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I. INTRODUCTION

In recent years, a growing number of cities across the country have passed "living wage" ordinances. These proposals are intended to raise the wages of very low-income families by establishing wage standards on municipal contractors and for recipients of specified public subsidies or tax breaks. A total of sixteen cities (including Baltimore, Los Angeles, Oakland, Portland, St. Paul, and Chicago –see [Appendix A](#) for list of cities) have enacted Living Wage ordinances, and there are over a dozen more cities where ordinances are pending.

The growth in Living Wage laws at a local level is the result of a number of recent trends, including large increases in wage inequality characterized by steep wage declines at the bottom end of the wage scale; an increase in the privatization of public-sector employment; and the failure of the federal minimum wage to keep up with increases in the cost of living, particularly in high-cost regions of the country.

At a time when the effectiveness of traditional labor market institutions is waning, Living Wage ordinances have emerged as one policy prescription to counter the increasing inequality of economic outcomes and to raise the earnings of low-wage workers. The guiding principle behind the Living Wage ordinance is that city government, as a major service provider and purveyor of public dollars, should play a leadership role in modeling the terms and conditions of fair employment.

The City of San Jose has not yet considered the possibility of passing a Living Wage ordinance. The success of the region's booming electronics and information technology industries gives San Jose an image of wealth and prosperity. Yet there are a number of factors in our community that suggest the potential importance of such an initiative:

- While salaries have been growing for many skilled employees in the City's high-tech industries, working families have seen their earnings drop by more than 13% between 1989 and 1996.
- The cost of living in the area has sky-rocketed, as the cost of a single family house has risen more than 20% in the last year alone, to over \$340,000, and the average rent has risen by nearly 30% between 1995 and 1997, to \$1,200 a month.
- Given the high costs of living in the area, an estimated 55% of jobs in Santa Clara County don't pay enough to keep a family of four out of poverty.

"The purpose of this study is to analyze the potential impact of a Living Wage ordinance in the City of San Jose."

The purpose of this study is to analyze the potential impact of a Living Wage ordinance in the City of San Jose. The first part of the report discusses the socioeconomic context of low-wage workers in San Jose and in particular examines the context of workers employed by firms who would be covered by a Living Wage ordinance. This is followed by an analysis of the potential effects of a Living Wage ordinance on businesses, taxpayers, and the community at large. The third section focuses on the links between a Living Wage ordinance and job security for low-wage workers. The final section of the report contains recommendations for provisions of a San Jose Living Wage policy.

". . . Living Wage ordinances have emerged as one policy prescription to counter the increasing inequality of economic outcomes and to raise the earnings of low-wage workers."

II. THE SOCIOECONOMIC CONTEXT FOR A LIVING WAGE ORDINANCE IN SAN JOSE

In San Jose, explosive economic growth is shadowed by growing economic inequality. Given the high costs of living in the area, an estimated 19% of Silicon Valley jobs pay too little to enable a single adult to live alone without some form of public assistance, such as food stamps, to supplement his/her full-time wages. 40% of all area jobs are too low-paying to sustain a single parent and child above the regional poverty level. A full 55% of jobs in Santa Clara County do not pay enough to support a family of four without subsidies.

To estimate the actual dollar amount of a Living Wage in San Jose, we used the minimum self-sufficiency standard of the Santa Clara County Social Services Agency. The actual amount of a Living Wage obviously depends on the size of the family, the number of income earners, and the number of children they are supporting. For example, to fully support a family of four, a parent would need to earn \$15.72 an hour working full-time. A single parent supporting one school-age child would require a full-time job paying \$12.42 an hour. Since it is impossible to adjust wage standards for individuals depending on their personal circumstances, we suggest a Living Wage for San Jose of \$12.50 an hour. Though this would still be inadequate to fully support a family of four, it would be enough for a single parent with one child to stay out of poverty and would provide substantial resources to support a family of four. (See [Table 1.](#))

“A single parent supporting one school-age child would require a full-time job paying \$12.42 an hour.”

Expense	One Adult + One School-age Child	One Adult + One Infant + One School-age Child	Two Adults + One Infant + One Preschooler
Housing	\$903.00	\$903.00	\$903.00
Child Care	\$275.00	\$794.60	\$1,041.60
Food	\$240.45	\$315.35	\$423.50
Transportation	\$117.81	\$117.81	\$231.97
Medical Care	\$139.03	\$176.79	\$225.45
Miscellaneous	\$167.53	\$230.75	\$282.55
Taxes	\$384.93	\$581.01	\$774.76
Child Care Tax Credit	(\$42.00)	(\$80.00)	(\$80.00)
Monthly Living Wage	\$2,185.75	\$3,039.31	\$3,802.83
Hourly Living Wage	\$12.42	\$17.27	\$15.69 <i>(with one worker)</i>
			\$10.80 <i>(if both parents work)</i>

Source: Dr. Diana Pearce (1996) The Self-Sufficiency Standard for California

Based on an analysis of City government service contracts, we estimate that there are 1,500 workers employed by San Jose City contractors who are paid below \$12.50 an hour. Nearly half of these are employed in companies in the business and repair services industry, while nearly 300 more are employed in utilities and sanitary services companies. (See [Table 2.](#))

Description	Number of Contracting Firms*	Average Size Of Firm**	Total Number Of Workers	Percent Paid Under \$12.50***	Number of Workers Paid less than \$12.50
Business Services	61	23.7	1446	49%	708
Utilities and Sanitary Services	37	39.4	1458	19%	277
General Construction	45	5.5	248	37%	92
Automotive Repair and Related Services	25	6	150	55%	83
Educational Services	2	78.9	158	39%	62
Printing	9	15.8	142	39%	55
Professional and Related Services	8	16.9	135	35%	47

