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**The Service Contractor  
Provision of the Proposed  
Living Wage Ordinance  
in Allegheny County**

**An Impact Assessment**

**November 2000**

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# **The Service Contractor Provision of the Proposed Living Wage Ordinance in Allegheny County**

## **An Impact Assessment**

**Steven Lopez**

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# EXECUTIVE SUMMARY

## Living Wage Legislation

Allegheny County Council is now considering “living wage” legislation. The proposed ordinance would require that several groups of workers, including workers employed on county service contracts, be paid at least \$9.12 per hour if they receive health benefits from their employer and \$10.62 per hour otherwise. This report analyzes the benefits and costs of the provisions of the proposed legislation that apply to county service contracts, which mainly involve health and human services.

## The Need for Living Wage Legislation

Despite the booming economy in the United States, jobs held by low-wage workers pay less in real dollars today than they did 20 years ago. In response, about 50 U.S. cities and counties have enacted living wage legislation since 1994. The premise of such laws is that public money should create jobs that allow people who work full time to support themselves and their families.

The hourly living wage in the proposed ordinance for Allegheny County is based on a 1997 University of Pittsburgh study. In 1999 dollars, this study found that \$9.12 per hour was the wage needed by two full-time workers with two dependents to cover the costs of a bare bones family budget. The proposed ordinance requires that \$1.50 be added to the hourly wage of workers without employer-provided health coverage. Currently, families that do not earn enough to meet basic needs are often forced to use unsafe child care or go without car insurance. They may have to allow their elementary school children to spend their after-school hours home alone.

In Allegheny County, three-quarters of the service contract employees paid less than \$9.12 per hour provide health and social services. The quality of services such as child care, elder care, and mental health/mental retardation services is jeopardized by annual turnover rates in the neighborhood of 50 per cent and recruiting problems that result in significant staff shortages. These problems have now reached crisis proportions in virtually all segments of human services.

Raising wages will help stabilize staff coverage and reduce turnover, strengthening the bonds that exist between workers and care recipients, a key factor in quality care. With clients limited in their ability to pay, however, market forces alone will not raise wages. Improving quality and achieving living wage levels in human services depends on government increasing its level of support.

## The Impact of the Proposed Law

This impact assessment is based on data from the Allegheny County Controller’s Office on all Allegheny County service contracts in effect during 1998. Combining these data with other publicly obtainable data made it possible to estimate the benefits and costs of the living wage ordinance.

## Benefits

- Based on 1998 wage levels, a total of 5,433 workers would receive a raise as a direct result of the provision in the living wage ordinance that applies to service contract work.
- An estimated 5,169 service contractor workers earn less than \$9.12 per hour and



have an average wage of \$6.94 per hour. To bring their earnings to \$9.12 requires an average increase of \$2.18 per hour.

- An estimated 1,394 of the 5,169 workers who make less than \$9.12 per hour lack health insurance and would require an additional increase of \$1.50 under the living-wage ordinance.
- An additional 264 workers who earn between \$9.12 and \$10.62 do not receive health insurance and would require increases averaging 74 cents per hour to reach \$10.62.
- Although it is not mandated by the proposed legislation, a projected 2,201 workers who earn slightly above a living wage would receive an average wage increase of \$0.97 per hour in order for contractors to maintain pay scales.
- In total, based on 1998 wages, the service contractor provision of the living wage ordinance would directly or indirectly raise the wages of 7,634 workers.
- Since wages have increased since 1998, a somewhat smaller number of workers would benefit from the ordinance than projected based on 1998 wages. Nonetheless, we estimate that approximately 3,900 workers would benefit from mandated wage increases. About 5,500 would benefit from mandated increases or non-mandated increases to maintain pay scales.
- Since African-Americans and women are disproportionately represented in the affected workforce, the legislation would particularly reduce poverty within these groups.

### Costs

- Based on 1998 data, the total cost of the wage increases mandated by the service contract provision of the ordinance would be an estimated \$21.9 million. Since wages have increased since 1998, the cost today of the wage increases mandated under the ordinance would be lower — an estimated \$15.8 million.
- This \$15.8 million would be offset by savings due to reduced staff turnover of an estimated \$2.5 million, for a net cost of \$13.3 million.
- In the first year of implementation, the living wage ordinance requires only a small wage hike and therefore a small increase in costs. In this first year, the gap between current wage levels and the living-wage thresholds must be closed by the current county share of the total cost of service contracts. (The state and federal governments pay most of the cost of service contracts.) We estimate the current county contribution to the cost of service contracts as 15 percent. Fifteen percent of \$13.3 million is \$2 million.
- **In sum, in the first 12 months after the requirements of the proposed Allegheny living wage ordinance are imposed on service contractors, the cost to the county would be \$2 million.** This is a mere three tenths of 1 percent of the proposed \$638 million Allegheny County budget for the year 2001.

### Factors Which Further Reduce Costs

For several reasons, the cost to all levels of government of the wage increases mandated



under the living ordinance could be less than \$13.3 million.

- Reducing turnover and staff shortages may cut contractor costs for hiring temporary agency workers.
- The living-wage ordinance is likely to stimulate cost-saving productivity gains at service contractors. Why? Because higher wages motivate employers to seek efficiency improvements and workers to increase their effort.
- Contractors will absorb some of the costs of wage increases. Two studies of the effects of a living wage ordinance in Baltimore showed that contractors passed little of their increased wage costs on to the city.
- Even nonprofit contractors appear able to absorb much of the increase in costs. A study of a Detroit ordinance found that only one out of four non-profits faced significant financial problems in implementing living-wage requirements. Even in the 10 non-profits that faced the most significant compliance costs, the costs of the living wage ordinance ranged from under 1 percent to a maximum of 6 percent of their total annual budget.
- The cost to the county of the living-wage ordinance would also be offset slightly by the following two benefits.
  - Local consumer demand will increase since lower-wage workers spend more of their income in the local area than do higher-wage workers. Increased demand for local products and services in turn will generate higher sales tax collections.
  - Once workers earn a living wage, they are likely to rely less on social services for which the county shares the cost.
- The county could seek additional savings on service contracts by supporting collaboration among the often small human service agencies that deliver similar services. Such collaboration could reduce duplication of administrative costs. Savings and quality improvements could also result if the county encouraged agencies in the county to work together to spread “best practice.”

**Living Wage: A Sound Public Policy**

*Business Week* recently concluded that,

A small but growing body of academic research suggests that living-wage laws do more good than harm. So far, they have imposed little, if any, cost to the 50 cities that have passed them, the studies find. And they have led to few job losses and have lifted many families out of poverty. . . The new research shows that living-wage laws don’t cause many job losses because employers learn to live with them by trimming profit margins and finding efficiency gains from improved morale and lower turnover.

In Allegheny County, living wage legislation will not have significant negative effects on the county budget. Even if the county shouldered all of the maximum estimated cost of mandated wage increases (minus turnover savings) – \$13.3 million – the cost of the service contractor provision of the living wage ordinance would be only 2 percent of the proposed county budget for the year 2001.



Taking account of wage increases since 1998, some 5,500 service workers and their families would benefit by a living wage ordinance, 3,900 of them due to wage hikes mandated under the ordinance. In spite of our booming economy, these workers – most of them in human services, and many of them African-Americans and women — earn wages that are too low to cover even basic needs. The proposed ordinance will also improve the quality of services and, with it, the overall quality of life in Allegheny County.

Living wage legislation would afford more workers in Allegheny County the dignity of earning enough to pay for their family’s basic needs. It would also be an important element in an area economic strategy that is worker and community friendly as well as business friendly – a strategy premised not on indiscriminate support for business but on supporting companies that create good jobs.



# INTRODUCTION

The idea behind “living wage” legislation is that full-time workers should earn enough to cover the costs of a family’s basic needs. Because the federal minimum wage, now \$5.15 per hour, has not kept up with the cost of living, it is not high enough to meet basic needs. The buying power of the minimum wage today is only two-thirds of what it was in 1968. It is less than three-quarters of what it was in 1979. The inadequacy of the minimum wage makes living-wage legislation necessary.

There are two common ways a living wage is estimated. One is to calculate the wage workers need to lift their family income above the federal government’s official poverty levels. The poverty levels, however, are not based on what food, shelter, and other basic needs actually cost. Instead, they are based on a “back of the envelope” calculation by a Department of Agriculture economist. Four decades ago, the economist noted that families spent about a third of their income on food. She multiplied a low-

cost food budget for each family size by three to generate estimates of a poverty income. Since then, the federal government has updated the original poverty estimates by adjusting them for inflation.

An alternative way to estimate a living wage is to gather data on what it actually costs to meet a minimally adequate basic needs budget. Budget-based studies of how much income families need to fulfill basic needs in the 1990s have found that the amounts required exceed the federal poverty line for most family types. In Allegheny County, Ralph Bangs and associates at the Center for Social and Urban Research at the University of Pittsburgh estimated that in 1996 a two-earner married couple with two children under age 6 required a pre-tax income of \$35,086 (\$36,450 in 1999 dollars) to meet basic needs.<sup>1</sup> This amount was 225 percent of the federal poverty line for this family type in 1996. Table 1 presents Bangs et. al.’s living wage estimates for several common family types, adjusted to 1999 dollars.

