 50 percent of income from tips
5. Coverage includes employees of subcontractors working on premises of covered firms
6. Coverage threshold is \$3 million in gross receipts.

### **II. Major Data Sources**

1. Business Survey Data
  - a. PERI Survey of Santa Monica firms
  - b. Limited PERI Survey of La Jolla firms
  - c. PERI Survey of City of Santa Monica contractors
2. Worker Survey Data
  - a. PERI Survey of Coastal Zone workers
  - b. Los Angeles Current Population Survey
3. City of Santa Monica Data
  - a. Business license and sales tax records (confidential)
  - b. List of service contractors
  - c. Expenditure data in Coastal zone
4. Private Research Organizations
  - a. PKF Consulting
  - b. Smith Travel Research

### **III. Estimates of Coverage**

1. Estimates based on \$10.75 and \$9.50 minimum wage
2. Estimates include mandated effects and ripple effects
3. Business cost estimates are presented for all firms and separately for hotels, restaurants, and retail firms
4. Cost increases are measured as proportion of firms' gross receipts

### **IV. Alternative Possible Business Responses to Cost Increases**

1. Price Increases
2. Reduce Profit Margins
3. Increase Productivity

4. Layoffs and substitution for better credentialed employees
5. Relocations

#### V. Evaluation of Contractors Only Ordinance

1. Coverage of firms and workers
2. Wage and cost increases
3. Possible pass-throughs to City

#### VI. Conditions of Low-wage Workers in Santa Monica and Los Angeles

1. Establishing “living wage” standards
  - a. Poverty line threshold
  - b. Basic needs threshold
2. Current Living Standards
  - a. Demographics: age, ethnic status, family structure
  - b. Employment status: wages, hours, labor market tenure, daily commute
  - c. Earnings and family incomes: total family incomes, sources of family incomes
3. Effect of Living Wage Increases on Prototypical Families
  - a. Effect on Family of 3 with \$7.50/hour worker; worker provides 71% of family income
  - b. Effect on Family of 4 with \$8.00/hour worker; worker provides 58% of family income

#### VII. City of Santa Monica Policies

1. Expenditures in Coastal Zone
  - a. Current Expenditures
  - b. Capital Investments
  - c. Comparisons with comparable cities
2. Growth Restriction Policies
  - a. Limits on market supply
  - b. Distribution of benefits
3. Additional Policy Concerns
  - a. EITC promotion
  - b. Local hiring halls
  - c. Impact on City residents
  - d. Monitoring Ordinance

## **MAJOR COSTS AND BENEFITS**

### **COSTS: Business Costs for \$10.75 Coastal Zone Ordinance**

#### **I. All Covered Firms**

1. 72 Coastal Zone firms with more than \$3 million in gross receipts
2. 2477 workers receiving wage increases
3. \$14.4 million in mandated wage increases
4. \$24 million in total mandated and ripple effect cost increases
5. \$333,000 average cost increase per firm
6. 3.9 percent average cost increase relative to gross receipts

#### **II. Covered Hotels**

1. 11 Coastal Zone firms with more than \$3 million in gross receipts
2. 1262 workers receiving wage increases
3. \$7.8 million in mandated wage increases
4. \$11.3 million in total mandated and ripple effect cost increases
5. \$1.0 million average cost increase per firm
6. 10.4 percent average cost increase relative to gross receipts

#### **III. Covered Restaurants**

1. 6 Coastal Zone firms with more than \$3 million in gross receipts
2. 214 workers receiving wage increases
3. \$1.3 million in mandated wage increases
4. \$2.2 million in total mandated and ripple effect cost increases
5. \$367,000 average cost increase per firm
6. 9.6 percent average cost increase relative to gross receipts

## **BENEFITS**

### **I. Worker Benefits for \$10.75 Ordinance**

1. 2477 workers receive mandated wage increase
2. \$3.17 average wage increase
3. \$5,189 average yearly wage increase
4. 20 percent disposable income increase for Family 1 with \$7.50 worker
5. 12.9 percent disposable income increase for Family 2 with \$8.00 worker

### **II. Worker Benefits for \$9.50 Ordinance**

1. 2099 workers receive mandated wage increase
2. \$2.36 average wage increase
3. \$4,320 average yearly wage increase
4. 12.3 percent disposable income increase for Family 1 with \$7.50 worker
5. 6.5 percent disposable income increase for Family 2 with \$8.00 worker

**RESPONSES TO QUESTIONS IN**

**“Request for proposals:  
Economic Impact Study of a Living Wage Proposal  
for the  
City of Santa Monica, California”**

**1. What is the baseline status of the target workforce?**

We observed the target workforce through two data series, the Los Angeles Current Population Survey and our own survey of low-wage Coastal Zone workers. We also developed both low- and high-end living wage thresholds based on cost-of-living data for Los Angeles

Figure S.1 shows median family incomes based on the LA CPS survey and S.2 shows results from the PERI survey of Santa Monica low-wage workers. We also present benchmark living wage thresholds, for a four-person family in S.1 and a three-person family in S.2.

As we see in S.1, the median income for families which include a worker earning between \$5.75 and \$7.40 is \$28,738. For families that include a worker earning between \$7.41 and \$9.10, the median family income is \$30,091. Both of these figures are slightly above the LA poverty line threshold of \$27,030 for a family of four. But they are between 33 – 38 percent below the basic needs threshold of \$45,683.

From our Santa Monica survey results, we find that median income is \$19,000 for families with a Coastal Zone worker earning between \$5.75 - \$7.40, and \$20,000 for a family with a worker earning between \$7.41 - \$9.10. These figures are both below the LA poverty threshold of \$21,475 for a family of three, and are barely half the three-person basic needs threshold of \$37,589.

**2. What will be the effect on the target workforce?**

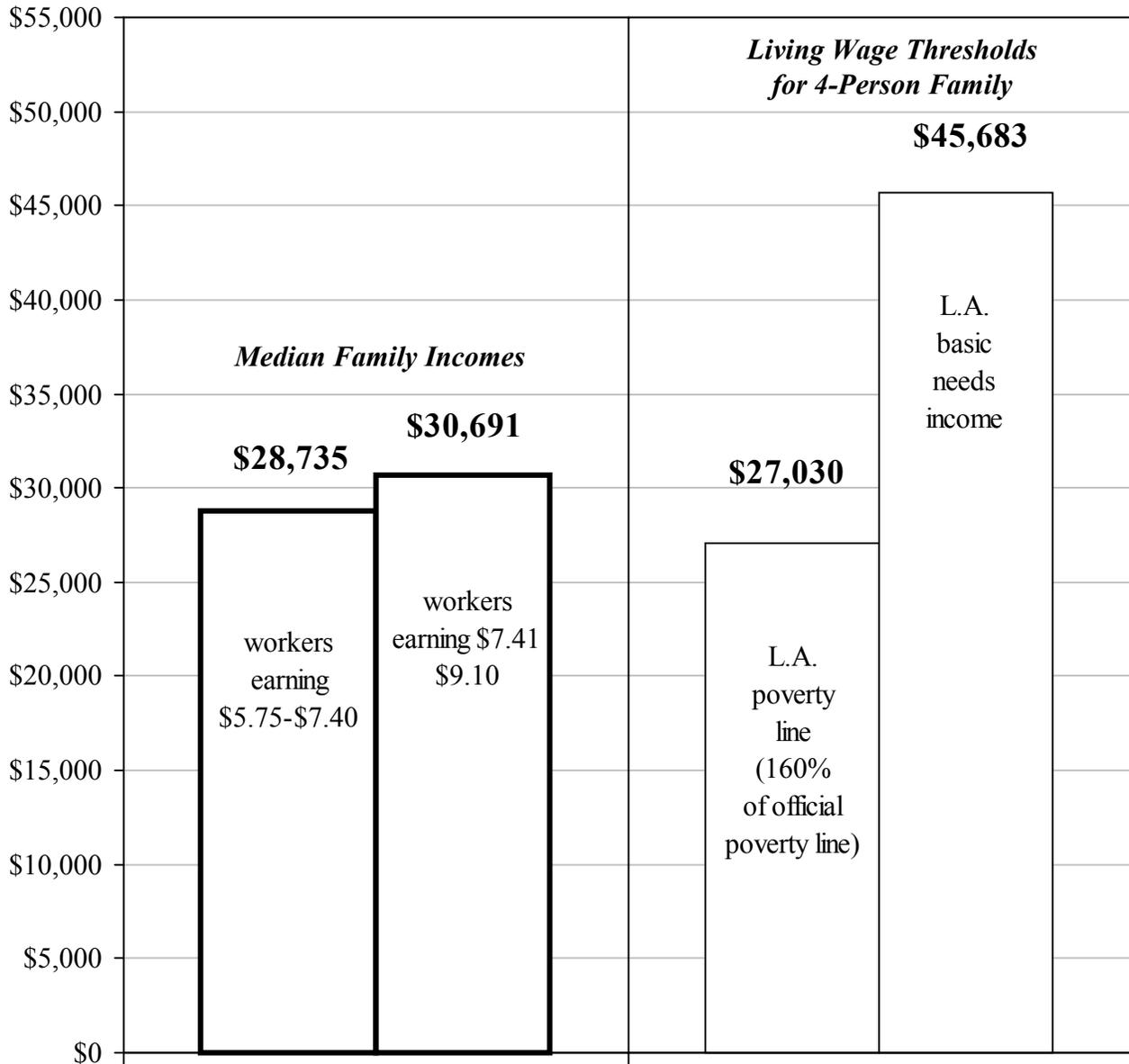
We estimated the impact on the target workforce by considering two prototypical low-wage families, based on mid-range figures for family characteristics in our LA-CPS and Santa Monica surveys. We show the characteristics of both families in Table S.1. Family 1 is based primarily on the typical family in our Santa Monica survey, while Family 2 is based on the Los Angeles survey.

Figure S.3 indicates how the living standard for Family 1 increases through a \$10.75 ordinance. As we see, the family’s pretax and subsidy income rises from \$20,000 to \$26,175.<sup>1</sup> Before the living wage increase, the family lived 7 percent below the LA poverty threshold for a family of three. After receiving the raise to \$10.75, the family’s income rises to 22 percent above the 3-person poverty threshold. Nevertheless, even with the living wage increase, the family’s living standard remains more than 30 percent below the basic needs threshold for a three-person family.

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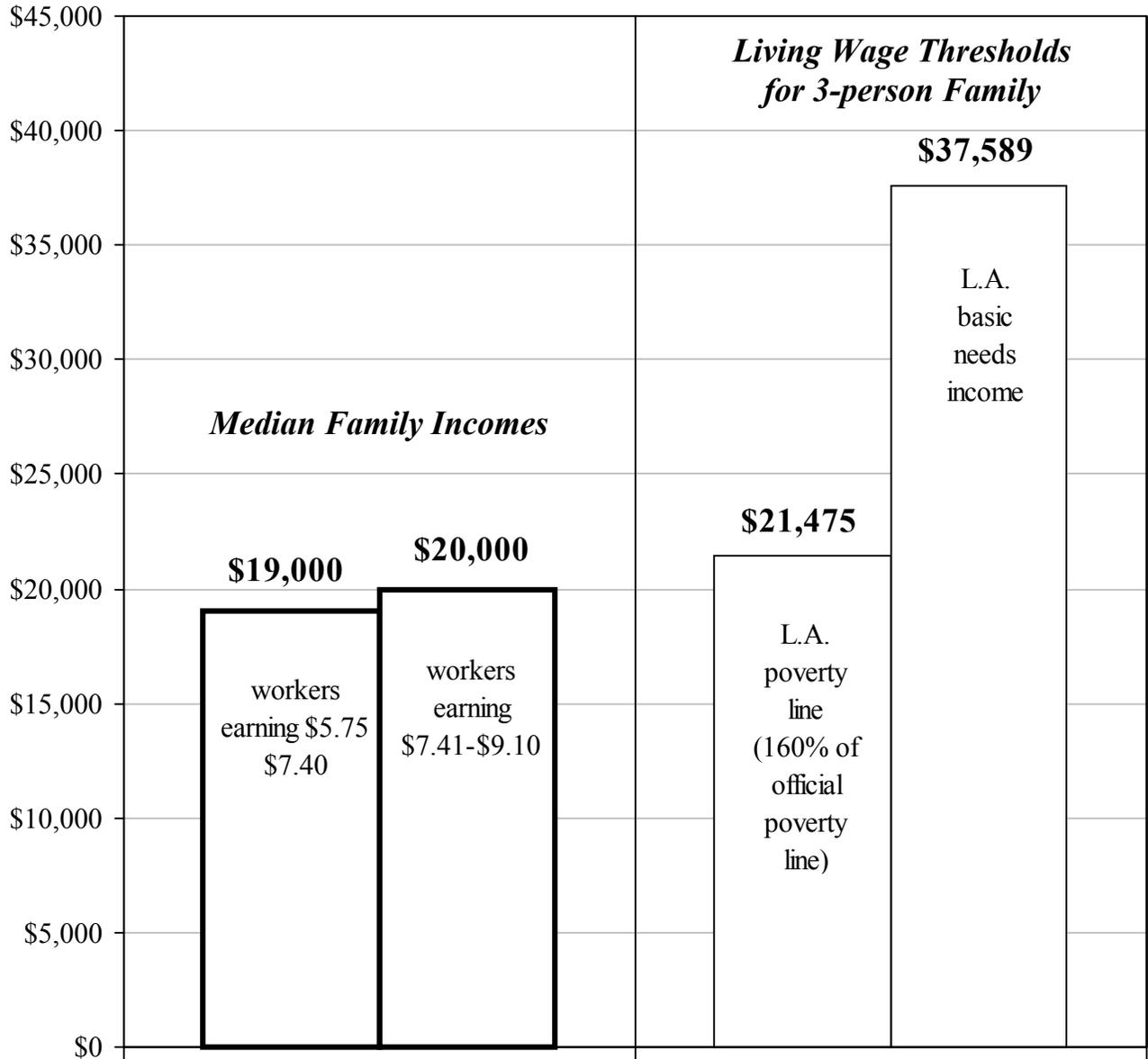
<sup>1</sup> We present pretax income figures here because our poverty and basic needs thresholds are also pretax figures.

**Figure S.1**  
**Incomes of Low-Wage Los Angeles Families Relative to**  
**Living Wage Income Thresholds (1999 dollars)**



Source: See Tables 8.3 and 8.7.

**Figure S.2**  
**Incomes of Families of Low-Wage Workers in Santa Monica**  
**Relative to Living Wage Income Thresholds (1999 dollars)**

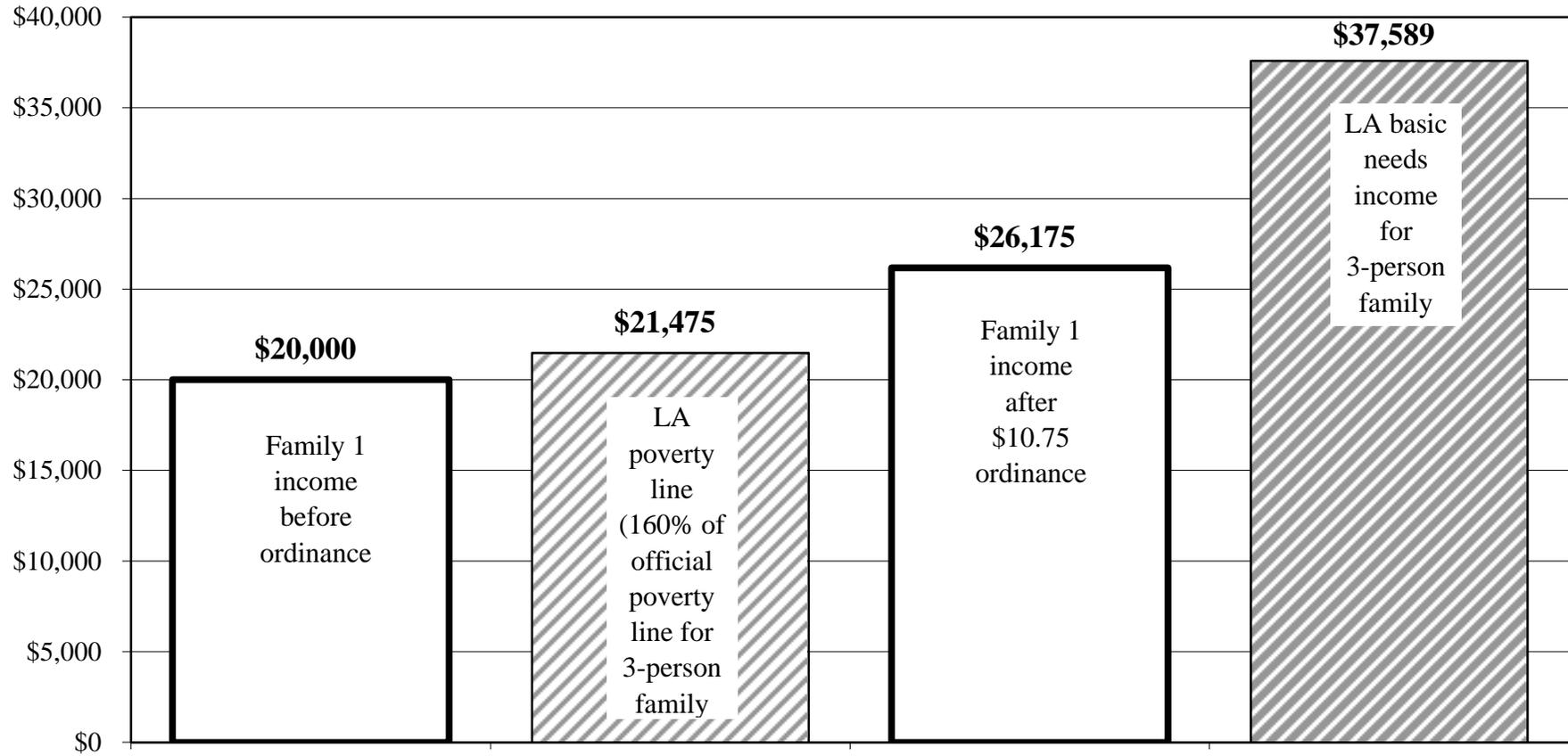


Source: See Tables 8.3 and 8.14.

**Table S.1**  
**Prototypical Low-wage Families Drawn from**  
**Los Angeles and Santa Monica Worker Surveys**

<b>Family Income</b>	<b>Family 1</b>	<b>Family 2</b>
Wages of surveyed worker	\$7.50	\$8.00
Annual hours of work	1900	1900
Worker's yearly earnings	\$14,250	\$15,200
Total family earnings	\$20,000	\$26,000
Worker's share of family earnings	71%	58%
Family members	2 adults, 1 child	2 adults, 2 children
<b>Surveyed Worker's Benefits</b>		
Health Coverage	No	Yes
Paid Days Off	8	8

**Figure S.3**  
**Family 1: Change in Living Standard Under \$10.75 Ordinance**  
*(Family income and threshold levels are prior to taxes and subsidies.)*  
**Figures are in 1999 dollars.**



Sources: See Tables 8.3 and 8.16.

Figure S.4 shows changes for Family 2. These are not quite as large as those for Family 1. Still, the family moves from living slightly below to 17 percent above the LA poverty line for a four-person family. Again, though, the family remains more than 30 percent below the four-person basic needs threshold of \$45,683.

### **3. What will be the other labor market effects of the ordinance?**

We consider labor market effects of the ordinance within the broader context of overall business adjustment strategies. The business adjustment processes that are most commonly assumed to occur are that firms lay off workers or they relocate to avoid being covered by the law. But firms are only likely to lay off workers or relocate if they cannot absorb their additional costs through three other means: 1) raising prices; 2) raising productivity; or 3) reducing profit margins. Because the prospects for businesses to absorb costs through these three alternative measures in general seem reasonably good, it follows that it is not likely that the ordinance would induce significant layoffs. This conclusion is consistent with the overall finding from our survey of businesses, shown in Table S-2. Considering all respondents, only between 25 – 29 percent said they were *very likely* to make any changes in their hiring practices, while between 57 – 60 percent were *very unlikely* to do so. At the same time, of hotels in our survey, nearly half responded that they were very likely to lay off workers, 71 percent said they would hire fewer workers in the future and 100 percent said they would change their hiring practices.

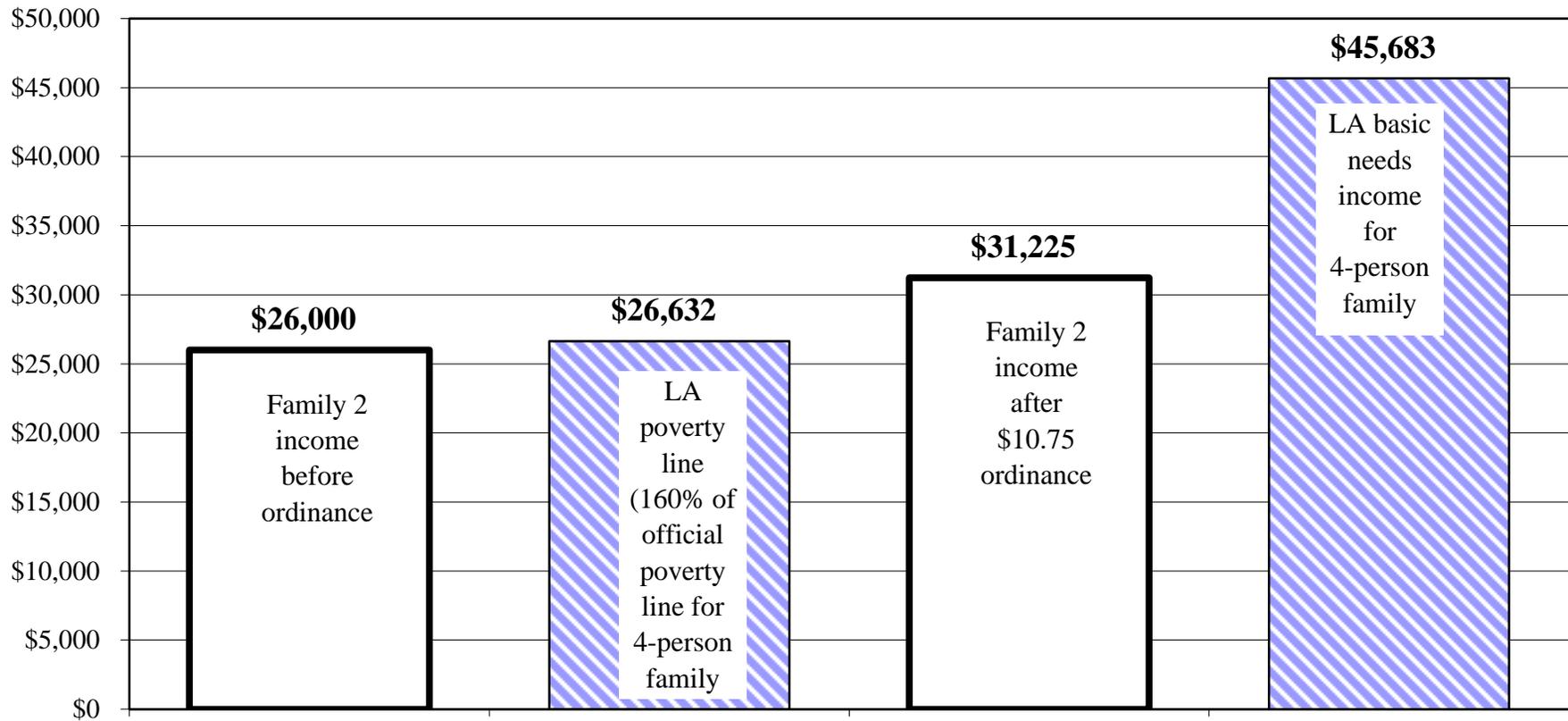
We draw upon the survey results to develop a rough order of magnitude set of pessimistic estimates as to how large layoffs might be if the proportion of firms that responded they were likely or somewhat likely to lay off workers actually did so. Assuming layoffs were to occur, we estimate, based on our pessimistic assumptions, that their extent could range between 30 and 186 workers, i.e. between 1.2 – 7.5 percent of the 2477 covered workers.

What is likely to be more serious concern than layoffs is that firms would change their hiring practices. With significantly higher wages and benefits, better-credentialed workers are likely to apply for job openings in the covered Coastal Zone sector. To gauge the extent of this, we examined the educational and English language credentials, as well as other personal characteristics, of workers in job types similar to those that would be covered in the Coastal Zone. In particular, we examined changes in these credentials as workers move from lower to higher wage rates. We find that the educational and English language credentials of workers do rise within a given job category as wages rise, but these changes are not dramatic for the most part. Overall, we would expect that over time, the proportion of high school graduates or those with some college would rise by between 10 and 20 percent as a share of total covered workers, as those without degrees declining in proportion by a corresponding amount.

### **4. What are likely employer responses to the ordinance?**

Employer responses will vary widely depending on the extent of the cost increases they would face and their ability to absorb these costs along through raising prices, reducing profit margins by a modest amount or increasing productivity. Fifty-five of the 72 covered firms will average cost increases of around 2 percent of their gross revenues. They should not face significant difficulties absorbing these increases through some combination of price, profit margin or productivity adjustments. We therefore focus our attention on the 11 hotels and 6 restaurants that would face cost increases more in the range of 10 percent through a \$10.75 ordinance. The situations in the two industries are quite distinct in the Coastal Zone, especially concerning the prospects for raising prices or modestly reducing profit margins.

**Figure S.4**  
**Family 2: Change in Living Standard Under \$10.75 Ordinance**  
*(Family income and threshold levels are prior to taxes and subsidies.)*  
*Figures are in 1999 dollars.*



Sources: See Tables 8.3 and 8.17.

**Table S.2**  
**Survey Responses by Businesses on How \$10.75 Ordinance**  
**Might Affect Employment Practices (in percentages)**

	<b>Layoff Current Workers?</b>			<b>Hire Fewer Workers in the Future?</b>			<b>Change Hiring Standards?</b>		
	<i>All Firms</i>	<i>Hotels</i>	<i>Restaurants</i>	<i>All Firms</i>	<i>Hotels</i>	<i>Restaurants</i>	<i>All Firms</i>	<i>Hotels</i>	<i>Restaurants</i>
<b>Very likely</b>	25.3	47.6	40.5	28.7	71.3	40.5	29.1	100	24.8
<b>Somewhat likely</b>	5.4	14.4	8.8	7.0	14.3	13.2	1.4	0	0
<b>Not sure</b>	3.9	38.1	2.1	3.4	0	4.4	4.9	0	11.7
<b>Somewhat unlikely</b>	7.0	0	4.4	3.4	0	2.1	5.0	0	4.4
<b>Very unlikely</b>	58.4	0	44.2	57.1	14.3	39.8	60.0	0	59.6

Source: PERI Santa Monica Business Survey (2000).

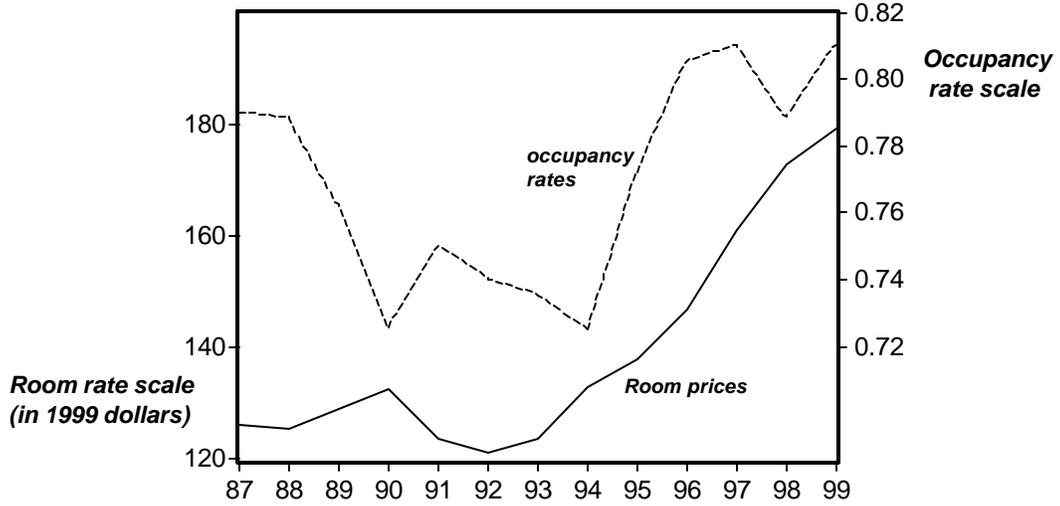
Hotels. As Figure S.5 shows, Santa Monica hotels have been raising prices steadily over the past decade, and occupancy rates have remained high. These figures show conditions for the average hotel in Santa Monica. The performance has been even more robust for the high-end Coastal Zone hotels. The evidence is strong that price increases for Coastal Zone hotels do not lead to falling occupancy rates. Short of a recession, it therefore follows that the hotels would likely be able to raise their prices by something close to the full amount of their cost increases—i.e. by roughly 10 percent—without losing customers. It also follows that, with prices and occupancy rates rising together, hotels would experience strongly growing revenues over recent years. We see the extent of gross revenue increases for nine covered firms in Figure S.6 between 1993-99. After controlling for inflation, the figure shows that gross revenues for these hotels have more than doubled over this six-year period. These figures suggest that the hotels could fairly readily absorb a relatively modest decline in their profit margins. Moreover, as we discuss in the study, such a profit margin decline would occur on a one-time basis only as long as gross revenues continued to rise.

How Hotels Receive “Rents.” It is important to recognize that hotel price increases and high occupancy rates also do not lead to increases in the supply of hotel rooms, as one would normally expect in a free-market environment. As we see in Figure S-7, the supply of rooms has remained basically constant since 1995, even as prices rose sharply and occupancy rates remained high. This occurs because City of Santa Monica policy prohibits further hotel expansion in the Coastal Zone, which thereby limits the competitive market pressures on the existing establishments. The City’s restrictive growth policies have enabled the hotels to generate what economists term “rents”—i.e. revenues resulting precisely from restrictions on supply. As another rough order of magnitude estimate, we find that these extra revenues, or rents, for the 11 covered hotels average to about \$1 million per year, an amount broadly equivalent to the increases in total costs they would incur through a \$10.75 ordinance.

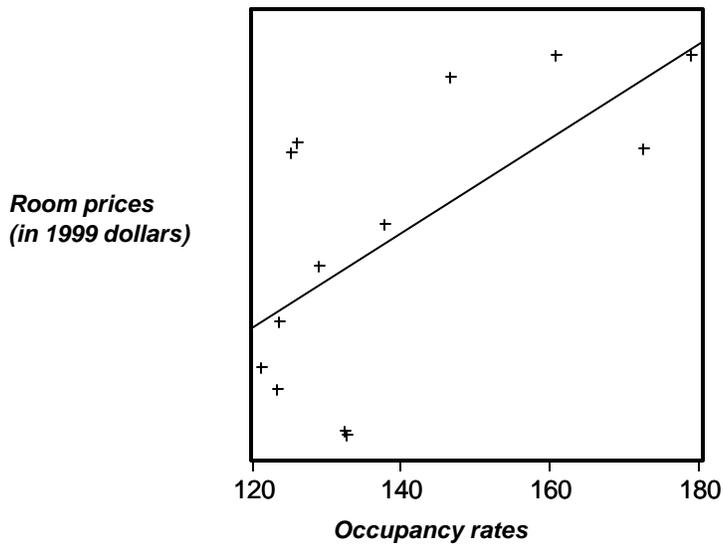
Restaurants. The six covered restaurants operate more at the high-end of the Santa Monica market. Customers within this segment of the market tend to be relatively price insensitive within a reasonable range of values. That is why, as we see in Table S.3, the growth performance for high-end restaurants is basically equivalent to that of mid-range and lower-cost establishments. It is plausible that the coastal zone restaurants could raise their average meal price, including tip, from, say \$30 to \$33 dollars without reducing their customer base. However, the restaurants do also face far more extensive competition in Santa Monica than the hotels. Moreover, as we see in Figure S.8, their gross revenues have grown only modestly since 1993. This suggests much less flexibility for the restaurants in trying to absorb cost increases of approximately 10 percent through raising prices and reducing profit margins.

**Figure S.5. Occupancy and Room Prices  
for Santa Monica Hotels, 1987-99**  
(room prices are in constant 1999 dollars)

**A) Movement over time in room and occupancy rates**



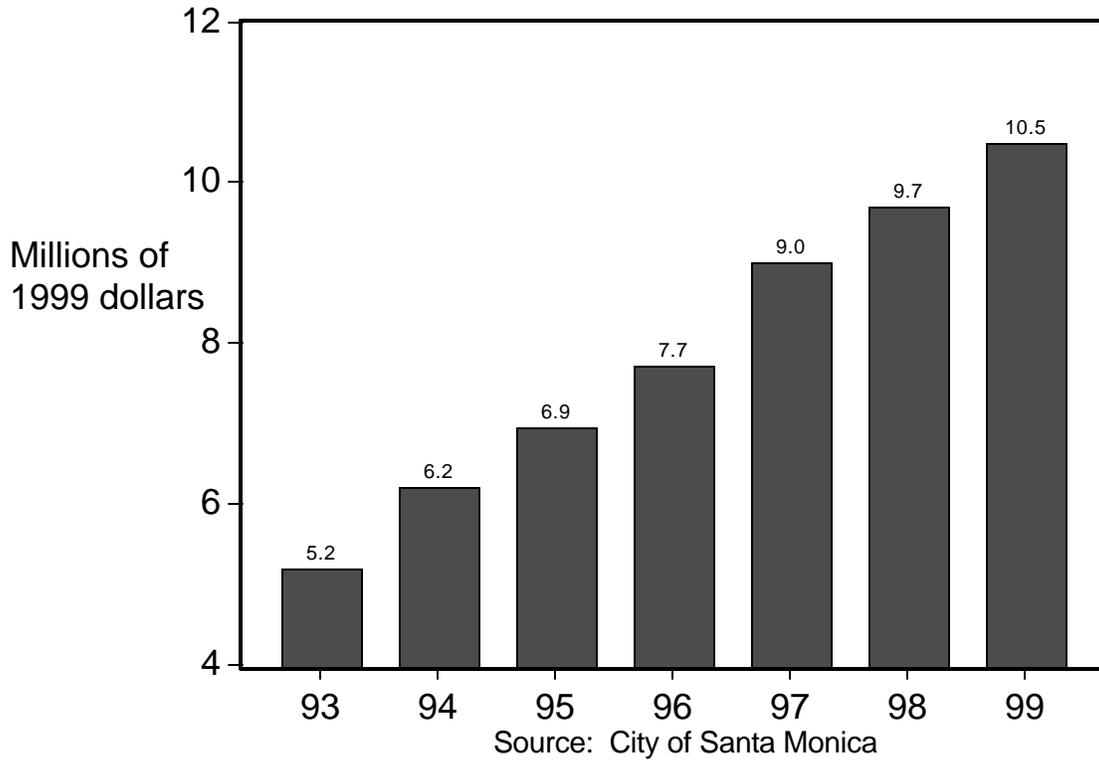
**B) Correspondence pattern for room prices and occupancy rates**



Source: PFK Consulting

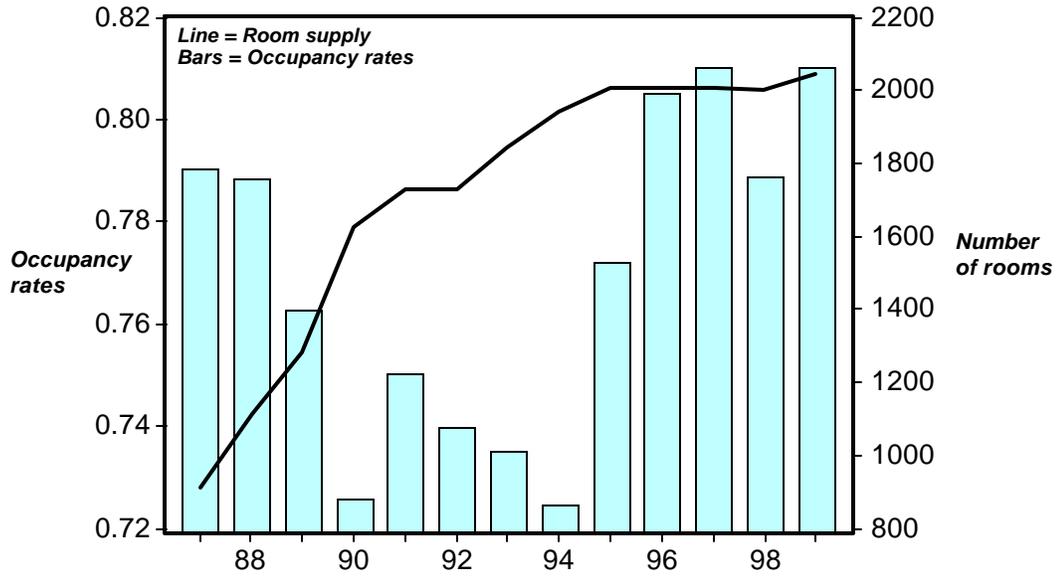
**Figure S.6. Average Real Gross Revenue for Nine Covered Coastal Zone Hotels, 1993-99**

(figures are in constant 1999 dollars)

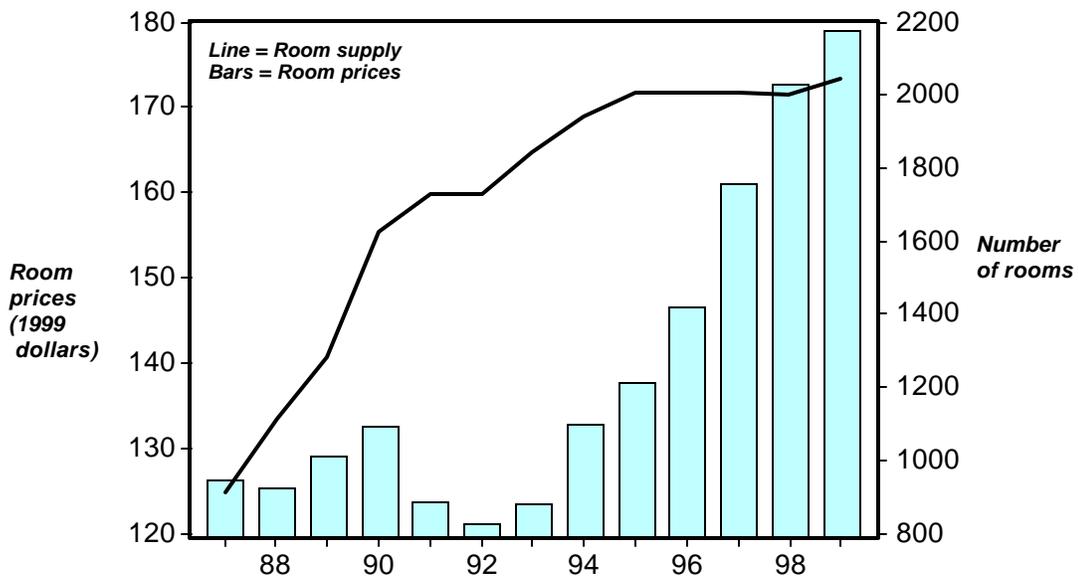


**Figure S.7. Room Supply, Occupancy Rates and Prices for Santa Monica Hotels, 1987 - 99**

**A) Room supply and occupancy rates**

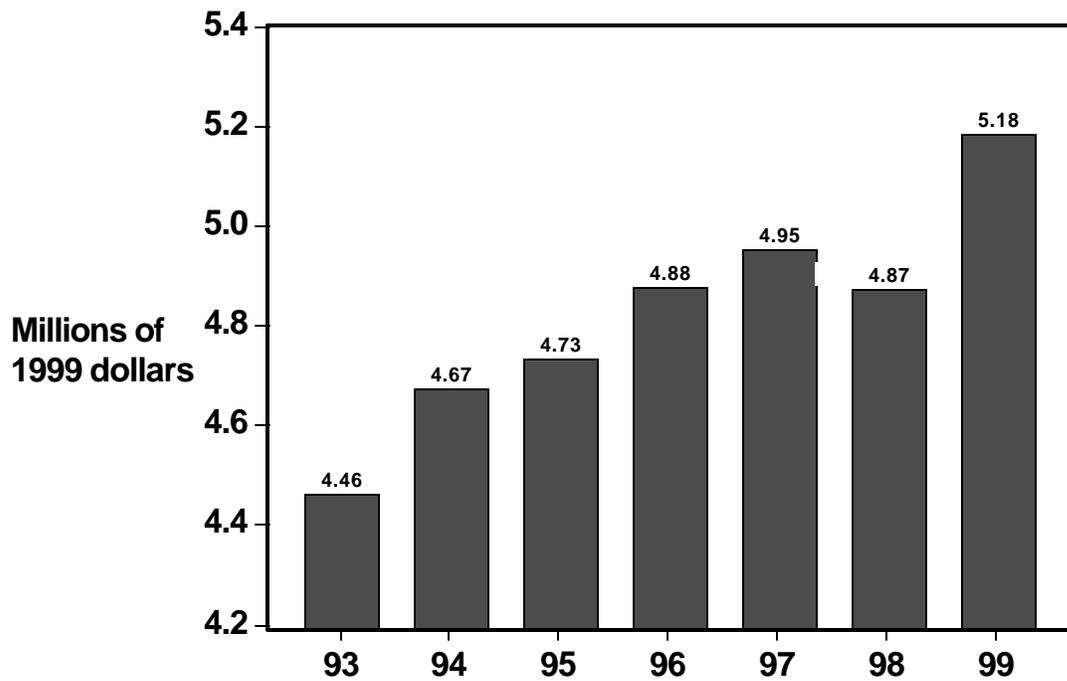


**B. Room Supply and Average Prices (room prices are in constant 1999 dollars)**



Source: PFK Consulting

**Figure S.8. Average Real Gross Revenue for Four Covered Coastal Zone Restaurants, 1993-99**  
(figures are in constant 1999 dollars)



Source: City of Santa Monica

**Table S.3**  
**Relationship Between Prices and Market Performance**  
**for Santa Monica Restaurants**

<b>Market Segment:</b> <b>Average total bill plus tip per customer</b>	<b>Market Performance:</b> <b>Have sales been growing over past 5 years?</b> <b>1 = growing; 3 = declining</b>
\$12 or less	1.6
\$20 - \$25	1.8
\$30 - \$47	1.8

Source: PERI Santa Monica Business Survey (2000)

Productivity. Both the hotels and restaurants operate with very high rates of employee turnover. Table S.4 shows midpoint figures for turnover and worker replacement costs both from our Santa Monica survey as well as our informal results from La Jolla. These midpoint figures are somewhat misleading, since there was a very wide dispersion in the responses. Nevertheless, the figures indicate that, at least for some firms, significant reductions in turnover are likely, resulting from employees attaching themselves more strongly to their Coastal Zone job after the living wage increase. Such reductions in turnover might also be matched by similar declines in absenteeism and supervisory costs, and equivalent increases in work effort. In most cases, these gains would not likely approximate the labor cost increases firms face with a high mandated minimum wage. For at least some firms, increases in productivity resulting from living wage raises could absorb as much as 20-25 percent of the total cost increase experienced by covered hotels and restaurants.

Relocations. The 11 covered hotels will almost certainly be able to absorb their increased their costs through some combination of price increases, modest one-time reductions in profit margins or productivity increases. Moreover, as we discuss in the main text, these firms enjoy protection from competition due to the City's restrictive growth policies. There would be little incentive for them to consider relocation. The situation is more ambiguous for the restaurants. They may well contemplate relocation if they are unsuccessful at sustaining adequate price increases or achieving substantial gains in productivity.

#### **5. What are the methods and costs of enforcement?**

Three areas of City policy would need to be addressed: the collection, verification and analysis of relevant data on firms' gross receipts; the dissemination of information on the ordinance at the work sites of the covered firms; and procedures both for monitoring compliance and enforcing the law. We offer some suggestions in the main text as to how such efforts might be effectively administered. Overall, we estimate that the City would require between two to three additional staff positions to administer an effective monitoring and enforcement program.

#### **6. What will be the effect on government subsidies and services?**

We have not attempted to estimate this directly. However, one outstanding fact that has emerged from our worker survey is likely to shed light on this question. It is that, for the most part, workers employed in Santa Monica do not themselves live there. Rather, as we report in the text, the average respondent to our survey spends 87 minutes per day in commuting. Those figures are even higher for workers within both the \$5.75 - \$7.40 and \$7.41 - \$9.10 wage categories. As such, to the extent that these workers draw upon local social service providers, they are more likely utilizing those that are close to their home more so than their workplace.

#### **7. What is the likely impact on City revenues?**

A primary channel through which City revenues are likely to be affected would be through price increases on the part of covered hotels and other firms, which would then generate corresponding increases in transient occupancy taxes. It is unlikely that hotels, for example, would raise prices more than they have done over the past decade. Thus, the rate of increase in transient occupancy taxes resulting from hotel price increases are likely to follow patterns similar to those that have occurred in the recent past. On the other hand, City expenditures should also rise, if modestly, through increasing its staff to administer the ordinance.

**Table S.4**  
**Midpoint Turnover Cost Estimates for Santa Monica and La Jolla Firms**

	<u>Midpoint Annual Turnover Increase</u>	<u>Worker Replacement Costs</u>	<u>Annual Turnover Cost Estimate for 50-employee Firm</u>
<b>All Firms</b>			
Santa Monica	57%	\$2,090	\$59,600
La Jolla	35%	\$1,000	\$17,500
<b>Hotels</b>			
Santa Monica	44%	\$531	\$11,700
La Jolla	44%	\$1,467	\$32,300
<b>Restaurants</b>			
Santa Monica	50%	\$736	\$18,400
La Jolla	41%	\$614	\$12,600

Source: PERI Santa Monica Business Survey and La Jolla interviews.

### **8. Is the living wage proposal compatible with other adopted City policies and plans?**

The living wage proposal is certainly consistent with the longstanding commitment of the City to provide benefits and services to lower-income families. Beyond this, the ordinance is not likely to have significant impact on the City's Land Use or similar program. Rather, the benefits of the proposal are likely to be concentrated among the workers employed in the Coastal Zone and their families, and the costs concentrated among the six covered restaurants and especially the 11 covered hotels. Beyond these two groups, the process of adjusting to the ordinance is likely to entail only moderate changes from ongoing business and governmental practices.

### **9. What is the evidence on direct City intervention on setting private sector wages?**

The ordinance is not likely to produce major changes in private sector investment patterns in the City nor, consequently, in government policies that promote and monitor such investments. It is almost certainly the case that restaurants operating near a given threshold—whether it is a \$3 million sales threshold or some other option—would choose to locate outside the Zone rather than face the increased living wage costs. But such locational disincentives will not be relevant for smaller restaurants, which represent, by far, the greater proportion of Santa Monica establishments now operating both within and outside the Zone. In the case of hotels, the fact that they face increased labor costs will not likely affect investment patterns. For one thing, investment by hotel developers is already heavily restricted within the Zone. These restrictions, in turn, have only enhanced the desirability of the existing properties within the Zone.

### **10. What alternative approaches might better meet the objectives of the proposed ordinance and/or mitigate effects on the local economy?**

Evidently the objective of this policy measure would be to raise living standards for low-wage workers employed in the Coastal Zone and their families. Two alternative approaches toward achieving that same end would be promote take-up rates for the Earned Income Tax Credit and a contractors only living wage ordinance.

There is certainly merit in ensuring that workers receive the EITC benefits to which they are entitled. However, in comparison with the gains such families could receive through a \$10.75 living wage ordinance, the benefits available through promoting the EITC are likely to be modest. To begin with, though the evidence is not uniform, it is likely the case that most families eligible for the EITC are already receiving it. Beyond this, even if families are not receiving their EITC entitlement, the amounts that they are forfeiting are, in most cases, small in comparison with the income gains they would receive through a living wage raise. We can see this through Table S.5. Considering again our prototypical Families 1 and 2, the table shows the benefits available to both families purely on the basis of an EITC entitlement as against a living wage increase. As we see, at most, Family 1 would receive a 6.3 percent income increase through the EITC. It would receive a 26.8 percent increase through a \$10.75 living wage ordinance, and a 16.5 percent gain through a \$9.50 ordinance. The relative differences are comparable with Family 2.

A generic contractors only ordinance would also provide assistance to some low-wage families in the Santa Monica area. But as we see in Figure S.8, the magnitudes of these gains are far smaller than would occur through a \$10.75 Coastal Zone ordinance. In its broadest possible interpretation, the contractors only proposal would extend raises to 821 workers. This is less than a third of the coverage that would result through the \$10.75 ordinance; the wage increases would of course also be far more substantial. But it is also possible that a contractors

**Table S.5**  
**Family Income Gains Through**  
**Receiving EITC Benefits vs. Living Wage Increases**

	<i>Family 1:</i> <b>\$7.50 initial wage for covered worker</b>	<i>Family 2:</i> <b>\$8.00 initial wage for covered worker</b>
<b>EITC benefits at initial wage</b>	+ \$1,103 6.3%	+ \$959 4.2%
<b>\$8.25 wage with no EITC</b>	+ \$1,095 6.2%	+ \$ 386 1.6%
<b>\$9.50 wage with no EITC</b>	+ \$2,909 16.5%	+ \$2,182 9.6%
<b>\$10.75 wage with no EITC</b>	+ \$4,730 26.8%	+ \$4,003 17.7%

Source: See Tables 8.16 and 8.17.

only ordinance could provide increases for as low as 62 workers. The Coastal Zone ordinance would provide coverage for roughly 2,500 workers.

In proposing a specific design for the ordinance, we have already built into the proposal two features that will go far toward mitigating negative effects on the local economy. The first is to operate the ordinance through a sales rather than an employment threshold. Under a sales threshold, there will not be an incentive for firms to either lay off workers to avoid coverage, or to force speed-up on their existing workers to avoid making new hires.

Incorporating an exemption for workers earning at least 50 percent of their income from tips dramatically reduces the costs of the ordinance for covered restaurants. This proposal is in keeping with the overall spirit of the ordinance, in that the aim of the ordinance is to increase *take-home pay and living standards* of low-wage workers, not wage rates per se. If tipped workers are already earning in excess of \$10.75 an hour through their tipped income, providing them with living wage coverage would benefit them to a far greater extent than any other category of workers. Even with the exemption for tipped workers, the six covered restaurants will still face cost increases in the range of 10 percent of gross receipts as a result of a \$10.75 ordinance. But it is possible for them to cover cost increases of this magnitude through some combination of price and productivity increases and small profit margin declines. It would not be possible for them to absorb cost increases that would result from an ordinance that excludes this provision.

Beyond these already substantial cost mitigating measures, two additional policies also deserve attention. To our knowledge, the City and its voters maintain a strong commitment to restrictive growth policies. Were the City to implement a living wage ordinance, that would create an additional justification for the continuance of restrictive growth policies as well. As we have seen, the 11 covered hotels would face large relative cost increases through a Coastal Zone ordinance. But the hotels do also benefit substantially through operating in a heavily restricted market, generating rents at roughly the same level as the cost increases they would face through a \$10.75 ordinance.

Finally, the City could mitigate the extent of worker displacement through coordinating the efforts of local employment referral services to channel Coastal Zone job opportunities to disadvantaged workers. It is not likely that the extent of worker displacement will be large in any case. But, building on its successful ongoing relationships with the referral services, the City could initiate a hiring hall program to reduce this effect still further through a modest investment of resources.

## **CHAPTER 2. INTRODUCTION**

This report provides an overall assessment of the proposal to establish a “living wage” ordinance that would cover large businesses in the Coastal Zone in Santa Monica. The City Council of Santa Monica voted on September 7, 1999 to consider this idea. The decision by the Council to consider this issue is certainly in keeping with a broad trend occurring throughout the country. Since 1994, living wage ordinances of various types have become law in 51 cities in the United States.

At the same time, the proposal on which the Council has focused its attention has substantially different features than those that have become law throughout the country. The most basic difference concerns coverage. With all the living wage laws passed by municipalities over the past six years, coverage applies only to businesses holding some sort of contractual agreement with that municipality, either as service contractors, concessionaires, or direct subsidy recipients. The Santa Monica proposal, by contrast, would cover all large businesses located within the Coastal Zone, regardless of whether they are under contract with the City.

In what follows, we estimate the number of businesses and workers that would be covered by such a Coastal Zone living wage proposal. With covered businesses, we also consider the costs that they would face through such a proposal, and the ways that they would likely respond to such increased costs. With covered workers, we examine the size of their wage and benefit increases and how much those increases would mean for the overall living standard of themselves and their families. We also consider the possibility that the workers now employed in what would become covered Coastal Zone jobs could lose their positions. This could occur either if firms cut back on the number of workers they employ, or if they replaced their existing workforce with employees having better credentials. Because covered sector jobs will pay substantially higher than comparable positions that are uncovered by the ordinance, openings for covered sector jobs will likely attract workers with somewhat better credentials, on average, than those of the existing labor pool.

We also consider the relationship between a possible Coastal Zone ordinance and other policies of the city government of Santa Monica. The City has been very active in shaping the Coastal Zone into the thriving yet still open and accessible area it is today. The City has done so through its capital investments, operating expenditures, as well as its zoning and restricted growth policies. We try to put these policies in perspective as they relate to an assessment of a Coastal Zone living wage ordinance.

Though our focus is on the Coastal Zone measure stressed in the City's Request for Proposals, we also project our analysis more broadly to consider the likely impact of a Citywide living wage ordinance. We also assess the impact of a "contractors only" type living wage ordinance, comparable to those that have become law throughout the country.

Several developments throughout the country have fostered the emergence of the current living wage movement. But one simple factor has been most important. That is the very low level to which the national minimum wage has steadily fallen over the past two decades. At its current rate of \$5.15 an hour, the national minimum wage is 32 percent below the peak of \$7.61 (in 1999 dollars) it attained in 1968. This has occurred despite the fact that the U.S. economy is about 52 percent more productive than it was in 1968. If the U.S. minimum wage had increased since 1968 at a rate only equal to the economy's overall productivity growth rate, its level today would be \$11.57. This decline in the inflation-adjusted value of the minimum wage is part of a broader national trend in which, for a generation now, wages for most non-supervisory workers have generally stagnated or declined.

The State of California operates under a \$5.75 minimum wage, 12 percent above the national figure. But even this amount is 24 percent below the \$7.61 national peak rate for 1968. More to the point, someone who works full-time earning the California minimum of \$5.75 would earn \$11,960 per year, an income level that is almost exactly equal to the 1999 national poverty threshold of \$11,415 for a family of two. It is true that the family would be eligible to receive an earned income tax credit, and probably also food stamps and Medi-Cal. But the need for such

programs to support a family that includes a full-time worker only underscores the problems associated with a declining minimum wage.

The sharp downward trend for the minimum wage is an undeniable fact. But it does not necessarily follow that the best policies for improving living standards for low-wage workers and their families would be to simply reverse that trend, raising the minimum wage perhaps to a level that the City Council is considering for the Coastal Zone. Indeed, some opponents of living wage proposals contend that such measures would actually harm the very low-wage workers and their families that they intend to help. From the critics' perspective, measures such as that being considered for Santa Monica would cause firms to lay off workers, hire fewer workers in the future, and replace their existing staff with more qualified employees. It could also cause covered businesses to relocate out of the Zone and deter new firms from moving in, thereby again causing a contraction in the local labor market.

We have attempted to address these and similarly crucial questions in this study. Our results are based on a wide range of research, drawing upon a variety of existing sources as well as new data we have developed ourselves in the course of this work. In particular, our work is built around the following major data sources:

- 1 Survey data on Santa Monica businesses. Between March – June 2000, we conducted a survey that included 150 Santa Monica businesses. We then weighted these 150 responses utilizing standard statistical techniques. In Appendix 2, we present a copy of our questionnaire and describe our methods.

We also conducted two additional business surveys. The first was a parallel survey in La Jolla, California, utilizing basically the same questionnaire as we had distributed in Santa Monica. Our aim with the La Jolla survey was not to establish a separate representative data pool, but rather to provide an informal check on the reliability of our results from Santa Monica. We also surveyed all firms holding service contracts with the City of Santa Monica. This enabled us to provide an informed judgment as to the effects of a contractors only ordinance. This survey

utilized a less extensive questionnaire than those we used in Santa Monica survey and La Jolla. With these firms, we were more narrowly focused on employment coverage and the costs for firms and the City of such a measure.

2. Survey data on Santa Monica workers. Between March – June 2000, we conducted a survey of 202 low-wage workers employed by large Coastal Zone businesses. Unlike our survey of businesses, this was not a representative sample of all area employees. For various reasons, we focused our attention on the group of workers that are most likely to be covered by the type of ordinance being considered by the City Council. We present our questionnaire and a discussion of our methodology in Appendix 10.

In addition to our own survey, we have drawn extensively on the Current Population Survey (CPS) conducted for Los Angeles metro area. This survey is the primary source of information on the labor force characteristics of the U.S. population. The CPS actually administers two separate surveys, which they term the "Basic Monthly Survey," and "Annual Demographic Survey." For reasons that we discuss in Appendix 9, we have relied primarily on the Annual Demographic Survey. But we have also used the information from the Basic Monthly Survey—and the additional labor market data asked of a subset of individuals, the Outgoing Rotation Group—as a check on the reliability of our main results. Effectively then, we have constructed a profile of Santa Monica employees from three separate data sets—our own survey of Coastal Zone workers and the two separate CPS data sets.

3. City of Santa Monica data. The City of Santa Monica provided us with three important data sets. The first is their confidential records on business licenses and sales taxes for Santa Monica firms. We have drawn extensively on these records in conducting our business survey and in our profile of covered Coastal Zone firms. As mentioned above, the City also supplied us with a full list of its service contractors. We utilized this list to develop estimates of the generic contractors only living wage proposal as it would apply to these City contractors.

Finally, we have worked closely with City officials in constructing figures on City expenditures in the Coastal Zone since 1985.

4. Private Business Research Organizations. We obtained valuable information from two research organizations which collect data from individual businesses operating in Santa Monica. These are PKF Consulting in Los Angeles and Smith Travel Research in Hendersonville, Tennessee. The data sets from these firms were particularly helpful in our analysis of hotels in the Coastal Zone.

Beyond these basic data sets, we have gathered material from a variety of additional sources. We document all of our sources and methods in detail, particularly in the nine appendices that follow the main text.

### **Design of Ordinance**

The main body of the study proceeds as follows:

Following our overview and responses to questions posed in the RFP in Chapter 1 and this introductory Chapter 2, we consider, in Chapter 3, the specifics of how to design an ordinance. The City's Request for Proposals provides broad guidelines as to the type of ordinance they would wish to consider. But to develop quantitative estimates of such a proposal, we naturally found it necessary to establish more specific stipulations. The main features of the ordinance whose impact we have estimated are as follows:

1. Following the City's guidelines, we concentrate our analysis on an ordinance that would cover only large Coastal Zone firms.
2. We construct two sets of estimates of such a proposal, based, respectively, on a \$10.75 and \$9.50 minimum wage.
3. We include both \$1.25 for health benefits and 15 paid days off as features of the proposals at both the \$10.75 and \$9.50 wage rates.
4. We assume that all workers who receive at least 50 percent of their annual income from tips would be exempt from the ordinance.

5. We assume that the ordinance would apply to all workers whose major place of employment are the premises of the covered firms. This feature provides that employees who are physically on site at covered Coastal Zone firms would be covered by the ordinance, regardless of whether they are employed by the covered firm itself or a subcontractor of that firm.

6. We assume a coverage threshold based on firm sales or gross receipts as opposed to employment. We assumed a sales threshold at \$3 million.

Our discussion in Chapter 3 explores our reasoning behind each of these assumptions. For the most part, the issues are straightforward and merit only brief discussions. But we do explore at some length the reasons as to why we think that sales are more workable than employment as a basis for establishing a coverage threshold.

### **Scope of Coverage**

In Chapter 4, we present our estimates as to the number of firms and employees covered under the proposal we have stipulated, as well as the average wage increase per worker, the average cost increase per firm, and the size of the average covered firm's cost increase relative to their gross receipts. Based on a \$3 million sales threshold, we find that a total of 72 firms would be covered by the ordinance. Assuming a \$10.75 minimum wage rate, we estimate that 2477 workers would receive mandated increases. The average raise for these workers would be \$3.17, which, assuming their present average workweek of 35.3 hours remains fixed, converts into a yearly wage increase of \$5,819. The total wage increase for the average firm is then \$200,000. After we calculated the mandated cost increase, we then consider "ripple effects" that occur when some significant group of workers—but not all workers—in a covered firm get the mandated raise. We estimated ripple effect increases both in terms of wages and paid days off. We then total all mandated costs as well as "ripple effect" increases for covered firms. We find that the average increase relative to gross receipts for the 72 covered firms would be 3.9 percent.

However, we also find that these average figures do not present an accurate picture as to how these overall costs would be distributed among the 72 covered firms. In fact, 11 covered

hotels in the Coastal Zone would bear the heaviest share of the total cost increases.

Approximately half of all covered workers are employed by these 11 hotels, and, on average, these hotels would each face cost increases of roughly \$1 million per year. The average cost per firm relative to their gross receipts would be 10.4 percent.

The other heavily affected sector is restaurants. But we find that only six Coastal Zone restaurants have more than \$3 million in gross receipts. Moreover, once we assume exemptions for all servers and bartenders and half of all bussers on the basis of their annual tipped income, we found that a total of only 214 workers would be still covered. Nevertheless, the cost increases for these six restaurants relative to their gross receipts, at 9.6 percent, is roughly the same as for the hotels.

Following these estimates based on a \$10.75 minimum wage, we proceed with an identical set of calculations assuming a \$9.50 minimum wage. Because we are still operating with a \$3 million sales threshold, the ordinance would still cover the same 72 firms. But the number of workers covered and the cost increases would both fall at the lower wage rate. We find that about 2,100 workers would receive mandated raises based on a \$9.50 minimum wage. Adding up all mandated costs and ripple effect increases, we then calculate that the average cost increase per firm would amount to 2.9 percent of gross receipts. Again, the 11 covered hotels and six covered restaurants would be most heavily affected—with the hotels experiencing a cost increase relative to gross receipts of 7.1 percent while the restaurants' increase would be 7.5 percent.

### **Business Responses to Cost Increases**

Having established the extent of coverage and the cost increases associated with both a \$10.75 and \$9.50 minimum, we proceed in Chapter 5 to consider how firms might respond to these changed conditions in the Coastal Zone. It is apparent that the extent of these adjustments will depend on the magnitude of the cost increases for the covered firms relative to their scale of operations.

In other words, the issues of adjustment are especially pertinent for the high-impact sectors of the Coastal Zone: the 11 covered hotels and 6 covered restaurants. Adjustment issues will be less pressing, though still of concern, for low-impact sectors, which includes the retail stores and all other covered firms. These firms face cost increases on the order of two percent of their gross revenues.

Two types of adjustments processes are most frequently the focus of discussions in considering the impact of raising minimum wages at the national, statewide or municipal levels. The first is *unemployment*, or more specifically, that businesses will lay off workers and become more reluctant to hire new employees, thus creating job losses among low-wage workers. The second is *business relocation*, that is, firms move out of the covered area to avoid paying the higher minimum wage, and firms considering locating within the covered area will be discouraged from doing so. This again would create fewer job opportunities for low-wage workers in the covered area. Since the purpose of raising the minimum wage is to improve living standards for low-wage workers and their families, an increase in employment losses and business relocations out of the area would obviously be unintended and undesirable consequences of passing such a measure into law.

However, laying off workers or relocating are not the only ways that the covered businesses in the Coastal Zone might adjust to a minimum wage increase. In fact, there are three other ways that firms might respond. They are that 1) businesses would raise prices; 2) low-wage employees would receive a relatively greater share of their firms' total wage, salary, and profit income; and 3) firms would operate more productively. At least initially, these three other adjustment paths are likely to be the primary channels through which the covered firms adjust to the ordinance, since they can be accomplished more readily and at lower costs than either laying off workers or relocating. Thus, in Chapter 5, we first assess how significant these adjustment processes are likely to be in absorbing the living wage cost increases, especially as regards the covered hotels and restaurants. In that context, we then evaluate the likelihood that the ordinance

would generate layoffs, displacements of existing covered workers, or relocations. We draw on a variety of data sources in assessing these possibilities. This includes responses by firms themselves to a series of questions that we posed in our surveys as to how they were likely to react to cost increase generated by a living wage ordinance.

As for price increases, we find that Santa Monica hotels have been raising room rates by an average of 10.5 percent per year since 1995, 8.2 percent above the national inflation rate. At the same time, occupancy rates at the hotels have been either holding steady or rising over these years, at around 80 percent. The situation for high-end Coastal Zone hotels has been even more favorable. These patterns suggest that the hotels could raise prices to cover at least some, if not all, of their additional living wage costs. Moreover, all of the hotels that we surveyed, both in Santa Monica and La Jolla, responded that they were very likely to raise prices in response to a living wage cost increase.

The hotels' gross receipts have also been rising rapidly as a result of their success in maintaining high occupancy rates even as they raise prices. Thus, for those covered firms that have been in operation since 1993, we observe that their gross receipts have more than doubled, after controlling for inflation. At least in part, the hotels are able to raise prices while continuing to maintain high occupancy rates—and thus generate buoyant revenue growth—because the City of Santa Monica has restricted the supply of available hotel rooms in the Coastal Zone as a matter of public policy. The City's restrictive growth policies have enabled the hotels to generate what economists term "rents"—i.e. revenues resulting precisely from restrictions on supply.

Overall then, it appears that the hotels might be capable of absorbing at least part of their increased living wage costs through a small decline in their profit margins. We also show that, if the hotels' gross revenues were to continue growing over time, the cut in their profit margins due to the living wage ordinance would occur on a one-time basis only.

Conditions for the six covered restaurants are more ambiguous. These restaurants face more direct competitors than the hotels, both within the Coastal Zone and throughout the area.

This means that they may not be as capable of raising prices without reducing their customer base. On the other hand, the meal prices charged by the covered restaurants range from the middle to the high end of the local market. Within this segment of the market, customers choose restaurants more on the basis of product quality and service than price alone. So it is possible that these restaurants could raise their prices on the order of 5 – 10 percent—that is, for example from \$30 to \$33 per person, including tip—without losing business. At the same time, the restaurants have not experienced gains in gross revenues in recent years comparable to those at the hotels. It therefore appears unlikely that the restaurants would be able to operate at profit margins significantly below those that they presently receive.

In considering the prospects for productivity improvements, we note recent research showing that paying workers above-market wages for a given job can improve firm performance through several channels. These include lower costs for recruiting low-wage workers as well as lower turnover and less absenteeism. Less turnover and absenteeism in turn mean that the firms' training and supervisory costs should fall. Combining all of these factors may then yield workplaces with better morale and higher productivity. This does not necessarily mean that the productivity improvements generated by higher wages will fully compensate firms for their increased labor costs. It is therefore important to assess how large such productivity gains could be in response to a substantial pay increase for covered workers. In particular, we utilize material from our business surveys to measure costs that firms incur through turnover and the subsequent need to find replacements for departed workers.

Consistent with broader industry studies, we found that both the hotels and restaurants tend to operate with very high rates of turnover, at least on the order of roughly 40-50 percent per year. It is very likely that an increase to a \$10.75 or even a \$9.50 minimum wage would induce sharp declines in turnover. Workers' motivation on the job should also increase substantially because of the higher wages and benefits they would receive. We find that the potential cost savings through productivity gains—via falling turnover and higher morale at the worksite—

could be substantial for many covered firms, perhaps as high as 20 – 25 percent of their total living wage cost increases. However, for other firms, especially those already operating with low turnover rates, there will be little room for significant cost savings.

Where does that leave us with respect to employment and relocation? It is unlikely that either the hotels or restaurants will choose to lay off workers to save on living wage costs. This is particularly true if the ordinance were to operate on the basis of a sales rather than an employment threshold. An employment threshold creates obvious incentives for firms near the threshold to minimize on the number of people they keep on payroll, while a sales threshold avoids such problems. Beyond this, firms would have little reason to reduce their scale of operations through layoffs as long as they are successful at selling their products. But even recognizing this, we construct a set of pessimistic hypothetical scenarios that project layoffs from a \$10.75 ordinance based on businesses responses to our survey question. Under our most highly pessimistic scenario, we find that layoffs could reach as high as 186 workers, i.e. 7.5 percent of the 2477 workers covered by the ordinance. Using less extreme but still pessimistic assumptions, our estimate for layoffs is 36 workers, 1.5 percent of those covered by the ordinance.

The displacement of existing covered workers by workers with better educational credentials is the employment problem due to \$10.75 ordinance that is likely to be more serious. However, for reasons that we detail, such displacements will probably be fairly modest, with, for example, high school graduates or those with some college rising over time by between 10 and 20 percent as a share of total covered workers, as those without degrees decline by a corresponding amount. But displacements on this scale could also be mitigated if the City were to establish a hiring hall provision that would give special priority to placing disadvantaged workers in Coastal Zone jobs. We take up this issue in Chapter 9 of the study.

Finally, it is most unlikely that the 11 covered Coastal Zone hotels would choose to relocate from their highly desirable Coastal Zone locations simply to avoid being covered by a living wage ordinance. This is especially true given the benefits the hotels receive through

operating in a market that is protected by the City's restrictive growth policies rather than in a more free-market setting. As such, even if we allowed that some hotels were to relocate by selling their existing properties, the City would likely face little difficulty in attracting new firms to operate these Coastal Zone properties.

Once again, the situation is more ambiguous for the six covered restaurants. The desirability of their locations is less directly dependent on proximity to the oceanfront. It is unlikely but possible that they would relocate outside the Coastal Zone to avoid being covered by a living wage ordinance. Relocation would most likely emerge as a serious option if the restaurants find that they are unable to sustain price increases by an amount equivalent to their increased costs. If they were to relocate, a likely scenario would be that new restaurants, with gross revenues well below the \$3 million coverage threshold level, would take over the vacant locations.

As a last major consideration in assessing overall business responses, it is important that we not neglect the low-impact covered firms. In all there are 55 low-impact firms, 76 percent of the total number covered. They employ about 1000 covered workers, 40 percent of all covered workers. Living wage cost increases for these firms will range between 2 – 2.5 percent of their gross revenues with a \$10.75 ordinance. These firms should therefore be able to manage a fairly smooth transition into a living wage environment through some combination of small price and productivity increases, and perhaps slight one-time declines in profit margins.

We conclude this section of the study by asking a separate, though related, question: would having a living wage ordinance in Santa Monica make the city more vulnerable to the effects of a national or statewide recession? This could occur because, when a recession brings falling revenues, the covered firms would be unable to cut wages by as much as firms covered only by the statewide or national minimum wage. However, recent pathbreaking research by Truman Bewley and others has established a point that is central to our concerns: for the most part, firms in the United States do not reduce wages in recessions, *even when they have the option of doing*

so. Rather, in dollar terms, wages generally remain inflexible downward during recessions. Bewley's research shows that the primary reason as to why businesses do not cut pay during recessions is that it has negative effects on morale; and low morale, in turn, produces lower productivity and effectiveness on the job. In terms a living wage ordinance, these findings suggest that it should not matter significantly whether a higher minimum wage contributes to downward wage inflexibility, since businesses generally do not cut wages anyway in a recession.

We then tested the viability of this idea through a statistical model. The model considered whether states that had higher minimum wages would experience more job losses during recessions than states with lower minimum wages. Our model found that differences in minimum wages across states have had little impact on state-to-state relative employment changes during recessions. We also tested this same model as it applied specifically to the hotel and restaurant industry. Again, we found that employment losses during recessions in these industries were not influenced by whether a state had established its own minimum wage rate above the national level.

#### Impact Estimates for Citywide Ordinance

In Chapter 6, we present our estimates for a Citywide ordinance whose features would otherwise be identical to those for the Coastal Zone measure. Thus, again working with a \$3 million sales threshold, we find that a total of 326 firms would be covered by this ordinance. Working with a \$10.75 minimum wage rate, we estimate that 7269 workers would receive mandated raises. The average hourly raise for these workers would be \$3.03, which, with an average workweek of 35.8 hours, converts to an annual wage increase of \$5,644. As before, we also provide a second set of estimates for a \$9.50 Citywide ordinance.

With the \$10.75 Citywide measure, the average direct wage increase for firm is then \$126,000, well below the \$200,000 for the Coastal Zone proposal. The average total cost increase relative to gross receipts is 1.8 percent for the Citywide measure, again, well below the 3.9 percent figure we estimated for the Coastal Zone.

The explanation for these differences in average costs to business is that the Coastal Zone measure would cover a substantially broader range of firms. It would still be true that the large Coastal Zone hotels would employ the largest share of covered workers and would bear a disproportionate share of total costs. But these proportions are smaller in the Citywide measure. Thus, even though the cost increase relative to gross receipts for the hotels, at 10.2 percent, is virtually identical to that with the Coastal Zone measure, the greater diversity of firms under a Citywide ordinance, and the fact that most of these firms would face relatively small cost increases, is what drives the overall cost increase ratio to 1.8 percent.

We also consider in this chapter the differences in likely business responses through a Citywide ordinance. Given that the average cost increases for the Citywide ordinance are either roughly comparable to or lower than those for the Coastal Zone proposal, it follows that the adjustment processes would also be broadly similar. At the same time, the fact that the Citywide measure would affect a wider range of businesses does carry several implications. Covered businesses Citywide should generally face greater competitive pressures, since they do not benefit from growth restriction policies. They also are more likely to compete with firms outside the City that would be able to pay substantially lower minimum wages. Increased competitive pressures for these covered firms would also suggest that a strategy of absorbing the added costs through raising prices is likely to be more difficult than for the hotels and high-end restaurants in the Coastal Zone. Also, a higher proportion of covered businesses in a Citywide measure, such as wholesale traders, would be less bound to their specific business locations, and would thus be more likely to consider relocation if their living wage costs were to reach a significant share of their gross receipts.

Though we raise these additional concerns in considering business adjustment options for a Citywide measure, we would still anticipate that most covered businesses in this situation would be able to absorb their added costs through only modest increases in prices and productivity and/or modest one-time reductions in profit margins. The basis for this conclusion is

straightforward: putting aside the covered hotels and restaurants, the average cost increase for the retail stores is 1.1 percent of gross receipts and is 1.6 percent for all the remaining covered firms. Relocations and significant layoffs would not be consistent with the type of modest adjustments commensurate with cost increases of this magnitude.

### **Impact Estimates for Contractors Only Ordinance**

In Chapter 7 of the study, we evaluate the impact of a contractors only type living wage ordinance as it would apply to Santa Monica, drawing from our survey of the firms holding service contract with the City.

During 1998-99, there were 99 firms holding service contracts with the City. The proposal we estimated is based on a minimum wage of \$8.25 that would apply to workers at these firms. Workers not now receiving health coverage from their employers would be paid an additional \$1.25. All workers in covered firms would also receive at least 12 paid days off.

The impact of such a proposal would vary substantially depending on how one interprets its coverage for workers. Two alternatives are possible. A narrow interpretation would provide coverage only for workers who are both earning below \$8.25 and directly engaged in fulfilling the City's service contract assignment. A broad interpretation would allow that *all* workers at the covered firms now earning below \$8.25, not just those involved with the City contract work, would be eligible for the living wage increase.

We found that under the first interpretation, only 62 workers would be directly covered by the ordinance. On average, those 62 workers now earn \$6.72 an hour, meaning that they would receive a raise of 22 percent to \$8.25. Under a broad interpretation, these raises would be extended to an additional 800 workers. Clearly, in seeking to gauge the overall impact of the contractors only proposal for both workers and firms, it will be crucial to obtain a clear sense of whether covered firms would extend wage increases and benefits to workers beyond those provided through the most narrow interpretation of the ordinance.

Still, for most covered firms, this ordinance would have no impact at all. We estimate that only 18 covered firms are currently employing workers earning below \$8.25 on their Santa Monica contracts. Clearly then, the cost increases of such an ordinance would be borne primarily by the 18 firms that do have below \$8.25 workers engaged in City projects. But even for these 18 firms, we estimate that on average, the total costs of the ordinance would amount to only 0.2 percent of these firms operating costs.

The ordinance could still have a more significant impact for two other affected groups—the City of Santa Monica itself and the workers receiving wage and benefit increases. Even though the cost increases would be low for the 18 affected firms relative to their total operating budgets, these firms are still likely to attempt to pass through these costs to the City. This is especially true, given that the cost increases could be a significant fraction of the total value of their City contracts. If the ordinance were applied narrowly, the mandated cost increase would amount to \$400,000, or 1.7 percent of the total value of the 18 firms' contracts. But under a broad interpretation, costs would rise to \$2 million, or 8.0 percent of contract values. It is likely that the City would bear some significant share of these cost increases through pass throughs. But if contract bidding is competitive, it shouldn't always be the case that all bidders would walk away from a contract unless it allowed for full cost pass throughs

As to the effects on covered workers, we can more fruitfully consider this question after we provide a broad context of the living and working situation for low-wage employees in the Los Angeles area, the topic of Chapter 8 of this study.

### **How Low Wage Workers Would Benefit from Alternative Living Wage Ordinances**

In Chapter 8 of the study, we examine three separate but interrelated questions. We first attempt to establish some broad parameters as to what would constitute a “living wage” for workers in the Los Angeles area. We next examine survey data from both the Current Population Survey (CPS) for Los Angeles and our own survey of low-wage Coastal Zone workers, to construct a reliable picture of living standards and family conditions for the types of workers that

would be covered by a Coastal Zone ordinance. And finally, we evaluate how beneficial a living wage raise would be to the families of low-wage workers in the Los Angeles area.

What is a Living Wage in Los Angeles? We consider two possible definitions of a living wage, or more precisely a living family income standard, supported to a significant degree by the wages of the family's job-holders. The low-end definition would entail a wage adequate to provide a poverty-line living standard for a worker and at least one additional family member. A more generous definition, borrowing from Lawrence Glickman's historical study of the use of the term, would be a wage level that offers workers "the ability to support families, to maintain self-respect, and to have both the means and leisure to participate in the civic life of the nation," (1997, p. 66). We attempt to quantify both the low-end "poverty line" standard and the higher-end measure, which we term a "basic needs" standard.

In terms of the poverty line measure, our starting point is the government's official set of poverty thresholds adjusted for family size. But a broad range of researchers argue that the government's methodology, which has not been significantly altered since its introduction in 1963, is no longer adequate. We review the critiques of the government methodology and also make adjustments for the relatively high costs of living in Los Angeles. Based on these considerations, we establish a "Los Angeles poverty line" equal to 160 percent of the national poverty threshold. In 1999 dollars, this income level would be \$21,475 for a three-person family and \$27,030 for a family of four. This defines our lower-end estimate of a living wage income level, without as yet establishing how many income earners in the family might typically be contributing toward achieving this living standard. We also present figures throughout Chapter 8 for the official government poverty thresholds as well as a near-poverty standard of 185 percent of the official poverty line.

For our "basic needs" income level, we draw from the research of the California Budget Project, which attempts to measure a standard of living that is "more than a 'bare bones' existence yet covers only basic expenses." They have provided specific estimates of such income

thresholds for Los Angeles, as well as seven other regions in California. For Los Angeles, their basic needs income levels (in 1999 dollars) are \$37,589 for a family of three, with one wage earner, and \$45,683 for a family of four with two wage earners.

Conditions for low-wage workers. How do living standards for low-wage workers in Santa Monica and the LA area more generally compare with these two living wage standards? Working from both the LA-CPS as well as our own Santa Monica surveys, we constructed data sets incorporating all workers earning between the California minimum wage of \$5.75 and the proposed Coastal Zone minimum of \$10.75. But we also wanted to observe conditions within segments of this overall low-wage labor market. We therefore broke our overall pool of workers into three wage ranges--\$5.75 - \$7.40; \$7.41 - \$9.10; and \$9.11 - \$10.75. Within each of these categories we then generated figures for a series of individual and family characteristics, enabling us to construct a general portrait of conditions for low-wage workers. These characteristics included age, ethnic status, educational attainments, labor force tenure, individual earnings, family sizes, family incomes and additional relevant figures such as, for our Santa Monica sample, commuting time to work.

From our Los Angeles survey, we were then able to establish figures for living standards and family conditions for the types of workers throughout LA that might be employed in the Coastal Zone. With the Santa Monica survey, we constructed a picture of the actual workers now employed in the Coastal Zone. There are differences in the two sets of results, as we document in this section. But the basic findings between the two sets of survey results are consistent. This overall consistency between the two sets of results lends credibility to our Santa Monica survey, given that the LA survey is based on an extensive random sample.

The overall picture from the LA data set is as follows. Most workers earning between \$5.75 and \$10.75 are people well into their working lives. They are not teenagers, and they are not moving onto a career trajectory different than their present one. The majority are Hispanic. For those in the \$5.75 - \$7.40 and \$7.41 - \$9.10 wage categories, their average annual earnings

are about \$12,000 and \$15,000 respectively—that is between about 30-45 less than our \$21,475 Los Angeles poverty threshold for a family of three. Adding up all the income sources for the families of low-wage workers, one still finds that, for workers whose wages are in the two lower categories, nearly half are living in poverty or are near poor, according to our LA poverty threshold. Roughly 80 percent of these families live below the basic needs living standard. And finally, these workers have very poor health insurance coverage, especially in terms of what is being provided for them by their employers.