Landscape	7	7.4	52	77%	40
Transportation Services	10	8.8	88	44%	39
Repair Services	8	8.2	66	56%	37
Trucking	5	15.3	77	44%	34
Misc. Professional Services	3	17.5	53	58%	30
Communications	3	39.6	119	22%	26
Air Transportation	5	25	125	20%	25
Laundry, Cleaning, Personal Services	1	5.3	5	74%	4
Legal Services	1	6.5	7	36%	2
Bus and Urban Transit	2	N/A	N/A	40%	N/A
Mail Service	3	N/A	N/A	12%	N/A
TOTAL	235		4,326		1,561
<i>Sources: see Appendix B for detailed sources</i>					
*Calculated from information provided by City Clerk and Department of General Services for FY1996/97, based on service contract over \$20,000 in FY 96/97, not including non-profit organizations					
** Santa Clara County Business Patterns, 1994					
***1990 Census, PUMA Sample, indexed for inflation to \$12.50 in 1997 dollars					

There may be some additional workers who would be impacted by the subsidy component of the Living Wage Ordinance if the City were to provide large-scale direct financial assistance to firms in the future. The number of workers paid less than \$12.50 an hour in such a case is likely to be small. Given the uncertain possibility of such future subsidies, it is impossible to estimate the number of workers affected and thus the remainder of this section focuses on service contractors.

The average pay for all workers who are paid below \$12.50 an hour was \$8.00 in 1997, which is \$16,640 per year, FTE.⁽¹⁾ This figure falls far below the self-sufficiency standard for our region. Furthermore, a large portion of these contracted workers do not receive health benefits and are therefore dependent on taxpayer funded programs such as MediCal.

“ . . . a Living Wage ordinance . . . would set a positive example for employers concerned about the quality of life of all Silicon Valley workers and their families.”

Workers employed by City contractors are a small subset of a much larger pool of low-wage workers facing the pronounced difficulties of living in this high-cost region. Statistically, they are likely to fall into the 13.6% of adults countywide who lack health insurance (for Latinos, the figure rises to 25%). They are also likely to be predominantly women and people of color. For instance, in 1990, 40% of the total economically disadvantaged adult population in Santa Clara County were Latino, and another 21% were Asian/Pacific Islander, while 55% were women.⁽²⁾

Notably, the majority of workers covered by the ordinance would fall into the broad category of service sector workers. Service sector jobs are the fastest growing in the region and in the nation overall, and they are typically characterized by low wages and lack of paid medical benefits.⁽³⁾

While a Living Wage ordinance would affect only a small percentage of the low-wage workers in the City of San Jose, it would set a positive example for employers concerned about the quality of life of all Silicon Valley workers and their families. The following sections explore the potential effects of a Living Wage ordinance, and the final section makes specific recommendations for such a measure in San Jose.

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III. POTENTIAL EFFECTS OF A LIVING WAGE ORDINANCE

This section will address the potential effects of a Living Wage ordinance from the perspective of business, taxpayers, and the larger community. It will discuss concerns raised by each of these constituencies regarding the potential costs and benefits of a Living Wage ordinance.

Potential Direct Costs of a Living Wage Ordinance to Business and/or the City

Obviously, requiring wages that are higher than those currently being paid involves certain direct costs. These costs could be met in two ways.

1) Firms contracting with the City of San Jose could absorb the costs of increased wages. This can be accomplished by productivity increases and decreased costs in other areas of the firms' activities. Such gains are highly likely, since it is well documented that firms paying living wages are likely to see significant improvements in their efficiency and productivity through decreased

“ . . . it is well documented that firms paying living wages are likely to see significant

labor turnover, lower training costs, and a more motivated and higher quality workforce.⁽⁴⁾ Furthermore, the competitive bidding process will ensure that firms that are able to make the most improvements in these areas will be rewarded with City contracts. This scenario provides a win-win situation for all parties involved. Low-wage workers benefit from higher wages. The City of San Jose benefits from not incurring increased costs of service contracts and from the work of higher quality contractors. Living Wage firms benefit from productivity increases and by gaining contracts with the City.

see significant improvements in their efficiency and productivity through decreased labor turnover, lower training costs, and a more motivated and higher quality workforce."

2) Alternatively, the City of San Jose could absorb the increased costs by paying more for their service contracts. Under these circumstances, low-wage workers still benefit through improved wages, but the increased wage cost is borne by the City of San Jose. It is important to note, however, that such a scenario might still be desirable since it would result in reduced public sector expenditures in other areas. In addition, the City of San Jose may benefit in other ways, through increased sales tax and other revenue, as well as decreased public safety expenditures to address social problems linked to poverty.⁽⁵⁾ These issues are discussed in more detail on [page 16](#).

"... firms facing increased payroll costs can meet those increased costs by reducing expenditures and by increasing their productivity, thus generating more revenue per employee."

In order to determine the likelihood of either of these scenarios, we estimated the magnitude of these potential direct costs and then calculated the increase in costs to businesses of a \$12.50 an hour Living Wage requirement. (See [Table 3](#).) On average, raising the wages of low-wage workers to \$12.50/hour would involve an 8% increase in total payroll-related expenses for firms contracting with the City. The estimated amount of increased labor costs, however, differs significantly depending on the wage structure in particular industries. Thus, firms in the low-wage business services industry would on average face as much as a 10% increase in total payroll costs, while firms in the higher paying utilities and sanitary services would only face an estimated 2% increase in payroll costs.

A more appropriate measure, however, is the estimated increase in payroll costs as a percentage of the firms' total overall revenue. This is a better measure, since firms facing increased payroll costs can seek to meet those increased costs by reducing expenditures in other areas and by increasing their productivity, thus

generating more revenue per employee. Increased payroll costs as a percentage of total revenue give a more accurate measure of the percentage of cost savings that firms would have to meet in their total operations in order to absorb increased labor costs without increasing the costs of city contracts.