<b>Family Type</b>	<b>Pre-tax income needed to meet basic needs</b>	<b>Hourly wage required to meet basic needs</b>
Married couple, both working, one child under 6	\$32,382	\$8.10
Married couple, both working, two children under 6	\$36,450	\$9.12
Single working individual	\$16,692	\$8.35
Single working parent, two children under 6	\$31,141	\$15.57

\*1996 estimates adjusted to 1999 dollars using the Bureau of Labor Statistics Consumer Price Index for the Pittsburgh metropolitan area.  
 Source: Ralph Bangs, Cheryl Kerchis, and Laurel Weldon, *Basic Living Costs for Working Age Adults and Families in the City of Pittsburgh and Allegheny County, Technical Report* (Pittsburgh: Center for Social and Urban Research, University of Pittsburgh, 1997).



Many Allegheny County residents earn less than these living wage levels. This is partly because the wages of low-wage earners in the Pittsburgh area declined by 13 percent between 1979 and 1999. This decline was larger than that in most other major metropolitan areas.<sup>2</sup>

In short, while this is a time of great prosperity for some, many area families with full-time wage earners are not sharing in these good times. Families that do not earn enough to meet basic needs get by without health insurance or with inadequate housing, with unsafe child care or without car insurance. They may take on more credit-card debt than they can afford or allow their elementary school children to spend the after-school hours alone in the house.

Local living wage legislation seeks to reduce the number of families who cannot meet basic needs. It does so directly by requiring tax-supported employers to pay a wage that is substantially higher than the minimum wage. The rationale for this is that public money should not be used to create jobs that do not pay enough to meet basic needs. Since 1994, about 50 U.S. cities have adopted living wage laws.

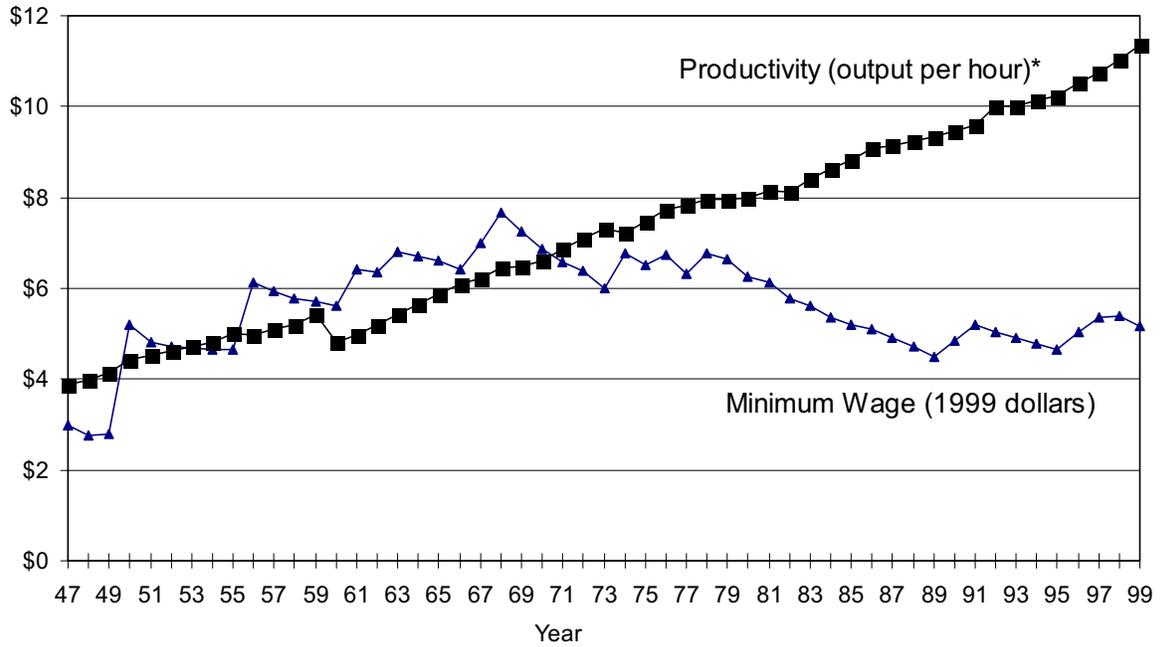
Different family configurations have different basic-needs incomes, but it would be hard to legislate different living wages for different workers. The living wage bill proposed by the Western Pennsylvania Living Wage Campaign calls for a wage of \$9.12 per hour if the employer provides health benefits, and \$10.62 per hour if health benefits are not provided.

Adjusted for inflation between 1996 and 1999, \$9.12 per hour is the wage that the University of Pittsburgh estimated that a family of four with two working adults would need to meet a bare bones budget. This figure is far below the living wage estimate for a single parent with children.

In addition, \$9.12 per hour is relatively low considering how much richer the country as a whole has become during the last several decades. One indicator of this is that the federal minimum wage would now be over \$11.50 per hour if it had risen with productivity since 1968. As Figure 2 shows, the minimum wage increased along with productivity in the decades prior to 1968. From the 1940s to the 1960s, low-wage American workers shared equitably in rising living standards. In the last three decades, they did not.



**Figure 2. The Inflation-Adjusted Minimum Wage Compared to Productivity**



\*Note: Output per hour indexed to 1960 = 4.8. This scaling makes it easier to see the divergence with the minimum wage after 1968

Source: KRC based on Bureau of Labor Statistics data.

# THE IMPACT ON SERVICE CONTRACTS

The proposed Allegheny County living wage bill would cover six different kinds of workers: those employed (1) on county service contracts, (2) by companies receiving subsidies or tax concessions from the county, (3) directly by Allegheny County, (4) by county authorities (such as the new Airport Authority), (5) in the production of goods purchased by the county, and (6) companies with county leases and rental agreements.

This impact assessment focuses on the employees of county service contractors and their subcontractors.

- The service contractor provision would cover all firms that receive \$10,000 or more (on an annual basis) from contracts with Allegheny County.
- Non-profit firms with fewer than 25 employees would be excluded, as would for-profit firms with fewer than 10 employees.
- Subcontractors would be covered if the annual amount of the subcontract is greater than \$5,000.
- Service contractors or subcontractors would be required to pay the living wage only to employees who perform work related to a county contract or subcontract.

## Data Sources

The Allegheny County Controller's Office provided much of the data for this study, including a list of all service contracts and contractors, contract start and end dates, contract agreement amounts, amounts paid under each contract, the county department associated with each contract, and information about the type of service provided.

Most contracts last more than one year. Since we wanted to estimate the impact of the proposed living wage ordinance on an *annual* basis, we converted contract payout data into estimates of the amount paid out in *one particular* year. We chose 1998 because, at the start of the study, it was the most recent year for which all payments had been completed. We pro-rated the total amount paid out under each contract on a monthly basis to obtain an estimate of the amount paid out under each contract in 1998. For example, if three months of a twelve month contract were in 1998, we assumed that 25 percent of the funds were paid out in 1998.

The next step was to exclude, as much as possible, contractors that are exempt from the proposed living wage ordinance. Of a total of 936 service contractors, 235 were excluded because they received less than \$10,000 in 1998.

The proposed ordinance also specifies that for-profit firms with 10 or fewer employees, and non-profit firms with fewer than 25 employees, are exempt. Most of Allegheny County's service contractors, however, are small local firms that are not listed in business directories containing information on number of employees and for-profit/non-profit status. Therefore, it was not possible to apply the size criteria for exemption except in the case of 68 contracts under which individuals personally provided contracted services.

Excluding the 68 contracts to individuals reduced the database to 632 contractors holding 1809 service contracts. Because some of these 632 contractors would be exempt from the living wage requirement by the employer-size criteria, this analysis overestimates the value of contracts covered by the ordinance, the number of workers affected, and the overall cost of the law.



To identify the industry of each contractor, we used *Powerfinder Pro*, a commercially available database. *Powerfinder Pro* classifies industries using the federal government’s “Standard Industrial Classification” (SIC) system. We assigned a three-digit SIC code to each contractor. It was not possible to determine the industry of five of the 632 contractors. The impact of these five contractors on the analysis is negligible since all of them hold small contracts.<sup>3</sup>

Tables 2 and 3 summarize information on the service contracts potentially affected by the

proposed living wage ordinance, by county department and by economic sector. In 1998, Allegheny County paid \$485 million in contracts to the 632 contractors that would be covered by the proposed ordinance.