With our own Santa Monica survey, we reach the same basic conclusion about overall living standards. Most of the workers are Hispanics. They are also on their long-term employment trajectory. They are not, for the most part, teenagers or second-income earners living in middle-class circumstances. They are commuting considerable distances to their Coastal Zone jobs, and especially for the roughly 50 percent that either drive or carpool, the traveling absorbs a significant portion of their earnings. These workers are living with families that include, on average, two or three other people. Depending on which measure one uses, they are providing between 65 – 90 percent of their family’s overall income. As such, these workers and their families are mostly poor or near poor. Over 80 percent of the families are below the LA basic needs threshold for their family type. Indeed, their median income level is barely half as much as our basic needs threshold for a family of three.

How Much Would Low-Wage Families Benefit? To provide a sense of how the living wage proposals would affect the average families in our survey, we construct two prototypical family types from mean and median figures in our surveys. We have given these families somewhat different characteristics. In Family 1, the worker in the family, who corresponds roughly to the average worker in our Santa Monica worker survey, earns \$7.50 an hour, has no private health insurance, and lives with one additional adult and one child. This worker provides 71 percent of the family’s total family earnings. The Family 2 worker, corresponding more closely to the average worker in the LA-CPS survey, earns \$8.00 an hour, does carry private

health insurance, and lives with three other people, including two children. This worker contributes 58 percent to the family's overall earnings. Making these distinctions between the two families enables us to observe how a given living wage ordinance will have a variable effect, depending on the family situation of the covered worker.

We consider the impact on these two families of three living wage levels—\$8.25, \$9.50, and \$10.75. In both cases, we assume that the covered worker is the only member of the family receiving a raise. All other family earnings remain fixed. We also assume that the covered worker continues to be employed at the same job working 1900 hours annually, having already addressed in Chapter 4 the possible ways in which workers employment status could change. However, we do incorporate into our calculations all the changes that will occur in the family's tax obligations and eligibility for subsidies.

After incorporating all these adjustments, we can calculate changes in disposable income after the one family member has received the living wage increase. For Family 1, a raise to \$10.75 would increase the family's disposable income by 20 percent, from \$18,727 to \$22,474. In terms of poverty status, which is measured in terms of pretax income levels, Family 1 would move from being seven percent below our LA poverty line to 22 percent above the line. Family 1 would remain well below the \$37,589 basic needs standard. But raising the family's income significantly above the LA poverty line would no doubt bring tangible benefits.

The results for the \$10.75 living wage are somewhat smaller for Family 2, since the worker in the family is already earning \$8.00 and the family's income is somewhat higher. Still, the raise to \$10.75 would mean a 12.9 percent increase in disposable income for this family.

The changes are still more modest, of course, as we reduce the raise to \$9.50 and then \$8.25. But it is really only in the case of Family 2, with the raise to \$8.25 that the benefits for the family would not be noticed.

Still, this assessment of benefits for average low-wage families needs to be qualified. Of course such gains will be enjoyed only by those whose jobs are covered by the living wage

ordinance. Workers who have been exempt through the tipped income credit or who have been displaced through the increased competition for covered sector jobs will receive no direct benefits from the ordinance. We should also note that, even with the most favorable circumstances enjoyed by covered workers in Families 1 and 2, the disposable income gains to the family amounts to only between 56 –58 percent of their pretax income increase. The rest of the worker’s raise will be absorbed through the family paying higher taxes and losing their eligibility for benefits through the federal Earned Income Tax Credit program.

### **City Policies And The Living Wage Ordinance**

In this concluding chapter of the study, we consider a series of policy issues within the City of Santa Monica, as they relate to assessing a living wage ordinance targeted in the City’s Coastal Zone. We first examine the City’s expenditure policies in the Coastal Zone, to evaluate the relationship between these expenditures and the successful growth in the City’s tourist industry since the mid-1980s. We next consider the City’s policies that have limited commercial development in the Coastal Zone, particularly as these restrictions apply to the hotel industry. We then consider two policy measures that have been advanced along with living wage proposals. One is the policy practiced as part of the Los Angeles living wage ordinance requiring that employers covered under their living wage proposal be obligated to inform their employees about their eligibility for the Earned Income Tax Credit. The other is the proposal by SMART that the City sponsor a hiring hall, to support the job-search efforts of the area’s less well-credentialed workers, and especially to help place them in covered jobs within the Coastal Zone. We also consider in this chapter how residents of Santa Monica—as opposed to covered workers and businesses—would be affected by a living wage ordinance. Finally, we consider how the City might administer a Coastal Zone ordinance and the costs it would incur in doing so.

City Expenditure Policies. Santa Monica is a city that enjoys tremendous natural advantages. At the same time, it is clear that Santa Monica’s Coastal Zone has flourished not only because of these natural advantages. Indeed, the City’s prosperous tourism industry only

commences in the mid-1980s through a series of major changes in policy. One such measure was the City's decision in 1984 to dramatically revise the Land Use Element of its General Plan to allow hotels to be constructed along its beachfront. At around the same time, the City also undertook a series of expenditures to enhance the beachfront areas, reconstruct the Santa Monica Pier, improve the Coastal Zone parking facilities, establish the Convention and Visitors' Bureau and create the Third Street Promenade.

Have these investments absorbed a disproportionate share of the City's overall budget? This question has been raised in connection with the Coastal Zone living wage proposal. To evaluate these concerns, we examine the City's expenditures in the Coastal Zone between 1985-99 relative to the City's overall budget, considering both its operating expenditures and capital improvements.

In both cases, we found that the City's expenditures have not disproportionately favored the Coastal Zone. For the full 1985-99 period, we found that operating expenditures targeted for the Coastal Zone amounted to 4.7 percent of the City's total operating budget. Capital expenditures in the Coastal Zone were 12.1 percent of the overall capital budget. Clearly, these proportions are not out of line with the City's other budgetary priorities, especially given that the Coastal Zone is the City's commercial and tourist hub and that it physically occupies about 18 percent of Santa Monica's total area of eight square miles.

On the other hand, the City of Santa Monica's overall level of expenditures *is* unusually large relative to that for comparable cities. As of 1999, the City's budget of \$345 million represented a per capita level of expenditure of about \$3,700. By contrast, spending per capita in Santa Barbara is only half the Santa Monica figure, despite the broad similarities between the two cities. Thus, the relatively low proportions of City expenditure in the Coastal Zone still represents a large commitment of public funds by the City. Businesses located within the Coastal Zone do benefit from this high level of public expenditure, but not *disproportionately* to the rest of the City.

Growth Restriction Policies. The actual policy area through which Coastal Zone businesses have benefited to a disproportionate extent has been through the City's long-standing commitment to restrictive growth. Of course, the City and its residents have supported restricted commercial development as a means of maintaining the area's environment and sense of scale. The residents of Santa Monica support restrictive growth because of the benefits they themselves receive.

But existing businesses within the Coastal Zone also benefit substantially through such policies. For one thing, businesses benefit through operating in a clean and relatively uncongested environment. But the more important benefit for existing Coastal Zone businesses, as we first discuss in Chapter 5, is that the City's growth restrictions place a limit on the amount of competition within the Coastal Zone. This is particularly important for the Coastal Zone hotels. Were they operating in some closer approximation to a free market, it is virtually certain that the total supply of rooms in the Coastal Zone would have increased in response to the persistent rise in prices combined with sustained high occupancy rates.

We present in this section a simple hypothetical case study to indicate the value for the Coastal Zone hotels of operating in a restricted market. In this exercise, we consider a hotel whose room rates, occupancy rates, and total number of available rooms roughly correspond to average values for the 11 covered Coastal Zone hotels. We then consider how this hotel's annual gross revenues would be affected if one new competitor entered the Coastal Zone market. We assume there is only one effect of this new competitor entering the Coastal Zone market: that the occupancy rate of the older hotel falls, but only five percent, from 80 to 75 percent. The result of this one relatively small change in the hotel's operations is that its annual gross revenues would fall by \$900,000.

The exercise thus indicates the broad level of benefit to the hotels of the City's restrictive growth policies. It happens that this broad benefit level—in the range, on average, of \$1 million per year for each hotel—is of the same order of magnitude as the costs that the a \$10.75

Coastal Zone ordinance would produce for the average covered hotel. This exercise therefore indicates that the City should consider its restrictive growth policies in addition to its expenditure policies in assessing how the City might be providing disproportionate benefits to Coastal Zone businesses.

Providing Information on EITC Eligibility. One measure practiced as a component of the Los Angeles living wage ordinance requires all covered employers to inform their eligible workers of their right to the Earned Income Tax Credit. There is obvious merit to such a policy. However, in comparison with the gains such families could receive through a living wage increase, the benefits available through promoting the EITC are likely to be modest. To begin with, though the evidence is not uniform, it is likely the case that most families eligible for the EITC are already receiving it. Beyond this, even if families are not receiving their EITC entitlement, the amounts that they are forfeiting are, in most cases, small in comparison with the income gains they would receive through a living wage raise.

We examine this through considering the situations for our prototypical Families 1 and 2. In both cases the conclusion remains the same: a living wage increase to \$9.50 or especially \$10.75 will bring substantially larger income increases than claiming an EITC benefit. Overall then, an initiative to increase EITC take-up rates should be considered as a complement to, not a substitute for, a living wage increase. At the same time, the City may want to consider the recent experience of Montgomery County, Maryland, which implemented a supplemental EITC program for its county residents.

Local Hiring Halls. According to the City's RFP, one component of the living wage proposal advanced by SMART, would "give priority to the use of Santa Monica area hiring halls to fill jobs," (p. 3). As we discuss in Chapter 5 of the study, the significantly better wages and benefits that the covered jobs would provide means that the educational and English language credentials of the job applicant pool is likely to rise, though only to a modest extent. However, through channeling openings for the covered jobs through local hiring halls, the City could

provide better opportunities for more disadvantaged workers—i.e. those that are somewhat less well credentialed or connected, though still obviously qualified. Several other cities, including Portland, Oregon and Minneapolis, have successfully administered such hiring hall support initiatives targeted at disadvantaged workers. Moreover, the City of Santa Monica itself already maintains productive relationships with several local employment referral services, including the Chrysallis Labor Connection, New Directions, and the Santa Monica High School Alliance. It is likely that an effective program to assist disadvantaged workers seeking living wage positions in the Coastal Zone could be administered through modest budgetary outlays, perhaps half of the \$87,000 now spent by Minneapolis on its program.

Monitoring and Implementation of Living Wage Ordinance. Finally, we consider procedures through which the City would administer the living wage ordinance. Three areas of City policy would need to be addressed: the collection, verification and analysis of relevant data on firms' gross receipts; the dissemination of information on the ordinance at the work sites of the covered firms; and procedures both for monitoring compliance and enforcing the law. We offer some suggestions as to how such efforts might be effectively administered. Overall, we estimate that the City would require between two to three additional staff positions to administer an effective monitoring and enforcement program with a Coastal Zone measure, and probably one additional staff person for a Citywide ordinance.

### **CHAPTER 3. STRUCTURE OF ORDINANCE**

The City's Request for Proposals for a living wage economic impact study provides broad guidelines as to the type of ordinance they would wish to consider. The RFP states:

On September 7, 1999 the Santa Monica City Council considered a proposal for a Living Wage Ordinance. The proposal calls for a minimum wage of \$10.69 per hour, plus benefits, to be applicable to businesses with more than 50 employees and located in the Coastal Zone, an area of approximately 1.5 square miles within the City. The City Council directed that the study evaluate the potential impacts of the proposal as submitted and any pertinent variations to the prescribed wage level, business size, and area of applicability (p. 1).

In order to develop quantitative estimates of the impact of such a proposal, we have naturally found it necessary to establish more specific stipulations about a proposed ordinance. Thus, working within the City Council's broad guidelines, we have developed impact estimates based on the following seven major components:

1. Geographic Coverage. We have concentrated our efforts on estimating an ordinance that would apply to businesses within the Coastal Zone only. In Chapter 6, we do also estimate the impact of a Citywide measure whose design features are otherwise identical to the Coastal Zone proposal. In Chapter 7, we then also consider an ordinance that would apply only to firms holding service contracts with the City. But in our estimating procedures, we have maintained a complete separation between the Coastal Zone and Citywide measures on the one hand, and the contractors only proposal on the other.

2. Minimum Wage Rates. Following the guidelines of the RFP, we have focused our estimates at a \$10.75 minimum hourly wage rate. We have rounded upward slightly the \$10.69 figure in the RFP simply to facilitate our various estimating procedures. We have also provided a second set full set of estimates assuming a \$9.50 minimum hourly wage. This enables us to observe how much the impact of an ordinance would change through reducing the minimum wage by up to 13 percent. In our separate consideration of a contractors only proposal, we generate estimates of such a measure based on a minimum wage rate of \$8.25. In terms of how

these various proposals would affect covered workers and their families, we then show estimates based on \$8.25 and \$9.50 as well as \$10.75.

3. Health Benefits. We assume that all firms will provide \$1.25 in health benefits up to \$1.25 over the new minimum wage. Thus, at a \$10.75 minimum wage, the health benefits would extend up to workers earning \$12.00 per hour. For the \$9.50 minimum, health benefits would cover all workers earning up to \$10.75 per hour.

4. Paid Days Off. We assume that all covered workers will receive at least 15 paid days off. The RFP made no mention of what they considered an appropriate figure for this benefit. But living wage proponents in Santa Monica have suggested that the measure include up to 30 paid days off. We worked from this basic figure of 15 paid days off, given that, at present, covered Coastal Zone workers receive an average of 7.7 paid days off and *all workers* in Santa Monica receive slightly more than 10 paid days off. An increase to 15 paid days off thus appeared consistent with the extent of the minimum wage increase that the City Council wishes to consider.

5. Exemption for tipped employees. We have assumed that workers who receive at least 50 percent of their income from tips would be exempt from coverage. Of course, the California minimum wage laws, now set at \$5.75 per hour, would still cover all workers thus exempt. In practice, we have found that this exemption would apply to all restaurant servers and bartenders employed at the covered Coastal Zone firms, as well as approximately 50 percent of all bussers. We have included this feature into our estimating models, since we interpret the intention of the City Council as seeking to increase the *take-home pay*, not the wages per se, of Coastal Zone workers. Any worker who is receiving at least 50 percent of their income from tips, while earning the California minimum wage of \$5.75 in addition to these tips, earns by definition at least \$11.50 an hour in total take-home pay. This figure, of course, is higher than either \$10.75 or \$9.50, the minimum wage levels at which we have based our impact estimates.

Administration of the tipped income exemption should not entail serious difficulties, given that the national minimum wage laws, though not the California state measure, does also include a tipped worker exemption. Among other things, the Internal Revenue Service already requires that businesses account for their employees' tipped income in establishing their payroll tax obligations. Workers are also required to report their tipped income to the IRS.<sup>2</sup>

6. Subcontracted employees. We assume that the ordinance would apply to all workers whose major place of employment are the premises of the covered firms. In particular, workers employed by firms that subcontract with covered firms, but are on the premises of the covered firms for at least 50 percent of their workweek, would be covered by the ordinance.

7. Coverage Threshold. Rather than developing our estimates based on an employment threshold of 50 employees, we have instead worked within the framework of a sales, or gross receipts threshold ("sales threshold" will be our term of reference throughout, though in fact that term refers to the gross receipts of all covered firms). For the purposes of our estimates, we have set that threshold at \$3 million. As we discuss at some length below, we believe that a sales threshold is a more coherent and workable basis for effectively operating a living wage ordinance. Moreover, in setting the threshold at \$3 million, the extent of the coverage for the ordinance is broadly equivalent to that for an employment threshold of 50 workers.

8. Indexation of All Dollar Values. All dollar amounts in the ordinance design—the \$3 million sales threshold and various minimum wage rates, in particular—are based on 1999 levels of purchasing power for the dollar. If the City wished to maintain the basic levels of coverage and impact of an ordinance over time, that would entail indexing current dollar amounts to inflation through the Consumer Price Index or some other standard measure.

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<sup>2</sup> Note that employers and workers would have counterbalancing incentives in the reporting of tipped income to the City. Employers would want to overstate tipped income to maximize their exemption, while workers would gain through underreporting tips, thereby becoming eligible for living wage coverage. These countervailing tendencies should then contribute toward accurate levels of accounting.

### Sales Threshold vs. Employment Threshold

Why should the living wage ordinance operate from a sales rather than an employment threshold? An employment threshold would create a range of problems, both in terms of incentives for businesses and workers, and in terms of enforcement. A sales threshold will also engender incentive problems, but to a substantially lesser extent than an employment threshold.<sup>3</sup> An additional point in favor of a sales threshold is that the national minimum wage laws also operate in this manner—i.e. for the most part, the national minimum wage laws apply only to firms whose volume of business exceeds \$500,000.<sup>4</sup>

As the benchmark for our analysis, we will consider a sales threshold of \$3 million. Of course, the City Council is free to choose another sales threshold level (or continue with an employment threshold) should it proceed to draft an ordinance. We have chosen the \$3 million sales threshold for two reasons. First, we assume that the City Council would want the effects of how a threshold is designed to be *neutral* in terms of the size of the firms affected by the ordinance. That is, the ordinance should cover basically the same firms, regardless of whether the ordinance operates under a sales or employment threshold. For this purpose, a \$3 million sales threshold is broadly consistent with a 50-person employment threshold—implying that each worker in a firm corresponds to roughly \$60,000 in firm sales. In fact, Coastal Zone firms with more than \$3 million in sales employ, as a mean figure, 63 workers, while the median employment level for these firms is 37. The overlap is therefore quite large between the firms that would be covered by either the employment or sales threshold.

A second consideration in choosing a sales threshold level is that, if possible, relatively few firms should be bunched around the stipulated level. This will facilitate the administration of the living wage ordinance, since fewer firms will be moving just above, or just below, the

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<sup>3</sup> This discussion is based on the technical paper, “An Analysis of Threshold Effects and the Santa Monica Living Wage Ordinance: Sales Vs. Employment Thresholds,” by Prof. Gerald Epstein. The paper is available through PERI.

threshold at any given time. As we show in some detail below, the \$3 million sales level is not heavily clustered with firms relative to other potential threshold levels.

#### Why Operate Through a Threshold?

Before considering the merits of a sales threshold relative to an employment threshold, it will be useful to consider why a threshold of any type might be desirable for Santa Monica. The basic answer is straightforward: assuming that Santa Monica would be seeking to limit the ordinance to larger businesses, that implies some type of threshold. The question therefore becomes what would be the most appropriate threshold for implementing a workable ordinance.

#### Problems with an Employment Threshold

Why is a sales threshold preferable to an employment threshold? To understand this, we first consider two sets of conditions under which there is no difference at all between a sales and employment threshold. The first condition is when firms are operating away from the threshold. The second is when changes in employment and sales are proportional.

Proximity to threshold. If a firm has, for example, five employees and \$300,000 in sales, nothing about its operations will be affected by a living wage ordinance with either an employment threshold of 50 workers or a sales threshold of \$3 million. Similarly, a very large firm with, say, 100 employees and \$6 million in sales will be covered by the living wage law regardless of which type of threshold is in force. Thus, to begin with, the type of threshold will matter at all only for those firms that are operating at a level close to whatever is selected as the threshold level.

Proportional growth. However, for firms operating close to the threshold levels, the type of threshold will not matter if employment and sales grow in a proportional way (and assuming, again, that the threshold level is chosen in a neutral way so that basically the same sized firms fall above or below the threshold). For example, assume a firm has 40 workers and sales of \$2.4

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<sup>4</sup> There are some exceptions to this in the national minimum wage laws. Entities covered by the minimum wage laws regardless of their volume of business include hospitals, schools, and government agencies.

million. The firm then increases its sales to \$3 million. If we continued to assume that the firm adds one new worker for every \$60,000 in sales, that means that the increase in sales to \$3 million would also entail an increase in the workforce to 50. Thus again, there will be no difference in implementation between a sales and employment threshold.

Divergent growth. The way a differential impact occurs between the two types of thresholds therefore hinges on the fact that there should be some sort of divergence between the growth in the firm's sales and employment—for example, that the firm in the example above would no longer add one new worker to its payroll for every \$60,000 increase in sales. Consider the case of a firm with 40 employees and \$2.4 million in sales. Again, the firm has an opportunity to expand its sales to \$3 million. Now, however, because of the employment threshold of 50, the firm will try to meet the new demand for its product without employing an additional 10 workers. It could do this through various means.

First, depending on the type of firm, it might invest in new equipment that will enable it to operate with fewer workers relative to its total sales. But many firms operating in the Santa Monica Coastal Zone—such as hotels, restaurants, retail stores, or the amusement park—are not of the type that can readily increase their operations through replacing workers with equipment. Firms of this type may attempt to shed workers simply by speeding up their work process, getting more effort out of each worker over the regular eight-hour working day or pressuring workers into more overtime. Another possibility for a firm trying to avoid hitting an employment threshold even as its sales are expanding would be to try to outsource some of its operations.

Firms will experience equivalent incentives to reduce its labor force if it is operating just above the employment threshold. A firm with, for example, 52 employees would have a clear incentive to lay off three workers, and thus force the remaining workers to intensify their efforts on the job.

Problems in enforcement. An employment threshold is also vulnerable to ambiguous definitions as to how one adds up a firm's total employees. Should only full-time workers be

counted, or those on part-time as well as full-time? If part-timers are to be included, how much should they count for in totaling a firm's employees, as one full employee or in proportion to their total hours at work? Such ambiguities create difficult issues in implementation and enforcement.

### Strengths of a Sales Threshold

To a large extent, the problems of an employment threshold are matched by the relative strengths of a sales threshold.

Incentives issues. First, under a sales threshold, there will be no disincentive for firms to shed workers as its sales level approach the threshold. Moreover, workers will have a positive incentive to maintain high productivity under a sales threshold, insofar as their enhanced work efforts contribute toward their employer achieving sales levels above the threshold. Overall then, the sales threshold should encourage a more productive workplace environment for firms operating near the threshold. By contrast, the employment threshold could produce worker/employer tensions, with employers trying to shed workers to stay below the threshold, and push their remaining workforce harder avoid reducing the scale of their operations.

Incentive problems do exist with a sales threshold as well. Most significantly, an incentive is created for firms near the threshold to underreport sales when they provide business license information to the City. Of course, such an incentive already exists as a means of evading business license fees. But a sales threshold would increase the financial gains to firms of underreporting sales.

Counteracting this evasion incentive, however, is the fact that monitoring a sales threshold should not present any new difficulties for government officials. This is because an infrastructure already exists for auditing firm sales levels for tax purposes. The city could build on this infrastructure to monitor the status of firms for a living wage ordinance. Moreover, the firms' employees would have an incentive to themselves monitor whether their employers are accurately reporting their sales.

Another potential method of circumventing a sales threshold would be for firms to divide their operations into smaller entities, so that each entity would fall below the threshold. The ordinance would therefore have to be written to prevent firms from utilizing this avoidance mechanism. The simple principle to follow here is that, in defining the overall sales of a firm, the sales of all sub-entities owned by a single company and operating on the same premises would be included in this overall sales figure.

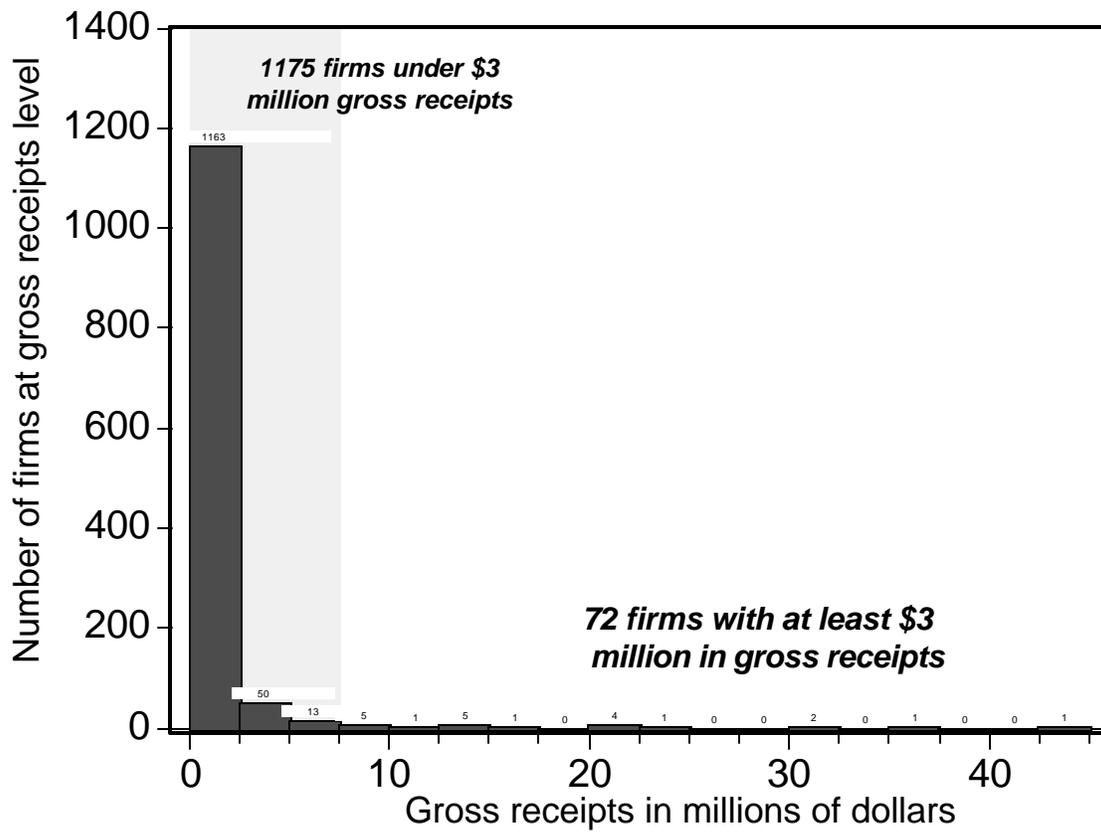
Fluctuations around the threshold. Perhaps the most serious disadvantage of a sales threshold relative to an employment threshold is that sales are likely to fluctuate over time more than employment. This could create significant uncertainties for businesses that operate near the threshold, since their labor costs would be subject to large variations as long as their sales regularly passed above or below the threshold.

But the ordinance could be designed to minimize such difficulties. Here we return to the importance of choosing, if possible, a sales threshold level around which relatively few firms happen to be clustered. We see in Figures 3.1 and 3.2 that this is the case with the \$3 million threshold. In Figure 3.1, first of all, we see a distribution of all 1,247 Coastal Zone firms according to their level of gross receipts from the 1999 filing. As the figure shows, 1,175 firms fell below \$3 million in gross receipts, and only 72 are at or above this threshold.

In Figure 3.2, we show just those firms that fall between \$2 and \$4 million in gross receipts—70 firms in all. As the figure shows, there is a relatively heavy concentration of firms below \$2.5 million, but that after \$2.5 million, the number of firms at each level diminishes. More specifically, there are only six firms between \$2.75 and \$3 million in sales, and only 15 between \$2.75 and \$3.25 million. This contrasts sharply with the large number of firms bunched at or just below \$2.5 million in sales—21 firms between \$2.25 and \$2.5 million, and 26 firms total between \$2.25 and \$2.75 million.

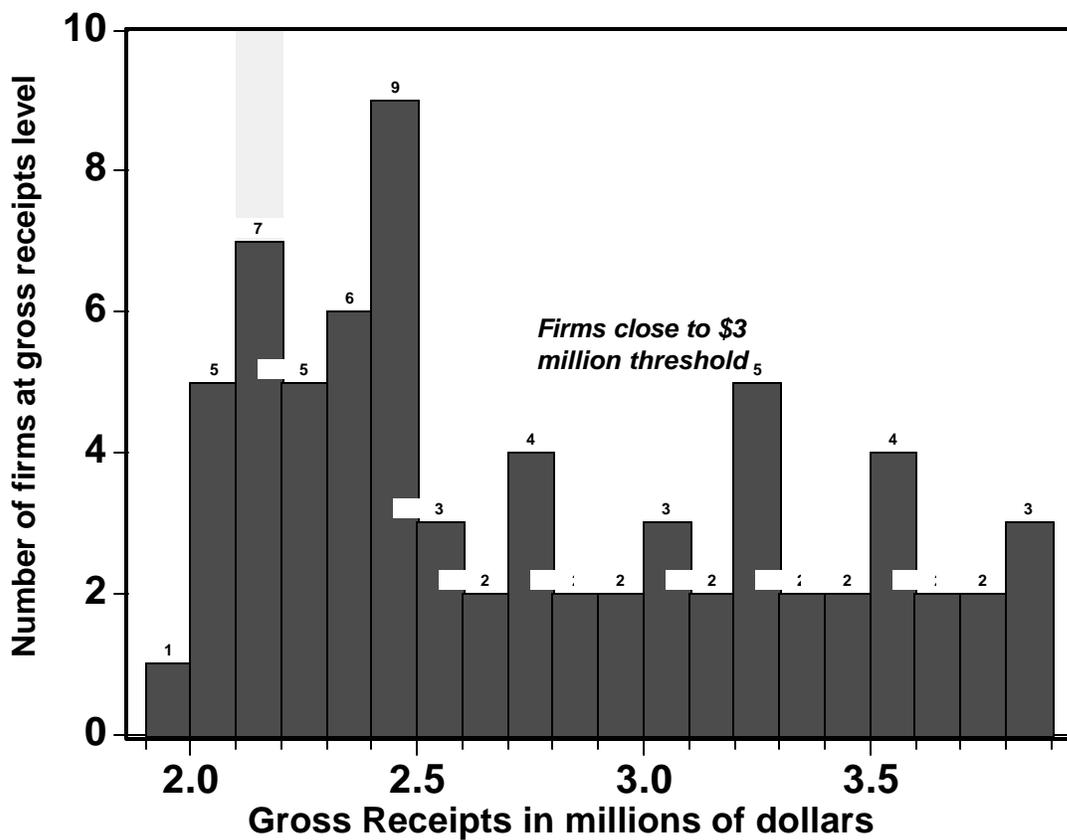
A second feature in designing the ordinance to minimize labor cost uncertainties would be to stipulate that firms' status would not change annually after crossing the threshold. Rather,

**Figure 3.1. Distribution of Coastal Zone Firms According to 1999 Gross Receipts**



Source: City of Santa Monica

**Figure 3.2. Distribution of Coastal Zone Firms Between \$2 and \$4 Million in 1999 Gross Receipts**



Source: City of Santa Monica

firms' status should be subject to change only if they remained at their new level for some longer period of time, such as two consecutive years. In other words, firms obligated to pay living wages would become exempt after their sales have fallen below \$3 million *for two years in a row*. Correspondingly, once the firm is no longer under the living wage mandate, they would again become covered only after they have exceeded \$3 million in sales for two successive years.

Even with such features, the “all or nothing” aspect to the coverage threshold at \$3 million will create difficulties for businesses operating near the threshold. In principle, it might be preferable to design an ordinance that would include living wage levels that rose incrementally as firms' sales increased beyond an initial basic level. However, administering an ordinance of this type would create excessive complications, administrative burdens, and corresponding opportunities for avoidance.

In short, the problems of business uncertainty that could arise with a sales threshold can be readily mitigated through incorporating some simple measures within a living wage ordinance. As such, the case for the sales threshold relative to an employment threshold remains strong.

## **CHAPTER 4. COST ESTIMATES FOR COVERED COASTAL ZONE FIRMS**

### Features of Ordinance

In this section of the study, we estimate the impact of the Coastal Zone living wage proposal. The specific features of the ordinance that we consider are as follows:

1. Based on the sales threshold framework we outline in Chapter 3, the ordinance would cover all Coastal Zone firms with annual gross receipts in excess of \$3 million.
2. We estimate the impact of the ordinance at two minimum wage rates, \$10.75 and \$9.50 per hour. However, we present somewhat more detailed results for the the \$10.75 proposal, since this is approximately the wage level proposed by supporters of the Coastal Zone ordinance.
3. We assume an exemption for workers who receive at least 50 percent of their income from tips. Workers that fall under this tipped income exemption would continue to receive the mandated California minimum wage of \$5.75 for their hourly wage rate.
4. We assume that all covered firms will provide at least 15 paid days off to all covered workers.
5. We assume that all firms will provide \$1.25 in health benefits to workers earning up to \$1.25 over the new minimum wage. Thus, at a \$10.75 minimum wage, the health benefits would extend up to workers earning \$12.00. For the \$9.50 minimum, health benefits would cover all workers earning up to \$10.75

### Data Sources

The estimates that we report in this section are based on five data sources:

1. The PERI survey of businesses in Santa Monica.
2. The PERI survey of workers in Santa Monica.
3. The PERI interviews of businesses in La Jolla.
4. City of Santa Monica business license records on businesses self-reported gross receipts and number of employees.
5. The Current Population Survey of the U.S. Department of Labor.

In Appendix 3, we provide details on our methodology in combining information from these different sources to generate the results we report below.

#### Estimated Costs of \$10.75 Proposal

We present estimates beginning with the costs mandated by law, including the mandated wage increases, health benefits, and paid days off. We group all mandated increases in wages, benefits and paid days off as the “direct costs” of the living wage proposals. The City of Santa Monica will also incur some relatively small monitoring costs that we will discuss elsewhere.

We also consider “indirect costs”. These are the “ripple effects” that will likely occur within the covered firms when only some workers—i.e. the lowest-paid workers—receive a raise and additional paid days off. For these covered firms, we anticipate many other workers within the same broad pay range will also get raises, even though their raises will not be mandated by the living wage ordinance. Adding direct and indirect enables us to estimate the total costs of the living wage proposal for the covered firms.

#### Direct Costs

Wage Increases. Table 4.1 presents estimates for the number of firms and workers directly affected by the \$10.75 Coastal Zone proposal, as well as the wage increases associated with each proposal. We present figures for all covered firms, and also provide separate figures for the three main sectors of the Coastal Zone area that would be affected by the proposal—i.e. hotels, restaurants, and retail stores.

Considering first the figures in the first column on all covered firms, we see that there are 72 firms in the Coastal Zone that have at least \$3 million in sales, and therefore fall within our threshold. These firms employ a total of 2,477 workers, about 2/3 of whom are full time. The average work week for all employees in these firms—full and part-time workers—is 35.3 hours. These workers average wage, at present, is \$7.58.

Based on these figures, we are able to then see the impact of an increase in the Coastal Zone minimum wage to \$10.75. The average mandated raise for the existing workers is \$3.17.

**Table 4.1**  
**Direct Wage Costs to Covered Firms After Raise to \$10.75 (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of firms covered	72	11	6	13
Number of workers below \$10.75	2477	1262	214	453
of which, full time	1578	886	128	214
of which, part-time	899	376	86	239
Average working hours per week	35.3	36.5	33.8	33.6
Average hourly wage before ordinance	\$7.58	\$7.51	\$7.21	\$7.95
Average hourly wage increase	\$3.17	\$3.24	\$3.54	\$2.80
Average total wage increase per worker	\$5,819	\$6,150	\$6,222	\$4,892
<b>TOTAL WAGE INCREASE, ALL WORKERS</b>	<b>\$14.4 million</b>	<b>\$7.8 million</b>	<b>\$1.3 million</b>	<b>\$2.2 million</b>
<b>AVERAGE WAGE INCREASE PER FIRM</b>	<b>\$200,000</b>	<b>\$709,000</b>	<b>\$222,000</b>	<b>\$171,000</b>

Source: See Appendix 3.

The average working *year* is nearly 52 weeks, so we assume a full year of work at 35.3 hours per week. From this, we generate our key results: the total annual pay increase per worker is \$5,819; the total increase for all covered workers is \$14.4 million; and the average wage increase per firm will be \$200,000.

Considering now the impact by sector, it is clear that the heaviest proportionate impact will be on the 11 hotels in Santa Monica which have over \$3 million in annual sales. We estimate that these 11 firms employ 1262 workers earning below \$10.75. The average wage for these workers at present is \$7.51. From this we see that the average wage increase for these workers would be \$6,150, the total wage increase for all 1262 workers is \$7.8 million, and the average wage increase for the hotels will be \$709,000.

Six restaurants in the Coastal Zone report gross receipts over \$3 million. After allowing for the tipped-worker exemption for restaurants, the extent of the impact on these firms is well below that for hotels. We estimate that all waiters and bartenders, and one-half of all bussers earn more than 50 percent of their income from tips, and therefore will be exempt from coverage. Following this exemption, we estimate that 214 workers in restaurants—including primarily kitchen staff as well as half of all bussers—will be covered by the ordinance.<sup>5</sup> Their average raise will be \$6,222 and the total raise for all workers will come to \$1.3 million. The average wage increase for the six restaurants will therefore be \$222,000.

Finally, we see in Table 4.1 that 13 Coastal Zone retail stores report gross receipts in excess of \$3 million, and would therefore be covered by the ordinance. We estimate that these firms employ 453 workers presently earning below \$10.75. These workers will receive an average wage increase of \$4,892. The total increase in wages for these firms is \$2.2 million, and the average increase for the 13 stores is \$171,000.

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<sup>5</sup> In principle, of course, the servers, bartenders, and half of bussers that work in hotels should also be counted as exempt from the ordinance. But for reasons that we describe in Appendix 3, we were unable to make a reliable estimate of how many such workers include in this category. As such, our cost estimates for the hotel industry are likely to be slightly overstated.

Overall, the hotel, restaurants, and retail stores account for 30 of the 72 covered firms (42 percent), but employ 1929 of the 2477 (78 percent) of the covered workers. The remaining 42 Coastal Zone firms with gross receipts in excess of \$3 million include a wide range of sectors in Santa Monica. Among those that would also experience relatively high impacts, even though they employ fewer total workers than the hotels, restaurants and retail stores are amusement and recreational businesses, business service firms (primarily computer-related), and general merchandise stores. Firms that would be covered but that employ relatively few low-wage workers are the areas of legal services, printing and publishing, banking, real estate, engineering, and motion pictures.

Paid Days Off. In Table 4.2, we show the effects of providing 15 paid days off to covered workers. As the table shows, all workers in the covered firms now receive less than 15 paid days off. The average number of paid days off received by the covered workers is 7.7 per year. In fact, however, that average figure represents a bifurcated pattern among firms: some of the firms are already offering paid days off to many workers, while others offer it to almost none. We see this by observing the average paid days off provided among our three industry sectors: the hotel average is 9.1 days, while that for restaurants is only 2.7 days. Overall, we see that bringing all covered workers up to 15 paid days off will cost the covered firms \$1.2 million, i.e. about 8 percent of the amount of the direct wage increases.

Health Care Coverage. We provide figures on health benefits in Table 4.3. We divide workers receiving health benefits under the proposal into two categories. The first category is for workers without health benefits who also are earning below the mandated \$10.75 wage. Under the living wage proposal, employers of these workers will both have to give workers a wage increase to get them to a \$10.75 hourly rate, and will also have to pay an additional \$1.25—either to purchase the workers a health plan through the business or to provide the workers with the funds to purchase an individual plan. We estimate that, overall, 1501 workers would be covered

**Table 4.2**  
**Direct Cost of Paid Days Off with \$10.75 Living Wage Ordinance (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of workers below \$10.75 with less than 15 paid days off	2477	1262	214	453
Average paid days off for affected workers	7.7	9.1	2.7	4.9
Average hours of affected workers	35.3	36.5	33.8	33.6
<b>TOTAL COSTS</b>	<b>\$1.2 million</b>	<b>\$491,000</b>	<b>\$184,000</b>	<b>\$300,000</b>

Source: See Appendix 3.

**Table 4.3**  
**Cost of Health Benefits with \$10.75 Living Wage Ordinance (1999 dollars)**

<b>Category 1</b>	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
1. Number of workers below \$10.75 without health benefits	1501	621	169	325
2. Average weekly hours of category I workers	35.1	36.4	34.0	33.7
3. Cost of health benefits for category I workers (\$1.25 per hour per worker)	\$3.4 million	\$1.5 million	\$374,000	\$711,000
<b>Category 2</b>				
4. Number of workers between \$10.75 and \$12.00 without health benefits	153	48	11	45
5. Average weekly hours of category II workers	38.2	39.1	37.3	38.6
6. Cost of health benefits for category II workers (\$1.25 per hour per worker)	\$376,000	\$121,000	\$27,000	\$113,000
7. Total cost of health benefits [rows (3) + (6)]	\$3.8 million	\$1.6 million	\$401,000	\$824,000

Source: See Appendix 3.

by this health benefit stipulation in the 72 covered Coastal Zone firms. The cost to provide these workers with health coverage will be \$3.4 million.

In addition to these workers, the ordinance would also mandate that businesses provide \$1.25 in health benefits for those workers who now earn between \$10.75 and \$12.00. Workers without benefits in this situation constitute our “Category 2” of those covered by the health care provisions of the ordinance. As we see, extending \$1.25 in benefits to these workers would mean an additional \$376,000 in total new costs for the 72 covered firms.

Table 4.4 summarizes all direct costs to the 72 covered firms. In addition to the costs we have estimated—i.e. wage increases, additional paid days off and health benefits—the final mandated cost to firms will be the increase in payroll taxes resulting from the wage increases and the additional paid days off. We estimate total payroll taxes for California firms at 12.5 percent, including Social Security and Medicare (7.65 percent total), federal and state unemployment insurance (averaging 4.4 percent total), and state disability (0.5 percent) and the employer training program (0.1 percent). We have not included workers’ compensation insurance in our calculation, because of the difficulties of constructing a reliable average figure. The rates vary, for example, from 0.29 percent for clerical workers to 7.61 percent for drivers. By excluding workers’ compensation, our 12.5 percent figure for overall payroll tax increases should be considered a slight underestimate.<sup>6</sup>

As we see in the table, total direct costs for all 72 firms come to \$21.4 million, or \$297,000 per firm. Here again we see that by far the heaviest concentration of increased costs is with the 11 covered hotels. We estimate their overall direct cost increase at \$10.9 million, or an average of \$990,000 per firm. We estimate the average direct cost increase for the 6 covered restaurants at \$345,000 per firm while for the 13 retail stores, the average direct cost increase will be \$280,000.

**Table 4.4**  
**Total Direct Costs After Raise to \$10.75 (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Total wage increase	\$14.4 million	\$7.8 million	\$1.3 million	\$2.2 million
New paid days off	\$1.2 million	\$491,000	\$184,000	\$300,000
Payroll taxes on wage increase and paid days off (12.5% for all taxes)	\$2.0 million	\$1.0 million	\$186,000	\$315,000
New health benefits	\$3.8 million	\$1.6 million	\$401,000	\$824,000
<b>TOTAL DIRECT COSTS</b>	<b>\$21.4 million</b>	<b>\$10.9 million</b>	<b>\$2.1 million</b>	<b>\$3.6 million</b>
Number of covered firms	72	11	6	13
<b>AVERAGE TOTAL DIRECT COSTS PER FIRM</b>	<b>\$297,000</b>	<b>\$990,000</b>	<b>\$345,000</b>	<b>\$280,000</b>

Source: See Appendix 3.

### Indirect Costs: “Ripple” Effects

The indirect costs of implementing a living wage policy are its “ripple effects” that occur when some significant group of workers—but not all workers—in a covered firm get the mandated raise. While workers who are in roughly the same pay range don’t necessarily make the same wage or receive increases at the same rate, their pay and benefits packages tend to move together over time, generally in response to firms’ wage-setting policies and to local labor market conditions.<sup>7</sup>

With respect to the Santa Monica living wage ordinance, we apply the ripple effect concept to the wage increases and paid days off that employers give to employees *beyond* what is legally mandated. Because the health care provision of the ordinance already applies to workers earning up to \$12.00 an hour—i.e. beyond the \$10.75 living wage threshold—we are assuming that non-mandated additional gains from the ordinance would be concentrated through increases in wages and paid days off.

Once we exclude ripple effects via health benefits, three channels remain through which workers could receive a ripple effect gain resulting from a \$10.75 living wage mandate.

1) Wage increases for employees in covered firms who, prior to passage of the Santa Monica ordinance, were earning more than the California minimum wage of \$5.75 but less than the Coastal Zone minimum of \$10.75. Some of these employees will receive wage increases that put them above the Coastal Zone minimum. For example, workers currently earning \$10.70 would probably receive more than a nickel raise, given that those earning \$9.70 would be getting a \$1.05 increase.

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<sup>6</sup> Another factor contributing to a slight underestimate of total payroll taxes is that the state disability rate increased from 0.5 to 0.7 percent in April 2000, a change we have been unable to incorporate into our calculations.

<sup>7</sup> This effect was first described by the Harvard University labor economist and former Labor Secretary John Dunlop, for example, in his 1957 paper, “The Task of Contemporary Wage Theory”. His term for the phenomenon was the “wage contour” effect. David Card and Alan Krueger, among others, have more recently described this effect in *Myth and Measurement* (1995). They refer to it as the “ripple” or “spillover” effect.

2) Wage increase for employees who are now earning more than the Coastal Zone living wage of \$10.75 and who nevertheless receive a raise when the living wage policy becomes law.

3) Increases in paid days off for workers in covered firms earning above \$10.75 who now receive less than 15 paid days off. We also include in this category tipped workers who are exempt from mandated coverage but who do not receive 15 paid days off.

In approaching this issue, we begin by assuming that covered firms would extend the paid days off provision of the ordinance to *all* of its employees, not simply those now earning less than \$10.75. We do this because it is unlikely that workers earning the new minimum of \$10.75 would then also enjoy *more* paid days off than those earning higher wages.

This leaves us to estimate the force of the ripple effect affecting wages alone. This could potentially exert a large influence on establishing the overall cost increase of a living wage ordinance. At the same time, no evidence exists which would allow us to confidently predict the size of this effect, which, after all, is non-mandated. We therefore attempt to at least grasp the potential orders of magnitude that would be involved.

The key question in determining the size of the ripple effect on wages is how much of an increase in wage equality—i.e. “wage compression”—will occur in the firm after the lowest-paid workers receive their mandated raises. Recent research on the ripple effects arising due to increases in the federal minimum wage has found that the increases tend to diminish fairly rapidly at higher wage rates, which means that wages will become more equal within the affected firms.

For example, in studying the impact in Texas of the 1991 federal minimum wage increase from \$3.80 to \$4.25, Lawrence Katz and Alan Krueger (1992) found that, sorting restaurants according to their previous wage structure, only between 16-33 percent of the restaurants they sampled maintained the wage hierarchy under which they had operated prior to the minimum wage increase. The overwhelming majority allowed wage compression to occur as the lowest earners got mandated raises due to the new minimum. Among the restaurants with the lowest

initial starting wages, only nine percent granted wage increases to workers earning \$4.50 or above prior to the minimum wage rise to \$4.25.

The combined increase in California of both the national and statewide minimum wage between 1996-98 provides additional pertinent evidence on the strength of the ripple effect, specifically in this case, as it has been recently experienced in California. Between the two-step national minimum wage increase from \$4.25 - \$5.15 in 1996-97, and the two step statewide increase from \$5.00 - \$5.75 in 1997-98, the minimum wage in California rose by 35 percent—from \$4.25 to \$5.75—over two years.

In Tables 4.5, we examine the ripple effects of this minimum wage rise in two ways. Panel A summarizes the work of Michael Reich and Peter Hall (2000) which shows the change in the percentage of California workers falling below three wage thresholds—\$5.75, \$6.50 and \$7.25—over 1996-98, the years that the national and statewide minimum wages increased. As we see, a large drop occurred in the proportion of workers earning below \$5.75—from 11.8 percent to 5.8 percent, amounting to a rate of decline of 50.1 percent. Meanwhile, those below the \$6.50 wage threshold declined from 18.2 to 14.9 percent, a rate of decline of 18.1 percent, far less than that for the \$5.75 threshold. Finally, the decline in the proportion of workers earning below \$7.25 fell from only 21.8 to 20.8 percent, a decline of 4.6 percent. Thus, with this recent California experience, we again see strong evidence of wage compression—which is to say, a weak ripple effect—subsequent to the minimum wage increases.

In Panel B, we report on our own efforts to roughly measure actual magnitudes for the 1996-98 ripple effect. To do this, we calculated median wage rates around four different wage categories between October 1995-September 1996, i.e. the 12-month period just prior to the initial October 1996 minimum wage rise. We then calculate the median wage increase for workers within each of the wage categories through September 1998, i.e., incorporating a full three-year period during which the minimum wage rose from \$4.25 to \$5.75. We provide details of our estimating methodology in Appendix 4.

**Table 4.5**  
**Ripple Effects After California Minimum Wage Increases**

**A. Percentage of Workers Earning Below \$5.75, \$6.50 and \$7.25, 1996-98**

	Below \$5.75	Below \$6.50	Below \$7.25
1996	11.8	18.2	21.8
1997	10.9	16.9	20.4
1998	5.8	14.9	20.8
percentage point decline, 1996-98	-6.0	-3.3	-1.0
rate of decline, 1996-98 $(x_{96} - x_{98})/x_{96}$	-50.1	-18.1	-4.6

Source: Reich and Hall (2000)

**B. Median Wage Change Among Workers Retaining Jobs,  
October 1995 – September 1998**

Wage Range 10/95 – 9/96	Median Wage Increases 10/95 – 9/98	Percentage Wage Increase Relative to Lowest Wage Category (column 2/51.0)
\$4.25 - \$4.99	51.0%	100.0%
\$5.00 - \$5.74	38.6	75.7
\$5.75 - \$6.49	16.7	32.7
\$6.50 - \$7.24	16.6	32.5

Source: Current Population Survey, California. See Appendix 4 for details.

We show wage changes for four different wage categories—\$4.25-\$4.99 to begin with, then rising in 75 cent increments up through \$6.50-\$7.24. Here again, the evidence for wage compression is clear. We estimate that workers earning between \$4.25-\$4.99 between 10/95 and 9/96 experienced a median wage increase of 51 percent by the latter part of 1998. Median wages for those in the second wage category rose by 38.6 percent, i.e. about 3/4 the rate for those in the lowest category. The median increase for those in the two upper wage categories—16.6 and 16.7 percent—was slightly less than 1/3 that of the lowest category. In short, we again see quite substantial wage compression in California subsequent to the median wage increases. The magnitudes that we observe here for the relative wage increase can now serve as guidelines in attempting to estimate roughly what the ripple effects would likely be in response to implementing a Santa Monica living wage ordinance. Of course, the two situations are not fully analogous, since the wage increase through the Coastal Zone ordinance is much larger than what occurred in California between 1996-97, while the coverage for a Coastal Zone ordinance would be a minute fraction of the statewide measure. Nevertheless, the recent California experience should provide insight as to how relative pay structures may change within covered firms subsequent to a minimum wage increase. Regardless of the breadth of coverage for a minimum wage measure, at the level of individual firms, its impact will reflect the operation of pay ladders within these firms. In addition, it is likely that beyond a certain point, larger mandated wage gains will increase the resistance of firms to extending gains to their better paid uncovered employees. This suggests that the much larger wage increase resulting from a \$10.75 ordinance would yield a proportionally smaller ripple effect. Thus, to err on the side of higher costs, it follows that with the \$10.75 Coastal Zone measure, we should assume ripple wage increases for covered firms to be roughly proportionate to the 1996-98 California experience.

Should we expect any ripple gains to spread beyond the covered firms? Here, of course, the analogy between the statewide California and the tightly concentrated Coastal Zone measures breaks down. We are forced to fall back on reasoning alone. Our sense is that, allowing that

ripple effects within covered firms themselves is generally weak, it is likely to be still weaker with uncovered firms, even for workers within the \$5.75 - \$10.75 pay range. This should be particularly true with a measure with the reach of the Coastal Zone proposal, i.e. with the roughly 2,500 covered workers representing 0.02 percent of the 1.3 million greater Los Angeles low wage labor market. Within this labor market, it does not seem plausible that 1.3 million low-wage workers could significantly increase their wage-bargaining leverage simply because 2,500 of them received large mandated wage increases.

Workers' bargaining power may well rise if labor market conditions remain tight, producing broadly-based wage increases. The passage of a \$10.75 Coastal Zone ordinance may then contribute toward setting a new wage norm over which firms and workers would bargain. But if this were to occur, it would be because the living wage ordinance had *combined* with the tight labor market to yield upward wage pressure. Moreover, were labor market conditions to then slacken, the force of the living wage ordinance as a benchmark would likely diminish as well.

Before considering our estimates themselves, it will be useful to consider one final piece of evidence on ripple effects: the responses of Santa Monica businesses themselves as to whether they would give raises beyond what was mandated in response to a \$10.75 minimum wage ordinance. In Table 4.6, we show the results from our survey of Santa Monica businesses to this question. As we see, most firms believe that they would not extend raises beyond the mandate—64 percent of all businesses and 85.7 percent of hotels responded that they were “very unlikely” to provide raises beyond \$10.75. Still 33.4 percent of all respondents, and 37.7 percent from the restaurant industry, were either “not sure” or likely to some degree that they would give raises. In general then, these results are broadly consistent with other research and our own findings suggesting that ripple effect raises will occur, though only to a modest degree.

**Table 4.6**  
**Survey Response by Businesses on Giving Raises to**  
**Workers Above a Mandated \$10.75 Increase**  
**(figures are percentages)**

	<u>All Firms</u>	<u>Hotels</u>	<u>Restaurants</u>
<b>Very likely</b>	14.0	0	16.4
<b>Somewhat likely</b>	8.8	14.3	7.0
<b>Not sure</b>	10.6	0	14.3
<b>Somewhat unlikely</b>	2.5	0	4.4
<b>Very unlikely</b>	64.2	85.7	58.0

Source: PERI surveys of Santa Monica businesses (2000)

Estimating Wage Ripple Effects for \$10.75 Coastal Zone Ordinance

Wage ripple. We present our estimates of the wage ripple effect for the 72 covered Coastal Zone firms in Table 4.7. We based these estimates on the following assumptions:

First, we assume that all workers employed in the covered firms earning between \$10.00 - \$10.74 will receive a 75-cent wage increase. We count all of their increases up to the \$10.75 mandated raise as part of the increased mandated costs. The wage increases for this group that exceed \$10.75 are counted as ripple effect increases. Thus, for \$10.70 workers, their raise up to \$10.75 is counted as mandated, but their raise between \$10.76 and \$11.45 is counted as a wage ripple increase. We then calculate the average overall percentage raise increase—the mandated and ripple raises—for this \$10.00 - \$10.74 category of workers. As the table shows, that increase is 7.4 percent.

Next, following the pattern for ripple effects in California between 1996-98, we then assume workers earning between \$10.75- \$13.00 will also get wage ripple raises. As we see in Table 4.7, we break this group of workers into two wage categories, \$10.75 - \$11.49 and \$11.50 - \$13.00.

Following the 1996-98 pattern in California, we assume that those in the 75-cent wage range above the mandated raise—i.e. those making between \$10.75 - \$11.49—receive ripple effect increases equal to 75 percent of the full increase received by workers in the \$10.00 - \$10.74 category. As we see in the table, that means that each worker earning between \$10.75 and \$11.49 receives a 5.6 percent wage increase.

Still following the 1996-98 wage ripple pattern for California, we assume that all workers earning between \$11.50 - \$13.00 an hour—i.e. between 75 cents and \$2.25 above the mandated \$10.75 minimum—would receive raises equal to 35 percent of the mandated raise.

Table 4.7 finally shows the results of applying this set of assumptions to the workers currently employed by covered Coastal Zone firms. We see, first, that there are approximately 310 workers earning between \$10.00 and \$10.74. By granting each of these workers a 75-cent

**Table 4.7**  
**Ripple Effect on Wages:**  
**Indirect Wage Costs to Firms After Mandated Raise to \$10.75**

<b>Pre-ordinance wage range</b>	<b>Total workers in category</b>	<b>Average hours per week</b>	<b>Average wage before raise</b>	<b>New average wage</b>	<b>Total wage increase above \$10.75</b>
\$10.00 - \$10.74	310	36.2	\$10.11	\$10.86 +7.4%	\$64,000
\$10.75 - \$11.49	115	38.6	\$11.03	\$11.64 +5.6%	\$141,000
\$11.50 - \$13.00	279	38.6	\$12.04	\$12.35 +2.6%	\$174,000
<b>Total</b>	<b>704</b>				<b>\$379,000</b>
<b>Ripple wage effect by sector</b>	<b>Total workers affected</b>	<b>Total wage increase</b>			
Hotels	278	\$131,000			
Restaurants	21	\$21,000			
Retail	151	\$91,000			

Source: See Appendix 3.

wage increase, their total raise *above* \$10.75 generates \$64,000 in additional wage costs to the covered firms.

Above this category, 115 workers earn between \$10.75 and \$11.49 within the covered firms. Granting each of these workers a 5.6 percent raise generates \$141,000 in new wage costs. Finally, the 279 workers earning between \$11.50 and \$13.00 all receive a 2.6 percent wage increase, producing another \$174,000 in new wage costs.

Our estimate of the total wage ripple effect therefore amounts to \$379,000. The lower panel of Table 4.7 shows how the overall wage ripple effect breaks down among the covered hotels, restaurants, and retail stores.

Paid Days Off Ripple. Table 4.8 shows our estimates of the costs that would result from providing 15 paid days off to all workers earning above \$10.75 in the 72 covered Coastal Zone firms. As we see, the total number of workers in this category is 2078. At present, these workers receive an average of 10.7 paid days off, and their average work week is 38.7 hours. This generates our total ripple effect estimate of \$1.8 million dollars. Breaking down these costs, the largest proportionate share of these costs this time falls to retail stores, at \$411,000. This figure reflects the larger number of employees in these firms—a total of 445 workers, as opposed to 339 in the hotels and 87 in the restaurants—presently earning wages above \$10.75 but who still receive less than 15 paid days off.

#### Total Indirect Costs

Table 4.9 brings together both the wage ripple effect and the effect for paid days off. It then also calculates the associated payroll tax increases (totaling 12.5 percent of the increases in wages and paid days off). This enables us to calculate total indirect costs. As we see, these indirect costs amount to \$2.5 million, or an average of \$34,000 for our 72 firms. Broken down by sectors, the cost increase for hotels would also average \$34,000, that for restaurants is \$20,000, while for retail stores, the figure is again higher at \$43,000 per firm.

**Table 4.8**  
**Ripple Effect on Paid Days Off:**  
**Providing 15 Paid Days Off to All Workers Earning Above \$10.75, (1999 dollars)**

	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
Number of workers below \$10.75 with less than 15 paid days off	2078	339	87	445
Average paid days off for affected workers	10.7	10.8	10.6	10.6
Average hours of affected workers	38.7	39.3	38.4	38.5
<b>TOTAL COSTS</b>	<b>\$1.8 million</b>	<b>\$203,000</b>	<b>\$87,000</b>	<b>\$411,000</b>

Source: See Appendix 3.

**Table 4.9**  
**Total Indirect Costs to Covered Firms After Raise to \$10.75 (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Ripple effect wage increase	\$379,000	\$131,000	\$21,000	\$91,000
Ripple effect on paid days off	\$1.8 million	\$203,000	\$87,000	\$411,000
Payroll taxes on ripple wage and paid days off increases	\$272,000	\$42,000	\$13,000	\$63,000
Total indirect costs	\$2.5 million	\$376,000	\$121,000	\$565,000
Number of covered firms	72	11	6	13
Average total indirect costs per firm	\$34,000	\$34,000	\$20,000	\$43,000

Source: See Tables 4.7 and 4.8.

### Total Costs

Table 4.10 brings together all costs of a \$10.75 ordinance, showing the figures for each component of total costs, and the percentage contributions of each cost component to the total. We see that, for all 72 covered Coastal Zone firms, our estimate of total costs is \$24.0 million. Of these total costs, the direct wage increases account for 60 percent of the total. All direct costs amount to 89 percent of the total. Of the indirect costs, the ripple paid days generates higher costs than the ripple wage increase. This is because of the large number of covered firms that are presently providing less than 15 paid days off to higher-wage workers. We can see from our sectoral breakdown that this factor is much more significant for retail stores than hotels or restaurants, which do not have nearly as high a proportion of workers presently earning over \$10.75.

Overall with the sectors, we again see that the 11 covered hotels are affected far more heavily than either the restaurants or retail stores. We estimate the total cost increase for the hotels as \$11.3 million, of which 69 percent of this total increase is due to direct wage costs. We also project that the total cost increase would be \$2.2 million for the six covered restaurants, and \$4.2 million for the 13 retail firms.

### Total Costs Relative to Gross Receipts

In Table 4.11, we provide figures on the total costs to covered Coastal Zone firms of the \$10.75 ordinance *relative* to the total gross receipts received by these firms in 1999. This is the crucial last step in estimating cost effects of the proposed ordinance, because it is the basis on which we can begin to assess the likely impact of the proposal on the covered firms operations. That is, we cannot know if a \$1 million cost increase would be large or small until we compare that increase with some appropriate yardstick of the firm's scale of operations.

A firm's gross receipts is not the only appropriate standard one might use in assessing the impact of living wage cost increases. A firm's total cost of producing goods and services would be another appropriate measure. But using gross receipts as our standard seems particularly

**Table 4.10**  
**Total Costs of \$10.75 Living Wage Ordinance (1999 dollars)**

<b>Direct Costs</b>	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
Total wage increases <i>(% of total increase)</i>	\$14.4 million 60.0%	\$7.8 million 69.0%	\$1.3 million 59.1%	\$2.2 million 52.0%
Paid days off <i>(% of total increase)</i>	\$1.2 million 5.0%	\$491,000 4.3%	\$184,000 8.4%	\$300,000 7.1%
Payroll taxes on wages <i>(% of total increase)</i>	\$2.0 million 8.3%	\$1.0 million 8.8%	\$186,000 8.5%	\$315,000 7.5%
Health benefits <i>(% of total increase)</i>	\$3.8 million 15.8%	\$1.6 million 14.2%	\$401,000 18.2%	\$824,000 19.6%
<b>Total Direct Costs</b> <i>(% of total increase)</i>	<b>\$21.4 million</b> <b>89.2%</b>	<b>\$10.9 million</b> <b>96.5%</b>	<b>\$2.1 million</b> <b>95.5%</b>	<b>\$3.6 million</b> <b>85.7%</b>
<b>Indirect Costs</b>				
Ripple wage increases <i>(% of total increase)</i>	\$379,000 1.6%	\$131,000 1.2%	\$21,000 1.0%	\$91,000 2.2%
Ripple paid days off <i>(% of total increase)</i>	\$1.8 million 7.5%	\$203,000 1.8%	\$87,000 4.0%	\$411,000 9.8%
Payroll taxes on ripple effects <i>(% of total increase)</i>	\$272,000 1.1%	\$42,000 0.4%	\$13,000 0.6%	\$63,000 1.5%
<b>Total Indirect Costs</b> <i>(% of total increase)</i>	<b>\$2.5 million</b> <b>10.4%</b>	<b>\$376,000</b> <b>3.3%</b>	<b>\$121,000</b> <b>5.5%</b>	<b>\$565,000</b> <b>13.5%</b>
<b>TOTAL COSTS</b>	<b>\$24.0 million</b>	<b>\$11.3 million</b>	<b>\$2.2 million</b>	<b>\$4.2 million</b>

Source: See Tables 4.4 and 4.9.

Note: Percentages may not add up to 100 due to rounding.

**Table 4.11**  
**Total Costs of \$10.75 Living Wage Ordinance**  
**Relative to Covered Firms Gross Receipts (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
1. Direct mandated costs	\$21.4 million	\$10.9 million	\$2.1 million	\$3.6 million
2. Total costs of ordinance	\$24.0 million	\$11.3 million	\$2.2 million	\$4.2 million
3. Total number of firms	72	11	6	13
<b>4. Total costs per firm [rows (2)/(3)]</b>	<b>\$333,000</b>	<b>\$1.0 million</b>	<b>\$367,000</b>	<b>\$323,000</b>
5. Total gross receipts	\$604.9 million	\$108.3 million	\$22.8 million	\$148.5 million
<b>6. Direct mandated costs as a percentage of gross receipts [rows (1)/(5)]</b>	<b>3.5%</b>	<b>10.1%</b>	<b>9.2%</b>	<b>2.4%</b>
<b>7. Total mandated and ripple costs as a percentage of gross receipts [rows (2)/(5)]</b>	<b>3.9%</b>	<b>10.4%</b>	<b>9.6%</b>	<b>2.8%</b>

Source: See Table 4.10 and Appendix 3.

appropriate for two reasons. First, we use this same gross receipts measure in developing the \$3 million coverage threshold for the ordinance. In addition, our gross receipts figures for all covered firms should be basically accurate, given that we have obtained these figures from the City's business license records.

We present estimates in Table 4.11 of relative costs both with respect to the *direct mandated costs only* due to the \$10.75 ordinance and inclusive of *all direct and indirect costs*. For all 72 covered firms, we see that direct cost increases due to the \$10.75 ordinance would amount to 3.5 percent of the firms total gross receipts, and total cost increases will sum to 3.9 percent of gross receipts.

In considering the figures for the three major sectors, we see that the 3.9 percent average figure is not representative either for the 11 covered hotels or the six restaurants. With the hotels, the \$11.3 million cost increase amounts to an average of 10.4 percent of these firms' total gross receipts. For the six restaurants, the \$2.2 million in total costs equals 9.6 percent of total gross receipts. In short, for both the covered hotels and restaurants, the cost increases associated with the \$10.75 ordinance represents about 10 percent of these firms total gross receipts. This same average figure is far lower, at 2.8 percent, for the 13 covered retail stores. For the remaining 42 covered firms—the 58 percent of all covered firms that are outside the hotel, restaurant or retail industries—the overall cost ratio would be only 1.9 percent.

Based on these estimated cost ratios, we can conclude that, of all the covered firms, the hotels and restaurants would have to make the most substantial adjustments to a \$10.75 ordinance. The remaining firms—constituting 76 percent of all covered businesses, including the retail stores—will only need to consider modest adjustments, reflecting the modest relative cost increases they would incur. In the next section of the study, we consider how firms are likely to respond to cost increases of this extent. Before doing so, however, we present an abbreviated version of the same set of cost estimates based on a living wage mandate of \$9.50 rather than \$10.75.

### Estimated Costs of \$9.50 Ordinance

In estimating the effects of the ordinance at \$9.50, we assume all other stipulations of the ordinance remain unchanged. That is, first, the ordinance would still operate with a coverage threshold of \$3 million in sales or gross receipts. We assume that all servers and bartenders, and half of all bussers in the covered restaurants earn more than half of their income from tips, and are therefore exempt from coverage. Their minimum wage rate remains at the California minimum of \$5.75. Covered firms would have to provide 15 paid days off to all their employees earning the \$9.50 mandated minimum hourly wage. Firms would also be obligated to provide \$1.25 in health benefits for their uncovered workers earning up to \$10.75, i.e. \$1.25 over the wage mandate. We also assume that the ripple effects for wages and paid days off would operate exactly as with the \$10.75 proposal, after adjusting for the lower wage mandate. By maintaining this continuity between the two proposals, we are able to focus on how changing the wage mandate will itself alter the overall effects of the ordinance.

Table 4.12 provides figures on the direct wage costs to firms of a \$9.50 Coastal Zone ordinance. Of course, this ordinance would still cover the same 72 firms as previously, since it is the gross receipts of Coastal Zone firms, not the mandated wage level, that establishes their coverage.

For this \$9.50 ordinance, we estimate that the total number of workers covered is 2099, that is, about 15 percent less than the 2477 covered with the \$10.75 proposal. The direct wage increase for these workers comes to \$9.1 million, which is about 63 percent of the \$14.4 million under the \$10.75 proposal. The average wage increase for the 72 covered firms would now be \$126,000, as opposed to \$200,000 with the \$10.75 measure.

Table 4.12 also again reports figures for the three major covered sectors, hotels, restaurants, and retail. With hotels, 1116 workers receive raises up to \$9.50, amounting to an average increase of \$442,000 per firm, 40 percent less than the \$707,000 increase with the \$10.75

**Table 4.12**  
**Direct Wage Costs to Covered Firms After Raise to \$9.50**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of firms covered	72	11	6	13
Number of workers below \$9.50	2099	1116	189	368
of which, full time	1309	780	104	146
of which, part-time	790	336	85	222
Average working hours per week	35.2	36.4	33.2	32.7
Average hourly wage before ordinance	\$7.14	\$7.20	\$6.78	\$7.41
Average hourly wage increase	\$2.36	\$2.30	\$2.72	\$2.09
Average total wage increase per worker	\$4,320	\$4,353	\$4,696	\$3,554
<b>Total wage increase, all workers</b>	<b>\$9.1 million</b>	<b>\$4.9 million</b>	<b>\$888,000</b>	<b>\$1.3 million</b>
<b>Average wage increase per firm</b>	<b>\$126,000</b>	<b>\$442,000</b>	<b>\$148,000</b>	<b>\$101,000</b>

Source: See Appendix 3.

proposal. With restaurants, the direct wage increase per firm comes to \$148,000, 33 percent less than the \$10.75 proposal.

Table 4.13 reports the results of all our calculations for a \$9.50 ordinance, including all direct and indirect costs. We again also show the percentages of the total cost increase generated by each component of total costs. As the table shows, we estimate that total costs for the 72 firms comes to \$17.3 million, 25 percent less than the \$24.0 million generated by the \$10.75 proposal. Direct costs fall from 89.2 to 84.4 percent of the total cost increase. This is due to the effect of assuming, as a ripple effect, that covered firms will have to provide at least 15 paid days off to all of their employees, regardless of their wage rate. This paid days off ripple effect accounts for 11 percent of the total cost increase of a \$9.50 ordinance, more than three times the size of the wage ripple effect under a \$9.50 ordinance.

In terms of the sectoral effects, we see that the cost increases for hotels is still by far the largest, at \$7.7 million, 45 percent of the total increase for all covered firms. Nearly 64 percent of their increased costs would be due to direct effects of the rise to a \$9.50 minimum wage. With restaurants and retail firms, the direct wage increase accounts for substantially less—52.2 percent for restaurants and 43.3 percent for retail firms. The major difference with these sectors relative to hotels are their higher proportionate costs of health benefits and the ripple paid days off cost increases, especially with the retail firms.

Finally for a \$9.50 ordinance, Table 4.14 shows total cost increases as a percentage of covered firms' gross receipts. Again, we report figures for direct mandated costs and total direct and indirect cost increases relative to gross receipts. We see that with the \$9.50 ordinance, the average direct mandated cost rise is 2.4 percent of the gross receipts of covered firms, and the total cost increase is 2.9 percent of gross receipts.

In terms of sectors, the 11 hotels and six restaurants would again face cost increases of comparable magnitudes relative to their gross receipts—a 7.1 percent cost increase for hotels and

**Table 4.13**  
**Total Costs of \$9.50 Living Wage Ordinance (1999 dollars)**

<b>Direct Costs</b>	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
Total wage increases <i>(% of total increase)</i>	\$9.1 million 52.6%	\$4.9 million 63.6%	\$888,000 52.2%	\$1.3 million 43.3%
Paid days off <i>(% of total increase)</i>	\$884,000 5.1%	\$384,000 5.0%	\$141,000 8.3%	\$209,000 7.0%
Payroll taxes on wages <i>(% of total increase)</i>	\$1.2 million 6.9%	\$661,000 8.6%	\$129,000 7.6%	\$189,000 6.3%
Health benefits <i>(% of total increase)</i>	\$3.4 million 19.7%	\$1.3 million 16.9%	\$324,000 19.1%	\$561,000 18.7%
<b>Total Direct Costs</b> <i>(% of total increase)</i>	<b>\$14.6 million</b> <b>84.4%</b>	<b>\$7.2 million</b> <b>93.5%</b>	<b>\$1.5 million</b> <b>88.2%</b>	<b>\$2.3 million</b> <b>76.7%</b>
<b>Indirect Costs</b>				
Ripple wage increases <i>(% of total increase)</i>	\$553,000 3.2%	\$223,000 2.9%	\$34,000 2.0%	\$128,000 4.3%
Ripple paid days off <i>(% of total increase)</i>	\$1.9 million 11.0%	\$256,000 3.3%	\$104,000 6.1%	\$459,000 15.3%
Payroll taxes on ripple effects <i>(% of total increase)</i>	\$307,000 1.8%	\$60,000 0.8%	\$17,000 1.0%	\$73,000 2.4%
<b>Total Indirect Costs</b> <i>(% of total increase)</i>	<b>\$2.8 million</b> <b>16.2%</b>	<b>\$539,000</b> <b>7.0%</b>	<b>\$155,000</b> <b>9.1%</b>	<b>\$660,000</b> <b>22.0%</b>
<b>TOTAL COSTS</b>	<b>\$17.3 million</b>	<b>\$7.7 million</b>	<b>\$1.7 million</b>	<b>\$3.0 million</b>

Source: See Appendix 3.

Note: Percentages may not add up to 100 due to rounding.

**Table 4.14**  
**Total Costs of \$9.50 Living Wage Ordinance**  
**Relative to Covered Firms Gross Receipts (1999 dollars)**

	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
1. Direct mandated costs	\$14.6 million	\$7.2 million	\$1.5 million	\$2.3 million
2. Total costs of ordinance	\$17.4 million	\$7.7 million	\$1.7 million	\$3.0 million
3. Total number of firms	72	11	6	13
<b>4. Total costs per firm</b> [rows (2)/(3)]	<b>\$242,000</b>	<b>\$700,000</b>	<b>\$283,000</b>	<b>\$231,000</b>
5. Total gross receipts	\$604.9 million	\$108.3 million	\$22.8 million	\$148.5 million
<b>6. Direct mandated costs as a percentage of gross receipts</b> [rows (1)/(5)]	<b>2.4%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>1.5%</b>
<b>7. Total mandated and ripple costs as a percentage of gross receipts</b> [rows (2)/(5)]	<b>2.9%</b>	<b>7.1%</b>	<b>7.5%</b>	<b>2.0%</b>

Source: See Appendix 3.

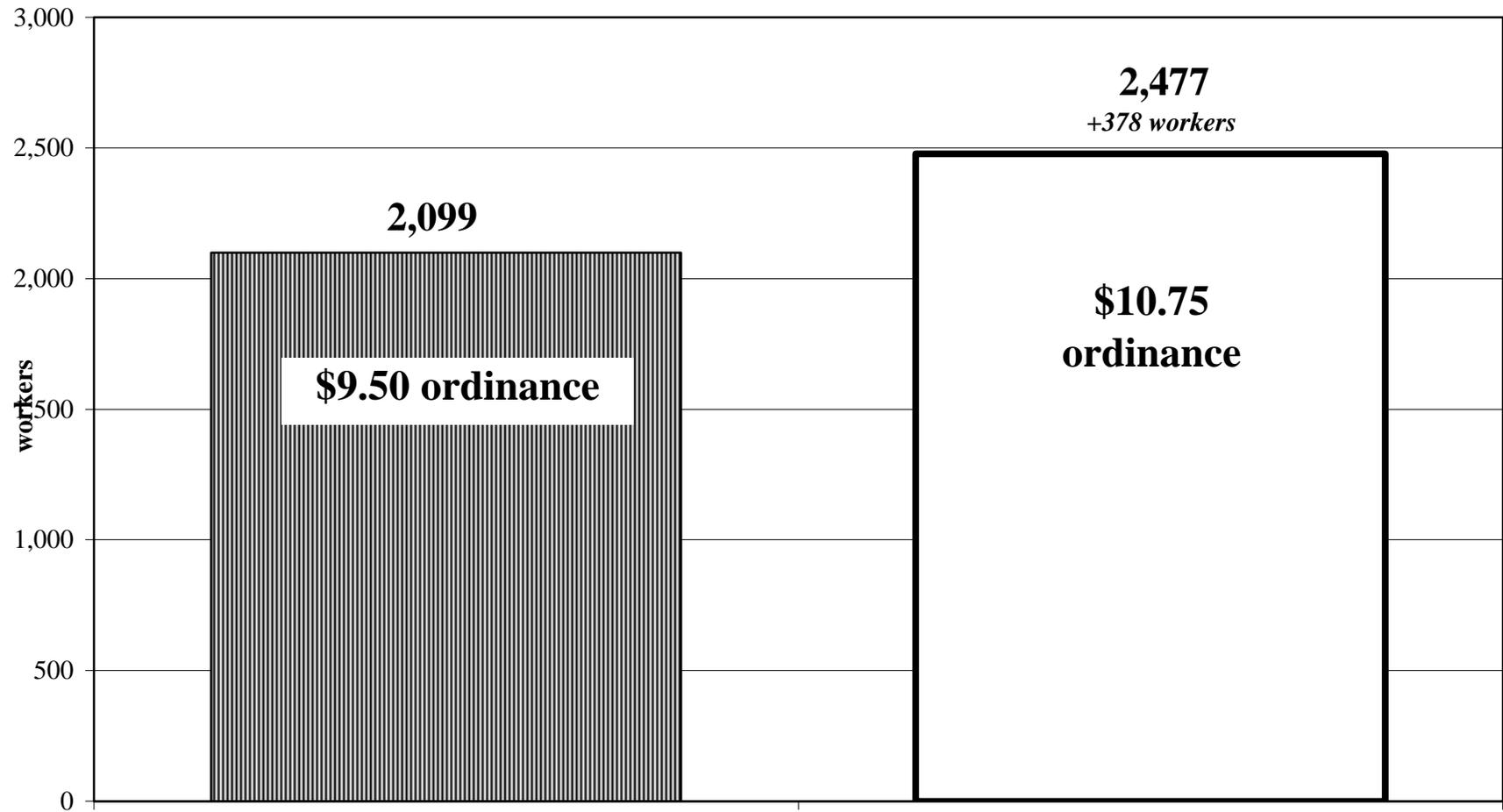
7.5 percent increase for restaurants. The total cost increase for retail firms now falls to 2.0 percent of their gross receipts.

#### Comparison of \$9.50 and \$10.75 Ordinances

In Figures 4.1 – 4.3, we provide some summary comparative statistics between a \$9.50 and \$10.75 Coastal Zone ordinance. We see in Figure 4.1 that, by our estimate, the \$10.75 proposal would directly cover 378 more workers, a total of 2477 versus 2099. Figure 4.2 shows the average wage increase would be 81 cents per hour more under the \$10.75 ordinance. In Chapter 8 of this study, we examine effects of this hourly wage differential on annual net income for low-wage families.

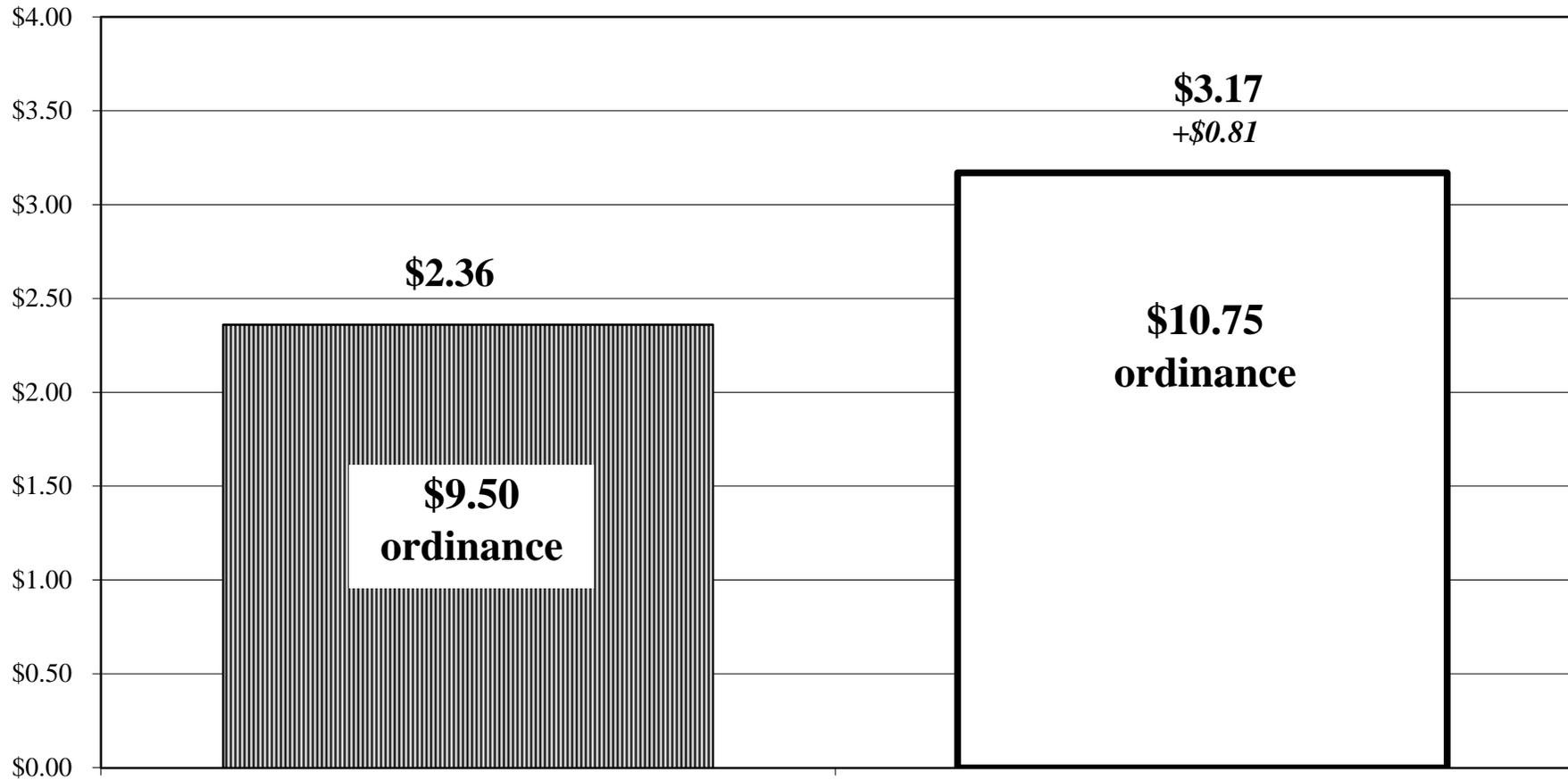
Finally, in Figure 4.3 we show differences in total costs of the \$9.50 and \$10.75 ordinances relative to firms' gross receipts. Of course, the \$9.50 ordinance generates lower relative costs. But for all firms, we estimate that this difference amounts to an average of only one percentage point of gross receipts. At the same time, for the covered hotels and restaurants, the sectors most heavily affected by the ordinance, the relative cost differences are substantially larger at around three percentage points of gross receipts.