Type of Business	Estimated Number of Firms Affected	Estimated % Increase in Payroll	Payroll Increase as Percent of Total Revenue
Landscaping	7	29%	N/A
Laundry, Cleaning, Personal Services	1	29%	9%
Repair Services	8	14%	5%
Business Services	61	10%	4%
Transportation Services	10	9%	4%
Automotive Repair and Related Services	25	14%	4%
Bus and Urban Transit	2	8%	3%
Selected Educational Services	2	10%	3%
Trucking	5	10%	3%
Professional and Related Services	8	6%	3%
Printing	9	9%	2%
Legal Services	1	4%	2%
General Construction	45	6%	1%
Communications	3	4%	1%
Air Transportation	5	3%	1%
Utilities and Sanitary Services	37	2%	0%
Mailing Services	3	1%	N/A
Average		8%	3%

Sources: 1990 US Census PUMA, 1992 U.S. Department of Commerce Economic Census. See Appendix B for details of methodology.

The increased payroll costs represent on average only 3% of total revenue for firms contracting with the City. The greatest number of firms affected would be in the category of business services, where on average the increased labor costs represent 4% of total revenue. For the second largest category, however, that of construction firms with maintenance contracts, the increased labor costs represent less than 1% of the firms' revenues. The third largest category is in utilities and sanitary services, where on average the increased labor costs are less than 1/2% of total revenue.

"Given these low costs, it is reasonable to conclude that most, if not all, of the increased labor costs can be

labor costs can be absorbed by firms themselves, without having to pass on the costs to the City."

Given these low costs, it is reasonable to conclude that most, if not all, of the increased labor costs can be absorbed by firms themselves, without having to pass on the costs to the City. This conclusion is supported by both of the studies available of the impact of Living Wage ordinances in other cities. In an examination of Baltimore, the city with the longest experience of a Living Wage ordinance, two independent studies concluded that the City actually witnessed a decline in inflation-adjusted dollars in the costs of service contracts covered under their ordinance.

"... the studies of the Baltimore Living Wage ordinance found no significant decline in the number of bidders competing for city contracts following the enactment of the ordinance."

It is important to note that the studies of the Baltimore Living Wage ordinance found no significant decline in the number of bidders competing for city contracts following the enactment of the ordinance. The competitive bidding process rewarded firms that were able to improve their productivity by investing in the skills and quality of their workforce, resulting in a decline in the cost of these contracts to the City. Interviews with individual contracting firms confirmed that raising wages helped reduce their recruiting and training costs, while improving productivity.(6)

Potential Indirect Effects on Business

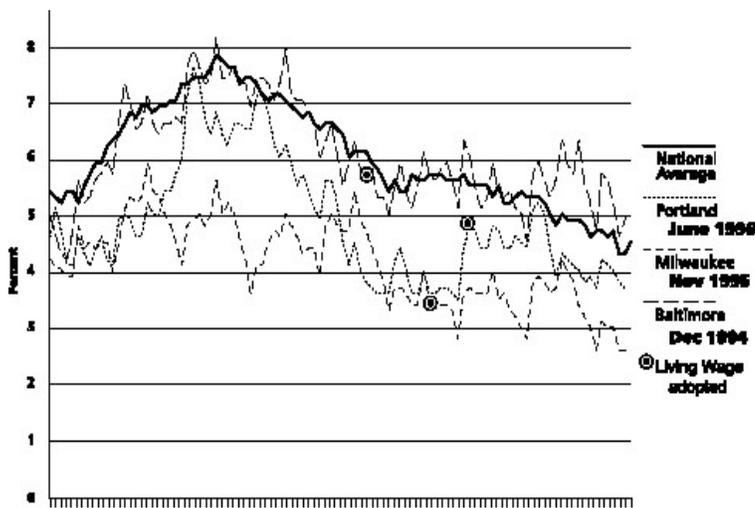
In addition to the direct costs to firms contracting with the City, there are a number of potential indirect effects associated with a Living Wage ordinance in the City of San Jose. These relate to employment levels and overall business climate.

Employment Levels: There is little evidence to suggest that a Living Wage ordinance would have any significant impact on employment levels among City contractors or in the City of San Jose more generally. The ordinance is a narrowly targeted wage standard placed on City contractors conducting essential services for the City. Researchers studying the impact of the Living Wage ordinance in Baltimore found that none of the city contractors interviewed experienced a reduction in staffing levels as a result of the higher wage standards.

Some opponents of Living Wage ordinances have argued that such policies can be compared with a minimum wage ordinance and that raising the minimum wage is likely to increase overall unemployment. The direct effects of such ordinances on wages is likely to be minimal, however, since they affect such a small proportion of the workforce and are unlikely to raise costs broadly in the local labor market. In the three large cities with the longest experience of a Living Wage ordinance - Baltimore, Portland and Milwaukee- there is no apparent relationship between the Living Wage ordinance and overall employment levels. (See Table 4)(7)

"In the three large cities with the longest experience of a Living Wage ordinance, there is no apparent relationship between the Living Wage ordinance and overall employment levels."

Table 4: Metropolitan Unemployment Rates, 1990-98



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics and Statistics from the Current Population Survey.