Table 2 shows that 62 percent of the \$485 million spent on service contracts in 1998 originated in just two departments – Mental Health/Mental Retardation/Drug and Alcohol (MH/MR/DA) and Children, Youth and Family Services (CYF). As the breakdown by sector in Table 3 shows, a similar proportion (63 percent) of contract value

<b>Table 2. Number and Value of Service Contracts, by County Department</b>		
<b>County Department</b>	<b>Number of Contracts Covering a Portion of 1998</b>	<b>Value of Service Contracts in 1998*</b>
Mental Health/Mental Retardation/Drug and Alcohol	327	\$211,668,113
Children, Youth, and Families	252	\$87,090,374
Greater Pittsburgh International Airport**	28	\$33,653,513
Employee Relations	11	\$26,810,278
Economic Development	325	\$22,058,402
Aging	251	\$20,178,627
Federal Programs	139	\$16,347,453
Administration	45	\$13,632,075
Jail	17	\$8,624,457
Safety Services	26	\$7,718,448
Office of the County Solicitor	52	\$7,626,359
Health	52	\$6,390,783
John J. Kane Regional Centers	41	\$4,171,680
Community Services	9	\$4,086,467
Other Departments	234	\$15,021,403
<b>TOTAL</b>	<b>1809</b>	<b>\$485,078,432</b>
<small>* These are estimated amounts based on pro-rating the contract payouts on a monthly basis.                      **While a county department in 1968, the airport is now an independent authority. Since it would not be covered by the service contractor provision of the living wage ordinance, our estimates are slightly inflated. (Most airport workers earn more than \$9.12 – see Table 3.)                      Source: Allegheny County Controller.</small>		



<b>Table 3. Number and Value of Service Contracts, By Economic Sector*</b>		
<b>Economic Sector</b>	<b>Number of contracts covering a portion of 1998</b>	<b>Value of contracts in 1998</b>
Construction, Engineering, and Manufacturing	80	\$6,993,350
Transportation, Public Utilities, and Repair services**	40	\$36,441,602
Trade	65	\$8,571,559
Legal, Computing, Business, Finance, Real Estate, Insurance	265	\$60,436,144
Health	190	\$136,284,192
Education	136	\$32,336,122
Social Services	654	\$170,159,431
Other Sectors (includes 5 contracts held by 5 unclassified contractors)	379	\$33,856,031
<b>TOTAL</b>	<b>1809</b>	<b>\$485,078,432</b>
<small>*The eight sectors in this table should not be confused with the hundreds of industries used in the analysis. The analysis in this report is based on 3-digit SIC codes, which provide information about many industries. To simplify presentation, we have grouped them into the eight sectors shown in this table.                      **Most of this category is the airport (see note ** to Table 2).                      Source: Allegheny County Controller.</small>		

went to contractors providing health services and social services.

Most of the \$485 million was also paid to a relatively small number of contractors. The top 100 of the 632 contractors received \$384 million (79 percent of the total), while the bottom 300 contractors received only \$10.5 million (2 percent of the total).

**Wage Increases**

*Mandated Wage Increases*

Estimates derived from the service contractor database indicate that

- 11,135 full- and part-time employees work for service contractors and subcontractors subject to the proposed living wage ordinance.
- 5,433 employees of these service contractors would receive raises mandated by the ordinance.
- To raise their wages to \$9.12 per hour, 5,169 employees would receive an average increase of \$2.18 per hour.
- 1,394 of these 5,169 employees do not receive health benefits and would, therefore, require additional wage increases that would bring their wages to \$10.62 per hour.



- 264 employees currently earning between \$9.12 and \$10.62 without health benefits would have their wages raised to \$10.62 per hour.
- The total annual mandated wage increases under the service contracting portion of the ordinance would be \$21,895,058.

Three out of four of the employees currently earning less than \$9.12 per hour are health care and social service workers. Three out of four are also in three departments (MH/MR/DA, Children and Youth, and Aging).

The analysis underpinning these estimates, explained below, proceeds in three steps.

- Step 1: Estimate the number of covered employees receiving wage increases up to \$9.12 per hour and the average wage increase received.<sup>4</sup>
- Step 2: Estimate the number of covered workers earning less than \$9.12 per hour who are not provided health benefits, and calculate the wage increases involved in bringing these workers up to \$10.62.
- Step 3: Estimate the number of covered workers earning between \$9.12 and \$10.62 per hour who are not provided health benefits, and calculate the wage increases required to bring these workers up to \$10.62.

Step 1: Estimate the number of workers earning less than \$9.12 and the wage increases necessary to bring them up to \$9.12.

Step 1 has three sub-steps: (a) estimate the number of workers employed by contractors and subcontractors, (b) estimate the number who earn

below \$9.12, and (c) estimate the average increase necessary to raise the wages of workers who earn less than \$9.12 to that level.

To estimate the number of workers employed on contracts to Allegheny County, we assumed that contractors and subcontractors to Allegheny County have the same output per full-time equivalent (FTE) worker (or “productivity”) as their industry as a whole. With this assumption, an industry average for output per FTE can be used to convert contract payout figures to FTEs working on contracts. We obtained the needed industry averages for output per FTE from a combination of a commercially available database called IMPLAN and publicly available data.<sup>5</sup> We then applied the industry-specific measures of output per FTE employee to the contract data to estimate the FTEs created by each contract. The results of this analysis are summarized in column 1 of Table 4.

To convert the estimates of FTEs in column 1 to the estimates of actual employees in column 2, we used data on average hours worked per week, by industry, from the Current Population Survey (CPS).<sup>6</sup>

We also used CPS data to calculate the share of workers in each industry earning less than \$9.12 per hour.<sup>7</sup> These shares were the basis for column 3a of Table 4, which shows the share of covered FTEs under \$9.12 per hour. We converted the estimates of low-wage FTEs in column 3a into estimates of actual low-wage employees (column 3b) using the same procedure as for converting FTEs to actual workers described above.

To estimate the total annual increase in wage income resulting from bringing all employees up to \$9.12 per hour (column 5), we used the CPS to



**Table 4. Number of Employees of Service Contractors Covered By and Receiving Mandated Wage Increases Under the Proposed Living Wage Ordinance, by Sector**

Economic Sector	(1) Service Contractor Full-Time Equivalent Employees Covered by the Ordinance	(2) Service Contractor Employees Covered by the Ordinance	(3) Number of Workers Requiring Wage Increases to Reach \$9.12 per Hour		(4) Average Hourly Wage Increase	(5) Total Annual Wage Bill Increase
			(a) Full-time Equivalents	(b) Actual Workers		
Construction, Engineering, and Manufacturing	89	120	17	57	\$2.17	\$72,199
Transportation, Public Utilities, and Repair services	618	748	78	108	\$2.47	\$382,803
Trade	97	143	62	107	\$3.56	\$437,960
Legal, Computing, Business, Finance, Real Estate, Insurance	671	782	257	375	\$2.13	\$1,094,291
Health	2085	2308	1043	1179	\$1.79	\$3,724,790
Education	637	752	215	280	\$3.23	\$1,387,792
Social Services	4663	5427	2332	2754	\$2.17	\$10,114,356
Other Sectors	741	855	220	309	\$2.62	\$1,154,075
<b>TOTAL</b>	<b>9,601</b>	<b>11,135</b>	<b>4,224</b>	<b>5,169</b>	<b>\$2.18</b>	<b>\$18,368,266</b>

Note: All dollar amounts adjusted to 1998 dollars. Columns may not total exactly because numbers have been rounded. Column 5 computed using pre-rounded numbers.  
 Source: Author's calculations using Allegheny County Controller's office service contract list, Current Population Survey, IMPLAN, and 1992 Economic Census.

calculate the average wage of workers earning less than \$9.12 in each industry.<sup>8</sup> We subtracted each average from \$9.12 and multiplied each difference by 2000 hours per year to estimate the annual wage gain for one full-time equivalent employee in each industry. Then, for each contract, we multiplied the average annual wage increase per FTE by the number of low-wage (less than \$9.12) FTEs on the contract to obtain the total annual wage increase for each contract.

The total amount of \$18,368,266 reported at the bottom of column 5 is the sum of the total annual wage increases from all the contracts.

Table 5 presents the same information by county department.

Step 2: Estimate additional wage increases necessary for low-wage (less than \$9.12) workers who are not provided health benefits.



An estimated 1,394 workers who currently earn less than \$9.12 per hour do not receive health benefits and will therefore need an additional \$1.50 per hour to bring them to the higher level of \$10.62 set by the proposed ordinance. The estimated total annual amount of these additional wage increases is \$3,296,850. These estimates were produced using a combination of two methods.

**Method 1:** Use Current Population Survey (CPS) data to estimate, by industry, the proportion of low-wage (less than \$9.12 per hour) workers

whose employers do not offer health insurance, and apply these proportions to all covered employees of service contractors.

Method 1 *overestimates* the number of workers whose employers do not offer health insurance because nearly all human services providers holding contracts with the county Departments of Mental Health/Mental Retardation/Drug and Alcohol; Children, Youth, and Families; and Aging (hereafter Group A departments) do offer health insurance to their full-time employees.