**Figure 4.1 Comparison of \$9.50 and \$10.75 Coastal Zone Ordinances:  
*Number of Workers Directly Covered***



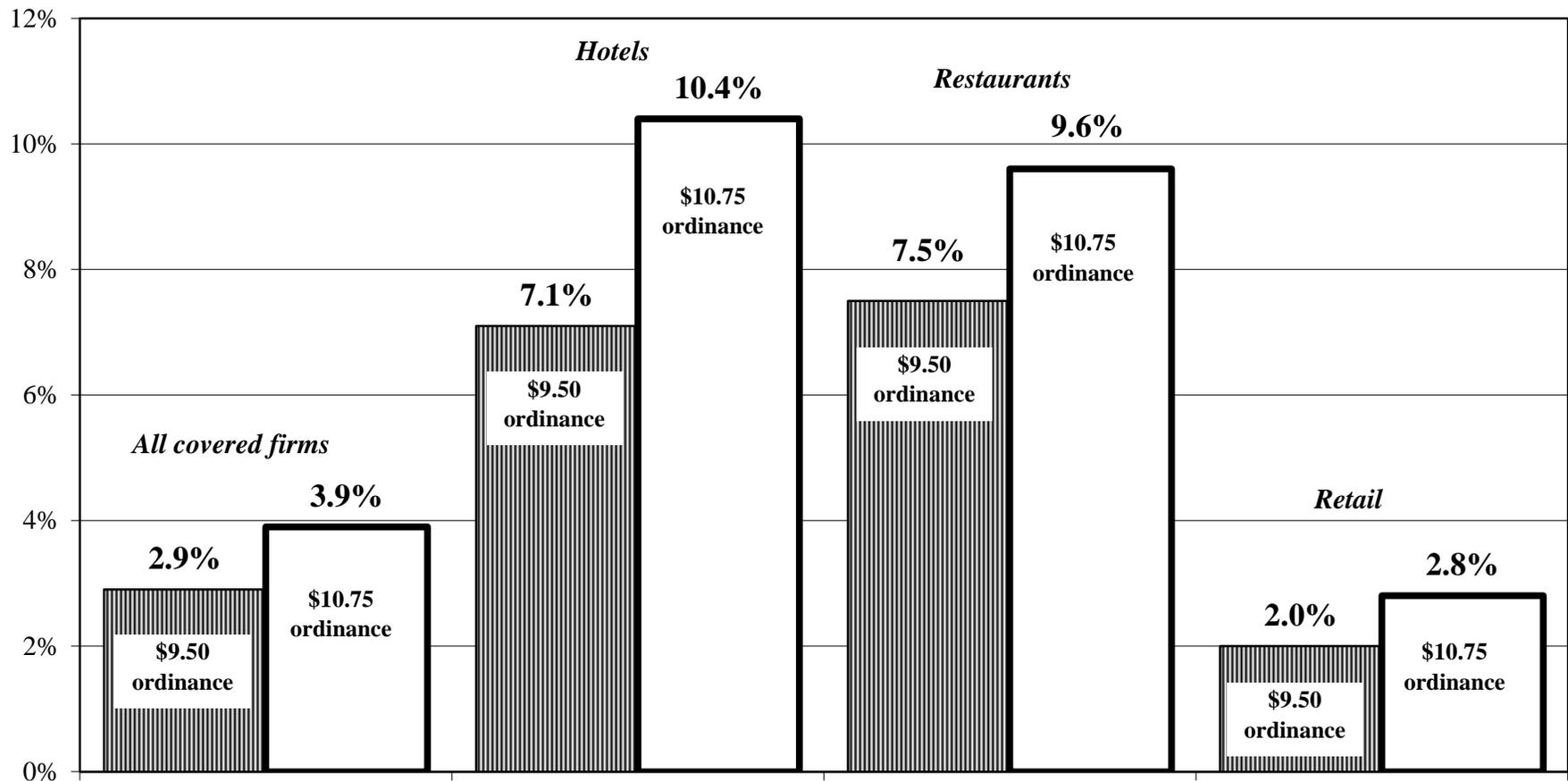
Source: See Appendix 3.

**Figure 4.2**  
**Comparison of \$9.50 and \$10.75 Coastal Zone Ordinances:**  
**Average Hourly Wage Increase for Directly Covered Workers**



Source: See Appendix 3.

**Figure 4.3**  
**Comparison of \$9.50 and \$10.75 Coastal Zone Ordinances:**  
*Average Total Costs Relative to Gross Receipts*



Source: See Appendix 3.

## **CHAPTER 5. ALTERNATIVE BUSINESS RESPONSES TO LIVING WAGE COST INCREASES**

An increase in the Coastal Zone minimum wage to \$10.75 or even \$9.50, along with health and paid days off provisions, will obviously require adjustments in the business operations of the covered firms. It is also apparent that the extent of these adjustments will depend on the magnitude of the cost increase for the covered firms relative to their scale of operations. In other words, the issues of adjustment are especially pertinent for the high-impact sectors of the Coastal Zone, i.e. the 11 hotels and 6 restaurants, which we estimate would experience an increase in total costs on the order of 10 percent of their gross receipts through a \$10.75 ordinance. Adjustment issues will be far less pressing, though still of concern, for low-impact sectors—the retail stores and other Coastal Zone firms for which we estimate a total cost increase on the order of 2.0 – 2.5 percent relative to their gross receipts. Thus, our discussion of issues of adjustment will focus on the restaurants and most especially the hotels, though we also will raise general issues that are pertinent to the low-impact sectors as well.

Two types of adjustment processes are most frequently the focus of discussions in considering the impact of raising minimum wages at the national, statewide or municipal levels. The first is *unemployment*, or, more specifically, that the covered Coastal Zone businesses will lay off workers and will become more reluctant to hire new employees, thus creating job losses and fewer opportunities for the working poor. The second is *business relocation*, that is, to avoid paying the higher minimum wage, covered Coastal Zone firms will move out of the covered area. Firms considering moving into Coastal Zone that have over \$3 million in gross receipts will correspondingly be discouraged from doing so. Such moves would then create job losses and fewer opportunities for the low-wage workers. Since the purpose of raising the Coastal Zone minimum wage is to improve living standards and create better employment opportunities for low-wage workers and their families, an increase in employment losses or relocations out of the

area would obviously be an unintended and undesirable consequences of passing such a measure into law.

However, laying off workers or relocating are not the only ways that businesses might adjust to a Coastal Zone minimum wage increase. In fact, there are three other ways that firms might respond. They are that 1) businesses would raise prices; 2) low-wage employees would receive a relatively greater share of firms' total wage, salary and profit income; and 3) firms would operate more productively. At least initially, these three other adjustment paths are likely to be the primary channels through which the covered firms adjust to the ordinance, since they can be accomplished more readily and at lower costs than either laying off workers or relocating. Thus, once we assess how significant these adjustment processes are likely to be in absorbing the costs of a Coastal Zone living wage, we can then better evaluate concerns about unemployment or business relocations stemming from the ordinance.<sup>8</sup>

We will utilize our estimates of business costs as well as additional relevant data and research in assessing the likelihood of various firm adjustment strategies. We will also make use of the questions we asked of businesses as to how they anticipated they would respond to implementation of a living wage ordinance. In question E2 of the survey, we asked “how would your firm respond to such a cost increase,” referring to a living wage mandate set at both \$10.75 and \$8.25. We evaluated the following nine possible responses:

- 1) Raise prices
- 2) Reduce employment (layoff workers)
- 3) Hire fewer workers in the future
- 4) Give raises to workers earning above \$10.75
- 5) Change hiring standards

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<sup>8</sup> Our approach toward analyzing the covered firms' likely adjustment mechanisms follows the spirit of the so-called Hicks-Marshall “law of derived demand,” through which one can systematically evaluate the factors that would influence whether a rise in the minimum wage could create employment losses. Expressed in non-technical terms, the Hicks-Marshall law would conclude that an increase in the minimum wage would not significantly reduce demand for labor if 1) the demand for products being sold by firms paying the higher minimum wage is not strongly influenced by price changes; 2) the production process which includes low-wage workers cannot be readily reorganized to reduce the need for the low-wage workers' contributions; and 3) the costs of employing the low-wage workers is a small share of the firm's total costs of production.

- 6) Try to reduce other costs
- 7) Relocate to a lower cost area
- 8) Operate with smaller profit margins
- 9) Close your business

For each of these options, we asked the respondents to rank the likelihood that they would utilize such an adjustment mechanism. The scale ranking was from one to five with one being the highest.

We encounter various problems in interpreting these business response questions. In general, it is difficult for businesses to accurately predict how they would react to a minimum wage increase, since they cannot know in advance how other variables that influence their actions might also change: they cannot know in advance, for example, how their customers would react to a price increase on the order of 5 – 10 percent.<sup>9</sup> This issue is especially pertinent with our survey, since the businesses did not (indeed could not) know some of the crucial design features of the ordinance that we have estimated, including the extension of the tipped workers' exemption and the coverage threshold being based on \$3 million in sales, rather than employment. Nevertheless, these results can be useful if they are interpreted with care and as a compliment to the relevant objective information, such as relative cost increases. We will focus on responses concerned a \$10.75 ordinance, rather than both the \$10.75 and \$8.25, since the more expensive ordinance sets the outer limit on how firms' costs would increase. We will also draw on the anecdotal, but still useful survey responses we obtained from businesses in La Jolla.

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<sup>9</sup> As a vivid example of this, an October 27, 1997 front-page story in the Wall Street Journal describes the impact of the most recent national minimum wage increase on fast-food restaurants. Résistance to the increase had been intense among restaurant owners. Nevertheless, the story reports that “the minimum wage increase has turned into one of the nonevents of 1997, thanks mostly to the economy’s continuing strength. Low-wage Americans—nearly 10 million of them by some estimates—got a raise. But amid the current prosperity, hardly anybody noticed.” One fast-food employer is quoted as saying, “The economy is good. Business is good....I think we saw it in more dire terms than it worked out.”

We conclude this part of the study by addressing a different but related question: would a Coastal Zone living wage ordinance make Santa Monica more vulnerable to a recession? We explore this question from a variety of angles.

### **1) Price Effects**

The adjustment process that would be least costly and disruptive for firms would be to simply raise prices to reflect their increased costs. But firms face competition. How much could we expect firms to be able to mark-up their prices without losing customers to their competitors?

#### **Santa Monica Hotels**

We first concentrate our discussion here on the 11 covered hotels. Not only will these hotels, along with the six covered restaurants, experience the highest relative cost increase, but we estimate that they employ 1,262 of the 2,477 total workers—i.e. 51 percent—that would receive raises through the \$10.75 ordinance. In this section, we examine pricing patterns, occupancy rates and the growth in the supply of rooms, as well as differences in performance across segments of Santa Monica’s hotel market.

In responding to our survey question, all of the hotels, including those interviewed in La Jolla as well as Santa Monica, indicated that it was “very likely” that they would raise prices in response to a \$10.75 living wage ordinance. To provide some context for these responses, it will be important here to review the situation within the Santa Monica hotel market, especially the patterns of price change over time and between market segments.

Of course, Santa Monica is a highly desirable tourist destination. As Lauren Schlau Consulting wrote in its 1997 Economic Impact of Tourism in Santa Monica:

As a coastal resort destination, Santa Monica possesses many and varied natural amenities including the Pacific Ocean, wide sandy beaches, coastal bluffs, and the nearby Santa Monica National Recreation Mountain Area. Complementing these are the city’s many developed attractions, including the Santa Monica Pier with its famed carousel, fishing, UCLA’s Discovery Center .(p. 25).

Given these desirable and growing tourist attractions, it is not surprising that Santa Monica has developed an extremely buoyant market for hotels. The 2000 Los Angeles Lodging Forecast by PKF Consulting describes the market as follows:

Santa Monica hotels in 1999 again had among the highest occupancy rates in Los Angeles County. The beach front location, desirable weather, easy freeway and airport access, hip sense of place, and several clearly delineated shopping districts make the city very attractive to international tourists as well as to “locals” coming from all over the county....The ongoing success of the Third Street Promenade retail center and the continuing influx of entertainment companies into the office market generate a critical mass of energy and activity that any city can envy.

These qualitative generalizations are supported by quantitative evidence.

Between 1987-99, average hotel room prices in Santa Monica rose from \$86 to \$179, an overall increase of 108.1 percent and an average annual increase of 9.0 percent.<sup>10</sup> This is a 5.1 percent price increase *above* the overall national inflation rate (measured by the CPI) for these years. Since 1995, room prices have been rising even more sharply, by 42.1 percent. This amounts to an average annual price increase of 10.5 percent, 8.2 percent above the national inflation rate for these years.

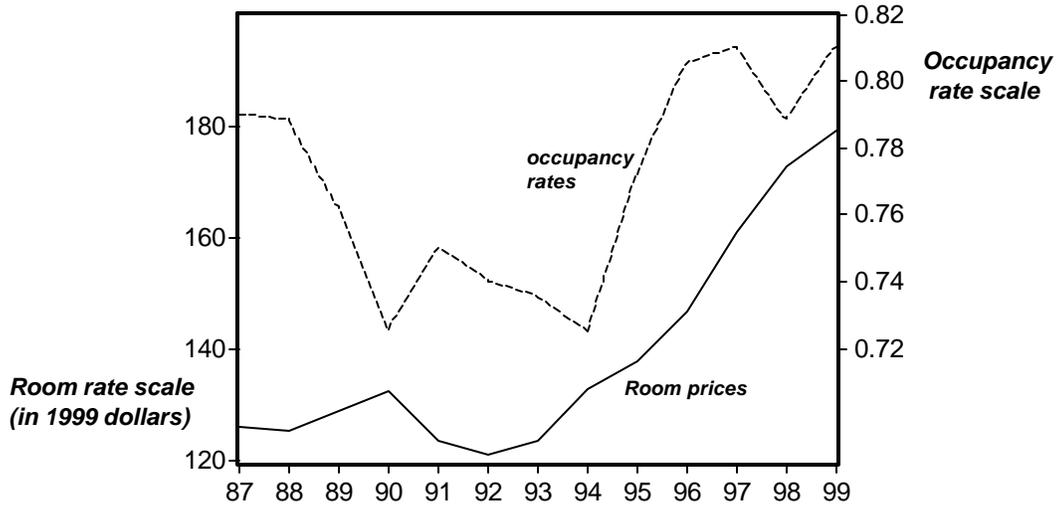
Despite these price increases, occupancy rates for Santa Monica hotels have generally risen over this period as well. In 1987, occupancy rates were 79 percent; as of 1999, they were 81 percent. The upper panel of Figure 5.1 shows the occupancy rates over the full period 1987-99, along with the average room price expressed in constant 1999 dollars. We see here that occupancy rates generally fell between 1987-94, with the low point being 1994, at 72.8 percent. However, even this period of falling occupancy rates is not associated with falling real prices. Rather, as the figure shows, average prices

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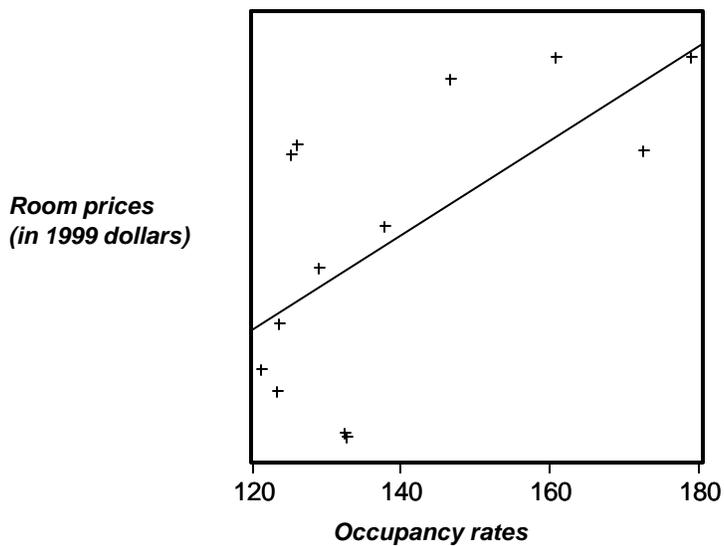
<sup>10</sup> Except as noted otherwise, figures from this section of the study are taken from PKF Consulting The 2000 Los Angeles Lodging Forecast. It is also important to recognize that the average daily room rates reported by PKF, as well as our other data sources in this section (Lauren Schlau Consulting and Smith Travel Research), are not the same rates any given customer would pay at the hotel. The PKF figures are generated on the basis of actual room revenues reported by the hotels. Due to group discounts, seasonal

**Figure 5.1. Occupancy and Room Prices  
for Santa Monica Hotels, 1987-99**  
(room prices are in constant 1999 dollars)

**A) Movement over time in room and occupancy rates**



**B) Correspondence pattern for room prices and occupancy rates**



Source: PFK Consulting

in constant dollars are fairly stable between 1987-94, rising slowly then falling off. From 1995 onward, however, occupancy rates rise sharply, peaking in 1999 at 81 percent. But average constant-dollar room prices also rose sharply during this period, peaking in 1999 at \$179.

In short, we observe a positive correlation between room prices and occupancy rates over the 1987-99 period, and especially since the mid-1990s—that is, room prices and occupancy rates are increasing together over time. This relationship is made more clear in the lower panel of Figure 5.1, which is a scatter diagram plotting the relationship of room rates and occupancy rates over the period 1987-99. We again see that, in fact, occupancy rates *rise* with room rates, they do not fall. The straight trend line in the figure shows the average positive association between occupancy rates and room rates. This is not to suggest that higher room prices *cause* higher occupancy rates, i.e. that hotel clients choose hotels *because* their prices are rising. But the pattern we observe does clearly invite further consideration as to these causal relationships.

#### Composition of Santa Monica Hotels

The data presented thus far concern average hotel room prices over time. The figures do not control for changes in the composition of the hotels, either through closings or openings. One factor which could therefore contribute to an increase in the average price is if new hotels had opened in Santa Monica that charged higher than average rates and/or existing hotels had closed that charged lower than average rates. Therefore, we need to determine whether the observed price and occupancy patterns apply not just to the full mix of Santa Monica hotels, but also to a fixed set of establishments as they operate through time. Of course, we are especially concerned with Coastal Zone establishments. We thus present price and occupancy rate data in Figure

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variation, and additional factors, room rates tend to vary from day to day and as well as among different guests staying at the hotel at the same time.

5.2 for a fixed set of four high-end Coastal Zone hotels during 1994-99, the period of most rapid price increases. As we see in the figure, the average constant dollar room price increases from \$160 to \$229 between 1994-99, an 8.6 percent average annual increase. At the same time, occupancy rates for these four hotels rose from 76.2 to 84.1 percent. This pattern makes clear that, at least for these four hotels, the average price increase has occurred through these firms' own mark-ups, not through changes in the composition of hotels. More generally, as we take up in more detail below, the supply of rooms has grown slowly over the period we are considering. This suggests that the effect of any changes in the composition of hotels on average prices and occupancy rates would be small.

#### Differences Across Hotel Segments

Another important set of questions to consider with respect to the composition of Santa Monica hotels is the extent of competition between market segments. The 1998 Lauren Schlau Consulting study describes the market segments as follows:

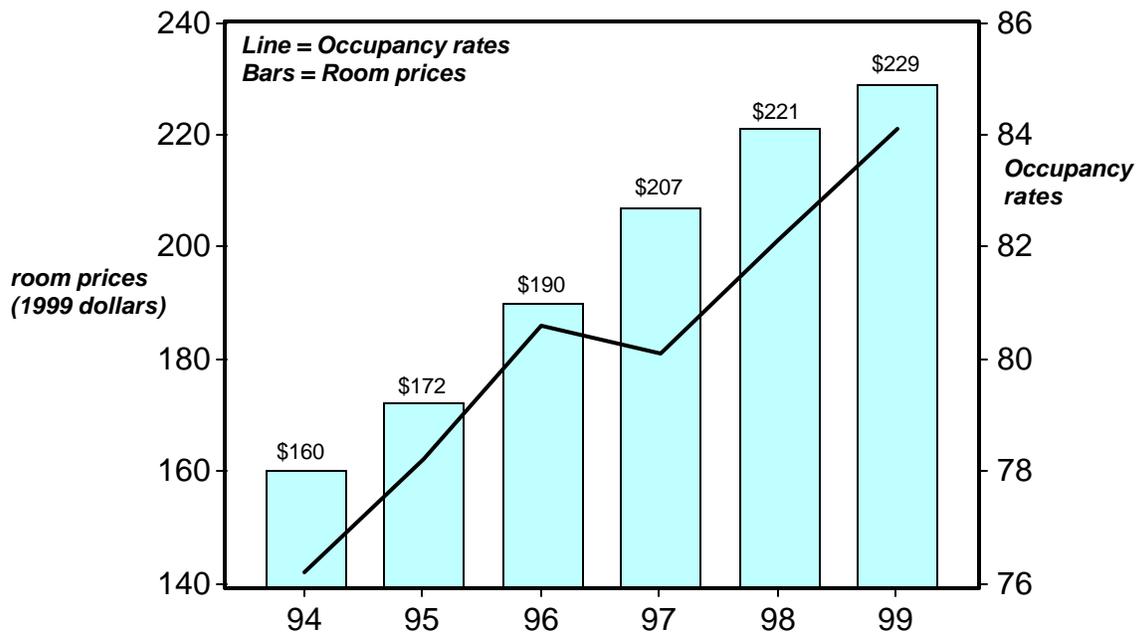
Five hotels with 959 rooms are considered "High-Rate," with typical posted room rates starting at about \$200 per night, in luxury accommodations and with high levels of service. Thirteen properties with 1,696 rooms are "Mid-Rate", having posted room rates of between \$75 -\$175 per night, offering a range of services; and 12 properties with 511 rooms are "Economy", including the 200 bed hostel, with rates under \$75 per night, usually in smaller properties with services commensurate to rate. (p. 19).

The average price and occupancy rates in 1997 for the three segments of the market are shown in Table 5.1. As we see, for the high-rate hotels, the average room price was \$216 and the occupancy rate was 81.7 percent. Occupancy rates were only slightly better for mid-range hotels, even though their average price, at \$106, was less than half that for the high-end hotels. Finally, the economy hotels charged less than 1/3 of the high-end hotels, but their occupancy rate was only 70.6 percent.

According to the Schlau report, for the year 1997, these three segments of the market are distinct in the type of clientele they attract as well as their price range. As the report states:

**Figure 5.2. Average Occupancy Rates and Room Prices for Four High-End Coastal Zone Hotels, 1994-99**

(room prices are in constant 1999 dollars)



Source: Smith Travel Research

**Table 5.1**  
**Relative Prices and Occupancy Rates Across**  
**Santa Monica Hotel Market Segments, 1997**

	<u>High-rate</u>	<u>Mid-rate</u>	<u>Economy</u>
<b>Available Rooms</b>	348,940	619,040	186,515
<b>Occupied Rooms</b>	284,902	514,909	131,610
<b>Average Occupancy Rate</b>	81.7%	83.1%	70.6%
<b>Average Daily Rate</b>	\$216	\$106	\$64

Source: Lauren Schlau Consulting (1998)

Demand varies greatly by hotel level. The high-rate properties report 83 percent transient demand, with nearly 70 percent of the transient demand coming from the corporate segment; another 17 percent is group demand. The mid-rate properties are also transient oriented (74%), but with 72 percent of their transient demand being leisure; groups account for another 21 percent to the mid-rate hotels. The economy properties capture all transient demand (p. 24).

How stable are these market segments over time? This is a pertinent question for our purposes, given that the increased costs associated with a living wage ordinance would be most concentrated among the high-end hotels. Could they protect their market segment if they were to raise prices following their increase in labor costs?

In Table 5.2, we examine the relative movements of prices and occupancy rates among high-rate and mid-rate hotels. For the high-rate establishments, we show the data on four Coastal Zone hotels already presented in Figure 5.2. Our sample also includes data from four hotels in the mid-rate market segment.<sup>11</sup> As we see first in Table 5.2, the four high-rate hotels raised their prices from 1994 to April of 2000 (in current dollars) from \$143 to \$241, an increase of 68.5 percent. However, for the most part, the four mid-rate hotels matched these price increases. Thus, in 1994, prices in the mid-rate hotels averaged about 40 percent below those in the high-rate hotels. For the first four months of 2000, mid-rate prices were again about 40 percent lower than the high-end hotels. This ratio varies in the five years in between, but not substantially. Meanwhile, differences in occupancy rates do vary between the high- and mid-rate hotels. But there is no clear trend in favor of the less expensive lodgings as prices at both levels rose. For example, between 1995-96, the prices at mid-rate hotels fell from 57.6 to 52.8 percent of the high-end places. But this led to virtually no change in occupancy rates for either segment of the market.

These figures on hotel market segments thus support the conclusion that high-end lodgings in Santa Monica do not compete with the mid-rate alternatives. This at least partially

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<sup>11</sup> The Smith Travel Research data base did not include full years of data for all of the mid-rate hotels. In Table 5.2, we therefore list the months in each year on which are yearly average figures are based. The

**Table 5.2**  
**Relative Prices and Occupancy Rates for Santa Monica Hotels**  
**(all prices in current dollars)**

	Price Differences			Occupancy Rate Differences		
	(2) High-rate prices	(3) Mid-rate prices	(4) Relative price [columns (3)/(2)]	(5) High-rate occupancy	(6) Mid-rate occupancy	(7) Relative occupancy, percentage point difference [columns (5) – (6)]
<b>1994</b> <i>(months: 3, 4, 7, 8, 10, 11,12)</i>	\$143	\$86	60.1%	77.9%	74.0%	-3.9%
<b>1995</b> <i>(months: 1-10)</i>	\$158	\$91	57.6%	80.9%	79.0%	-1.0%
<b>1996</b> <i>(months: 1-2, 4-12)</i>	\$178	\$94	52.8%	80.0%	80.2%	+0.2%
<b>1997</b> <i>(months: 1-4, 6, 8, 10, 11)</i>	\$198	\$108	54.5%	81.9%	83.1%	+1.2%
<b>1998</b> <i>(months: 4-12)</i>	\$218	\$121	55.5%	81.3%	73.7%	-7.6%
<b>1999</b> <i>(full year)</i>	\$229	\$131	57.2%	84.1%	76.5%	-7.6%
<b>2000</b> <i>(months: 1-4)</i>	\$241	\$143	59.3%	82.4%	80.2%	-2.2%

Source: Smith Travel Research

explains why the mid-rate hotels do not try to compete by allowing their relative prices to fall. Rather, as we see, they have raised their prices for the most part at a rate similar to that of the high-end hotels, thereby retaining a fairly stable relative price ratio with the high-end hotels.

#### Price and Quality Standards in the Hospitality Industry

Focusing now on the high end Coastal Zone hotels, the most obvious factor to consider in trying to explain the positive correlation between hotel prices and occupancy rates is the price sensitivity of demand. As the PKF Consulting and Lauren Schlau Consulting reports make clear, Santa Monica is a highly desirable destination for both high-end business and affluent vacation travelers. These types of customers are generally not strongly price sensitive.

Consultants and researchers in the field of hotel management have long recognized this general situation. For example a 1997 paper by Robert Lewis and Stowe Shoemaker in the Cornell Hotel and Restaurant Administration Quarterly explains how price can serve as a crucial indicator of *quality* to potential high-end hotel and restaurant clients. Such clients are not seeking low prices as a priority. They are rather seeking high-quality services, and are willing to pay high prices in exchange for high quality. A hotel or restaurant that can maintain strong client demand with high prices is therefore signaling with its high prices that it is able to deliver on high quality. Correspondingly, for a hotel or restaurant in this market segment to cut prices would signal that they have failed to maintain the high level of quality that their potential clients are seeking.

Hotel clients in this market segment are therefore willing to accept a broad range of room prices, depending on how they perceive the quality of the service they are receiving in return. According to Lewis and Shoemaker's own research, the range of acceptable prices for hotels for business purposes varied by \$54 around a midpoint price for rooms of a given quality. Lewis and Shoemaker also argue strongly against "cost-driven pricing"—i.e. letting costs rather than customer attitudes determine prices—for all hospitality services, including both hotels and

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figures we report include data only for the months for which we have full data sets for both the high- and mid-rate hotels.

restaurants. Citing leading management theorists Peter Drucker and Theodore Levitt, they argue that the error with cost-driven pricing is precisely that it does not attempt to gauge what the market will bear, and specifically, the fact that customers perceive prices as an important quality indicator.<sup>12</sup>

This perspective on hotel pricing thus provides some basis for understanding both why the average room price in Santa Monica was able to rise as an annual rate between 1995-99 by over eight percent above the inflation rate without any falloff in occupancy rates and why high-end Coastal Zone hotels are consistently priced at nearly double the rate of mid-range hotels, again, without losing even a small portion of their share of the overall Santa Monica market. At the same time, as the Lewis and Shoemaker research itself makes clear, hotels obviously cannot raise prices indefinitely without experiencing a falloff in demand. Among other factors, the strategy of using relatively high prices to signal high quality may be more effective at distinguishing between different establishments at a given point in time rather than measuring quality changes over time for a single hotel.

#### Income and Wealth Effects

Independently of the degree of responsiveness of occupancy rates to changes in room prices, we would also anticipate a positive correlation between occupancy rates and increases in income and wealth among potential hotel clients. That is, hotel clients should be more willing to pay higher room prices when they have more disposable income and feel richer, what we can term “income and wealth effects” on hotel room demand.

At least in part, such income and wealth effects in Santa Monica could be simply the result of the strong upward phase of the business cycle expansion that began in California in

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<sup>12</sup> The Drucker/Levitt position was aptly summarized in 1986 paper by a hotel industry executive, Robert Fitzgerald, an industry practitioner in his position as Vice President, Systems Operations, of the Ramada Hotel Group. Fitzgerald argues that, “One mistake that is often made is to lower prices. For some reason we think that if prices are lowered occupancy and the rate of return business will increase or, at worst, stabilize. This is based upon the assumption that our guests are highly price sensitive. However, under

1993. To obtain a sense of how much the observed patterns are due to business cycle influences, in Figure 5.3, we present data on occupancy rates along with the rate of growth in the Gross State Product (GSP) of California.<sup>13</sup> Fluctuations in a state's GSP are the most basic indicator of the economy's cyclical behavior.

As we see in the figure, occupancy rates and GSP growth rates do generally move in the same direction. But there are differences in the two series, especially during the period of relatively low occupancy between 1990-94. Also, GSP growth declines slightly in 1999 while occupancy rates rise sharply. In part, these divergences may be due to the fact that, according to the Lauren Schlau Consulting study, only 16 percent of the visitors in 1997 to Santa Monica hotels were California residents. A full 61 percent, by contrast, were from outside the U.S. altogether (p. 32). Thus, the Santa Monica hotels are likely to be relatively less responsive to area business cycle fluctuations than other Santa Monica businesses.

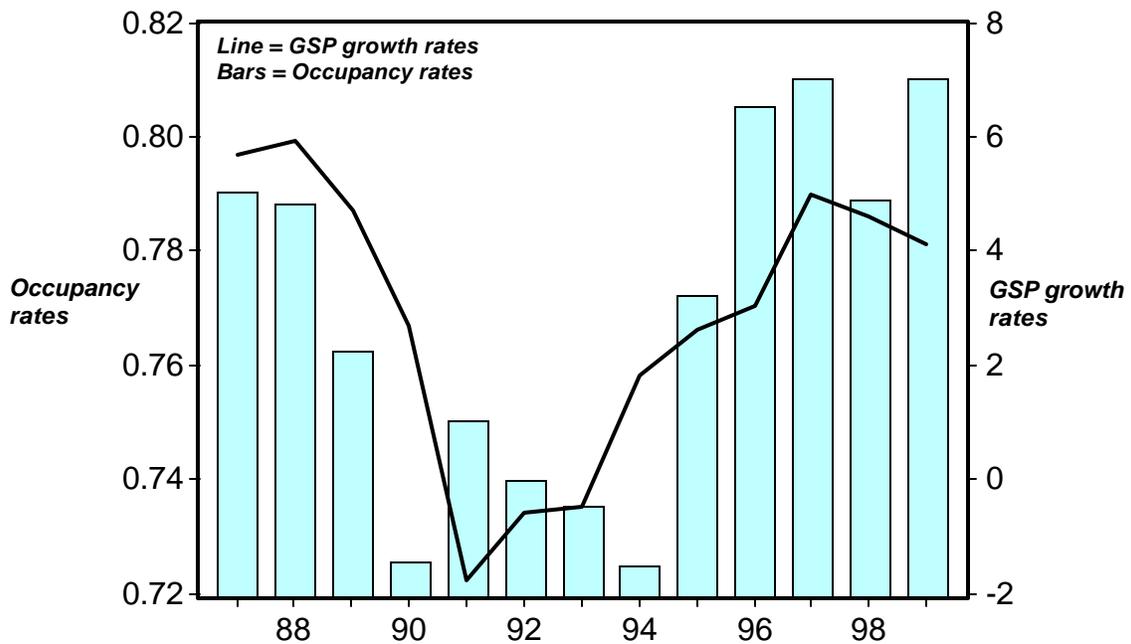
The Schlau study also reports that 70 percent of the clientele for high-rate Santa Monica hotels comes from corporate clients. This means that the overall demand for rooms could also be influenced by the changing fortunes of corporate businesses specifically. The California GSP figures would indicate such patterns of corporate performance only in a very general sense. This factor might be particularly important due to the booming stock market of the past several years. Thus, to attempt to measure this effect, Figure 5.4 shows changes in hotel occupancy rates along with the real growth in the Standard & Poor 500 index. The S&P 500 is the broadest measure of stock market performance, and should therefore capture at least to some extent how changes in the in the market value of corporate clients—corresponding to their net worth, or wealth—has influenced demand for Santa Monica hotels (as with our other figures, we show changes in the

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closer examination it may be revealed that occupancy may continue to decrease as our rates decrease, (1986).

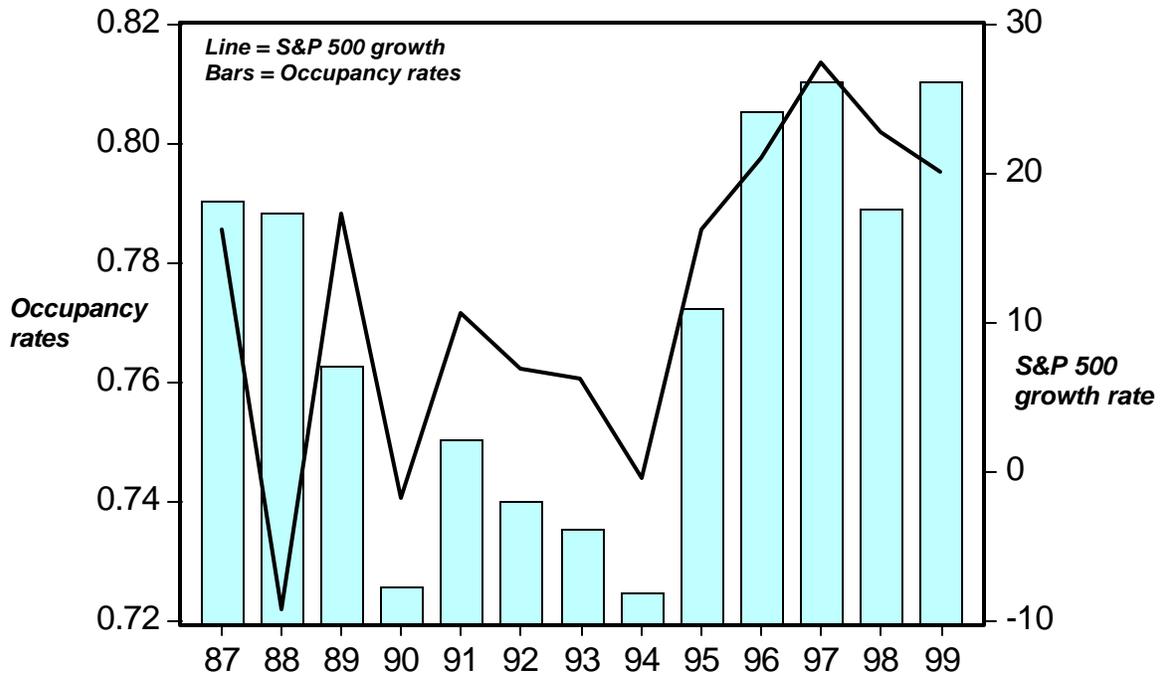
<sup>13</sup>In this and the next figure, we present the level of the occupancy rates along with the *growth* of both California GSP and the S&P 500, rather than the levels of these two variables. This combining of levels and growth rates was done strictly to help clarify the basic relationships in the figures. In our more formal

**Figure 5.3. Correspondence Between Santa Monica Hotel Occupancy Rates and California GSP Growth, 1987-99**



Sources: PFK Consulting and U.S. Department of Commerce  
 Note: GSP figures for 1998-99 are estimates derived from U.S. GDP figures

**Figure 5.4. Correspondence between Santa Monica Hotel Occupancy Rates and S&P 500 Growth, 1987-99**



Sources: PKF Consulting and Economagic web page

S&P 500 based on constant dollar prices). As we see in Figure 5.4, the two series do generally move together, with the exception of 1988. Thus as with the GSP relationship, we observe broad correspondence in the relative movements of the two variables.

### Elasticity Estimates

To attempt to sort out more formally the price and income effects on demand for Santa Monica rooms, we estimated a statistical model which measures the relative influence of three factors on occupancy rates: room prices, overall income growth, as measured by real California GSP; and the performance of corporate hotel customers, as measured by the S&P 500. Such an exercise is what economists term an “elasticity” estimate. We specifically are attempting to measure both the price and income elasticity on hotel room demand—i.e. the degree of responsiveness of room demand to a given change in either room prices, California GSP and the S&P 500. We report the full results of this exercise in Appendix 5.

Unfortunately, we were unable to produce highly reliable estimates of any sort. In what is probably the most robust test, we found that over the period 1987-99, a \$10 increase in room prices (in constant dollars) was associated with a 2.1 percent increase in average occupancy rates. That means, for example, if we begin with an average room rate of \$180 and an 80 percent occupancy rate, a rise in room rates to \$190 will be associated with an occupancy rate of 82 percent. However, this result is open to question for various reasons that we describe in the appendix. Certainly we do not have sufficient evidence to support the counterintuitive conclusion that higher prices *cause* higher occupancy rates. We rather are only observing that prices and occupancy rates increase together. In alternative tests of the same set of relationships, we found both weak positive and negative relationships between prices and occupancy rates. Similarly, with our measures of income effects, we do see a fairly consistent positive association between the S&P 500 and occupancy rates, but not between GSP and occupancy rates. Again, it may be

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exploration of the relationships between the variables below, we test log linear specifications of all variables in both levels and first differences.

the case that the Coastal Zone hotels are not highly responsive to general business cycle fluctuations for the regional or state economy, since most of its clients are international and corporate.

Overall then, we are unable to reach any firm conclusion from our statistical model as to the relationship between hotel room prices and occupancy rates. Still, if anything, the instability of our results lends support to the notion that the actual relationship is weak. This could entail a weak positive relationship, with price increases being weakly associated with rising occupancy rates. It could also include a weak negative relationship, with room price increases producing small declines in occupancy rates. How such weak influences would play out in any given situation would then depend on income and wealth effects and other possible factors influencing hotel room demand.

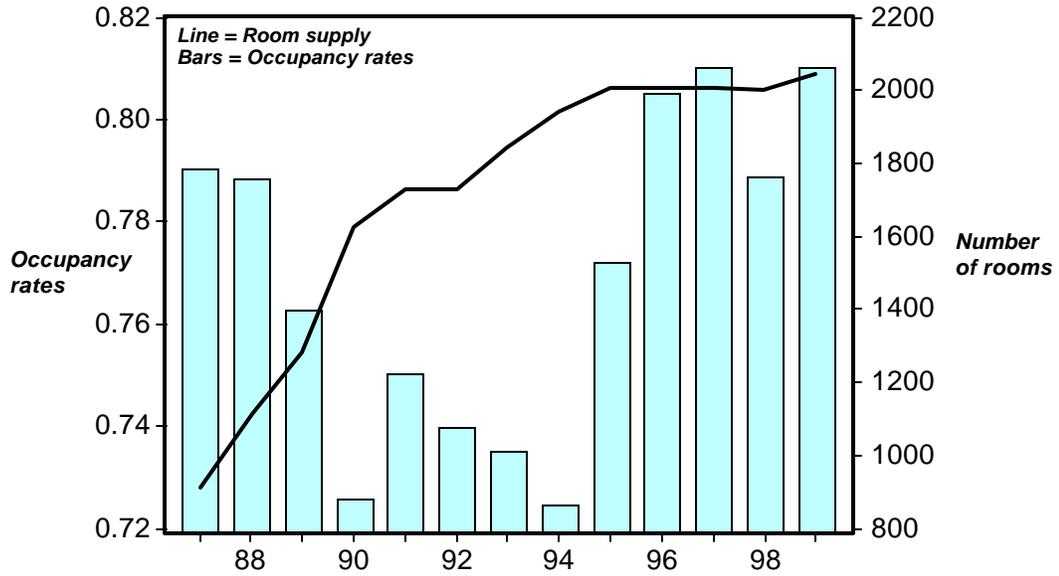
#### Limits on Market Supply

But these demand-side features of the Coastal Zone hotel market and its clientele do not explain one other possible response to high prices and occupancy rates, this of course being an increase in the *supply* of available rooms. In an unregulated market setting, when the demand for something increases in association with *rising prices*, the result would be to call forth additional supply. But this has not happened in Santa Monica. Indeed, as we observe in Figure 5.5, nearly the opposite seems to have occurred. As we see in both panels in the figure, the supply of Santa Monica hotel rooms grows sharply from 1987-91, when occupancy rates are falling and prices are either also falling or rising modestly; and the growth of supply virtually ceases after 1994, when both prices and occupancy rates are rising to peak levels.

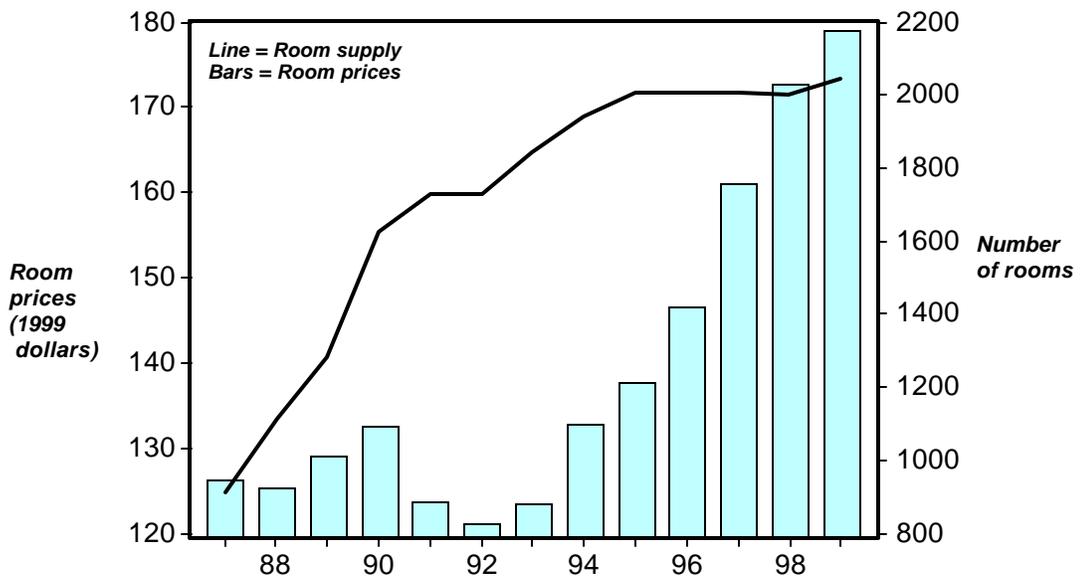
More specifically, the total supply of rooms was 914 in 1987. By 1991, this figure nearly doubles, to 1729. This burst in hotel room supply began in the mid-1980s as a result of substantial changes in City planning and expenditure policies. The first major policy change was the adoption in 1984 of a revision in the General Plan that permitted development of hotels in the Coastal Zone area, which had formerly been zoned as residential. At around the same time, the

**Figure 5.5. Room Supply, Occupancy Rates and Prices for Santa Monica Hotels, 1987 - 99**

**A) Room supply and occupancy rates**



**B. Room Supply and Average Prices (room prices are in constant 1999 dollars)**



Source: PFK Consulting

City undertook a series of major expenditures to enhance the beachfront areas, reconstruct the Santa Monica pier, improve the Coastal Zone parking facilities, establish the Convention and Visitors' Bureau and create the Third Street Promenade.

In contrast with this booming growth period, only 318 additional rooms were added to the total stock between 1992-99, and almost all of that growth occurred between 1992-95. From 1995 onward, the total supply of Santa Monica hotel rooms is virtually flat, increasing from 2009 to 2047. But this, again, is precisely when occupancy rates are at their peak and room prices are rising sharply. What accounts for this pattern?

If the hotel market in Santa Monica were unregulated, investors aware of these relationships between prices, occupancy rates, and supply would attempt to gain a share of the obvious opportunities available. But this normal market response does not happen in Santa Monica for the simple reason that the supply of rooms is restricted. Of course, there are physical limits as to how many hotels reasonably fit within the 1.5 square mile Coastal Zone area. But the main factor here is that the Santa Monica government, as well as the Santa Monica voters acting directly through referenda, has consistently placed strict limits on the growth of commercial development, and particularly hotel development, in the Coastal Zone. Proposition S prohibiting further hotel development along the oceanfront, which voters passed in 1989 and is still in force, is perhaps the single strongest expression of this policy priority. But even beyond Proposition S, the City has long favored restrictions on commercial development in the Coastal Zone. These government policies therefore act to protect the existing Coastal Zone hotels from potential new competitors. This has helped allow these hotels to continue enjoying high occupancy rates even as their prices rise. The revenues that the hotels receive due to the limitations on the supply of Coastal Zone hotel rooms are termed "rents" by economists. What distinguishes the "rent" component of these firms gross revenue is precisely that these revenues result from the fact of a

limited supply of rooms.<sup>14</sup> We consider further the implications of these market regulation policies in Part 8 below.

#### Competition from Nearby Coastal Areas?

Even if the growth of hotel rooms is restricted within Santa Monica's Coastal Zone, competitors could still emerge in other areas in the Los Angeles region that offer comparable beachfront amenities. Such competition would then undercut the ability of the Coastal Zone firms to raise prices and generate rents due to supply restrictions. The rapid price increases and high occupancy rates for the Coastal Zone hotels that we have observed especially since 1995 suggests that such outside competitive pressures have not been strong over the recent past. Still, we should consider the prospects for future competitive challenges.

In Figure 5.6, we present average hotel room prices (in constant 1999 dollars) for three coastal resort areas in the Los Angeles area, South Bay, Long Beach, and Marina del Ray.<sup>15</sup> We also present the average room prices for all Santa Monica hotels, as well as for the four mid-rate and high-end Coastal Zone hotels. In the upper panel, we show average figures for 1994-99. The lower panel presents figures for 1999 alone, to indicate the most recent trends.

What is clear from both panels is that room prices in the three alternative beach areas are not operating in the same market segment as the Santa Monica Coastal Zone firms. With average prices for 1994-99 ranging between \$88 - \$120, the hotels for the other areas are, if anything, competing with the mid-rate Santa Monica hotels, i.e. those that would not be covered by the Coastal Zone ordinance. The average price for mid-rate Santa Monica hotels was \$110 between

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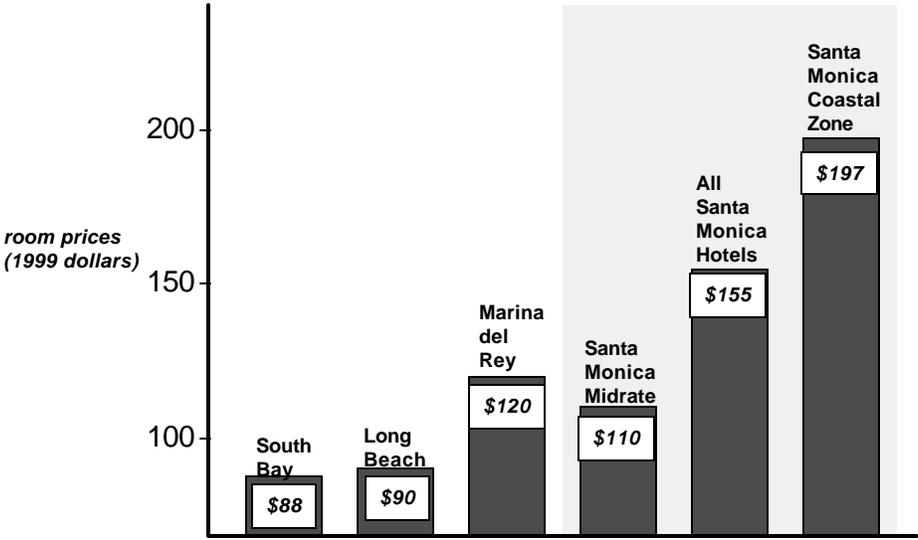
<sup>14</sup> Joseph Stiglitz explains the concept of economic rent as follows: "Some of the returns that accountants call profit, economists call *rent*. The economic concept of rent has its historic origins in the payments made by farmers to landlords for the use of land, but today its application is much broader. The critical characteristic of land in this regard is that it is inelastically supplied, so that higher payments for land (higher rents) will not elicit a greater supply.... Many other factors of production have the same inelastic character," *Economics* (1993), pp. 357-58.

<sup>15</sup> This group of possible competitive areas was suggested in written comments by a member of the City of Santa Monica staff.

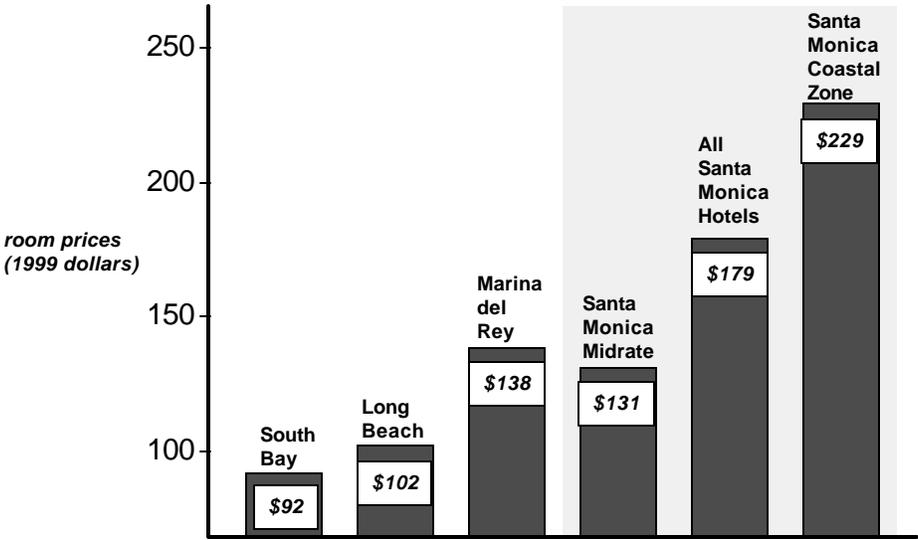
**Figure 5.6. Average Hotel Room Prices for South Beach, Long Beach, Marina del Rey and Santa Monica**

(room prices are in constant 1999 dollars)

**A) Average Prices for 1994-99**



**B) 1999 Prices**



Sources: PKF Consulting, Smith Travel Research

1994-99, while that for the Coastal Zone establishments was \$197. The basic patterns are the same for 1999 alone.

This does not mean that these alternative LA area coastal destinations might not transform themselves into competitors for the Santa Monica Coastal Zone market in the future, especially if the City of Santa Monica planning policies continue to restrict commercial expansion in the Coastal Zone. However, given the substantial existing gap between these market segments, a long lead time is likely to precede the period in which these alternative coastal areas can threaten the ability of the Coastal Zone firms to generate rents as a share of their overall gross revenues.

Overall then, three conclusions follow about the market for Coastal Zone hotels:

1. Demand for the high-end Coastal Zone hotels is very strong. Specifically, within a wide band, demand appears to be largely insensitive to price increases.
2. The high-end Coastal Zone hotels do not compete with the mid-rate and economy hotels in the basic sense that an increase in high-end prices does not lead to visitors shifting to mid-rate lodgings. Instead, the mid-rate hotels have increased their own prices at roughly the same rate as the high-rate hotels. The mid-rate hotels are apparently satisfied with the size of their market segment. If they thought they could capture a significant share of the high-rate market through price competition, they would allow their prices to fall relative to the high-rate hotels. But the mid-rate hotels have eschewed this competitive strategy.
3. Rising prices at Coastal Zone hotels will not induce significant increases in the supply of rooms. This is primarily the result of policy decisions of the City and its voters to limit hotel development, but partially also due to the physical limits on growth in the Coastal Zone. This limitation on supply enables the Coastal Zone hotels to generate what economists term “economic rents.” It is also unlikely, for the foreseeable future, that other coastal areas in the Los Angeles region will mount a serious competitive challenge to the high-end Santa Monica hotels.

### Santa Monica Restaurants

In terms of our survey question, restaurant owners in Santa Monica mostly answered that they would raise prices in response to a \$10.75 living wage ordinance. Fifty-eight percent said they were “very likely” to raise prices, and another 14 percent said they were “somewhat likely” to do so, totaling 72 percent. These responses are almost exactly matched in the anecdotal La Jolla evidence, where 62 percent were “very likely” and another 13 percent “somewhat likely” to respond to a \$10.75 ordinance with a price increase. But, unlike with the hotels, the restaurants respondents were not unanimous in their response. Indeed, in Santa Monica, 25 percent of the respondents said they were “very unlikely” to raise prices.

These responses by the restaurants, relative to hotels, reflect both the similarities and differences in their respective market environments. Lewis and Shoemaker’s study in the Cornell Hotel and Restaurant Administration Quarterly makes clear that, as with hotels, price serves as a crucial quality indicator for the restaurant industry. Restaurants, therefore, do have significant discretion in price-setting as long as they are cognizant of customers expectations with respect to quality, and they are able to deliver a level of service consistent with these expectations. Clearly, if quality were not a central matter of concern for most restaurant-goers, higher-end establishments would be unable to compete with those offering lower prices.

This general perspective on the relationship between price and quality in the restaurant industry is supported by our Santa Monica survey findings. As we show in Table 5.3, there are clear demarcation points in our survey between restaurants based on the average bill per customer, including tip, that they charge. We observed three market segments, one at \$12 or less, a second between \$20-25, and the highest above \$30 (the highest average per person meal price among our respondents was \$47). Moreover, we also observe effectively no relationship between these three market segments and the average overall performance within each segment, as measured by their average relative growth performance. As the table shows, the average growth performance in each segment was virtually identical—between 1.6 and 1.8 on a scale of 1

**Table 5.3**  
**Relationship Between Prices and Market Performance**  
**for Santa Monica Restaurants**

<b>Market Segment:</b> <b>Average total bill plus tip per customer</b>	<b>Market Performance:</b> <b>Have sales been growing over past 5 years?</b> <b>1 = growing; 3 = decling</b>
\$12 or less	1.6
\$20 - \$25	1.8
\$30 - \$47	1.8

Source: PERI Santa Monica Business Survey (2000)

to 3—meaning that most restaurants in all segments are either growing or at least operating at a steady level. This suggests that restaurants in the higher segments do not face price competition from those in lower segments.

At the same time, restaurants are likely to be highly competitive *within* each segment. Moreover, unlike the situation in the hotel industry, the competitive situation among restaurants within a given segment is less limited by either geography or government policy. Planning and zoning policies do place limits on the total supply of restaurants in the Coastal Zone. Still there are approximately 130 restaurants and bars now operating in the Coastal Zone, with an additional 200 in other parts of Santa Monica. This is more than enough to generate strong competition.

Given such competitive pressures, the relevant question is whether, within each market segment, a restaurant covered by the living wage proposal would be placed at a significant disadvantage through raising its prices by between 7 – 10 percent—that is, enough to cover most, if not all, the costs increases associated with a \$10.75 living wage ordinance. This would mean an average bill with tip of, say, \$11 rather than \$10 for the low-end segment; \$24 rather than \$22 for those at mid-range; and \$38 rather than \$35 at the high end. Such price increases would probably have the largest relative impact where customers are likely to be the most price-sensitive. This would be the low-end segment. Among the high-end restaurants, where, by definition, quality considerations are weighted more heavily, price increases of this magnitude are less likely to significantly alter a restaurant’s relative competitive position.

## **2) Redistribution**

### Redistribution and growth

If we assume that the total amount of wage and profit income to be distributed within the covered firms is constant, then one simple way for lower-paid workers to receive a bigger slice of the total income pie is for high paid workers to take a modest wage cut or for owners’ profits to decline by a small amount. If this were to happen, it would entail a step away from the upward

redistribution of income, in favor of both high wage earners and business owners, which has characterized the U.S. economy for a generation.<sup>16</sup>

But it is actually unrealistic to consider an income redistribution within a firm without also allowing that other things in the firm might also change that could facilitate such a redistribution. The most obvious thing that would facilitate redistribution is growth in the firm's revenues. Through revenue growth, low-wage workers would be getting a larger share of a growing pie, but the slices of the pie going to high-wage workers and owners would still be growing as well.

To illustrate this point, we present in Table 5.4 a simple hypothetical scenario showing income and wage growth for a covered Coastal Zone hotel, based on actual average values for hotel revenues, revenue growth, wage rates and number of employees. Based on our estimates presented in Tables 4.1 and 4.11 earlier for the 11 covered Coastal Zone hotels, we assume that our hypothetical average hotel has revenue growth of \$9.8 million in 1999, that it employs 115 low-wage workers earning, on average, \$7.50 an hour, and that these workers are employed 36.5 a week, or 1900 hours for the year. We then project gross revenue growth for this firm between 1999-2001 at a 10 percent average annual rate—a revenue growth figure which is well below the actual rate of 13.1 between 1995-99 for the covered hotels that have been in operation over all those years.

We then make two assumptions about wages and benefits. In Scenario 1, wages remain fixed between 1999-2001 at \$7.50. In Scenario 2, wages rise to \$10.75 for all 115 workers, and remain at \$10.75 in 2001. All workers also get \$1.25 in health benefits and 15 paid days off in exactly the proportions we estimated in Table 4.10 earlier. For both scenarios we then calculate values for the “remaining gross revenue” available to the firm each year after the firm has paid its

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<sup>16</sup> As Richard Freeman writes, “Over the past two decades, income inequality in the United States has increased massively. This jump owes to the unprecedentedly abysmal earnings experience of low-paid Americans, income stagnation covering about 80 percent of all families, and an increase in upper-end

**Table 5.4**  
**Hotel Income Redistribution in an Environment of Gross Revenue Growth**

	1999	2000	2001
<i>Scenario 1: Revenue growth at 10%;</i>			
<i>Wage constant at \$7.50;</i>			
<i>No change in benefits</i>			
<b>1. Gross revenue</b>	\$9.8 million	\$10.8 million	\$11.9 million
<b>2. Low wage bill workers; 1900 hours/year</b>	<b>115</b> \$1.6 million	\$1.6 million	\$1.6 million
<b>3. Remaining gross revenue [rows (1) - (2)]</b>	\$8.2 million	\$9.2 million	\$10.3 million
<b>4. Low-wage workers' share of gross revenue [rows (2)/(1)]</b>	16.3%	14.8%	13.4%
<i>Scenario 2: Revenue growth at 10%;</i>			
<i>Wages rise once in 2000 to \$10.75;</i>			
<i>\$1.25 in health benefits; 15 paid days off</i>			
<b>5. Gross revenue</b>	\$9.8 million	\$10.8 million	\$11.9 million
<b>6. Low wage bill workers; 1900 hours</b>	<b>115</b> \$1.6 million	\$2.9 million	\$2.9 million
<b>7. Remaining gross revenue [rows (5) - (6)]</b>	\$8.2 million	\$7.9 million	\$9.0 million
<b>8. Low-wage workers' share of gross revenue</b>	16.3%	26.9%	24.4%

115 low-wage workers. This remaining gross revenue would cover all business costs as well as wages and benefits for high-wage workers and profits and rents for owners. We also calculate the low-wage workers' share of gross revenue in each year. It is possible, of course, that other conditions for this representative firm could change as a living wage ordinance is implemented. We assume everything else is fixed for illustrative purposes only, to keep the hypothetical exercise as simple as possible.

In Scenario 1, of course, the total low wage/benefit bill is fixed at \$1.6 million, so that remaining gross revenue rises from \$8.2 to \$9.2 and \$10.3 million over 1999-2001. The low-wage workers' share of gross revenue correspondingly falls.

Now consider Scenario 2. The total low wage/benefit bill rises in 2000 from \$1.6 to \$2.9 million, due to the minimum wage increase to \$10.75 and the rise in health benefits and paid days off. The remaining gross revenue for the firm does fall between these years, from \$8.2 to \$7.9 million, a 3.7 percent decline. The workers' share of total gross revenue correspondingly rises, to 26.9 percent. But this still leaves 73.1 percent of gross revenue for all other expenses and owners' profit and rent.

The situation for 2001 is also crucial to the overall picture in Scenario 2. We see that, with the low wage bill fixed at \$2.9 million, and revenue growth continuing to rise at a 10 percent rate, remaining gross revenue has again expanded, to \$9.0, 9.8 percent above the figure for 1999. Meanwhile the low-wage bill has fallen back to 24.3 percent of gross revenue. In other words, the minimum wage increase in 2000 to \$10.75 would establish a *one-time* downward income redistribution, which, if gross revenue continues to grow afterward, would begin to be reversed in the next year.<sup>17</sup>

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incomes...These facts are not in dispute," The New Inequality: Creating Solutions for Poor Americans (1999), p. 3.

<sup>17</sup> We should note, finally, that the downward income redistribution would remain as a one-time event even if the increase in gross revenue were lower than 10 percent. If the rate of gross revenue growth is *any* positive value less than 10 percent, it would just mean that the remaining share of gross revenues going to

Two Types of Redistribution.

A Coastal Zone minimum wage increase to \$10.75 could bring two types of redistribution, one among lower- and higher-paid workers, and the other between the low wage workers and business owners. We have already built into our overall estimates of costs a considerable degree of downward redistribution among wage earners through assuming a weak wage ripple effect—that is, workers now earning above \$10.75 receiving a much smaller raise, if any, subsequent to implementation of the \$10.75 minimum. As we showed in Part 4, our estimates of the wage ripple effect were derived from the actual experience in California between 1996-98, when the minimum wage rose by 35 percent through a combination of federal and statewide increases.

Beyond this, it is not clear the extent to which business owners would be willing or able to reduce profit margins. Of course, owners would rather not operate with lower margins at all, but whether they would be willing to do so depends on how high their margins are at present, as well as their ability to pass on their living wage costs through raising prices. In considering our survey results on this issue in Table 5.5, we see that firms are ambivalent about the prospect of accepting lower margins. Overall, 57.5 percent of the Santa Monica respondents said they would be “very unlikely” to lower margins. But 71.3 percent of hotels said they were “very likely” to operate with lower margins.

This apparent greater willingness of the hotels to operate at somewhat lower margins may reflect what our evidence on prices and occupancy rates strongly suggests, that hotel margins—including the rents they receive through growth restrictions—have almost definitely been growing very rapidly over the past 15 years and especially the past five years. Strong growth in profit margins and rents would also be consistent with what we observe in Figure 5.7, showing average gross revenue levels for nine of the covered Coastal Zone hotels from 1993-99,

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profits, rents and all non-low-wage labor costs would rise toward their previous level at a slower rate. The downward shift in income distribution due to a living wage ordinance would still occur only once.

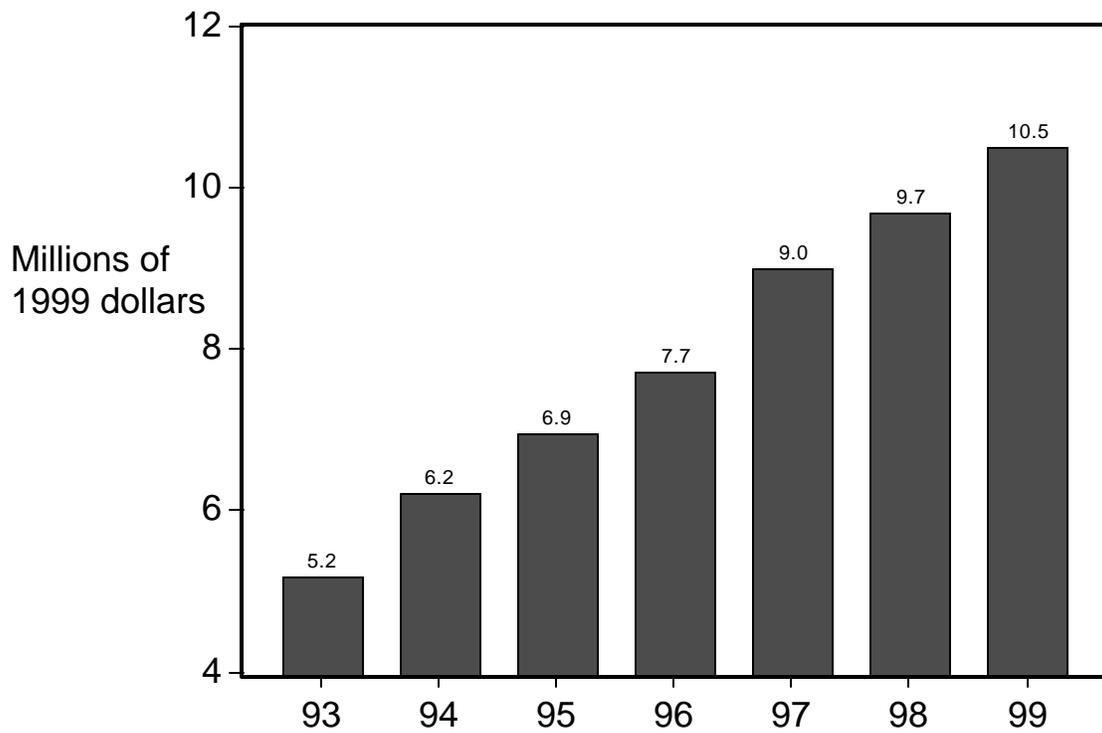
**Table 5.5**  
**Survey Response by Santa Monica Businesses on the Likelihood of**  
**Operating with Lower Profit Margins in Response to a \$10.75 Ordinance**  
**(figures are percentages)**

	<u>All Firms</u>	<u>Hotels</u>	<u>Restaurants</u>
<b>Very likely</b>	14.5	71.3	19.5
<b>Somewhat likely</b>	5.9	0	13.6
<b>Not sure</b>	13.9	14.3	12.6
<b>Somewhat unlikely</b>	8.2	0	0
<b>Very unlikely</b>	57.5	14.3	54.3

Source: PERI Survey of Santa Monica Businesses (2000).

**Figure 5.7. Average Real Gross Revenue for Nine Covered Coastal Zone Hotels, 1993-99**

(figures are in constant 1999 dollars)



Source: City of Santa Monica

expressed in constant 1999 dollars.<sup>18</sup> As we see, in real dollars, average revenues have more than doubled for these hotels between 1993-99, from \$5.2 to \$10.5 million. Unless their operating costs have also been rising at the same rate (after controlling for inflation), it follows that their profit margins and rents have been also rising over these years, probably quite substantially. A final reason why the 11 covered hotels may be capable of sustaining some decline in their profit margins is that large chains own virtually all of them. These chains operate with considerable financial resources beyond the revenues they generate in Santa Monica alone.

Like our sample more generally, the restaurants are more ambivalent as to the likelihood they that would reduce their profit margins. 54.3 percent said they were “very unlikely” to operate with lower margins, but 31 percent said they were either “very likely” or “somewhat likely” to do so. This ambivalence is consistent with the far less stellar growth in gross revenues that we observe for restaurants, which itself is at least partially due to the fact that, unlike the hotels, the restaurants do not have the ability to earn rents through growth restrictions. Figure 5.8 presents the average gross revenue growth for four covered restaurants that we could consistently track between 1993-99, expressed in constant 1999 dollars. As we see, revenue growth for these restaurants has been fairly steady but modest, rising in constant dollars from \$4.7 to \$5.2 million between 1993-99. In short, the situation with the restaurants is likely to be more variable than with the hotels, but they would be more likely to pursue other adjustment mechanisms before accepting a cut in their profit margins.

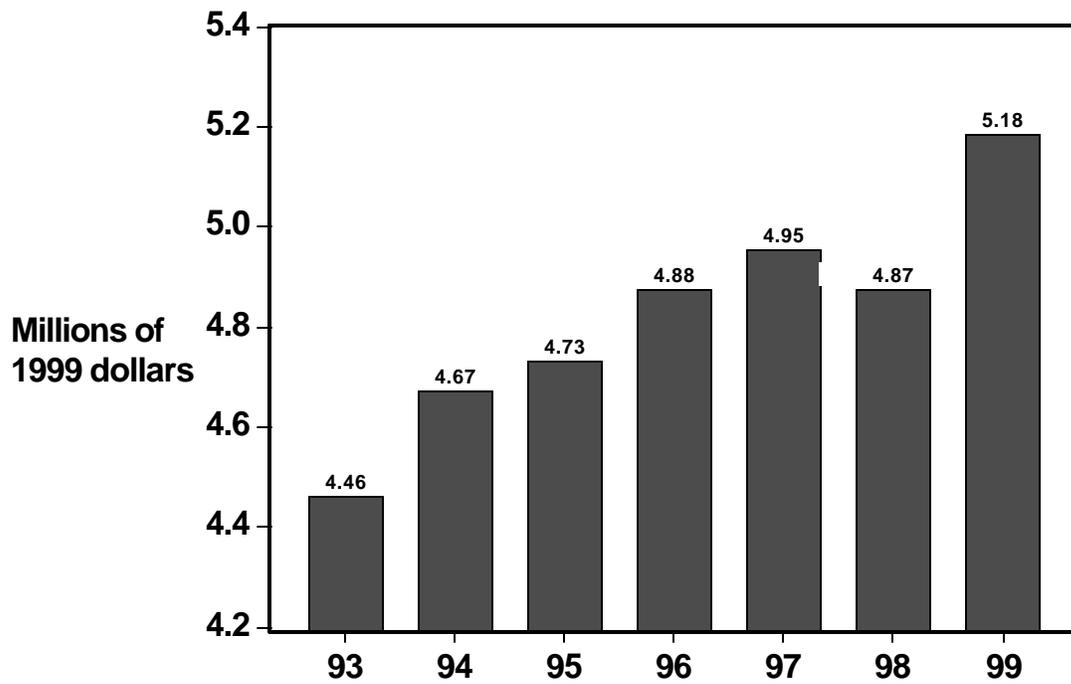
### **3) Productivity**

How might covered Coastal Zone firms raise productivity as a result of paying a mandated minimum wage as high as \$10.75? Research in recent years has shown that paying workers above-market levels wages for a given job can improve firm performance through

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<sup>18</sup> These averages are only for the 9 hotels that have been operation through 1993-99. This small difference in the data sample also explains why the average for these firms for 1999 of \$10.5 million differs from the

**Figure 5.8. Average Real Gross Revenue for Four Covered Coastal Zone Restaurants, 1993-99**  
(figures are in constant 1999 dollars)



Source: City of Santa Monica

several channels. These include lower costs for recruiting low-wage workers as well as lower turnover and less absenteeism. Less turnover and absenteeism in turn mean that the firms' training and supervisory costs should also fall. Combining all of these factors may then yield a workplace with better morale and higher productivity.<sup>19</sup>

Because of these factors, firms operating in the same industry often have significantly different pay scales, and it does not necessarily follow that the firms paying higher wages charge higher prices or lose out in market competition. The successful firms paying high wages do have higher *direct labor costs*—i.e. wage payments—but they also tend to have lower *indirect labor costs*, including here recruitment, turnover, absenteeism, and supervision. This doesn't necessarily mean that the high-wage firms' overall costs—including both direct and indirect costs—will be lower, but rather only that these firms can reduce the gap in direct cost differences through achieving lower indirect costs.

For the situation in the Coastal Zone, two separate but interrelated influences might contribute to lower indirect labor costs. The first is that covered Coastal Zone workers will exert more effort at their jobs simply because, with higher pay, they are more committed to keeping their job. The second is that the covered Coastal Zone workers would be earning better pay *relative to* uncovered workers in the Coastal Zone and throughout the metropolitan area. This creates an even stronger incentive for the covered workers to strengthen their job commitments and productivity.

But the view that covered Coastal Zone firms would gain in efficiency through paying a higher minimum wage raises an obvious question. First, if firms could benefit through paying a higher minimum wage, why haven't they already voluntarily been paying the higher wage? One

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\$9.8 million average for all 11 firms that one would derive from Table 4.11.

<sup>19</sup> For the past 20 years, academic economic research on “efficiency wages” and “internal labor markets” has explored at length how higher wages and a more cooperative work environment can enhance firm productivity. For a brief set of references on these topics, see Akerlof and Yellen (1986), Campbell (1993), Pendergast (1999), Lazear (1999) and Fairris (1999). See also Raff and Summers (1987) and Owen (1995) for historical perspectives on these questions.

answer, noted above, is that some significant minority of firms *do* pay substantially higher wages than their competitors and still succeed in the market. But this not the situation for the majority of firms. For this majority of cases, the savings the firms would generate through lowering turnover, absenteeism and associated recruitment, training and supervisory costs will still be less than their direct cost increases resulting from paying higher wages. For our purposes therefore, we need to consider how significant these indirect cost savings might be among covered Coastal Zone firms relative to the increased costs they would face through a living wage ordinance.

#### Costs of Turnover

Survey results. To help provide answers to this question, we incorporated questions in our survey of businesses that enabled us to estimate firm's turnover costs, which we define as the percentage of workers who leave their firms annually multiplied by the cost of replacing these workers. We report some results from these questions in Table 5.6, including both turnover rates and replacement costs that firms reported in their survey responses, as well as the product of multiplying these sets of figures in the context of a firm that employs 50 workers.

The answers we received on both turnover rates and replacement costs were characterized by very wide dispersion. Indeed, we observed significant differences even *within the same questionnaires* depending on how the relevant questions relating to turnover costs were asked.<sup>20</sup> In part, this dispersion in our results must reflect the fact that business managers do not regularly keep accounts on their turnover rates, and therefore could not be expected to provide responses to our turnover questions that are more than broadly accurate. But the dispersion also likely reflects the fact that, in reality, firms do vary widely in the ways they manage their labor relations. To

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<sup>20</sup> Our first estimate of turnover rates comes directly from question B7 of our survey: "What is your monthly turnover for non-supervisory personnel (in percent)?" We generated a second estimate through dividing as follows: (B6: How many workers have quit, been discharged, or laid off since the start of 1999?)/(B4: How many workers did this establishment employ at the beginning of 1999?). Our third estimate was calculated as: (B5-(B1-B4))/B4, where B5 is "How many workers have been newly hired or recalled from lay-off since the start of 1999?" and B1 is: "What was the number of employees on the payroll for the last payroll period, excluding temporary employees and contract workers, but including full-time and part-time?"

**Table 5.6**  
**Midpoint Turnover Cost Estimates for Santa Monica and La Jolla Firms**

	<u>Midpoint Annual Turnover Increase</u>	<u>Worker Replacement Costs</u>	<u>Annual Turnover Cost Estimate for 50-employee Firm</u>
<b><u>All Firms</u></b>			
Santa Monica	57%	\$2,090	\$59,600
La Jolla	35%	\$1,000	\$17,500
<b><u>Hotels</u></b>			
Santa Monica	44%	\$531	\$11,700
La Jolla	44%	\$1,467	\$32,300
<b><u>Restaurants</u></b>			
Santa Monica	50%	\$736	\$18,400
La Jolla	41%	\$614	\$12,600

Source: PERI Santa Monica Business Survey and La Jolla interviews.

keep the data presentation relatively simple, Table 5.6 presents only the midpoint estimates of the firms' estimated turnover rates. But as a check on the reliability of our results, we also report in Table 5.6 the comparable midpoint turnover rates as well as replacement costs from our anecdotal La Jolla evidence. We also will compare some broader industry evidence on this question.

In Column 1 of Table 5.6, we see that midpoint turnover rate estimates are consistently quite high, ranging between a low of 35 percent per year for all firms in our La Jolla sample to a 57 percent annual rate for our Santa Monica firms. By contrast, we see the cost of replacing non-supervisory workers tends to be relatively low. The figure peaks at \$2,090 for all Santa Monica firms, and falls to \$531 for the Santa Monica hotels. The fact of high turnover rates correlating positively with low replacement costs should not be surprising. If firms faced higher costs of replacing departing employees, they would no doubt try harder to reduce their turnover rate.

Given these replacement rates, we then present in column 3 illustrative calculations of what annual turnover costs would be for firms with 50 employees. These costs range widely—between \$11,700 for the Santa Monica hotels in our survey to the \$59,600 figure for all Santa Monica firms. And again, this dispersion would be wider still if we had not limited our turnover rate estimates to their midpoint figures. For example, the average reported high-end turnover rates for all firms were, on an annual basis, 74 percent for Santa Monica and 78 percent for La Jolla.

Industry Studies. The turnover cost estimates generated by our survey are broadly consistent with previous studies of the hotel and restaurant industries. If anything, the figures coming from our survey are lower than what previous studies have found. For example, a 1998 study by the American Hotel Foundation shows that turnover ranges between 60 and 300 percent per year. For line-level employees, the average turnover rate was 92 percent. According to J.A. Fernsten and S.A. Croffoot in The Practice of Hospitality Management the costs of turnover per employee in the hotel industry range between \$150 and \$3,600 (in 1999 dollars) ). For

restaurants, a 1998 study by the National Restaurant Association places average turnover costs at \$5,000 per employee (Worcester 1999).

Given these varying estimates, our results should therefore be regarded as only broadly indicative of the actual pattern in turnover rates and costs among Coastal Zone firms. But they do still serve a purpose in indicating two things. The first is that turnover costs will vary quite widely across firms. But as a general order of magnitude, it also seems clear that for most firms, if we work from the midpoint turnover estimates derived from our own survey, the cost savings from lowered turnover rates would be in the range of perhaps 2 -10 percent of the covered firms' increased living wage costs.

We can see this through considering the case of the average covered hotel in the Coastal Zone. As we can derive from figures presented earlier in Table 4.1, the average covered hotel employs about 115 workers. Applying the Santa Monica midpoint turnover rate of 44 percent and the replacement cost of \$531 to these 115 workers, we find that this firm's turnover costs would amount to about \$27,000 per year. If we apply the La Jolla turnover rate, also 44 percent, and replacement cost figure, which is \$1,467, this generates an average turnover cost figure of \$74,000. Since we have estimated that the average total direct and indirect costs of a \$10.75 ordinance would be about \$1 million for the covered hotels, this suggests that the low-end turnover cost estimate (derived from the Santa Monica survey results) would be 2.7 percent of all living wage costs (\$27,000/\$1 million) and a higher-end estimate (derived from the La Jolla interviews) would be 7.4 percent (\$74,000/\$1 million). In other words, the potential savings from reducing turnover costs could be significant, but not sufficient to absorb a major fraction of the covered firms' increased costs.

At the same time, cutting turnover costs is not the only channel through which higher wages might enhance the productivity of workers in covered firms. For example, these estimates do not attempt to measure costs of absenteeism or supervision in a low-pay/low-morale jobs, or the corresponding gains that would accrue to firms if better pay encouraged more effort from

workers. These benefits can be significant in various service sector positions where employees deal frequently with customers. Truman Bewley recently emphasizes this point in Why Wages Don't Fall During A Recession, his major 1999 study of how employment relations can affect the economy's performance even at the macroeconomic level (a topic that we discuss in greater depth below). Bewley, for example, quotes the representative views of one manager of a non-union hotel with 60 employees:

Morale is important for performance. Employees need to enjoy coming to work. They need to be treated as individuals, and their ideas must be noticed and appreciated. They must be encouraged to take the initiative to make customers happy. Employees have to be happy to present a positive image to guests, (p. 50).