Furthermore, even if there is a broader effect, it is unlikely that the Living Wage would reduce employment levels. A growing number of studies that have examined the impact of minimum wage increases at both the state and federal level have failed to find any significant job loss associated with moderate minimum wage increases.(8) Not only are the estimated employment effects economically small and statistically insignificant, they are also almost as likely to be positive as negative. This seems to be the result of the decreased costs for the recruitment, training, and management associated with raising the pay of minimum-wage workers. As one case study concluded:

"These empirical results ... are at odds with traditional economic theory, which argues that a rise in the minimum wage must cost jobs. Over the last decade, however, new economic models designed to reconsider low-wage labor markets may help explain the increasingly weak link between the minimum wage and low-wage employment opportunities. These more recent models, often referred to as 'dynamic monopsony' models, incorporate the costs of recruiting, training, and motivating low-wage workers, variables neglected by more traditional models. Not only do these new models more realistically reflect the character of the low-wage labor market, but they also offer a better explanation of our central finding: the 1996-97 increase in the minimum wage has proven to be an effective tool for raising the earnings of low-wage workers without lowering their employment opportunities."(9)

Overall Business Climate: While overall business climate is a difficult factor to measure, a number of

The value of business

opponents of Living Wage ordinances in other cities have cited it as a major concern. Their fear is that the passage of a Living Wage ordinance would create an unfriendly, high-cost environment for businesses operating in the City. Again, however, there is little evidence to suggest this would be the case, and strong arguments suggest the opposite. Researchers studying the impact of the Living Wage in Baltimore, for instance, attempted to gauge this by tracking the assessable base of personal property for businesses and corporations in the City for the years 1990–95. This measure indicates the value of local businesses' assets, other than real estate, for tax purposes. While the value of business property declined in real terms in the four years prior to the passage of Baltimore's Living Wage ordinance, it increased sharply following the ordinance's enactment.⁽¹⁰⁾

property increased sharply following the passage of Baltimore's Living Wage ordinance.

In other cities, many businesses have publicly applauded the positive impacts a Living Wage ordinance can have on the business climate.

- In Los Angeles, a coalition called "Businesses for a Living Wage" played an active role in supporting the eventual passage of a Living Wage ordinance. In a January 1997 letter to the Los Angeles City Council, coalition members stated,

"Our experiences and research bear out that firms with human resource policies such as those contained in the L.A. Living Wage Ordinance reap a range of benefits that actually reduce costs and enhance product quality. Turnover is reduced, worker morale and productivity increase, and a larger pool of residents can afford to buy our products. Far from detracting from successful business enterprise in Los Angeles, the Living Wage Ordinance, properly implemented and monitored, can be a huge benefit to the business community. The safety and stability of a healthy community is not the least of these benefits."⁽¹¹⁾

- In recent testimony in Portland, Oregon, at a hearing to review the impacts of the Living Wage ordinance, a contractor praised the ordinance, testifying that it leveled the playing field for responsible employers already providing higher wages and health benefits to their employees. He stated that the ordinance enabled him to compete with contractors who consistently had underbid him on City contracts by paying low wages.⁽¹²⁾

“. . . research (bears) out that firms with human resource policies such as those contained in the L.A. Living Wage Ordinance reap a range of benefits that actually reduce costs and enhance product quality.”

In San Jose, overall business climate is determined by a wide variety of factors, primarily related to the vibrancy of the region's high-tech industries. In addition, the City of San Jose, under the leadership of Mayor Hammer, has taken comprehensive and widely well-received steps to attract, retain, and assist business of all sizes. City dollars have been used to support many high-wage job-creating companies, as well as economic development projects such as the San Jose Arena, that have triggered a positive multiplier effect on area businesses. Mayor Hammer also chairs President Clinton's Advisory Committee on Trade Policy and Negotiations.

In sum, the proactive and successful initiatives taken by local government and private business to create a strong regional economy bode well for San Jose's continued image as a great entrepreneurial city. (See [Appendices D–F](#) for examples of the multiple ways the City of San Jose provides assistance to promote economic development and a positive business climate.)

Potential Effects of the Living Wage Ordinance on Taxpayers

Given all evidence and the conclusion that most of the direct increased wage costs can be absorbed through productivity improvements, it is unlikely that a Living Wage ordinance will involve any increased cost to tax payers. However, even if the City of San Jose faced some increased costs as a result of enacting a Living Wage ordinance, it is unlikely that increased taxes would also result. Indeed, with the 1996 passage of Prop. 218, a two-thirds citizen vote is required for California cities to raise taxes. City expenses in such areas as personnel, leasing, materials purchases, and facility maintenance are always in flux, requiring the City to make constant adjustments to its expenditures without directly affecting revenue sources or amounts.⁽¹³⁾

Substantial tax-savings and increased overall tax revenue are a far more likely consequence of a Living Wage ordinance. Workers earning less than a livable wage are currently dependent on a variety of public assistance programs, including Food Stamps, MediCal, and other public health services. In addition, they are typically eligible for the Earned Income Tax Credit, which reduces the amount of income tax they pay. Raising their wages to a livable level would reduce or eliminate their dependence on public services.

“the proactive and successful initiatives taken by local government and private business to create a strong regional economy bode well for San Jose's continued image as a great entrepreneurial city.”

The potential tax savings from this are substantial. For instance, MediCal data indicates that on average state taxpayers spend \$6,624 per year to provide health care for a four-person family dependent on public health services. Similarly, taxpayers on average spend \$283.20 a month (\$3,398 a year) on Food Stamps to support a family of four earning \$1,739 a month. This monthly income represents full-time employment at an hourly wage of \$10.86/hour.

“The enactment of a Living Wage ordinance would enable 1,500 working families in San Jose to reduce their dependence on food stamps and MediCal.”

The enactment of a Living Wage ordinance would enable 1,500 working families in San Jose to reduce their dependence on food stamps and MediCal. The projected savings to tax payers could be as much as \$10,022 per year for each family that became fully self-sufficient. (This breaks down to \$3,398 on average for food stamps and \$6,624 on average for MediCal.)