**Table 5: Employees of Service Contractors Covered By and Receiving Mandated Wage Increases Under the Proposed Living Wage Ordinance, by County Department**

County Department	(1) Service Contractor FTEs Covered by the Ordinance	(2) Service Contractor Employees Covered by the Ordinance	(3) Number of Workers Requiring Wage Increases to Reach \$9.12 per Hour		(4) Average Hourly Wage Increase Under the Ordinance	(5) Total Annual Wage Bill Increase
			(a) Full-time Equivalents	(b) Workers		
Mental Health/Mental Retardation/Drug and Alcohol	4346	4946	2148	2486	\$2.08	\$8,933,482
Children, Youth, and Families	2084	2384	946	1121	\$2.18	\$4,131,882
Aging	518	605	260	315	\$2.04	\$1,062,662
Federal Programs	387	447	157	201	\$2.42	\$763,149
Economic Development	409	488	153	213	\$2.40	\$734,553
Jail	164	201	98	125	\$3.26	\$640,455
Administration	214	275	82	127	\$2.65	\$534,893
Greater Pittsburgh International Airport	601	722	75	97	\$2.65	\$396,139
Employee Relations	257	271	72	78	\$1.64	\$235,517
Health	98	122	45	69	\$2.04	\$164,616
John J. Kane Regional Centers	55	75	30	45	\$2.30	\$137,279
Office of the County Solicitor	101	127	34	60	\$1.90	\$127,992
Safety Services	119	128	35	39	\$2.04	\$126,733
Community Services	62	68	27	30	\$1.72	\$92,605
Other Departments	186	276	60	163	\$2.39	\$286,309
<b>TOTAL</b>	<b>9,601</b>	<b>11,135</b>	<b>4,224</b>	<b>5,169</b>	<b>\$2.18</b>	<b>\$18,368,266</b>

Sources: Allegheny County Controller; author's analysis using IMPLAN, Current Population Survey, and 1992 Economic Census.  
 Note: All dollar amounts converted to 1998 dollars. Numbers have been rounded.

Since Group A departments account for 7,935 (71 percent) of the estimated 11,135 covered service contract employees, the overestimation is large.

Method 2: Assume that all employees in Group A departments are offered health benefits by their employer. Apply CPS data on the proportions of low-wage employees whose employers do not offer health benefits to contractor employees in other departments (Group B departments).

Method 2 *underestimates* the number of employees who are not offered health insurance because it ignores part-time employees of contractors to Group A departments, who rarely receive health benefits.

The actual number of low-wage service contractor employees not offered health insurance lies somewhere between the estimates generated by methods 1 and 2. We therefore used the average of the two methods as our final estimate of the number of low-wage service contractor employees not offered health insurance.

Table 6 below reports the results of calculations using method 1. Columns 1 and 2 show the number of covered service contractor employees and the number of employees currently earning less than \$9.12 per hour, by sector. Column 3 presents national data from the CPS showing for each sector the percentage of workers without health benefits. Column 4 equals column 2 multiplied by column 3. Column 5 shows the full-time equivalents.

Table 7 reports results using method 2. Table 7 was produced using the same procedures as for Table 6 except that the analysis was applied only to service contractor employees in Group B.

Averaging the number of contractor employees and FTEs without health benefits from methods 1 and 2 yields the estimates in columns 1 and 2 of Table 8. Each FTE in column 2 would receive an additional \$1.50 per hour, or \$3,000 per year, to bring them up to \$10.62 per hour. Multiplying column 2 by \$3,000 produces Column 3, the total additional wages that would be received by covered employees who currently make less than \$9.12 per hour and who do not have health benefits. These wage increases total \$3,296,850.

Step 3: Wage increases necessary for workers without health benefits who currently earn between \$9.12 and \$10.62.

Some workers without health benefits earn between \$9.12 and \$10.62 per hour. These workers would also require wage increases to bring them up to \$10.62 per hour. To estimate the number of such workers and the wage increases involved, we used the same procedures as in Step 2.

Table 9 presents the results of calculations using method 1. Columns 1 and 2 of Table 9 show the number of covered service contractor employees and the number of employees currently earning between \$9.12 and \$10.62 per hour, by sector. Column 2 was calculated using the same procedures (described above) that generated column 3a of Table 6. Column 3 presents national data from the CPS, showing the percentage of workers without health insurance in each sector. The product of columns 2 and 3 is column 4, which shows the number of employees earning between \$9.12 and \$10.62 per hour without health insurance. Column 5 converts these estimates to FTEs, using the same procedure (described above) used for column 5 of Table 6.



<b>Table 6. Covered Workers Earning Less Than \$9.12 per Hour Without Health Benefits, by Sector, Method 1</b>					
<b>Sector</b>	<b>(1) Contractor employees covered by the ordinance</b>	<b>(2) Contractor employees earning less than \$9.12 per hour</b>	<b>(3) Percent of low-wage (less than \$9.12 per hour) workers without employer-offered health insurance, from CPS</b>	<b>(4) Number of contractor employees earning less than \$9.12 per hour without health benefits</b>	<b>(5) FTEs earning less than \$9.12 per hour without health benefits</b>
Construction, Engineering, and Manufacturing	120	57	42%	24	7
Transportation, Public Utilities, and Repair services	748	108	45%	49	35
Trade	143	107	52%	55	32
Legal, Computing, Business, Finance, Real Estate, Insurance	782	375	45%	169	116
Health	2308	1179	35%	408	360
Education	752	280	37%	102	79
Social Services	5427	2754	47%	1288	1090
Other Sectors	855	309	49%	152	109
<b>TOTAL</b>	<b>11,135</b>	<b>5,169</b>	<b>43%</b>	<b>2247</b>	<b>1828</b>
Sources: Columns 1 and 2: Table 4, columns 2 and 3b. Column 3: Current Population Survey, March 1997. Note: All dollar amounts adjusted to 1998 dollars.					



<b>Table 7. Covered Workers Earning Less Than \$9.12 per Hour Without Health Benefits, by Sector, Method 2</b>					
<b>Sector</b>	<b>(1) Contractor employees in Group B covered by the ordinance</b>	<b>(2) Contractor employees in Group B earning less than \$9.12 per hour</b>	<b>(3) Percent of low-wage (less than \$9.12 per hour) workers without employer-offered health insurance, from CPS</b>	<b>(4) Number of contractor employees in Group B earning less than \$9.12 per hour without health benefits</b>	<b>(5) FTEs in Group B earning less than \$9.12 per hour without health benefits</b>
Construction, Engineering, and Manufacturing	72	42	42%	18	3
Transportation, Public Utilities, and Repair services	726	95	45%	43	32
Trade	116	97	52%	50	28
Legal, Computing, Business, Finance, Real Estate, Insurance	539	262	45%	118	74
Health	482	232	35%	80	68
Education	439	171	37%	62	47
Social Services	295	153	52%	72	53
Other Sectors	531	195	47%	96	65
<b>TOTAL</b>	<b>3297</b>	<b>1247</b>	<b>43%</b>	<b>539</b>	<b>370</b>
Sources: Columns 1 and 2: Allegheny County Controller, author's analysis using IMPLAN, Current Population Survey, and 1992 Economic Census. Column 3: Current Population Survey, March 1997. Note: All dollar amounts adjusted to 1998 dollars.					



**Table 8: Covered Workers Earning Less Than \$9.12 per Hour Without Health Benefits, by Sector, Average of Methods 1 and 2**

Sector	(1) Number of contractor employees earning less than \$9.12 per hour without health insurance	(2) FTEs earning less than \$9.12 per hour without health insurance	(3) Total annual wage bill increase (\$3,000 per FTE)
Construction, Engineering, and Manufacturing	21	5	\$15,150
Transportation, Public Utilities, and Repair services	46	34	\$100,350
Trade	53	30	\$89,550
Legal, Computing, Business, Finance, Real Estate, Insurance	144	95	\$285,750
Health	244	214	\$643,050
Education	82	63	\$188,400
Social Services	680	572	\$1,714,950
Other Sectors	124	87	\$259,650
<b>TOTAL</b>	<b>1394</b>	<b>1099</b>	<b>\$3,296,850</b>

Source: Tables 6 and 7.

**Table 9. Covered Workers Earning Between \$9.12 and \$10.62 per Hour Without Health Benefits, by Sector, Method 1**

	(1) Service contractor employees covered by the ordinance	(2) Service contractor employees earning between \$9.12 and \$10.62 per hour	(3) Percent of workers without employer-offered health insurance, from CPS	(4) Service contractor employees earning between \$9.12 and \$10.62 per hour without health insurance	(5) FTEs earning between \$9.12 and \$10.62 per hour without health insurance
Construction, Engineering, and Manufacturing	120	50	24%	12	2
Transportation, Public Utilities, and Repair services	748	97	25%	25	16
Trade	143	45	33%	15	2
Legal, Computing, Business, Finance, Real Estate, Insurance	782	189	26%	48	20
Health	2308	393	23%	89	75
Education	752	102	21%	22	12
Social Services	5427	595	21%	122	87
Other sectors	855	166	23%	38	21
<b>TOTAL</b>	<b>11,135</b>	<b>1,637</b>	<b>23%</b>	<b>371</b>	<b>234</b>

Note: All dollar amounts adjusted to 1998 dollars.  
 \*The figure for social services in column 3 comes from statewide data rather than from data for the Pittsburgh MSA because of sample size limitations at the MSA level.  
 Sources: Columns 1 and 2: Author's calculations using Allegheny County Controller's office service contract list, Current Population Survey, IMPLAN, and 1992 Economic Census. Column 3: Current Population Survey, March 1997.