Adding the potential savings in supervisory costs, lowered absenteeism and greater worker effort to the estimates we have derived on turnover costs, it seems reasonable to suggest that productivity benefits of the higher living wage for some firms could be as high as 20-25 percent of their total living wage costs. This rough estimate would be based on first allowing for higher turnover rates than our reported midpoint estimates—for example, figures closer to high-end averages from our own survey (75 percent turnover for all firms) or those reported in the industry studies (92 percent for hotels). We would then allow for additional cost savings through lowered absenteeism as well as reduced training and supervisory costs. Gains of such magnitudes would be consistent with the fact that we know that many firms do compete successfully despite maintaining a relatively high labor-cost environment.<sup>21</sup> However for other firms, these gains are likely to be negligible. For such firms, the process of adjusting to a higher Coastal Zone minimum wage will have to be achieved almost entirely through some combination of price increases, lower profits, worker layoffs or relocation.

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<sup>21</sup> See Pollin and Luce (2000), pp. 152-59 for examples of such firms in the Los Angeles area.

#### **4) Employment**

We consider two largely separable employment issues here: the possibilities for job losses caused by a Coastal Zone minimum wage; and the possibilities that more skilled workers will displace the less skilled because of the living wage ordinance.

##### Minimum Wages and Employment

The relationship between the minimum wage and unemployment has been an issue of longstanding and frequently intense controversy. The reasons for this are straightforward. Proponents of minimum wages believe that such measures help to raise living standards for low-wage workers, and to do so by helping to create decent job opportunities rather than through charity or government welfare provisions. But critics argue that imposing minimum wage floors will only reduce job opportunities for workers. In particular, those most likely to suffer employment losses through the minimum wage laws will be the less-skilled, low-wage job seekers. As such, according to critics, minimum wage laws only serve to harm the very people they intend to help.

The theoretical argument that critics make is clear. Assuming a free market situation in which everything else about this market is held constant, when one raises the price of any good or service in the market, including the services of a low-wage worker, the demand for that good or service will decline. Thus, a rise in the minimum wage (the price of low-wage labor) will make low-wage workers less attractive to potential employers and reduce their job opportunities.

But the problem with this argument reasoning is equally straightforward: it is very difficult to identify a real world situation in which *all else will be held constant* when the minimum wage increases, as the theory requires. This is precisely why we have been considering three other factors—price and productivity increases or a downward income redistribution—as alternative responses by firms that can vary along with a higher minimum wage. The extent to which any of these occur in association with a minimum wage increase would thereby violate the

condition that “all else be held constant” in order to assure that a minimum wage increase would cause employment losses among low-wage workers.

Given this, determining what actually happens to low-wage employment after minimum wages rise can only be determined empirically, not as a matter of pure theory. In recent years, researchers have made major efforts to establish whether reliable generalizations can be observed from the evidence. The best-known work in this area has been that of David Card and Alan Krueger, especially their path-breaking 1995 book, Myth and Measurement: The New Economics of the Minimum Wage. They have found that changes in the minimum wage have tended to be associated with slight *increases* in low-wage employment. However the Card/Krueger research methods and results have been challenged by a number of authors, most notably David Neumark and William Wascher (for example 1999). But Prof. Neumark’s most recent findings, while still at variance with those of Profs. Card and Krueger, also show either no significant employment effects at all resulting from a minimum wage increase or only small negative effects. The differences between the Card/Krueger and Neumark/Wascher findings have been well summarized by Richard Freeman: “The debate is over whether modest minimum wage increases have “no” employment effect, modest positive effects, or small negative effects. It is *not* about whether or not there are large negative effects,” (1995, p. 833; emphasis in original). In Appendix 6, we summarize in more detail these various recent research findings.

In any case, this recent literature on employment effects of minimum wage increases, while vital in its own right, can provide only limited guidance on our immediate questions at hand. This is first of all because the proposed \$10.75 ordinance could not be characterized as a *modest* minimum wage increase of the sort that this literature has focused its attention. But in addition, the Coastal Zone ordinance would be confined to a tiny segment of a huge low-wage labor market in the Los Angeles area—roughly 2,500 covered Coastal Zone workers amid 1.3 million earning between \$5.75 - \$10.75 in the metropolitan area, i.e. 0.19 percent of the total Los Angeles area low-wage market. This issue of scale, in turn, carries two additional important

implications. The first is that whatever may be the employment changes in the tiny covered sector, the effect of these will not be discernable throughout the 1.3 million-person uncovered market. In addition, the various firm adjustment mechanisms that could influence employment opportunities in the covered sector after the minimum wage increase—i.e. opportunities for price mark-ups, productivity gains or income redistribution within firms—are likely to operate in idiosyncratic ways among the covered Coastal Zone businesses that might not correspond closely to how the average firm would behave in a broader geographic setting. For example, unlike in Santa Monica, hotels within Los Angeles itself have not been able to consistently raise prices on the order of 10 percent per year, and their occupancy rates have been averaging closer to 72 percent over the past decade.

#### Employment Losses through Substitution of Less for More Skilled Workers

The possibilities for labor substitution constitute a much more serious concern in assessing whether a living wage ordinance would benefit the existing Coastal Zone workers. It is apparent that a living wage ordinance will increase the attractiveness of the covered Coastal Zone jobs relative to equivalent jobs whose wage floor is set by the California minimum of \$5.75. The pool of workers seeking the covered Coastal Zone jobs will therefore include workers with higher skills and/or credentials. But how would employers be able to distinguish more qualified workers in this expanded pool of job seekers? This is not an obvious question. For most of the jobs that would be covered in the Coastal Zone proposal—e.g. hotel maids, restaurant dishwashers, or retail cashiers (a fuller set of these jobs is provided in Table 8.10)—the qualities that would distinguish one worker from another will not be based primarily on formal qualifications such as years of schooling. Hiring “better” workers would rather most likely entail hiring people who work harder and are more conscientious in their duties. But employers will not be able to observe these on-the-job work habits until an employee is actually on the job. The employers are therefore likely to rely on formal qualifications such as years of schooling or English language skills as proxy measures—however inadequate—of workers’ job-specific skills. Thus, the

primary way in which labor substitution would likely occur after a living wage ordinance were implemented would be through better-credentialed workers newly entering the Coastal Zone labor pool—people with high school degrees, for example, who were unwilling to work as a hotel maid, restaurant dishwasher, or retail cashier at a \$7.50 an hour pay rate but would be interested at \$10.75.

Within this context, the basic question becomes: to what extent will better-credentialed workers take the jobs of those with less credentials, given that the pool of job-seekers will certainly include better credentialed workers than previously? A second, related question is: to the extent that substitution might occur, how much worse off would be the less credentialed workers who had become less competitive in getting hired into covered Coastal Zone jobs?

To address these issues, we will first examine the schooling and English language credentials of low-wage workers within our different wage categories—\$5.75 - \$7.40; \$7.41 - \$9.10; and \$9.11 - 10.75. Do these workers' credentials change substantially in moving up from the lower to the higher wage categories? We also present figures on changes in the age and gender profile of workers as we move up the wage categories. In examining these patterns, we are effectively asking whether, if covered Coastal Zone firms were newly hiring their entire low-wage work force, and if they were advertising their job openings at a wage rate in the range of \$9.11 - \$10.75 rather than \$5.75 - \$7.40, how would the profile change of the newly hired workers?

Once we address this issue, we will then move closer to considering what the actual situation would be with existing low-wage jobs in the Coastal Zone. Covered firms will not be hiring their entire low-wage labor force anew subsequent to implementation of a living wage ordinance. We will need to sort out what is likely to happen to the labor force that is already in place.

### Credentials of Low-Wage Workers

The data we present in Tables 5.7 and 5.8 provides a sense of the educational and English language credentials of workers employed in jobs similar to those that would be covered through a Coastal Zone living wage ordinance. We also present figures on age and gender changes for the different wage levels in each job category. The figures come from both the Los Angeles metropolitan area and the national sample of the Current Population Survey. Our aim here is to examine characteristics of workers in specific job categories that approximately match up with the actual job categories of low-wage Coastal Zone workers. Within the LA CPS survey, the sample sizes for 1999 for specific job categories are too small to be usable. Indeed, even the national CPS sample for 1999 provides too small a sample for several relevant occupations, such as sales clerk at retail stores and kitchen workers at restaurants.

To control for this deficiency, we have pooled data for five years, 1995-99. Even with pooling, the Los Angeles sample was still too small for most relevant job categories. However, in Table 5.7A we report results for two categories: cleaning and building service workers; and cashiers in the retail trade. In Table 5.7B, we then show results for the national sample for the same two job categories, as well as for cleaning and building services workers specifically in the hotel industry. Of course, the figures for the national sample do not capture some of the particular features of the Los Angeles labor market. But they still serve as a good check on the results from the much smaller LA sample.<sup>22</sup>

For each category among the worker characteristics, we also report percentage differences between workers in the highest and lowest wage categories (column 4 of the table)—for example, the difference from the lowest to the highest wage category between the percentage of retail cashiers with a high school diploma. This column of differences provides a set of

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<sup>22</sup> With this exercise, we also use the Outgoing Rotation Group data rather than the Annual Demographic Survey, which is our main data source for the results in Chapter 8. Again, we have used the Outgoing Rotation Group figures here because it enabled us to increase the sample size significantly. Of course, we also adjusted the three wage categories based on the inflation rate over these five years.

**Table 5.7A**  
**Personal Characteristics of Low-Wage Workers in Selected Job Categories**  
**Los Angeles, 1995-99**

	<b>Hourly Wage Categories (1999 dollars)</b>			<b>Difference between highest and lowest wage category</b>
	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
	\$5.75-\$7.40	\$7.41-\$9.10	\$9.11-\$10.75	columns (3)-(1)
<b>Cleaning and Building Service Workers</b>				
English as a second language ( <i>percent</i> )	88.3	84.2	81.0	-7.3
Less than high school diploma ( <i>percent</i> )	70.5	64.4	33.2	-37.3
High school diploma or Graduate Equivalency Degree ( <i>percent</i> )	18.6	22.7	41.5	+22.9
Some college ( <i>percent</i> )	8.0	10.4	25.3	+17.3
Bachelor's degree or more ( <i>percent</i> )	2.9	2.4	0.0	-2.9
Female ( <i>percent</i> )	39.2	38.4	28.7	-10.5
Under 20 years of age ( <i>percent</i> )	0.9	1.0	0.0	-0.9
Age ( <i>years</i> )	38.3	38.9	41.1	+2.8
Number of workers in category	140	91	32	
<b>Cashiers in Retail Trade</b>				
English as a second language ( <i>percent</i> )	58.5	49.2	42.1	-16.4
Less than high school diploma ( <i>percent</i> )	26.9	9.3	14.8	-12.1
High school diploma or Graduate Equivalency Degree ( <i>percent</i> )	43.7	35.5	47.3	+3.6
Some college ( <i>percent</i> )	27.1	44.0	33.3	+6.2
Bachelor's degree or more ( <i>percent</i> )	2.3	11.2	4.7	+2.4
Female ( <i>percent</i> )	68.8	55.3	63.5	-5.3
Under 20 years of age ( <i>percent</i> )	31.2	7.8	0.0	-31.2
Age ( <i>years</i> )	27.0	32.6	31.9	+4.9
Number of workers in category	159	42	21	

Source: Current Population Survey, Outgoing Rotation Groups, 1995-99.

**Table 5.7B**  
**Personal Characteristics of Low-Wage Workers in Selected Job Categories**  
**United States, 1995-99**

	Hourly Wage Categories (1999 dollars)			Difference between highest and lowest wage category
	(1)	(2)	(3)	(4)
	\$5.75-\$7.40	\$7.41-\$9.10	\$9.11-\$10.75	columns (3)-(1)
<b>Cleaning and Building Service Workers</b>				
English as a second language ( <i>percent</i> )	28.3	28.6	26.0	-2.3
Less than high school diploma ( <i>percent</i> )	43.7	33.9	28.5	-15.2
High school diploma or Graduate Equivalency Degree ( <i>percent</i> )	40.0	48.2	50.7	+10.7
Some college ( <i>percent</i> )	13.9	15.0	18.1	+4.2
Bachelor's degree or more ( <i>percent</i> )	2.4	2.9	2.8	+0.4
Female ( <i>percent</i> )	52.0	45.2	35.9	-16.1
Under 20 years of age ( <i>percent</i> )	8.4	3.1	2.0	-6.4
Age ( <i>years</i> )	38.8	41.5	43.0	+4.2
Number of workers in category	4915	3538	2005	
<b>Cleaning and Building Service Workers in Hotel Industry</b>				
English as a second language ( <i>percent</i> )	41.8	50.8	51.8	+10.0
Less than high school diploma ( <i>percent</i> )	50.9	41.4	36.3	-14.6
High school diploma or Graduate Equivalency Degree ( <i>percent</i> )	36.0	43.0	44.2	+8.2
Some college ( <i>percent</i> )	9.9	12.2	15.7	+5.8
Bachelor's degree or more ( <i>percent</i> )	3.1	3.4	3.9	+0.8
Female ( <i>percent</i> )	81.0	71.4	67.9	-13.1
Under 20 years of age ( <i>percent</i> )	5.8	2.5	0.9	-4.9
Age ( <i>years</i> )	37.7	39.8	42.7	+5.0
Number of workers in category	849	460	247	
<b>Cashiers in Retail Trade</b>				
English as a second language ( <i>percent</i> )	16.2	16.7	16.9	+0.7
Less than high school diploma ( <i>percent</i> )	29.2	14.3	7.1	-22.1
High school diploma or Graduate Equivalency Degree ( <i>percent</i> )	40.3	48.7	50.8	+10.5
Some college ( <i>percent</i> )	27.0	29.9	35.2	+8.2
Bachelor's degree or more ( <i>percent</i> )	3.5	7.2	6.9	+3.4
Female ( <i>percent</i> )	78.9	78.0	76.5	-2.4
Under 20 years of age ( <i>percent</i> )	29.7	11.6	3.5	-26.2
Age ( <i>years</i> )	29.4	34.7	37.6	+8.2
Number of workers in category	6233	1763	653	

Source: Current Population Survey, Outgoing Rotation Groups, 1995-99.

summary statistics on the changes in characteristics as we move from the lowest to highest wage category. In Table 5.8, we then show averages of the differences for the different job categories, e.g. the average difference in the percentage of high school graduates among the cleaning and building service workers. We show this for both the LA and US samples. Table 5.8 therefore provides the simplest overview of our results from this exercise.

As we see in Table 5.7, the overall directions of change among the job categories are broadly similar. Some significant disparities do emerge in the magnitudes of change, however. For example, with the Los Angeles sample, there is a much sharper drop in the share of cleaning and building service workers without high school diplomas (- 37.3 percent) relative to that for cashiers in retail (-12.1 percent). As another example, virtually none of the cleaning and building service workers are teenagers in any of the wage categories. But with the cashiers, 31 percent are teenagers at the lowest wage category while, again, none are at the highest wage category. In part, these large disparities may be a function of the still relatively small sample sizes within the Los Angeles sample. Even still, the overall patterns for most characteristics—job credentials as well as gender and age chances—are fairly stable through the different job types and within both the LA and US samples. As such, Table 5.8 provides a reasonable summary of the changes that occur among all the job categories.

Focusing then on Table 5.8, beginning with statistics on credentials with the LA sample: as we move from the \$5.75 - \$7.40 to the \$9.10 - \$10.75 category, we do see significant declines in the proportion of both the ESL workers and those with less than high school degrees. The average decline is 11.9 percentage points for the ESL category and 24.7 percentage points for those without high school degrees. Correspondingly, those with high school degrees rises by 13.2 percentage points and those with some college by 11.8 percentage points. The percentage of workers with college degrees remains stable at a negligible percentage for all wage categories.

For the most part, the same patterns prevail with the U.S sample, though the changes are more mild. Moving from the lowest to the highest wage category, those without high school

**Table 5.8**  
**Summary Statistics on**  
**Personal Characteristics of Low-Wage Workers, 1995-99**

<b>Average of Differences for All Job Categories Based on Column (4) of Tables 5.7A and 5.7B</b>		
	<b>Los Angeles Sample</b>	<b>U.S. Sample</b>
English as a second language	-11.9%	+2.8%
Less than high school diploma	-24.7%	-17.3%
High school diploma or Graduate Equivalency Degree	+13.2%	+10.0%
Some college	+11.8%	+6.0%
Bachelor's degree or more	-0.2%	+1.5%
Female	-7.9%	-10.5%
Under 20 years of age	-16.0%	-12.5%
Age	+3.8%	+5.8%

Source: See Tables 5.7A and 5.7B.

degrees are displaced by those with high school degrees and, to a lesser extent, those with some college. With the US sample, the proportion of ESL workers actually is slightly higher at the lowest wage category. This disparity results from the far lower proportion overall of ESL workers in the U.S. sample relative to that for Los Angeles. Given this far lower proportion in the U.S. generally, it is then clear that ESL workers do not get concentrated in the lowest wage category within the broader low-wage labor market as they are in LA.

In terms of gender, a consistent pattern emerges in which the proportion of female workers falls as we move to the higher wage categories. With the summary statistics in Table 5.8, the proportion of female workers falls by 7.5 percentage points with the LA sample and by 10.6 percentage points with the U.S. sample, when we move from the \$5.75 - \$7.40 to the \$9.11 - \$10.75 wage category.

The figures on age are also basically consistent. In moving from the lower to the higher wage categories, there are fewer teenage workers and the average age of the workers rises, by four years in the Los Angeles sample and six years in the U.S. sample.

Generalizing from both the LA and larger US samples, we would expect some significant, if not dramatic, substitution by credentials would take place if the firms that become covered by a Coastal Zone living wage ordinance were able to newly hire their entire low-wage work force. Most probably, that new work force would have roughly 10 percent fewer workers in the covered categories for whom English is a second language, and as much as 25 percent fewer who have not completed high school. The share of both female workers and teenagers would also decline. In our newly-hired work force of covered workers, those with lesser credentials, especially the females, would be replaced primarily by male workers above the age of 20 with high school degrees, but also by workers who have attended but did not complete college. There is no evidence from this exercise to suggest that high school graduates would be at all disadvantaged competing for the covered Coastal Zone jobs. Quite the contrary—workers with a high school degree would appear to be best situated to benefit from any change in hiring patterns

subsequent to implementation of a living wage ordinance. Nor does the evidence suggest that college graduates take over a higher share of these jobs, even after allowing that the pay range for the jobs would rise from \$5.75 - \$7.40 to \$9.10 - \$10.75.

#### Substitution Patterns under Existing Employment Conditions

Because businesses would not be free to newly hire their work force after a living wage law went into effect, the extent of worker substitution that would actually occur—e.g. high school graduates replacing those without a high school degree—would be less than our exercise suggests. This is because turnover in covered firms is likely to fall dramatically from the levels that currently prevail. Workers earning the living wage minimum will not want to leave their jobs, and their work effort should correspondingly rise. By the same token, businesses are not likely to terminate their existing workers, regardless of their lack of formal credentials, as long as their performance is satisfactory.<sup>23</sup> Allowing for these considerations, a future pattern of substitution that seems supportable from the evidence would be for an increase of between about 10 to 20 percent of the covered jobs being held by workers with high school degrees and some college, with a proportionate decline in the percentage held by those without degrees.<sup>24</sup>

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<sup>23</sup> Empirical evidence from a related situation—when a firm first becomes a union shop from having been non-union—provides some additional perspective on the likely extent to which existing employees would be displaced. After a union is organized and it bids up wages through collective bargaining, an employer has every incentive to replace its existing workers with new workers who possess greater skills and/or better work habits. If this were to happen, then there would be no wage improvement for union workers. Those earning union wages would be exactly the same more productive workers who would earn the higher wage even if they worked in non-union jobs. However, evidence shows that once differences in skills are accounted for, and after correcting for the possibility that there exists a tendency for workers to choose to work in a union firm precisely because they are more productive, we still find that workers in organized firms earn about 20 percent more than workers in non-union firms. In this situation, in short, the higher wage earned by union workers results, to a significant degree, from the fact that they are union members, not just because more skilled workers have supplanted the less skilled in the union shop. See Mishel, Bernstein, and Schmitt (1999) for recent data on union wage differentials.

<sup>24</sup> These figures are only rough hunches. But they are still grounded in the data presented in Tables 5.7 and 5.8. Thus, the 20 percent figure is based on the statistic in Table 5.8 that for the job types we reviewed, the share of workers without high school degrees fell by 25 percent in LA and 17 percent nationally in moving from the lowest to the highest wage category. The 10 percent figure would allow for significantly lower job turnover rates once an ordinance were implemented, as well as the fact that few firms will want to replace their existing employees en masse, regardless of these workers' credentials, if they are productive on the job. As we discuss in Chapter 9, if the City of Santa Monica were to implement a reasonably effective hiring hall program targeted at supporting the most disadvantaged workers, the percentage rate of displacement would likely fall further.

### Costs to Displaced Workers

Though it is unlikely that the substitution of more-credentialed for less-credentialed workers will occur to a significant degree, let us still assume that some may occur and consider what will be the overall effects of this on workers. The same logic would follow for displaced female and teenage workers

First of all, there would be no decline in the overall number of jobs in the Los Angeles area labor market. The higher credentialed workers will have simply left their existing jobs for better pay within the covered Coastal Zone. These newly hired Coastal Zone workers would obviously be better off because of the living wage ordinance. Their job transfer would also mean that an opening would exist for another worker to fill, albeit at a wage rate below that in the Coastal Zone.

Meanwhile, especially given that no net job destruction will have occurred, we need not assume that a displaced worker would encounter unusual difficulties finding a new job, at least at the below \$10.75 level they had been earning in the Coastal Zone. This is not to minimize the financial and emotional costs that workers would experience if they were displaced. Still, the 1.3 million person low-wage labor market in the Los Angeles metropolitan area should offer opportunities for displaced workers at a wage level at least comparable to their Coastal Zone jobs prior to the implementation of the living wage ordinance.

To summarize then, it is virtually certain that some displacement of existing low-wage Coastal Zone workers will occur following implementation of a living wage ordinance. But considering a variety of evidence and perspectives, the likelihood appears high that the extent of displacement will be modest. Moreover, given the tiny fraction of jobs that would be covered through the Coastal Zone ordinance relative to the overall low-wage labor market in Los Angeles, those who are displaced should not expect to encounter job opportunities significantly worse than the job they held in the pre-living wage Coastal Zone.

### Results from Survey Questions

In Table 5.9, we present results on the three employment related questions contained in the response section of our business survey. Given implementation of a \$10.75 minimum wage, the questions we asked businesses were how likely, as a response, they would be to layoff workers, hire fewer workers in the future or change hiring standards. We present results for all Santa Monica firms as well as hotels and restaurants separately.

The results vary widely. Considering all respondents, only between 25-29 of businesses said they were very likely to make any of these changes in their hiring practices, while between 57-60 percent said there were very unlikely to make any changes. However, with hotels, nearly half thought they were likely to lay off workers, 71 percent they would hire fewer workers in the future and 100 percent said they would change their hiring practices. The responses by restaurant managers were widely split. For example, 40 percent said they were very likely to lay off workers while 44 percent they were very unlikely to do so.

### Estimating Employment Losses from Survey Results

Considering the sample of firms as a whole, these results send no clear message in terms of either layoffs, cutbacks or changing hiring practices. As such, these results tend to support the view that changes in employment practices subsequent to implementation of a living wage ordinance will depend on how firms respond through the other options available to them, i.e. raising prices, improving productivity or making changes in the firm's distribution of income. Still, the percentages of firms responding affirmatively that they would, in some measure, change their employment practices is significant, especially so for hotels, where the heaviest concentration of low-wage workers is employed. This suggests that we consider more fully the prospects for job layoffs, as a compliment to our discussion recognizing the high probability that modest job displacement will occur. We can, in fact, draw upon the survey results to develop a rough order of magnitude estimate—*though no more than such a very rough estimate*—as to how

**Table 5.9**  
**Survey Responses by Businesses on How \$10.75 Ordinance**  
**Might Affect Employment Practices (in percentages)**

	<b>Layoff Current Workers?</b>			<b>Hire Fewer Workers in the Future?</b>			<b>Change Hiring Standards?</b>		
	<i>All Firms</i>	<i>Hotels</i>	<i>Restaurants</i>	<i>All Firms</i>	<i>Hotels</i>	<i>Restaurants</i>	<i>All Firms</i>	<i>Hotels</i>	<i>Restaurants</i>
<b>Very likely</b>	25.3	47.6	40.5	28.7	71.3	40.5	29.1	100	24.8
<b>Somewhat likely</b>	5.4	14.4	8.8	7.0	14.3	13.2	1.4	0	0
<b>Not sure</b>	3.9	38.1	2.1	3.4	0	4.4	4.9	0	11.7
<b>Somewhat unlikely</b>	7.0	0	4.4	3.4	0	2.1	5.0	0	4.4
<b>Very unlikely</b>	58.4	0	44.2	57.1	14.3	39.8	60.0	0	59.6

Source: PERI Santa Monica Business Survey (2000).

large layoffs might be if the firms that responded that they are likely or somewhat likely to layoff workers actually did so.

To develop this estimate, we draw upon three basic parameters: our survey results for the \$10.75 ordinance, our living wage cost estimates by industry, also for a \$10.75 ordinance, and recent estimates by Neumark and Wascher (1999), mentioned above, as to the negative employment effects of minimum wage increases.

According to Neumark and Wascher's findings, a 10 percent increase in the minimum wage produces employment losses in covered firms of between one and 2.5 percent, what economists term an "employment elasticity" of between  $-0.1$  to  $0.25$ . We can use this negative employment elasticity result as a rough benchmark in our estimation exercise.<sup>25</sup> But we cannot apply this finding directly to the covered businesses in the Santa Monica Coastal Zone. There are several reasons for this.

To begin with, the Neumark/Wascher result, as with the recent studies by Card and Krueger, are focused on fast-food restaurants. Virtually all of the covered firms in Santa Monica have very different cost structures than those of fast-food restaurants. Even if we assumed that the covered restaurants in the Coastal Zone did have cost structures similar to the fast-food chains, we would still have to make an adjustment in the impact of a living wage ordinance for these restaurants, given that we have incorporated a tipped workers' exemption for these restaurants, something that does not apply to workers in fast-food chains.

To provide perspective on this consideration, in Table 5.10, we show the total percentage labor cost increase for hotels, restaurants, and the rest of the covered Coastal Zone firms for a \$10.75 ordinance. These ratios include all direct and indirect costs, including benefits, ripple effects, and payroll taxes, in addition to all wage increases (derivation of these figures is explained in Appendix 3). In the first row, we show total cost increases for restaurants, assuming

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<sup>25</sup> A fuller discussion of these figures is presented in Appendix 6.

**Table 5.10**  
**Percentage Total Labor Cost Increases for all**  
**Covered Firms Due to \$10.75 Ordinance**

(1)	(2)	(3)
	percent labor cost increase	Increase relative to restaurants without tipped worker exemption <i>[column (2)/74.5%]</i>
Restaurants with no tipped worker exemption	74.5%	1.0
Restaurants with tipped worker exemption	41.5%	0.56
Hotels	38.8%	0.52
All other firms	12.5%	0.17

Source: See Appendix 3.

no exemption for tipped workers. This figure, 74.5 percent, would then be roughly equal to the cost figure for fast-food restaurants, if we assume that low-wage labor costs for high-end restaurants will come out as roughly equal to those for fast-food chains.

The table then also shows the total labor cost increases for the hotels, at 38.8 percent, the restaurants after allowing for a tipped worker exemption, at 41.5 percent, and all other firms, at 12.5 percent. As we see in the last column of this table, these cost increases range between 55.7 and 16.8 percent of that for our benchmark figure for restaurants. Again, if we assume that the 74.5 percent figure for restaurants without a tipped worker exemption is roughly equivalent to that for the fast food restaurants studied by Neumark and Wascher and others, it is clear that their employment loss estimates for the fast food industry cannot be directly applied to the covered Coastal Zone restaurants, with their far lower figures for cost increases.

Moreover, even these direct differences in total cost increases does not adequately capture the differences between the fast-food industry and those firms covered by a Coastal Zone ordinance. This is because we would also need to make adjustments for differences in the price elasticity of demand for the products sold by the different industries—for example, for high-end hotel rooms or expensive restaurant meals relative to McDonalds’s hamburgers. We would also have to make adjustments for differences in the capacity of firms to absorb one-time profit margin declines, including that high-end Coastal Zone hotels earn rents through operating in a restricted market.

How, then, might we try to make use of the Neumark/Wascher type employment elasticity estimates while also allowing for the large differences in the various affected industries? The strategy we adopt is to draw upon the intuition of the managers of the covered firms themselves as expressed in their survey responses. More specifically, for all covered firms, we assume that the percentage of covered workers exposed to layoffs will be equal to the percentage of firms in each category that responded to our survey that their were either likely or somewhat likely to lay off workers subsequent to implementing a \$10.75 ordinance. For example, 62

percent of hotels said they were either likely or somewhat likely to engage in layoffs. A total of 1266 hotel workers would be covered by a \$10.75 ordinance. This means that 782 hotel workers (62 percent of 1262) would be exposed to layoffs. Given that we are assigning equal weighting to “likely” and “somewhat likely” responses, our estimates are probably upwardly biased to a degree.

For these firms, we then assume that the size of the layoffs would be in proportion to their total labor cost increases, including, again, benefits, ripple effects, and payroll taxes as well as direct wage increases. For these percentage cost increases, we then apply the low- and high-end elasticity estimates of employment losses derived by Neumark and Wascher for the fast-food industry, i.e. a 10 and 25 percent employment loss relative to the minimum wage increase.<sup>26</sup>

As we see in Table 5.11, this exercise finds that with the low-end –10 percent employment loss elasticity estimate, a \$10.75 ordinance would produce 36 layoffs. With the high-end –25 percent employment loss estimate, the \$10.75 ordinance would yield 93 layoffs.

In the spirit of caution, we assume as a final step in this exercise that our employment loss estimates are 100 percent too low. One possible reason for such a large underestimate would be that the firms that responded in our survey that they would be either likely or somewhat likely to lay off workers may be those firms with higher than average labor cost increases. In addition, the Neumark/Wascher employment elasticity figures are based on a mandated minimum wage increase which is only about 20 percent of the size of that proposed for the Santa Monica Coastal Zone. It is not necessarily the case that a much larger labor cost increase would produce either

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<sup>26</sup> To be more precise, Neumark and Wascher estimate changes in *hours of employment* rather than *people employed* in deriving this negative elasticity range. In separate work, Neumark (1999) finds no significant employment loss at all in some tests and a negative employment effect between 10 and 20 percent of the minimum wage increase in others. To avoid underestimating the potential size of layoffs, we are deliberately working with the larger high-end estimates of Neumark and Wascher, and assuming that employment losses will take the form of layoffs rather than simply cutbacks in hours. On the other hand, we are estimating the employment elasticity based on total labor cost increases rather than the increase in the minimum wage itself, as was done by Neumark and Wascher. But this factor should not have a large impact on our overall estimate. Thus, for the restaurant industry without a tipped worker exemption, we estimate the total labor cost increase at 74.5 percent. By contrast, a \$10.75 living wage ordinance would entail an 87 percent increase over the current California minimum wage of \$5.75.

Table 5.11

**A. Estimates of Layoffs with \$10.75 Ordinance  
Based on Santa Monica Business Survey Responses**

(1)	(2)	(3)	(4)	(5)
	Hotels	Restaurants	Other	Total coverage and layoffs [columns (2) + (3) + (4)]
1. Number of workers covered	1262	214	1001	2477
2. Percentage of firms likely or somewhat likely to layoff workers	62%	49%	18%	---
3. Number of workers exposed to layoffs [rows (1) x (2)]	782	105	180	1067
4. Percentage labor cost increase (includes wages, benefits, paid days off)	39%	42%	13%	---
<b>5. Total layoffs at 10% of labor cost increase</b> [rows (3) x (4) x (.10)]	<b>30</b>	<b>4</b>	<b>2</b>	<b>36</b>
<b>6. Total layoffs at 25% of labor cost increase</b> [rows (3) x (4) x (.25)]	<b>76</b>	<b>11</b>	<b>6</b>	<b>93</b>
<b>7. Increase low-end employment loss estimate by 100%</b> [row (4) x 2]	<b>60</b>	<b>8</b>	<b>4</b>	<b>72</b>
<b>8. Increase high-end employment loss estimate by 100%</b> [row (5) x 2]	<b>152</b>	<b>22</b>	<b>12</b>	<b>186</b>

**B. Pessimistic Layoff Estimates as a  
Share of Covered Workers with \$10.75 Ordinance**

	Layoffs at 10% of cost increases	labor	Layoffs at 25% of labor cost increases
1. Total layoffs	72		186
2. Total covered workers	2477		2477
3. Layoffs as percentage of covered workers [rows (1)/(2)]	2.9%		7.5%

Source: Table 4.1, PERI Santa Monica Business Survey (2000), Neumark and Wascher (1999).

proportionally larger or smaller employment losses. But by doubling our own rough employment loss estimate, we are allowing that layoffs through a \$10.75 ordinance would, in proportion, be significantly greater.

With this doubling of our actual estimates of between 36 and 93 layoffs, we now show estimates of layoffs of between 72 and 186 workers based on a series of highly pessimistic assumptions. In Panel B of this table, we see that these estimates of layoffs range between 2.9 and 7.5 percent of the total of 2477 that would receive mandated raises through this ordinance.<sup>27</sup> Obviously, employment losses of this magnitude are consequential and need to be evaluated seriously in assessing the overall merit of the living wage proposal. This is especially so, given that the aim of the living wage measure is precisely to help low-wage workers, not leave them jobless. At the same time, it is useful to put some perspective on these figures.

First, again, it isn't necessarily the case that losses of this size will occur. This is a rough hypothetical exercise only, designed to present a highly pessimistic range of possibilities. Had we, for example, applied the employment elasticity estimates of Profs David Card and Alan Krueger from our earlier discussion rather than that of Neumark and Wascher—or, indeed, had we applied some of Prof. Neumark's own lower-end estimates—no layoffs at all would have emerged through our exercise. More to the point, as we have stressed, whether employment losses would occur will depend on the ability of covered firms to absorb their increased labor costs through price and productivity increases as well as one-time cuts in profit margins.

Second, the magnitude of the job losses—even after we doubled our own job loss estimate—is only, at most, 15 percent of the average job turnover rate of around 50 percent that the firms reported in our surveys. Most workers therefore recognize that, in taking jobs with these firms, the probability is high that their job tenure will be brief, either through a voluntary

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<sup>27</sup> Once again, so as not to underestimate the potential negative impact through employment losses, we show the employment losses relative to the number of mandated workers receiving raises rather than including also those receiving ripple effect increases. We work here with the smaller number for those

quit or a layoff. Of course, leaving a job through a layoff is not equivalent to voluntarily quitting, especially as the job being lost is becoming significantly more desirable through the living wage ordinance. Still, a high proportion of workers in these jobs no doubt accepted their positions without expecting them to involve a long-term arrangement.

Finally, as mentioned above, these job losses have to be measured within the context of the overall low-wage labor market in the Los Angeles area. The pessimistic high-end estimate of 186 lost jobs is equal to 1/100 of a percent of the 1.3 million total low-wage labor market in LA. Moreover, between 1995-99, new jobs have been created in this market at a rate of 40,000 per year, a rate that is 215 times greater than our pessimistic high-end estimate of job losses. As we noted above with respect to displaced workers, any workers experiencing layoffs should not expect to encounter job opportunities significantly different than those which they experienced in the pre-living wage Coastal Zone.

### **5) Firm relocation**

How strong the incentive would be for firms to relocate would depend on the increased costs they would face with a living wage ordinance relative to the costs incurred through relocating. For the covered firms other than those in the hotel and restaurant industries, where living wage cost increases would be in the range of 2 percent of their gross revenue, it is unlikely that they would contemplate relocating. As we have said earlier, for firms in this situation, the probability is high that they could fairly readily absorb all of their living wage costs through some combination of modest price increases and productivity gains as well as, in the context of a growing revenue stream, a small one-time reduction in their profit margin. This again leaves us to consider the case of the 11 hotels and 6 restaurants.

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receiving wage increases even though we have included all ripple effect costs in our estimate of total cost increases.

Hotels. There is virtually no possibility that the covered hotels would leave their present location to circumvent living wage cost increases. Of course, relocating only blocks from their present sites would still allow them to operate within Santa Monica, if outside the Coastal Zone. But proximity to the Santa Monica beach—either right at the beachfront or only a short walking distance away—is clearly a major amenity, if not the primary selling point, that attracts customers to these hotels. That amenity would be lost through relocation. It is conceivable that the firms might decide that, because of the living wage ordinance, their profit margins could decline to the point where they would no longer benefit adequately through operating in Santa Monica. This also seems unlikely, given their performances over the past decade in terms of price increases, occupancy rates and gross revenue flows. Nevertheless, were they to reach this conclusion, they would simply sell their ownership of their existing property to another group. It is not plausible, in other words, that these Coastal Zone locations themselves would be abandoned by the hotel industry. These locations are simply too desirable to be passed up, especially given the continuing City policy of restricting the expansion of new Coastal Zone room supply.

At the same time, whoever owns these properties may attempt to achieve some of the benefits of relocation through another channel, that being *outsourcing* some of the hotel's operations. Major hotels throughout the country are increasingly outsourcing parts of their operations as a cost saving measure. Potential areas for outsourcing include food procurement and preparation, housekeeping services, and some administrative operations such as managing reservation records.<sup>28</sup> Presumably, the intended coverage of any Coastal Zone living wage ordinance would include all employees working on the premises of the hotels, regardless of whether they are employed by the hotels themselves or by subcontractors. It would obviously be important that the City provide explicit clarification on this point within any measure that became law.

Restaurants. Once again, the situation is more ambiguous with our six covered restaurants. Unlike with the hotels, the attractiveness to customers of these restaurants is not tied so closely to their specific Coastal Zone location within Santa Monica. On the other hand, relocation could be costly and would entail risks of losing at least some of their customer base. Moreover, following our earlier discussion, if we allow that that high-end restaurant customers are relatively insensitive to small changes in prices, it is possible that a good share of their living wage costs could be passed on to their customers through price increases on the order of 5-10 percent. It is therefore plausible that these firms would first test their ability to absorb their living wage costs through raising prices, perhaps in combination with increasing productivity and accepting a somewhat smaller profit margin within the context of increasing gross revenues.

What would happen if one or more restaurants did choose to relocate? Given the desirability of operating hospitality businesses within the Coastal Zone, other firms will no doubt claim the locations that had become vacated. Such opportunities would look especially attractive to smaller entities, with sales levels below the \$3 million coverage threshold. These newly relocated smaller Coastal Zone restaurants would then join the approximately 125 restaurants with gross revenues under \$3 million already operating in the in the Coastal Zone.

If one of the covered restaurants did move and was replaced by one or more businesses with sales below the \$3 million threshold, we could then identify two types of relocation costs caused by the living wage ordinance. The first would be the costs absorbed by the relocated restaurants themselves. The second would be the lost opportunity to earn the living wage by the non-tipped workers employed at the relocated restaurants. But these workers were earning less than the living wage minimum prior to passage of the ordinance. As such, the firm's total costs of relocation would not be borne directly through their paycheck. Beyond these two sets of costs,

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<sup>28</sup> Information about outsourcing strategies in the hotel industry is presented at the website of the Arthur Anderson business consulting firm. See [www.arthuranderson.com](http://www.arthuranderson.com) and <http://ww3.knowledgespace.com/Hospitality/>.

the impact for the City as a whole of a restaurant's relocation in response to a living wage ordinance would be negligible.

#### Results of Survey Data

The view that firms are unlikely to relocate in response to implementation of a \$10.75 ordinance is supported by business owners' responses to our survey questions. Our results are presented in Table 5.12. As the table shows, in each of our respondent categories—including all firms aggregated as one, as well as hotels and restaurants presented separately—the majority of respondents said they were “very unlikely” to relocate to a lower cost area. The hotels were most clear on this point: 76 percent of respondents said they were very unlikely to move and none said they were very likely to do so. All of the hotels in La Jolla that completed our survey said they were very unlikely to move.

With the Santa Monica restaurants, about 15 percent said they were either “very likely” or “somewhat likely” to relocate. While still a relatively small minority of respondents, the figure is high enough to support the notion that at least some of the covered restaurants would seriously consider moving. If, following the survey results, 15 percent of covered restaurants did move, that would amount to perhaps one restaurant relocation (0.9 being 15 percent of six).

#### **6) Summary on Business Adjustment Alternatives**

The basic conclusions we derive from the foregoing discussion are as follows:

Among all 72 covered Coastal Zone firms, there are 55 firms, employing about 1000 covered workers (40 percent of total covered workers) for which living wage cost increases average about 2 percent of their gross revenues with a \$10.75 ordinance. These firms should be able to manage a fairly smooth transition into a living wage environment through some combination of small price and productivity increases, and perhaps slight declines in profit margins. Moreover, as we have seen, such profit margin declines would occur on a one-time basis only, in the year that the living wage ordinance is implemented. After that point, profit

**Table 5.12**  
**Survey Response by Businesses on the Likelihood of Relocating in**  
**Response to a \$10.75 Ordinance (figures are percentages)**

	All Firms	Hotels	Restaurants
<b>Very likely</b>	22.0	0	12.3
<b>Somewhat likely</b>	6.1	0	2.6
<b>Not sure</b>	10.1	23.8	20.7
<b>Somewhat unlikely</b>	5.6	0	7.0
<b>Very unlikely</b>	56.1	76.2	52.2

Source: PERI surveys of Santa Monica businesses (2000).

margins will stabilize, and could begin to rise again if revenues increase faster than any subsequent wage increases. With only a few exceptions, the process of adjustment for these 55 firms should be relatively mild.

The average living wage cost increases for the 11 covered hotels and 6 covered restaurants are both on the order of 10 percent of their gross revenues with a \$10.75 ordinance. But it is still likely that the ways the covered firms in these two industries would adapt to such cost adjustments will be quite different.

The evidence strongly suggests that the hotels should be able to raise prices to cover a high proportion of their incremental living wage costs, as occupancy rates have remained high even as room prices have been rising by about 10 percent per year (in current dollars) since 1995. Gross revenues have been growing sharply through the combination of price increases, the relative insensitivity to these price hikes by the hotels' customers, and the restrictions that the City has placed on the development of new Coastal Zone hotels. Persistent high occupancy rates and rapid gross revenue increases has been the result. This suggests that even if the hotels are not able to continue raising prices at an annual rate of 10 percent, they could manage small reductions in their profit and rent margins without seriously damaging their operations. In any case, the hotels are not likely to relocate out of the Coastal Zone to avoid living wage labor costs. But even if they did, many other firms would be prepared to assume their places in this market, whose desirability is substantially enhanced by the opportunities to receive rents through the City's restrictive growth policies.

The restaurants are operating in a more difficult competitive environment and with profit margins that are probably much tighter than those for the hotels. The high-end covered restaurants should be able to raise prices to some extent, given that their customers tend not to be highly price sensitive. But if they find they are not able to sustain price increases, they may well contemplate relocation out of the Coastal Zone. Restaurants whose sales fall below the \$3 million threshold would be the most likely candidates to fill any vacated locations.

Considering employment impacts for all covered firms, the evidence suggests there should not be significant employment losses, if any, through implementing a living wage ordinance. Low-impact covered firms—those outside the hotel and restaurant industries—have little incentive to reduce their payrolls in response to the implementation of a living wage ordinance. With the hotels and restaurants, firms are likely to lay off workers only if they are unable to absorb the cost increases through raising prices and productivity or reducing profit margins slightly. In our most pessimistic scenario, which assumes layoffs will occur at *twice the level* consistent with our survey findings and the Neumark/Wascher employment loss elasticities for the fast-food industry, we find that 186 low-wage Coastal Zone workers—7.5 percent of those that would be covered—would experience employment losses through a \$10.75 ordinance.

Worker displacement is the more serious issue in terms of employment: whether workers with better educational credentials would take over the existing covered jobs from the current, perhaps less well credentialed, workers. If nothing else, this is likely to occur with attrition, as the higher wages and benefit levels offered in the covered sector attracts job applicants with better credentials into the covered labor pool. But again, the effects of this are likely to be significant but still relatively small, with high school graduates and those with some college taking over probably taking over no more than 25 percent of the positions that were previously filled by those without high school degrees. The actual displacement of lower-credentialed workers is likely to be well below 25 percent, given that firms will not be supplanting their existing workforce en masse, and that turnover rates at the covered firms will probably fall sharply. Even still, if the City Council would wish to mitigate these displacement effects, they are likely to be able to so through supporting targeted efforts by local hiring halls and similar measures, an issue we consider in Chapter 9.

### **7) Would a Living Wage Ordinance Make Recessions More Severe?**

The question we consider in this section is whether having a living wage ordinance in Santa Monica will make the city more vulnerable than it would otherwise be to the effects of a national or statewide recession.

To begin with, it is safe to assume that recessions will continue to occur in the United States and California (notwithstanding the rosy optimism of some economic commentators, dazzled by the current nine-year expansion). Moreover, Santa Monica, like nearly everywhere else in the United States, is vulnerable to the effects of a national recession. During a national recession, GDP, business sales, and household incomes all fall, and unemployment rises. During the last national recession in 1990-91, Gross National Product growth turned negative and unemployment rose to over 7.5 percent. Santa Monica was not immune. As we have seen, the average hotel occupancy rate was at its low point in 1990 at 72.6 percent.

But would Santa Monica experience the next recession *more severely* than otherwise if it were to have a living wage ordinance in place? The basic problem that a living wage ordinance could create in Santa Monica during a recession is that, with the mandated wage floor created by the living wage ordinance, wages in the city would be “inflexible downward”—i.e. businesses, facing sales declines, wouldn’t be permitted to lower wages as much as they might otherwise to save on costs.

After taking account of this potential problem, we nevertheless still conclude that the living wage ordinance would not create special vulnerabilities for Santa Monica during recessions. We have reached this conclusion in part through analysis of the existing evidence on wage inflexibility and recessions. We have also conducted statistical analyses of our own on how differences in minimum wages across states affect state-to-state changes in employment. We summarize the main findings of this research below. We also provide a much fuller accounting of this research—the existing literature as well as our own statistical exercises—in Appendix 7.

### Increased Wage Flexibility For Firms Near Threshold

We begin by assuming a living wage ordinance that is designed with a sales threshold along the lines we propose in Chapter 3, i.e. as a \$3 million sales threshold, with businesses changing their coverage status only after two years of having shifted either above or below the threshold. It then holds, as we discussed earlier, that especially for employers close to the \$3 million sales threshold, the living wage ordinance will actually *increase* their degree of wage flexibility during a recession. That is because, when a firm's sales decline below \$3 million for two consecutive years, they would have the option to lower their wage floor to the California-wide minimum, currently at \$5.75. Were they to do this, their labor costs would fall to the level roughly equivalent to a pre-living wage ordinance level.

It is true that this source of wage flexibility, triggered when firms fall below the sales threshold, operates only with a two-year lag. This may not be particularly helpful to firms as they are immediately experiencing a recession-induced sales decline. But this also raises a more fundamental fact about how firms generally adjust their labor costs during recessions. That is, for the most part, firms *do not reduce nominal wages*— i.e. the dollar amount of their wage, not the real purchasing power of their wage after controlling for inflation—in recessions. Rather, nominal wages generally remain *inflexible* downward during recessions. In addition, most evidence finds that even when nominal wages are more flexible downward in recessions, this downward flexibility *does not reduce employment losses* resulting from the recession. In terms of the impact of a living wage ordinance, these findings suggest that it should not matter significantly whether a higher minimum wage contributes to downward wage inflexibility. As we will see, this conclusion is consistent with the results of our own statistical model, which finds that differences in minimum wages across states has had little impact on state-to-state relative employment changes during recessions, i.e. that wage inflexibility resulting from higher mandated minimum wages does not affect overall employment patterns.

### Inflexible Wages in Recessions

There exists a substantial literature concerning the economy as a whole—the “macro” economy—that has explored the degree to which wages are flexible downward in the United States. The general thrust of these studies is that wages are inflexible downward, even during a recession.<sup>29</sup> More recently, this macroeconomic data has been buttressed by substantial research at the level of individual firms—the “micro” economy. In perhaps the most comprehensive study to date, Joseph Altonji and Paul Devereux (1999) develop, among other things, a statistical analysis in a broad set of industries between 1971-92. This period includes the recessions of the early 1980s and 1990s.

Overall, Altonji and Deveraux find that over the full 1971-92 period, the probability that workers will experience cuts in their nominal wage is effectively zero. They did find some positive probability that that wage cuts and wage freezes might occur in recessions. But they still concluded from their statistical tests that a significant increase in statewide unemployment rates would not imply a greater likelihood that workers would experience wage cuts or freezes. Moreover, Altonji and Devereux find that neither higher unionization rates, nor, most pertinent for our purposes, a higher federal minimum wage are responsible for the high degree of wage inflexibility in the U.S. economy, even in recessions.

The question as to why wages remain inflexible, even during recessions, is not systematically considered by Altjoni and Devereux. But this issue has been analyzed at length in Truman Bewley’s pathbreaking 1999 book, Why Wages Don’t Fall During a Recession. The analysis in this book is based on nearly a decade of research, deriving from interviews with more than 300 firm managers, labor leaders and counselors of the unemployed during the recession of the early 1990s. Bewley’s basic findings are as follows:

First, confirming Altonji and Devereux, Bewley finds that nominal wages are basically inflexible downward in the U.S. economy, even during recessions. Bewley also finds some

exceptions to this general rule. One is when firms convince workers that they are experiencing severe financial difficulties and that wage cutting is the only alternative to closing a business. But even here, wages are typically cut by no more than between 5 and 20 percent. Firms are somewhat more likely to cut benefits in such a situation.

The largest exception to Bewley's general findings occurs in industries with a high percentage of temporary help and/or part-time workers. But even in these industries, the downward wage flexibility applied primarily to new hires. Those already holding jobs did not experience wage cuts, despite the fact that they were temporary or part-time jobs. Overall, in a sample of 235 businesses, only five percent cut their employees' base pay (wages or salaries) at all during a recession, and 11 percent cut compensation, including benefits, at all during a recession. Thus Bowley observes:

Diversity proved to be of less importance than expected, however, for views were astonishingly uniform. Regarding personnel management, the wisdom of a top executive at a huge corporation was not very different from that of a restaurant manager or machine-shop owner. The only...major distinction I detected was that between the primary and secondary sectors [i.e. distinguishing industries according to whether they employed a high proportion of temporary and/or part-time workers], and even there the divergence of opinion and experience was not dramatic (p. 26).

The primary reason cited as to why businesses do not cut pay during recessions is that it has negative effects on morale; and low morale, in turn produces lower productivity and effectiveness on the job. Pay cuts will also affect workers' perceptions of equity within the firm. This makes it more difficult to cut the pay of some workers while leaving other workers alone. Thus, if managers are going to cut pay, they would be pressured to make across-the-board cuts to prevent declining morale associated with perceptions of pay inequity.

Perhaps most importantly, managers did not consider pay cuts as a viable alternative to layoffs in a recession, even if the cost savings were roughly equivalent. Indeed, Bewley reports that many managers expressed "puzzlement" that these two methods of cutting labor costs in a

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<sup>29</sup> Rotemberg and Woodford (1999) reviews this literature.

recession could be considered equivalent. This is because pay cuts would hurt morale and productivity *more* than layoffs. With layoffs, the firm retains control over who leaves.

#### Minimum wages and employment during recessions

In short, nominal wage inflexibility is part of the way businesses operate in the United States, including during periods of recession. This is why a minimum wage increase, even though it mandates downward wage inflexibility within the low-wage labor market, should not significantly affect employment levels during recessions. To explore this issue explicitly as it relates to the minimum wage, we constructed a statistical model which examines how changes in employment levels in different states may be affected by differences in statewide minimum wage levels. We examined this question for the years 1987-92. During these years, numerous states had minimum wage rates higher than the national minimum.

In presenting our statistical tests here, we focus on the effect of two basic factors on changes in employment across the states: changes in Gross State Product (GSP); and the level of the statewide minimum wage. Our complete statistical models, which are presented in Appendix 7, consider other factors as well as these. But focusing on GSP and statewide minimum wages will enable us to concentrate on the basics of our model without misrepresenting anything about our broader results.

In Table 5.13, we show the main results of our exercises. As we can see in the table, we consider the evidence in various ways. We first show results for all industries, for all the years in our sample, then only for recession years, i.e. years in which GSP declines. We then concentrate on the hotel and restaurant industries, the two industries that would be most heavily affected by a Coastal Zone living wage ordinance.

Considering initially the results for all industries (columns 1 and 2 of Table 5.13), we see that changes in GSP will affect employment. That is, when GSP rises, employment will also rise; and when GSP falls, employment falls as well. This is true for all the years in our sample and also in the recession years alone.

**Table 5.13**  
**How Minimum Wage Differences Across States Affect Changes in State Employment, 1987 – 92:**  
**Summary of Main Econometric Findings**

Factors Influencing Changes in State Employment	Impact on All Industries		Impact on Hotel Industry		Impact on Restaurant Industry	
	all years	recession years	all years	recession years	all years	recession years
Changes in Gross State Product (GSP)	significant effect: GSP↑, employment↑; GSP↓, employment↓	same as for all years	no significant effect	no significant effect	significant effect: GSP↑, employment↑; GSP↓, employment↓	same as for all years
Level of minimum wage	significant effect: wages↑, employment↑; wages↓, employment↓	insignificant effect	insignificant effect	insignificant effect	insignificant effect	insignificant effect

Source: See Appendix 6 for sources, further results, and derivation.

The level of the minimum wage has a more ambiguous influence on employment in all industries. We see that a higher minimum wage correlates with increases in employment, and a lower minimum with falling employment. We should not conclude from this that employers in a state with a higher minimum wage are encouraged to hire more workers *because* of the state's higher minimum wage—i.e. that a higher minimum wage *causes* employment to rise. The more plausible causal chain is that states with rising GSPs are also passing higher minimum wage laws. Since we know that a higher GSP will increase employment, it would follow that a higher minimum wage—itsself likely to result from a higher GSP—would then also correlate positively with increases in employment. In any case, this relationship between minimum wages and employment across states appears to be weak. As we see in the table, while the relationship was significant for all the years in our sample, it was not significant when we considered only recession years.

Turning now to the hotel industry results, we see that neither changes in GSP nor the minimum wage has a significant effect on industry employment levels. This suggests that employment in the hotel industry is relatively less sensitive to changes in GSP than the economy overall. We also see with the hotel industry that differences in minimum wages also have no significant effect on employment changes across states.

The restaurant industry appears to be more sensitive than the hotel industry to changes in GSP. But in terms of the impact of the minimum wage on employment, we again see that differences across states in the minimum wage does not have a significant effect on state-to-state differences in employment.

In the fuller presentation of our exercise in Appendix 7, one can see that these basic findings hold up as we show our results more fully, and as we change the specific ways that we conduct our tests.<sup>30</sup> In general then, our own statistical findings correspond to the evidence we

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<sup>30</sup> Most importantly, we reach basically the same conclusions when, instead of considering how the minimum wage itself affects employment, we examine the level of the minimum wage in each state *relative*

summarized on the relationship between downward wage inflexibility and recessions. We saw that downward wage inflexibility is pervasive in the U.S. economy, but that it does not have a significant effect on employment. With the minimum wage as a specific policy mandating a floor on wages—acting thereby as a mandated policy of downward wage inflexibility—we also see that this does not exert a significant influence on changes in employment in different states.

Based on these various results, we therefore conclude that a living wage ordinance in Santa Monica is not likely to increase the severity with which a national recession will affect the economy of Santa Monica.

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to the state's median wage. This then becomes a test of whether a state's minimum wage is high enough relative to the median wage such that the minimum wage could have a significant influence on employers' hiring decisions.

## **CHAPTER 6: COST ESTIMATES FOR CITYWIDE ORDINANCE**

Consideration of living wage proposals in Santa Monica has been focused on an ordinance that would apply only to firms within the City's Coastal Zone. For example, at its September 7, 1999 meeting, the Santa Monica City Council "considered a proposal for a Living Wage Ordinance," that would be applicable to businesses "located in the Coastal Zone, an area of approximately 1.5 square miles within the City," (Request For Proposals, p. 1).

Consistent with this major concern within the City, the major thrust of this study is also focused on proposals for the Coastal Zone. However, even to fully evaluate the merits of a Coastal Zone proposal itself, it will be useful to examine other possible ways of implementing a living wage ordinance in Santa Monica. Thus, in this chapter, we estimate the impact of an ordinance that would apply throughout the entire City rather than just the Coastal Zone. In the next chapter, we then consider a proposal that would apply only to businesses holding service contracts with the City.

### **Design of Proposal**

As with the Coastal Zone proposal, the first step in estimating the potential impact of a Citywide proposal is to identify its overall parameters for coverage. We begin by assuming that the Citywide ordinance would be designed exactly as the Coastal Zone proposal. This would include the following three major components:

1. The ordinance would cover all private sector firms with annual gross receipts in excess of \$3 million. To be more precise, we are estimating the ordinance to include all entities in Santa Monica which report gross receipts to the City, and therefore receive business licenses. This will include non-profit firms. But it does not include public sector institutions.
2. We assume an exemption for workers who receive at least 50 percent of their income from tips. Workers that fall under this tipped worker exemption would continue to receive the mandated California minimum wage of \$5.75 for their hourly wage rate.

3. We assume that the ordinance would apply to all workers whose major place of employment are the premises of the covered firms. This, again, means that workers employed by firms that subcontract with covered firms, but are on the premises of the covered firms for at least 50 percent of their workweek, would be covered by the ordinance.

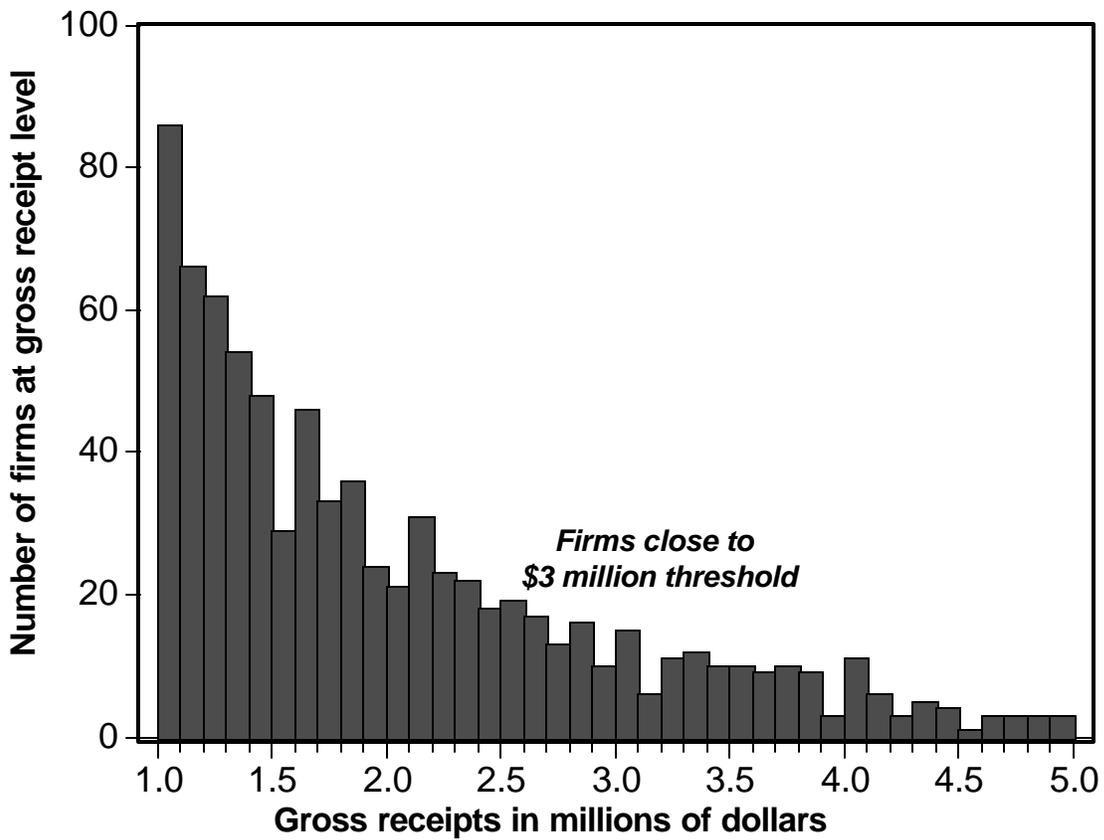
With this coverage range, we then estimate impacts based on these provisions:

1. Two minimum wage rates, \$10.75 and \$9.50.
2. Fifteen paid days off to all covered workers.
3. Firms will provide \$1.25 in health benefits to workers earning up to \$1.25 over the new minimum wage.
4. Ripple effects on wages and paid days off, derived exactly as we have done with the Coastal Zone proposal, as reported in Chapter 4.

The City of Santa Monica provided us gross receipts figures for 11,100 entities. Of these, 582 report zero as their gross receipts figure for 1999, and another 1829 report gross receipts as under \$1000. A total of 10,774—97 percent of all Santa Monica firms—report gross receipts under \$3 million and thus would not be covered by a Citywide living wage ordinance. The ordinance would thus be targeted at the remaining 3 percent of Santa Monica firms, i.e. 326 entities with gross receipts equaling \$3 million or more.

As with the Coastal Zone proposal, it is important to know how many firms report gross receipts close to the \$3 million threshold. If there is a high concentration of firms relatively close to the threshold, this could create uncertainties for a large number of firms as to their coverage status. Such uncertainties for firms would correspondingly increase the costs to the City of administering the ordinance. However, again as with the Coastal Zone proposal, we see in Figure 6.1 that there are relatively few firms Citywide with gross receipts close to the threshold. The figure shows all firms with gross receipts between \$1 and \$5 million. As we see, the number of firms falls off steadily from the \$1 million to the \$3 million range and beyond. For example, 483 firms report gross receipts between \$1 and \$2 million while only 129 are between \$2.5 and \$3.5

**Figure 6.1. Distribution of All Santa Monica Firms Between \$1 and \$5 Million in 1999 Gross Receipts**



Source: City of Santa Monica

million. Even closer around the \$3 million threshold, 61 firms report between \$2.75 and \$3.25 in gross receipts. These figures suggest that the task of monitoring threshold crossings by the City would be focused on somewhere between about 60-120 firms.

#### Estimated Costs of \$10.75 Proposal

Following the same format as Chapter 4, we first present direct mandated costs—wage increases, paid days off and health benefits, then discuss the indirect ripple effects on wages and paid days off.

##### Direct Costs

Wage increases. Table 6.1 presents estimates for the number of firms and workers directly affected by a \$10.75 Citywide ordinance, as well as the wage increases associated with each proposal. As in Chapter 4, we present figures for all covered firms, and also provide separate figures for the three sectors of the Santa Monica economy that would be most heavily affected by this proposal. As we see, those three sectors remain hotels, restaurants and retail firms. However, the proportionate size of the coverage for these three sectors is not as large as with the Coastal Zone proposal.

Considering first the figures in the first column on all covered firms, we again see that there are 326 firms in Santa Monica that have at least \$3 million in sales, and therefore surpass our threshold. These firms employ a total of 7,269 workers, about 73 percent of whom are full-time. The average workweek for all employees in these firms—including full and part-time workers—is 35.8 hours. These workers' average wage, at present, is \$7.72.

From these figures, we are then able to see the impact of an increase in the Citywide minimum wage to \$10.75. The average mandated raise for existing workers is \$3.03. The average working year is nearly 52 weeks, so, as we had done with our Coastal Zone estimate, we assume a full year of work at 35.8 hours. From this, we generate the result that the total annual pay increase per worker is \$5,644 and the total increase for all covered workers is \$41.0 million.

**Table 6.1**  
**Direct Wage Costs to Covered Firms After Raise to \$10.75 with Citywide Ordinance**  
**(1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of firms covered	326	13	10	74
Number of workers below \$10.75	7,269	1,430	359	1,944
of which, full time	5,284	1,003	224	1,230
of which, part-time	1,985	427	135	714
Average working hours per week	35.8	36.4	34.2	34.5
Average hourly wage before ordinance	\$7.72	\$7.58	\$7.23	\$7.70
Average hourly wage increase	\$3.03	\$3.17	\$3.52	\$3.05
Average total wage increase per worker	\$5,644	\$6,006	\$6,255	\$5,478
<b>TOTAL WAGE INCREASE, ALL WORKERS</b>	<b>\$41.0 million</b>	<b>\$8.6 million</b>	<b>\$2.2 million</b>	<b>\$10.6 million</b>
<b>AVERAGE WAGE INCREASE PER FIRM</b>	<b>\$126,000</b>	<b>\$661,000</b>	<b>\$225,000</b>	<b>\$144,000</b>

Source: See Appendix 3.

The average wage increase per firm is \$126,000, which is 37 percent below the comparable Coastal Zone figure of \$200,000.

Considering now the impact by sector, the heaviest proportionate impact will again be on the hotels. A total of 13 hotels--only two additional hotels relative to the Coastal Zone proposal--would be covered in the Citywide ordinance. These hotels now count for only four percent of the total number of covered firms. But they would still account for 1,430 covered workers, 20 percent of the total. Their average wage increase per firm, at \$661,000, is more than 5 times the average for all covered firms.

A total of 10 restaurants--i.e. an increase of four--would be covered by a Citywide ordinance. Again, though, their increased wage costs would be relatively high, even after allowing for a tipped workers' exemption. Their average wage increase per firm is \$225,000, well below that for hotels, but still 78 percent above the figure for all firms.

There is a large increase in the number of retail firms covered, from 13 in the Coastal Zone proposal to 74. Moreover, with the Citywide proposal, the retail sector would employ 1,944 covered workers, more than even the figure for hotels of 1,430. At the same time, the wage increase per firm, at \$144,000 is only 14 percent more than the average for all firms.

Thus, in examining this first set of estimates for the Citywide proposal, it appears that we again will observe a pattern in which the cost increases are heavily concentrated among the hotels, both in terms of the workers covered and the proportionate cost increases. The restaurants will also experience relatively heavy cost increases, even with the tipped worker credit. The retail firms, on the other hand, appear to employ a high proportion of low-wage workers, but their proportionate cost increases, as with the Coastal Zone proposal, will not be substantially above the Citywide average.

One significant difference with the Coastal Zone proposal is already evident from Table 6.1. With the Coastal Zone proposal, the hotels, restaurants, and retail firms accounted for 78 percent of all covered workers. With this Citywide measure, these three sectors account for 51

percent of all covered workers, still disproportionately high fraction, but to a lesser extent than previously. To get a sense of the other firms that would be facing relatively large numbers of covered workers, in Table 6.2, we list the additional sectors in which more than 200 workers total would be covered by a Citywide ordinance. As we see, this would include 15 firms in the business services sector and six health services firms.<sup>31</sup> We also list the wholesale trade and amusement and recreational services sectors without providing statistical details for these. We do this to protect the confidentiality of individual firms in these sectors. Suffice it to say that they are rank ordered in terms of the number of covered workers employed in these sectors, with both sectors including more than a total of 200 covered workers.

Paid Days Off. In Table 6.3, we show the effects of providing 15 paid days off for all workers earning below \$10.75. As with the Coastal Zone proposal, we again find that all workers in covered firms now receive less than 15 paid days off. The average number of paid days off received by covered workers is 7.1 per year. Still again, the average figure represents a bifurcated pattern among firms: the hotels are offering 8.2 days while the restaurants provide only 2.6. Overall with this proposal, the cost of bringing all covered workers up to 15 paid days off will be \$3.2 million, i.e. about eight percent of the direct wage increases.

Health Care Coverage. Table 6.4 presents figures on health benefits. We again divide workers receiving health benefits under the proposal into two categories. The first category is workers without health benefits who are also earning below the mandated \$10.75 wage. Under the living wage proposal, employers of these workers will both have to give workers a wage increase to get them to a \$10.75 hourly rate, and will also have to pay an additional \$1.25—either to purchase the workers a health plan through the business or to provide the workers with the funds to purchase an individual plan. We estimate that, overall, 4,108 workers would be covered

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<sup>31</sup> The covered firms in the business service sector include computer consultants and software companies as well as advertising and media consulting firms. The health services firms include private medical groups, specialty labs and nursing homes.

**Table 6.2**  
**Additional Sectors Under Citywide \$10.75 Ordinance**  
**Employing More than 200 Covered Workers**

	<u>Number of Firms</u>	<u>Number of Covered Workers</u>
Business services	15	596
Health services	6	504
Wholesale trade	---	---
Amusement and recreation services	---	---

Source: See Appendix 3.

**Table 6.3**  
**Direct Cost of Paid Days Off with \$10.75 Citywide Ordinance (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of workers below \$10.75 with less than 15 paid days off	7,269	1,430	359	1,944
Average paid days off for affected workers	7.1	8.2	2.6	6.5
Average hours of affected workers	35.7	36.4	34.4	34.6
<b>TOTAL COSTS</b>	<b>\$3.2 million</b>	<b>\$0.6 million</b>	<b>\$0.3 million</b>	<b>\$0.9 million</b>

Source: See Appendix 3.

**Table 6.4**  
**Cost of Health Benefits with \$10.75 Citywide Ordinance (1999 dollars)**

<b>Category 1</b>	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
1. Number of workers below \$10.75 without health benefits	4,108	704	284	1,229
2. Average weekly hours of category I workers	35.8	36.4	34.4	34.8
3. Cost of health benefits for category I workers (\$1.25 per hour per worker)	\$9.5 million	\$1.7 million	\$0.6 million	\$2.8 million
<b>Category 2</b>				
4. Number of workers between \$10.75 and \$12.00 without health benefits	542	54	15	175
5. Average weekly hours of category II workers	38.4	39.1	37.6	38.4
6. Cost of health benefits for category II workers (\$1.25 per hour per worker)	\$1.4 million	\$137,000	\$38,000	\$436,000
7. Total cost of health benefits [rows (3) + (6)]	\$10.9 million	\$1.8 million	\$0.7 million	\$3.2 million

Source: See Appendix 3.

by this health benefit stipulation. The cost to provide these workers with health coverage will be \$9.5 million.

In addition to these workers, the ordinance also mandates that businesses provide \$1.25 in health benefits for those workers now earning between \$10.75 and \$12.00. Workers in this situation again constitute our “Category 2” of those who would receive health provisions through the ordinance. Extending \$1.25 in benefits to these workers would mean an additional \$1.4 in total new costs for the 326 covered firms.

Table 6.5 summarizes all direct costs to the 326 firms. In addition to the costs we have estimated—i.e. wage increases, additional paid days off and health benefits—the final mandated cost to firms will be the increase in payroll taxes resulting from the wage increase and additional paid days off. As reported in Chapter 4, we estimated payroll taxes for California as totaling 12.5 percent. Including payroll taxes, we see that total direct costs for the 326 covered firms come to \$60.7 million, or an average of \$186,000 per firm. This figure is 37 percent below the \$297,000 average figure for the Coastal Zone proposal.

The main explanation for this sharp decline in the average cost is simply that the hotels, with their high direct cost increases, now constitute a smaller fraction of total firms. With this proposal, the cost increase for hotels of \$930,000 is not significantly less than that for the Coastal Zone proposal of \$990,000. Similarly, the total average cost per firm for the restaurants, at \$355,000, and the retail stores, at \$210,000, are also close to their Coastal Zone figures.

#### Indirect Costs: Ripple Effects

Wage ripple. As mentioned above, we calculate ripple effects for the Citywide estimate through the exact same procedures that we used with the Coastal Zone proposal. We first show the results of this exercise for the wage ripple in Table 6.6. We see there first that there are a total of 1,013 workers earning between \$10.00 and \$10.74. Following our procedure, each of these workers would receive a 75-cent wage increase. Their total raise *above* \$10.75 generates \$273,000 in additional wage cost to the covered firms.

**Table 6.5**  
**Total Direct Costs After Raise to \$10.75 with Citywide Ordinance**  
**(1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Total wage increase	\$41.0 million	\$8.6 million	\$2.2 million	\$10.6 million
New paid days off	\$3.2 million	\$0.6 million	\$0.3 million	\$0.9 million
Payroll taxes on wage increase and paid days off (12.5% for all taxes)	\$5.5 million	\$1.1 million	\$0.3 million	\$1.4 million
New health benefits	\$10.9 million	\$1.8 million	\$0.7 million	\$3.2 million
<b>TOTAL DIRECT COSTS</b>	<b>\$60.7 million</b>	<b>\$12.1 million</b>	<b>\$3.6 million</b>	<b>\$16.2 million</b>
Number of covered firms	326	13	10	74
<b>AVERAGE TOTAL DIRECT COSTS PER FIRM</b>	<b>\$186,000</b>	<b>\$930,000</b>	<b>\$355,000</b>	<b>\$219,000</b>

Source: See Appendix 3.

**Table 6.6**  
**Ripple Effect on Wages:**  
**Indirect Wage Costs to Firms After Mandated Raise to \$10.75**  
**with Citywide Ordinance**

<b>Pre-ordinance wage range</b>	<b>Total workers in category</b>	<b>Average hours per week</b>	<b>Average wage before raise</b>	<b>New Average wage</b>		<b>Total wage increase above \$10.75</b>
\$10.00 - \$10.74	1,013	37.0	\$10.14	\$10.89	+7.4%	\$273,000
\$10.75 - \$11.49	499	38.6	\$11.06	\$11.67	+5.5%	\$614,000
\$11.50 - \$13.00	1,016	38.5	\$12.08	\$12.40	+2.6%	\$637,000
<b>Total</b>	<b>2,528</b>					<b>\$1.5 million</b>
<b>Ripple wage effect by sector</b>	<b>Total workers affected</b>	<b>Total wage increase</b>				
Hotels	315	\$149,000				
Restaurants	46	\$29,000				
Retail	609	\$365,000				

Source: See Appendix 3.

Above this category, 499 workers earn between \$10.75 and \$11.49. Granting each of these workers a 5.5 percent raise generates an additional \$614,000 in new wage costs. Finally, the 1,016 workers earning between \$11.50 and \$13.00 all receive a 2.6 percent wage increase, producing another \$637,000 in new wage costs.

Our estimate of the total wage ripple effect therefore amounts to \$1.5 million. The lower panel of Table 6.6 shows how the overall wage ripple effect breaks down among the covered hotels, restaurants, and retail stores.

Paid Days Off Ripple. Table 6.7 shows our estimates of the costs that would result through providing 15 paid days off to all workers earning above \$10.75 in the 326 covered firms. As we see, the total number of workers in that category is large. Indeed, the 10,986 workers that would be covered through this assumption is larger than the 7,269 that would receive mandated wage increases. At present, these workers receive an average of 11.6 paid days off and their average work week is 38.8 hours. This generates our total ripple effect estimate of \$9.2 million. As with the Coastal Zone measure, this feature of our estimates falls far more heavily on the retail stores than the hotels or restaurants, given that the retail stores have a much higher proportion of workers both earning above \$10.75 while also receiving less than 15 paid days off.

#### Total Indirect Costs

Table 6.8 brings together both the wage ripple effect and the effect for paid days off. It then calculates the associated payroll tax increases (totaling 12.5 percent of the increases in wages and paid days off). As we see, these indirect costs amount to \$12 million, or an average of \$37,000 for our 326 firms. Broken down by sector, the cost increase for hotels would average \$30,000, that for restaurants is \$15,000, while for retail stores, the figure is \$28,000.

#### Total Costs

Table 6.9 brings together all costs of a \$10.75 Citywide ordinance, showing the figures for each component of total costs, and the percentage contributions of each component of the total. We see that for all 326 covered firms, our estimate of total costs is \$72.7 million. Of these

**Table 6.7**  
**Ripple Effect on Paid Days Off:**  
**Providing 15 Paid Days Off to All Workers Earning Above \$10.75,**  
**Citywide Ordinance (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of workers above \$10.75 with less than 15 paid days off	10,968	383	117	1986
Average paid days off for affected workers	11.6	13.0	12.3	12.0
Average hours of affected workers	38.8	39.3	38.6	38.6
<b>TOTAL COSTS</b>	<b>\$9.2 million</b>	<b>\$0.2 million</b>	<b>\$0.1 million</b>	<b>\$1.5 million</b>

Source: See Appendix 3.

**Table 6.8**  
**Total Indirect Costs to Covered Firms After Raise to \$10.75**  
**Citywide Ordinance (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Ripple effect wage increase	\$1.5 million	\$149,000	\$29,000	\$365,000
Ripple effect on paid days off	\$9.2 million	\$0.2 million	\$0.1 million	\$1.5 million
Payroll taxes on ripple wage and paid days off increases	\$1.3 million	\$44,000	\$16,000	\$233,000
Total indirect costs	\$12.0 million	\$393,000	\$145,000	\$2.1 million
Number of covered firms	326	13	10	74
Average total indirect costs per firm	\$37,000	\$30,000	\$15,000	\$28,000

Source: See Tables 4.7 and 4.8.

**Table 6.9**  
**Total Costs of \$10.75 Citywide Ordinance (1999 dollars)**

<b>Direct Costs</b>	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
Total wage increases <i>(% of total increase)</i>	\$41.0 million 56.4%	\$8.6 million 68.8%	\$2.2 million 59.5%	\$10.6 million 57.9%
Paid days off <i>(% of total increase)</i>	\$3.2 million 4.4%	\$0.6 million 4.8%	\$0.3 million 8.1%	\$0.9 million 4.9%
Payroll taxes on wages <i>(% of total increase)</i>	\$5.5 million 7.6%	\$1.1 million 8.8%	\$0.3 million 8.1%	\$1.4 million 7.7%
Health benefits <i>(% of total increase)</i>	\$10.9 million 15.0%	\$1.8 million 14.4%	\$0.7 million 18.9%	\$3.2 million 17.5%
<b>Total Direct Costs</b> <i>(% of total increase)</i>	<b>\$60.7 million</b> <b>83.5%</b>	<b>\$12.1 million</b> <b>96.8%</b>	<b>\$3.6 million</b> <b>97.3%</b>	<b>\$16.2 million</b> <b>88.5%</b>
<b>Indirect Costs</b>				
Ripple wage increases <i>(% of total increase)</i>	\$1.5 million 2.1%	\$149,000 1.2%	\$29,000 1.0%	\$365,000 2.0%
Ripple paid days off <i>(% of total increase)</i>	\$9.2 million 12.7%	\$0.2 million 1.6%	\$0.1 million 2.7%	\$1.5 million 8.2%
Payroll taxes on ripple effects <i>(% of total increase)</i>	\$1.3 million 1.8%	\$44,000 0.4%	\$16,000 0.4%	\$233,000 1.3%
<b>Total Indirect Costs</b> <i>(% of total increase)</i>	<b>\$12.0 million</b> <b>16.5%</b>	<b>\$393,000</b> <b>3.1%</b>	<b>\$145,000</b> <b>3.9%</b>	<b>\$2.1 million</b> <b>11.5%</b>
<b>TOTAL COSTS</b>	<b>\$72.7 million</b>	<b>\$12.5 million</b>	<b>\$3.7 million</b>	<b>\$18.3 million</b>

Source: See Tables 6.3 and 6.8.

Note: Percentages may not add up to 100 due to rounding.

total costs, the direct wage increase amounts to 56.4 percent of the total, slightly less than the 60 percent figure with the Coastal Zone proposal. All direct costs amount to 83.5 percent of total costs, again a bit less than the 89 percent figure with the Coastal Zone proposal. With the sectors, we find that the 13 hotels would experience a cost increase of \$12.5 million. The retail stores would face higher overall costs, at \$18.3 million, but this would be spread over 74 firms. The cost increase for restaurants would be \$3.7 million.

#### Total Costs Relative To Gross Receipts

In Table 6.10, we provide figures on the total costs to covered firms *relative* to the gross receipts received by these firms in 1999. As in our discussion of the Coastal Zone estimate, we regard these calculations as the crucial last step in estimating cost effects of this proposal, since it is the basis on which we can begin to assess the likely impact of the proposal on the covered firms' operations.

We present estimates of relative costs both with respect to the *direct mandated costs only* due to the \$10.75 ordinance and inclusive of *all direct and indirect costs*. For all 326 covered firms, we see that direct cost increases due to the \$10.75 ordinance would amount an average of 1.5 percent of the firms' total gross receipts, and total cost increases will sum to 1.8 percent of gross receipts.