In addition, workers covered by the Living Wage ordinance would actually be able to contribute to the tax base in the form of increased income tax and sales tax. For example, a family of four earning \$16,640 a year (the equivalent of \$8.00/hour full-time) is eligible for \$2,667 under the Earned Income Tax Credit (EITC) Program. Their tax credit would be reduced to \$698 if they were making \$26,000 a year (the equivalent of \$12.50/hour for one full-time worker), resulting in an increase in tax revenue of \$1,969. In addition, the increase in disposable income available to workers would be primarily spent in the local economy, ultimately increasing the sales tax base of the City of San Jose.

POTENTIAL IMPACTS OF THE LIVING WAGE ORDINANCE ON COMMUNITIES AND WORKING FAMILIES

As has been stated, the proposed Living Wage ordinance is narrow and targeted in scope. Its principal beneficiaries would be the 1,500 workers that would be affected by the ordinance and their families. More broadly speaking, though, the Living Wage ordinance would hold symbolic significance for the City of San Jose. In adopting a Living Wage ordinance, the City would model the employment practices which—when implemented on a larger scale—have the following positive effects:

- 1) When low- and middle-wage workers have disposable income, they are likely to spend it in the communities where they live.⁽¹⁴⁾ This has a positive impact on local businesses. It also enables workers to increase their property values, which in turn improves the quality of low- and middle-income neighborhoods.
- 2) To the extent that poverty is linked to crime, neighborhood blight, educational failure, and other social problems, the community as a whole benefits when working families' incomes exceed the poverty threshold.⁽¹⁵⁾
- 3) Numerous studies have found that the principal barrier to parental involvement in the educational and recreational lives of their children is the number of hours they work. This is particularly true in low-income communities. Workers who are paid a living wage and receive health care benefits are less likely to have to work multiple jobs to make ends meet. This leaves more time for workers to spend time with their families.⁽¹⁶⁾

“ . . . research conducted to date (indicates) that the impacts would be overwhelmingly positive for all of the primary stakeholders.”

Overall, while opponents to Living Wage ordinances may raise concerns about possible negative impacts, research conducted to date and an analysis of likely impacts in San Jose indicate that the impacts would be overwhelmingly positive for all of the primary stakeholders.

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IV. PROMOTION OF FAIR LABOR PRACTICES AND HARMONIOUS LABOR RELATIONS

In addition to basic wage and benefit standards, various ordinances around the country have included provisions to promote fair employment practices and/or harmonious labor relations for contractors and subsidy recipients. The following sections summarize these provisions. While it is impossible to quantify the exact impact of these provisions, they clearly promote fair labor practices and should be considered as part of a Living Wage ordinance in San Jose.

The Link Between the Living Wage Ordinance and Job Security

Like many cities across the country, San Jose spends an increasing amount of its budget on contracted services. In fact, it contracts out at a higher level than most US cities.⁽¹⁷⁾ The impacts on individual workers can be dramatic. For example, before the onset of large-scale contracting-out, the gardeners who tend City property were direct government employees. As such, they enjoyed health benefits and stable jobs. Today, these workers are contracted through landscape firms, and, when contracts change hands, these workers are vulnerable to displacement, regardless of their job performance. Low-wage contracted workers typically have few reserves in place to withstand involuntary job loss.

“San Jose . . . contracts out at a higher level than most US cities.” Several Living Wage ordinances enacted around the country have addressed this issue by including worker retention provisions. The principle behind worker retention policy is that contracted employees who are hired to provide an ongoing city service should be allowed to retain their positions when contractors shift. Worker retention policies protect workers from the vagaries of the contracting process. It should be noted, though, that worker retention provisions have been written in a way that does not restrict an employer's ability to terminate a worker for poor job performance. In the cities where worker retention policies have been adopted, there have been many positive outcomes, including a more stable, better trained, and more productive contracted workforce.⁽¹⁸⁾

Maximizing Efficiency in Contracting through Harmonious Labor Relations

The City of San Jose currently has a "third tier review" contracting policy in place. This measure adds a third tier to the criteria used in evaluating bids (in addition to cost and ability to meet specifications) that considers labor issues such as the fair treatment of employees and adherence to worker health and safety standards. Assuming proximity in cost, the third tier review allows the City to acknowledge that companies with higher standards of worker treatment often provide superior contract performance.

Third tier review rewards contractors that adhere to wage and hour and worker health and safety standards. The City of San Jose also benefits from this standard of scrutiny because of its interest in ensuring that labor and employment disputes do not disrupt the continuous and efficient delivery of purchased services.

Expanding the process of the third tier review to address labor relations would help the City promote a new level of efficiency in contracting. When the City of San Jose contracts out for services, it is acting as a multi-million dollar proprietor. As such, the City has a vested interest, particularly in key industry sectors, in encouraging harmonious labor and employment relationships. For example, if work stoppages impact the airport, sewage treatment plant, or convention center, the economic consequences could be momentous. As part of the Living Wage policy, the City should review its contracts for purposes of identifying areas in which it has maximum interest in avoiding labor and employment disturbances that could result in service disruption. The City should then seek ways to avert this type of risk.

“In the cities where worker retention policies have been adopted, there have been many positive outcomes, including a more stable, better trained, and more productive contracted workforce.”

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V. RECOMMENDATIONS FOR A LIVING WAGE ORDINANCE

The following is a list of suggested policies for a Living Wage ordinance:

The following is a list of suggested policies for a Living Wage ordinance.

Employers Covered

1. The City of San Jose should require public contractors and subcontractors receiving contracts of \$20,000 and above to abide by the Living Wage ordinance.
2. Companies receiving direct financial assistance from the City amounting to \$100,000 or more within a twelve-month period should be required to comply with the Living Wage ordinance for five years.
3. The Living Wage ordinance should apply to all workers within an affected company who are doing work related to the contract.