Table 10 reports the results of calculations using method 2. Table 10 was produced using the same procedures as for Table 9, except that the analysis was applied only to service contractor employees in Group B. Method 2 yields a total wage increase estimate of \$103,854.

Averaging the results from methods 1 and 2 yields the first two columns of Table 11. Column 3 of Table 11 indicates the average hourly wage increase, by industry, necessary to raise the wages of FTEs without health insurance in each sector to a wage of \$10.62.

Multiplying the number of FTEs in column 2 by the average hourly wage increase in column 3 and by 2,000 hours per year yields the final estimates for Step 3, which are the total annual wage increase shown in the last column of Table 11.

Using the preceding analyses, Table 12 summarizes the sizes of three different groups of service contractor employees that would receive wage increases under the ordinance: (a) those currently earning less than \$9.12 per hour with health insurance, (b) those currently earning less than \$9.12 without health insurance, and (c) those currently earning between \$9.12 and \$10.62 per hour without health insurance.

The sum of all the legislatively mandated wage increases under the ordinance thus equals \$21,895,058.

### *Indirect Wage Increases*

Mandating wage increases to workers earning less than \$9.12 per hour (\$10.62 per hour for some workers) may also lead to wage increases for workers currently earning more than the mandated wage level. These indirect “ripple” effects would primarily benefit workers currently

earning just above the living wage level. We estimate that the mandated wage increases of \$21,895,058 would produce indirect-effect wage increases totaling \$3,527,352.

In analyzing indirect wage effects, we followed the procedures used by economists Michael Reich, Peter Hall, and Fiona Hsu in their analysis of a San Francisco living wage proposal.<sup>9</sup> They reviewed the literature on indirect wage effects after minimum wage increases. They found that workers earning \$0 to \$2 above the new minimum wage receive wage increases that are on average less than half of the increase received by those below the new minimum wage.<sup>10</sup>

The analysis of the indirect wage effect proceeds in two steps. Step 1 analyzes the indirect wage effects of bringing 3,775 workers up to \$9.12 per hour. Step 2 analyzes the indirect wage effects of bringing 1,658 workers without health insurance up to \$10.62.

#### Step 1: Estimate the indirect wage effects of increasing 3,775 workers’ wages to \$9.12 per hour.

Only one-third as many workers earn \$0 to \$2 above \$9.12 as earn less than \$9.12. Therefore the wage increases that occur as an indirect result of the ordinance will accrue to a much smaller group of workers than the increases mandated by the ordinance.

Table 13 presents the analysis of the wage benefits resulting from the ripple effect of raising 3,775 low-wage workers to \$9.12 per hour. (3,775 is the number of workers subject to the ordinance earning less than \$9.12 -- 5,169 -- minus the number of these workers who do not have health insurance -- 1,394. Numbers do not add precisely due to rounding.)



**Table 10. Covered Workers Earning Between \$9.12 and \$10.62 per Hour Without Health Benefits, by Economic Sector, Method 2**

	(1) Group B employees covered by the ordinance	(2) Group B employees earning between \$9.12 and \$10.62 per hour	(3) Percent of workers without employer-offered health insurance, from CPS	(4) Group B employees earning between \$9.12 and \$10.62 per hour without health insurance	(5) Group B FTEs earning between \$9.12 and \$10.62 per hour without health insurance
Construction, Engineering, and Manufacturing	72	41	24%	10	1
Transportation, Public Utilities, and Repair services	726	89	25%	23	16
Trade	116	41	33%	13	2
Legal, Computing, Business, Finance, Real Estate, Insurance	539	147	26%	38	13
Health	482	89	23%	20	15
Education	439	63	21%	13	7
Social Services	295	54	21%	11	4
Other sectors	531	116	23%	26	13
<b>TOTAL</b>	<b>3297</b>	<b>640</b>	<b>24%</b>	<b>154</b>	<b>71</b>

Note: All dollar amounts adjusted to 1998 dollars.  
 \*The figure for social services in column 3 comes from statewide data rather than from data for the Pittsburgh MSA because of sample size limitations at the MSA level.  
 Sources: Columns 1 and 2: Author's calculations using Allegheny County Controller's office service contract list, Current Population Survey, IMPLAN, and 1992 Economic Census. Column 3: Current Population Survey, March 1997.

**Table 11: Covered Workers Earning Between \$9.12 and \$10.62 per Hour Without Health Benefits, by Sector, Average of Methods 1 and 2**

Sector	(1) Number of contractor employees earning between \$9.12 and \$10.62 per hour without health insurance	(2) FTEs earning between \$9.12 and \$10.62 per hour without health insurance	(3) Average hourly wage increase	(3) Total annual wage bill increase
Construction, Engineering, and Manufacturing	11	2	\$0.68	\$1,972
Transportation, Public Utilities, and Repair services	24	16	\$0.67	\$21,306
Trade	14	2	\$0.79	\$3,318
Legal, Computing, Business, Finance, Real Estate, Insurance	43	17	\$0.74	\$24,346
Health	55	45	\$0.77	\$69,377
Education	18	9	\$0.69	\$12,627
Social Services	67	46	\$0.78	\$71,584
Other Sectors	32	17	\$0.77	\$25,410
<b>TOTAL</b>	<b>264</b>	<b>153</b>	<b>\$0.74</b>	<b>\$229,942</b>

Source: Tables 9 and 10.



**Table 12. FTE and Actual Low-wage and Other Affected Employees, With and Without Health Benefits**

Sector	(1) Workers earning less than \$9.12 with employer-provided health insurance		(2) Workers earning less than \$9.12 without employer-provided health insurance		(3) Workers earning between \$9.12 and \$10.62 without employer-provided health insurance		(4) All workers receiving wage increases mandated by the ordinance	
	(a) Workers	(b) FTEs	(a) Workers	(b) FTEs	(a) Workers	(b) FTEs	(a) Workers	(b) FTEs
Construction, Engineering, and Manufacturing	36	12	21	5	11	1.5	68	19
Transportation, Public Utilities, and Repair services	62	45	46	34	24	15.9	132	94
Trade	54	32	53	30	14	2.1	121	64
Legal, Computing, Business, Finance, Real Estate, Insurance	231	162	144	95	43	16.5	418	274
Health	935	829	244	214	55	45.1	1234	1088
Education	198	152	82	63	18	9.2	298	224
Social Services	2074	1760	680	572	67	45.9	2821	2378
Other Sectors	185	133	124	87	32	16.5	341	237
<b>TOTAL</b>	<b>3,775</b>	<b>3,125</b>	<b>1,394</b>	<b>1,099</b>	<b>264</b>	<b>152.7</b>	<b>5,433</b>	<b>4377</b>

Source: Tables 4, 9, and 11.

Column 1 of Table 13 shows the number of low-wage workers in each sector who will have their wages raised to \$9.12 per hour (but no higher). Column 2 shows the ratio of workers earning between \$9.12 and \$11.12 to those earning below \$9.12, by sector, for the Pittsburgh MSA.

The product of columns 1 and 2 is column 3, which estimates the number of workers in each industry who would receive wage increases as an indirect result of the living wage ordinance.

Column 4 reports the full-time equivalents (FTEs).

Column 5 shows the average indirect-effect hourly wage increases in each sector, assuming these increases will be half as large as the increases received by low-wage employees in each sector (from Table 4). The product of columns 4 and 5, multiplied by 2000 hours per year, gives the estimates of total annual indirect-effect wage increases, by sector, presented in column 6. The



<b>Table 13. Indirect-Effect Wage Increases Resulting from Raising 3,775 Employees to \$9.12 per hour</b>						
	<b>(1) Workers receiving wage increases to \$9.12 per hour</b>	<b>(2) Ratio of workers earning between \$9.12 and \$11.12 to those earning less than \$9.12</b>	<b>(3) Workers receiving wage increases resulting from the ripple effect</b>	<b>(4) FTE employees receiving wage increases resulting from ripple effect</b>	<b>(5) Average hourly wage increase resulting from ripple effect</b>	<b>(6) Total annual wage bill increase due to ripple effect</b>
Construction, Engineering, and Manufacturing	36	0.62	22	7	\$1.09	\$16,132
Transportation, Utilities, and Repair Services	62	0.50	31	22	\$1.24	\$55,304
Trade	54	0.14	8	5	\$1.78	\$16,376
Legal, Computer, Business, Finance, Real Estate, and Insurance Services	231	0.39	88	62	\$1.07	\$132,466
Health	935	0.73	680	602	\$0.90	\$1,084,140
Education	198	0.38	76	59	\$1.62	\$189,540
Social Services	2074	0.37	757	643	\$1.08	\$1,388,232
Other Sectors	185	0.39	73	52	\$1.31	\$137,288
<b>Totals</b>	<b>3,775</b>		<b>1,735</b>	<b>1,452</b>	<b>\$1.04</b>	<b>\$3,019,478</b>

Sources: Author's analysis of data from Tables 4, 12, and the Current Population Survey.

bottom row of columns 3 and 6 of Table 13 shows that an estimated 1,735 service contractor employees currently earning \$9.12 to \$11.12 will receive an additional \$3,019,478 annually.