In considering the figures for the three major sectors, we see that the 1.8 average cost increase is not close to being representative either for the 13 covered hotels or the 10 restaurants. With the hotels, the \$12.5 million total cost increase amounts to an average of 10.2 percent of these firms' total gross receipts, i.e. virtually the same figure as with the Coastal Zone ordinance. For the 10 covered restaurants, the \$3.6 million in total increased costs equals 9.7 percent of total gross receipts, again virtually identical to the figure for the Coastal Zone ordinance. Other sectors of the Santa Monica economy would also experience higher than average total cost increases relative to their gross receipts. This includes the four sectors listed in Table 6.2—business services, health services, wholesale trade, and amusement and recreation services—

**Table 6.10**  
**Total Costs of \$10.75 Citywide Ordinance**  
**Relative to Covered Firms Gross Receipts (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
1. Direct mandated costs	\$60.7 million	\$12.1 million	\$3.6 million	\$16.2 million
2. Total costs of ordinance	\$72.7 million	\$12.5 million	\$3.7 million	\$18.3 million
3. Total number of firms	326	13	10	74
<b>4. Total costs per firm</b> [rows (2)/(3)]	<b>\$223,000</b>	<b>\$962,000</b>	<b>\$370,000</b>	<b>\$247,000</b>
5. Total gross receipts	\$4.1 billion	\$122.5 million	\$38.2 million	\$1.6 billion
<b>6. Direct mandated costs as a percentage of gross receipts</b> [rows (1)/(5)]	<b>1.5%</b>	<b>9.9%</b>	<b>9.4%</b>	<b>1.0%</b>
<b>7. Total mandated and ripple costs as a percentage of gross receipts</b> [rows (2)/(5)]	<b>1.8%</b>	<b>10.2%</b>	<b>9.7%</b>	<b>1.1%</b>

Source: See Appendix 3.

which also have at least 200 covered workers through the Citywide ordinance. For each of these sectors, we estimate cost increases as being at least four percent of their gross receipts.

On the other hand, as we see in Table 6.10, the cost ratio for the 74 retail stores is only 1.1 percent, less than half the 2.8 percent figure with the Coastal Zone ordinance. This clearly is because the newly covered retail firms with the Citywide ordinance have substantially higher gross receipts relative to their low-wage labor costs. For the remaining 229 firms, the average cost increase would be 1.6 percent of gross receipts, i.e. virtually the same as the 1.9 percent figure with the Coastal Zone figure.

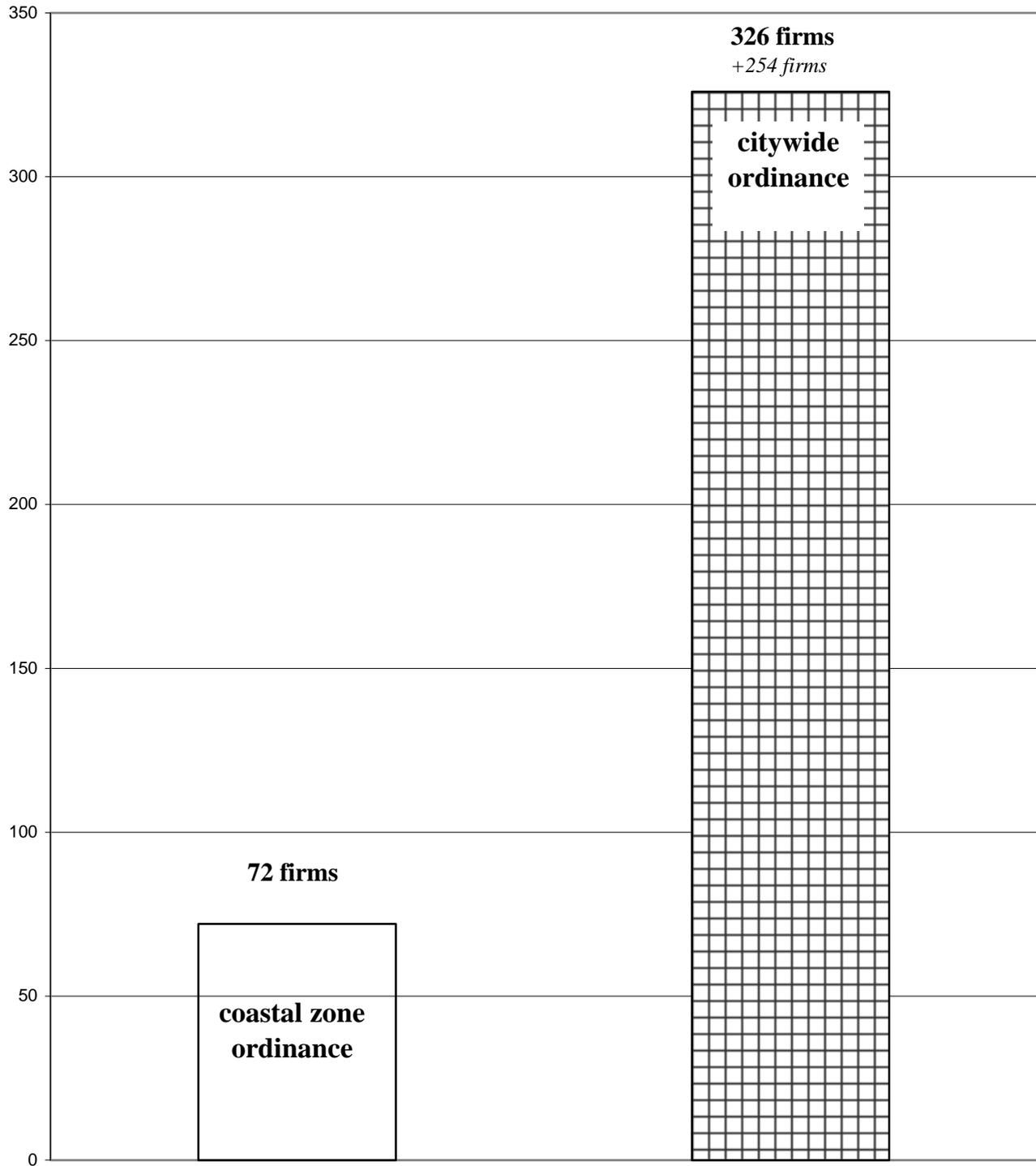
#### Comparison of \$10.75 Coastal Zone and Citywide Ordinances

After adjusting for the scale of coverage, our estimates for the Citywide \$10.75 ordinance yields results that are broadly similar to the Coastal Zone proposal. We have already noted such major areas of comparison in the text. But for the purposes of summary, we bring these statistics together in Figures 6.2 – 6.4. Starting with Figure 6.2, the number of firms covered is much broader with the Citywide ordinance, with 326 versus 72 firms being covered. In Figure 6.3, we present the comparable figures for worker coverage, showing that difference between the 2,477 covered under the Coastal Zone versus 7,269 with the Citywide ordinance. Finally, again, we see average cost ratios under the two ordinances. Again, we see that the average cost increase for the Citywide ordinance, at 1.8 percent, is well below the 3.9 percent figure for the Coastal Zone measure. The retail figure is also significantly lower with the Citywide measure, while, for the hotels and restaurants, the relative cost increases would be the same with either measure.

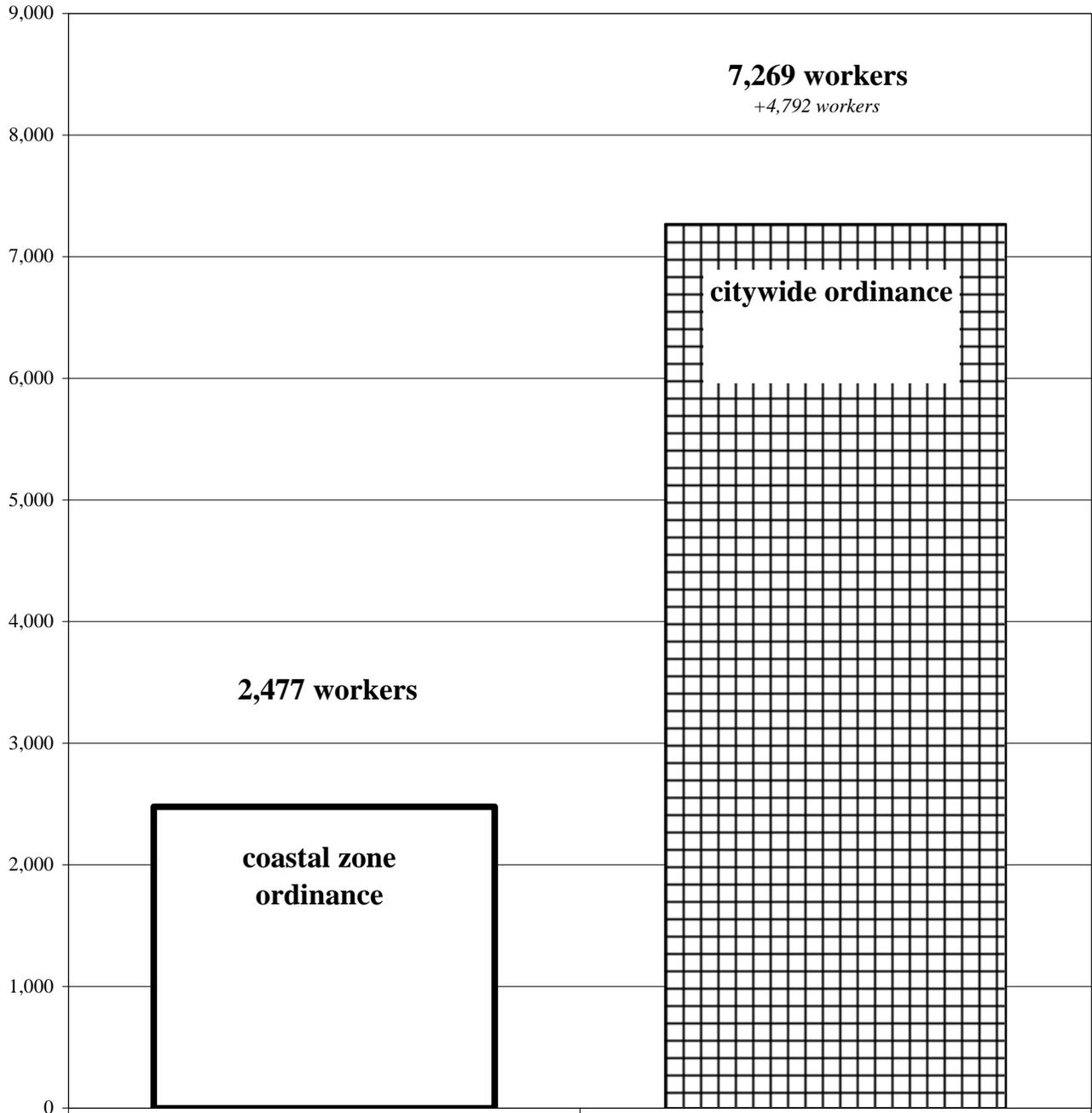
#### Business Responses to Citywide \$10.75 Ordinance

Given that the average cost increases relative to gross receipts for the Citywide measure are either roughly comparable to or lower than those for the Coastal Zone proposal, it follows that the adjustment processes examined in Chapter 5 for the Coastal Zone proposal would be broadly applicable for the Citywide measure as well. In addition, businesses throughout Santa Monica were represented in our business surveys, not only those in the Coastal Zone. Therefore, the

**Figure 6.2**  
**Comparison of \$10.75 Coastal Zone and Citywide Ordinances:**  
*Number of Firms Covered*

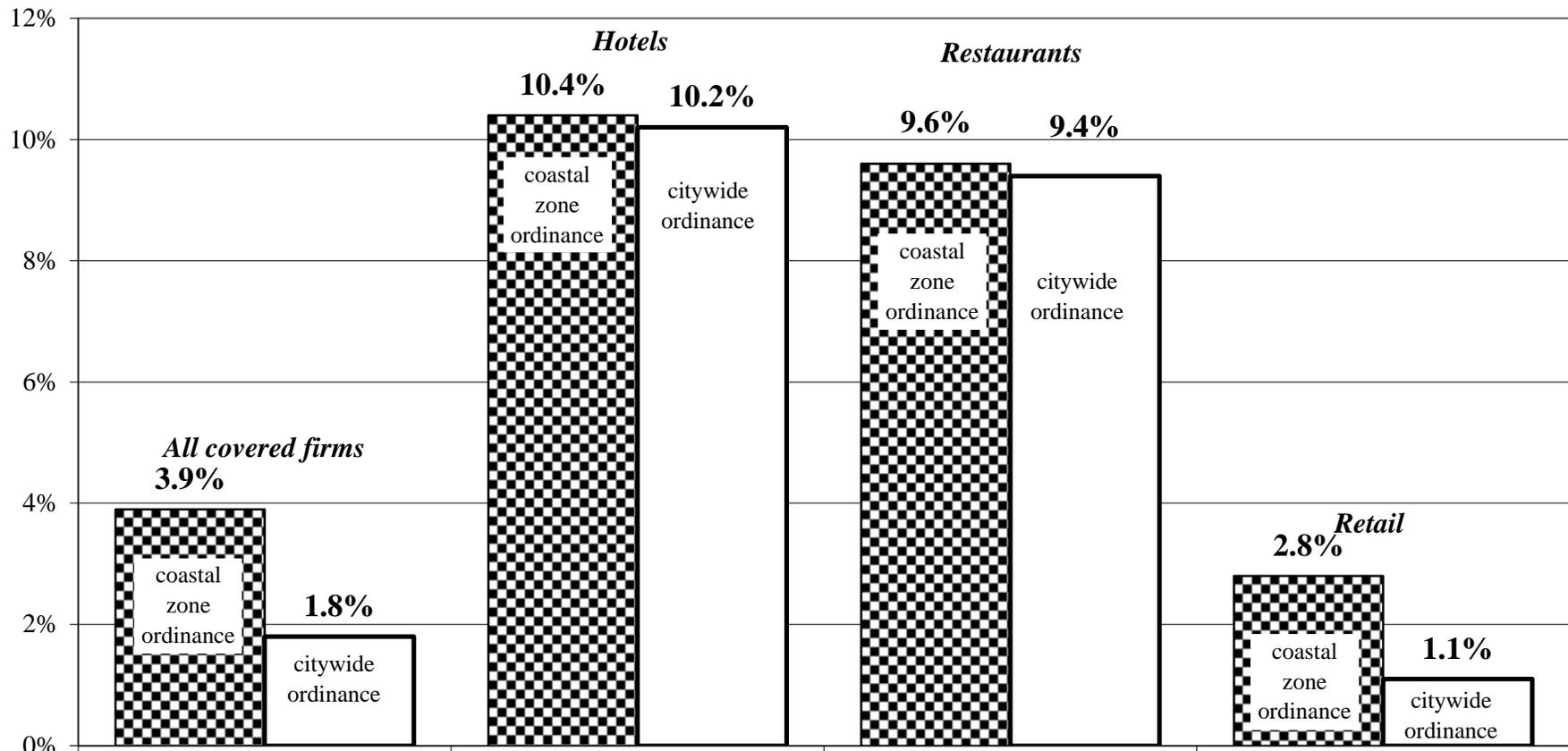


**Figure 6.3**  
**Comparison of \$10.75 Coastal Zone and Citywide Ordinances:**  
**Number of Workers Directly Covered**



Source: See Appendix 3.

**Figure 6.4**  
**Comparison of \$10.75 Coastal Zone and Citywide Living Wage Ordinances:**  
*Average Total Cost Increases Relative to Gross Receipts*



Source: See Appendix 3.

business managers' series of answers as to how they would respond to a \$10.75 ordinance are, if anything, more pertinent for evaluating a Citywide ordinance than a measure restricted to the Coastal Zone.

In other words, it is likely that most covered firms under the Citywide measure will attempt to absorb their cost increases primarily through a combination of price and productivity increases as well as a small one-time reduction in profit margins before they undertake layoffs or seriously consider relocation. Moreover, if they were to lay off workers, the extent of the employment losses would also likely be relatively small, as with the Coastal Zone measure, even if we again were to make pessimistic assumptions about employment elasticities.

At the same time, there are features of the Citywide measure that would distinguish its effects from those of a Coastal Zone measure. The most general point is that the Citywide measure would affect a wider range of businesses than the Coastal Zone proposal. This point carries several implications.

More competitive markets. First, it is important that high-end hotels are relatively less significant in terms of both the number of workers covered and the overall costs of the ordinance, even though they would still be the most heavily affected sector with a Citywide proposal. But because they are relatively less significant than with the Coastal Zone proposal, it follows that fewer covered firms are benefiting directly from the City's growth restrictions policies (and specifically earning rents because of them). Put another way, without being able to benefit from the City's restricted Coastal Zone market, the average covered firm in the Citywide proposal is operating in a more competitive environment than with the Coastal Zone proposal.

Another reason why the covered firms in the Citywide proposal face more competition is that a higher proportion of them compete with businesses which are not covered by the ordinance, and thus do not face similar upward cost pressures. We have seen that Coastal Zone hotels compete primarily among themselves in a restricted market, rather than with hotels in nearby coastal areas such as the South Bay and Marina del Rey. Similarly, major competitors for high-

end Coastal Zone restaurants are other restaurants within the nearby area. This is not necessarily the case for retail firms in Santa Monica. Nor would it be so for most business or medical service firms, and almost certainly not for wholesale firms among the additional sectors which employ a high proportion of workers covered by the ordinance.

Price pass-throughs and layoffs. On average then, the covered firms in the Citywide measure would tend to have less capacity to pass through their living wage cost increases by raising prices, since the price elasticity of their products will be greater than for the average firm covered under the Coastal Zone measure. This implies that covered firms would be more likely to consider layoffs as a cost-cutting measure after a living wage ordinance were implemented. This does not mean that the covered firms would be prepared to reduce their workforce to the extent that it would entail scaling back operations, assuming their capacity to sell products had not diminished. But using layoffs to achieve even relatively small cost savings would be more likely to become a serious consideration when raising prices is more difficult.

Cost of living increase for Santa Monica residents. But let us assume that covered firms in the Citywide proposal could pass through price increases. Again, because the covered firms in this case are more diverse, it also follows that the impact of any price increase will be have relatively more impact on the residents of Santa Monica. Retail stores, business and medical service firms, wholesale suppliers and other covered businesses besides hotels and high-end restaurants serve a wide range of Santa Monicans. To the extent these firms raise prices to absorb their living wage cost increases, this will mean a corresponding rise in the cost of living for Santa Monica residents.

Relocations. Again because of the greater diversity of covered businesses with the Citywide proposal, it also follows that a higher proportion of the covered firms are less bound to their specific business locations. They are correspondingly more likely to consider relocation if their living wage costs were to reach a significant share of their gross receipts. For example, firms in the wholesale trade would not, for the most part, need to be in Santa Monica proper in

order to continue to adequately serve their existing customer base. They could move over the border into Los Angeles to avoid being covered by the proposal without sacrificing their existing customers.

At the same time, any firm relocations that would occur through the Citywide proposal would be more costly for the City than would be the case with a Coastal Zone measure. With a Coastal Zone measure, firms that relocated might still operate within Santa Monica. In this situation, the City would not experience a potential decline in its tax base and the value of its real estate through relocations. But when firms need to move outside Santa Monica to avoid living wage cost increases, such moves could indeed lead to losses for the City, both in its tax base and real estate market.

Public sector coverage. We raise all these issues only as they would apply to *private* Santa Monica businesses. We have made no attempt at considering how additional costs would be absorbed by public sector entities, if a Citywide ordinance were to include them as well. No doubt, a higher share of City revenues would need to be devoted to paying low-wage public sector employees. Financing this would then entail some combination of tax increases and/or reductions in the rate of improvement of City services.

Low impact as most likely scenario. Having raised these additional concerns in considering business adjustment options for a Citywide wage measure, we still would anticipate that most covered firms would be able to absorb their added costs through only modest increases in prices and productivity and/or a modest one-time reduction in profit margins. The basis for this conclusion is straightforward and has been cited earlier: putting aside the covered hotels and restaurants, the average cost increase for the retail stores is 1.1 percent of gross receipts and is 1.6 percent for all the remaining covered firms. In most business situations, modest cost increases will entail similarly modest adjustments. Relocations and significant layoffs—which would involve large expenses, losses of productive operating time, and perhaps a scaling back of

operations—would not generally be the type of modest adjustments commensurate with the magnitude of cost increases involved for most covered firms with this Citywide ordinance.

#### Estimated Cost of a \$9.50 Proposal

In estimating the effects of the Citywide proposal at a \$9.50 minimum wage, we assume all other stipulations of the ordinance remain unchanged. That is, first, the ordinance would still operate with a coverage threshold of \$3 million in gross receipts. We also continue to assume exemptions for tipped workers as described in Chapter 3. Covered firms would have to provide 15 paid days off to all their employees earning the \$9.50 mandated minimum hourly wage. Firms would also be obligated to provide \$1.25 in health benefits for their uncovered workers earning up to \$10.75, i.e. \$1.25 over the wage mandate. We also assume that the ripple effects for wages and paid days off would operate exactly as with the \$10.75 proposal, after adjusting for the lower wage mandate.

Table 6.11 provides figures on the direct wage costs to firms of a \$9.50 Citywide ordinance. Of course, this ordinance would still cover the same 326 firms as previously, since it is the gross receipts of the Santa Monica firms, not the mandated wage level, that establishes their coverage.

For this \$9.50 ordinance, we estimate that the total number of workers covered is 5959, that is, about 22 percent less than the 7,269 covered with the \$10.75 Citywide proposal. The average hourly wage increase for the covered workers is \$2.34. This generates a total of direct wage increases of \$25.8 million, which is about 61 percent of the \$41.0 million under the \$10.75 Citywide proposal. The average wage increase for the 326 covered firms would now be \$79,000, as opposed to \$126,000 with the \$10.75 measure.

Table 6.11 also again reports figures for the three major covered sectors, hotels, restaurants, and retail. With hotels, 1,264 workers receive raises up to \$9.50, amounting to an average increase of \$414,000 per firm, 47 percent less than that with the \$10.75 proposal. With

**Table 6.11**  
**Direct Wage Costs to Covered Firms After Raise to \$9.50**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
Number of firms covered	326	13	10	74
Number of workers below \$9.50	5,959	1,264	314	1,598
of which, full time	4,244	884	183	965
of which, part-time	1,716	380	131	634
Average working hours per week	35.6	36.4	33.2	34.0
Average hourly wage before ordinance	\$7.16	\$7.25	\$6.77	\$7.13
Average hourly wage increase	\$2.34	\$2.25	\$2.73	\$2.37
Average total wage increase per worker	\$4,335	\$4,254	\$4,718	\$4,195
<b>Total wage increase, all workers</b>	<b>\$25.8 million</b>	<b>\$5.4 million</b>	<b>\$1.5 million</b>	<b>\$6.7 million</b>
<b>Average wage increase per firm</b>	<b>\$79,000</b>	<b>\$414,000</b>	<b>\$148,000</b>	<b>\$91,000</b>

Source: See Appendix 3.

restaurants, the direct wage increase per firm comes to \$148,000 and with retail firms, that figure is \$91,000.

Table 6.12 reports the results of all our calculations for a \$9.50 Citywide ordinance, including all direct and indirect costs. Finally, with the \$9.50 Citywide ordinance, Table 6.13 shows total cost increases as a percentage of covered firms' gross receipts. As previously, we report figures for direct mandated costs and total direct and indirect cost increases relative to gross receipts. We see that with this ordinance, the average direct mandated cost increase is 1.0 percent for all firms and the total cost increase for all firms is 1.3 percent of gross receipts. In terms of sectors, the 13 hotels and 10 covered restaurants would again face cost increases of comparable magnitudes relative to their gross receipts—a 7.1 percent cost increase for hotels and 7.3 percent for restaurants. The total cost increase for retail firms now falls to 0.8 percent of their gross receipts. In short, as one would expect, the \$9.50 Citywide ordinance would entail smaller across-the-board impacts relative to the \$10.75 measure. Figures 6.5 – 6.7 present some highlights of these differences. The adjustment processes following implementation of the \$9.50 ordinance would therefore be similarly less extensive. Given that, with the exception of the hotels and a few other high-impact sectors, we anticipate generally modest adjustments in response to the \$10.75 Citywide measure itself, the responses to a \$9.50 proposal should almost definitely be quite small for most covered firms.

**Table 6.12**  
**Total Costs of \$9.50 Citywide Ordinance (1999 dollars)**

<b>Direct Costs</b>	<b>Sectoral Coverage</b>			
	<b>All Covered Firms</b>	<b>Hotels</b>	<b>Restaurants</b>	<b>Retail</b>
Total wage increases	<b>\$25.8 million</b>	<b>\$5.4 million</b>	<b>\$1.5 million</b>	<b>\$6.7 million</b>
<i>(% of total increase)</i>	<i>48.0%</i>	<i>62.07%</i>	<i>53.6%</i>	<i>50.8%</i>
Paid days off	\$2.3 million	\$434,000	\$237,000	\$647,000
<i>(% of total increase)</i>	<i>4.3%</i>	<i>5.0%</i>	<i>8.5%</i>	<i>4.9%</i>
Payroll taxes on wages	\$3.5 million	\$726,000	\$215,000	\$919,000
<i>(% of total increase)</i>	<i>6.5%</i>	<i>8.3%</i>	<i>7.7%</i>	<i>7.0%</i>
Health benefits	\$9.5 million	\$1.7 million	\$0.6 million	\$2.8 million
<i>(% of total increase)</i>	<i>17.7%</i>	<i>19.5%</i>	<i>21.4%</i>	<i>21.2%</i>
<b>Total Direct Costs</b>	<b>\$41.2 million</b>	<b>\$8.2 million</b>	<b>\$2.6 million</b>	<b>\$11.0 million</b>
<i>(% of total increase)</i>	<i>76.7%</i>	<i>94.3%</i>	<i>92.9%</i>	<i>83.3%</i>
<b>Indirect Costs</b>				
Ripple wage increases	\$1.4 million	\$163,000	\$53,000	\$390,000
<i>(% of total increase)</i>	<i>2.61%</i>	<i>1.9%</i>	<i>1.9%</i>	<i>3.0%</i>
Ripple paid days off	\$9.7 million	\$0.3 million	\$0.1 million	\$1.6 million
<i>(% of total increase)</i>	<i>18.1%</i>	<i>3.5%</i>	<i>3.6%</i>	<i>12.1%</i>
Payroll taxes on ripple effects	\$1.4 million	\$58,000	\$19,000	\$249,000
<i>(% of total increase)</i>	<i>2.6%</i>	<i>0.7%</i>	<i>0.7%</i>	<i>1.9%</i>
<b>Total Indirect Costs</b>	<b>\$12.5 million</b>	<b>\$521,000</b>	<b>\$172,000</b>	<b>\$2.2 million</b>
<i>(% of total increase)</i>	<i>23.3%</i>	<i>6.0%</i>	<i>6.1%</i>	<i>16.7%</i>
<b>TOTAL COSTS</b>	<b>\$53.7 million</b>	<b>\$8.7 million</b>	<b>\$2.8 million</b>	<b>\$13.2 million</b>

Source: See Appendix 3.

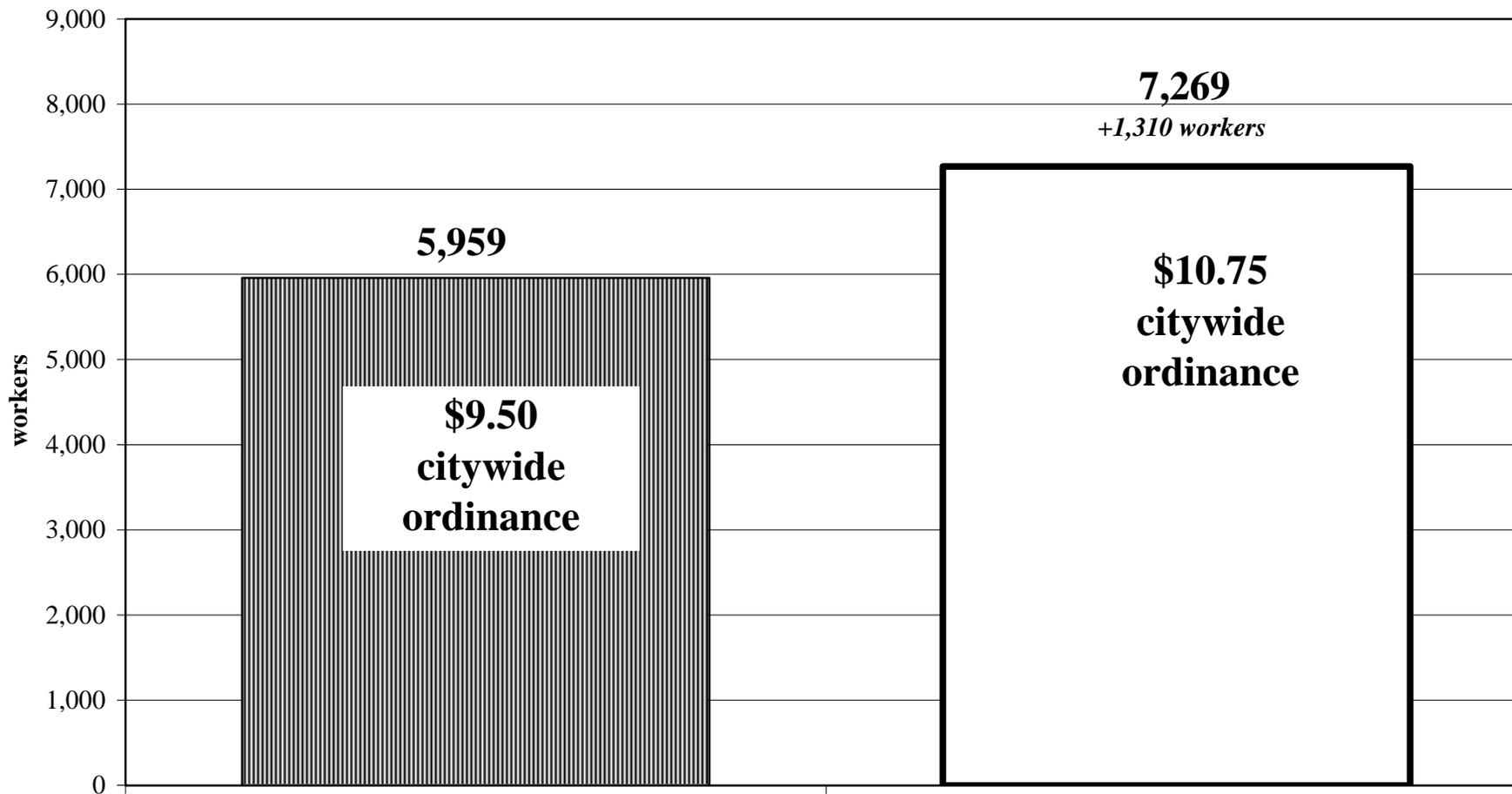
Note: Percentages may not add up to 100 due to rounding.

**Table 6.13**  
**Total Costs of \$9.50 Living Wage Ordinance**  
**Relative to Covered Firms Gross Receipts (1999 dollars)**

	Sectoral Coverage			
	All Covered Firms	Hotels	Restaurants	Retail
1. Direct mandated costs	\$41.2 million	\$8.2 million	\$2.6 million	\$11.0 million
2. Total costs of ordinance	\$53.7 million	\$8.7 million	\$2.8 million	\$13.2 million
3. Total number of firms	326	13	10	74
<b>4. Total costs per firm</b> [rows (2)/(3)]	<b>\$165,000</b>	<b>\$669,000</b>	<b>\$280,000</b>	<b>\$178,000</b>
5. Total gross receipts	\$4.1 billion	\$122.5 million	\$38.2 million	\$1.6 billion
<b>6. Direct mandated costs as a percentage of gross receipts</b> [rows (1)/(5)]	<b>1.0%</b>	<b>6.7%</b>	<b>6.7%</b>	<b>0.7%</b>
<b>7. Total mandated and ripple costs as a percentage of gross receipts</b> [rows (2)/(5)]	<b>1.3%</b>	<b>7.1%</b>	<b>7.3%</b>	<b>0.8%</b>

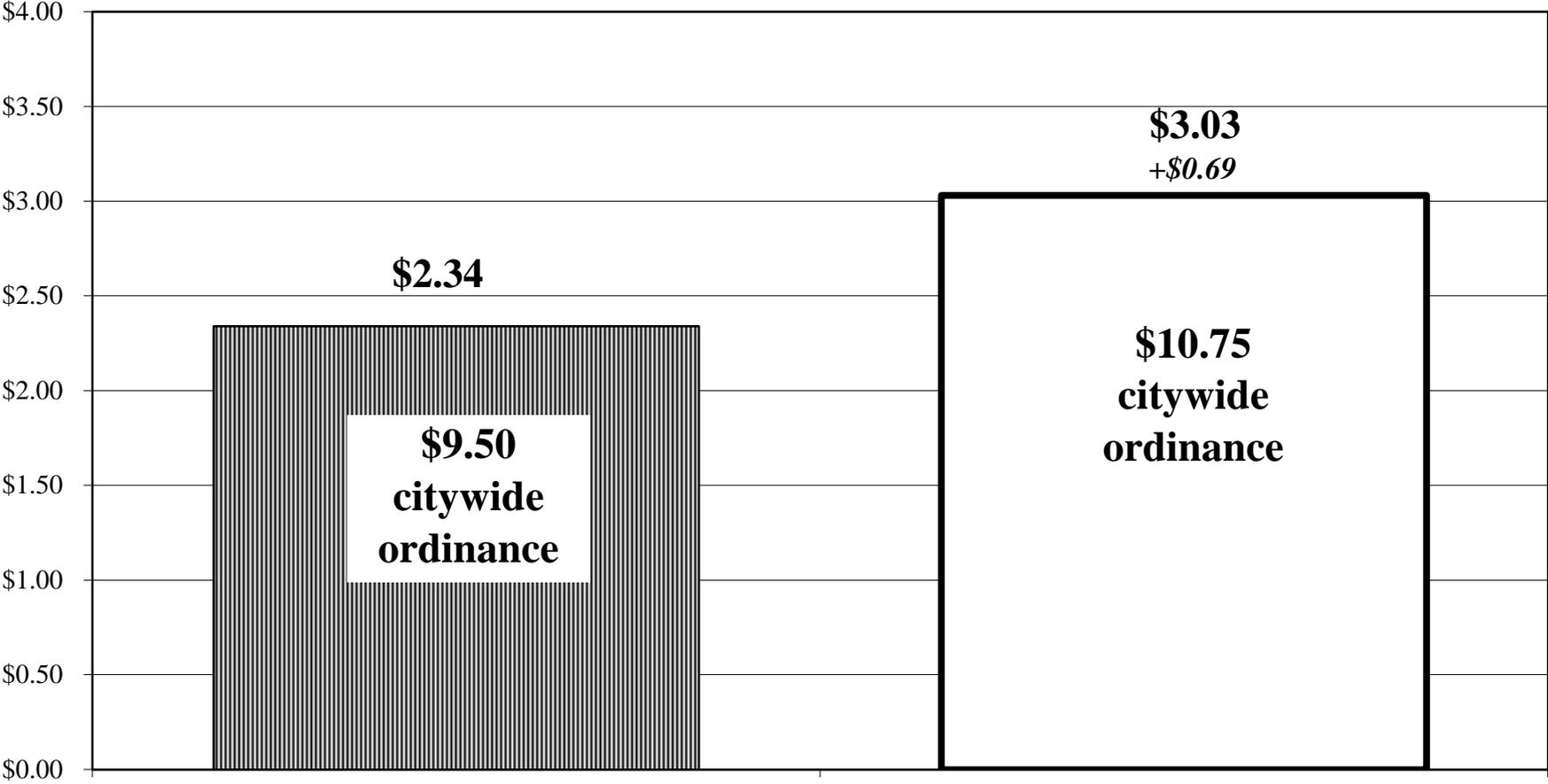
Source: See Appendix 3.

**Figure 6.5**  
**Comparison of \$9.50 and \$10.75 Citywide Ordinances:**  
*Number of Workers Directly Covered*



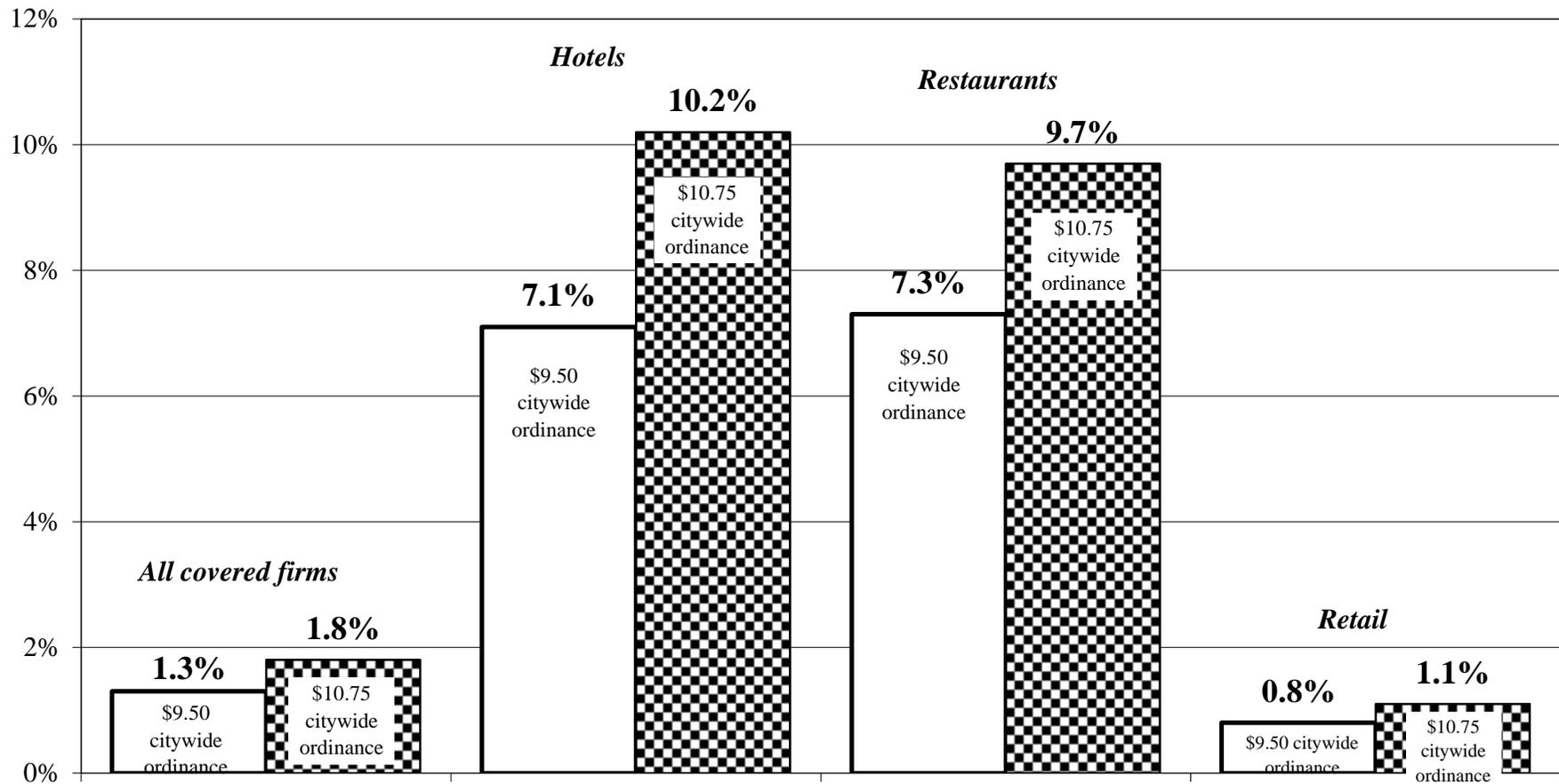
Source: See Appendix 3.

**Figure 6.6**  
**Comparison of \$9.50 and \$10.75 Citywide Ordinances:**  
*Average Hourly Wage Increase for Directly Covered Workers*



See Appendix 3.

**Figure 6.7**  
**Comparison of \$9.50 and \$10.75 Citywide Living Wage Ordinances:**  
*Average total Costs Relative to Gross Receipts*



Source: See Appendix 3.

## **CHAPTER 7: COST ESTIMATES FOR CONTRACTORS ONLY ORDINANCE**

In addition to the Coastal Zone living wage proposal initiated by SMART, a separate proposal has been advanced by an organization named Santa Monicans for a Living Wage (SMLW). In many of its features, this proposal follows the structure of living wage ordinances that apply only to private businesses either holding service contracts or direct subsidy arrangements with municipalities. Such “contractors only” type ordinances are the predominant type of proposal that has become law around the country for the past four years (see Appendix 1).

The main features of the SMLW proposal are:

- 1) The living wage minimum would be \$8.32 an hour if businesses provide health benefits to their employees, and \$9.46 if health benefits are not provided.
- 2) All covered firms would be required to provide at least 12 paid days off and 10 unpaid days off to covered workers.
- 3) Two types of businesses would be covered by the ordinance:
  - a. Firms which have at least \$25,000 in service contracts; and
  - b. Firms which receive direct City financial assistance for economic development or job growth of \$100,000 in any year, or \$25,000 or more on a continuing basis.
- 4) Three types of workers would be covered by the ordinance:
  - a. Those employed by a City Contractor or subcontractor who spend any time on the covered City contract work;
  - b. Anyone working for a covered City financial assistance recipient and spending at least half of his or her time on the funded project; or
  - c. Any worker employed by the City contractor or subcontractor who spends at least half of his or her time on the premises of the work site where the City contract project is being carried out.
- 5) The minimum wage rate would be adjusted annually according to the Consumer Price Index for Los Angeles.

Our research on this proposal concerns only those firms that hold contracts with the City. We have not been able to investigate at all the firms that might be covered because of their receipt of City financial assistance. As such, our results should not be interpreted as providing estimates as to the effects of the SMLW proposal itself. Rather, our figures provide only general

parameters as to how a contractors-only living wage ordinance might work within the Santa Monica context.

To estimate this contractors only type model, we conducted a survey of private firms currently holding service contracts with the City of Santa Monica. To construct the relevant data base for this exercise, the City provided us with a list of its 99 service contractors. These firms have a total of 121 City contracts, the total value of which is \$75.4 million.

We sent surveys to each of these service contractors between May and June, 2000. Within our research timetable, we received responses from 34 firms (34 percent of total firms, which hold 42 contracts (35 percent of total contracts)). The total value of the contracts of our surveyed firms is \$42.0 million (55.7 percent of total value of City contracts). As is standard with such survey results, we then weighted the findings from our sample of respondent firms to provide estimates for all covered firms. For constructing our full set of estimates of the effects of this proposal, we then drew upon data, as needed, from three other sources—our own surveys of Santa Monica businesses and workers and the Current Population Survey. In Appendix 8, we describe our methodology for generating our estimates.

Even as such an ordinance would apply to contractors alone, one encounters unavoidable difficulties in estimating its effects, particularly in considering the third category of covered workers—i.e., those who do not specifically work on a City contract but who spend at least half their time on the premises of the work site where the City contract is being carried out. We anticipate that firms might exercise considerable flexibility in interpreting this provision of the proposal. Our strategy has therefore been to provide a broad set of estimates that would allow for a variety of interpretations.

The proposal we estimate has the following provisions:

1. We consider the effects on firms holding City contracts only.
2. To facilitate accurate responses from the surveyed firms and to maintain compatibility with our other data sets, we rounded the minimum wage figure slightly

downward to \$8.25. We also rounded slightly upward to \$9.50 the health care coverage figure.

3. We assume that covered firms extend 12 days of paid days off to all covered employees currently receiving less than that amount.
4. We estimate ripple effects for both wages and paid days off, following the results we generated from our Coastal Zone wage ripple estimating methodology.

As with our Coastal Zone estimates, we do not include a ripple effect for the health care component of the contractors only proposal. This is because the health care provision already applies to workers earning up to \$9.50 an hour—i.e. beyond the \$8.25 minimum wage threshold. Thus, we assume that non-mandated additional gains from the ordinance would be concentrated through increases in wages and paid days off.

We utilize the ripple effect categories in our estimate to draw a clear distinction between whether the contractors only ordinance would apply narrowly—that is, only to workers specifically involved with the City contract projects—or broadly, to include all workers in covered firms earning below \$8.25. Through measuring a paid days off ripple effect, we establish the further distinction as to whether only below \$8.25 workers engaged in City contracts will receive 12 paid days off or whether all workers in covered firms will be extended this benefit.

In short, we incorporate three types of ripple effects in our estimates. A first wage ripple effect assumes simply that all workers currently earning below \$8.25 receive a raise to that level. A second wage ripple applies to workers now earning above \$8.25 within covered firms. We assume that increases for those now earning above \$8.25 will total 10 percent of the increase for those earning below \$8.25. We derive this 10 percent scalar figure from our results with the \$10.75 Coastal Zone proposal, providing details of that derivation in Appendix 4. Finally, our paid days off ripple also utilizes results from our Coastal Zone proposal to estimate the impact of providing 12 paid days off to all workers in covered firms. Our estimating methodology here is also described in Appendix 8.

Table 7.1 shows our estimate for the number of workers covered and the overall costs of the contractors only proposal, assuming that the ordinance directly covers only those workers directly engaged in City contracts. As we see, the number of employees affected under this narrow assumption is quite small—a total of 62 workers. On average, we estimate that these employees are currently earning \$6.72, implying that they would receive a \$1.53 wage increase to bring them to \$8.25. An average increase of this extent implies that the total direct wage costs of the ordinance would be \$197,000, or \$1,933 per covered firm.

In addition to these general findings, it is important to note that, according to our estimate, only 18 covered firms are currently employing workers earning below \$8.25 on their Santa Monica contracts. Thus, what we observe in Table 7.1 as a small overall impact would be focused on these 18 firms, rather than spread among all 99 firms. Table 7.2 thus shows the distribution of costs if we measure the costs per firm for only the 18 firms employing below \$8.25 workers. We see that the average cost per firm rise by more than a factor of five, from \$1,993 to \$10,962 per firm. We consider the implications of this point below.

Tables 7.3 and 7.4 show our estimates of total mandated effects of the paid days off and health benefit components of the contractors-only ordinance, narrowly interpreted. As we see, the cost increase of extending 12 paid days off to covered workers would affect all 62 workers earning below \$8.25 and would generate a cost increase of \$17,000. Providing health benefits to all covered workers now earning below \$9.50 would affect a total of 76 workers, and would entail a total cost increase of \$198,000 for covered firms.

In Table 7.5, we bring together all mandated direct and ripple effect costs. This table tells an important story for evaluating the overall effects of a contractors only ordinance. We have again assumed here three types of ripple effects: a first wage ripple for workers earning below \$8.25 but not working on City contracts; a second wage ripple for workers earning between \$8.25 and \$10.50; and a paid days off ripple for all employees of covered firms. When

**Table 7.1**  
**Direct Wage Costs To Firms Under**  
**Narrow Contractors' Only Ordinance**

---

Number of firms covered	99
Number of workers below \$8.25 working on contracts	62
Average hourly wage before ordinance	\$6.72
Average weekly hours per worker	40
Average hourly wage increase	\$1.53
Total wage increase, all firms	\$197,309
Average wage increase per firm	\$1,993

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Source: See Appendix 8.

**Table 7.2**  
**Distributing Total Wage Increase of**  
**\$197,309 Among Covered Firms**

---

1. Costs per firm for 99 covered firms	\$1,993
2. Costs per firm for 18 firms with employees earning below \$8.25	\$10,962
3. Ratio of rows (2)/(1)	5.5

---

Source: See Appendix 8.

**Table 7.3**  
**Mandated Costs of**  
**Providing 12 Paid Days Off to Covered Workers**  
**Under Narrow Contractors Only Ordinance**

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Number of workers with no paid days off	15
Number of workers with more than zero and less than 12 paid days off	47
Average paid days off for covered workers	10.25
<b>Total cost of paid days off</b>	<b>\$17,309</b>

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Source: See Appendix 8.

**Table 7.4**  
**Workers Below \$9.50 Without Health Coverage for**  
**Contractors Only Ordinance**

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Number of workers below \$9.50 without health coverage	76
Average weekly hours of workers below \$9.50 workers without health coverage	40
<b>Total costs of health benefits</b>	<b>\$197,600</b>

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Source: See Appendix 8.

**Table 7.5**  
**Total Costs of \$8.25 Contractors Only Ordinance**

<b>Direct Costs</b>	
Total wage increases <i>(% of total increase)</i>	\$197,000 9.6%
Paid days off <i>(% of total increase)</i>	\$17,000 0.8%
Payroll taxes on wages <i>(% of total increase)</i>	\$27,000 1.3%
Health benefits <i>(% of total increase)</i>	\$198,000 9.6%
<b>Total Direct Costs</b> <i>(% of total increase)</i>	<b>\$439,000</b> <b>21.3%</b>
<b>Indirect Costs</b>	
Ripple effect 1 wage increases <i>(% of total increase)</i>	\$989,000 48.1%
Ripple effect 2 wage increases <i>(% of total increase)</i>	\$119,000 5.8%
Ripple effect on paid days off <i>(% of total increase)</i>	\$331,000 16.1%
Payroll taxes on ripple effects <i>(% of total increase)</i>	\$179,000 8.7%
<b>Total Indirect Costs</b> <i>(% of total increase)</i>	<b>\$1.6 million</b> <b>78.7%</b>
<b>Total Costs</b>	<b>\$2.1 million</b>

Source: See Appendix 8.

Note: Percentages may not add up to 100 due to rounding.

we incorporate our estimate of these effects, we see that the ripple effects of this proposal would be substantially larger than the mandated effects.

Indeed, we see that total costs under this proposal would come to \$2.1 million. Of this total, 78.7 percent are ripple effect cost increases and only 21.3 percent are mandated increases. Correspondingly, while only 62 workers would receive mandated wage increases, 821 would receive wage increases through assuming our two categories of wage ripple effects. Clearly, in seeking to gauge the overall impact of the contractors only proposal for both workers and firms, it will be crucial to obtain a clear sense of the likelihood that firms would extend wage increases and benefits to workers beyond those provided through the most narrow interpretation of the ordinance.

In Table 7.6, we show the costs of the ordinance relative to different measures of covered firms overall business activity. It is clear from these figures that the impact of the ordinance on the average City contractor will be quite small, especially, of course, if the ordinance is implemented narrowly. But even under the broader interpretation of the ordinance, including all ripple effects, the impact remains small relative to the average scale of operations of the covered firms. Thus, for the average firm, the mandated cost increases for the ordinance comes to \$4,400. This amounts to 0.6 percent of the total value of the average firms' contracts with the City, and 0.04 percent of such firms' total operating budgets.

Of course, these proportions are significantly higher under a broad interpretation of the ordinance that would include what we are considering here as ripple effects. But even when we add ripple effects to the mandated costs, the total cost for the average firm would come to \$21,000. This amounts, on average, to 2.8 percent of the total value of the covered firms' contracts and 0.2 percent of these firms' operating costs.

Given these results, it is reasonable again to assume that the impact of this ordinance on the average service contractor for the City would be negligible. However, even under these circumstances, the impact could be more significant for three other affected groups—the 18

**Table 7.6**  
**Costs of Contractors Only Ordinance Relative to**  
**Business Activity Levels of Covered Firms**

1. Direct mandated costs of ordinance	\$439,000
<b>2. Total costs of ordinance</b>	<b>\$2.1 million</b>
3. Total number of covered firms	99
4. Direct mandated costs per firm [rows (1)/(3)]	\$4,400
<b>5. Total mandated and ripple costs per firm</b> [rows (2)/(3)]	<b>\$21,000</b>
6. Total value of affected Santa Monica service contracts	\$75.3 million
7. Direct mandated costs as percentage of total value of service contracts [rows (1)/(6)]	0.6%
<b>8. Total mandated and ripple costs as percentage of total value of contracts</b> [rows (2)/(6)]	<b>2.8%</b>
9. Total firm operating costs	\$1.1 billion
10. Direct mandated costs as percentage of total operating costs [rows (1)/(9)]	0.04%
<b>11. Total ordinance costs as percentage of total operating costs</b> [rows (2)/(9)]	<b>0.2%</b>

Source: See Appendix 8.

covered firms that currently employ workers earning below \$8.25, the workers receiving wage and benefit increases and the City of Santa Monica itself. As to the effects on the covered workers, we take up this issue in Chapter 8, after we provide a broader context of the living and working situation for low-wage employees in the Los Angeles area. Let us therefore focus now on the more heavily affected firms and the City.

Table 7.7 provides a sense of how the 18 covered firms with below \$8.25 workers would carry their disproportionate weight of the total cost increases we estimate.<sup>32</sup> The mandated cost increase for these firms would be 1.7 percent of the total value of these contracts. Adding ripple effect costs, the total cost increase comes to 8.0 percent of the value of their contracts. Cost increases of this magnitude for the 18 covered firms might have significant budgetary implications for the City. This is because we assume that neither the current contracting firms, nor their direct competitors bidding on similar contracts, would continue to pursue work with the City unless they were able to pass through to the City a high fraction of these costs. In other words, at least for the 18 heavily impacted firms or their bidding competitors, the City would have to expect to cover a substantial share of these additional costs.

The City should not assume that it has to absorb all the additional costs of a living wage ordinance. Indeed, in a competitive bidding environment, it is likely that the covered firms themselves would be willing to accept some part of these costs, if it meant winning a desirable City contract. Still, the size of the City's anticipated cost pass throughs will depend on whether the ordinance would be implemented narrowly or broadly. Under a narrow interpretation, cost-pass throughs for the City should amount to approximately \$400,000. But these costs would rise to \$2.0 million under a broad interpretation.

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<sup>32</sup> Note, though, that it does not necessarily follow that firms that employ no below \$8.25 workers would feel no affect from the measure. To distribute their costs of the ordinance more equitably among all its contracting firms, the City might seek to counterbalance pass-throughs for heavily affected firms with lower contract awards for firms without low-wage workers.

**Table 7.7**  
**Costs of Contractors Only Ordinance Relative to**  
**Business Activity Levels for Firms with Below \$8.25 Workers**

1. Direct mandated costs of ordinance	\$439,000
<b>2. Total costs of ordinance</b>	<b>\$2.1 million</b>
3. Total number of covered firms	18
4. Direct mandated costs per firm [rows (1)/(3)]	\$24,400
<b>5. Total mandated and ripple costs per firm</b> [rows (2)/(3)]	<b>\$117,000</b>
6. Total value of affected Santa Monica service contracts	\$26.3 million
7. Direct mandated costs as percentage of total value of service contracts [rows (1)/(6)]	1.7%
<b>8. Total mandated and ripple costs as percentage of total value of contracts</b> [rows (2)/(6)]	<b>8.0%</b>
9. Total firm operating costs	\$845.8 million
10. Direct mandated costs as percentage of total operating costs [rows (1)/(9)]	0.005%
<b>11. Total ordinance costs as percentage of total operating costs</b> [rows (2)/(9)]	<b>0.2%</b>

See Appendix 8.

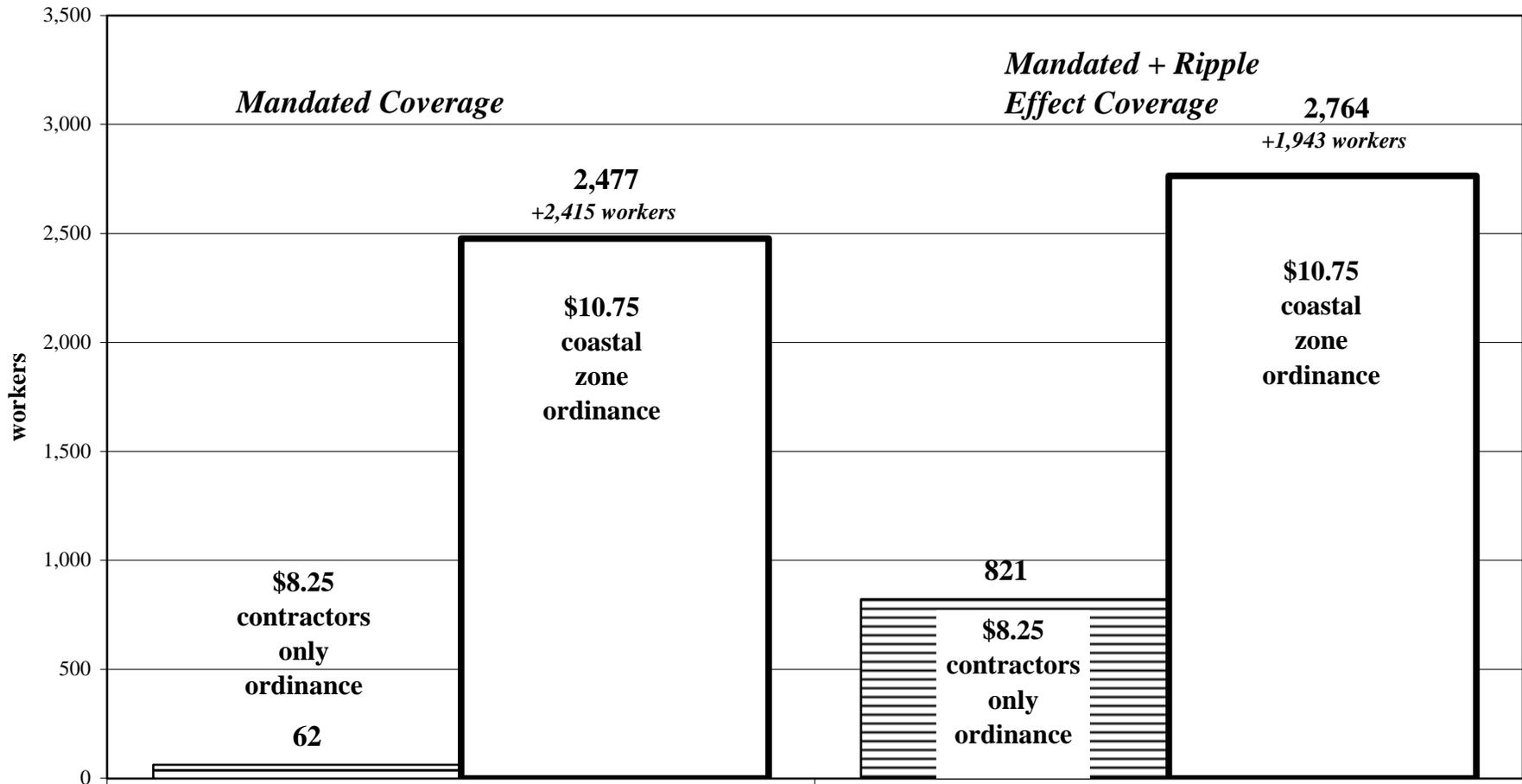
### Comparison of \$8.25 Contractors Only with \$10.75 Coastal Zone Proposals

In Figures 7.1 – 7.3, we provide some comparative data on the effects of this type of contractors only proposal and the \$10.75 Coastal Zone proposal. Of course, the extent of the differences in the two proposals will vary tremendously depending on whether the contractors only ordinance would be implemented narrowly, to cover only below \$8.25 workers engaged in City contract projects, or broadly, to cover all below \$8.25 workers. But as we see from these figures, the impact of the alternative proposals on both workers and firms remains quite large even if one allows for the broad interpretation of the contractors only proposal, which we have measured through our estimates of ripple wage increases.

Comparing a narrowly implemented contractors only proposal with the \$10.75 Coastal Zone measure, we see, in Figure 7.1, that 2,415 more workers would be covered under the Coastal Zone measure. Under a broad interpretation of the contractors only proposal, we still see that 1,943 more workers are covered under the Coastal Zone measure. The difference in the average wage increase for covered workers would amount to \$1.64 per hour, as Figure 7.2 shows.

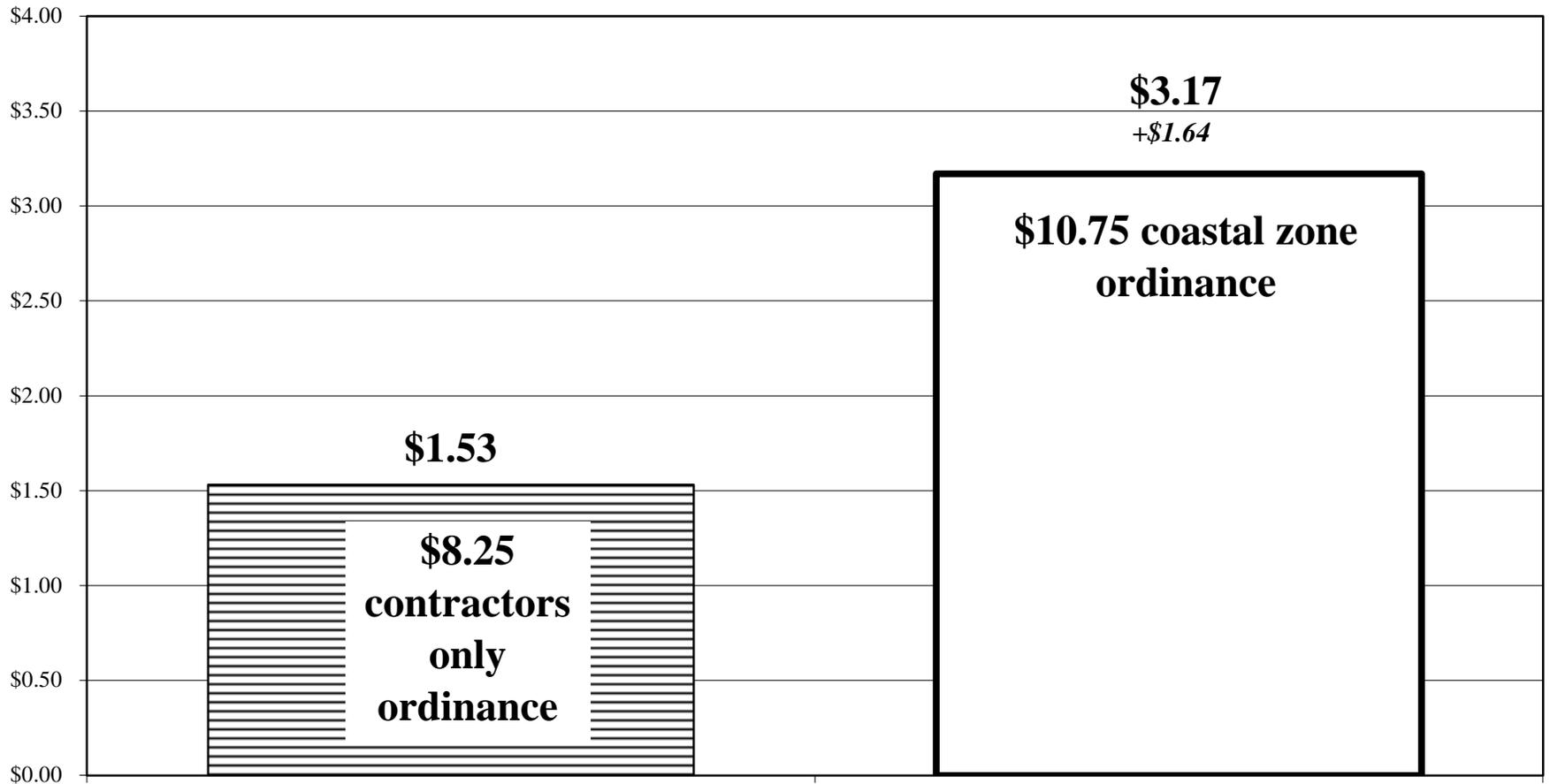
Not surprisingly, the large differences in how these measures would impact workers are reflected in comparably large differences in their relative costs to businesses. As we see in Figure 7.3, under even the broad interpretation of the contractors only proposal, the average cost to all firms averages to \$21,000, as opposed to an average of \$333,000 for the Coastal Zone proposal.

**Figure 7.1**  
**Comparison of \$10.75 Coastal Zone with \$8.25 Contractors Only Ordinances**  
*Number of Workers Covered*



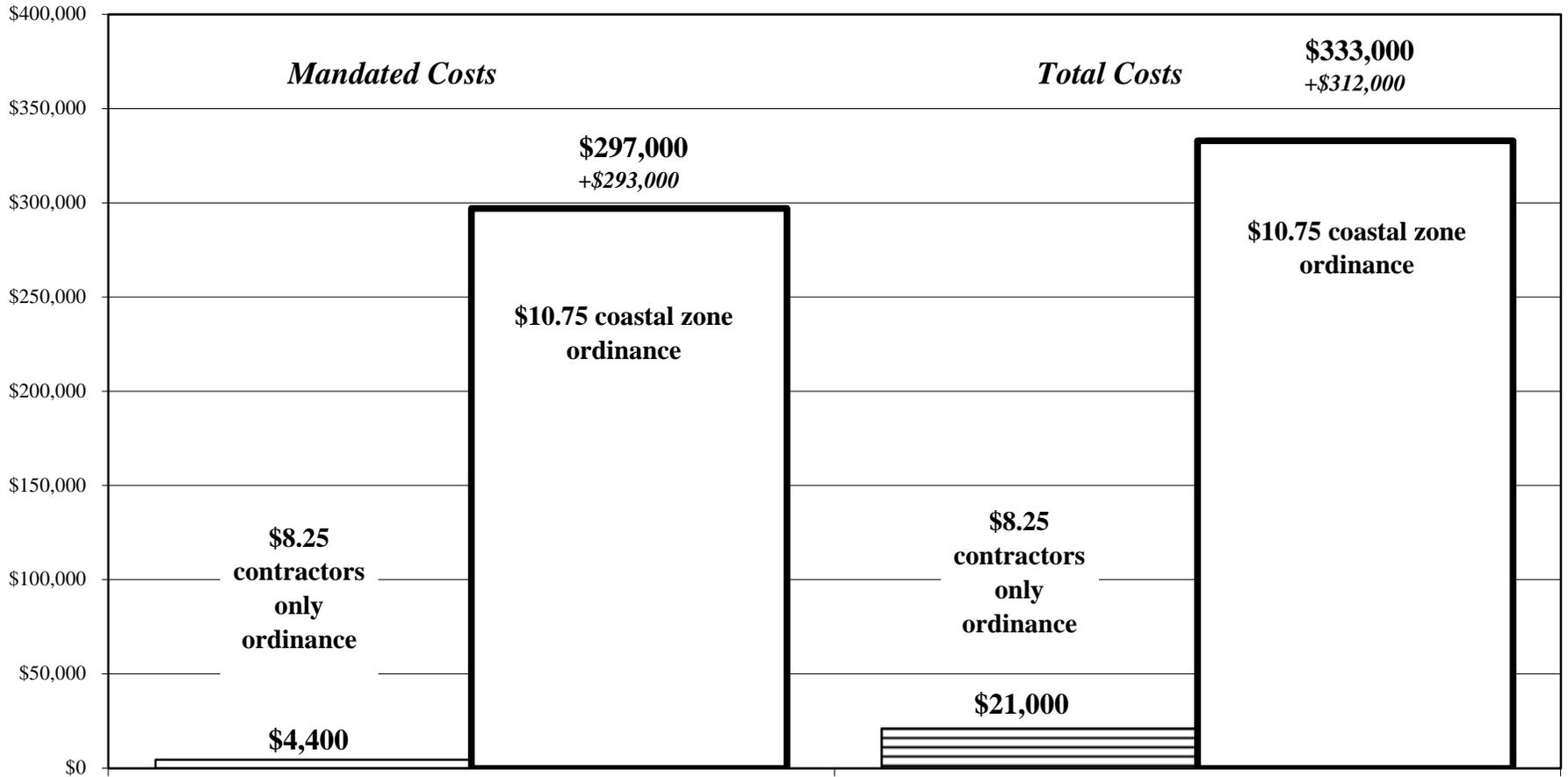
Source: See Appendices 3 and 8.

**Figure 7.2**  
**Comparison of \$10.75 Coastal Zone with \$8.25 Contractors Only Ordinance**  
*Average Mandated Hourly Wage Increase*



Source: See Appendices 3 and 8.

**Figure 7.3**  
**Comparison of \$10.75 Coastal Zone with \$8.25 Contractors Only Ordinances**  
*Average Total Costs Per Firm*



Source: See Appendices 3 and 8.

## **CHAPTER 8: LOW-WAGE WORKERS IN THE SANTA MONICA/LOS ANGELES AREA**

### **A) Living Wages and Poverty in the Los Angeles Area**

The living wage initiatives that have become law throughout the country are motivated by a common initial premise: that people who work for a living should not have to raise a family in poverty. But the term *living wage* also suggests a more ambitious standard. In *A Living Wage: American Workers and the Making of a Consumer Society* (1997), Lawrence Glickman writes that in the historical development of the living wage movement, supporters used the “living wage” concept to define a wage level that offers workers “the ability to support families, to maintain self-respect, and to have both the means and the leisure to participate in the civic life of the nation, (p.66).”

Whether we define the term *living wage* narrowly, as adequate to provide a poverty-line living standard, or more generously, following the historical meaning of the term, either way we face problems in translating these concepts into concrete monetary amounts. What are the proper dollar values that we should assign to a “poverty-level” living standard or to a higher, but still relatively modest standard as described by Glickman? These are the questions we need to answer in this section in order to evaluate the merits of the Santa Monica living wage proposal.

Perhaps the most useful way to proceed would be to provide a range of dollar amounts consistent with both a “poverty-line” level of family income and a modest “basic needs” level, as appropriate specifically to the Los Angeles area. Fortunately, reasonably solid research and data do exist to provide the foundation for such an exercise.

First, in terms of measuring “poverty-line” living standards, the U.S. Census Bureau, of course, has been producing such measures since 1963. But a broad range of researchers argue that the government’s methodology—which has not been significantly altered since its introduction in 1963—is no longer adequate. We will therefore attempt to develop some viable guidelines for establishing poverty thresholds for our purposes, drawing both from the Census

Bureau estimates and the recent professional literature focused on developing improved methodologies.

In terms of measuring a “basic needs” living standard, the California Budget Project (CBP) in Sacramento has done solid research in estimating this. The CBP divided the State of California into 8 regions, of which Los Angeles is one (that with the largest population). The CBP then attempted to measure a “basic family budget” derived from observed costs of housing, food, health care, child care, transportation, clothing, basic telephone service, and a few other essentials. Unlike the Census Bureau’s poverty thresholds, the standard of living that the CBP is attempting to measure is, as they explain, “more than a ‘bare bones’ existence, yet covers only basic expenses, allowing little room for ‘extras’ such as college savings or vacations,” (CBP, p. 5). The CBP estimates should therefore serve as a good reference point in defining a more generous “basic needs” living wage for workers in Santa Monica.

Once we establish both low- and high-end estimates of what might constitute a living wage for Santa Monica workers, we will then turn to two sets of survey evidence on how low-wage workers in the Los Angeles area, and those working in Santa Monica specifically, do actually live. Combining these various perspectives, we are then in a position to evaluate the living situations of Santa Monica workers and their families relative to the costs of living in the Los Angeles area.

### Measuring Poverty Thresholds

Since 1963, the U.S. Census Bureau has set detailed poverty thresholds for families of different sizes. These thresholds are clearly a good place to begin in seeking to establish an appropriate living wage standard for Santa Monica workers. However, as we will see, these measures also have fundamental inadequacies.

The government’s methodology assigns specific threshold amounts for families of different sizes. For example, the poverty threshold in 1999 for a family of two is \$10,868, and for

a family of four with two children is \$16,894.<sup>33</sup> The family living at this threshold would subsist on what the Department of Agriculture terms the “thrifty food plan”—which is the amount of food needed for each family member to receive the basic caloric minimum.

The government's methodology then assumes that poor families spend approximately one-third of their budget on food. Thus, to generate the dollar figures for the poverty threshold, the government simply multiplies the dollar value of the “thrifty food plan” by three.

In recent years, many researchers and government officials have questioned the adequacy of this method for establishing poverty thresholds. The most extensive scientific survey of these issues was that sponsored by the National Research Council (hereafter NRC; Citro and Michael 1995). The participants on its project, including some of the most distinguished researchers in this field, reached the following overall conclusion:

Our major conclusion is that the current measure [of poverty] needs to be revised: it no longer provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time. The current measure has remained virtually unchanged over the past 30 years. Yet during that time, there have been marked changes in the nation's economy and society and in public policies that have affected families' economic well-being, which are not reflected in the measure.<sup>34</sup>

More specifically, according to the NRC study, establishing overall poverty thresholds on the basis of food costs alone presents many problems. For one thing, there are large variations in housing and medical care costs by region and population groups. In addition, food prices have fallen relative to those for housing. Child care costs have also not been adequately accounted for. This has become increasingly important over time, as labor force participation by mothers has risen.

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<sup>33</sup> As of this writing, the official poverty thresholds are reported only through 1998. We generate 1999 figures through increasing the 1998 figures by the CPI rate of inflation.

<sup>34</sup> Citro and Michael (1995), p. 1. The National Research Council, Panel on Poverty and Family Assistance: Concepts, Information Needs, and Measurement Methods includes Robert T. Michael, Anthony B. Atkinson, David M. Betson, Rebecca M. Blank, Lawrence D. Bobo, Jeanne Brooks-Gunn, John F. Cogan, Sheldon H. Danziger, Angus S. Deaton, David T. Ellwood, Judith M. Gueron, Robert T. Hauser, and Franklin D. Wilson.

The study reports on 6 alternative methodologies to the current official method for measuring absolute poverty for a two adult/two child family.<sup>35</sup> The thresholds generated by these alternative methodologies are reported in Table 8.1, along with the official threshold. As the table shows, all of the alternative methods generated higher thresholds, ranging between 23.7 and 53.2 percent above the official threshold. The average value of these alternative estimates is 41.7 percent higher than the official threshold. This standard for an alternative absolute poverty threshold—approximately 40 percent above the official threshold after taking more careful account of housing, child care costs and some additional necessities—will help establish our benchmark for a low-end living wage estimate.

### Regional Living Costs

The alternative poverty thresholds reported in Table 8.1 do not take account of regional differences in the cost of living. Considerable evidence suggests that living costs for low-wage workers in the LA area are significantly higher than those in other parts of the country. We consider two basic sources here, that of the American Chamber of Commerce Research Association (ACCRA) Cost of Living Index and the 1999 California Budget Project (CBP) figures.

### Cost of Living Estimates

The ACCRA data set provides the most detailed statistics on costs of living in approximately 300 cities within the United States. At the same time, the ACCRA index has limitations for our purposes. The problem is that the ACCRA index is explicitly designed to measure relative living costs in different regions at what ACCRA describes as a “midmanagement standard of living.” Our aim is to understand living costs for low-wage workers, which, obviously, will be in a different category than that for midmanagers. Thus, to

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<sup>35</sup> The NRC study includes consideration of “relative” as well as “absolute” measures of poverty. Relative poverty, as the term suggests, takes account of problems resulting from pronounced inequality in a society, even if that society’s average living standard is relatively high. However, we focus here only on absolute

**Table 8.1**  
**Absolute Poverty Thresholds for Two Adult/Two Child Families**  
**According to Alternative Methodologies**

<b>Threshold Measure</b>	<b>Definition</b>	<b>Dollar Amount (1999 dollars)</b>	<b>Amount Relative to Official Government Measure (percentages)</b>
Official measure	Thrifty food plan times 3.0	16,894	—
<b>Alternative Expert Budget Thresholds</b>			
Adaptation of Renwick and Bergmann (1993)	Budget for food, housing, and household operations, transportation, health care, clothing, childcare, personal care	20,891	+23.7
Schwartz and Volgy (1992)	Detailed budget for single-earner family	22,553	+33.5
Weinberg and Lamas (1993), version A	Food plus housing times a multiplier of 2.0	24,096	+42.6
Adaptation of official method	Food times a multiplier of 4.4	24,571	+45.4
Adaptation of Ruggles (1990)	Housing times a multiplier of 3.3	25,639	+51.8
Weinberg and Lamas (1993), version B	Food plus a higher housing standard times a multiplier of 2.0	25,877	+53.1
<b>Average of Alternative Thresholds</b>		23,938	+41.7

Source: Citro and Michael (1995), p. 47.

make use of the ACCRA data, we first have to consider the extent to which differences in living costs at this “midmanagement” level reflect similar relative cost differences at a living standard appropriate to low-wage workers.

To examine this, in Table 8.2, we look at overall living costs, relative to Los Angeles, of five metropolitan areas of California at both the midmanagement level, as defined by ACCRA, and the basic needs level, as defined by the CBP data.

As Table 8.2 shows, the correspondence in relative costs by region is strong at the midmanagement and basic needs levels. In four of the five areas shown—Riverside, Sacramento, San Diego, and San Francisco/Oakland—living costs relative to Los Angeles are very close, if not virtually identical, at both the midmanagement and basic needs levels. Monterey is the only area where a significant difference emerges, with costs being basically equal to LA at the basic needs level but 16 percent higher at the midmanagement level. But in none of the regions do living costs move in different directions at the midmanagement and basic budget levels—with, for example, costs being above LA for midmanagers but below LA at a basic needs living standard. Our conclusion, then, is that we can proceed with caution using the ACCRA midmanagement cost of living data as a reasonable proxy for living costs in Los Angeles for low-wage workers as well.

According to ACCRA, overall living costs in Los Angeles were 26.4 percent above the national average for 1999. Over the 1990s as a whole, this LA living cost differential averages 23.3 percent above the national average for the decade as a whole.<sup>36</sup> From this, it seems reasonable to conclude that for low-wage workers as well as midmanagers in Los Angeles, living costs are approximately 25 percent above the national average.<sup>37</sup>

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poverty measures. For an insightful overview on these themes as well as current poverty trends throughout the world, see Keith Griffin, “Problems of Poverty and Marginalization,” (2000).

<sup>36</sup> Our calculations were based on ACCRA index numbers for the first quarter of each year.

<sup>37</sup> There is no contradiction between the fact that the ACCRA index reports the LA cost of living as being about 25 percent above the national average and the fact that *changes* in the LA cost of living may be commensurate with those in the rest of the country, as indicated by changes in the LA CPI relative to that

**Table 8.2**  
**1999 Living Costs Relative to Los Angeles at**  
**Basic Needs and Midmanagement Levels for Various California Cities**

<b>City</b>	<b>Basic Needs</b>	<b>Midmanagement</b>
Monterey	0.99	1.16
Riverside	0.86	0.90
Sacramento	0.89	0.89
San Diego	0.97	0.99
San Francisco/Oakland	1.19	1.26

Sources: California Budget Project (1999); ACCRA Index (1999)

### LA Living Costs and Poverty Thresholds

We are now in a position to establish a workable “poverty line” living wage standard for Santa Monica workers. It follows from the two basic points that emerge from the material we have reviewed:

1. According to the average of the alternative measures of poverty reviewed by the National Research Council, the national poverty line for a family of four is about 40 percent above the official Census Bureau poverty line.
2. The cost of living in the Los Angeles area is about 25 percent above the national average, for those living on a “basic needs” budget as well as those at a “midmanagement” living standard.

These two figures suggest that an appropriate poverty-line estimate for the Los Angeles area should be about 65 percent above the official Census Bureau poverty line. To present this result cautiously, let us round down, assuming that an appropriate poverty threshold for Los Angeles would be about 60 percent above the official poverty line. Thus, when we report living wage figures and poverty estimates below, we report a “160 percent of official poverty” threshold as our basic measure. We will also report a “185 percent of official poverty” threshold to measure a “near poor” living standard. Along with these, we will also report the official poverty threshold figures, but will consider these as properly measuring a “severe poverty” standard.

### Basic Needs Budget

As mentioned above, the California Budget Project attempts to measure a standard of living that is more than a “bare bones’ existence, yet covers only basic expenses, allowing little room for ‘extras’ such as college savings or vacations.” The CBP estimates typical costs of housing and utilities, child care, transportation, food, health coverage, payroll and income taxes, and miscellaneous expenses such as clothing, personal care and basic telephone service. For

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for the country. If the LA cost of living begins at 25 percent above the national average, and the CPI for LA remains equal to that for the rest of the country over time, that means that the LA cost of living will precisely remain at 25 percent above the national average. In addition, the fact that pay levels in LA may be less than 25 percent above the average for the country in no way gainsays the ACCRA finding on relative living costs.

example, for a single parent family with two children, the study finds the yearly budget would include (in 1999 dollars) \$7,116 for housing and utilities, \$11,564 for childcare, \$2,933 for transportation, \$4,592 for food, \$2,320 for health care, \$3,790 for miscellaneous items, and \$4,580 for taxes, for a total of \$37,237.<sup>38</sup> The study assumes that the typical family rents housing rather than owns a home, and that the rent they pay is at the lower 40th percentile of “fair market value” rents in the area—i.e. that 40 percent of the rental housing in an area is lower the fair market value and 60 percent is higher. The family does own a car, but drives an average of only 25 miles per day for commuting. Doubling the miles driven per month—still a modest estimate and one more likely to correspond to driving needs for workers in the LA area—would increase transportation costs by nearly \$3000.<sup>39</sup> No allowance is made for vacation travel or long commutes. The food budget is based on the Department of Agriculture’s “low-cost food plan” which is approximately 25 percent above its “thrifty food plan” used in measuring the official poverty threshold.

The CBP assumes that a family includes two children, one below and the other above six years old. The study then estimates basic income budgets for three different family types:

- A single parent family
- Two parents, with one wage-earner and the other handling child-care
- Both parents earning wages.

In terms of establishing an appropriate “basic needs” living wage level for Santa Monica workers, two concerns should be mentioned. First, one might argue that, in terms of a housing cost allowance, the 40<sup>th</sup> percentile fair market value rental rate might be somewhat too high a figure. Workers who are earning within the lower 20-30 percent range of the wage distribution

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<sup>38</sup> This total figure is slightly less than the full budget figure of \$37,589 that we use the basic needs benchmark for a family of three. The differences are due to rounding calculations in establishing the components of the overall figure.

<sup>39</sup> The CBP derives transportation expenditures based on the 1998 Internal Revenue Service mileage allowance of 32.5 cents per mile. This figure reflects the cost of gasoline, oil, tires, repairs, insurance, depreciation and related expenses.

might be expected to pay somewhat less than the 40<sup>th</sup> percentile rental rate for their housing budget.