Exemptions

1. An application for a Living Wage ordinance waiver should be available to employers who meet the following criteria:
 - a) A first year business with fewer than five employees.
 - b) Non-profit organizations.
 - c) The employer is currently in a collective bargaining agreement with a labor union.

Wage Rate, Benefits, and Vacations

1. The suggested Living Wage rate is \$12.50 per hour.
2. The wage should be indexed annually to the San Francisco Bay Area Consumer Price Index (Bureau of Labor Statistics, Consumer Price Index for Urban Consumers).
3. The Living Wage ordinance should include health benefits.
 - a) If no formal health plan is offered by the company, the employer should be required to pay the equivalent benefit in additional wages and not less than \$2.50 per hour.
 - b) Health insurance should be mandated for the employee only.
4. The ordinance should include at least twelve compensated days off per year for sick leave, vacation, or personal necessity at the employee's request, excluding federal holidays.

Worker Retention

- 1) When the City changes vendors or contracts-out in-house services, contractors should retain the employees.
 - a) This protection does not apply to workers who are not performing their job duties to the employer's satisfaction.

Maximizing Efficiency in Contracting through Harmonious Labor Relations

- 1) As a multi-million dollar proprietor, the City of San Jose has a vested interest in securing the continuous and efficient delivery of services.
 - a) The City should review its contracts for purposes of identifying areas in which it has maximum interest in avoiding labor and employment disturbances that could result in service disruption. The City should then seek ways to avert this type of risk.

Enforcement of a Living Wage ordinance:

- 1) A specific plan for enforcement should be laid out in the ordinance, including specifications for an evaluation of the ordinance's operation and effects.
- 2) The ordinance should specify that in the event of non-compliance with the terms of the Living Wage policy, the contractor, subcontractor, or recipient would be required to return the funds agreed upon in the contract until compliance requirements are rectified.
- 3) The Living Wage ordinance should be enforced by the City's Equality Assurance Department, the body responsible for the screening of contract applicants and contract enforcement.

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VI. CONCLUSION

This report illustrates the benefits of following the example of sixteen cities across the country in enacting a Living Wage ordinance. The proposed San Jose ordinance would require businesses receiving contracts or subsidies from the City to pay \$12.50 per hour, provide health benefits, and adopt measures to promote basic job security. The ordinance would ensure that 1,500 workers employed by companies providing services to the City are paid enough to exceed the poverty threshold in this high-cost region. It would be an important and meaningful facet of San Jose's overall strategy for economic development.

Implementing a Living Wage ordinance would have positive effects on taxpayers. Full-time workers who rely on public assistance such as food stamps and MediCal would be able to decrease their dependence on these programs. Public expenditures could decrease by an estimated \$10,022 per worker covered by the Living Wage ordinance. Increased purchasing power and higher earnings would increase the contributions of these workers to the local tax base via sales and payroll taxes.

“The ordinance would ensure that 1,500 workers employed by companies providing services to the City are paid enough to exceed the poverty threshold in this high-cost region.”

The Living Wage ordinance would play an important role in promoting fair employment practices and harmonious labor relations. First, it would improve job security for contracted workers by creating a worker retention policy that would enable workers to maintain their positions when contracts change hands. Second, it would expand third tier review to encourage an environment in which labor and employment disputes do not disrupt the continuous delivery of contracted City services. This would benefit both the City as a proprietor and San Jose residents as the funders and recipients of City services.

“In order for San Jose to be a healthy city, we need policies that reverse the growing trend in inequality and promote the stability of our neighborhoods.”

While some business interests in San Jose and in cities where Living Wage ordinances have been enacted have argued that a measure of this type would negatively impact companies, the evidence from cities such as Baltimore, where the ordinance was enacted three years ago, has not borne out these predictions. In fact, contract costs declined in real terms, the number of bidders did not change significantly, enforcement costs were negligible, business investment increased, and unemployment levels were unaffected.

In enacting a Living Wage ordinance, the City would model proactive types of employment policies that help build healthy, stable families and communities. The correlation between poverty and urban blight is well established. The corollary to this is that workers who are able to exceed the poverty threshold are better able than extremely low-income workers to provide for their families in the form of childcare, recreation, and educational support. This has a positive net effect on communities. In order for San Jose to be a healthy city, we need policies that reverse the growing trend in inequality and promote the stability of our neighborhoods.

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APPENDICIES

Appendix A: Cities that have passed Living Wage ordinances

CITY	YEAR	CITY	YEAR
Baltimore, MD	1994	Los Angeles, CA	1997
Boston, MA	1997	Milwaukee, WI	1995
Chicago, IL	1998	Minneapolis, MN	1997
Des Moines, IA	1996	New Haven, CT	1997
Duluth, MN	1997	New York City, NY	1996
Durham, NC	1998	Oakland, CA	1998
Gary, IN	1991	Portland, OR	1996
Jersey City, NJ	1996	St. Paul, MN	1997

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Appendix B: Methodology and Analysis

Without access to company payroll statistics, it is impossible to know exactly the number of workers employed by City contractors or the number of those workers who are paid less than a livable wage. Therefore, in order to estimate the total number of workers who would be affected by a Living Wage ordinance, we first had to identify all of the service contracts that would be covered under a Living Wage ordinance. We began with a complete list of all purchase orders and service agreements provided to us by the City Clerk's Office and the General Services Department.

From this comprehensive list, we

- eliminated all contracts for purchase orders;
- eliminated all contracts that did not appear to be on-going service contracts;
- eliminated all contracts that appeared to be with non-profit organizations; and
- eliminated all contracts under \$20,000, the cut-off point for the competitive bidding process.

The result was a total of 235 companies with service contracts of over \$20,000. These contractors were then categorized according to the Standard Industrial Classification (SIC) code. The SIC is a widely-used standard that classifies companies according to the type of industry.