Step 2: Estimate the indirect wage effects of increasing 1,658 workers' wages to \$10.62 per hour. (1,658 equals the number of employees subject to the ordinance who earn less than \$9.12 per hour and do not have health insurance -

1,394 - plus the number earning between \$9.12 and \$10.62 without health insurance - 264.)

In the Pittsburgh MSA, only one-fifth as many workers earn \$0 to \$2 above \$10.62 as earn less than \$10.62.

Table 14 presents the analysis of the wage benefits resulting from the ripple effect of raises for these 1,658 workers.



**Table 14. Indirect-Effect Wage Increases Resulting from Raising 1,658 Employees' Wages to \$10.62 per Hour**

	(1) Workers receiving wage increases to \$10.62 per hour	(2) Ratio of workers earning between \$10.62 and \$12.62 to those earning less than \$10.62	(3) Workers receiving wage increases resulting from the ripple effect	(4) FTE employees receiving wage increases resulting from ripple effect	(5) Average hourly wage increase resulting from ripple effect	(6) Total annual wage bill increase due to ripple effect
Construction, Engineering, and Manufacturing	32	0.46	15	3	\$0.66	\$3,930
Transportation, Utilities, and Repair Services	70	0.23	16	11	\$0.62	\$14,136
Trade	67	0.08	6	3	\$0.73	\$3,942
Legal, Computer, Business, Finance, Real Estate, and Insurance Services	187	0.21	38	23	\$0.69	\$31,740
Health	299	0.28	85	74	\$0.69	\$101,982
Education	100	0.23	23	16	\$0.70	\$22,540
Social Services	747	0.34	257	213	\$0.72	\$306,144
Other Sectors	156	0.17	26	17	\$0.69	\$23,460
<b>Totals</b>	<b>1,658</b>		<b>466</b>	<b>360</b>	<b>\$0.71</b>	<b>\$507,874</b>

Source: Author's analysis of data from Tables 8, 11, 12, 15, and the Current Population Survey.

Column 1, the total number of service contractor employees without health insurance, is the sum of columns 2a and 3a from Table 12. Columns 2 through 4 were produced using the same procedures as described above for Table 13. Column 5 equals half the weighted average of the hourly wage increases from Tables 8 and 11.

The bottom row of columns 3 and 6 of Table 14 shows that an estimated 466 workers now earning \$10.62 to \$12.62 will receive an additional \$507,874 annually.

### **Demographics of Workers Receiving Wage Increases Under the Ordinance**

Nearly 80 percent of the workers receiving wage increases as a result of the proposed ordinance are in health and social services industries. Therefore, the demographics of the low-wage workers benefiting from the ordinance depend primarily on the demographics of these industries.

Data from the Current Population Survey (CPS) reveals that in Pennsylvania:

- 82 percent of health care workers are women and 14 percent are minorities; and
- 74 percent of social service workers are female and 17 percent are minorities.<sup>11</sup>

Women and minority workers are even more heavily represented among Pennsylvania health care and social service workers earning less than \$9.12 per hour.

- Of low-wage health care workers, 85 percent are women and 19 percent are minorities.

- Of low-wage social-service workers, 79 percent are women and 17 percent are minorities.

In sum, many low-wage women and minority workers who have been left out of the current boom would benefit from the living wage ordinance. The ordinance would be a powerful tool for lifting these workers out of poverty and making them economically self-sufficient.

### **The Costs of the Living Wage Ordinance to the County**

The analysis above shows that the annual increase in the wage bill of service contractors due to the living wage ordinance could be as much as \$25,422,410 (\$21,895,058 million in mandated wage increases plus \$3,527,352 million in wage increases to other workers).

Previous studies have shown that not all of the wage increases resulting from living wage ordinances are automatically passed onto the local government in the form of contract price increases. For most contractors, wage hikes under ordinances represent a small fraction of total costs. Contractors may absorb a portion of the costs or achieve cost savings to offset them. One source of savings is reduced turnover costs.

#### *Reduced Turnover Costs*

A recent survey of mental health and mental retardation providers by the Pennsylvania Legislative Budget and Finance Committee (LBFC) found that the average annual turnover rate for direct care employees of Mental Health (MH) and Mental Retardation (MR) service providers in Pennsylvania is 42 percent.<sup>12</sup> According to the Conference of Allegheny Providers (CAP), an association of mental health, mental retardation,

and drug and alcohol agencies, each instance of employee turnover costs area providers an average of \$5,300 in lost productivity, advertising, training, overtime, and other costs.<sup>13</sup> Because CAP agencies have difficulty attracting replacements for workers who leave, their average vacancy rate is about 15 percent.<sup>14</sup>

Exit interviews with employees who leave CAP agencies show that the reason given most often for leaving is low pay, cited by nearly 50 percent of outgoing employees.<sup>15</sup> The second most cited reason is that the employee plans to pursue more education. The latter reason is often related to low pay, since many workers pursue additional education to escape poverty-level employment.<sup>16</sup>

The LBFC survey found that the correlation between direct care worker wages and turnover rates was statistically significant, with each 1 percent increase in wages associated with a 0.4 percent reduction in turnover.

The average wage of the estimated 2,486 MH/MR workers on Allegheny County service contracts who earn less than \$9.12 per hour is \$7.04 per hour. (See Table 5 above.) This is slightly below the overall average wage for MH/MR workers in Pennsylvania. The LBFC analysis predicts a current annual turnover rate of 46 percent for these workers. This turnover rate translates into 1142 turnovers per year. If each turnover costs providers \$5,300 (the CAP estimate of turnover cost), this means that turnover among workers earning less than \$9.12 per hour is costing MH/MR contractor agencies \$6.1 million annually. The LBFC regression analysis predicts that increasing these workers' wages to \$9.12 per hour would reduce turnover by 22 percent (assuming all other factors stayed the same), saving MH/MR contractors \$1.4 million

annually, or 15 percent of the cost of bringing these workers up to the living wage of \$9.12 per hour.

Data about turnover costs and wage-turnover relationships are not available for other kinds of service contract employees. Lacking better data, and knowing that many of the other affected workers are also human service workers, we assume that the wage-turnover relationship for all affected workers is similar to that of MH/MR workers.

The average wage of the 5,169 service contract employees who currently earn less than \$9.12 per hour is estimated to be \$6.94. The LBFC analysis predicts an annual turnover rate of 46 percent for these workers, which translates into 2400 turnovers per year. If each turnover costs contractors \$5,300, this means that turnover among workers earning less than \$9.12 per hour is costing service contractors \$12.7 million annually. The LBFC analysis predicts that increasing these workers' wages to \$9.12 per hour would reduce turnover by 23 percent (assuming all other factors stayed the same), saving service contractors \$2,924,000 annually, or 16 percent of the cost of bringing these workers up to the living wage of \$9.12 per hour.

Of the workers in the preceding group, 1,394 lack employer-provided health insurance. Raising their wages to the higher mandated level of \$10.62 would result in additional turnover savings. The initial (pre-living wage ordinance) annual turnover rate at \$9.12 would be 36 percent, which translates into 496 turnovers per year, for an annual cost of \$2,628,800. The LBFC analysis predicts that increasing these 1,394 workers' wages to \$10.62 per hour would reduce turnover by an additional 21 percent (to

28 percent), saving service contractors an extra \$551,000, or 16 percent of the cost of bringing these workers from \$9.12 to \$10.62.

In addition, 264 workers without health insurance currently earn between \$9.12 and \$10.62. (See Table 11 above.) The average wage of these workers (derived from Table 11) is \$9.88 per hour, which yields a predicted initial turnover rate of 32 percent. Raising their wages to \$10.62 would reduce their turnover rate to 28 percent and save \$52,000 annually.

Indirect-effect (“ripple effect”) wage increases would also result in turnover savings. To calculate the initial turnover rate of the 1,735 indirectly effected workers who currently earn between \$9.12 and \$11.12, we need to know their initial average wage. Table 15 shows the average wage for workers in the Pittsburgh MSA earning between \$9.12 and \$11.12 per hour, by sector.

The data in Table 15, combined with estimates of the number of indirect affected workers in each industry (from Table 13, column 3), produce an initial average wage for the 1,735 workers of \$10.11 per hour. The LBFC analysis predicts an initial average turnover rate of 30.6 percent for these workers, which translates into 531 turnovers annually, for an annual turnover cost of \$2.8 million. Raising these workers’ wages by an average of \$1.04 (from Table 13, column 5) would reduce turnover by 5.1 percentage points, to 25.5 percent. This translates into 89 fewer turnovers annually, for a savings of \$469,447. Another 466 workers currently earning between \$10.62 and \$12.62 would receive ripple effect wage increases as a result of 1,658 workers without health coverage being brought to \$10.62 (Table 14). The data presented in Table 16, combined with the estimates of the number of

workers in each industry who would receive an indirect-effect wage increase (from Table 14, column 3), produce an initial average wage for the 466 workers of \$11.59 per hour. The LBFC analysis predicts an initial average turnover rate of 23.3 percent for these workers, which translates into 109 turnovers annually, for an annual turnover cost of \$575,463. Raising these workers’ wages by an average of \$0.71 per hour (from Table 14, column 5) would reduce their turnover to 21 percent. This translates into 12 fewer turnovers annually, for a savings of \$63,600.