On the other hand, it is not realistic to assume that low-wage workers in Santa Monica commute only 25 miles a day. In fact, the average worker in our Santa Monica survey commutes 87 minutes a day, with about 54 percent driving either alone or in a carpool and 42 percent traveling by bus. Generally speaking, this would correspond to an average distance commute of 2-3 times the 25 miles assumed by the CBP. As mentioned above, the CBP does also estimate that a doubling of commuting distance would add approximately \$3,000 per year to annual transportation expenses—i.e. a near doubling of transportation costs. Such an increase would not be the case for the 42 percent of commuters traveling by bus or the small fraction walking or biking. Overall, however, a rough doubling of travel time should entail somewhere between 1.5 and 2 times the basic CBP commuting cost provision.

Thus, while the CBP's housing cost allowance may be on the high side for a basic needs budget, transportation costs are certainly too low by a significant amount. Allowing for both of these factors, we can conclude that the CBP figures are basically reliable as a standard for establishing a “basic needs” budget for Santa Monica workers.

#### Alternative Estimates of Living Wage Standards

In Table 8.3, we present alternative estimates for both “poverty-line” and “basic needs” income levels for workers in Santa Monica. As we see, the figures are presented for both a three-person/two-child family and a four-person/two-child family. With the four-person/two-child family, the basic needs figures, derived from the CBP study, are presented in two ways, assuming both one and two wage-earnings in the family. The increased income needs for the two wage-earner family reflects the higher costs of childcare when both adult family-members are working full-time outside the home.

As we see from Table 8.3, the alternative “living wage” rates range fairly widely, according to what one defines as a living wage. Given our discussion above on the

**Table 8.3**  
**Living Wage Income and Wage Levels for Santa Monica Workers**  
 (Entries are 1999 dollars)

	Poverty-Level Income			Basic Needs Income	
	Severe Poverty (Official Poverty Line)	Poor (160% of Official Poverty Line)	Near Poor (185% of Official Poverty Line)	One Wage Earner	Two Wage Earners
<b>3 Person/2 Child Family</b>					
Annual Income	13,423	21,475	24,831	37,589	—
Hourly Wage Rate for Full-Time Job	6.45	10.32	11.94	18.07	—
<b>4 Person/2 Child Family</b>					
Annual Income	16,895	27,030	31,254	31,298	45,683
Hourly Wage Rate for Full-Time Job	8.12	13.00	15.03	15.05	10.98 <i>(both jobs)</i>

Sources: Current Population Survey (1999); California Budget Project (1999),

inadequacies of the official poverty thresholds, especially as a standard relevant for the Los Angeles area, it is reasonable to exclude these official threshold levels—what we are terming the “severe poverty” income thresholds—as a level that we could define as corresponding with a living wage. This still leaves wage rates between \$10.32 and \$18.07 as the range of values associated with different living wage standards for a three-person family with one working adult. For a four-person family, the corresponding wage rate would be between \$13.00 - \$15.00 with one wage earner in the family. If both adults in a four-person family were working, the average wage for both would need to be \$10.98 for the family to reach the basic needs threshold.

It is clear from these figures that no single dollar amount can be associated with a living wage threshold. Nevertheless, the figures in Table 8.3 now provide a sense of what an appropriate wage level would be, assuming that workers hold full-time jobs and that they are supporting between one and two additional family members on their wages.

In fact, it may be unrealistic to assume that low-wage workers hold full-time jobs over the course of a year. If they do not, their wage rate would clearly have to be higher to earn an income level corresponding with either a poverty-line or basic needs living standard. At the same time, it may not be the case that workers are trying to support additional family members on their wages, in which case a lower dollar amount would be adequate to supply a living wage. These are issues that we can consider more fully as we examine the survey evidence on low-wage workers in the Los Angeles area and Santa Monica specifically.

### **B) Conditions of Los Angeles Low-Wage Workers and Families in the Los Angeles Area**

We now turn to a consideration of low-wage workers in Los Angeles and Santa Monica specifically. We will rely on two basic data series—the Current Population Survey (CPS) of the U.S. Department of Labor and our own survey of workers employed in the Santa Monica Coastal

Zone.<sup>40</sup> We describe our methodologies in working with these two data sets in Appendices 9 and 10 respectively.

These two data sources compliment each other. The strength of the government data is that is derived from a large random sample of Los Angeles residents. It therefore offers a broad and reliable picture of the people who are employed in low-wage jobs in the Los Angeles area. However, the government statistics cannot provide us with a detailed picture of workers who would be affected by a living wage proposal in Santa Monica. That is why it was important that we conduct our own survey of these workers.

Because of the conditions under which our Santa Monica survey were undertaken, it would not have been possible for us to create a random sample of workers for our interview pool. Nevertheless, we made every effort to produce a representative sample of workers in the Coastal Zone. In Appendix 10 we explain the basis on which we conclude that the survey is reliable. But in addition, we can use the results from the CPS survey as a check on the accuracy of our own survey findings.

#### Evidence from Los Angeles CPS Data

Our research considers workers in LA ranging between the California minimum wage rate of \$5.75 up to the proposed Santa Monica living wage rate of \$10.75. We do not present systematic evidence on workers earning below \$5.75. These workers are exempted from U.S. and California minimum wage coverage, and would presumably also be exempted from a Santa Monica living wage ordinance. Nevertheless, we will occasionally refer to data about these workers when pertinent for our main areas of concern.

#### Basic Demographics

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<sup>40</sup> The CPS figures are from its 1999 survey. But the questions asked in that survey related to conditions for families in 1998. By contrast, our survey of Santa Monica workers took place between March – May 2000. But the questions we asked related to conditions over 1999. Thus, to make all figures comparable, we converted the CPS figures into 1999 dollars.

Number of workers. To begin with, we see in Table 8.4 that there are a total of nearly 1.3 million workers in our three wage categories ranging between \$5.75 and \$10.75. These workers constitute 34.4 percent of the total Los Angeles workforce. As we see, the breakdown is 14.8 percent between \$5.75-7.40; 10.2 percent between \$7.41-9.10; and 9.4 percent between \$9.11 and 10.75. Those earning below \$5.75 constitutes another 392,000 workers, or 10.4 percent of the total LA workforce. Overall then, 44.8 percent of all workers in the LA region are earning below \$10.75. Our analysis will focus on the 33.4 percent between \$5.75 and \$10.75.

Age of Workers and Job Tenure. The average age of workers earning between \$5.75 and \$10.75 is 35.4 years old, and their average estimated labor force tenure is 18 years. For the most part, therefore, the jobs that these workers now hold reflect their long-term occupational trajectory. They are not on a career ladder that will be moving them to a significantly better job situation.

Only 4.2 percent of the workers in our sample are teenagers. This figure is lower than what one generally observes in measuring the low-wage labor market, including, as we will see, our own survey of Coastal Zone workers. The reason this figure is low is that our sample from the LA CPS survey excluded people who worked less than 250 hours per year (i.e. less than 12 percent of a full-time working year). In Appendix 9, we explain in some detail why making this restriction in our data set increased the overall reliability of our results. However, one by-product of this methodological choice is that we understate the total share of teenagers in this sample. A better measure of their proportion, including those employed less than 250 hours per year, would be 6.8 percent.<sup>41</sup> Still, even with this higher figure for teenagers, it is clear that the

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<sup>41</sup> More precisely, this 6.8 percent figure includes employed people working less than 250 hours. It also includes those who were 20 years old at the time of the survey as among the teenagers. This adjustment, suggested by Prof. David Neumark, reflects the fact that the 20-year olds were still teenagers when the survey was conducted. It does not reflect the possibility that some 21-year old workers may also have been teenagers when the survey was conducted. On the other hand, it also makes no adjustment for the fact that the 16-year olds in the survey were not of the legal working age when the survey was conducted.

**Table 8.4**  
**Basic Demographics of Low-Wage Workers in Los Angeles**

	<b>Totals</b>	<b>Hourly Wage Rate Categories</b>		
	\$5.75-\$10.75	\$5.75-\$7.40	\$7.41-\$9.10	\$9.11-\$10.75
Number of Workers	1,290,024	555,624	383,249	351,151
Percentage of Workforce	34.4%	14.8%	10.2%	9.4%
Average Age	35.4	34.8	34.6	37.1
Estimated Labor Force Tenure (years)	18.0	18.1	17.3	18.7
Percentage Teenagers	4.2%	5.9%	3.2%	2.7%
Percentage Non-White (including Hispanic)	77.8%	83.9%	79.0%	66.8%
Percentage Hispanic	59.5%	68.9%	60.3%	43.9%
Percentage Female	46.3%	48.4%	44.7%	44.9%

Source: Current Population Survey (1999).

overwhelming majority of workers in our survey are middle-age people on their long-term occupational trajectory.

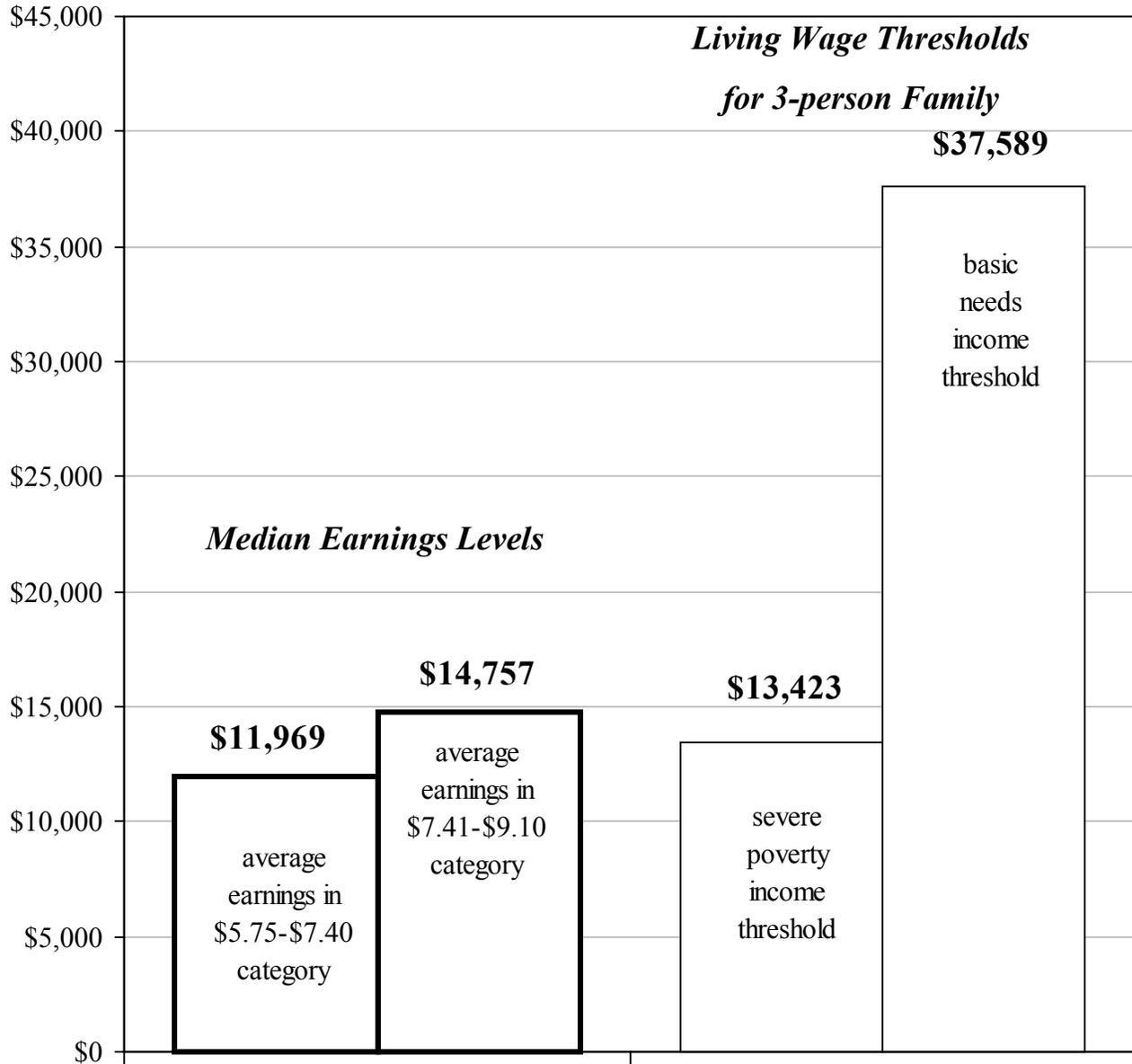
Race and Gender. Finally we see in Table 8.4 that low wage workers are predominantly non-white and Hispanic. Overall, 77.8 percent of all workers earning between \$5.75-10.75 are non-white or Hispanic, and 59.5 percent are Hispanic. We also see that slightly fewer than half of all low-wage workers are female.

### Wages and Earnings

Table 8.5 provides a more detailed picture of the earnings and living situations for low-wage workers in Los Angeles. We see, first of all, the average wage rates in our three wage categories, which are \$6.55, \$8.26, and \$10.08 respectively. We also see that in none of the three categories do workers hold a job full-time for the entire working year. Rather, they average about 38 hours a week at work and between 46 and 48 weeks on the job. Such arrangements lead to an overall working year ranging between 1,764 and 1,861 hours. If we say that a full-time working year amounts to 2080 hours (i.e. 52 weeks at 40 hours/week), low-wage workers in LA are averaging about 14 percent less than full-time at their jobs. Combining these wage rates and working year figures then generates the average yearly earnings for workers in these three categories. These figures are \$11,969, \$14,757, and \$18,735 respectively.<sup>42</sup>

To provide some perspective on these earnings levels, it will be helpful to compare them to the figures discussed earlier on living wage income thresholds. Some of the pertinent comparative statistics are brought together in Figure 8.1. For workers in the lowest \$5.75 to \$7.40 category, their average annual earnings of \$11,969 is 11 percent below even the official poverty threshold for a family of three of \$13,422, what we have termed a “severe poverty” threshold. From a different angle, the lowest wage workers’ average earnings are barely more than 30 percent of the “basic needs” income level of \$37,589 for a family of three. The situation

**Figure 8.1**  
**Living Wage Thresholds and Earnings Levels for**  
**Los Angeles Low-Wage Workers (1999 dollars)**



Source: See Tables 8.3 and 8.5.

**Table 8.5**  
**Average Wages and Annual Earnings of**  
**Low-Wage Los Angeles Workers, 1998**

	<b>Hourly Wage Rate Categories</b>		
	\$5.75-\$7.40	\$7.41-\$9.10	\$9.11-\$10.75
Average Wage (1999 dollars)	\$6.55	\$8.26	\$10.08
Average Hours/Week	38.1	38.1	38.7
Average Weeks/Year	47.3	46.3	48.1
Total Yearly Hours Worked	1,802	1,764	1,861
Average Annual Earnings (1999 dollars)	\$11,969	\$14,757	\$18,735

Source: Current Population Survey (1999).

is obviously more favorable for workers earning between \$7.41 and \$9.10, but not dramatically so. Thus, the families in which these workers live would be in considerable privation they depend as a primary income source on the wages earned by the workers in the sample.

#### Family Structures and Incomes

What is the family status of workers in each of these three income levels? The next set of data, in Table 8.6, offers some evidence on this. First of all, the average family size is 3.8 people among workers in the lower two wage categories, and 3.6 people in the \$9.41-10.75 category. These families have between 2 and 2.1 wage earners in their families. This in turn implies that the average worker in our sample is supporting him/herself and nearly one additional family member. As we see, the “dependency ratio”—which is simply the ratio of family size/number of wage-earners in a family—ranges between 2.0 – 2.1 for our three wage categories.

How much of these families’ total earnings are supplied by the workers in our sample? Some disparities arise here depending on whether one is observing mean or median figures. As usual, the difference between the mean and median figures result from the presence of large outliers in the samples, which influence mean estimates more heavily than medians. As such, for the issues that concern us here, the median figures are generally a more reliable measure of the average family condition.

Table 8.6 reports both the median and mean figures. We see that, according to the medians, total family earnings range between \$26,335 and \$35,560. According to the means, total family earnings range between \$34,774 and \$46,550. The workers in all three categories of our sample are providing roughly 50 percent of their families’ earnings according to the median figures and roughly 60 percent, according to the means. In other words, differences between

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<sup>42</sup> The figures are not exactly equal to those obtained by simply multiplying average wages by the average working year. The small differences result from rounding decimal numbers at various points in our calculations.

**Table 8.6**  
**Family Structures and Earnings of Los Angeles Low-Wage Workers, 1998**

	<b>Hourly Wage Rate Categories</b>		
	<u>\$5.75-\$7.40</u>	<u>\$7.41-\$9.10</u>	<u>\$9.11-\$10.75</u>
Average Family Size	3.8	3.8	3.6
Average Number of Wage-Earners per Family	2.1	2.0	2.0
Average Dependency Ratio (Family Size/Number of Wage-Earners)	2.1	2.1	2.0
Total Family Earnings (1999 dollars)			
Median	\$26,335	\$27,432	\$35,560
Mean	\$34,774	\$41,110	\$46,550
Percentage of Total Family Earnings Contributed by Worker in Sample			
Median	48.0%	53.0%	52.6%
Mean	58.2%	57.6%	57.6%

Source: Current Population Survey (1999).

means and medians aside, it is safe to say that the average low-wage worker is supplying between about 50 and 60 percent of their family's total earnings.<sup>43</sup>

#### Additional Sources of Family Income

The figures on earnings from wages do not, however, provide a complete picture of the living standards of low-wage workers. Such families also receive income from a wide array of additional sources, including unemployment insurance, the Earned Income Tax Credit, workmen's compensation, and retirement benefits.<sup>44</sup> In Table 8.7, we present data on total family income, and the percentage of total income contributed by the worker in our sample. Again, we present both mean and median figures for these categories.

As we see, the total income levels are about 10 percent higher than total family earnings. We also see that there is, again, a substantial difference between the median and mean figures. Median family incomes range between \$28,735 and \$37,287 while the mean figures range between \$38,041 and \$51,657. According to the medians, the workers in our sample contribute between 41-50 percent of their families' total income, and between 49-53 percent to mean family incomes.

#### Average Family Incomes and Living Wage Thresholds

Having now collected all sources of income for these families, it will be useful to again turn to our various living wage standards to assess these families' living standards. Given that the average size of families in our two lower wage categories is 3.8 people, we should therefore compare these families' total income against our living wage standards for a family of four. We

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<sup>43</sup> It is important to note that mean figures here are calculated through averaging worker/family earning ratios for each family in the sample, not through calculating a single ratio of aggregate worker to family earnings.

<sup>44</sup> The full list of additional income sources listed in the Current Population Survey includes unemployment, workman's compensation, Social Security or railroad retirement, Supplemental Security Income, public assistance or welfare payments, veterans' payment, survivors income, disability, retirement income, interest, dividends, income from estates or trusts, net rental income, child support, alimony, and private financial assistance.

**Table 8.7**  
**Total Family Income of Los Angeles Low-Wage Families, 1998**

	<b>Hourly Wage Rate Categories</b>		
	\$5.75-\$7.40	\$7.41-\$9.10	\$9.11-\$10.75
Total Family Income (1999 dollars)			
Median	\$28,735	\$30,691	\$37,287
Mean	\$38,041	\$44,346	\$51,657
Percentage of Total Family Income Contributed by Worker in Sample			
Median	41.4%	49.0%	49.9%
Mean	49.0%	52.1%	52.7%

Source: Current Population Survey (1999).

bring some of the pertinent figures together in Figure 8.2. As we see, the median family incomes for our two lower wage categories—\$28,735 and \$30,691—are somewhat above our “poverty-line” income level for a family of four, which is \$27,030. These low-wage family income levels are also about 35 percent below the “basic needs” family income level of \$45,683 for a four-person family.<sup>45</sup>

#### Poverty and Basic Needs Status

In addition to examining statistics on median families, we obtain a fuller picture of living conditions for the low-wage families by looking at the percentages living below our LA poverty and basic needs thresholds. These figures are presented in Table 8.8. Focusing first on the families of workers in the \$5.75-7.40 category, we see that over half of these families are either poor or near-poor, according to our 160 percent and 185 percent of official poverty standards. More than one-third are living below the LA poverty line of 160 percent of official poverty and 16 percent live in severe poverty (i.e. below the official threshold). A full 86 percent of these families are living below the California Budget Project’s basic needs threshold. Not surprisingly, conditions are somewhat better for the families of workers earning between \$7.41-9.10, but not dramatically so. Nearly 40 percent of these families are below either our 160 percent or 185 percent of official poverty thresholds and nearly 73 percent are below the basic needs threshold. The situation is not as severe for families with workers earning between \$9.11-10.75. But here as well, over 25 percent are below our two poverty thresholds and 79 percent are below the basic needs threshold.

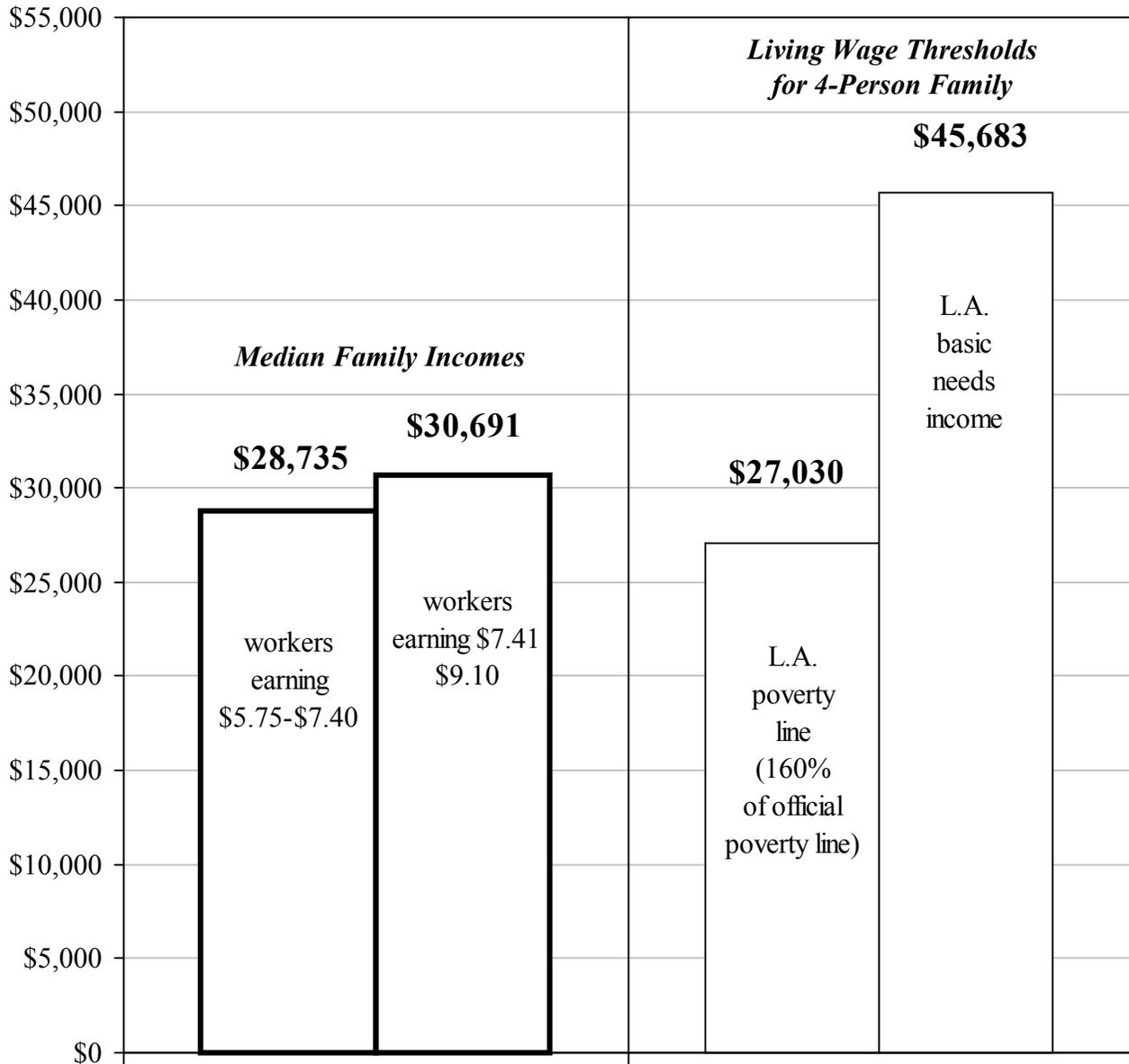
#### Health Coverage

The figures on family income do not include non-monetary transfers, including items such as food stamps, subsidized housing, or energy assistance. It also does not include health

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<sup>45</sup> To add some additional perspective on the teenagers in our sample: if we consider the workers who were between the ages of 17 and 20 at the time of their CPS interview, their total median family incomes was about 38 percent above those for the overall sample. Thus, the families which include these teenage workers are better off than the average family in the sample, though not dramatically so.

**Figure 8.2**  
**Incomes of Low-Wage Los Angeles Families Relative to**  
**Living Wage Income Thresholds (1999 dollars)**



Source: See Tables 8.3 and 8.7.

**Table 8.8**  
**Poverty Status of Los Angeles Low-Wage Families**  
 (Entries are percentages)

	<b>Hourly Wage Rate Categories</b>		
	\$5.75-\$7.40	\$7.41-\$9.10	\$9.11-\$10.75
Families in Severe Poverty (Below Official Poverty Line)	16.0	14.1	2.6
Families in Poverty (Below 160% of Official Poverty Line)	34.2	26.1	16.6
Near Poor Families (Below 185% of Official Poverty Line)	51.7	38.4	26.8
Below Basic Needs Threshold	86.0	72.9	79.1

Source: Current Population Survey (1999).

Note: Basic needs figures apply only to those family types for which the CBP calculated thresholds.

insurance coverage. The amounts being received by the families with low-wage workers through non-monetary transfers is relatively small—for example, only 6.1 percent of families with workers earning between \$5.75-7.40 are receiving food stamps, and those percentages are lower still for families in higher wage categories. But it is important to present the status of private health coverage of these families, especially given the Santa Monica living wage proposal could include employer-provided health insurance as one of its components.

We report figures on health coverage in Table 8.9. As we see, more than half of the workers in the \$5.75-7.40 category have no coverage and about one-third in the higher wage categories also have no coverage. For the lower wage category, only about one-third have coverage that includes their families, and fewer than 40 percent have coverage provided by their employer. As usual, these figures are somewhat better for those in the higher wage categories, but not dramatically so.

#### Summary on Los Angeles Survey Evidence

The overall picture of low-wage workers in the Los Angeles area is clear. For the most part, these are people well into their working lives. They are not teenagers, and they are not moving onto a career trajectory different than their present one. Their overall earnings are less than what might be suggested even by their low hourly wage rates. This is because, on average, they work only 85 percent of a full working year. The majority live with their families, and are major contributors—though not the only provider—of the families' overall income.

Adding up all of the income sources for the families of low-wage workers, one still finds that, for those workers whose wages are in the two lower categories, nearly half are living in poverty or are near-poor. Most of these families are well below the basic-needs living standard, as defined by the California Budget Project. And finally, these workers have very poor health insurance coverage, especially in terms of what is being provided for them by their employers.

**Table 8.9**  
**Health Insurance Coverage for Los Angeles Low-Wage Workers**

	<b>Hourly Wage Rate Categories</b>		
	<u>\$5.75-\$7.40</u>	<u>\$7.41-\$9.10</u>	<u>\$9.11-\$10.75</u>
Percentage with Health Insurance	47.3	61.0	68.6
Percentage with Family Coverage (Among Those Living with Families)	34.3	41.3	49.3
Percentage with Insurance Provided by Employer	38.8	52.2	60.8

Source: Current Population Survey (1999).

### Worker Survey for Santa Monica

We now turn to the data we have generated through our survey of workers in Santa Monica. We provide a copy of our survey instrument in Appendix 10. We also provide details on our survey methodology. As we explain in detail in the appendix, the data presented here are not taken from a random sample of Santa Monica workers. In particular, our aim was not to sample all workers employed in Santa Monica. We rather focused our efforts on sampling low-wage workers employed at potentially affected firms within Santa Monica's Coastal Zone. With these workers, we have used standard non-random sampling techniques to generate a reliable representative sample.

Scope of survey. Figure 8.3 and Table 8.10 provides details on the breadth of our sample. As Figure 8.3 shows, we surveyed a total of 202 workers over April and May of 2000. Of the 202 workers, 61 were employed in hotels, 53 in restaurants, 39 in retail, and 49 in a variety of other worksites. Table 8.10 shows the detailed occupational breakdown of the workers in our sample employed at the hotels, restaurants, and retail stores.

Basic Demographics. Table 8.11 presents the basic demographic evidence on the workers in our sample. To begin with, we see that of the 202 workers surveyed, the majority are in our two lower wage categories—34 percent earn between \$5.75-7.40 and 38 percent earn between \$7.41 and 9.10. These figures incorporate income received from tips and commissions into workers' hourly earnings totals.

From our figures on average round-trip commuting time, we see the basic fact noted earlier that most of our surveyed Coastal Zone workers do not themselves live either in or close to Santa Monica. Rather, they are traveling roughly 1 ½ hours per day to get to their Coastal Zone jobs, 53 percent of them by car (42 percent traveling alone and 11 percent in carpools). As we showed earlier, daily commutes of this distance place a substantial financial burden on low-wage workers and their families.

**Figure 8.3**  
**PERI Survey of Santa Monica Coastal Zone Workers**

**202 Workers Surveyed**



Source: See Table 8.10.

**Table 8.10**  
**Breakdown of Job Categories for**  
**Workers in PERI Worker Survey**

Industry/Occupation	Number Surveyed
<b>Hotel Workers</b>	61
Bellman	
Busser	
Cashier	
Cleaner	
Cook	
Dishwasher	
Housekeeping	
Laundry	
Telephone Operator	
Valet Parking	
Waiter	
<b>Restaurant Workers</b>	53
Busser	
Cleaner	
Cook	
Dishwasher	
Food Preparation	
Food Run	
Host/Hostess	
Server	
Telephone Operator	
Valet Parking	
<b>Retail Workers</b>	39
Cashier	
Loss Prevention	
Sales	
Stockroom	
<b>Other</b>	49
Assisted Living Aid	
Attendant	
Cashier	
Dishwasher	
Food Service	
Housekeeping	
Janitor/Groundskeeper	
Nurse's Aid	
Ride/Games Attendant	
Server	
Stock Broker	

Source: PERI Survey of Santa Monica Coastal Zone Workers (2000).

**Table 8.11**  
**Basic Demographics of Low-Wage Workers in Santa Monica**

	<b>Totals</b>	<b>Hourly Wage Rate Categories</b>			
	<b>\$5.75-\$10.75</b>	<b>\$5.75-\$7.40</b>	<b>\$7.41-\$9.10</b>	<b>\$9.11-\$10.75</b>	<b>+\$10.75</b>
Number of Workers	202	69	78	23	32
Percentage of Total	100.0%	34.2%	38.6%	11.4%	15.8%
Average Round-trip Commuter (minutes)	87.3	95.0	90.3	85.4	60.7
Average Age	32.6	28.1	35.1	33.9	35.0
Percentage Teenagers	14.4%	29.0%	9.0%	8.7%	0.0%
Estimated Labor Force Tenure (years)	17.0	12.6	19.4	18.9	18.7
Percentage Female	39.1%	34.8%	48.7%	34.8%	28.1%
Percentage Hispanic	76.7%	78.3%	76.9%	87.0%	65.6%
Percentage Non-White (excluding Hispanic)	14.9%	20.3%	16.7%	8.7%	3.2%

Source: PERI Survey of Santa Monica Coastal Zone Workers (2000).

The average age of those in our survey is 32.6 years. This is lower than for the full Los Angeles Survey, in which the average age was 35.4. The most significant difference between the two samples is that the Santa Monica survey includes a substantially higher proportion of teenagers, 14.4 percent in total. As we saw earlier, the proportion for teenagers from our LA CPS sample was 4.1 percent, but a more accurate figure that would include all working teenagers would be 6.8 percent. The largest concentration of teenagers in the Santa Monica sample are in the \$5.75-7.10 wage category, where they comprise 29 percent of the total. Over half of the teenagers in the sample are working at retail outlets. Given the large number of retail outlets in the Coastal Zone, it is not surprising that the Santa Monica survey would include a higher proportion of teenagers than would a random sample of workers in all businesses throughout the Los Angeles area.

Though the percentage of teenagers in our sample is high relative to the LA survey, it is still the case that 85.6 percent of the workers in our survey are adults who have labor market tenure for an average of 17 years. As such, the jobs held by the large majority of low-wage Santa Monica workers, as with the larger LA sample, reflect these workers' long-term occupational trajectory.

In terms of other basic demographic data, Table 8.11 also shows that over 75 percent of the workers surveyed are Hispanic, and roughly 40 percent are female.

#### Wages and Earnings.

Here we focus on workers earning between \$5.75 and \$10.75 an hour, including tips and commissions. We divide these workers into our three basic wage categories. Figures on wages and incomes are presented in Table 8.12. As we see, median wages in the three categories are \$6.25, \$8.00, and \$9.94 respectively. The mean figures deviate only slightly from the medians, showing that there are not large outliers in our sample.

There are large disparities in the number of hours these workers are employed. Those in the low and high wage categories work 1530 and 1633 hours per year on average, i.e. well below

**Table 8.12**  
**Wages and Annual Earnings of Workers**  
**in Santa Monica Worker Sample, 1999**

	<b>Hourly Wage Rate Categories</b>		
	<u>\$5.75-\$7.40</u>	<u>\$7.41-\$9.10</u>	<u>\$9.11-\$10.75</u>
Hourly Wage (1999 dollars)			
Median	\$6.25	\$8.00	\$9.94
Mean	\$6.41	\$8.16	\$9.84
Average Hours/Week	36.6	41.7	36.2
Average Weeks/Year	41.8	47.1	45.1
Total Yearly Hours Worked	1,530	1,964	1,633
Annual Earnings (1999 dollars)			
Median	\$10,426	\$16,170	\$17,746
Mean	\$9,912	\$16,252	\$16,121

Source: PERI Survey of Santa Monica Coastal Zone Workers (2000)

the 2000 hours that we would define as full-time employment. However, workers in the \$7.41-9.40 category are employed nearly full-time. Indeed, workers in this category have a 41.7 hour work week, though they are employed only 47 weeks per year. The reason for the long workweek for this category is the presence of one outlier, working 88 hours a week.<sup>46</sup>

The figures for wages and working year generate our median and mean figures for annual earnings. The medians are \$10,426, \$16,170, and \$17,746 respectively, and the means deviate only slightly from these figures. The fact that the middle wage category has a slightly higher mean earning figure than those at \$9.11- \$10.75 is clearly the result of workers in the middle category also having a longer working year. But we do also see with these figures that this small anomaly is reversed with the median earnings figures.

The annual earnings figures are somewhat different than those generated by the LA-CPS survey. But especially as regards the two lower wage categories, these differences are not substantial. As such, the general convergence between earnings figures in the two samples and supports the conclusion that our Santa Monica sample figures are reliable. Considered more generally, between the two separate samples, the evidence is strong that we have constructed an accurate picture of the earnings situation for low-wage workers employed in the Santa Monica Coastal Zone.

#### Family Structures and Incomes

In Table 8.13, we see evidence on family size and household arrangements for workers in our sample. Again, there are small differences here relative to the Los Angeles survey, but nothing dramatic. Average family sizes are a bit smaller than with the Los Angeles sample--3.5 versus 3.8 people, but the number of working members is slightly less (1.9 versus 2.1 earners). Adding these factors up, the dependency ratio in the Santa Monica sample is basically the same as that for LA. For all workers in our sample, the average dependency ratio is 1.8, meaning that

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<sup>46</sup> For the \$5.75 – 7.50 category, the maximum workweek is 75 hours and for \$9.11 - \$10.75, the maximum is 58.

**Table 8.13**  
**Family Structures and Incomes of Santa Monica Worker Sample**

	Totals	Hourly Wage Rate Categories		
		\$5.75-\$7.10	\$7.41-\$9.10	\$9.11-\$10.75
Average Family Size	3.5	3.7	3.5	3.4
Average Number of Wage-Earners per Family	1.9	2.2	1.7	1.8
Average Dependency Ratio (Family Size/Number of Wage-Earners)	1.8	1.7	2.1	1.9
Family Income (1999 dollars)				
Median	\$23,500	\$19,000	\$20,000	\$25,000
Mean	\$27,444	\$21,293	\$27,850	\$28,587
Percentage of Total Family Income Contributed by Worker in Survey				
Median		66.2%	88.3%	56.8%
Mean		85.4%	92.8%	74.0%

Source: PERI Survey of Santa Monica Coastal Zone Workers (2000)

each worker supports 1.8 people through his/her earnings. This figure then ranges from 1.7 for the \$5.75 – \$7.10 workers to 2.1 for the \$7.11 to 9.40 workers.

We finally consider in Table 8.13 the figures for overall family incomes and the share of that income contributed by the workers in our sample. According to the median figures, family incomes range between \$19,000-25,000. The somewhat higher mean figures range between \$21,293 and \$28,587. The workers' contribution to this overall family income is substantially over 50 percent for all three wage categories, and regardless of whether we observe medians or means. The figures rise as high as roughly 90 percent for workers in the \$7.41- \$9.10 category, again reflecting the longer working year for workers in this category.

As a summary of our results from both the LA-CPS and Santa Monica surveys, Table 8.14 compares earnings and income figures for both samples. As we show in this table, the family income figures from the Santa Monica survey are about one-third lower than those we reported for Los Angeles. This disparity is much larger than differences in individual worker earnings between the two samples, which, as also shown in the table, were negligible between the two surveys. Still, this income differential is broadly consistent with the fact that the average family size for workers in the Santa Monica survey was about 10 percent smaller than those in our Los Angeles sample.<sup>47</sup> Another factor in this disparity may be that workers in the Santa Monica sample may have been less scrupulous in reporting sources of unearned income than those in the official U.S. government sample from which the Los Angeles figures are drawn.

Even after we recognize these sources of disparity between our two sets of income figures, we nevertheless reach the same basic conclusion about the living standard of families in the Santa Monica sample as we did with the Los Angeles sample—i.e. that the majority of

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<sup>47</sup> We should note here that the higher concentration of teenagers in this sample does not contribute to either the somewhat smaller average family size, since, the teenagers live in families that average 3.9 people. The median family income for the families with teenagers is also higher, but, at \$30,000, not dramatically above the overall median of \$23,500. Indeed, the median \$8,905 contributions of the teenagers to their families' incomes is itself a major factor in raising these families overall income above the sample median.

**Table 8.14**  
**Workers Earnings and Family Income Figures from**  
**Santa Monica Survey Relative to Los Angeles Survey**

	<b>Hourly Wage Rate Categories</b>		
	<u>\$5.75-\$7.40</u>	<u>\$7.41-\$9.10</u>	<u>\$9.11-\$10.75</u>
<b>Worker Earnings</b>			
Median Worker Earnings (1999 dollars)			
Santa Monica Survey	\$10,426	\$16,170	\$17,716
Los Angeles Survey	\$12,700	\$16,256	\$20,320
Santa Monica Figures as Percentage of Los Angeles Figures	82.1%	99.5%	87.2%
<b>Family Income</b>			
Median Incomes (1999 dollars)			
Santa Monica Survey	\$19,000	\$20,000	\$25,000
Los Angeles Survey	\$28,735	\$30,691	\$37,287
Santa Monica Figures as Percentage of Los Angeles Figures	66.1%	65.2%	67.0%

Source: See Tables 5.6, 5.7, 5.12, and 5.13.

families of low-wage Santa Monica workers are living in conditions of poverty or near poverty, and that their overall income levels do not bring them close to a basic needs living standard. We can see this from the comparative statistics presented in Figure 8.4. Here we first present again the median family incomes for workers in the two lower wage categories in the Santa Monica survey. We then present figures for poverty-level incomes and the basic needs income threshold. However, unlike the comparable figure that we presented for the Los Angeles sample (Figure 8.2), here we report living wage thresholds for a family of three rather than four. We do this in recognition of the smaller average family size for workers in the Santa Monica survey, even though the average size, at 3.5 people, is actually midway between a three- and four-person family. But we also want to take account of the possibility that workers in the Santa Monica sample may have neglected to include some sources of unearned income in estimating their overall family incomes.

Comparing the median income levels for the lower wage categories relative to our three-person poverty-line and basic needs thresholds, we see that the average family with low-wage workers fares very badly. The median family incomes for both the \$5.75- \$7.40 and \$7.41- \$9.10 workers are below the three-person Los Angeles poverty threshold of \$21,475. These family income levels are also barely more than half the amount needed to purchase a basic needs living standard. Overall, 82.4 percent of the families in our survey live below their respective basic needs thresholds.<sup>48</sup>

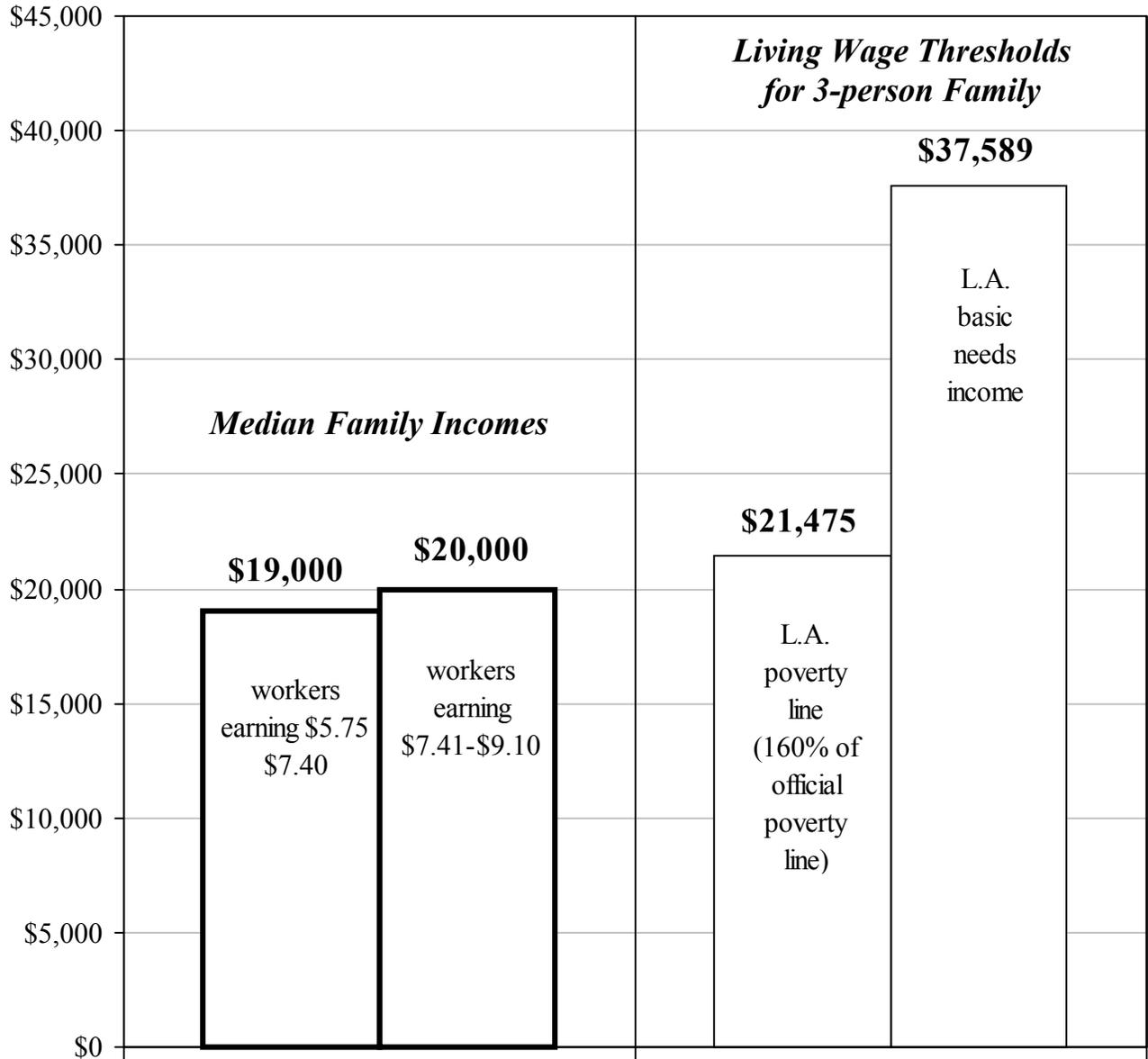
### Conclusion

We are now in a position to pull together our main findings from the survey of Coastal Zone workers. We first of all are confident that the survey is a basically reliable representation of conditions for low-wage workers in the Coastal Zone. Though the sample was not drawn at random, we were able to bring together a wide range of workers employed at the major

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<sup>48</sup> Because we have basic needs threshold figures only for the three family types presented in the California Budget Project study, the proportion below these thresholds applies only to those three family types.

**Figure 8.4**  
**Incomes of Families of Low-Wage Workers in Santa Monica**  
**Relative to Living Wage Income Thresholds (1999 dollars)**



Source: See Tables 8.3 and 8.14.

businesses located within the Coastal Zone. Our confidence in the sample results is strengthened by the fact that the orders of magnitude for our data are consistent with the data from the Los Angeles survey, which is a large random sample conducted by the Census Bureau.

What, then, do we learn from the Santa Monica sample? First, that most of these workers are on their long-term employment trajectory. They are commuting considerable distances to their Coastal Zone jobs, and this drive is absorbing a significant portion of their earnings. For the most part, they are not teenagers or second-income earners living in middle-class circumstances. Rather, these workers are living with families, and they are supporting, on average, one additional person with the income they receive from their jobs. Finally, these workers are mostly poor or near poor. Virtually none of them live in families whose overall income level would support a basic needs living standard in the Los Angeles area. This conclusion is strongly supported by our overall results, even after we make allowances for the possibility that workers might have underreported sources of unearned income.

### **C. Living Wage Programs and Family Living Standards**

How would a living wage ordinance affect the living standards of the covered workers and their families in Santa Monica? We have seen that the majority of low-wage workers live in families in which they are not the only income earner. This means that we have to show how much overall family income changes after accounting for all the family's income sources. Moreover, the family's overall size and combined earnings level, rather than just the covered worker's wage income, will establish the family's tax obligations and eligibility for government subsidies.

To provide a sense of how the living wage proposals would affect the average families in our survey, we construct two prototypical family types from mean and median figures that incorporate all workers in our surveys earning between \$5.75 and \$10.75.<sup>49</sup> Table 8.15 shows the

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<sup>49</sup> The benefits accrued to workers and their families due to various living wage increases were calculated based on information from federal and state government agencies, including federal and state taxes, food

**Table 8.15**  
**Prototypical Low-wage Families Drawn from**  
**Los Angeles and Santa Monica Worker Surveys**

<b>Family Income</b>	<b>Family 1</b>	<b>Family 2</b>
Wages of surveyed worker	\$7.50	\$8.00
Annual hours of work	1900	1900
Worker's yearly earnings	\$14,250	\$15,200
Total family earnings	\$20,000	\$26,000
Worker's share of family earnings	71%	58%
Family members	2 adults, 1 child	2 adults, 2 children
<b>Surveyed Worker's Benefits</b>		
Health Coverage	No	Yes
Paid Days Off	8	8

two family profiles. We have given these families somewhat different characteristics. In Family 1, the worker in the family, who corresponds roughly to the average worker in our Santa Monica worker survey, earns \$7.50 an hour, has no private health insurance, and lives with one additional adult and one child. This worker provides 71 percent to the family's total earnings. The Family 2 worker, corresponding more closely to the average worker in the LA-CPS survey, earns \$8.00 an hour, does carry private health insurance, and lives with three other people, including two children. The Family 2 worker contributes 58 percent to the family's overall earnings. Making these distinctions between the two families enables us to observe how a given living wage ordinance will have a variable effect, depending on the family situation of the covered worker.<sup>50</sup>

We consider the impact on these two families of three living wage levels—\$8.25, \$9.50, and \$10.75, with Table 8.16 presenting the situation for Family 1 and Table 8.17 showing results for Family 2. In both cases, we assume that the covered worker is the only member of the family receiving a raise. All other family earnings remain fixed. We also assume that the covered worker continues to be employed at the same job working 1900 hours annually. We have considered separately in Chapter 5 how the employment status of covered workers might change through implementing a living wage ordinance.

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stamps and Medi-CAL, including the Health Families program. Details of how these calculations were done can be found in Pollin and Luce (2000). Sources include: Internal Revenue Service, U.S. Government, *1999 Individual Tax Return Form 1040A*; California Franchise Tax Board, State of California, *1999 Resident Personal Income Tax Booklet Form 540A*; Food and Nutrition Services, U.S. Department of Agriculture, *Food Stamp Regulations*, [www.usda.gov](http://www.usda.gov); Department of Health Services, State of California, *Healthy Families Handbook*; Department of Health Services, State of California, *Medicaid Coverage*

<sup>50</sup> Neumark and Adams (2000), among others, have correctly criticized our previous work on this issue for having constructed living wage impact scenarios based on family types that were not drawn from average characteristics of low-income families. We are fortunate in this project to have had the opportunity to look more thoroughly into this question. At the same time, we should be clear that the scenario we seek to portray here would apply only to those families for whom one working member did receive a living wage increase. These prototypical families are not meant to portray the situation for the average low-wage family in the Los Angeles area, the overwhelming majority of whom would not be affected by the ordinances now being considered. The scenario would also not apply to the families of low-wage workers within the Coastal Zone itself that are employed by firms either with less than \$3 million in gross receipts or are exempt from coverage through a tipped worker provision.

**Table 8.16**  
**Family 1: Change in Living Standard Under Three Living Wage Scenarios**

	<u>Wage = \$7.50/hour</u>		<u>Wage = \$8.25/hour</u>		<u>Wage = \$9.50/hour</u>		<u>Wage = \$10.75/hour</u>	
<i>Family Income</i>								
<b>1. Worker annual earnings</b>	\$14,250	--	\$15,675		\$18,050	+26.7%	\$20,425	+43.3%
<i>percentage increase from \$7.50</i>	--		+10.0%					
<b>2. Gross Family Earnings</b>	\$20,000	--	\$21,425	+7.1%	\$23,800	+19.0%	\$26,175	+30.9%
<i>percentage increase from \$7.50</i>	--							
<b>3. Federal income tax</b>	\$686		\$896		\$1,256		\$1,609	
<b>4. FICA tax</b>	\$1,530		\$1,639		\$1,821		\$2,002	
<b>5. California state income tax</b>	0		0		0		0	
<b>6. State disability insurance</b>	\$160		\$171		\$190		\$209	
<b>7. After-tax earned income</b>	\$17,624	--	\$18,719		\$20,533		\$22,354	
[rows 2 - (3+4+5+6)]		--						
<i>percentage increase from \$7.50</i>	--		+6.2%		+16.5%		+26.8	
<b>8. Earned Income Tax Credit</b>	\$1,103		\$879		\$496		\$120	
<b>9. Disposable income</b> [rows	\$18,727		\$19,598		\$21,029		\$22,474	
7+8] <i>percentage</i>		--	+4.6%					
<i>increase from \$7.50</i>	---				+12.3%		+20.0%	
<i>Surveyed Worker's Benefits</i>								
<b>10. Paid days off</b>	8		15		15		15	
<b>11. Private health insurance</b>	0		\$2,375		\$2,375		\$2,375	

**Table 8.17**  
**Family 2: Change in Living Standard Under Three Living Wage Scenarios**

	<u>Wage = \$8.00/hour</u>		<u>Wage = \$8.25/hour</u>		<u>Wage = \$9.50/hour</u>		<u>Wage = \$10.75/hour</u>	
<i>Family Income</i>								
<b>1. Worker annual earnings</b>	\$15,200	--	\$15,675	+3.1%	\$18,050	+18.7%	\$20,425	+34.4%
<i>percentage increase from \$7.50</i>	--							
<b>2. Gross family earnings</b>	\$26,000	--	\$26,475	+1.8%	\$28,850	+11.0%	\$31,225	+20.1%
<i>percentage increase from \$8.00</i>	--							
<b>3. Federal income tax</b>	\$1,174		\$1,241		\$1,601		\$1,954	
<b>4. FICA tax</b>	\$1,989		\$2,025		\$2,207		\$2,389	
<b>5. California state income tax</b>	0		0		0		0	
<b>6. State disability insurance</b>	\$208		\$212		\$231		\$250	
<b>7. After-tax earned income</b>	\$22,629	--	\$22,997		\$24,811		\$26,632	
[rows 2 - (3+4+5+ 6)]		--						
<i>percentage increase from \$7.50</i>	--		+1.6%		+9.6%		+17.7%	
<b>8. Earned Income Tax Credit</b>	\$959		\$864		\$359		0	
<b>9. Disposable income [rows 7+8]</b>	<b>\$23,588</b>	--	<b>\$23,861</b>	+1.2%	<b>\$25,170</b>	+6.7%	<b>\$26,632</b>	
<i>percentage increase from \$7.50</i>	---						+12.9%	
<i>Surveyed Worker's Benefits</i>								
<b>10. Paid days off</b>	8		15		15		15	
<b>11. Private health insurance</b>	prior coverage		prior coverage		prior coverage		prior coverage	

Considering first Table 8.16, we see in row 1 the effect of the wage increase on the \$7.50 worker's gross annual earnings. These increases, as we see, range from 10 percent with an \$8.25 ordinance up to 43.3 percent with the \$10.75 measure. We next show the impact of this increase on the rise in the family's gross income. This ranges from a 7.1 percent increase with the \$8.25 ordinance to 30.9% with the \$10.75 ordinance.

Rows 3-5 then show various tax obligations and how they change, according to the amount of the family's income increase. These various tax adjustments enable us to calculate after-tax earned income, which we show in row 6. Here we see the family's after-tax earned income rising between 6.2 and 26.8 percent, according to the three levels of living wage increases.

In the next row, we present the subsidy the family would receive through the federal Earned Income Tax Credit (EITC) program, which provides a cash payment to working families whose total earned income falls below a given threshold level. According to the profile we assigned to Family 1, their EITC payment is \$1,103 with the \$7.50 wage, but drops to \$120 after the raise to \$10.75. Because this family's earned income is over the official poverty line of \$13,423 (in 1999 dollars) for a family of three, it does not qualify for food stamps at any wage level.

In row 9, we present figures for disposable income, after accounting for all tax and subsidy adjustments. We see that disposable income increases between 4.6 percent for the \$8.25 ordinance to 20 percent with the \$10.75 ordinance. Finally, we see the worker's additional benefits in the bottom row: seven additional paid days off and \$2,375 in health.<sup>51</sup>

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<sup>51</sup> We should note here that Family 1, like Family 2, would not qualify for no-cost Medi-Cal coverage under any of the wage-rate scenarios, since families qualify only if their income is below the official poverty threshold. But Family 1 would qualify for the joint state/federal Healthy Families Program under all the wage-rate scenarios. Eligibility for this program, which partially subsidizes the costs of health care for children, requires that a family's income fall below 250 percent of the official poverty threshold. In all cases, therefore, Family 1's status with respect to government supported health insurance programs will not change under any of the three living wage scenarios

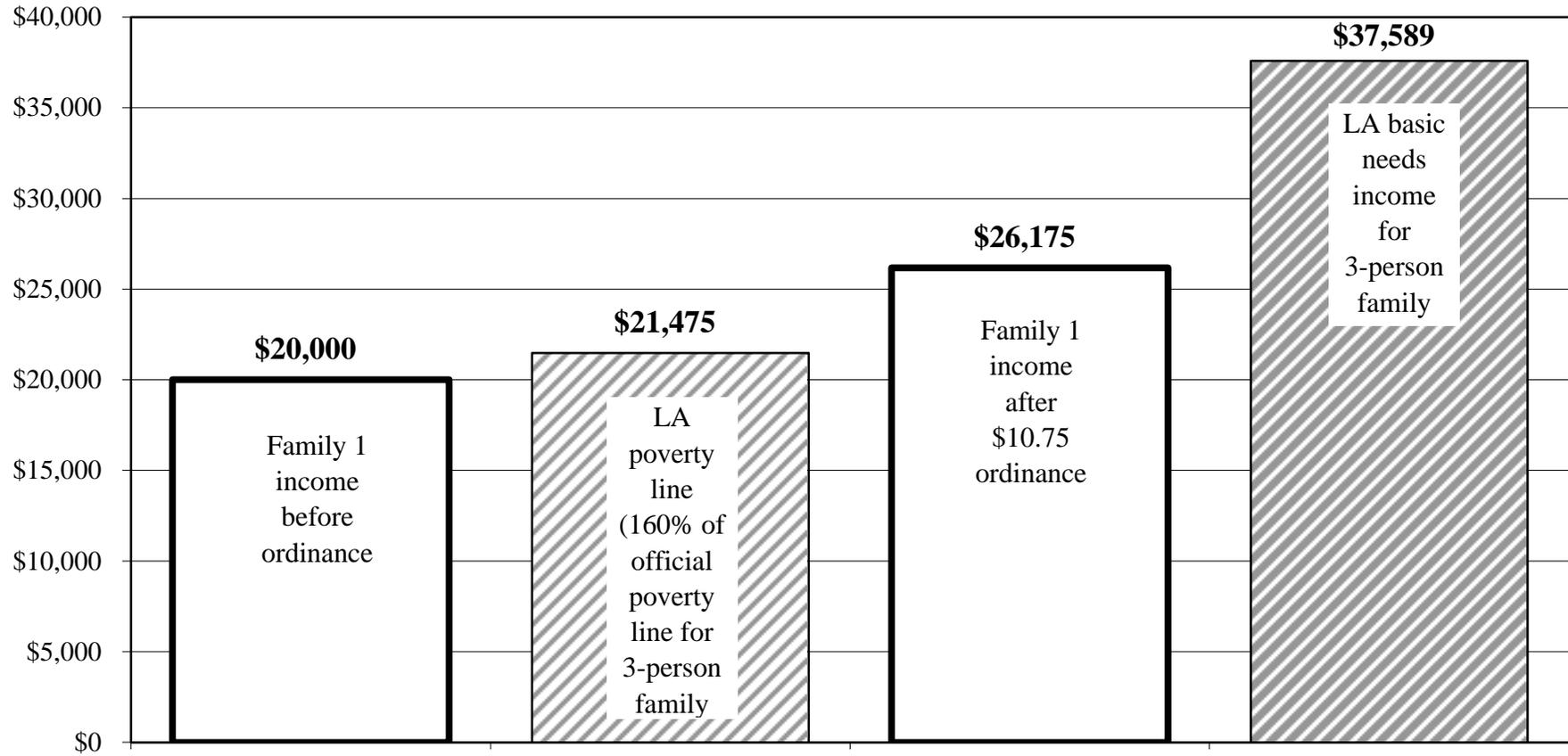
Table 8.17 then repeats the same exercise for our prototypical Family 2. Of course, the increases are smaller under this scenario, especially so under an \$8.25 ordinance. Since our covered worker in Family 2 is already earning \$8.00 wage level—roughly corresponding to the \$7.90 average wage for all \$5.75 - \$10.75 workers in our Los Angeles CPS survey—the disposable income rise for Family 2 generated by the \$8.25 ordinance is a negligible 1.2 percent. On the other hand, even for this higher income family, a raise to \$10.75 yields a 12.9% gain in disposable family income, even given that the family falls out of eligibility for the EITC income supplement.

It will be useful, finally, to observe how the living wage raise will change the living standards of our two prototypical families relative to our poverty and basic needs threshold levels. The relevant figures for Family 1 are shown in Figure 8.5 and those for Family 2 in Figure 8.6. We report family income changes resulting only from a \$10.75 ordinance.

Before implementation of a living wage ordinance, as we see in Figure 8.5, Family 1's income is about \$1,500 below what we have termed the LA poverty line of \$21,475 (all income figures in the figure are pre-tax and transfer, as that is how the poverty thresholds are defined). The \$10.75 ordinance raises the family's income to \$26,175. This 31 percent increase in family income means that Family 1 now lives 22 percent above the LA poverty line. Even after implementation of a \$10.75 ordinance, Family 1 would remain well below the \$37,589 basic needs standard. But raising the family's income significantly above the LA poverty line would no doubt bring tangible benefits to the family.

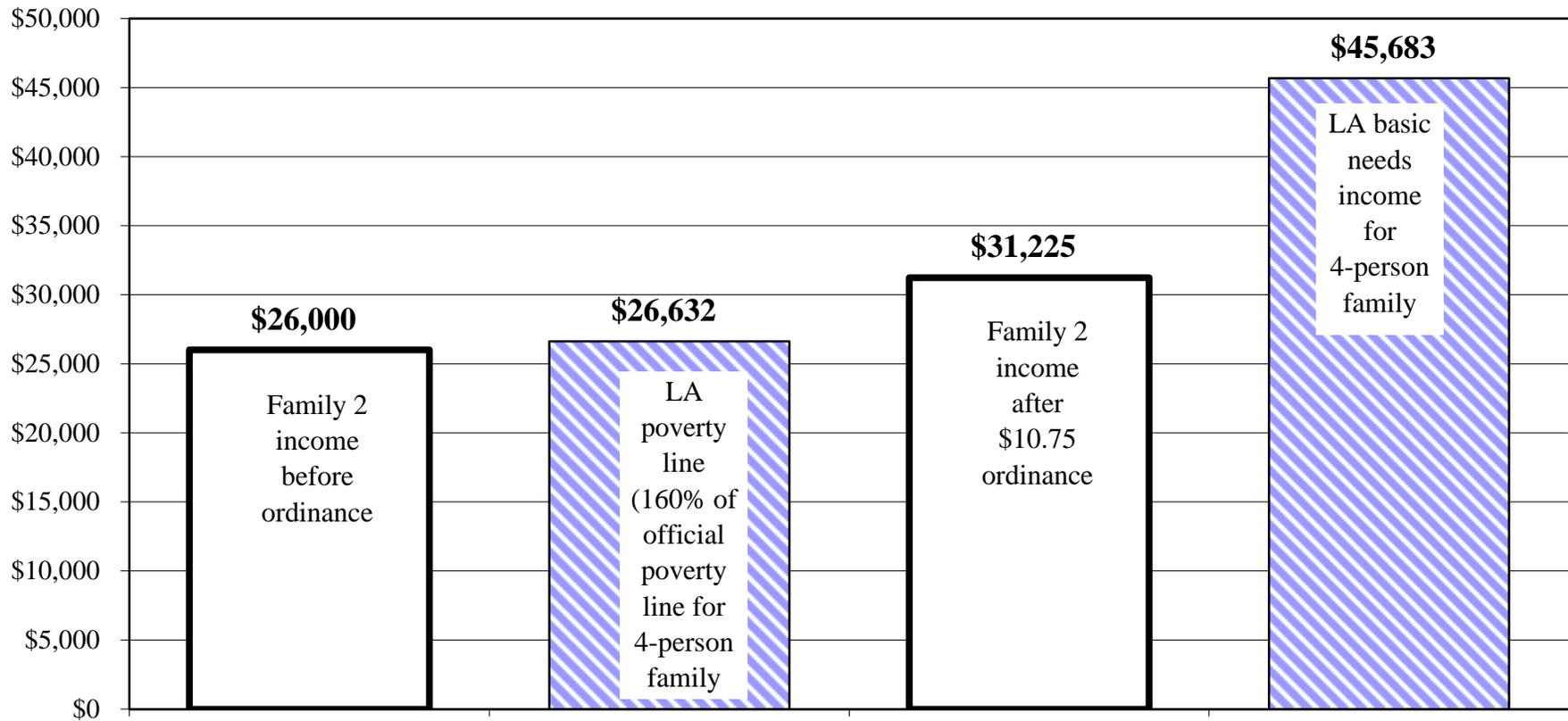
Considering Family 2 in Figure 8.6, their pre-living wage income level of \$26,000 is also below, though now just slightly, our LA four-person poverty line of \$26,632. A \$10.75 ordinance would raise the family's income 20 percent to \$31,225. After the raise, Family 2's income would be 17 percent above the LA poverty line. As with Family 1, they would remain well below the basic needs standard of \$45,683 for a four-person family. Nevertheless, again, the rise above the poverty line itself should provide some significant benefits to Family 2.

**Figure 8.5**  
**Family 1: Change in Living Standard Under \$10.75 Ordinance**  
*(Family income and threshold levels are prior to taxes and subsidies.)*  
**Figures are in 1999 dollars.**



Sources: See Tables 8.3 and 8.16.

**Figure 8.6**  
**Family 2: Change in Living Standard Under \$10.75 Ordinance**  
*(Family income and threshold levels are prior to taxes and subsidies.)*  
*Figures are in 1999 dollars.*



Sources: See Tables 8.3 and 8.17.

### Qualifications on Family Benefits

Having recognized these benefits to workers and their families, we should finally also consider qualifications on such favorable perspectives. We begin by emphasizing the obvious but still crucial point, that workers will only enjoy the gains presented in Tables 8.16 and 8.17 if they are employed at covered jobs. Workers who are uncovered, either because their place of employment is outside the stipulated area or because their job type is exempt from coverage, would receive no direct benefit from a living wage ordinance.

Of course, workers who would be laid off because of a living wage ordinance would also not be counted as among its beneficiaries. And while we anticipate few, if any layoffs per se, we do expect some significant degree of substitution to take place in the covered labor market. As discussed in Chapter 5, a likely pattern over time would be for an increase of between roughly 10 and 20 percent in the covered jobs being held by workers with high school degrees and some college, with a proportionate decline in the percentage held by those without degrees. As better credentialed workers move into the covered jobs, the wage increase they would receive would also likely be lower than those of our Family 1 and 2 workers. As such, the net benefits of the living wage ordinance would be correspondingly smaller to the extent that worker displacements do occur.

Leakages to Government. Even for the Family 1 and 2 workers and their families, the benefits they obtain from a living wage ordinance are lower than the direct wage increases alone might suggest. This is because, as we see in Tables 8.16 and 8.17, when pretax income rises for these families, as with most other families, their tax obligations will also increase and their eligibility for government subsidies will diminish. In Table 8.18, we show the extent of this effect for a \$10.75 ordinance, through collecting the relevant figures from Tables 8.16 and 8.17.

As we see from the first three rows of the table, the families are able to retain only between 56 – 58 percent of the wage increases they would receive through a \$10.75 ordinance. The remaining portion of their raise is absorbed through higher income and payroll taxes and a

**Table 8.18**  
**Leakages Between Pretax and Disposable Income Gains From \$10.75 Ordinance**

	<u>Family 1</u>	<u>Family 2</u>
1. Pretax income increase	\$6,175	\$5,225
2. Disposable income increase	\$3,747	\$3,044
<b>3. Leakage ratio</b> <i>[rows</i> <i>(2)/(1)]</i>	<b>56.2%</b>	<b>58.2%</b>
<b>Federal Government Saving</b>		
4. Higher income taxes	\$943	\$780
5. Higher payroll taxes	\$472	\$400
6. EITC declines	\$983	\$959
<b>State Government Saving</b>		
7. Higher disability insurance	\$49	\$42
<b>TOTAL GOVERNMENT SAVINGS</b> <i>[rows</i> <i>(4) + (5) + (6) + (7)]</i>	<b>\$2,472</b>	<b>\$2,181</b>

decline in the families' eligibility for the federal Earned Income Tax Credit (EITC). The families' California disability insurance payments also increase slightly. Overall, as we see in row 7 of the table, total government absorption amounts to \$2,427 for Family 1 and \$2,181 for Family 2.

As it happens, even before receiving living wage raises, our two prototypical families would be at income levels too high to qualify for food stamps, MediCal, or LA County indigent health care. Had we considered cases of workers at lower initial family income levels, the net gain to the family through a \$10.75 ordinance would be larger, but the leakages of these gains into government savings would also be greater.

From the perspective of government budgeting, of course, these "leakages" appear as benefits. However, the primary beneficiary here would be the federal Treasury, not the City of Santa Monica or even the State of California.

## **CHAPTER 9: CITY POLICIES AND THE LIVING WAGE ORDINANCE**

In this section of the study, we consider a series of policy issues within the City of Santa Monica, as they relate to assessing a living wage ordinance targeted in the City's Coastal Zone. We first examine the City's expenditure policies in the Coastal Zone, to evaluate the relationship between these expenditures and the successful growth in the City's tourist industry since the mid-1980s. We next consider the City's policies that have limited commercial development in the Coastal Zone, particularly as these restrictions apply to the hotel industry. We then consider two additional policy suggestions that have been advanced along with living wage proposals. One is the stipulation incorporated into the Los Angeles living wage law which requires that employers covered under their living wage proposal be obligated to inform their employees about their eligibility for the Earned Income Tax Credit. The other is the proposal by SMART that the City sponsor a hiring hall, to support the job-search efforts of the area's less well-credentialed workers, and especially to help place them in covered jobs within the Coastal Zone.

We next consider how residents of Santa Monica—as opposed to business owners and employees in the City—would be affected by a living wage ordinance. Our study devotes little attention to this issue. The simple explanation is that nothing has emerged in our investigation suggesting that residents would be directly affected to a significant extent, either positively or negatively. We review this issue in this chapter.

The chapter concludes by considering how the City might administer a Coastal Zone ordinance and the costs it would incur in doing so.

### **City Expenditure Policies**

Santa Monica is a city that enjoys tremendous natural advantages—the Pacific Ocean, a beautiful beach, a mild, sunny climate, and proximity to Los Angeles, with all of its various offerings. It is not surprising that the City's Coastal Zone has flourished into a magnet for both business visitors and tourists. As reported by Beverly Moore, Executive Director of the City's Convention and Visitors' Bureau, spending on tourism in Santa Monica has grown from \$200

million in 1983 to \$700 million currently.<sup>52</sup> Considered in inflation-adjusted dollars, this amounts to an average annual growth rate of approximately 7.0 percent, well above the 3.9 percent average real growth rate in national GDP as measured between 1983-99.

By definition, the City's natural advantages do not result from the productive activities of any person, business or government agency. At the same time, it is clear that Santa Monica's Coastal Zone has flourished not only because of its natural advantages. Indeed, the City's prosperous tourism industry only commences in the mid-1980s through a series of major changes in policy. One such measure was the City's decision in 1984 to dramatically revise the Land Use Element of its General Plan to allow hotels to be constructed along its beachfront. Prior to 1984, the entire beachfront had been zoned for residential structures only. At around the same time, the City also undertook a series of expenditures to enhance the beachfront areas, reconstruct the Santa Monica Pier, improve the Coastal Zone parking facilities, establish the Convention and Visitors' Bureau and create the Third Street Promenade.

Have these investments absorbed a disproportionate share of the City's overall budget? This question has been raised in connection with the Coastal Zone living wage proposal. The City's Request For Proposals for the living wage study notes that one argument proponents have made for the Coastal Zone living wage proposal is that the City's investments in this area effectively subsidize the businesses operating in the Zone (p. 3 of RFP).

To evaluate these concerns, we examine the City's expenditures in the Coastal Zone between 1985-99 relative to the City's overall budget. We consider operating expenditures and capital improvements separately in Tables 9.1 and 9.2. In both tables, we present figures both according to budget items and totals for all items. The items are listed in order of the amount of their budgetary totals for the full 15 year period. We also report the City's total budgets over

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<sup>52</sup> These figures are reported on the cover page of a document produced by the Visitors Bureau titled, "Santa Monica Convention & Visitors Bureau FY 2000/2001."

**Table 9.1**  
**City of Santa Monica Operating Expenditures in Coastal Zone, 1985-99**  
(millions of current dollars)

	<u>Full Period</u>	<u>1985-89</u>	<u>1990-94</u>	<u>1995-99</u>
<b>Coastal Zone Totals</b>	102.9	31.7	36.4	34.8
<b>Total Operating Budget</b>	2,194.0	529.5	729.4	935.1
<b>Coastal Zone as % of total operating budget</b>	4.7%	6.0%	5.0%	3.7%
<i><b>Budget Items</b></i>				
Beach Parking/Beach Maintenance	24.8	7.3	8.9	8.6
Pier Management	18.2	8.1	5.5	4.7
Lifeguards/415 PCH facility	16.7	4.9	6.5	5.4
Beach Maintenance	16.5	5.0	6.2	5.2
lease for parking structure	15.7	6.0	5.2	4.6
Convention & Visitor's Bureau	10.6	2.4	4.0	4.2
Harbor Guards	6.6	1.9	2.4	2.3
Bayside District Corp./ Third St. District Corp.	6.1	1.7	2.4	2.1
Promenade & Parking St	1.7	0.6	0.6	0.6
Tide Shuttle Operation	1.2	0.0	0.0	1.2
Beach Detail (over time)	0.5	0.0	0.0	0.5
Pier Detail (over time)	0.2	0.0	0.0	0.2
Pier/Beach Shuttle	0.1	0.0	0.0	0.1
Main street trolley	0.1	0.1	0.0	0.1

Source: City of Santa Monica

**Table 9.2**  
**City of Santa Monica Capital Improvements in Coastal Zone, 1985-99**  
(millions of current dollars)

	<u>Full Period</u>	<u>1985-89</u>	<u>1990-94</u>	<u>1995-99</u>
<b>Coastal Zone Totals</b>	77.5	20.32	15.7	41.4
<b>Total Capital Expenditures</b>	641.2	123.13	119.7	398.4
<b>Coastal Zone as % of total Capital Expenditures</b>	12.1%	16.5%	13.1%	10.4%
<i><b>Budget Items</b></i>				
Pier Reconstruction & improvements	21.1	13.4	2.9	4.7
Downtown Urban Design Plan	8.9	0.0	0.0	8.9
Downtown Transit Mall	8.1	0.0	0.0	8.1
Parking Structure Improvements	7.9	1.8	1.0	5.2
Civic Auditorium Improvements	5.6	2.1	2.0	1.5
Palisades Park	5.1	0.1	5.0	0.0
BIG (Beach Improvement Group)	4.7	0.1	0.0	4.6
Pico Streetscape	3.1	0.0	0.0	3.1
Beach Maintenance Equ.	2.7	0.0	1.0	1.7
Beach Parking Lots'	2.4	0.6	0.7	1.1
Tide Buses	1.3	0.0	0.0	1.3
Bayside District Impr	1.1	0.0	1.1	0.0
OP Blvd Beach Park	0.8	0.5	0.3	0.0
Install Parking Meters in Structures	0.7	0.7	0.0	0.0
Beach Bike Path	0.7	0.2	0.5	0.0

Source: City of Santa Monica

these same years, and show the proportions allocated for the Coastal Zone as a proportion of the overall budget.<sup>53</sup>

Operating Expenditures. As we see in Table 9.1, the City's operating allocation for the Coastal Zone for 1985-99 was \$102.9 million. This amounted to 4.7 percent of the total operating budget for this period. In terms of five-year periods, the Coastal Zone operating budget amounted to 6.0 percent of the total between 1985-89, 5.0 percent in 1990-94, and 3.7 percent in 1995-99. In short, these expenditure proportions for the Coastal Zone are by no means extraordinary, given that the Coastal Zone occupies about 18 percent of Santa Monica's total area of eight square miles. The Coastal Zone is also commercial and tourist hub of the City. Of course, the expenditure areas that we detail in the table as specifically targeted for the Coastal Zone do not include items that incorporate the Coastal Zone as one area within an overall budget, such as the allocations for the fire and police departments. Nevertheless, if we added the Coastal Zone's share of such citywide expenditure items to the total Coastal Zone allocation, it still would not follow that City's operating expenditures have disproportionately favored the Coastal Zone.

Capital Improvements Program. We see a similar pattern with the City's capital improvement investments. Overall, we find that the City allocated \$77.5 million for Coastal Zone capital improvements over 1985-99. This represented 12.1 percent of the City's overall capital budget. For our five year intervals, the Coastal Zone budget amounted to 16.5 percent between 1985-89, 13.1 percent over 1990-94, and 10.4 percent for 1995-99. Again, these percentages are not disproportionate to the City's overall budget.

Of course, one does not obtain a complete picture of budgetary patterns simply by examining percentages within an overall budgetary total. Of special note in this regard, we see that between 1995-99, the overall capital improvements budget rose to \$398 million, which is

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<sup>53</sup> Our figures represent amounts *allocated* by the City on each expenditure item. These amounts can and frequently do differ from the final amounts actually *spent* by the City. Generally these differences are relatively small. In any case, none of the discrepancies between allocations and expenditures, either for the

over 300 percent greater than the allocation between 1990-94. This rapid capital budget expansion primarily covered expenditures on new city buses, wastewater management, the public library investment, and construction of a public safety building.<sup>54</sup> Given these expensive non-Coastal Zone investments, it is not surprising that the Coastal Zone share of the capital budget was at its low of 10.4 percent over 1995-99, even while, in (current) dollar terms, capital spending in these years more than doubled relative to 1990-94.

Another way that these proportionate figures for Coastal Zone spending could be misleading would be if the overall City budget were itself unusually large. In that case, Coastal Zone expenditures might not appear large as a fraction of total expenditures but could still be large relative to what might be typical for a city of this size. To assess this possibility, we have gathered data in Table 9.3 on the city government budgets of other small to medium-sized cities to see if Santa Monica's allocations appear uncommon by comparison.

The data in the table should be regarded only as broadly indicative for our purposes, not precise points of comparison. This is because the budgetary figures for the other cities vary between 1999 and 2001, while the population figures for each city are for 1998. Nevertheless, the figures do provide some useful general perspective.

We see that Santa Monica does have a very high per capita spending level relative to these other cities--Salem, Oregon, Eugene, Oregon, Santa Barbara, California, and Olympia, Washington. This is true whether we consider the per capita Santa Monica budget for 1999 alone, which was \$3,800, or the average budget over the 1995-99 period of \$2,900. Salem is the only city which spends at a comparable level, at \$3,500 for its 2000 budget. Santa Barbara

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operating budget or capital improvements fund, alter our overall assessment of City policies in the Coastal Zone.

<sup>54</sup> The accounting for purchasing the RAND property is not clearly delineated in the City's budgetary documents and may also be included in this increased capital expenditures total.

**Table 9.3**  
**City of Santa Monica Budgetary Expenditures**  
**Relative to Comparable Cities**

	<b>Total Expenditures Per Capita</b> <i>(budget years in parentheses)</i>
<b>Santa Monica</b>	\$2,900 (1995-99) \$3,800 (1999)
<b>Salem, Oregon</b>	\$3,500 (2000)
<b>Eugene, Oregon</b>	\$2,300 (2001)
<b>Santa Barbara, California</b>	\$1,700 (1999)
<b>Olympia, Washington</b>	\$480 (2000)

Sources: For population estimates, U.S. Census Bureau, "Metropolitan Area and Central City Population Estimates" released 30 September 1999 ([www.census.gov/population/estimates/metro-city/ma98-05.txt](http://www.census.gov/population/estimates/metro-city/ma98-05.txt)). For city budgets: Santa Babara, CA ([www.ci.santa-barbara.ca.us/departments/finance/budget/](http://www.ci.santa-barbara.ca.us/departments/finance/budget/)); Eugene, OR ([www.ci.eugene.or.us/ASD/finance/budget/FY01Prop/01budget.htm](http://www.ci.eugene.or.us/ASD/finance/budget/FY01Prop/01budget.htm)); Salem, OR ([www.pacweb.open.org/salembudget/FundSummaries.htm](http://www.pacweb.open.org/salembudget/FundSummaries.htm)); Olympia, WA, personal communication with Director of Finance, July 17, 2000.

spends only about half as much as Santa Monica per capita, despite the broad similarities between the two cities in terms of geography, size, and median income levels.<sup>55</sup>

From this, one might conclude that the Coastal Zone spending levels are indeed very high. But this is only because the City of Santa Monica *overall* is committed to an extensive municipal public sector, covering all areas of the City. The Coastal Zone, and the businesses located within it do benefit from this extensive public sector, but not *disproportionately* to the rest of the City.

### Growth Restriction Policies

While covered Coastal Zone businesses have certainly benefited from City expenditure policies, the actual policy area through which they have benefited to a *disproportionate* extent has been through the City's long-standing commitment to restrictive growth. Of course, the City and its residents have supported restricted commercial development as a means of maintaining the area's environment and sense of scale. The residents of Santa Monica support restrictive growth because of the benefits they themselves receive.

Existing businesses within the Coastal Zone also benefit substantially through such policies. For one thing, it obviously enhances their business that the environment in which they operate remains clean and relatively uncongested. But the more important benefit for existing Coastal Zone businesses, as we discussed in Chapter 5, is that the City's growth restrictions place a limit on the amount of competition that the existing firms face.

As we noted earlier, this is particularly important for the Coastal Zone hotels. The fact that they operate in a protected market has enabled them to raise prices steadily without experiencing declines in demand. Were they operating in some closer approximation to a free

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<sup>55</sup> The two beachfront cities are still quite distinct in that Santa Monica, unlike Santa Barbara, is adjacent to a major city and is thus highly integrated into the larger LA metropolitan area. However, it does not follow that this distinction should necessarily entail either smaller or larger municipal budgets. Among the other cities listed in Table 9.3, Salem, Oregon, which is not adjacent to a major city, has the highest level of expenditures per capita after Santa Monica. Olympia, Washington, however, abuts Seattle, but its expenditures per capita are the lowest for all the cities listed in the table.

market, it is virtually certain that the total supply of rooms in the Coastal Zone would have increased in response to the persistent rise in prices combined with sustained high occupancy rates. The fact that supply does not increase means, in the terminology of economics, that the hotels receive rents through operating in the Coastal Zone.