We then estimated the size of the contracting firms, using data from the Santa Clara County Business Patterns (1994), which measures the average number of workers per firm for Santa Clara County by SIC. This allows us to estimate the total number of workers employed by those contractors by multiplying the average firm size by the number of contracts.

In order to estimate the number of workers in these companies earning less than a certain hourly wage, we used the 1990 Census PUMA Sample for Santa Clara County. In this data source, workers report their average weekly earnings and average hours worked per

week; this allows us to calculate their equivalent hourly wage rate. Workers also report their industry of employment. We were therefore able to calculate the percentage of workers within any 2-digit SIC category who earned above or below any particular dollar amount, as shown in Table 2. The figures were adjusted for inflation by the California Consumer Price Index (CPI) and multiplied by the total number of workers by SIC.

For example, for Business Services (SIC #73), a total of 61 City service contracts were identified. The average number of employees of Business Services firms in Santa Clara County is 23.7, resulting in a total of approximately 1446 people (61 x 23.7) employed by those 61 contractors. An estimated 49% of the workers employed in the Business Services industry earn below \$12.50 per hour; thus, an estimated 708 workers (.49 x 1446) working for city contractors in Business Services earn less than \$12.50 an hour.

To estimate the percentage increase in payroll costs resulting from a living wage ordinance, we again used the US Census PUMA Sample. We calculated the number of people earning less than \$12.50 an hour, and their average wage, by 2-digit SIC code. The dollar amount per hour needed to raise their wage to \$12.50 an hour is the difference between \$12.50 and the average wage, multiplied by the total number of people. The percentage increase in payroll costs is simply this figure divided by the total hourly payroll.

X= Number of people earning less than \$12.50 an hour

Y= Average wage of people earning less than \$12.50 an hour

Z= Total number of workers

W= Average wage of all workers

Z*W= Total current hourly payroll

X*Y= Total currently hourly payroll for workers earning less than \$10 an hour

Percentage Increase in Payroll Costs = $[(X*\$12.50)-(X*Y)]/Z*W$

To estimate the total payroll increase as a percentage of total revenue, we used the U.S. Department of Commerce Economic Census for 1992, as well as the percentage increase in payroll costs calculated as described above. The increased payroll costs as a percentage of total revenue were calculated using the following formula for each 2 digit SIC code:

X=Percentage Increase in Payroll Costs

Y=Total Payroll

Z=Total Revenue

Payroll increase as percentage of Total Revenue = $(X*Y)/Z$

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Appendix C: Letter from Businesses for a Living Wage to the City Council and Mayor of Los Angeles

(Not yet web compressed)

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Appendix D: Activities of the Office of Economic Development (OED)

The incentive and benefit programs offered by the OED are listed on the following page. The table below shows the key OED activities from July, 1996, to June, 1997, as reported to the City Council. Note that one category of activities reported 21 loans to businesses totaling \$1.3 million. City contracts in this department are also covered by prevailing wage requirements (for housing, the building must have more than eight units). Subsidy support comes in different forms, and the following examples highlight some of the possible forms in which business may receive subsidies.

- The OED, in coordination with the Redevelopment Agency, worked with Electroglass (a semiconductor equipment manufacturer) to purchase a site in Edenvale for the construction of a 300,000 square foot facility in which about 500 workers are employed. This location assistance makes this the largest industrial development in Edenvale since the StrataCom facility was completed.
- Industrial development bonds (IDB) are issued with the endorsement of the City Council. In order to apply, manufacturing must comprise 70% of a firm's operations, and a firm must have \$10 million in capital. The Statewide Authority administers a lengthy application process. Applications are also subject to review before the City Council and in two public hearings. South Bay Circuits and Gordon Biersch Brewery received the two most recent IDB's.

ACTIVITIES OF THE OFFICE OF ECONOMIC DEVELOPMENT	
July 1, 1996 - June 30, 1997	
Performance Measures	Number of Actions
Assistance, Information, Outreach, Attraction, and Retention Efforts Provided to Businesses	1,371
Enterprise Zone Assistance	513
REF & REF Loans Made and Total Dollars	21 loans

RLF & DEF Loans Made and Total Dollar Amount	21 loans: \$1,305,000
Export and International Business Assistance	1,281
Permit Assistance for Businesses	77
Presentations, Seminars, Trade Shows, & Meetings Facilitated/Attended to Promote Economic Development	87
Pieces of Marketing Materials Distributed	20,440
Groups and Delegations Hosted or Facilitated	80
Estimated Jobs Created as a Direct Result of OED Actions	1,000
Estimated Sales Tax Revenues to Be Generated Annually for Projects with OED Involvement	\$5 million
<i>SOURCE: OED Report of Activities to the City Council, 1996-1997</i>	

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Appendix E: Economic Assistance Programs, Office of Economic Development (OED)

Development Enhancement Fund (Office of Economic Development [OED] contracted with Bay Area Small Business Development Corporation and with Fund Advisory Board)

- Capital loans (\$4.7 million) –\$25,000–\$300,000+ for business expansion, equipment, and working capital
- Loan Guarantees and Subordinated Direct Loans

The Enterprise Zone (State-designated area of 18 square miles in central San Jose) Businesses located in this zone are eligible for state and local benefits–city incentives, including:

- Construction tax waivers
- Building and structures waivers
- Commercial, residential, and mobile home tax waivers

San Jose Business Incentives/Assistance

- Manufacturers Investment Credit (state)
- Redevelopment Agency (RDA) (city)
- Industrial Development Bonds (IDBs) (\$500,000–\$10 million–city approved)
- Revolving Loan Fund (RLF) (leveraged with private capital \$10–40,000)
- Water Conservation Financial Incentives (up to \$20,000/year for use reduction)