The total estimated savings from reduced turnover is \$4,060,047.

### **Improved Quality of Services**

Reducing turnover would not only make providers more efficient; it would help them improve the quality of their services. According to the LBFC study, provider organizations said the top issue they face in providing quality care is that they “cannot pay enough, either in salaries or benefits, to attract and retain quality staff.”<sup>17</sup> Studies of residential care have consistently found that the quality of the relationship between residents and their primary caregivers is the most important factor in resident satisfaction.<sup>18</sup> High turnover makes it difficult for caregivers to develop and maintain these relationships.

By helping agencies attract and retain quality staff, the proposed living wage ordinance will help improve the quality of services in Allegheny County.

### **Other Economic Impacts**

In addition to its impact on wages and turnover, the service-contractor provision of the living wage ordinance would have several other economic impacts.



<b>Table 15. Average Wage of Workers Earning Between \$9.12 and \$11.12, Pittsburgh MSA, by Sector</b>	
<b>Sector</b>	<b>Average wage of workers earning between \$9.12 and \$11.12 per hour</b>
Construction, Engineering, and Manufacturing	\$10.18
Transportation, Utilities, and Repair Services	\$10.12
Trade	\$10.02
Legal, Computer, Business, Finance, Real Estate, and Insurance Services	\$10.08
Health	\$9.99
Education	\$10.18
Social Services	\$10.23
Other Sectors	\$9.93

Source: Current Population Survey, 1995-97, in 1998 dollars.

<b>Table 16. Average Wage of Workers Earning Between \$10.62 and \$12.62, Pittsburgh MSA, by Sector</b>	
<b>Sector</b>	<b>Average wage of workers earning between \$10.62 and \$12.62 per hour</b>
Construction, Engineering, and Manufacturing	\$11.71
Transportation, Utilities, and Repair Services	\$11.39
Trade	\$11.63
Legal, Computer, Business, Finance, Real Estate, and Insurance Services	\$11.65
Health	\$11.59
Education	\$11.48
Social Services	\$11.46
Other Sectors	\$11.81

Source: Current Population Survey, 1995-1997, in 1998 dollars.

Productivity increases: A living-wage ordinance could stimulate productivity increases because managers that have to pay higher wages would search more systematically for better ways of organizing production.<sup>19</sup> Higher wages may also increase workers' morale and commitment, leading them to work harder.<sup>20</sup>

Reduced social program costs: A living-wage ordinance would reduce the dependence of workers at service contractors on social programs such as food stamps, subsidized child care, and Medicaid. This would save money for all levels of government that help pay for social programs, including the county.

Contractors may absorb cost increases: As noted above, if their costs do go up, contractors may absorb much of these costs. A study of the Baltimore living-wage ordinance found a nominal increase in contract costs of less than one-quarter of one percent during the first year after the implementation of the living-wage ordinance.<sup>21</sup> This amounted to a decrease of 2.4 percent in inflation-adjusted dollars. A subsequent study found that the cost of 26 contracts covering "essentially the same work" increased by 1.2 percent in the two years after the Baltimore law went into effect, less than the rate of inflation.<sup>22</sup>

Increased local demand: The proposed Allegheny County living-wage ordinance would increase local consumer demand by redistributing money from higher-income to lower-income workers. Compared to higher-income workers, low-wage workers are less likely to consume imports, to travel outside the area to spend money, to pay federal and state taxes, and to save money.

According to Reich, Hall, and Hsu, for every dollar shifted to a low-income person, local

consumer demand will rise by at least a dime.<sup>23</sup> With a shift to low-income workers of \$21.9 million due to wage increases mandated under the ordinance, local demand would thus rise by \$2.2 million. Adding in multiplier effects, the IMPLAN model indicates that this \$2.2 million would generate a further increase in demand of \$1.6 million, for a total of \$3.8 million.

A much larger rise in local consumer demand could result if money to pay for higher contract costs after a living wage ordinance came from the state and federal governments. Increases in local economic activity would generate small increases in county tax revenue.

### **The Impact on Non-Profit Organizations**

An important new study examines the impact of the Detroit living-wage ordinance on non-profit organizations.<sup>24</sup> This study is of special relevance because the Detroit law covers a similar range of contract services to the proposed Allegheny County ordinance and has comparable living-wage thresholds.

The Detroit study consisted of a survey of 64 non-profit organizations that received over \$50,000 in yearly contracts or grants from the city. More detailed interviews were conducted with 26 of the organizations most adversely effected by the living wage ordinance. The Detroit survey found that a majority of the non-profit organizations surveyed deliver social or human services. An estimated 1,739 employees at the surveyed not-for-profits have benefited from the ordinance, with typical workers enjoying wage gains from somewhere in the range of \$6-\$7.50 up to \$8.35 if they receive health benefits or \$10.44 if they do not.

While the Detroit ordinance only passed (by referendum) in November 1998, 80 percent of non-profits are already in compliance with it. Only one in four non-profits face significant financial problems in implementing the living wage law. In 10 not-for-profits that face the most significant compliance costs, the costs of the ordinance run from under 1 percent to a maximum of 6 percent of their total annual budget. Half of non-profit staff interviewed actively support the living-wage ordinance, while 29 percent oppose it.

The Detroit study concluded that the higher costs of the small number of non-profits that face significant increases could be covered by the city for a modest amount of money.<sup>25</sup> If the city provided supplemental funds to non-profits in which the costs of implementing the living wage exceed 5 percent of funds received annually (for a given program), the estimated maximum costs to Detroit were \$395,650 out of a total of \$57 million dollars provided to non-profits subject to the ordinance.

### **Saving Money through Cooperation Among Providers**

In addition to covering some of the cost of wage increases, Allegheny County could assist service contractors, especially in human services, by encouraging regional collaboration to achieve operating efficiencies and economies of scale. Many human service contractors are small. Despite this, they sometimes handle basic managerial challenges—administration, accounting, marketing, recruitment, training, retention, and so on—in isolation from one another. Increased coordination across providers could build on collaboration that has already begun. In the elder care industry, for example, a regional collabora-

tive that brings together elder care providers and other industry stakeholders—the Southwestern Pennsylvania Partnership on Aging—has spearheaded a collective effort to address recruitment, retention, and quality improvement challenges. In addition to cost savings, collaboration could accelerate the dissemination of ideas for improving quality.<sup>26</sup>

### **The Overall Impact on the County Budget**

Summing up our analysis, at 1998 wage levels,

- the estimated cost of mandated wage increases following implementation of the living wage ordinance would be \$21.9 million;
- the cost of non-mandated wage increases that result from contractor efforts to maintain pay scales would be \$3.5 million;
- savings due to reduced turnover would be \$4.1 million, including \$3.5 million in savings due to mandated wage increases.

Since wages are higher now than in 1998—and are therefore closer to the living wage cutoffs than we assumed in calculations based on 1998 data—the estimates above are overestimates. Adjusting our projections above for wage increases between 1998 and 2000,<sup>27</sup> we find that

- the estimated cost of mandated wage increases following implementation of the living wage ordinance would be \$15.8 million;
- the cost of non-mandated wage increases that result from contractor efforts to maintain pay scales would be \$2.5 million;
- savings due to reduced turnover would be \$2.9 million (\$2.5 million due to turnover



reductions stimulated by mandated wage increases and \$0.4 million as a result of turnover reductions stimulated by non-mandated wage increases); and

- the net cost of mandated plus non-mandated wage increases minus turnover savings would be \$15.4 million (\$13.3 million of this a result of mandated wage increases minus associated turnover savings).

This \$15.4 million figure may be an overestimate of the impact of the proposed ordinance on contractor costs because it does not take account two factors.

- Higher wages are likely to boost productivity at some contractors.
- An unknown number of service contractors will be exempt from the proposed living wage ordinance because of their small size.

For several reasons, the cost to County, state, and federal government of the living-wage ordinance could be further below \$15.4 million.

- Contractors will absorb some of the cost increase.
- There will be a small increases in tax revenues due to increases in consumer demand stimulated by the ordinance.

- There will be some savings to the county because workers at service contractors rely less on social programs.

Even if the county alone shouldered the maximum estimated cost of mandated wage increases (minus turnover savings) at service contractors — \$13.3 million — the cost to the county would be only 2 percent of the \$638 million Allegheny County budget proposed for 2001.

In the first year of implementation of the ordinance, the cost to the county will be only a small fraction of \$13.3 million. In this first year, the gap between current wage levels and the living-wage thresholds must be closed by the current county share of the total cost of service contracts. (The state and federal governments pay most of the cost of service contracts.) We estimate the current county contribution to the cost of service contracts as 15 percent.<sup>28</sup> Fifteen percent of \$13.3 million is \$2 million. How much the ordinance costs the county after year 1 depends on whether the state and federal governments pay the same share of the increment to service contract costs as they currently pay of service contract costs.