We have constructed a simple hypothetical exercise to indicate the value for the Coastal Zone hotels of operating in a restricted market (i.e. the amount of their rents). Consider the situation for a prototypical high-end Coastal Zone hotel, whose characteristics are based on averages for the four high-end hotels we described in Table 5.2 earlier. These hotels have an average of 263 rooms. Their average room rate in 1999 was \$229, and their average occupancy rate for the year was 84 percent. Let us now assume that a new competitor hotel is permitted to enter the Coastal Zone market through the City adopting slightly less restrictive growth policies. We assume the effect of this new competitor in the market will be to cause the existing hotel's annual occupancy rate to fall, but by only five percent.

To simplify the scenario and understate its effects, let us round downward the basic figures for our typical high-end hotel. We assume that the hotel has 250 rooms (not 263), that it charges \$200 a night (not \$229) and that its occupancy rate is 80 percent (not 84 percent). Entry into the market by the new competitor firm therefore reduces the existing hotel's occupancy rate to 75 percent (a figure still above the average rate for Los Angeles hotels which, of course, compete in a far less restrictive environment). The hotel's average room price remains fixed at \$200 as does, of course, its supply of rooms.

We show the outcome of this simple exercise in Table 9.4. As we see, with an 80 percent average annual occupancy rate, the hotel's yearly gross revenues are \$14.6 million. When its occupancy rate falls to 75 percent, the hotel's yearly gross revenue drops to \$13.7 million. That is, the decline in the occupancy rate of five percent translates into an annual decline in gross revenue for this hotel of \$900,000.

**Table 9.4**  
**Impact on Gross Revenue of Five Percent Occupancy Rate Decline for**  
**Representative High-end Coastal Zone Hotel**

<i>250 Rooms, Room price is \$250/night</i>		
	<b>Gross Revenue</b>	
<b>80 percent occupancy rate</b>	\$14.6 million	(.8
	<i>occupancy rate) x (250 rooms)</i>	<i>x</i>
	<i>(365 nights)</i>	
<b>75 percent occupancy rate</b>	\$13.7 million	(.75
	<i>occupancy rate) x (250 rooms)</i>	<i>x</i>
	<i>(365 nights)</i>	
<b>Decline in gross revenue</b>	\$900,000	

This exercise indicates the broad level of benefit to the hotels of the City's restrictive growth policies. It happens that this broad level of benefit—in the range of \$1 million per year—is of the same order of magnitude as the costs that the a \$10.75 Coastal Zone ordinance would produce for the average covered hotel. This exercise therefore indicates that the City should consider its restrictive growth policies in addition to its expenditure policies in assessing how the City has provided disproportionate benefits to Coastal Zone businesses.

#### Providing Information on EITC Eligibility

Some living wage proposals, such as the contractors only ordinance operating in Los Angeles, explicitly seek to increase the take-up rate for the Earned Income Tax Credit through providing information about entitlements among employees of covered firms. There is obvious merit to such a proposal. As we saw in profiling our prototypical low-wage Santa Monica families, their EITC payments at the base wage of \$7.50 or \$8.00 are a significant share of the overall family's income. Family 1 receives \$1,103, nearly six percent of its disposable income from their EITC, while Family 2 receives \$959, around four percent of disposable income. There is no reason why families such as these should not receive this entitlement.

However, in comparison with the gains such families could receive through a living wage increase, the benefits available through promoting the EITC are likely to be modest. To begin with, though the evidence is not uniform, it is likely the case that most families eligible for the EITC are already receiving it. Our survey of Santa Monica workers did ask whether their families were receiving EITC payments. Only 8.6 percent responded that they were, which is almost certainly well below the percentage eligible for benefits. One explanation for this low figure is that our respondents may not distinguish between the EITC proper and their general handling of federal income tax returns. Unlike with other government income support programs such as food stamps, EITC payments are calculated straight off of a family's tax returns and checks are sent to recipients as one would a tax refund.

This notion that some workers may already be receiving their EITC benefits without recognizing it as such is supported by careful research on EITC take-up rates. In a 1994 study, John Karl Scholz concluded that, for the United States as a whole, between 75 and 90 percent of those eligible do receive their benefits, with his best estimate of benefit recipients ranging between 80 and 86 percent of those eligible. Scholz also finds that there are good reasons why most of the rest of those eligible for the EITC do not claim their benefits—for example, they are either entitled to a smaller claim, or earn most of their living through self-employment or in household services occupations, and thus prefer not to file an income tax statement.

Beyond this, even if families are not receiving their EITC entitlement, the amounts that they are forfeiting are, in most cases, small in comparison with the income gains they would receive through a living wage raise. With respect to our prototypical Families 1 and 2, we can see this through the data presented in Table 9.5. This table simply highlights some of the results from our earlier exercise with these two families, shown in Tables 8.16 and 8.17. In this new table, we compare two alternative situations for the two families. In the first situation, the worker in the family receives no wage increase, but the family newly claims its EITC benefit. In the second situation, the family does not receive any EITC payment, but does get a living wage increase. We show the results with living wage increases at \$8.25, \$9.50 and \$10.75.

With Family 1, we see again that the EITC benefit alone brings \$1,103 in additional income. This is almost exactly equal to the gain they obtain through a wage increase to \$8.25, assuming that the family takes no EITC benefit along with the wage increase. But the income gains are far greater with the higher living wage increases--\$2,909 for a raise to \$9.50 and \$4,730 with the \$10.75 living wage. Because Family 2 begins at a higher wage and income level, the income gains are somewhat less throughout in their case. But the basic point remains the same—that a living wage increase to \$9.50 or especially \$10.75 will bring substantially larger income increases than claiming an EITC benefit.

**Table 9.5**  
**Family Income Gains Through**  
**Receiving EITC Benefits vs. Living Wage Increases**

	<i>Family 1:</i> \$7.50 initial wage for covered worker	<i>Family 2:</i> \$8.00 initial wage for covered worker
<b>EITC benefits at initial wage</b>	+ \$1,103 6.3%	+ \$959 4.2%
<b>\$8.25 wage with no EITC</b>	+ \$1,095 6.2%	+ \$ 386 1.6%
<b>\$9.50 wage with no EITC</b>	+ \$2,909 16.5%	+ \$2,182 9.6%
<b>\$10.75 wage with no EITC</b>	+ \$4,730 26.8%	+ \$4,003 17.7%

Source: See Tables 8.16 and 8.17.

One possible way of increasing EITC benefits for low-wage workers in Santa Monica would be for the City to provide supplemental EITC support beyond the federal government provision. Montgomery County, Maryland adopted such a measure in 1999, in response to debates there over a proposed living wage ordinance. But thus far the applicability of the Montgomery County measure for Santa Monica remains limited. Most importantly, the Montgomery County ordinance applies to County residents only. Our survey evidence suggests that most low-wage workers in Santa Monica do not live within the City limits, and would thus not be eligible for support through a Montgomery County-type measure. It is also unlikely that the workers in Santa Monica would be better situated to relocate within Santa Monica because of an EITC supplement at approximately the level of the Montgomery County provision. That provision, at present, averages \$175 per year. If Santa Monica wanted to offer benefits through a supplemental EITC that were roughly equivalent to the average net benefit per family of a \$10.75 living wage ordinance, the costs to the City would be large: about \$9 million per year to reach the approximately 2,500 workers that would be covered through a Coastal Zone measure, and nearly \$27 million per year to provide for the 7,200 workers through a Citywide measure. Such projections make no effort at sorting through whether eligibility would extend workers employed in Santa Monica who are not also residents.

Overall then, despite the benefits that low-wage working families receive through EITC payments, any such initiative along these lines would likely operate more effectively as a complement to, rather than substitute for, a living wage ordinance.

#### Local Hiring Halls

According to the City's RFP, one component of the living wage proposal advanced by SMART, would "give priority to the use of Santa Monica area hiring halls to fill jobs," (p. 3). Presumably, the intention of this provision would be to give local and nearby residents preference in filling openings for covered jobs within the Coastal Zone. As we discussed in Chapter 5, the significantly better wages and benefits that the covered jobs would provide means that the job

applicant pool for these positions is likely to include people with better educational and English language credentials, and perhaps also better job networking contacts. The data from Chapter 5 suggest that the applicant pool for covered jobs could include as many as 25 percent more people with high school degrees and English as a first language than would be the case for uncovered low-wage jobs in the Coastal Zone. We also concluded that perhaps 10 to 20 percent more people with high school degrees and some college would displace a comparable proportion of workers without degrees. But through channeling openings for the covered jobs through local hiring halls, the City could provide better opportunities for workers that are somewhat less well credentialed or connected, though still obviously qualified, to have a fair opportunity to be considered for these jobs.

To obtain a clearer sense of how such an assessment might operate in Santa Monica, we interviewed representatives of four Santa Monica offices already supported by the City that place workers in Coastal Zone jobs: the Chrysallis Labor Connection, whose main clientele are low-wage people as well as the homeless; New Directions, which focuses on referrals for veterans; Santa Monica High School Alliance, and Santa Monica College, these latter two providing job services for students. Given that no living wage ordinance had been drafted, much less enacted, it is not surprising that, when we spoke to these representatives, they were uncertain as to how their work and the prospects for their clients would be affected by a living wage ordinance. In particular, they expressed mixed views as to how improving the wages and benefits for Coastal Zone jobs might alter their ability to place people in these jobs. Some thought job placement could become more difficult, while others did not. Some also expressed the view that their clients deserved the opportunity for better positions. The representative from Santa Monica College said that, for the most part, college students were not interested in Coastal Zone jobs at present because the pay was too low, but might become interested at higher wages.

Cities throughout the country have enacted similar measures in association with living wage ordinances and other related measures. For example, the Boston living wage ordinance

includes a hiring hall component. Specifically, there is a “first source” clause in the ordinance, which stipulates that any living wage job must be listed at one of the five designated career centers within five days of the job becoming available. However, there is no quota as to how many of these jobs should be filled through the five career centers. As yet, this program has had few referrals, in part because the program is new, but more importantly because the unemployment rate in Boston is low. Thus, low-wage workers are employed at minimum wage jobs, and are probably unaware of the possibilities of obtaining a better position through this hiring hall program.

Two cities where community employment programs have been successful are Minneapolis, Minnesota and Portland, Oregon. Since 1982, the Minneapolis Neighborhood Employment Network (NET) has maintained a group of job banks in targeted areas of the city to help match disadvantaged job seekers with employment opportunities. On average, NET has placed around 1,000 workers per year. Job opportunities are disseminated by fax and computer networks. Emergency cash loan and training programs are also part of the NET program. A single staff person in the mayor’s office coordinates NET, while trained facilitators staff the job banks. The approved NET budget for 1999 was \$87,000; this funding was provided by foundations and corporate contributions.

In Portland, the “JobNet” program was created in 1979 by the City Council and implemented by the Portland Development Commission. Incentives, such as tax abatements or relocation assistance, are tied to participation. The program is basically a first source ordinance with the Development Commission acting as the agency gathering information on job openings and requirements. As part of the agreement, disadvantaged job seekers are given exclusive access to the information. The information is disseminated through community-based organizations and employment agencies that gather and maintain information about potential employees.

It appears that, overall, Santa Monica could draw from these different models to craft a provision that builds on the City’s existing relationship with local employment referral service

firms. This could be an important component of a Coastal Zone ordinance, if one of the goals of such an ordinance is to provide disadvantaged workers with good opportunities at being placed in the covered jobs. Without this type of provision in the ordinance, the likelihood is high, as we have said, that modest displacement of less-well credentialed for better credentialed workers would result. It appears also that such a provision could be run at a relatively low cost. Using the \$87,000 budget in Minneapolis as a comparison, it is probable that an effective program in Santa Monica, covering a much smaller city and fewer workers, could be provided for less than half that amount.

#### Impact of Ordinance on City Residents

By far the largest impacts of the ordinance would be felt, at least initially, by the covered low-wage workers and business owners in Santa Monica. To the extent that either low-wage workers or business owners are also residents of the City, they would be included as among those most heavily affected by the ordinance. But again, our evidence suggests that most low-wage workers that we surveyed live outside the City. Correspondingly, most of the Coastal Zone hotels are owned by large corporate chains.

Short of being either covered workers or owners, Santa Monica residents would be mildly influenced by an ordinance through several channels.

First, because we would not expect them to vacation locally, they would not be affected by any price increases by the Coastal Zone hotels. But they would face higher restaurant prices, at least as the entities experiencing sales greater than \$3 million. If the covered restaurants did move aggressively to raise prices, it is also possible that their local competitors might also increase prices, making the area less affordable for local residents.

In addition, any costs absorbed by the city in the administration of this program could entail either higher taxes or cuts in government services. But these costs, on the order of \$200 - \$300,000 should be relatively small within an overall City budget of around \$340 million.

On the other hand, assuming firms could get their price increases to stick, this would imply higher gross revenues, which in turn means larger City budgets. Those increased budgets could then be spent enhancing the quality of life for Santa Monica residents.

Finally, at a less tangible level, city residents might benefit through promoting more diversity in the City, assuming that at least some of the covered workers could afford to move into the City after receiving a living wage raise. City residents may also simply desire to provide assistance to the area's low-wage workers, and are willing to reduce their own living standards by a small amount to achieve this end.

#### Monitoring and Implementation of Living Wage Ordinance

Finally, we consider procedures through which the City would administer the living wage ordinance. Three areas of City policy would need to be addressed: the collection, verification and analysis of relevant data on firms' gross receipts; the dissemination of information on the ordinance at the work sites of the covered firms; and procedures both for monitoring compliance and enforcing the law.

Data Collection, Verification and Analysis. One advantage of working from a sales, rather than employment, threshold is that identifying covered firms can be accomplished readily from the existing databases collected by the City. The city currently collects information on firms' gross receipts, which are used to set fees for business licenses. These data could also serve to identify which businesses fall within the established coverage threshold.

Still, problems will arise in utilizing this database. First, it is likely that current City staff that processes business license applications and maintains the City's business database will not have the administrative capacity to also oversee the identification of covered businesses. This is especially true, given that, even now, a significant proportion of businesses do not complete all sections of their business license application. To fairly and accurately establish which firms would be covered by a sales threshold, the City would have to ensure that all firms complete their license applications before obtaining their licenses. This will require additional staff

Also, as a cross-check to these license applications, the City should make some effort to compare the gross receipts filings on the license forms with sales tax data from the State Board of Equalization. This would be especially pertinent for firms that are operating at levels close to the established sales threshold. In all, we expect that these additional administrative duties will require something on the order of one and a half new full-time positions.

Information Dissemination. As with the national and state minimum wage laws, as well as most living wage ordinances, the City should establish that all covered businesses would need to post notices in the workplace about the features of the law. As has been the case with the Los Angeles living wage ordinance, the City may also wish to pursue a more proactive role in disseminating information on the ordinance. We expect that much of these efforts can be administered within the ongoing work of the City's Division of Human Services. Again, though, up to one additional half-time staff position may be necessary to carry out this extra workload effectively.

Complaint Investigation, Monitoring and Non-Compliance. As Stephanie Luce has demonstrated (1999), monitoring an ordinance that has already passed into law presents its own set of problems. We expect any system that the city constructs will not entail comprehensive monitoring of businesses, but will rather depend on periodic spot-checking and a complaint-driven investigation system. But even maintaining a system of monitoring at this relatively low-key level will still absorb staff time, likely between one-half and one full additional staff position. In cases of non-compliance, we assume that the City would develop effective enforcement procedures. One useful parallel might be with the procedures in place for health inspections at restaurants.

Overall then, we estimate that the City would require between two to three additional staff positions to administer a Coastal Zone living wage ordinance effectively. Staffing needs would rise to approximately 3-4 to effectively manage a Citywide measure.

## APPENDIX 1: AN OVERVIEW OF RECENT LIVING WAGE ORDINANCES

This appendix offers a listing and overview of living wage initiatives that have passed around the country in recent years. It also provides some perspective on what has been the impact thus far of these initiatives.

Initiatives to establish and raise minimum wages, at the local, state and national levels, as well as for particular industries, is hardly a new phenomenon in the United States. The first statewide minimum wage law was passed in Massachusetts in 1912. Over the next decade, sixteen states and the District of Columbia followed with similar laws. The first national minimum wage regulations were enacted as part of the Fair Labor Standards Act of 1938.

The national Davis-Bacon law and the “little Davis Bacons” are the best-known minimum wage laws with more narrow coverage. These established “prevailing wage” standards for construction firms working under government contracts. The 1931 federal prevailing wage law was sponsored by Republican senator James J. Davis from Pennsylvania, a former Secretary of Labor and Rep. Robert L. Bacon, a Republican banker from New York, and was signed into law that year by Herbert Hoover. Seven states preceded the federal government in creating a prevailing wage minimum for government construction projects. The first state law was passed in 1891 in Kansas. Overall, forty-two states at one time had prevailing wage standards—“little Davis-Bacon” laws—in place.

The recent wave of municipal living wage legislation began in Baltimore in 1994. The ordinance there stipulated that firms holding service contracts with the city pay a minimum wage that began at \$6.10 an hour in 1996, rising to \$7.70 an hour by 1999. After 1999, Baltimore’s living wage minimum would rise in step with inflation. Since Baltimore, 51 cities, counties, and school districts have passed versions living wage ordinances that are broadly similar to that in Baltimore—that is, they apply primarily to firms either holding service contracts or concession agreements with cities, or are receiving municipal subsidies in some form. At the end of this appendix, we provide a full list of these and related government initiatives in recent years, including the main terms of each legislative act.

It is still too soon to adequately assess the impact of the living wage ordinances already in place. But we are able to report on the relatively small number of research studies that have attempted, in some way, to measure that impact. The studies of which we are aware include two assessments of the Baltimore ordinance. One is by Mark Weisbrot and Michelle Sforza-Roderick (1996) of the Washington, D.C.-based Preamble Center for Public Policy, which examined the Baltimore experience through its first year of operation. Subsequently, a study by Christopher Niedt, Greg Ruiters, Dana Wise and Erica Schoenberger (1998), all of Johns Hopkins University, looks at Baltimore through August 1997. Richard Sander and Sean Lokey of UCLA wrote a preliminary study of the Los Angeles ordinance in November 1998, though no final version of this has been completed to date. Stephanie Luce’s recent doctoral research (1999) has focused on how ongoing efforts in various cities have affected their experiences in implementing legislation that has already passed. Finally, a working paper by David Neumark and Scott Adams (2000) of Michigan State University provides an overview impact assessment of recent living wage laws. They utilize Current Population Survey data to compare wages, employment, and poverty status of workers living in cities, which have implemented living wage laws relative to workers in cities without such laws.

Impact on Businesses and Municipal Governments. In Baltimore, the most recent research by the Johns Hopkins team found that 26 contracts could be directly compared before and after the living wage law went into effect. The aggregate cost increase of the winning contract bids was 1.2 percent, i.e. a total cost increase that is actually below the rate of inflation. There was significant variation in the bidding patterns for the various contracts. Overall though, they conclude, similar to the earlier findings of Weisbrot and Sforza-Roderick, that the impact of Baltimore’s living wage ordinance on contract bidding patterns has been negligible.

Sander and Lokey’s preliminary study of the Los Angeles case found wide variation in terms of post-ordinance bidding patterns. In particular, they found that results varied sharply according to whether contracts were awarded through competitive bidding. When competitive bidding was practiced, which was in about half the cases, costs did not increase, nor were workers laid off. However, when contracts were awarded without competitive bidding, either the businesses were able to pass along to the city nearly the full amount of the wage increase, or the firms reduced the scope of the contracted services. In cases where services were reduced, workers were correspondingly laid off or reassigned, bringing a decline of about three percent in the total number of workers employed on city service contracts.

Assuming these preliminary results by Sander and Lokey are accurate, they demonstrate the importance of having city contracts awarded through competitive bidding only. Without competitive bidding, the awarding of government contracts can easily become corrupted. In such cases, it will be difficult to separate out the impact on bidding patterns of living wage legislation as against the cities' faulty contract awarding procedures.

Impact on Workers. Thus far, the number of workers who have received raises resulting from the living wage ordinances has been small. In Baltimore, where the law was implemented in 1995, the Johns Hopkins researchers estimate that around 1,500 full-time equivalent workers have received mandated raises. In Los Angeles, where the law went into effect in April 1997, Sander and Lokey's preliminary results found that about 675 workers had received mandated raises as of November 1998, and another 750 have gotten raises from firms voluntarily complying with the ordinance before their old contracts, not covered by the law, had expired.

Implementation Stephanie Luce has found that a significant part of the reason that a relatively small number of workers have gotten raises is that implementation has been weak. In many cities, the lengthy disputes have occurred after an ordinance is approved, when detailed regulations are written. For example, before the Boston ordinance was implemented, the city's Chamber of Commerce threatened the city with lawsuits over various features of the law, which then led the city to eliminate some of its provisions. Beyond this, some municipalities provide few resources to monitor implementation. This has enabled some firms to ignore the living wage law until they are forced into compliance.

These early impact findings are consistent with our own projections of the scope of living wage laws under various conditions (Pollin and Luce 2000, Chapter 4). Our projections assumed that all firms covered by such legislation would be in full and immediate compliance with the new laws. Under that assumption, we had estimated that in Los Angeles, about 1,400 workers would be covered by mandate through an ordinance that applied only to city contractors, such as that in Baltimore. We estimated that, at most, 7,600 would be covered by mandate if the law also applied both to firms holding concession agreements with the city and to firms receiving \$1 million, or \$100,000 annually on an ongoing basis for economic development or job creation, as the Los Angeles ordinance actually stipulated.

These living wage impacts would occur in the overall Los Angeles labor force of 4.6 million people, of whom about 1.4 million would be earning below the then mandated living wage.<sup>56</sup> We had thus projected that the type of living wage proposals that were passing into law throughout the country would have virtually no direct effect on conditions for workers overall in any given city, though of course the small fraction of workers that received wages would obviously benefit. This would be so, even if one assumed that compliance with the new laws were universal and immediate, which clearly has not been the case.

Given this assessment of both the projected and actual impact of the various ordinances throughout the country, it is difficult to understand the basic methodology employed in the recent working paper by Neumark and Adams. In constructing their database, Neumark and Adams write as follows:

Using the limited information we have on workers and the scope of city ordinances, we attempted to identify those individuals most likely to work for a company under contract with the city, and therefore covered by their city's living wage legislation. For workers in cities where businesses receiving financial assistance from the city are covered, virtually any non-government worker may work for a company that is subject to the legislation. Therefore, we characterize all private sector workers as being "covered" in these cities (p. 22).

Following their methodology, with Baltimore's relative narrow contractors only type coverage, they assumed that the ordinance covered 14 percent of the city's workforce, though their actual estimates are based on cities' Metropolitan Statistical Area (MSA) figures rather than population size for the city proper. For Baltimore, the 1999 MSA figure for total population is 1,300,325 and the number of workers earning below the 1999 mandated minimum of \$7.70 was about 208,000. Thus, Neumark and Adams are estimating that the Baltimore ordinance covers approximately 29,000 workers, 19 times the figure of 1,500 workers reached by the Johns Hopkins researchers.

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<sup>56</sup> The mandated minimum was \$7.25 when we constructed our estimates and is \$7.72 at present.

Unlike in Baltimore, the Los Angeles ordinance does also cover firms receiving financial assistance from the city, though it is very specific in limiting that coverage only to firms receiving at least \$1 million overall or \$100,000 annually on an ongoing basis for economic development or job creation. Nevertheless Neumark and Adams assume that including this stipulation extends the living wage coverage to *all* private firms in Los Angeles, and therefore that the ordinance covers 87 percent of the Los Angeles workforce. Given that there were approximately 1.4 million workers in the Los Angeles MSA in 1999 earning below the living wage threshold of \$7.70 for that year, the Neumark and Adams methodology would mean that 1.2 million workers are covered by the ordinance. This figure is 162 times greater than our own high-end projection that, assuming universal compliance, the ordinance would cover 7,600 workers in total, and is over 1800 times greater than the Sander and Lokey estimate that 675 workers had actually received mandated raises as of November 1998.

One might assume that Neumark and Adams reach their estimated figures through allowing that that the primary impact of living wage laws has been through powerful ripple effects beyond the small numbers actually mandated for coverage. But they offer no evidence or argument as to how such a ripple effect may be operating. Neumark and Adams are certainly on the right track in trying to estimate the effects of living wage legislation on employment, wages and poverty. But because of the difficulties we see in interpreting their database in this working draft of their research, any detailed consideration of their findings would be premature.

Overall then, the thrust of research to date leads us to conclude that the impact of living wage legislation throughout the country has been quite limited. We would expect that the types of citywide, or even area-wide proposals, such as that for the Santa Monica Coastal Zone, would have a more substantial proportionate effect.

**Living Wage and Similar Measures in the United States, 1991-2000**

This is a catalog of the living wage proposals that have been passed throughout the United States between 1991 and July 2000. We have sought to be comprehensive, but may well have left out some ordinances. Nevertheless, the information here should provide a good sense of the range of recent living wage proposals that have passed into law, both in terms of geographic diversity and the variety of provisions they provide. Note that the wage levels presented here are those in place when the law was enacted. Most wages have subsequently been indexed upward with inflation.

**A1.1 Contractor and Subsidy Living Wage Ordinances**

	<b><u>Place</u></b>	<b><u>Outcome</u></b>	<b><u>Coverage</u></b>	<b><u>Main provisions (All dollar amounts here are per hour).</u></b>
1	Alexandria, VA	Passed 2000	City contracts.	\$9.84 per hour.
2	Baltimore, MD	Passed 1994	Service contracts over \$5,000.	\$6.10 in fiscal year 1996, \$6.60 in fiscal year 1997, \$7.10 in fiscal year 1998, and \$7.70 in fiscal year 1999, subject to Board of Estimates approval.
3	Boston, MA	Passed 1997, amended 1998	Service contracts of at least \$100,000 or subcontracts of at least \$25,000.	\$8.23, indexed annually on July 1 to whichever is higher of the adjusted poverty guidelines or 110 percent of the state minimum wage.
4	Buffalo, NY	Passed 1999	Service contracts and subcontracts over \$50,000 and firms with at least 10 employees.	\$6.22 in 2000, \$7.25 in 2001, and \$8.08 in 2002 with health benefits; or \$7.22, \$8.15, and \$9.08 without benefits.
5	Cambridge, MA	Passed 1999	City employees, service contracts, subcontracts, and subsidies of more than \$10,000.	\$10 indexed annually with the Consumer Price Index.

	<u>Place</u>	<u>Outcome</u>	<u>Coverage</u>	<u>Main provisions (All dollar amounts here are per hour).</u>
6	Chicago, IL	First proposal failed 1997, second passed in 1998	Contracts or subcontractors covering home and health care workers, security guards, parking attendants, day laborers, cashiers, elevator operators, custodial workers, and clerical workers.	\$7.60.
7	Cleveland, OH	Passed 2000.	Service contractors	\$8.20 per hour, going to \$8.70 an hour on Oct. 1, 2001, to \$9.20 on Oct. 1, 2002, and will be adjusted according to inflation after Oct. 1, 2003.
8	Cook County, IL	Passed 1998	Service contracts and subcontracts.	\$7.60.
9	Corvallis, OR	Passed 1999	Service contracts over \$5,000	Wage and benefit package must equal at least \$9.00 per hour, adjusted annually with CPI.
10	Dane County, WI	Passed 1999	County employees and service contracts.	110 percent of poverty level for a family of 3.
11	Denver, CO	Passed 2000	Service contracts or subcontracts over \$2,000, for covered categories: parking lot attendants, security guards, clerical support workers, and child care workers on city owned or leased property.	Poverty level for a family of four.
12	Des Moines, IA	Passed 1988, amended 1996	Subsidy recipients.	\$7 minimum, with a goal of \$9.
13	Detroit, MI	Passed 1998	Service contracts, subcontracts, and subsidies over \$50,000 per year.	Indexed to poverty rate for a family of 4 with health benefits, or 125 percent of poverty level without benefits.
14	Duluth, MN	Passed 1997	Subsidies over \$25,000.	90 percent of employees must be paid \$6.50 with health benefits, or \$7.25 without, indexed to inflation.
15	Durham, NC	Passed 1998	City employees and service contracts.	\$7.55.

	<b><u>Place</u></b>	<b>Outcome</b>	<b>Coverage</b>	<b>Main provisions (All dollar amounts here are per hour).</b>
16	Gary, IN	Passed 1991	Tax abatement recipients.	Prevailing wage.
17	Hartford, CT	Passed 1999	Service contracts over \$50,000 and subsidies over \$100,000.	\$8.81.
18	Hayward, CA	Passed 1999	City employees and service contracts over \$25,000.	\$8 with health benefits, or \$9.25 without, adjusted yearly with regional cost of living.
19	Hudson County, NJ	Passed 1999	Service contracts.	150 percent of the federal minimum wage.
20	Jersey City, NJ	Passed 1996	Selected service contracts.	\$7.50.
21	Kankakee County, IL	Passed 1999	Firms getting local Enterprise Zone tax breaks.	\$11.42 or 130 percent of the federal poverty level.
22	Los Angeles City, CA	Passed 1997	Service contracts and subcontracts over \$25,000, concessionaires, and subsidies over \$100,000 per year.	\$7.25 with health benefits, or \$8.50 without.
23	Los Angeles County, CA	Passed 1999	County employees and service contracts.	\$8.32 with health benefits, or \$9.46 without.
24	Madison, WI	Passed 1999	Subsidies over \$100,000, and service contracts over \$5,000.	100 percent of poverty level for a family of in 1999, 105 in 2000, and 110 in 2001.
25	Maryland State	Passed 1996	Contract for cleaning state-owned World Trade Center.	\$6.60 in 1996, \$7.10 in 1997, or \$7.70 in 1998.
26	Miami-Dade County, FL	Passed 1999	County employees, contractors, subcontractors, and airport employees.	\$8.56 with health benefits, or \$9.81 without.
27	Milwaukee City, WI	Passed 1995	Service contracts and subcontracts over \$5,000.	Poverty level for family of 3.
28	Milwaukee County, WI	Passed 1997	Select service contracts.	\$6.26, indexed to prevailing wage.

	<b><u>Place</u></b>	<b>Outcome</b>	<b>Coverage</b>	<b>Main provisions (All dollar amounts here are per hour).</b>
29	Milwaukee School Board, WI	Passed 1996	Public School System employees, and service contracts.	\$7.70.
30	Minneapolis, MN	Passed 1996	Subsidies over \$100,000 per year.	100 percent of poverty level for a family of 4 with health benefits, or 110 without.
31	Multnomah County, OR	Passed 1996, amended in 1998	Janitorial, security and foodservice contracts.	\$7.50 in 1998, or \$8.00 in 1999.
32	New Haven, CT	Passed 1997	Service contracts.	Poverty level for a family of 4, revised every 5 years.
33	New York, NY	Passed 1996	Security, temporary office, cleaning and food service contracts.	Prevailing wage.
34	Oakland, CA (city)	Passed 1998	Service contracts over \$25,000, and subsidies over \$100,000.	\$8 with benefits, or \$9.25 without (indexed).
35	Oakland, CA (Port)	Passed 2000	Service contractors and subsidy recipients.	\$8.60 with benefits, or \$9.95 without (indexed).
36	Omaha, NE	Passed 2000	Service contracts over \$75,000; firms with receiving more than \$75,000 in financial assistance. Exempts non-profits and firms with fewer than 10 employees.	\$8.19 with benefits, or \$9.01 without, adjusted annually with federal poverty guidelines.
37	Pasadena, CA	Passed 1998	Service contracts over \$25,000.	\$7.25 with health benefits, or \$8.50 without.
38	Portland, OR	Passed 1996, amended 1998	Janitorial, security, parking and temporary clerical service contracts.	\$7.50 in 1998, and \$8 in 1999.
39	San Antonio, TX	Passed 1998	Tax abatement recipients.	\$9.27 to 70% of service employees in new jobs, and \$10.13 to 70% of durable goods employees

	<u>Place</u>	<u>Outcome</u>	<u>Coverage</u>	<u>Main provisions (All dollar amounts here are per hour).</u>
40	San Fernando, CA	Passed 2000	Service contractors (including employees of temporary agencies), city employees.	\$7.25 with benefits, or \$8.50 without.
41	San Francisco, CA	Passed 2000	Service contracts of more than \$25,000, Leases at the San Francisco International Airport, In Home Support Service Public Authority (homecare workers).	A minimum of \$9 per hour, rising to \$10 by 2001, with 2.5% cost of living increases in each of the following three years. Health care benefits provided through a separate ordinance.
42	San Jose, CA	Passed 1991, amended 1997	Service contracts over \$20,000, and some city employees.	\$9.50 with benefits, or \$10.75 without
43	Santa Clara County, CA	Passed 1995	Subsidy recipients.	\$10 with health benefits.
44	Somerville, MA	Passed 1999	City employees, service contracts and subcontracts.	\$8.35.
45	St. Paul, MN	Defeated in 1995 then passed in 1997	<u>Subsidies over \$100,000 per year.</u>	100 percent of poverty level for family of 4 plus benefits, or 110 without benefits.
46	Toledo, OH	Passed 2000	Service contracts over \$10,000 (for firms with more the 25 employees) and subsidies more than \$100,000 (for firms with more than 50 employees). Covers tenants in developments receiving subsidies.	\$8.58/hour with health benefits (indexed at 110% of the federal poverty level for a family of 4), or \$10.14 without health coverage (130% of the poverty level).
47	Tucson, AZ	Passed 1999	Service contracts.	\$8.00 with health benefits, or \$9.00 without.
48	Warren, MI	Passed 2000	Service contractors, firms receiving financial assistance over \$50,000.	Poverty level for family of 4 with benefits, or 125% of poverty level without benefits.
49	West Hollywood, CA	Passed 1997	Service contracts over \$25,000.	\$7.25 with health benefits, or \$8.50 without.

	<b><u>Place</u></b>	<b>Outcome</b>	<b>Coverage</b>	<b>Main provisions (All dollar amounts here are per hour).</b>
50	Ypsilanti City, MI	Passed 1999	Service contracts or financial assistance over \$20,000 in a year.	\$8.50 with health benefits, or \$10 without.
51	Ypsilanti Township, MI	Passed 1999	Contracts over \$10,000.	\$8.50 with benefits, or \$10 without.

There are approximately 60 new campaigns underway, including ones in cities such as Providence, RI, Rochester, NY, Knoxville, TN, Berkeley, CA, St. Louis, MO, and others in universities, such as Johns Hopkins University, Harvard, and the University of Virginia.

Source: "Living Wage Successes," Association of Community Organizations for Reform Now, [www.acorn.org](http://www.acorn.org); interviews with city staff; "Enacted Initiatives," Employment Policies Institute, [www.epionline.org](http://www.epionline.org).

### A1.2 Other Initiatives with Living Wage Provisions

Note: Many municipalities have collective bargaining agreements or other policies that provide city or county employees with wages substantially above the national minimum wage. The locations included below are those that specifically passed ordinances to set a living wage minimum for all city or county employees. This list does not cover all municipal agreements with wage provisions.

<u>Place</u>	<b>Outcome</b>	<b>Coverage</b>	<b>Wage rate (All dollar amounts here are per hour.)</b>
Barre, VT	Passed 1999	Full-time, year round city employees.	\$7.91.
Burlington, VT	Passed 1997	City employees.	\$7.50.
Dayton, OH	Passed 1998	City employees.	\$7.00.
Denver, CO	Failed 1996	All workers in city borders.	\$6.50.
Hidalgo County, TX	Passed 1999	County employees, state and federally funded programs controlled by county.	\$7.50.
Houston, TX	Failed 1997	All workers in city borders.	\$6.50.
Montpelier, VT	Passed 1998	Full-time, year round city employees.	\$7.81.
Orange County, NC	Passed 1998	County employees.	\$8.00.
Washington, DC	Passed in 1993	All workers in city borders.	\$1.00 above the federal minimum wage (currently at \$6.15).

Sources: “Living Wage Successes,” Association of Community Organizations for Reform Now, [www.acorn.org](http://www.acorn.org); “Enacted Initiatives,” Employment Policies Institute, [www.epionline.org](http://www.epionline.org)

### A1.3 Recent State Minimum Wage Laws

<u>Place</u>	<b>Type of Campaign and Outcome</b>	<b>Wage rate (All dollar amounts here are per hour.)</b>
Alaska	State legislation, passed 1977	50 cents above federal rate (currently at \$5.65).
California	Ballot initiative, passed 1996	\$5.00 in 1997, and \$5.75 in 1998.
Connecticut	State legislation, passed 1998	\$5.65 in 1999, and \$6.15 in 2000.
Delaware	State legislation, passed 1999	\$5.65 in 1999, and \$6.15 in 2000.
Idaho	State legislation, passed 1998	Eliminated some exemptions in state law.
Oregon	Ballot initiative, passed 1996	\$5.50 in 1997, \$6.00 in 1998, and \$6.50 in 1999.
Hawaii	State legislation, passed 1993	\$5.25.
Massachusetts	State legislation, passed 1999	\$6.00 in 2000, and \$6.25 in 2001.
Missouri	Ballot initiative, Failed 1996	\$6.25 in 1997, \$6.50 in 1998, and \$6.75 in 1999.
Montana	Ballot initiative, Failed 1996	\$5.25 in 1998, \$5.75 in 1999, and \$6.25 in 2000.
Rhode Island	State legislation, passed 1999	\$5.65.
Vermont	State legislation, passed 2000	\$6.25 in 2001.
Washington	Ballot initiative, passed 1998	\$5.70 in 1999, and \$6.50 in 2000, adjusted annually for inflation thereafter.

Sources: "Minimum Wage Laws in the States," U.S. Department of Labor, <http://www.dol.gov/dol/esa/public/minwage/america.htm>.

## APPENDIX 2. SURVEY OF SANTA MONICA FIRMS: SAMPLING PROCEDURES AND ESTIMATION TECHNIQUES<sup>57</sup>

### Description of Sampling Procedures

We utilized a modified version of the City of Santa Monica's business license database to construct the sampling frame for our firm survey, where certain business categories were excluded from our analysis.<sup>58</sup> The final frame contained 10,704 records.

In the first stage, 49 firms were selected for the pre-test. Firms were stratified by size according to three employment categories – 1-4 employees, 5-49 employees, and 50 or more employees – and further divided as within or outside of the city's coastal zone. Only firms from the second employment category were chosen for the pre-test, with twelve selected in the coastal zone and 37 outside.<sup>59</sup> The pretest was conducted during the last two weeks of March, 2000.

For the final sample selection following the pre-test, we stratified firms by coastal zone designation (in or out), by industry, and by employment category. Firms selected for the pre-test were not excluded from the drawing of the final sample, and the overall number of firms in each category can be seen in Table A2.1. A sample of 492 records was then drawn from this population, oversampling firms in industries with large numbers of low-wage workers (based on an analysis of the Current Population Survey-Outgoing Rotation Group file). These include retail sales (SIC 52-59), and services (especially SICs 70, 72, 84 and 88). All firms with 50 or more employees were included in the sample, and unclassified firms, or those with no employees, were excluded from sample selection.

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<sup>57</sup> Here, as in the text, for ease of exposition we have used the word firm, to describe our business survey. Ours is in fact an establishment survey, with information recorded only for the specific location sampled. Thus for firms operating multiple locations in the city, each establishment has some positive probability of being selected. Indeed, in several instances we have surveys from different establishments of the same multi-establishment firm.

<sup>58</sup> While a full list of business categories that were excluded would prove too lengthy, they can be neatly divided into three types of business. The first category comprises construction contractors not based in Santa Monica, but required to obtain a business license to perform work in the city. The second category comprises seasonal businesses or events, such as the carnival or the annual art show. The third category comprises a handful of ambulant business operations, such as street performers and mobile car detailing services.

<sup>59</sup> We restricted our pre-test to firms in the second employment group for two reasons. First, given existing time constraints, and the well established finding that surveying small firms is more difficult than larger ones, we felt that excluding firms with less than 5 employees was appropriate, given the need to expedite pre-testing. Second, given the small number of businesses with more than 50 employees, and the importance of these large firm dynamics to the analysis of any living wage measure with an employment or a sales threshold, we did not want to forego any large firm observations in the actual full-scale sample. Thus we decided to exclude the largest employment category also during the pre-test.

**Table A2.1: Distribution of Firms in Sampling Frame, by Coastal Zone Designation, Employment Size, and Industry**

	0		1 to 4		5 to 49		50+		Total	
	Zone		Zone		Zone		Zone		Zone	
	Out	In	Out	In	Out	In	Out	In	Out	In
Agriculture	17	2	34	5	8	2	0	0	59	9
Mining	1	0	0	0	0	1	0	0	1	1
Construction	170	31	114	19	49	3	0	0	333	53
Manufacturing	142	47	173	47	89	15	15	1	419	110
Transpt. And Comm.	53	8	67	10	24	2	1	0	145	20
Wholesale Trade	96	28	146	45	74	16	6	1	322	90
Retail Trade, exc rest.	324	123	464	178	174	108	28	8	990	417
Restaurants	36	33	83	31	108	84	13	17	240	165
FIRE	914	217	233	77	97	29	7	3	1251	326
Hotels	2	6	8	0	5	8	2	7	17	21
Health Services	241	26	544	34	162	9	8	0	955	69
Personal Services	236	181	329	103	77	25	2	2	644	311
Business Services	243	60	422	97	136	32	14	0	815	189
Social Services	155	21	115	21	22	7	0	0	292	49
Other Services	392	172	803	274	282	86	26	8	1503	540
Government	7	3	9	1	5	1	0	1	21	6
Unclassified	83	24	110	24	58	18	3	1	254	67
<b>Totals</b>	<b>3112</b>	<b>982</b>	<b>3654</b>	<b>966</b>	<b>1370</b>	<b>446</b>	<b>125</b>	<b>49</b>	<b>8261</b>	<b>2443</b>

As can be seen from Table A2.2, small firms were undersampled, as well as firms in industries with low numbers of low wage workers, including: mining and extractive industries (SICs 10-14); finance, insurance, and real estate (SICs 60-69); and government (SICs 90-98).

Once firms were selected for the sample, a copy of the survey (attached at the end of the appendix) was mailed to the business owner, along with cover letters from the PERI Project Director, the Santa Monica City Manager, and the Santa Monica Chamber of Commerce Executive Vice-President, all encouraging them to participate fully with the study. This mailing was sent out at the end of March 2000, and PERI surveyors began contacting firms by phone 5 days afterwards to arrange appointments to complete the survey. Potential respondents were reminded that the data provided would remain completely confidential, and that participation in the survey was voluntary. Surveyors collected information from early April until the beginning of June, 2000.

While survey responses were eventually collected in a variety of ways – including by mail and fax as well as over the phone – the majority of surveys were completed in person by members of our survey team. One advantage of this face-to-face interviewing method – apart from any positive effects on response rates – is that it is likely to have reduced measurement and other non-sampling errors due to a misunderstanding of the survey questions or the terms used therein.

**Table A2.2: Distribution of Firms in Sample, by Coastal Zone Designation, Employment Size, and Industry**

	0		1 to 4		5 to 49		50+		Total	
	Zone		Zone		Zone		Zone		Zone	
	Out	In	Out	In	Out	In	Out	In	Out	In
Agriculture	-	-	0	1	1	2	0	0	1	3
Mining	-	-	0	0	0	0	0	0	0	0
Construction	-	-	0	0	3	3	0	0	3	3
Manufacturing	-	-	0	0	10	9	15	1	25	10
Transpt. and Comm.	-	-	2	0	1	1	1	0	4	1
Wholesale Trade	-	-	0	0	10	7	6	1	16	8
Retail Trade, exc rest.	-	-	6	8	27	35	28	8	61	51
Restaurants	-	-	6	6	30	19	13	17	49	42
FIRE	-	-	4	1	6	6	7	3	17	10
Hotels	-	-	5	0	5	8	2	7	12	15
Health Services	-	-	5	2	4	3	8	0	17	5
Personal Services	-	-	6	4	14	8	2	2	22	14
Business Services	-	-	1	1	5	8	14	0	20	9
Social Services	-	-	0	1	2	2	0	0	2	3
Other Services	-	-	3	5	8	11	26	8	37	24
Government	-	-	0	1	1	1	0	1	1	3
Unclassified	-	-	0	0	0	0	3	1	3	1
<b>Totals</b>	-	-	38	30	127	123	125	49	290	202

Table A2.3 provides some detail as to the results of our Santa Monica firm survey. In total, we obtained 150 usable surveys before data analysis began. Adjusting for those firms that were subsequently determined not eligible to be in the sample, this implies a response rate of 36%.

**Table A2. 3: Survey Results**

Completed Surveys	150
Refused to Participate	61
Duplicate Business License Listing	24
Not in Santa Monica	5
Out of Business	31
No Employees	6
Other Reason for Non-Eligibility	6

### Weights

In all calculations using our completed surveys, weights were required to ensure that the results were representative of the population as a whole. In calculating those weights, our initial set of industry strata were collapsed from 16 to 8, so as to ensure more than one observation in each strata by employment category.<sup>60</sup> The probability of each observation being in the final dataset was then calculated based on these collapsed strata, and the weight was calculated so as to represent the inverse of the sampling probability for each observation.

### Additional Survey Data

In addition to the Santa Monica employer survey, we conducted a parallel survey of firms in La Jolla, California. We chose to do this due to concerns about response rates in Santa Monica, and to collect responses from firms in a city which was similar to Santa Monica but not considering a living wage ordinance. Thus, employer responses from La Jolla could serve as a control group to compare against our Santa Monica data. However, given time and resource constraints, we were not able to conduct a large-scale, statistically representative survey in La Jolla. Instead, we focused our efforts on collecting data from the types of establishments likely to be affected by the Santa Monica living wage proposal: hotels, restaurants and retail shops. In the end, we collected data from 23 firms in La Jolla, including 7 retail, 8 restaurants, 2 finance and insurance, 4 hotels, 1 hospital and 1 research firm. The four hotel respondents provided information for a total of seven hotels and over 2,100 workers. However, although this represents a reasonably large proportion of the large hotels and hotel employment in La Jolla, we do not claim that our La Jolla survey is statistically representative of the city. Therefore, we used data collected in this survey as anecdotal, to provide rough guidelines for comparison with our firm data from Santa Monica.

The questionnaire sent to La Jolla firms was similar to the Santa Monica employer survey. The questions specific to Santa Monica were deleted or modified for La Jolla. For example, La Jolla employers were asked about the price of a business license in their city. In Section E, they were asked to speculate on the impact of an increase in the minimum wage to \$10.75, rather than about a specific living wage proposal.

<sup>60</sup> This need to have more than one observation per “cell” stems from the variance calculation method used in the presence of complex survey designs.

**SANTA MONICA LIVING WAGE SURVEY**

**SECTION A: CHARACTERISTICS OF THE FIRM**

- A1. Which category best describes your establishment? (circle one)
- 1 FOR-PROFIT ORGANIZATION
  - 2 GOVERNMENT ORGANIZATION (INCLUDING PUBLIC EDUCATIONAL INSTITUTIONS)
  - 3 OTHER NON-PROFIT ORGANIZATION
  - 4 OTHER (PLEASE SPECIFY: \_\_\_\_\_)

- A2. Which description best fits your establishment's situation?

- 1 IT IS AN INDEPENDENT, SINGLE ESTABLISHMENT FIRM (**SKIP TO A3**).
- 2 IT IS OWNED BY A MULTI-ESTABLISHMENT FIRM.

- A2a. Does your firm operate other establishments in the city of Santa Monica?

- 1 YES
- 2 NO

- A2b. What is the name of your establishment's parent company?

\_\_\_\_\_

**All of the following refer to your establishment only.**

- A3. How many years have you been at your present location? \_\_\_\_\_

- A4. **FOR HOTELS ONLY:** What is your best estimate of how much money the average person spends here per night (including tips)?

\_\_\_\_\_ PER VISIT

- A5. **FOR RESTAURANTS ONLY:** What is your best estimate of how much money the average person spends here per dinner meal (including tips)?

\_\_\_\_\_ PER DINNER MEAL

**SECTION B: EMPLOYMENT**

B1. What was the number of employees on the payroll for the last payroll period, excluding temporary employees and contract workers, but including full-time and part-time?

\_\_\_\_\_

B1a. Of these, how many are non-managerial personnel?

\_\_\_\_\_

B1b. How many of the total work part-time (less than 35 hours per week)?

\_\_\_\_\_

B1c. Can you estimate the average hours worked per week by a typical part-time employee?

\_\_\_\_\_

B1d. Can you estimate the average hours worked per week by a typical full-time employee, including overtime?

\_\_\_\_\_

B2. How many temporary employees do you have?

\_\_\_\_\_

B3. How many contract workers do you have?

\_\_\_\_\_

B3a. **(IF B3>0)** For what services do you contract these workers? (e.g. valet parking, clerical, etc.)

\_\_\_\_\_

B3b. **(IF B3>0)** With what companies do you contract this work? \_\_\_\_\_

\_\_\_\_\_

B4. How many workers did this establishment employ at the beginning of 1999?

\_\_\_\_\_

B5. How many workers have been newly hired or recalled from lay-off since the start of 1999?

\_\_\_\_\_

B6. How many workers have quit, been discharged, or laid-off since the start of 1999?

\_\_\_\_\_

B7. What is your monthly turnover for non-supervisory personnel (in percent)?

\_\_\_\_\_ %

B8. If you were to replace an existing non-managerial worker with a new worker, what is your best estimate of the total costs of such an action (including separation, search and training costs)?

\$ \_\_\_\_\_

B9. Have you experienced any labor shortages in the last six months?

1 YES

2 NO (**SKIP TO B10**)

3 DON'T KNOW (**SKIP TO B10**)

B9a. Have you had to raise your wages to attract more workers?

1 YES

2 NO

3 DON'T KNOW

B10. What proportion of your workers are covered by a collective bargaining agreement? \_\_\_\_\_ %

B11. Please describe the three or four NON-MANAGERIAL jobs in this establishment where you have the most employees:

	JOB 1	JOB 2	JOB 3	JOB 4
Title				
How many people are employed with this job title?				
Please describe what people in this job title do:				
What are the minimum educational qualifications required to fill the position?				
What other minimum qualifications are required to fill this position?				
Do these employees receive tips? (Yes or No)				
IF TIPPED: Can you Estimate how Much an Average Employee earns in tips per shift?				
Do these employees receive commissions? (Yes or No)				
What is the starting wage for this job title? (\$/hour)				
What is the average wage for this job title? (\$/hour)				
What is the highest wage in this job title? (\$/hour)				

B12. Please describe the one or two MANAGERIAL jobs in this establishment where you have the most employees:

	JOB 1	JOB 2
Title		
How many people are employed with this job title?		
Please describe what people in this job title do:		
What are the minimum educational qualifications required to fill the position?		
What other minimum qualifications are required to fill this position?		
Do these employees receive tips? (Yes or No)		
Do these employees receive commissions? (Yes or No)		
What is the starting wage for this job title? (\$/hour)		
What is the average wage for this job title? (\$/hour)		

B13. Now I would like to ask you to put the managerial and non-managerial employees on your payroll into wage/salary categories. Can you tell me how many full-time and part-time workers earn the following amount? Please include salaried workers in this answer.

<i>Workers earning:</i>	<i>Full-time Employees</i>	<i>Part-time Employees</i>
Less than \$5.75 per hour	_____	_____
Between \$5.75 and \$8.24	_____	_____
Between \$8.25 and \$10.74	_____	_____
Between \$10.75 and \$13.24 (between \$21,500 and \$26,480)	_____	_____
More than \$13.25 (more than \$26,500 per year)	_____	_____

**C. BENEFITS**

Now we would like to ask you about the benefits that you provide for employees.

	Non-Managerial employees	Managerial employees
How many employees receive health benefits?		
For those non-managerial Employees that do Receive health benefits, What are the costs paid by the employer and the employee?  EMPLOYER PAYS:	\$ _____ per (circle one: week month year)	\$ _____ per (circle one: week month year)
EMPLOYEE PAYS:	\$ _____ per (circle one: week month year)	\$ _____ per (circle one: week month year)
For those that do receive Health benefits, can you tell me the average cost of these benefits as a percentage of wages for employees?		
What is the average number of paid vacation days they receive per year?		
What is the average number of paid sick days they receive per year?		
What is the average number of paid holidays they receive per year?		

**SECTION D: COSTS**

Now I would like to ask you some questions about your costs. I want to remind you that this information is simply for statistical purposes and will remain completely confidential.

D1. What were your total gross receipts in 1999?

\$ \_\_\_\_\_

D2. Do you rent or own your building?

1 OWN

2 RENT

3 OTHER (SPECIFY: \_\_\_\_\_)

D3. What is your monthly mortgage or rent payment?

\$ \_\_\_\_\_

D4. Approximately what were your total operating costs in 1999 (include labor costs, materials, depreciation of machines, computers and other equipment, rent or mortgage and amortization, utilities, telephone, and mail).

\$ \_\_\_\_\_

D5. Approximately what proportion are total labor costs (wages and benefits) of your total operating costs (from question D4)?

\_\_\_\_\_ PERCENT

D6. How much did you pay for your business license with the city of Santa Monica in 1999?

\$ \_\_\_\_\_

D7. Would you say that over the past 5 years your firm's sales have generally grown, declined, or stayed about the same?

1 GROWN

2 DECLINED

3 ABOUT THE SAME

**SECTION E: IMPACT OF A LIVING WAGE ORDINANCE**

This last set of questions is designed to get your opinion about your business generally, as well as how your business would be affected by a living wage ordinance like the one being discussed in Santa Monica.

- E1. What do you estimate would be the total increase in your operating costs if a living wage ordinance was passed that established a minimum wage for all workers at **\$10.75 per hour**?

\_\_\_\_\_ PERCENT INCREASE IN COSTS PER YEAR

- E2. More generally, how would your firm respond to such a cost increase? Please state how likely you would be to take each of these strategies, with :

1 = Very likely; 2 = Somewhat likely; 3 = Not sure; 4 = Somewhat unlikely; 5 = Very unlikely

1	2	3	4	5	RAISE PRICES
1	2	3	4	5	REDUCE EMPLOYMENT (LAYOFF WORKERS)
1	2	3	4	5	HIRE FEWER WORKERS IN THE FUTURE
1	2	3	4	5	GIVE RAISES TO WORKERS EARNING ABOVE \$10.75
1	2	3	4	5	CHANGE HIRING STANDARDS
1	2	3	4	5	TRY TO REDUCE OTHER COSTS
1	2	3	4	5	RELOCATE TO A LOWER COST AREA
1	2	3	4	5	OPERATE WITH SMALLER PROFIT MARGINS
1	2	3	4	5	CLOSE YOUR BUSINESS

- E2a. If you would have to layoff workers, about how many workers do you believe you would have to layoff?

\_\_\_\_\_ WORKERS

E3. What do you estimate would be the total increase in your operating costs if a living wage ordinance was passed that established a minimum wage for all workers at **\$8.25 per hour**?

\_\_\_\_\_ PERCENT INCREASE IN COSTS PER YEAR

E4. More generally, how would your firm respond to such a cost increase? Please state how likely you would be to take each of these strategies, with :

1 = Very likely; 2 = Somewhat likely; 3 = Not sure; 4 = Somewhat unlikely; 5 = Very unlikely

- |   |   |   |   |   |   |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | RAISE PRICES                                |
| 1 | 2 | 3 | 4 | 5 | REDUCE EMPLOYMENT (LAYOFF WORKERS)          |
| 1 | 2 | 3 | 4 | 5 | HIRE FEWER WORKERS IN THE FUTURE            |
| 1 | 2 | 3 | 4 | 5 | GIVE RAISES TO WORKERS EARNING ABOVE \$8.25 |
| 1 | 2 | 3 | 4 | 5 | CHANGE HIRING STANDARDS                     |
| 1 | 2 | 3 | 4 | 5 | TRY TO REDUCE OTHER COSTS                   |
| 1 | 2 | 3 | 4 | 5 | RELOCATE TO A LOWER COST AREA               |
| 1 | 2 | 3 | 4 | 5 | OPERATE WITH SMALLER PROFIT MARGINS         |
| 1 | 2 | 3 | 4 | 5 | CLOSE YOUR BUSINESS                         |

E4a. If you would have to layoff workers, about how many workers do you believe you would have to layoff?

\_\_\_\_\_ WORKERS

E5. What do you see as your biggest concern about operating your business today?

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### APPENDIX 3. GENERATING BUSINESS COST ESTIMATES

#### Data Sources Used

Cost calculations for both our Coastal Zone and Citywide estimates were based on data from five sources: the PERI firm survey described in Appendix 3, the PERI worker survey detailed in Appendix 10, the City of Santa Monica's business license database for 1999, the California State Board of Equalization's sales tax records for applicable Santa Monica businesses, and the Current Population Survey's Outgoing Rotation Group (CPS-ORG) files. In this appendix we discuss how these five sources of data were combined to produce our cost estimates.

#### Calculations

##### **1. Affected Firms**

For both our Coastal Zone and Citywide estimates, we used the City of Santa Monica's business license database to determine which businesses in the city had gross receipts above the \$3 million threshold and, where relevant, were located in the Coastal Zone. For business in the Coastal Zone had gross receipts above the threshold of three million dollars. For businesses in the coastal zone with missing gross receipts data, we substituted, where possible, their taxable sales as recorded with the California State Board of Equalization.

##### **2. Number of Affected Workers**

To determine the number of affected workers we used a combination of three sources of information. Where available, we used directly provided data on employment and wage levels from the PERI firm survey to determine the number of workers earning less than \$10.75, \$9.50, or \$8.25, respectively. For potentially affected firms where we did not have direct survey data, we used a combination of information from the City of Santa Monica's business license database and the CPS-ORG for the Los Angeles-Long Beach PMSA. From the business license database we took the total employment of the establishment, as listed on the business license. Then, using the CPS-ORG, we determined the proportion of workers earning less than \$10.75, \$9.50 or \$8.25, respectively, for each 2-digit SIC code. Applying the proportions from the CPS-ORG to the overall employment from the business license (based on the establishment's 2-digit SIC code) we were able to estimate the number of workers covered in the remaining firms at each wage level.

##### **3. Tipped workers**

In our calculations we have assumed a tip credit for those workers earning more than 50 percent of their total income from tips. For workers in this category, we assumed that their minimum wage would not be adjusted to the new living wage level, but would, instead, remain at the level mandated by the state of California, \$5.75 per hour. To arrive at an estimate of the number of workers who would fall into this category, we used information from the PERI worker survey. Based on an analysis of that survey, only three occupations appear to be at all affected by such a tip credit formulation: restaurant servers, restaurant bartenders, and restaurant bussers.<sup>61</sup> In the case of the bussers, however, it appears that approximately half of them would cross the 50% threshold, which is the formulation used in our calculations.

To determine what proportion of workers in restaurant establishments would be affected by such a tip credit, we performed an analysis of non-supervisory occupations in the food and beverage industry (SIC 58), using the CPS-

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<sup>61</sup> As discussed in the text, we have not considered workers employed in hotel restaurants as covered by the tip credit. This is in part due to our inability to precisely estimate the number of workers in hotel restaurants employed in tipped occupations. More importantly, however, this is due to the nature of work in these tipped occupations in hotel food service. In particular, due to the prevalence of banquet dining in many hotels, and the very different nature of compensation for banquet staff versus more typical restaurant staff, we had no clear way to differentiate which servers, bartenders and bussers worked as banquet staff, and which worked in more traditional restaurant settings, and which, therefore, fall into the tipped category. This clearly implies a slight over-estimation of costs associated with the living wage for covered hotels. However, given that no more than 10% of hotel staff fall into these potentially affected categories, based on an occupational analysis of the CPS for the US, this over-estimation is almost certainly small.

ORG for the U.S. Our aim was to determine the proportion of workers that would fall into these affected occupational categories. As the table below shows, approximately 38.1% of all workers fall into those three categories. (CPS occupational codes are listed in parentheses) Moreover, they comprise 49.1% of all non-supervisory personnel. Assuming that only half of all bussers would be affected by the tip credit, this implies that approximately 45% of all restaurant workers would be affected by the tip credit, and that they would comprise approximately 61% of the lowest wage workers in the sector.

<u>Occupational Category</u>	<u>Percentage of Total Workforce</u>
Supervisory Occupations	22.4%
Bartenders (434)	4.5%
Waiters and Waitresses (435)	25.3%
Cooks (436)	29.5%
Bussers (443)	8.3%
Food Preparation Workers (439, 444)	8.0%
Other Non-Supervisory Workers	2.0%

#### **4. Direct Wage Increase**

As with the determination of the number of affected workers, we combined information from the PERI firm survey, the City of Santa Monica's Business License database and the CPS-ORG to estimate the cost of direct wage increases to affected businesses. Workers were classified into the following wage categories – less than \$5.75/hour, \$5.75-\$8.24/hour, \$8.25-\$9.49/hour, \$9.50-\$10.74, \$10.75-\$11.99/hour, \$12.00-\$13.24/hour and greater than or equal to \$13.25/hour – and further subdivided by full and part-time status. This was done by either taking the figures directly from the PERI firm survey, or applying the proportion of workers in those wage categories from the CPS-ORG, calculated at the 2-digit SIC code level, to the establishment's total employment. Average hourly wages – and average weekly hours for part time workers – were calculated for each wage category from the CPS-ORG, again at the 2-digit SIC code level. Where the number of unweighted observations in an industry fell below 75 for the LA-Long Beach PMSA, we used proportions and averages for the state of California. In all cost calculations, unless otherwise noted, both full and part-time workers were assumed to work 52 weeks a year. Thus, the direct wage increase for each firm is arrived at by multiplying the number of workers in each wage category times their yearly hours (2080 for full-time workers, the average weekly hours times 52 for part-time workers) times the difference between \$10.75 and their average hourly wage. Adding those totals over all the affected wage categories gives the direct wage cost increase.

#### **5. Cost of Health Benefits**

To estimate the cost of health benefits for directly affected workers, we first were required to estimate the proportion of workers not currently receiving such benefits. To do that we used information from the PERI worker survey to determine hotel, restaurant and retail coverage rates, and then used information from the 1999 March CPS for the LA-Long Beach MSA to determine coverage rates for workers earning less than \$10.75 for the remaining industries. Those percentages were applied to our estimate of directly affected workers to determine workers without health benefits. We then assumed that, much as with the Living Wage ordinance in the City of Los Angeles, firms that did not provide such benefits would be mandated to pay an additional \$1.25/hour in lieu of health coverage. Following Pollin and Luce (2000) we also assumed that workers earning up to \$1.25/hour above the mandated wage level, but not receiving health benefits, would now receive such benefits.

#### **6. Cost of Paid Days Off**

As discussed in our text, we estimated the costs of a Santa Monica Living Wage ordinance based on a mandated 15 paid days off for all affected workers. We used our worker survey to estimate the proportion of directly affected workers in the retail, restaurant and hotel sectors receiving any paid days off, as well as the average number of days off for those who do receive them. In the case of businesses in other sectors, we relied on our survey of Santa Monica businesses to come up with an estimate of the proportion of non-supervisory workers who receive paid days off and the average number of days provided. Applying those proportions, we were able to estimate the number of

workers directly affected who are currently receiving no paid days off, and we calculated the cost of their new paid days off at their new minimum wage of \$10.75. For those workers estimated to have some paid days off, we estimated the number of additional days off they would receive as the difference between 15 and their industry average (if less than 15). We then valued these additional days off at the new mandated minimum also.

Again, following Pollin and Luce (*ibid*), we assume that all workers in covered businesses who currently earn above \$10.75/hour but are not currently receiving paid days off will also now receive 15 paid days off. Similarly, those earning above \$10.75, but receiving less than 15 paid days off were now assumed to receive the full 15 days off. The proportion of workers earning above \$10.75 who currently receive paid days off, as well as the average number of days off they receive, were estimated from our survey of Santa Monica businesses. The new days off were valued at the average wage for workers in their respective wage categories.

## **7. Ripple Effect**

As discussed extensively in the text, we anticipate wage increases not directly mandated by a living wage ordinance, but which result from upward wage pressure by those making close to, but above the new mandated minimum. To estimate the magnitude of these effects, we apply the results discussed in Appendix 4 for the ripple effect for minimum wage increases in California between 1995 and 1999.

## **8. Total Labor Cost Estimates**

Total labor cost estimates were used in the calculation of potential employment losses in Chapter 5, and are detailed in Table 5.10. The method used in their calculation is identical to that described in section 4 above, with the technique applied to those categories above \$10.75 as well as those below. For the restaurant sector, however, certain adjustments were required. As we have applied a tip credit to servers, bartenders and half of all bussers in the restaurant sector throughout our analysis, we were forced adjust our calculations to characterize the magnitude of the restaurant cost increase without such a credit. To do this we assumed that all potentially covered workers (tipped and non-tipped) were non-supervisory, and that the total cost increase with a tip credit affected only 55% of potentially covered workers. To find the percentage increase for 100 percent coverage we simply divided the total labor cost increase for restaurants with a tipped worker exemption by .55.

#### APPENDIX 4. METHODOLOGY OF RIPPLE EFFECT CALCULATIONS

In order to estimate the ripple effects of a mandated increase in the minimum wage, we analyzed the pattern of wage changes among CPS survey respondents who lived in California over the years of 1995-1999. These particular years were chosen because of the succession of several mandated minimum wage increases: in October 1996, the minimum wage increased from \$4.25 to \$4.75, and then again in September 1997 to \$5.15, and for a third time in March 1998 to \$5.75. Thus from 1995 to 1998, the minimum wage in California rose by 35%, from \$4.25 - \$5.75. While this increase is not as large as the proposed living wage increase, the CPS earnings data provides a basis for generating a rough estimate of the potential magnitude of a ripple effect.

Because of the way the samples of the CPS monthly surveys are constructed, as discussed in detail in Appendix 9, we were able to construct panel data sets (over one-year intervals) of the ORG wage data<sup>62</sup>, enabling us to observe the change in a respondent's wages over one year. The wages of the same workers who worked under the 1995 \$4.25 minimum wage, could be observed in 1996 when the minimum wage had increased to \$4.75. Similarly, the workers who worked in 1996 under the \$4.75 minimum wage could be observed in 1997, when the minimum wage had increased to \$5.15 and so on. However, none of these workers could be observed for longer than a one-year interval. To simulate how the wages of workers at and above the minimum level would change after the 35% minimum wage increase, we followed the procedure explained below (see Table A4.1):

- 1) We constructed a set of wage categories (\$0.75 intervals) based on the 1995 minimum wage of \$4.25 (see column 1, Table A4.1) and divided our first sample into those categories. Our first sample included observations from October 1995 to September 1996. This sample was chosen because a) the minimum wage did not change until October of 1996, b) we could not match pre-September 1995 CPS data to 1996 CPS data<sup>63</sup>, and c) we needed a reasonable sample size (this sample allowed us to draw on a full year of monthly surveys). In order to avoid confusing wage changes due to the mandated increases and those due to respondents' changes in jobs, we excluded any workers who changed their occupation over the one-year interval.
- 2) The workers who fell into these wage categories could be observed one year later, during October 1996–September 1997, when the minimum wage was \$4.75. We calculated the median wages of the workers in each of the six wage categories for 1996-97 (see column 2, Table A4.1). These medians indicate the increase in wages these workers experienced before and after the minimum wage increase at several different wage levels.
- 3) A second set of \$0.75 wage intervals were constructed around the 1996-97 median wages of the workers in each of the 6 original wage categories (see column 2, Table A4.1). The second set of wage intervals was used to divide up the second sample of workers. The second sample included observations from workers in October 1996 to September 1997 for whom we also had data in October 1997 to September 1998. This second sample, then, is drawn from the same timeframe as the second time point of the first sample (October 1996 – September 1997).
- 4) We were able to observe the change in wages of the second sample of workers from 1996-97 and 1997-98 by calculating the 1997-98 median wages of each of the second set of wage intervals (see column 3, Table A4.1).
- 5) We repeated step 4, this time creating a third set of wage intervals around the 1997-98 median wages of the second set of wage intervals (see column 3, Table A4.1).
- 6) We were then able to observe the change in wages of a third sample of workers, for whom we had data from 1997-98 and 1998-99, by calculating the 1998-99 median wages of each of the third set of wage intervals (see column 4, Table A4.1). By the second time point of this third sample (October 1998 – September 1999), the minimum wage of \$5.75 applied to all workers.

This iteration gives a rough estimate of how wages changed over the 35% minimum wage increase in California, from \$4.25 to \$5.75.

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<sup>62</sup> We used the ORG wage data in this instance because we could take advantage of its greater accuracy without the disadvantages associated with combining the ORG data with the income and poverty data provided by the March ADS. To construct the panel data sets we matched respondents' data from their MIS 4 survey to their MIS 8 survey, following the strategy recommended by Madrian and Lefgren (1999).

<sup>63</sup> Due to the phase-in of a new sample design from the previous decennial census along with the introduction of the revised metropolitan area definitions caused by that census, matching pre-September 1995 CPS data to later surveys is not possible.

Table A4.1. Analysis Strategy for Ripple Effect

<b>Time Period</b>			
<b>Oct. 95-Sept. 96</b>	<b>Oct. 96-Sept. 97</b>	<b>Oct. 97 - Sept. 98</b>	<b>Oct. 98-Sept. 99</b>
<b>Sample 1</b>			
<b>Time 1</b>	<b>Time 2</b>		
<b>Wage Categories</b>	<b>Medians</b>		
1) less than \$4.25	\$5.15		
2) \$4.25 - \$4.99	\$5.80		
3) \$5.00 - \$5.74	\$6.00		
4) \$5.75 - \$6.49	\$6.50		
5) \$6.50 - \$7.24	\$7.43		
6) \$7.25 - \$7.99	\$8.00		
<b>Sample 2</b>			
<b>Time 1</b>	<b>Time 2</b>		
<b>Wage Categories</b>	<b>Medians</b>		
1) \$4.78 - \$5.53	\$6.00		
2) \$5.43 - \$6.18	\$6.58		
3) \$5.63 - \$6.38	\$6.93		
4) \$6.13 - \$6.88	\$7.00		
5) \$7.05 - \$7.80	\$8.00		
6) \$7.63 - \$8.38	\$8.91		
<b>Sample 3</b>			
<b>Time 1</b>	<b>Time 2</b>		
<b>Wage Categories</b>	<b>Medians</b>		
1) \$5.63 - \$6.38	\$6.50		
2) \$6.21 - \$6.96	\$7.00		
3) \$6.56 - \$7.31	\$8.00		
4) \$6.63 - \$7.38	\$8.00		
5) \$7.63 - \$8.38	\$8.44		
6) \$8.54 - \$9.29	\$9.79		

## APPENDIX 5: ESTIMATING ELASTICITY OF DEMAND FOR SANTA MONICA HOTELS

As explained in the text, we estimate a price elasticity for room demand through the time series data reported in Figure 5.1 – 5.4. The regression equations are specified in log linear form, so that we can directly measure elasticities. The occupancy rate series is our measure of demand and the dependent variable of our equations. As explanatory variables, we first include average room prices in constant dollars, the coefficient estimates for which will be our measure of price elasticity. To measure income and wealth effects, and also thereby to identify the equation according to the order condition, we include the exogenous variables California GSP and the S&P 500. They are both also measured in constant dollars.

Generating robust estimates of price elasticities with this data set faces several problems. For one thing, the number of observations, including 13 years between 1987-99, is quite small. The sample size becomes smaller still through differencing and controlling for first-order serial correlation. In addition, the variables are not stationary in levels. Even with differencing, we have been unable to purge the equations of unit roots. Finally, there is a high degree of collinearity between the explanatory variables in levels: the correlation coefficients between the three variables are all above .90. Recognizing all of these problems, the results can still be of some use in providing broadly indicative measures that can be interpreted cautiously along with the other types of evidence and arguments presented in Chapter 5.

We report results for four separate specifications in Table A5.1 below. Equations 1 and 2 are in levels while equations 3 and 4 are in first differences.

Considering overall regression statistics, equation 1 provides a relatively robust result, with a D-W statistic of 1.99. The equation is thus free of serial correlation in levels, even though none of the individual variables is stationary, as measured by the Augmented Dickey Fuller test. The results show a positive and significant coefficient value of .44 for room prices. California GSP is also significant, but with an unexpected negative sign. The S&P 500 is insignificant.

Here, clearly, the problem in interpreting coefficients is the high degree of multicollinearity between the explanatory variables. This is why, in equation 2, we drop the two income/wealth effect variables. We see that the room price variable is again significant in this bivariate test, with a positive coefficient of .21. But because we have dropped the income/wealth variables with this specification, the equation is no longer identified. Moreover, both remaining variables are still nonstationary.

To control for unit roots, we have respecified the same set of variables as first differences in equations 3 and 4. However, even with first differencing, none of the variables become stationary at a 10 percent critical value, though all but the S&P 500 were reasonably close to reaching that threshold.

In equation 3, the coefficient on room prices remains positive, but is now insignificant. The coefficient value, at .27, is virtually identical to that in equation 2. But this result is unreliable, because, even with first differencing, collinearity between room prices and GSP remains high, at .60. Collinearity is not as serious a problem with the S&P 500, with correlation coefficients of .19 and .41 with GSP and room prices respectively. The S&P 500 now becomes significant, with a positive coefficient of .33.

In equation 4, we drop GSP in order to be able to interpret the coefficient on room prices with greater confidence. In this case, the coefficient on room prices turns negative for the first time, but this coefficient is not statistically significant. The coefficient on the S&P 500 is again positive and just above threshold of significance at a 10 percent level for a one-tailed test at 10 percent.

Considering these results as a whole, it is again clear that none of the specifications provides a strongly robust finding. Equation 2 probably offers a relatively reliable result even though it is not identified. This is because the results are not affected either by multicollinearity or serial correlation. The fact that the results of this test are basically consistent with those of equation 1, which is identified, lends support to the conclusion that the positive elasticity estimate in equation 2 of 0.21 is not merely a fluke or the result of misspecification bias. At the same time, such positive significant coefficients are not sustained with the first difference equations, which come closer to

controlling for nonstationarity in the variables. Overall then, the results suggest that the actual price elasticity on occupancy rates is weak, regardless of whether the sign of the coefficient is positive or negative.

**Table A5.1**  
**Estimating Demand for Santa Monica Hotels, 1987-99**

*Dependent Variable: Average Hotel Occupancy Rates*  
*All variables are in logarithms*

(t-statistics are in parentheses)

	Levels		First Differences	
	<i>Equation 1</i>	<i>Equation 2</i>	<i>Equation 3</i>	<i>Equation 4</i>
Room Rates	0.44 (2.25)	0.21 (2.39)	0.23 (0.57)	-0.23 (-0.95)
California GSP	-0.70 (-2.25)	-----	-1.37 (-1.41)	-----
S&P 500	0.06 (0.76)	-----	0.33 (2.29)	0.16 (1.56)
Adjusted R <sup>2</sup>	.64	.48	.13	.05
Durbin-Watson	1.99	1.95	1.44	1.45
AR(1)	-----	.31	-.01	-----
Years	1987-99	1998-99	1989-99	1998-99

Sources: See Figures 5.1 – 5.4

Note: Constants were estimated in equations but are not reported in table

## APPENDIX 6. OVERVIEW OF LITERATURE ON MINIMUM WAGE AND EMPLOYMENT

The long-lived first generation of minimum wage studies use time-series evidence at the national level to track the effect of the minimum wage on some employment outcome. The employment outcome in these studies is typically the unemployment rate or the employment-population ratio of a sub-population that is likely to be affected by the minimum wage, e.g., teenagers, African-Americans, or teenage African-Americans.

In these studies, the minimum wage was frequently represented by an index that increases with the value of the minimum wage and the share of the work force covered and decreases with average wages. This construction attempts to capture the multi-dimensional character of minimum wage policy: coverage; and level (relative to the labor market). For example, one widely used index is “coverage *times* statutory minimum wage *divided by* average wage.” Alternative indexes weight by industry-specific concentrations of the relevant sub-population or use sub-population-specific average wage.

From these studies, the range of labor-demand elasticity (with respect to the index, not to wage itself) for the employment of teenagers between the late 1940s and the late 1970s is between  $-0.05$  and  $-0.30$ , with an average of  $-0.15$ . More recent studies using this methodology have found smaller elasticities, with estimated elasticities of  $-0.06$  and  $-0.05$  for the only two studies that included the middle 1980s. This apparent reduction in elasticity with respect to the index cannot be attributed exclusively to the falling real value of the minimum wage (or the falling value of the minimum relative to the average wage) because expanding coverage over this period actually meant the index was increasing through the 1970s. The index was, hence, increasing in a period when the real/relative minimum wage was falling.

Using linear rather than log specification causes the coefficient on the index to become insignificant as does the addition of the adult unemployment rate (a cyclical factor) as a control. Lastly, replication of these studies shows some sensitivity in coefficient estimates and substantial sensitivity in standard errors to corrections for autocorrelation. These studies also manifest signs of publication bias: a meta-analysis of these studies finds that  $t$ -statistics do not increase with sample size, as would be the case in the absence of publication bias.

Two new methods of minimum wage analysis exploit interstate variation in the “bite” of the minimum wage to identify its effect on the employment outcome of interest. One approach examines the differential effect of federal minimum wage changes on low-wage states, where the federal minimum has substantial bite, relative to average wages, and on high-wage states, where the federal minimum has less bite. The second approach examines the effect of changes in state minimum wage legislation on employment in the state changing its minimum relative to appropriate comparison states. Some of these studies have been near case studies of particularly industries, typically fast-food or retail, and others have examined employment aggregates, e.g., the teenage non-employment rate. The point of these methods is to establish an appropriate counterfactual: what would have happened to the relevant employment outcome had the minimum wage not increased at all or as much as it did. In these quasi-experimental approaches, the estimated effect of the minimum wage on employment has been relatively small, with the highest-magnitude estimated elasticity around the average elasticity of the first-generation studies. Some estimates of elasticity range to positive elasticity. But the interpretation of the data has been contentious.

Katz and Krueger (1990, cited in Card and Krueger, 1995) examine the effect of the 1989 increase in the federal minimum on employment in fast food restaurants in Texas, comparing restaurants whose pre-increase wage exceeded the new minimum to those whose pre-increase wage was below the new minimum. They find that the restaurants where the minimum wage presumably had the greatest bite, i.e., restaurants whose pre-increase wage was below the new minimum, experienced *increases* in employment relative to restaurants where the minimum wage did not mandate wage increases. The estimated elasticity of employment with respect to the minimum wage is  $+1.8$ . A reasonable criticism of this study is that restaurants with substantially different initial wages cannot be appropriately compared as counterfactuals.

Card and Krueger (1994, cited in Card and Krueger, 1995) apply a similar methodology and refine the comparison group in their analysis of the 1992 New Jersey minimum wage increase. They compare full-time equivalent employment at fast-food restaurants in New Jersey, where the state minimum wage increased from the same level as the Federal minimum—\$4.25 per hour—to \$5.05 per hour in April 1992 with FTE employment at fast-food

restaurants in Pennsylvania. Pennsylvania remained at the Federal minimum. Full-time equivalent employment at +0.9 restaurants in New Jersey increased relative to that at restaurants in Pennsylvania following New Jersey's minimum-wage increase. The estimated elasticity of employment with respect to the minimum wage is in a range of +0.3 to +0.9.

Card and Krueger also reproduce the Texas methodology in New Jersey, comparing restaurants that were initially paying below \$5.05 per hour with those that were initially paying in excess of the new state minimum wage. The results are similar to the New Jersey-Pennsylvania comparison (and the Texas study): the restaurants at which the new minimum wage was legally binding experienced relative increases in FTE employment.

There has been substantial controversy over the quality of the data for this study. The data for the Card and Krueger New Jersey-Pennsylvania study came from two waves of a telephone survey of fast-food restaurants in all parts of New Jersey and in seven counties in eastern Pennsylvania. The Employment Policies Institute initiated a reanalysis of the experiment using payroll data that it collected from a non-randomly selected set of fast-food franchises in New Jersey and Pennsylvania. The Employment Policies Institute then funded a reanalysis by Neumark and Wascher, who use both the EPI data and additional payroll data that they collected.

The Neumark and Wascher (1999) reanalysis examines hours rather than employment at fast-food restaurants in the two states over the relevant period. The analysis finds a negative elasticity of hours with respect to the minimum wage, with a range of  $-0.1$  to  $-0.3$ , which is comparable to the earlier set of time-series studies.

Card and Krueger (1999) question the quality of the payroll data, particularly the initial collection by the Employment Policies Institute, because of the nonrandom collection method. Comparing their employment data to the Neumark and Wascher hours data, Card and Krueger find a relatively high correlation with the only important outlier being a single Burger King franchisee in the initial EPI dataset. The negative elasticity finding in the Neumark and Wascher data is increased by these datapoints. Neumark and Wascher (1999) respond that testing the effect of a particular datapoint constitutes datamining, but they do not address the peculiar noncorrelation of that particular datapoint with its counterpart in the alternative dataset. They did verify the data with each franchisee and received signed statements attesting to the accuracy of the payroll records.