Trade Assistance

- US Export Assistance (technical assistance)
- Port of Entry status (customs processing, tracking costs reduction)
- Foreign Trade Zone (delays or eliminates duties on imported goods, considered international commerce)
- Export Resource Center
- Bay Trade Program

Hiring/Training/Technical

- Center for Software Development
- Entrepreneurship Training
- Environmental and software business clusters (rental breaks, cooperative internal and external resources)
- Silicon Valley Economic Development Corporation
- San Jose First Employment Program

Utilities

- Energy efficiency improvements
- Construction retrofit
- Rebate programs
- Technical assistance

Environmental Assistance Center

- Santa Clara Valley Permit Assistance Center
- Commercial Solid Waste Recycling program

Business Assistance

- Chambers of Commerce

- Downtown Associations

SOURCE: Office of Economic Development

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Appendix F: City of San Jose Support of Business

Mayor Hammer's involvement with business leaders:

- Chair, President's Advisory Committee on Trade Policy and Negotiations
- Chair, Public Sector Round Table/Joint Venture Silicon Valley
- Created the Economic Development Strategy and the Economic Development Committee
- The Business Climate Study
- Weekly breakfast meetings with CEO's
- Expanded support to the Minority Chambers of Commerce
- Created The Dublin Economic Partnership

Efforts to create and protect thriving trade markets:

- San Jose Metropolitan Area becomes country's leading export region
- Asian Trade Commission (small business CEO's)
- Commerce Department designates San Jose as a US Export Assistance Center
- San Jose–Tokyo direct air service inaugurated and continued
- Mexicana Airlines service to San Jose maintained
- San Jose International Airport Master Plan
- The Korean Software Incubator

Support of major projects to develop the region:

- Measure A campaign (transportation funds–November, 1992)
- San Jose Education Network
- Opening of the San Jose Repertory Theater
- Opening of the San Jose Arena
- Giants ballpark campaign
- Enterprise Zone extended to Monterey Corridor

Major businesses assisted:

Adobe Inc., Atmel, Cadence Design, Cisco Systems, Hitachi, Netcom, Novell, Paseo Plaza luxury development, Ryland Mews, Toshiba, United Artist theaters, Villa Torino, and Xerox. Proposals for the expansion of the Town and Country and Valley Fair shopping centers.

Small business assistance through the Office of Economic Development:

- Software Development Center
- Development Enhancement Fund
- Revolving Loan program

Permits process simplified and inspections expedited:

- The number of forms required to obtain building permits has been decreased from thirteen to one.
- The time required for a business plan check has been reduced from four–six weeks to two weeks.
- Ninety–five percent of required inspections take place within one day of filing permit application: previous turnaround time was two to four days.

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FOOTNOTES

(1) US Census 1990, adjusted for inflation.

(2) State of California, Employment Development Department, Labor Market Information Division, Information Services Group, [<http://www.calmis.cahwnet.gov/file/demos&e/santacla5.htm>].

(3) Mishel, Lawrence, Jared Bernstein, and John Schmitt (1997) State of Working America, 1996–1997. Economic Policy Institute Series. (M. E. Sharpe, Armonk).

(4) Pollin, Robert, et al. (1996) Economic Analysis of the Los Angeles Living Wage Ordinance (University of California, Riverside).

(5) Reiman, Jeffrey (1998) The Rich Get Richer and the Poor Get Prison: Ideology, Class, and Criminal Justice. (American University, Washington, DC).

(6) Weisbrot, Mark, and Michelle Sforza–Roderick (1996) Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442, (The Preamble Center for Public Policy, Washington, DC).

(7) Bureau of Labor Statistics. Local Area Employment Statistics. 1990–1998. [<http://www.bls.gov/lau/home.html>]

(7) Bureau of Labor Statistics, Local Area Employment Statistics, 1990-1998, <http://www.bls.gov/louisiana/>.

(8) Card, David, and Alan B. Krueger. (1995) *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton University Press, Princeton, NJ); Card, David, and Alan B. Krueger. (1995) "Time-series minimum-wage studies: A meta-analysis." *American Economic Review* v85, n2; Card, David, and Alan B. Krueger. (1994) "Minimum wages and employment: A case study of the fast-food industry in New Jersey and Pennsylvania." *American Economic Review* v84, n4; Bernstein, Jared, and John Schmitt. (1997) *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase* (Economic Policy Institute, Washington, DC); Spriggs, William, and Bruce Klein. (1994) *Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers* (Economic Policy Institute, Washington, DC).

(9) Bernstein, Jared, and John Schmitt. (1997) *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase* (Economic Policy Institute, Washington, DC).

(10) Weisbrot, Mark, and Michelle Sforza-Roderick (1996) *Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442* (The Preamble Center for Public Policy, Washington, DC)

(11) Letter from Businesses for a Living Wage to the City Council and Mayor of Los Angeles (January, 1997). See Appendix C for full text.

(12) City of Portland contractor comments at City Council meeting. (July 1998).

(13) For instance, personnel costs rose 23% between 1990/91 and 1995/96, despite only an 8% increase in the number of personnel. Leasing costs rose 13% between 1990/91 and 1995/96.

(14) Dreier, Peter, and Manuel Pastor. (1996) "It's Business as Usual for Living Wage Opponents," *Los Angeles Times*, December 12, 1996.

(15) Reiman, Jeffrey. (1998) *The Rich Get Richer and the Poor Get Prison: Ideology, Class, and Criminal Justice* (American University, Washington, DC)

(16) Schor, Juliet. (1991) *The Overworked American*, (Basic Books/Harper Collins Publisher, New York).

(17) Mayor's Budget Office Report Summary of Fiscal Year 1996-97, Contracted Services Estimate, 1997.

(18) Pollin, Robert, et al. (1996) *Economic Analysis of the Los Angeles Living Wage Ordinance*, (University of California, Riverside).

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