Card and Krueger (1999) conducts yet another analysis of the New Jersey and Pennsylvania quasi experiment, this time using ES-202, Covered Employment administrative data collected by the Bureau of Labor Statistics in the course of administering unemployment insurance programs. These data permit longitudinal analysis of individual restaurants. The ES-202 analysis finds a zero to slightly positive effect on relative employment in New Jersey.

The controversy over the New Jersey-Pennsylvania minimum wage study has other aspects as well, e.g., the periodicity of payroll reporting by the fast-food restaurants affects the results of the payroll-based study. Furthermore, the datasets give conflicting results regarding the substitution of part-time for full-time workers; Neumark and Wascher find some evidence of this substitution in the payroll data, while a Neumark and Wascher reanalysis of the Card and Krueger data suggests some substitution in the opposite direction. Lastly, summary statistics on levels and changes in all three datasets (the Card and Krueger phone surveys, the EPI/Neumark and Wascher payroll data, and the BLS administrative data) show some areas of agreement and some areas of disagreement between pairs of datasets in the various dimensions of the analysis. In many summary statistics, the two candidates for "gold standard," the administrative data and the payroll data, are not in substantial agreement with each other, and the administrative data frequently corroborates the survey data.

Taking all of the data at face value, the balance of the evidence points to an elasticity of employment with respect to the minimum wage that is certainly not substantially smaller than zero.

The analysis of employment aggregates, e.g., employment-population, using inter- and intra-state variation has been equally contentious, with substantial disagreement in results depending on the treatment of school enrollment in relation to employment and nonemployment. Excluding the school enrollment rate, which Card and Krueger (1995, citing Card, Katz and Krueger, 1994) argue is an appropriate exclusion in a *demand* estimation, results in an estimated elasticity of employment with respect to the minimum wage of zero.

Recent work from Neumark (1999) implements the notion of a prespecified research design, wherein the researcher commits to a set of specifications before using the data; this prevents datamining. In this analysis, Neumark finds many elasticity estimates that are not significantly different than zero and some that are negative in the  $-0.1$  to  $-0.2$  range, particularly in the specifications that include lagged relative minimum wage.

In conclusion, the recent minimum wage literature has been hotly contested, with useful re-analyses indicating that results often hinge on both specifications and datasets. The consensus value of the elasticity of the most highly exposed employment with respect to the minimum wage has probably moved from slightly negative towards zero, with zero as a very reasonable best estimate.

## APPENDIX 7. RECESSIONS, WAGE INFLEXIBILITY AND MINIMUM WAGES

This memo elaborates on the material discussed in Chapter 5 of the main body of this report. The primary conclusions presented in the main text, and described in more detail in this appendix, are as follows:

1. In the United States, there is already a high degree of downward nominal wage rigidity (Altonji and Devereux, 1999; Bewley, 1999). So the imposition of a living wage ordinance should not have a significant impact on increasing downward rigidity. Even if downward rigidity worsens employment outcomes in recessions, there should be very little or no added impact from the existence of living wages. Indeed, considering firms which are pushed below the threshold as a result of a recession, they may be *more likely* to reduce wages than otherwise because they could claim that the law encourages them to do so. In this sense, it is even possible that the living wage ordinance could reduce downward rigidity at the margin.

2. Even if the living wage ordinance did increase the degree of downward nominal rigidity, it is not clear that this would significantly increase the negative employment effects from cyclical downturns. The evidence at the macroeconomic level of inflexible wages on unemployment is quite mixed. (See Stock and Watson, 1999, Rotemberg and Woodford, 1999 and Christiano, Eichenbaum and Evans, 1999, for recent surveys). There is even less evidence on this point at the microeconomic level, but the most carefully constructed evidence which does exist suggests that more downward nominal wage rigidity does *not* lead to more layoffs (Altonji and Devereux, 1999; see also Bewley, 1999) Bewley emphasizes that wages are rigid downward because managers are worried about the impact of wage cuts on morale and productivity.

3. We present new econometric work on the impact of the differential effects of minimum wages on employment during economic downturns. In this work, we look at minimum wage differentials over time across U.S. states. In terms of coverage, we look at the impact on statewide employment as well as on the hotel and restaurant industry. Our results indicate that there is no statistically significant negative impact of higher minimum wages on employment losses during recessions, both in our general sample of all industries, and as regards the hotel and restaurant industries specifically. Our econometric finding may be influenced by noise in the data. But our results are consistent with the broader analytic literature on wage rigidity and employment, thus lending credence to the robustness of our findings.

### The Existence Of Rigid Nominal Wages

There is a formidable macroeconomics literature concerning the degree of nominal wage rigidity in the U.S. (See Rotemberg and Woodford, 1999). The literature generally supports the notion that at the macroeconomic level, there is a high degree of nominal wage rigidity, at least in the downward direction. More recently, more attention has been paid to the microeconomic evidence. At first, the microeconomic evidence seemed at odds with the macroeconomic evidence (McLaughlin, 1994). McLaughlin concludes that wages are generally flexible downward. He finds that 17% of annual wage changes are wage cuts and that, even after controlling for measurement error, at least 12% of wage changes involve wage cuts.

However, since McLaughlin's paper was published, much later work has emphasized that measurement errors in the data have grossly over-estimated the amount of wage cutting in the United States. For example, Shea (1997) finds substantial errors in the nominal wage cut data used by most researchers, the Panel Study of Income Dynamics. In a sample of unionized workers, he finds that while 21% report wage cuts, only 1.3% of the sample really do have true wage cuts.

In one of the most comprehensive studies to date, Altonji and Devereux try to make progress on this issue in two ways: by studying detailed personnel records of a large financial corporation to see how often and in what circumstances wage cuts occur. More relevant to our study, they also develop an econometric model to estimate the amount of wage cutting in a broader set of industries, using the PSID (Panel Study of Income Dynamics), 1971-1992, which includes the deep recessions of the early 80's and early 90's. They study hourly workers, which is relevant to our study.

In their case study, they find that only about .5% of salaried workers and 2.5% of hourly workers receive wage reductions. Moreover, almost all of the wage reductions were associated with changes in part time/full time status or switches to compensation schemes involving performance incentives. (p. 2)

In their broader sample, they find that, after controlling for the substantial degree of measurement error in the data, the probability of a pay cut in any given year is essentially *zero*. (p. 20) “The model implies that essentially all of the reported nominal wage cuts are due to measurement errors rather than actual nominal wage cuts”. (p. 21) It is true that pay cuts and freezes are more likely to occur in periods of low inflation and recession, as one would expect. Hence, nominal wages are not completely rigid downward. On the other hand, the regression estimates do not show a statistically significant impact of increases in state unemployment rates on the probability of a pay cut or freeze (p. 21). Moreover, Altonji and Devereux do not find that unionization or the federal minimum wage are responsible for the downward rigidity of wages. (p. 20)

Altonji and Devereux present important econometric evidence that wages are very inflexible downward, with the implication that minimum wages do not contribute significantly to downward wage rigidity. But their article does not offer explanations as to *why* wages tend not to fall, even in recessions, nor what the relationship is between rigid wages and unemployment during recessions. Fortunately, this question is explored at length in Truman Bewley’s pathbreaking 1999 book, Why Wages Don’t Fall During a Recession. The book represents almost a decade of work and is based on interviews with more than 300 managers, labor leaders and counselors of the unemployed in the Northeast during the recession of the early 1990’s.

As Bewley posed the question: “Why have money wages and salaries seldom declined during the post-World War II recessions in the U.S. despite high unemployment and intense competition for jobs? Instead, market pay rates continue to rise during downturns, albeit at a slower rate than during economic booms. Why do few firms avoid layoffs by cutting pay and lowering product prices so as to increase sales?” (p. 1) His overall answer, elaborated below, is that wage rigidity stems from a desire by management to encourage loyalty and keep up worker morale, along with a dominant belief by managers that cutting wages would have very little or no effect on a firm’s ability to avoid layoffs during a recession. (p. 1)

In short, layoffs are common during recessions, according to Bewley. But, as an implication of his argument, minimum wages are unlikely to be an important cause of these layoffs because firms’ wages tend not to fall during recessions in any case, and even if they were to fall, managers would have no expectation that falling wages would reduce layoffs. (p. 16) In fact, managers prefer lay-offs to wage cuts because they believe that lay-offs reduce costs during recessions more than wage cuts would, without having the negative impacts on productivity that wage cuts have. (p. 16). Bewley found that “Wage demands were not a cause of unemployment. On the contrary, many unemployed workers became excessively flexible in the eyes of both people who counseled them and of employers...” (p. 17) According to Bewley’s evidence, then, minimum wages simply do not matter in establishing the strong relationship between recessions and layoffs.

Employment costs, according to Bewley’s interviews, are not entirely rigid downward during recessions. Firms which convince workers that they are in deep financial trouble do cut wages, but typically no more than 5-20 percent. Also, some firms do cut benefits, such as the share of health care contributions. But the minimum wage is not related to this because it just affects base pay. Finally, a major exception to Bewley’s overall findings concerns pay in what he calls the “secondary” sector (as opposed to the “primary” sector). By secondary sector he means firms and industries where there is a high percentage of temporary and/or part-time workers. In this sector, Bewley finds that “the pay of new hires is was more flexible than downward...” than in the primary sector (p. 18). However, “in both sectors, the pay of existing employees was rigid downward, but in the secondary sector, the pay of new hires was less tied to that of existing employees. “The greater flexibility of hiring pay derived from the lesser importance of internal pay equity...In contract labor, there are no comparable existing employees, for temporary workers usually do not relate their pay to that of permanent employees. In other secondary-sector jobs, confusion caused by part-time schedules and high turnover makes it difficult for workers to get to know one another and to learn one another’s pay, and there is less resentment of pay inequities because jobs are seldom taken seriously as careers.” (pp. 18-19).

While Bewley interviewed managers from a variety of industries and sizes and types of firms, he concludes that, “Diversity proved to be of less importance than expected, however, for views were astonishingly uniform.

Regarding personnel management, the wisdom of a top executive at a huge corporation was not very different from that of a restaurant manager or machine-shop owner. The only ..major distinction I detected was that between the primary and secondary sectors, and even there the divergence of opinion and experience was not dramatic” (p. 26).

#### The Effort to Maintain Morale

Managers are reluctant to cut pay, even in recessions, because they believe it will hurt worker morale. Why do they care about morale? Because they believe that low morale is bad for productivity. “The impact of morale was discussed in interviews with managers of 104 companies. The most common concern was with low productivity or poor workmanship. Other important considerations were turnover, recruitment and customer service. The effects on absenteeism and possible unionization were mentioned only a few times,” (p. 47).

Morale was important for employees who dealt with the public, because mood was likely to affect the way in which they treated customers. According to a manager of a non-union hotel with 60 employees: “Morale is important for performance. Employees need to enjoy coming to work. They need to be treated as individuals, and their ideas must be noticed and appreciated. They must be encouraged to take the initiative to make customers happy. Employees have to be happy to present a positive image to guests,” (p. 50).

Said one manager of a manufacturing firm with 150 employees, “If loyalty is bad, employees feel no loyalty and no desire to invest their efforts in learning more and improving...Unhappy employees could leave after the recession is over, if they wouldn’t now...If an employee is thinking of leaving, he is not going to be committed to learning how to do his job better...”

#### Internal Pay Equity

Morale is affected negatively by worker perceptions of inequity. The internal pay structure is important here: if workers feel that they are getting paid less than other workers inside the firm who are doing more or less the same job and have the same or less seniority, morale is perceived by managers and union leaders to being negatively effected. This contributes to wage rigidity, because it makes it difficult to cut the pay of some workers and not others. (p. 70). The importance of internal pay equity for morale also makes the pay of new workers rigid downward in a recession, in the primary sector. The reason is that the importance of internal pay equity limits the degree to which managers can lower the pay of incoming workers.

Why don’t incoming workers offer themselves at much lower pay during recessions and bid down pay that way? According to Bewley’s interviews, the reasons are two-fold: 1) the need to internal pay equity and 2) the fact that job applicants had very little information about what positions are available and what they pay. (p. 130) Another contributing factor was that firms in the primary sector were reluctant to accept applicants who were perceived as being “over-qualified” for the job because they were worried these workers would simply leave when the recession was over or would be too assertive in dealing with their managers. The following quote was typical: “Whether people are unemployed or not does not affecting their starting pay...We do not use the fact that someone is unemployed against them. We are not going to hire someone at a low rate and then worry about losing him later on.” (Human resource official of a unionized manufacturing company with 17,000 employees, p. 138).

As Table A7.1 shows, 81% of the 97 companies hiring nonunion primary-sector workers did not lower pay during the recession of the early 90’s. Only 3% lowered pay by more than 20%.

**Table A7.1**  
**Impact of the recession on the hiring pay of nonunion primary-sector workers (applies to 97 businesses)**

<b>Percentage change in hiring pay</b>	<b><u>Number of businesses</u></b>	<b><u>Percentage of Businesses</u></b>
-30 to -21	3	3
-20 to -16	5	5
-15 to -11	3	3
-10 to -1	7	7
No change	45	46
Increase	34	35

Source: Bewley, 1999, Table 9.3, p, 140.

Of the 38 primary sector companies which Bewley asked about low offers from workers during recessions, 79% said they never accepted low offers. Only 13% said they did.

#### Pay Raises

Bewley found that most primary sector firms actually continued raising wages during the recession, including non-union firms which were under no contractual requirement to do so. Employers said the main incentive was to motivate employees and control turnover (p. 153). Says Bewley, "It may seem surprising that quits should have been an issue during a recession, but employers worried that their best workers could still find other jobs...Companies also worried that if their pay fell below that of labor market competitors, turnover would soar when the economy recovered. It might be thought that turnover could be controlled by raising pay quickly, but employers rejected the idea as impractical and unseemly." (p. 153) Bewley also notes that the impact of profits is of interest because financial problems were one influence capable of bringing pay cuts. (p. 153). In short, the dominant motive for paying raises during the recession were the provision of incentive and the control of turnover, with the first motive somewhat more important. (p. 155-156).

#### Extent of Pay Cuts in the Primary Sector

Table A7.2 below shows the extent of nominal pay cuts during the recession. As one can see from the table, pay cuts were rare.

**Table A7.2**  
**Incidence of Nominal Pay Cuts (applies to 235 businesses)**

Type of Nominal Pay Reduction	Number of Businesses	Percentage of Businesses
General cut in base pay during the previous year	6	3
General cut in base pay during the recession	11	5
Cut in base pay for some or all employees during the previous year	12	5
Cut in base pay for some or all employees during the recession	24	10
General Cut in total compensation during the recession	27	11

Source: Bewley, 1999, p. 172, Table 11.1.

In Table A7.3, we reproduce from Bewley the explanations of employers as to why they do not cut pay. As we see, basically employers think that cutting pay creates costly problems they would rather avoid. Note that the minimum wage is not even mentioned often enough to make it into this tabulation of open ended responses.

A manager of a restaurant with 30 employees was typical in his/her explanation:

I never cut anyone's pay. I don't believe in it in principle....A pay cut would be interpreted as a punishment, even if it were done across the board. It would be insulting and would lower people's standard of living and for both those reasons, it would hurt morale and get people working against, rather than for the restaurant. In this business, that could happen in a couple of days (p. 175).

Firms did save money in other ways. Some companies reduced wage costs through outsourcing, which meant subcontracting to other companies work normally done by the company itself. For instance, it was not uncommon for companies to save money by outsourcing guard and janitorial services. (p. 173).

#### Lay-offs

Most managers did not believe that cutting pay would avoid layoffs. Says Bewley, "Asking directly about the *choice* between layoffs and pay cuts risked alienating managers for most did not think of the two as alternatives...A common reaction to this question was puzzlement. Pay cuts would create little or no extra work and so would barely reduce the number of excess workers (p. 182).

Among 32 businesses questioned on the topic of why not cut pay, 56% said pay cuts would not save or create jobs; 44% said pay cuts would hurt morale and productivity more than layoffs would; 28% said layoffs give better control over who leaves, and thus makes it easier to get rid of lower productivity employees; 25% said layoffs save more money than pay cuts, primarily because of fixed employee costs like benefits, office space, etc.

Among 50 businesses responding to the question "Why not cut pay and prices thereby avoiding layoffs by selling more?", 78% said price cuts made possible by pay cuts would have little impact on sales, at least in the short run; only 18% said such cuts would increase sales and employment significantly. When asked why employment responds little to wage cuts, among the 26 businesses asked this question: 81 percent said the product demand would respond little to price cuts because business product demand responds little to price (31%), because the business does not compete on the basis of price (27%); because competitors would also lower their prices. Finally, 27% said the reason is that labor costs are a small fraction of costs. (pp. 182-183)

High unemployment generally made it easier for managers to lay-off workers without fearing that they might lose them when the economy recovered. (p. 220). Moreover, managers felt that productivity goes up when they lay off

workers during a recession, because the workers that remain are afraid of being the next ones fired. Also, managers could pick the low productivity workers to fire. As Bewley put it, “The majority of employers believed they could turn lay-offs to their advantage. Few expressed this confidence about pay cuts.” (p. 250). Moreover, few firms laid off workers to replace them with cheaper workers. (p. 255).

### The Secondary Market

Firms with a high percentage of part-time and/or temporary employees were more likely to cut pay of new hires, relative to existing employees. Like primary sector employers, they were reluctant to cut pay of current employees. For these firms, a certain amount of turnover was good; training costs were low and turnover allowed them to maintain low seniority and thereby keep overall wage costs down. It also allowed them to fire or get rid of lower productivity workers.

According to Bewley’s data, 89% of the employees in eating and drinking establishments were part-time. Interestingly, though, while unemployment reduced wages in many types of firms, in Bewley’s statistical work, there was no statistically significant impact of national unemployment on wage reductions in the eating and drinking sector (p. 316).

The role of minimum wages is also more important in the secondary sector, but still not particularly large. According to Bewley, interviews with 51 businesses in the secondary sector responded the question: what factors put a floor under pay? Whereas 65% said “the need to pay enough to recruit labor of appropriate quality” only 10% said “the minimum wage”. This was particularly true in the fast food industry.

Overall then, there is no doubt that recessions lead to lay-offs. But there is no evidence in Bewley’s work that minimum wages contribute to this connection. Firms are reluctant to lower wages in recessions in any case; moreover, managers do not believe that lowering wages could save jobs. Except in cases where firms are financially on the edge of bankruptcy, lowering wages of existing employees is not a particularly relevant option as a way of avoiding layoffs. Firms in fact prefer lay-offs to wage cuts and this, of course, is independent of the minimum wage. Even in the secondary sector where wage cuts for new employees are more common, the minimum wage appears to be a minor factor.

### Do Downwardly Rigid Wages Increase Layoffs?

Having established in the micro-data that nominal pay cuts are rare, Altonji and Devereux then consider the impacts of this rigidity, including its impact on lay-offs and quits.

They find that there is no consistent evidence that nominal downward wage rigidity leads to more layoffs. They report that “the coefficients in the layoff equations are mixed in sign, very small in magnitude and never statistically significant”. (p. 23). Moreover, they find evidence that the wage rigidity might have benefits to the firms because it leads to fewer quits. Thus, their econometric evidence is consistent with the survey data that Bewley presents.

### Conclusion

Recent careful studies of microeconomic data suggest that nominal wage declines do happen, but they happen rarely. Moreover, in contrast to some assumptions in the macroeconomic literature, nominal wage rigidity does not seem to lead to higher lay-offs. As to why wages are cut so rarely, Bewley’s important study discovers some important issues: economists using traditional analysis can not explain why nominal wages are cut so rarely in the U.S. Extensive field work by Bewley and other studies suggest that an important reason is that companies do not want to cut wages because they think doing so will hurt worker morale (Bewley, 1997; Hall, 1999) which will hurt productivity. According to Bewley’s findings, laying-off workers is more profitable than cutting wages in a recession.

## New Econometric Evidence on Business Cycles, Minimum Wages and Employment

### Introduction

In this section, we develop some new empirical results which provide more evidence against the argument that higher minimum wages worsen employment losses in recessions. We study this question by looking at how employment varies in different states when recessions occur depending on the level of the minimum wage. We can do this because in the late 1980's and early 1990's, a number of states passed state-wide minimum wage laws that raised the wage above the federal minimum. We presented the figures on the extent of higher statewide minimum wages in Table A1.3.

We use data based on standard minimum wage patterns to assess the impact of higher minimum wages on the employment effects of business cycles, particularly economic downturns. If higher minimum wages increased the employment losses of recession, we would expect to find these losses worsened in the case of the states that have higher minimum wages. In assessing the impact of minimum wages on employment losses during recessions, we would like to look not only at the economy as a whole in each state, but specifically at the hotel and restaurant industries, since they are especially relevant for assessing the Santa Monica proposal.

One of the issues that arises with respect to measuring the impact of minimum wages, is to try to take into account the degree to which the minimum wage is binding: that is, the extent to which it is high enough relative to local wages that, a large number of workers actually make the minimum wage. To take this factor into account, some studies look at the ratio of the minimum wage to the median wage in the state. If, for example, the minimum wage is high, but general wages in that state are even higher, than the ratio would be relatively low and the impact of the minimum wage would be expected to be rather low. (Acemoglu and Pischke, 1999)

In the results presented below, we present results for the minimum wage measured in both ways. (See the data presentation below for more detailed information on the minimum wages and ratio of the minimum wage to median wage.)<sup>64</sup>

We analyzed state level data covering the period 1987-1992. The period ends in 1992 because that is the last year for which we could get a continuous time series on state level minimum wages (see the data appendix for more details). We estimate two specifications. The first uses levels of the median wage and minimum wage and the second uses the ratio of the minimum wage to the median wage.

$$(1) E = \beta_0 + \beta_1 Y + \beta_2 W + \beta_3 W_{\min} + \beta_4 W_{\min} * Y + \varepsilon$$

$$(2) E = \beta_0 + \beta_1 Y + \beta_2 WR + \beta_3 WR * Y + \varepsilon$$

where the equation is estimated using a panel of the 50 states over the period 1987-1992. In this equation

E = change in the log of employment  
 Y = change in the log of gross state product (GSP)  
 W = the median wage in the sector studied (the whole state or the industry)  
 W<sub>min</sub> = the higher of the state minimum wage and the federal minimum wage  
 WR = ratio of the minimum wage to the median wage  
 ε = an error term

These equations are used to look at the cyclical sensitivity of employment to the minimum wage by taking into account the level of the minimum wage and median wages in the state or industry. In equation (1) the median and minimum wages are entered separately. The interaction term, the minimum wage times the GSP measures the effect of the minimum wage on the cyclical sensitivity of employment. A significant positive sign implies that minimum

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<sup>64</sup>See Brown, 1999 for a survey of some of these studies which exploit state variation. These studies have exclusively looked at the impact of minimum wages on the employment levels or secular growth in employment (Brown, 1999; Partridge, 1999; Neumark and Wascher, 1992; Card and Krueger, 1994). By contrast, in this section we exploit the state variation in minimum wages to look at the impact of minimum wages on the cyclical characteristics of employment, with an emphasis on cyclical downturns. Since the Santa Monica Coastal Zone living wage ordinance would primarily affect hotels and restaurants, we will focus on those industries in this analysis as well.

wages increase the cyclical sensitivity. A significant negative sign indicates that a higher minimum wage reduces cyclical sensitivity.

In equation (2) the variable  $WR$  measures the level of the minimum wage relative to the median wage in the state, as a crude way of indicating the extent to which the minimum wage will actually raise wages above what they would be otherwise, in other words, to measure the extent to which the minimum wage “bites”. The coefficient on the interaction term,  $WR*Y$  indicates the degree to which the minimum wage affects the sensitivity of employment to changes in output. A positive and significant value for  $\beta_3$  indicates an increased business cycle sensitivity of employment due to higher minimum wages. A negative and significant sign implies that the minimum wage has reduced the cyclical sensitivity.

These equations were estimated for the whole period and then separately for periods of increase and decrease in the log of output. We are particularly interested in the effect of minimum wages on the employment effects when there are declines in output. Regional dummies and time dummies were also incorporated in the regressions, but for reasons of space and presentation, their coefficients are not presented in the tables.

## Results

Tables A7.4 and A7.5 present the results, first the wage level results, then the results using the index of minimum wage divided by the median wage.

In A7.4, the results for all industries and all years (the first column) indicate that state employment is affected positively by increases in state output, as one would expect. Increases in the minimum wage appears to increase employment. The interaction term (minimum wage \* GSP) is negative. This suggests that increases in the minimum wage reduces the impact of the changes in gross state product on employment: to the extent that this regression measures the cyclical impact, these results suggest that the increases in the minimum wage reduce cyclical impacts. These results appear to be roughly the same for periods of economic downturns as well as upturns.

The results for the hotel industry also indicate that output changes induce employment changes. Here increases in the minimum wage appear to have no statistically significant effects on employment, either directly or indirectly through its cyclical impacts. The restaurant industry looks more like the economy as whole in the cyclical impacts: the significant negative sign on the interactive term indicates that increases in the minimum wage reduces the cyclical impacts of output on employment, both in downturns and in upturns.

Table A7.5 looks at the same issue, this time using the wage index as a measure of the impact of minimum wage. The wage index is the ratio of the minimum wage to the median wage and attempts to capture the degree to which the minimum wage is actually affecting the wages workers get and the wage costs facing firms. Holding the minimum wage constant, if median wages are very high, then the index is low, indicating that the minimum wage might not be affecting many employees (see Acemoglu and Pischke, 1999).

The results in Table A7.5 indicate that changes in state output are accompanied by changes in state employment, as one would expect. Looking first at all industries and all periods (first data column), the positive sign on the interactive term suggests that minimum wages increase the cyclical sensitivity of employment. However, one can see from columns two and three that in economic downturns, this relationship is not statistically significant, whereas for economic upturns it is. This difference may be due to the smaller number of observations of economic downturns versus upturns (50 vs. 244). But 50 observations is a substantial number and it seems unlikely that the results are simply due to this difference.

Estimates of the hotel industry (the second set of columns) find no statistically significant change in cyclical sensitivity due to increases in the minimum wage. In the case of restaurants (the third set of columns) once again we see the pattern where the interaction term is positive for all years, but when we distinguish between economic upturns and downturns, we see that the increase sensitivity only applies to upturns and not to downturns.

To summarize, there is no evidence that increases in the minimum wage increase the cyclical sensitivity of employment to economic downturns. When the wage index is used, (Table A7.5) increases in the minimum wage appear to enhance the cyclical effects but only during upturns. This implies that when the economy grows, a higher minimum wage is associated with *more* employment growth. When wage levels are used, there is no evidence that

higher minimum wages increase employment cyclicality during downturns. However, there is some evidence that employment increases during upturns are moderated by higher minimum wages. This is true in the economy overall and in the restaurant industry.

Overall then, there is little or no evidence that higher minimum wages have detrimental cyclical affects on employment. This is especially clear for the hotel industry during economic downturns or upturns and of the restaurant industry during economic downturns. For economic upturns, there is ambiguous evidence for the restaurant industry between the two sets of regressions. Sorting out this difference might warrant future study.

**Table A7.3**  
**Arguments against cutting base pay (Applies to 151 Businesses)**

<u>Arguments</u>	<b>Percentage of Businesses</b>
Pay cuts hurt morale and demotivates workers	69
Because of lower living standards	25
Because they are insulting	17
Pay cuts hurt productivity	42
Pay cuts increase turnover	41
Employees would leave slowly or at next boom	30
The best employees would leave	12
Employees would go out of rage	3
It is hard to convince workers that a pay cut is needed to save their jobs	7
Pay cuts invite sabotage	5
Pay cuts invite unionization	5
Unions resist pay cuts	3
Managers do not want to cut their own pay	3

Source: Bewley, 1999, p. 174, Table 11.2.

**Table A7.4**  
**Cyclical Impacts of Minimum Wages on Employment Using State Level Data:**  
**Wage Levels**

(Dependent Variable:  
Change in the Log of Employment)  
First number: Estimated Coefficient  
Second number: t-Statistic

	All Industries			Hotels			Restaurants		
	all years	output decline	output increase	all years	Output decline	output increase	all years	output decline	output increase
change in Gross State Product	1.54	3.84	1.04	1.00	2.5	.45	1.73	5.76	1.41
	5.51	3.97	2.52	1.57	.64	.42	4.02	2.68	2.1
Median wage	-.0028	-.002	-.003	.002	.003	.002	-.004	-.009	-.003
	-4.3	-1.64	-4.49	1.55	.61	1.44	-4.33	-3.24	-3.28
Minimum wage change	.013	.008	.007	-.002	.03	-.006	.006	.014	.0004
	2.51	.409	1.33	-.15	.28	-.39	.701	.23	.045
Minimum wage * Gross State Product	-.318	-.907	-.219	-.14	-.41	.007	-.406	-1.34	-.36
	-4.38	-3.835	-2.00	-.84	-.43	.026	-3.69	-2.56	-2.04
number of obs.	294	50	244	216	35	181	183	30	153
adjusted R <sup>2</sup>	.62	.775	.53	.51	.50	.49	.45	.71	.32
F	41.2	10.6	24.11	19.54	3.91	15.44	13.51	7.44	7.02

Note: Year and Regional Dummies were also included. Data sources available on request

**Table A7.5**  
**Cyclical Impacts of Minimum Wages on Employment Using State Level Data:**  
**Wage Index**

**(Dependent Variable:**  
**Change in the Log of Employment)**  
**First number: Estimated Coefficient**  
**Second number: t-Statistic**

	All Industries			Hotels			Restaurants		
	all years	output decline	output increase	all years	Output decline	Output increase	all years	output decline	output increase
change in Gross State Product	.352 10.2	.19 1.15	.266 6.24	.46 5.81	.61 1.7	.48 4.2	.185 3.25	-.04 -1.14	.142 2.03
ratio of minimum wage to median wage	.027 .79	.237 2.06	-.03 -.77	-.10 -1.24	.05 .181	-.09 -.8	.08 1.42	.35 1.64	-.08 -1.3
ratio * change in Gross State Product	1.92 2.71	5.95 1.28	3.53 4.52	.44 .24	9.2 .91	.43 .17	1.79 1.67	-1.14 -1.13	5.09 4.3
number of obs.	294	50	244	216	35	181	183	30	153
adjusted R <sup>2</sup>	.61	.59	.55	.50	.51	.49	.40	.56	.34
F	42.4	7.38	28.6	20.92	4.18	16.76	12.22	4.67	8.22

Note: Year and Regional Dummies were also included. Data sources available on request

## APPENDIX 8: ESTIMATION OF CONTRACTORS ONLY PROPOSAL

To estimate the number of workers that would be covered by a contractor-only proposal, we secured the list of all firms holding contracts with the city of Santa Monica in fiscal year 1998-1999. These 110 firms, holding a total of 131 contracts, were sent mail surveys, requesting data on number of workers, workers working on the city contract, benefit and cost data. Phone calls were made to those firms that did not respond. In the end, 37 firms responded to the survey. A copy of the survey is attached.

At this point, we discovered that a small number of the contracts were strictly for the procurement of goods, rather than services, and these were dropped from the list. Another contract was for a self-employed contractor, with no employees. This was also dropped. This left us with a total of 99 firms, holding 120 contracts, and a total of 34 respondents holding 42 contracts.

Calculations for total workers affected, total cost of a wage increase, and total costs of the ordinance were done directly from the survey data. We used Dun and Bradstreet sales data to calculate total costs relative to sales, where sales data was available. We used survey data and city provided information on the value of the contract to calculate total costs relative to the contract value and relative to gross receipts.

Current Population Survey Outgoing Rotation Group (CPS-ORG) files were used to find the average hourly wages earned by workers in each wage category. The Current Population Survey March data was used to determine the proportion of workers in wage categories that have health care available to them through their employer. Coverage ratios were calculated for the under \$8.25 per hour category and the \$8.25 to \$9.46 category. Although the contractor-only proposal calls for a health insurance premium of \$1.14 per hour (\$9.46 - \$8.32), we calculated the total cost of health benefits using \$1.25 per hour, as this is the hourly amount for health insurance costs used in most southern California living wage ordinances.

To calculate the cost of paid days off, we used the PERI Santa Monica worker survey to determine the proportion of low-wage workers that receive paid vacation or sick days from their employer. We then calculated the average number of paid days off received by that group. The total cost of the days off was calculated as follows:

$$(12 [\textit{the proposed number of days off}] - \text{average days off received by those who get paid days off}) * \$8.25 * (\text{total workers affected} * \text{proportion who receive paid days off}) + (12 [\textit{the proposed number of days off}] * \$8.25 * (\text{total workers affected} * \text{proportion who do not receive paid days off}))$$

We used three weights to account for the total population of contractors: (1) weighting by the number of firms, (2) weighting by the number of contracts, and (3) weighting by the value of contracts.

The results differ somewhat depending on the weights used. As Table A8.1 shows, the number of affected workers – those working on contracts and earning less than \$8.25 hour – ranged from 56, when using the Firm Weight, to 100 under the Contract Weight. Essentially, this means that if the cities current contracting patterns hold, whereby one firm holds multiple service contracts with workers that work on multiple contracts, the number of affected workers will be on the low-end. If the city begins to award these contracts to different firms, a greater number of workers will be affected by the ordinance.

**Table A8.1**  
**Number of Affected Workers, by Type of Weight**

	<b>Firm Weight</b>	<b>Contract Weight</b>	<b>Value of Contract Weight</b>
Total workers employed by respondents	10,576	11,541	7,194
Total workers earning below \$8.25	459	599	374
Total workers working on contracts	960	1,295	827
Affected workers (on contracts below \$8.25)	56	100	62
FTES between \$8.25 and \$9.46 without health	23	41	26
Total workers directly affected	79	141	88
Total number of firms with affected workers	15	18	18

For the numbers presented in the report, we chose to use the “Value of Contract” weight because it is the best measure of the scale of activity for which these firms are working with the city, and these results generate midpoint estimates of covered workers on contracts.

**SANTA MONICA CONTRACTOR EMPLOYMENT AND WAGE SURVEY**

**Name of Company:** \_\_\_\_\_

**Name of Respondent:** \_\_\_\_\_

**Phone:** \_\_\_\_\_ **Fax:** \_\_\_\_\_

**Services performed for  
City of Santa Monica:** \_\_\_\_\_

**All of the following questions refer to your establishment only.**

A. Characteristics of the establishment.

Q1. Which category best describes your establishment?

- \_\_\_ 1. For-profit organization
- \_\_\_ 2. Government organization (including public educational institutions)
- \_\_\_ 3. Other non-profit organization
- \_\_\_ 4. Other (please specify: \_\_\_\_\_)

Q2. Which description best fits your establishment's situation?

- \_\_\_ 1. It is an independent, single establishment firm.
- \_\_\_ 2. It is owned by a multi-establishment firm.

Q3. What is your establishment's main product or service? Please describe this activity as specifically as possible:

\_\_\_\_\_

Q4. In what city and state is your establishment located? \_\_\_\_\_

Q5. How many years have you been at your present location? \_\_\_\_\_

**B. Employment and Wages**

Q6. What is the number of employees on the payroll for the last payroll period, excluding temporary employees and contractor workers, but including full-time and part-time?

- 1. Total Number of Employees \_\_\_\_\_
- 2. Of the total, how many were full-time (35 hours per week or more): \_\_\_\_\_
- 3. Of the total, how many were part-time (less than 35 hours per week): \_\_\_\_\_

Q7. How many temporary and/or contract employees do you have? \_\_\_\_\_

Q8. How many of the following do any direct work on your city of Santa Monica service contract?

- 1. Employees on your payroll \_\_\_\_\_
- 2. Temporary and/or contract employees \_\_\_\_\_

Q9. Please put ALL managerial and non-managerial employees on your payroll into the following wage/salary categories. Do not include temporary and contract employees, but please include salaried employees:

<u>Employees who earn:</u>	<u>Full-time employees</u>	<u>Part-time employees</u>	<u>Please estimate the average hours worked per week by the part-time employees</u>
Less than \$5.75 per hour	_____	_____	_____
\$5.75 to \$8.24/hour	_____	_____	_____
\$8.25 to \$10.74/hour	_____	_____	_____
\$10.75 to \$13.24/hour	_____	_____	_____
More than \$13.25 /hour (more than \$26,500 per year)	_____	_____	_____

Q10. What proportion are benefits as a percent of your total labor costs? \_\_\_\_\_ %

Q11. What proportion are wages and benefits as a percent of your total costs? \_\_\_\_\_ %

Q12. What proportion of your gross receipts does your service contract with the city of Santa Monica represent? \_\_\_\_\_ %

## APPENDIX 9. GENERATING LOS ANGELES SURVEY RESULTS WITH CURRENT POPULATION SURVEY

### DATA SOURCE

The labor statistics for Los Angeles County are based on the Current Population Survey (CPS). The CPS is a national monthly survey of about 50,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics. It is widely recognized as the primary source of information on the labor force characteristics of the U.S. population. We exclude members of the Armed Forces and children under the age of 15 from all of our analyses.

### Background

In order to understand the discussion of the methodological issues below some background information on the structure of the CPS is necessary. A household is surveyed for a total of eight months. The household is surveyed for four consecutive months, then for the next eight months the household is out of the survey. The household is surveyed again for the next four months after which the household is no longer surveyed. This structure allows the CPS to survey each household the same four months in each of two years. For example, if a household is surveyed for the first time in March 1998, they will be surveyed again in April, May, and June of 1998. From July 1998 until February 1999, the household is rotated out of the sample. The household is then surveyed again in March, April, May, and June of 1999. March 1998 is referred to as the household's "Month-in-Sample 1," April 1998 is referred to as the household's "Month-in-Sample 2" and so on; June 1999 is the household's "Month-in-Sample 8." This structure has an appealing feature of providing the possibility of constructing panel data: data on the same household can be obtained over a 1-year interval. In any given month, the CPS sample will be made up of households who are in their first, second, third, fourth, fifth, sixth, seventh, or eighth month-in-sample.

**ORG and Earnings Data.** The CPS asks a sub-set of each monthly sample a set of questions on earnings. This sub-set is referred to as the "Outgoing Rotation Group" (ORG) and is made up of those respondents who are in households that are in their fourth or eighth month-in-sample. Notice that those in the fourth month-in-sample are "outgoing" because they will not be surveyed for the next eight months and those in the eighth month-in-sample are "out-going" because they have completed their total of eight months of surveys and will not be surveyed again. This sub-sample is 1/4th of the total monthly sample.

**March ADS.** The March Annual Demographic Survey (ADS) is a set of supplemental survey questions that are asked in addition to March's Basic Monthly survey. This supplemental survey is a particularly important feature of the CPS for this study because it asks an extensive list of questions about the respondents' income, their family income, and the components of their income sources. It is this data on family incomes that allows the CPS to calculate poverty ratios (the relative value of a family's income to the poverty thresholds determined by the U.S. Census Bureau), thus allowing us to determine which workers are from families in poverty. Also, these supplemental questions allow us to measure the proportion of the family income or earnings contributed by the workers in the survey, their health insurance coverage, and their participation in government programs such as Food Stamps and other sources of welfare income.

Another significant feature of the March ADS is that it over-samples households that contain at least one Hispanic member. This increases the absolute number of Hispanics in the sample, allowing for more reliable estimation of population statistics for this group. Given the large proportion of Hispanics in L.A. County, generally, and among L.A. County's low-wage workers, specifically, this over-sampling makes the March ADS sample particularly well suited for this study.

### WAGE DATA

One of the major methodological issues for this study was deciding which set of variables to use for wage data since these data will define our major analytical categories. The CPS has two sources of wage and salary data: 1) the 1999 March Annual Demographic survey and 2) the ORG of the Basic Monthly survey.

**Wage and Salary Data from the 1999 March Annual Demographic Survey (ADS).** In the March ADS, the supplemental survey conducted in March only, the following survey questions can be used to derive an hourly wage rate:

- 1) During 1998 in how many weeks did [respondent] work even for a few hours, include paid vacation and sick leave as work?
- 2) In the weeks that [respondent] worked how many hours did [respondent] usually work per week?
- 3) How much did [respondent] earn from this employer before deductions in 1998?
- 4) [How much did the respondent earn in] Other wage and salary earnings?

Thus, wages can be calculated by the following formula: (Total wage and salary earnings)/((Hours per week)\*(Weeks per year)). Note that all four of these questions refer to the respondent's employment during the past year.

**Wage and Salary Data from the 1999 Basic Monthly Survey ORGs.** In the Basic Monthly survey, the ORG sub-sample (1/4th of the monthly sample) is asked the following questions from which we can derive hourly wages:

- 1) How much does [respondent] earn per hour?
- 2) How much does [respondent] usually earn per week at this job before deductions?
- 3) How many hours per week does [respondent] usually work at this job?

Thus, the wages of hourly wage workers is directly reported. For all other workers, the wage is calculated from the responses to the second and third question: Hourly Wage = (Earnings per week)/(Usual hours per week). All three questions refer to the respondent's employment during the reference week. The reference week is defined as the 7-day period, Sunday through Saturday, that includes the 12th of the month in which the survey is conducted (U.S. Census Bureau, 1998, p. 5-3).

Because only 1/4<sup>th</sup> of each monthly sample is asked the above questions and our study is focused on the L.A.-Long Beach PMSA, there is a problem of sample size. In order to use the great majority of the March data provided by the ADS rather than just 1/4<sup>th</sup> (recall that income and poverty data are only available in the March ADS), we pooled ORG earnings data from March, April, May, and June and matched these to the data from the March ADS.<sup>65</sup> This pooling process is made possible by the way the CPS constructs its monthly sample. Recall that ORG data is only available for workers who are in their fourth or eighth month-in-sample. Those who are in their fourth or eighth month-in-sample in April will have been in the third and seventh month-in-sample in the previous month, March. Thus, the respondents' ORG data provided in the April survey can be matched to the same respondents' supplemental data provided in March. Table A9.1 shows the pattern of re-surveying households that appeared in the March monthly sample. Each row shows the surveying pattern for the same set of households. For example, looking at the first row, households that are MIS 1 in March are MIS 2 in April, MIS 3 in May, and MIS 4 in June. The shaded entries indicate which sub-sample of households are also asked the current earnings survey questions, i.e., those in the ORG sub-sample. As we observe, respondents' ORG data from March to June can be matched to the same respondents' ADS data given in March.

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<sup>65</sup> We followed the longitudinal matching strategy recommended by Madrian and Lefgren (1999).

**Table A 9.1 Pattern of Re-surveying Households**

Survey Month			
March Monthly Sample	April Monthly Sample	May Monthly Sample	June Monthly Sample
MIS 1	MIS 2	MIS 3	<b>MIS 4</b>
MIS 2	MIS 3	<b>MIS 4</b>	MIS 5
MIS 3	<b>MIS 4</b>	MIS 5	-out of survey-
<b>MIS 4</b>	-out of survey-	-out of survey-	-out of survey-
MIS 5	MIS 6	MIS 7	<b>MIS 8</b>
MIS 6	MIS 7	<b>MIS 8</b>	-out of survey-
MIS 7	<b>MIS 8</b>	-out of survey-	-out of survey-
<b>MIS 8</b>	-out of survey-	-out of survey-	-out of survey-

In this way, we were able to increase our N by approximately 300%, and thus calculate reliable sample statistics on L.A. County workers. We will refer to this sample as the ORG sample.

### **Methodological Issues**

**Time consistency.** A disadvantage of using the ORG wage data is that the ORG survey questions refer to the reference week, whereas the March ADS questions on income and program participation refer to the previous year. This timeframe inconsistency creates a problem in measuring the welfare of low-wage workers since the respondents' employment situation during the last year may be different from their employment situation during the reference week (i.e., during a week in the current month). Thus, a worker who is currently earning a high-wage may have been recently promoted or changed industries away from a low-wage job, and as a consequence, the worker's income from the previous year would not accurately reflect the economic welfare of those earning that worker's current wage. Or, a worker who has been laid off from a high-wage job and has entered a low-wage job will have income data that inaccurately measures the worker's current income level at her new wage. The March ADS wage data, on the other hand, has a consistent timeframe with the income and program participation data and therefore can more accurately reflect the income level associated with a particular level of wages.

**Reliability of Sample Estimates.** In order to utilize the ORG wage data we had to pool four months of ORG data (from March, April, May, and June) to the March ADS data as described above. A consequence of this matching process was the loss of the supplemental Hispanic sample of the March ADS. This occurred because the supplemental sample is only used for the March survey, and because the ORG sub-sample of March does not include the supplemental sample. So that while observations were lost in the matching process due to the expected reasons for attrition (respondents may have moved, died, or refused to respond), a large portion of this attrition was due to the absence of those respondents who were part of the Hispanic supplemental sample. This has a particularly important consequence for a study that is focused on L.A. County where the general population was 43% Hispanic in 1997 (California Department of Finance, 1999) and the majority of its low-wage workers, 60% (see Table 8.4), were Hispanic in 1999. The loss of the over-sampled Hispanic respondents in the ORG sample cut the absolute (unweighted) number of Hispanics by approximately one-half. Thus, the sample statistics derived with the use of the ORG sample require fewer actual observations for Hispanics to represent a greater number of weighted observations, thus affecting the ability of the ORG sample to provide reliable sample statistics for Hispanics in particular, and also, to accurately account for the characteristics of this group in the total population. Another direct consequence is that the size of the ORG total sample N is smaller than the March ADS total sample N—the March ADS unweighted total sample N is one and one-half times the size of the ORG unweighted total sample N (2,213 vs. 1,463). Therefore, the loss of a large number of Hispanic respondents in our ORG sample results in a reduction in the statistical reliability of the population estimates based on that sample as compared to the population estimates based on the March ADS sample.

**Accuracy.** There is an important advantage to using the wage data from the Basic Monthly survey. The ORG wage variable may be more accurate for the following reasons: 1) it is directly reported by hourly wage earners, and 2) the likelihood of mis-reporting wages, salaries, or hours worked due to faulty memory is reduced by asking about a week in the current month rather than the previous 12 months. Mellow and Sider's study (1983) on the accuracy of

responses in labor market surveys found that wages are most accurately reported when respondents are able to report an hourly wage, where accuracy was determined by the respondent's consistency with the response of his/her employer. When respondents' wages are calculated from reports of usual hours worked and weekly earnings the respondents' responses were less accurate: employer-reported wages exceeded worker-reported wages by 2.4% for workers who were paid by the hour, compared to 4.8% for all workers, and 12% for professionals and managers only (p. 335). One may then expect that when respondents are asked to recall what they made in the last year, how many hours they usually worked per week, and how many weeks they worked last year, the accuracy of these data, and thus the wages derived from these data, may be even less.

**Decision to Use the March ADS Wage Data.** For this study, we decided to use the March ADS wage data because we believed that the advantages of this approach outweighed the disadvantages, particularly with regard to the additional number of Hispanic respondents available in the March ADS sample. As our primary goal was to achieve the most accurate wage data possible, we sought to minimize the effect of inaccurately reported earnings data from the March ADS by restricting the values for wages that would be considered valid. Such restrictions on time worked, earnings, or valid wages are common in the literature where accuracy of wage data is a predominant concern (see for example Katz and Murphy 1992 or Card and Krueger 1992).

Missing wage data were assigned to those respondents whose calculated wages were:

- 1) Less than \$4.25/hr. for those 20 years and older (the national minimum wage is \$5.15/hr.)
- 2) Less than \$4.00/hr. for those 20 years old and younger (a \$4.25/hr. minimum wage applies to employees younger than 20 years old, during their first 90 consecutive days of employment with an employer)
- 3) Less than \$2.00/hr. for those in food service occupations (a \$2.13/hr. minimum wage applies to tipped employees of employers who meet certain conditions)

These restrictions follow the pattern of the national minimum wage laws noted in parentheses (last modified in September 1997), rather than the California minimum wage laws since the members of the households surveyed in the March ADS could have lived outside of California during the previous year. The exact national minimum wage levels were not used to allow for some, but not gross, mistakes in the respondents' reporting of their wages and work hours.<sup>66</sup>

We included a final restriction that assigned missing wage data to those who worked for a very small number of hours during the previous year. The logic behind this restriction is that those who worked very few hours during the previous year would have an increased likelihood of inaccurately recalling their wage income and hours simply because they did not receive a regular paycheck over an extended period of time and/or their hours were so few per week that it was a minor portion of the person's total earnings and income. Specifically, if a person worked less than 250 hours during the previous year (12% of the hours for a full-time, full-year job) then the person's wage was assigned missing. This hours restriction reduced the number of total hours worked under consideration by 0.27 percent.

The results presented in the body of this report are based on the March ADS wage data. However, in order to insure that our results were robust, we conducted our analyses with the ORG wage data as well. We found that the results based on the ORG wage data did not differ consistently or substantially from those based on the March ADS wage data, except for the instances described below.

**Differences in Results.** The main differences between the results calculated from the March ADS and from the ORG follow logically from the differences in the way the two samples were constructed, rather than differences in the accuracy of wage reporting. That is, the differences in the statistics can largely be explained as consequences of 1) the exclusion of wage data for those who had less than 250 annual work hours in the March ADS sample, 2) the exclusion of the Hispanic supplemental sample from the ORG sample, and 3) the differences in the timeframes referred to by the different wage variables.

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<sup>66</sup> We also restricted the values for wages that would be considered valid for the ORG sample. Missing wage data were assigned to those respondents whose reported or calculated wages were less than \$0.50/hr. or greater than \$150/hr.

*Those who worked less than 250 hours.* Teenagers and nonwhites are somewhat over-represented in this group. So, too, are women to a greater extent. Consequently, the ORG sample has a slightly greater proportion of younger workers, nonwhites and women. Indeed we find significantly higher proportion of teenagers in the \$5.75-\$7.40 wage category in the ORG sample versus the March ADS, and slightly higher proportions of teenagers in the \$7.41 - \$9.10 and \$9.11 - \$10.75 wage categories. The higher proportions of nonwhites, however, are probably due to the absence of the Hispanic supplemental sample, since the vast majority of the respondents in that group with valid wage data identify as white. Women make up a substantially higher proportion of the lowest wage category, “less than \$5.75.”

A more obvious consequence of the work-hours restriction put on the March ADS sample is the higher average number of hours worked and number of weeks worked per year.

*Hispanic supplemental sample.* The most significant and substantive differences in the two sets of results reflect the absence of the supplemental Hispanic sample from ORG sample. Looking more closely at those respondents who are in this supplemental Hispanic sample, the following wage categories received (proportionately) the greatest amount of observations with the addition of this sample: “less than \$5.75” and “\$9.11-\$10.75.”

Workers with what we have defined as valid wage data in the supplemental Hispanic sample had substantially lower average family incomes and earnings, as well as lower median family incomes and earnings (\$37,963 and \$34,843, \$30,000 and \$26,200, respectively) as compared to the total ORG sample (\$64,501 and \$59,093, \$45,000 and \$40,500, respectively). Consistent with this, the results based on ORG wage data show lower proportions of low-wage workers who were in families that were poor, and these workers tended to have higher average and median family incomes and earnings as compared to those in the March ADS sample.

One might have expected greater program participation in the March ADS sample because of the lower average and median incomes and earnings of the Hispanic supplemental sample; the results do not bear this out. However, it is possible that language barriers may hinder program participation of these families. Evidence for this is in the higher proportions of those in the March ADS sample for whom English is a second language. The larger proportions of simulated EITC recipients for the March ADS sample also supports this notion, since the EITC data is simulated (the CPS data on EITC participation is derived by CPS staff, based on the family and income data provided through the survey) rather than directly reported by survey respondents based on their actual participation.

The supplemental Hispanic sample also has lower educational attainments compared to either the total ORG sample or the total March ADS sample, thus we see higher proportions of workers among the March ADS sample that fall into the lower educational attainment categories in the “less than \$5.75” and “\$9.11-\$10.75” wage categories. Finally, and obviously, the proportions of Hispanics are higher in the March ADS sample.

Additional Differences included the following. Workers from the ADS sample also have lower average annual wage and salary earnings as compared to the ORG sample. However, the ADS sample has slightly higher median annual wage and salary earnings than that of the ORG sample. This appears to be due to the combination of two factors: 1) the maximum values of annual wage and salary earnings within each wage category are much higher for those workers in the ORG sample, particularly in the first wage category (“less than \$5.75/hr.”), and 2) the minimum values of annual wage and salary earnings can equal zero for those in the ORG sample, whereas the minimum values for those in the ADS sample must be some positive number. These two factors are likely to be artifacts of the timeframe difference. In the ORG sample, there are observations within each wage category that have extremely high annual wage and salary earnings relative to the other observations within the same wage category and also compared to those in the same wage category of the ADS sample. This skewed distribution of annual wage and salary earnings of the ORG sample may be due to the mismatch in timeframes—a worker who is currently earning a low wage may have an annual wage income from the previous year that does not reflect the potential annual wage and salary earnings of that current low wage, but rather the annual wage income of a previous job with a different, much higher wage. The presence of such observations in each of the wage categories pulls the averages of the ORG sample upward.

Similarly, a worker who reports that s/he is currently earning a wage may have an annual wage income of zero because their annual wage income reflects their wage income from the previous year, not the current month. Those in the ADS sample may have very low minimum annual wage and salary earnings, but they cannot have a value of

zero (workers in the ADS sample must meet minimum wage floors as discussed above and their wages are based on their annual wage and salary earnings). Observations with a value of zero for annual wage and salary earnings push the medians of the ORG sample downward. While these observations also pull the higher averages of the ORG sample slightly downward, they do not offset the effect of the very high values that produce a skewed distribution of annual wage earnings within each wage category. As a result, the average wage and salary earnings of the ORG sample are higher than that of the ADS sample, and the median wage and salary earnings are slightly lower.

There is also a higher proportion of workers who are the only wage/salary earner in their family in the ORG sample. We suspect this is the consequence of the different timeframes of the ORG wage variables and the March ADS wage variables. The number of wage/salary earners per family based on the ORG wage variables reflects the number of family members who were earning a wage or salary during the reference week only. Whereas, the number of wage/salary earners per family based on the March ADS wage variables reflects the number of family members who earned a wage or salary anytime during the previous year. Thus, the statistics based on the ORG wage variables more accurately reflects the situation of a family at a given point in time. In other words, there are periods of time in the year where the percentages of families with only one wage or salary earner is greater than that reflected in the percentages based on the March ADS wage variables.

## VARIABLE DEFINITIONS

The following is a list of variable definitions derived from the CPS data set for those variables that either we have created for this study or whose definitions by the CPS are not transparent from the variable name.

**Hispanic.** While we recognize that the use of the term “Hispanic,” which implies “of Spanish origin” may not accurately reflect the ethnic heritage of those identified within this category—and thus is not sensitive to the different preferences in ethnic terminology currently used by those in the Latino community—we use the category “Hispanic” to be consistent with the categories used by the CPS. This category includes those respondents who indicate their ethnic origin to be: Mexican-American, Chicano, Mexican, Mexicano, Puerto Rican, Cuban, Central or South American, or other Hispanic. Also note that the racial categories used in the CPS do not provide a separate category for Latinos or Hispanics alongside White, Black, American Indian/Aleut Eskimo and Asian or Pacific Islander.

**Proxy for ESL.** This is a dummy variable coded 1 for respondents who indicate that either 1) they were not born within the United States or 2) both of their parents were not born within the United States (excluding Puerto Rico and U.S. outlying areas such as the Virgin Islands, American Samoa, and Guam). Those with missing data on any of the nativity questions are assigned a missing value with the exception of those who indicate that either they are foreign born or their parents are foreign born (i.e., those that indicate that they or both their parents are foreign born may have missing data on the remaining nativity questions).

**Family Unit.** The family unit includes the following types of families<sup>67</sup>:

- 1) Primary family: a group of two or more persons, one of whom is the householder. The householder is the person in whose name the housing unit is owned or rented.
- 2) Nonfamily householder: a householder who is unrelated to other members in the household.
- 3) Related subfamily: a married couple with or without children, or a parent with one or more of his/her own (single, never married) children under 18 years old, living in a household and related to, but not including, the householder or spouse of the householder.
- 4) Unrelated subfamily: a family (as described in the definition of the related subfamily) that does not include among its members the householder or relatives of the householder.
- 5) Secondary individual: an individual who is unrelated to the householder and not part of a family.

Following the practice of the Bureau of Labor Statistics, we treat the related subfamily as part of the primary family. This means that the family income and earnings, number of family members, number of wage and salary earners, dependency ratio, welfare income, simulated EITC value, poverty status, and so on are not calculated separately for the primary family and the related subfamily. By combining these family incomes we assume that the families

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<sup>67</sup> These definitions are paraphrased from the ADS Glossary of Subject Concepts (U.S. Census Bureau, 1998).

are financially interdependent. We may be slightly understating poverty by not detecting in our measures the number of families who are forced to combine their resources in order to make ends meet. The number of workers who are in related subfamilies in our sample is relatively small, 3.1% of the total sample.

**Dependency Ratio.** The dependency ratio, calculated for each worker, is equal to: (Number of family members in the worker's family)/(Number of wage or salary earners in the worker's family).

**Number of Wage/Salary Earners.** The number of wage and salary earners is equal to the total number of members of a worker's family who earn any wage or salary income in the previous year (for the ADS sample) or who report any current wage or salary earnings (for the ORG sample). This variable allows family members who were assigned invalid wage data, due to restrictions on the valid wage ranges, to still be counted as wage or salary earners.

**Family Total Income.**<sup>68</sup> Family total income includes the following income sources: 1) family earnings, 2) Social Security or railroad retirement, 3) Supplemental Security Income, 4) public assistance or welfare payments, 5) interest (on savings or bonds), 6) dividends, income from estates or trusts, or net rental income, 7) veterans' payment or unemployment and workmen's compensation, 8) private pensions or government employee pensions, 9) alimony or child support, regular contributions from persons not living in the household, and other periodic income.

**Family Earnings.** Family earnings include earnings from wages and salaries, net income from nonfarm self-employment and net income from farm self-employment.

**Poverty Status.** A worker's family is determined to be living in poverty if the family's total income is less than the poverty threshold as defined by the U.S. Census Bureau (1999). Poverty thresholds differ according to the number of family members, the number of related children under 18 in the family, and the age of the householder or unrelated individual. The thresholds are adjusted by the Consumer Price Index each year. Poverty ratios are calculated by: (Family total income)/(Poverty threshold).

**Potential Labor Force Tenure.** This is an estimate for the potential number of years that a respondent has been in the workforce. Labor force tenure is calculated from the following formula: (Age) – 6 – (Estimated years of schooling). Thus, we assume that workers who are in school are not in the workforce. An estimated value for years of schooling was assigned to respondents' levels of educational attainment as follows:

- 1) less than 1<sup>st</sup> grade = 1
- 2) 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, or 4<sup>th</sup> grade = 4
- 3) 5<sup>th</sup> or 6<sup>th</sup> grade = 6
- 4) 7<sup>th</sup> or 8<sup>th</sup> grade = 8
- 5) 9<sup>th</sup> grade = 9
- 6) 10<sup>th</sup> grade = 10
- 7) 11<sup>th</sup> grade = 11
- 8) 12<sup>th</sup> grade, no diploma = 12
- 9) High school graduate = 12
- 10) Some college, no degree = 13
- 11) Associate degree = 14
- 12) Bachelor's degree = 16
- 13) Master's degree = 18
- 14) Professional school degree = 19
- 15) Doctorate degree = 23

For example, a 40 years old high school graduate has a potential labor force tenure of value of 22 ( $40 - 6 - 12 = 22$ ). The minimum value for this variable is forced to equal zero. This measure is adopted from standard measures of potential or "Mincerian" experience.

**Share of Total Family Earnings, Family Income.** These ratios are calculated as follows:

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<sup>68</sup> This definition is paraphrased from the ADS Glossary of Subject Concepts (U.S. Census Bureau, 1998).

- 1) Share of Total Family Earnings = (Annual wage and salary earnings of worker in sample)/(His/Her family's earnings)
- 2) Share of Total Family Income = (Annual wage and salary earnings of worker in sample)/(His/Her family's total income)

**Health Insurance.** Each of the following variables is a dummy variable:

- 1) Has Health Insurance – respondents are assigned 1 if the respondent reports that s/he is covered by any of the following kinds of health insurance plans: a health plan provided through a current or former employer or union (as policyholder or dependent), a private plan not related to past or current employment (as policyholder or dependent), a health plan of someone who does not live in the household, Medicare, Medicaid, CHAMPUS, CHAMPVA, military health care, Indian health service, or some other health plan.
- 2) Proxy for Family Coverage – respondents are assigned 1 if the respondent reports s/he is a) a policyholder of a private or employer/union provided health insurance plan and indicate that his/her plan is a family plan, or b) a dependent on a private or employer/union provided health insurance plan, or 3) insured by a government provided health plan.
- 3) Insurance provided by Employer/Union – respondents are assigned 1 if s/he reports that s/he is a policyholder of, or a dependent on, a health insurance plan provided by an employer/union.

## **WEIGHTING**

Most of the sample statistics derived from the CPS data are weighted by CPS's "March supplemental weight," the weight recommended for use when producing estimates from the March supplement data. The only exception to this is in the ripple effect analysis described below, which uses the "earnings weight," also provided by the CPS, and recommended for use when producing estimates from the ORG earnings data.

## **APPENDIX 10: SANTA MONICA WORKER SURVEY: SAMPLING PROCEDURES AND ESTIMATION TECHNIQUES**

One important means of assessing the situation of individuals likely to be affected by the proposed Santa Monica Living Wage Ordinance was through the PERI Santa Monica Worker Survey, conducted from March to June 2000. This survey allows us to analyse, among other things, the working conditions, wages, benefits, family structure and income of our respondents. In what follows we detail the sampling procedures and estimation techniques used to collect and analyze the information from this survey. The questionnaire we utilized can be found at the end of this appendix.

### **Description of Sampling Procedure**

Our survey of workers employed in Santa Monica differs in many respects from the survey of Santa Monica businesses detailed in Appendix 2, as well as from other employment surveys such as the Bureau of Labor Statistic's (BLS) Current Population Survey (CPS), discussed in Appendix 8. First, unlike our firm survey, we did not undertake to have our worker survey results be representative of city-wide conditions. Our aim, rather, was to be able to reasonably assess the situation of workers likely to benefit from the Living Wage ordinance being proposed for Santa Monica's coastal zone. At the time of our survey design, the primary criteria being proposed for discerning which businesses would be affected by the ordinance was an employment threshold of 50 employees for coastal zone businesses. Thus, from the outset the relevant universe for our analysis was those workers in coastal zone businesses covered by such a threshold, particularly the lower-wage workers among them.

A second difference between our worker survey and other employment surveys such as the CPS is that, for financial and logistical reasons, we did not use a residential criteria to determine the primary sampling unit. In this instance, individuals' place of employment served as the primary sampling unit. The third, and most important difference, however, between our worker survey and our firm survey – or the CPS – is that we were unable to use probability sampling methods to conduct the survey. This was due primarily to our inability to obtain cooperation from potentially affected businesses in constructing an accurate sample frame of all workers employed in such businesses.<sup>69</sup> We therefore gathered responses using a combination of three non-probability techniques: volunteer, purposive and key respondent referral (or snowball) sampling (for more on these and other non-probability sampling techniques see Babbie 1998 or Singleton and Straits 1999). Generally, such non-probability methods are thought to suffer from several limitations as compared with probability methods, the most important being the inability to utilize probability theory in explaining respondent variation, and thereby generalize to the entire population. As Singleton and Straits (1999) note, however, based on these limitations “[i]t would be a mistake to rule out non-probability sampling. In many instances this form of sampling either is more appropriate and practical than probability sampling or is the only viable means of case selection.”

Our first means of soliciting interviews was to have our surveyors approached potential respondents at or near their place of employment to provide them information about the survey and how to contact our research team (via a toll-free number) if they were interested in participating. Efforts were made to vary the times and locations when direct contact was made, to ensure that we did not introduce any bias into our sample, such as by omitting or favoring workers from certain industries, or on certain shift schedules. Many interviews were conducted in person, with workers leaving work, or on break, but the majority was conducted via telephone interview. Interviews were conducted in English or Spanish, depending on the language preferred by the respondent, and typically lasted between 20 and 30 minutes. After completion of the interview, respondents were mailed a stipend check of \$30 for participation. Such payment is standard practice amongst survey researchers, both to increase participation rates, as well as to partially compensate individuals for their time, and for providing personal and confidential information to researchers. (For a more thorough discussion of the practice, see Levy and Lemeshow 1991, Groves 1989, or Groves and Couper 1998). Such payments, moreover, have been demonstrated not to bias results or reduce data quality, but rather, if anything, to reduce the amount of missing data present in survey responses (Singer *et al.*, 2000). Our second means of contacting potential respondents was snowballing from those participants who agreed to put us in contact with their co-workers. This was done either directly, with participants providing us with the name and contact information of their co-workers, or indirectly, where we enclosed contact information for them to distribute to their co-workers along with their stipend checks. Efforts were also made at certain points to utilize purposive

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<sup>69</sup>Some businesses expressed legal concerns as prohibiting them from cooperating with our worker survey.

sampling, to assure that workers in certain key occupational categories were represented in our sample. It must be noted, however, that due to the relatively small number of potentially affected workers in businesses outside of the retail sales, entertainment/leisure, restaurant, and hotel sectors, we were unsuccessful in our attempts to incorporate these workers into our survey. As such, our results cannot be considered representative of low wage workers in those other industries.

In total, we received 202 valid responses. These represent approximately 4 percent of all employment in firms determined to be covered by the initially proposed 50-employee threshold, and 6 percent of all employment in the hotel, restaurant, and retail sectors covered by such a threshold. Such coverage is quite extensive. It is of course far higher than the CPS Los Angeles-Long Beach PMSA, which consists of 2,213 respondents representing 3.7 million people, a sampling rate of 0.06 percent. And while the CPS sample is distinct from ours because it is random, it is still the case that even in comparison with other non-random samples, our sampling rate is high. For example, Rothbart, Fine and Sudman's 1982 study of Vietnam veterans (cited in Singleton and Straits 1999), using non-random sampling techniques had a sampling rate of approximately 0.01 percent, and a recent study of occupational health by Hammond et al. (1995) had a sampling rate of roughly 0.2 percent.

**SANTA MONICA WORKER SURVEY****A. LABOR MARKET EXPERIENCE**

- A1. I'd like to start by asking you about your past and current work experiences. How many jobs are you working at now, including self-employment? (Include jobs where you are laid off or on leave but expect to return.)

\_\_\_\_\_

- A1a. If you are working more than one job, how many of these jobs are in Santa Monica?

\_\_\_\_\_

- A2. Including paid vacation (if any), how many weeks did you work during 1999?

\_\_\_\_\_

- A3. How many hours do you usually work for pay per week on all jobs?

\_\_\_\_\_

- A4. The next questions are about your current main job in Santa Monica. What kind of work do you do?

\_\_\_\_\_

- A5. In what kind of business or industry do you work?

\_\_\_\_\_

- A6. How many hours a week do you usually work at this job?

\_\_\_\_\_ **(IF MORE THAN 35 HOURS SKIP TO A7)**

A6a. What is the reason you usually work less than 35 hours a week?

- 1 NOT ENOUGH WORK. COULD ONLY FIND PART-TIME WORK. HOURS REDUCED.
- 2 HAVE ANOTHER JOB THAT I WANT TO KEEP
- 3 HEALTH/DISABILITY.
- 4 FAMILY CARE/HOUSEKEEPING
- 5 AGE
- 6 PREFER TO WORK LESS THAN 35 HOURS.
- 7 STUDENT
- 8 OTHER (SPECIFY:\_\_\_\_\_)

A7. What is your hourly wage on this job before taxes, tips and bonuses?

\$\_\_\_\_\_

A8. Do you earn a commission or tips on this job?

- 1 COMMISSION
- 2 TIPS
- 3 NEITHER COMMISSION OR TIPS (**SKIP TO A9**)

A8a. How much do you earn on this job in commission or tips, in an average week?

\$\_\_\_\_\_

A8b. How much do you earn on this job in commission or tips, in a good week?

\$\_\_\_\_\_

A8c. How much do you earn on this job in commission or tips, in a bad week?

\$\_\_\_\_\_

A8d. About what proportion of the year are your commission or tips average, good or bad? For example, is there a month or two in which the tips are much better or much worse?

\_\_\_\_\_ PERCENT AVERAGE

\_\_\_\_\_ PERCENT GOOD

\_\_\_\_\_ PERCENT BAD

**[NOTE: THE ABOVE THREE CATEGORIES SHOULD ADD TO 100%]**

\_\_\_\_\_ CAN'T SAY. TIPS ARE VERY IRREGULAR.

A9. Through your main job here in Santa Monica, are any of the following available to you?

A9a. Retirement Plan

1 YES

2 NO

3 DON'T KNOW

A9b. Paid Sick Leave

1 YES

2 NO (**SKIP TO A9c**)

3 DON'T KNOW

A9b1. How many days of paid sick leave do you get per year?

1 \_\_\_\_\_ DAYS

2 DON'T KNOW

A9c. Paid Vacation Days

1 YES

2 NO (**SKIP TO A9d**)

3 DON'T KNOW

A9c1. How many days of paid vacation do you get per year?

1 \_\_\_\_\_ DAYS

2 DON'T KNOW

Through your main job here in Santa Monica, are any of the following also available to you?

A9d. Hospital or Health Insurance available for yourself

- 1 YES
- 2 NO **(SKIP TO A9e)**
- 3 DON'T KNOW

A9d1. How much are the health insurance payments?

- 1 \$\_\_\_\_\_ per (**circle one:** week month year )
- 2 DON'T KNOW

A9d2. Do you use this health insurance provided through your employer?

- 1 YES **(SKIP TO A9e)**
- 2 NO

A9d3. Why not?

- 1 HAVE OTHER INSURANCE THROUGH FAMILY MEMBER
- 2 PAYMENTS ARE TOO EXPENSIVE
- 3 OTHER (SPECIFY:\_\_\_\_\_)

A9e. Hospital or Health Insurance available for your family or dependents

- 1 YES
- 2 NO **(SKIP TO A10)**
- 3 DON'T KNOW **(SKIP TO A10)**

A9e1. How much are the health insurance payments?

- 1 \$\_\_\_\_\_ per (**circle one:** week month year )
- 2 DON'T KNOW

A9e2. Does your family use this health insurance provided through your employer?

- 1 YES (**SKIP TO A11**)
- 2 NO

A9e3. Why not?

- 1 HAVE OTHER INSURANCE THROUGH OTHER FAMILY MEMBERS (**SKIP TO A11**)
- 2 PAYMENTS ARE TOO EXPENSIVE (**SKIP TO A11**)
- 3 OTHER (SPECIFY: \_\_\_\_\_) (**SKIP TO A11**)

A10. If you do not have health benefits through your job, do you receive them through another family member?

- 1 YES
- 2 NO
- 3 DON'T KNOW

A11. In this main job are you a permanent, temporary, or seasonal employee?

- 1 REGULAR/PERMANENT
- 2 TEMPORARY
- 3 SEASONAL
- 4 PART-TIME
- 5 OTHER

A12. How long have you been working for your present employer?

\_\_\_\_\_ Years \_\_\_\_\_ Months

A13. Have you ever received a raise on your job?

- 1 YES
- 2 NO

A13a. When was the last time you received a raise on your job? (Month and year)

MONTH: \_\_\_\_\_ YEAR: \_\_\_\_\_

A14. If someone with your same level of education but no experience were to start your job tomorrow, how long would it take (him/her) to become fully able to do the job?

- 1 \_\_\_\_ (**circle one:** years months weeks days)
- 2 DON'T KNOW

A15. Did you have any previous experience in this type of job before you were hired (excluding schooling)?

- 1 YES
- 2 NO
- 3 DON'T KNOW

A15a. How much experience?

\_\_\_\_\_ (**circle one:** years months weeks days)

A16. Did you receive any formal, classroom style training from your employer on this job?

- 1 YES
- 2 NO
- 3 DON'T KNOW

A16a. How much training?

\_\_\_\_\_ (**circle one:** years months weeks days)

A17. What do you perceive is the main reason preventing you from working at a job with higher wages?

- 1 SKILLS/EXPERIENCE
- 2 NOT ENOUGH TRAINING
- 3 EDUCATIONAL REQUIREMENTS
- 4 LACK OF TRANSPORTATION TO HIGHER PAID JOBS
- 5 FAMILY CARE/HOUSEKEEPING
- 6 NO NEED/DESIRE.
- 7 LANGUAGE
- 8 OTHER (SPECIFY: \_\_\_\_\_)

A18. Does your employer require you to speak English on your job?

- 1 YES
- 2 NO

A19. Do you view this job as:

- 1 A LONG TERM CAREER
- 2 A SHORT TERM JOB TO MAKE MONEY
- 3 OTHER (SPECIFY: \_\_\_\_\_)

A20. What is your primary means of getting to work each day?

- 1 DRIVE MYSELF
- 2 RIDE WITH OTHERS/CARPOOL
- 3 TAKE THE BUS
- 4 WALK/BIKE
- 5 OTHER (SPECIFY: \_\_\_\_\_)

A21. On an average day, how long do you spend travelling to and from work, total?

\_\_\_\_\_

A22. Are you a member of a union or covered by a collective bargaining agreement on this job?

- 1 YES
- 2 NO
- 3 DON'T KNOW

A23. Which, of any, of the following issues are things you would like to see changed about your job?  
Please rank each issue according to how important it is to you, from very important to not important.

1 = Very important; 2 = Somewhat important; 3 = Not sure; 4 = Somewhat unimportant; 5 = Not at all important

- |   |   |   |   |   |                               |
|---|---|---|---|---|-------------------------------|
| 1 | 2 | 3 | 4 | 5 | HIGHER WAGES                  |
| 1 | 2 | 3 | 4 | 5 | HEALTH BENEFITS FOR SELF      |
| 1 | 2 | 3 | 4 | 5 | HEALTH BENEFITS FOR FAMILY    |
| 1 | 2 | 3 | 4 | 5 | PAID TIME OFF                 |
| 1 | 2 | 3 | 4 | 5 | MORE HOURS                    |
| 1 | 2 | 3 | 4 | 5 | SAFETY/HEALTH ISSUES          |
| 1 | 2 | 3 | 4 | 5 | PARKING/TRANSPORTATION TO JOB |
| 1 | 2 | 3 | 4 | 5 | CHILD CARE                    |
| 1 | 2 | 3 | 4 | 5 | RELATIONS WITH SUPERVISOR     |
| 1 | 2 | 3 | 4 | 5 | GREATER JOB SECURITY          |

## B. DEMOGRAPHICS AND HOUSEHOLD COMPOSITION

B1. Interviewer: Mark respondent's sex (ask if necessary):

\_\_\_\_\_ Male

\_\_\_\_\_ Female

B2. How old are you?

\_\_\_\_\_ Years

B3. What is your race/ethnicity?

- 1 WHITE
- 2 BLACK/AFRICAN-AMERICAN
- 3 LATINO
- 4 AMERICAN INDIAN, ALEUT OR ESKIMO
- 5 ASIAN OR PACIFIC ISLANDER
- 6 OTHER (SPECIFY: \_\_\_\_\_)

B4. What is the highest level of schooling you have completed?

- 1 LESS THAN HIGH SCHOOL
- 2 HIGH SCHOOL/GED
- 3 TECHNICAL COLLEGE
- 4 TWO OR FOUR YEAR DEGREE COLLEGE
- 5 OTHER (SPECIFY: \_\_\_\_\_)

B5. Are you currently enrolled in school?

- 1 YES
- 2 NO (**SKIP TO C1**)

B5b. What level of school are you enrolled in?

- 1 LESS THAN HIGH SCHOOL
- 2 HIGH SCHOOL/GED
- 3 TECHNICAL COLLEGE
- 4 TWO OR FOUR YEAR DEGREE COLLEGE
- 5 OTHER (SPECIFY: \_\_\_\_\_)

**C. FAMILY INCOME STRUCTURE**

C1. To help us understand your living situation, I would like to make a list of persons who usually live with you. Please include the adults as well as the children. What I need to know is their relationship to you, their sex, and their age on their last birthday..

	Relation to you	Sex	Age
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
8.	_____	_____	_____
9.	_____	_____	_____
10.	_____	_____	_____

C2. Next are a few questions about your income for the past year (1999). Including yourself, how many family members living with you were employed in 1999?

- 1    \_\_\_\_\_ FAMILY MEMBERS EMPLOYED
- 2    DON'T KNOW

C3. Including yourself, how many family members living with you had any income from **any** source (including wage income, as well as other sources such as SSI or alimony) in 1999?

- 1    \_\_\_\_\_ FAMILY MEMBERS WITH INCOME
- 2    DON'T KNOW

Now I would like to ask you about your sources of income. I will first ask you about your income, and then about your family member's income. In the past year, have you personally received any income from the following sources:

	<u>Yourself</u>	<u>Family members that you live with</u>
C4. Money from relatives or others living outside your home?	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
	<input type="checkbox"/> No	<input type="checkbox"/> No
	<input type="checkbox"/> Don't know	<input type="checkbox"/> Don't know
C5. Workers compensation, or disability insurance or sick pay?	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
	<input type="checkbox"/> No	<input type="checkbox"/> No
	<input type="checkbox"/> Don't know	<input type="checkbox"/> Don't know
C6. Social Security, SSI, or other retirement payments?	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
	<input type="checkbox"/> No	<input type="checkbox"/> No
	<input type="checkbox"/> Don't know	<input type="checkbox"/> Don't know
C7. Unemployment (Insurance) compensation?	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
	<input type="checkbox"/> No	<input type="checkbox"/> No
	<input type="checkbox"/> Don't know	<input type="checkbox"/> Don't know
C8. Court ordered child support or alimony?	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
	<input type="checkbox"/> No	<input type="checkbox"/> No
	<input type="checkbox"/> Don't know	<input type="checkbox"/> Don't know
C9. Temporary Assistance to Needy Families (TANF) or other cash assistance welfare payments?	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
	<input type="checkbox"/> No	<input type="checkbox"/> No
	<input type="checkbox"/> Don't know	<input type="checkbox"/> Don't know

C10. Food stamps?

\_\_\_\_\_ Yes

\_\_\_\_\_ Yes

\_\_\_\_\_ No

\_\_\_\_\_ No

\_\_\_\_\_ Don't know

\_\_\_\_\_ Don't know

C11. What was your family income before taxes in 1999? This figure should include your income from all sources, and the income of all family members living with you. It should include salaries, pensions, self-employment earnings and public assistance.

1 \$ \_\_\_\_\_ **(SKIP TO C12)**

2 DON'T KNOW

C11a. Can you tell me your best guess as to what your family's income was before taxes from the following choices?

1 LESS THAN \$5,000 FOR THE YEAR

2 BETWEEN \$5,000 AND \$10,000

3 BETWEEN \$10,000 AND \$20,000

4 BETWEEN \$20,000 AND \$30,000

5 BETWEEN \$30,000 AND \$40,000

6 MORE THAN \$40,000 PER YEAR

C12. Did you file for an Earned Income Tax Credit for 1998?

1 YES

2 NO **(SKIP TO C13)**

3 DON'T KNOW **(SKIP TO C13)**

C12a. Can you remember how much the credit was for? (Best guess)

1 \$ \_\_\_\_\_

2 DON'T KNOW

C13. Have you or are you planning to file for an Earned Income Tax Credit for 1999?

- 1 YES
- 2 NO (**SKIP TO C14**)
- 3 DON'T KNOW (**SKIP TO C14**)

C13b. If you have already done so, can you remember how much the credit was for, or can you estimate how much it will be? (Best guess)

- 1 \$\_\_\_\_\_
- 2 DON'T KNOW

C14. Over the past year, have you or members in your immediate family made use of any of the following Programs (circle all that apply):

- 1 FOOD PANTRY
- 2 FREE HEALTH CLINIC
- 3 FREE SHELTER
- 4 OTHER (SPECIFY: \_\_\_\_\_)

C15. Do you rent or own your home/apartment/condo?

- 1 RENT
- 2 OWN
- 3 OTHER (SPECIFY: \_\_\_\_\_)

C16. How much is your monthly rent or mortgage?

\$\_\_\_\_\_

C17. Does anyone in your immediate family own a car?

- 1 YES
- 2 NO (**SKIP TO C18**)

C17a. If so, can you tell me the approximate net value of those cars, in total?

\$\_\_\_\_\_

C18. How many hours a week are your children cared for by someone outside your immediate family, in a typical week?

- 0 RESPONDENT DOESN'T HAVE CHILDREN LIVING AT HOME
- 1 \_\_\_\_\_ HOURS PER WEEK
- 2 DON'T KNOW

C19. How much do you pay per week for this care?

- 1 \$ \_\_\_\_\_ PER WEEK
- 2 DON'T KNOW

C20. I have a question about the amount your family owes for things (other than your home), such things as credit card debts, personal loans, or a car? What is the approximate amount you owe for things (other than your home)?

\$ \_\_\_\_\_

C21. Some people have assets such as deposits in the bank, savings accounts, checking accounts, savings bonds, stocks and bonds, and individual retirement accounts (IRAs). Please indicate the approximate amount of your family's current assets—(please do not include any equity you may have in your home or the value of your car).

\$ \_\_\_\_\_

C22. Overall, how would you judge your financial situation?

- 1 STRUGGLING TO MAKE ENDS MEET
- 2 MANAGING O.K.
- 3 ABLE TO SAVE MONEY EACH MONTH

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