## CONCLUSION

At 1998 wage levels, an estimated 7,634 workers and their families would benefit from implementing the service-contractor provision of the proposed Allegheny County living-wage ordinance. Some 5,200 of the workers benefiting earned less than \$9.12 per hour in 1998, taking home an average hourly wage of \$6.94. This average is less than the inflation-adjusted U.S. minimum wage in the late 1960s. It is only \$14,000 per year even if a person works full-time, full-year. Even taking account the wage gains that have occurred since 1998, over 5,000 workers would likely benefit directly or indirectly from the ordinance.

The maximum estimated cost of the mandated wage increases (minus savings due to lower turnover) due to the living-wage ordinance is \$13.3 million. Assuming the state and federal governments pay the same share of any increase in costs as they do of current county service contracts, the cost to Allegheny County would be a maximum of \$2 million. Even paying for all \$13.3 million would cost only 2 percent of the county budget. Allegheny County, in sum, can afford to pay a living-wage to low-wage workers on county service contracts.

Some three quarters of the workers whose wages would rise as a result of the proposed ordinance work in human services. In these services, higher

wages translate into lower turnover, higher service quality, and a better quality of life for those receiving services as well as for those who perform this important work.

Economists and business periodicals are coming around to the view that living-wage ordinances are sound public policy. Based on a comparison of metropolitan areas with and without living-wage ordinances, for example, a recent National Bureau of Economic Research Working Paper concluded that “living-wage ordinances boost wages of low-wage workers,” and “may help to achieve modest reductions in urban poverty.”<sup>29</sup> According to *Business Week*,

A small but growing body of academic research suggests that living-wage laws do more good than harm. So far, they have imposed little, if any, cost to the 50 cities that have passed them, the studies find. And they have led to few job losses and have lifted many families out of poverty... The new research shows that living-wage laws don't cause many job losses because employers learn to live with them by trimming profit margins and finding efficiency gains from improved morale and lower turnover.<sup>30</sup>

With the economy booming but too many low-wage workers still left behind, it is time to pass the proposed Allegheny County living-wage ordinance.

## FOOTNOTES

<sup>1</sup> Ralph Bangs, Cheryl Kerchis, and Laurel Weldon. *Basic Living Costs and Living Wage Estimates for Pittsburgh and Allegheny County*. Center for Social and Urban Research, University of Pittsburgh, 1997.

<sup>2</sup> Keystone Research Center calculations based on the Current Population Survey. We define low-wage earners here as those who earn less than 90 percent of all workers. Of 15 major metropolitan areas, only Dallas and Houston experienced a larger decline in low-wage workers' earnings from 1979 to 1998.

<sup>3</sup> The total value of these five contracts was \$188,826.

<sup>4</sup> The estimates in this report assume that there will be no reduction in employment as a result of higher wages for low-wage workers at service contractors. One justification for this assumption is the growing body of research showing that modest increases in the minimum wage do not lead to job loss. See, for example, David Card and Alan B. Krueger, *The New Economics of the Minimum Wage* (Princeton: Princeton University Press 1995); and Howard Wial, *Making Work Pay: The Benefits of the 1996-97 Minimum Wage Increase for Low-Wage Workers in the U.S. and Pennsylvania* (Harrisburg: Keystone Research Center, 1998). In a new study that looks directly at the employment impact of living-wage ordinances, David Neumark and Scott Adams conclude that each 10 percent increase in the living-wage law lowers employment of low-wage workers by 0.9 percentage points. (David Neumark and Scott Adams, "Do Living Wage Ordinances Reduce Urban Poverty," NBER Working Paper 7606, March 2000; online at [www.nber.org/papers/w7606](http://www.nber.org/papers/w7606).) It should be added that job loss is of less concern at a time of low unemployment when the challenge for policy is how to create good jobs rather than simply more jobs.

<sup>5</sup> Calculations of the number of FTEs in each industry working on contracts to Allegheny County used a combination of data sources. Calculations for contractors located in Allegheny County relied on two sources: the 1992 Economic Census for Allegheny County (adjusted to 1998 dollars) and an Allegheny County database constructed from government sources by MIG Inc., makers of IMPLAN PRO economic modeling software (based on 1996 data and also adjusted to 1998 dollars). Both data sources report total output (in dollars) and employment, by industry, for Allegheny County. The IMPLAN database was used wherever possible because its data was more recent. However, while the IMPLAN data are relatively recent and of high quality, IMPLAN's industry categories are much more specific in some sectors of the economy than in others. Therefore for some contractors located in Allegheny County, it was necessary to use data from the 1992 Economic Census for Allegheny County (again, adjusted to 1998 dollars). Both data sources include part-time workers, so employment figures were converted to full-time equivalents (FTEs) by applying the average hours per week, by SIC, from the Current Population Survey. Then total industry output was divided by FTE employment to yield measures of output per FTE employee that are specific to particular industries within Allegheny County. For contractors located *outside* of Allegheny County, national-level data from the 1992 Economic Census (adjusted to 1998 dollars) was used. Therefore the measure of output per employee for these contractors is not based on local data, but otherwise the procedure was the same as for contractors located in Allegheny County.

<sup>6</sup> For contractors located in Pennsylvania, state-level data was used to make this calculation. For contractors located outside PA, national-level data was used. Because of the number of industry categories, Pennsylvania was the smallest geographical unit that yielded sufficient numbers of workers in each SIC category.

<sup>7</sup> Most of these calculations used data for Pennsylvania because of sample-size limitations in the CPS. Data for the Pittsburgh MSA was used only for SIC codes for which the CPS Pittsburgh MSA sample was large enough (>25) to generate reasonable estimates. Calculations for contracts held by contractors located outside of Pennsylvania were performed using national-level data from the CPS.

<sup>8</sup> The data geography for this procedure was the same as described in footnote 7.

<sup>9</sup> Michael Reich, Peter Hall, and Fiona Hsu. *Living Wages and the San Francisco Economy: The Benefits and Costs*. Institute of Industrial Relations, U.C. Berkeley, June 1999.

<sup>10</sup> This finding is based on analyses of increases to the minimum wage performed by Card and Krueger, *Myth and Measurement*.

<sup>11</sup> The CPS is a monthly survey of households administered by the US government. Its sample sizes for small geographic units are too small to allow fine-grained demographic analysis, but it is useful for analysis at the state level.

<sup>12</sup> *Salary Levels and their Impact on Quality of Care for Client Contact Workers in Community-Based MH/MR Programs* (Harrisburg: Legislative Budget and Finance Committee, 1999).

<sup>13</sup> The figure comes from a 1998 survey of CAP agencies asked to report their vacancy rates, employee separation rates, and their total annual costs of turnover calculated according to a standardized formula.

<sup>14</sup> CAP agency survey, 1998.

<sup>15</sup> Beth Monteverde, Personal Communication, December 14, 1999.

<sup>16</sup> Beth Monteverde, Personal Communication, December 14, 1999

<sup>17</sup> LBFC, 1998, p. 3.

<sup>18</sup> Susan Eaton, *Pennsylvania's Nursing Homes: Promoting Quality Care and Quality Jobs* (Harrisburg: Keystone Research Center, 1997).

<sup>19</sup> There is substantial evidence that low wages in U.S. services have contributed to low productivity growth in the United States over the past 20 years. For analysis and case study evidence, see Stephen A. Herzenberg, John A. Alic, and Howard Wial, *New Rules for a New Economy: Employment and Opportunity in Postindustrial America* (Ithaca, NY: Cornell/ILR Press, 1998), especially chapters 3-4. See also Lester C. Thurow, *Building Wealth: The New Rules for Individuals, Companies, and Nations in a Knowledge-Based Economy* (New York: Harper Collins, 1999), pp. 271-273.

<sup>20</sup> A large class of mathematical economic models – “efficiency wage models” — demonstrate that higher work effort is a logical possible result of higher wages.

<sup>21</sup> Mark Weisbrot and Michelle Sforza-Roderick, *Baltimore's Living-wage Law: An Analysis of the Fiscal and Economic Cost of Baltimore City Ordinance 442* (Washington, D.C.: Preamble Center for Public Policy, 1998).

<sup>22</sup> Christopher Niedt, Greg Ruiters, Dana Wise, and Erica Schoenberger, *The Effects of the Living Wage in Baltimore*, Working Paper No. 119 (Washington, D.C.: Economic Policy Institute, 1999).

<sup>23</sup> Michael Reich et al, "Living Wages and the San Francisco Economy."

<sup>24</sup> David Reynolds with Jean Vortkamp, *Impact of Detroit's Living-wage Ordinance on Non-profit Organizations* (Detroit, MI.: Center for Urban Studies and Labor Studies Center, Wayne State University, 2000).

<sup>25</sup> Reynolds with Vortkamp, *Impact of Detroit's Living-wage Ordinance*, p. 4.

<sup>26</sup> For an analysis of the role of multi-firm collaboration in performance improvement in service industries, see Stephen A. Herzenberg, John A. Alic, and Howard Wial, "Toward a Learning Economy," *Issues in Science and Technology*, Winter 1998-99.

<sup>27</sup> Nominal wages for low-wage workers (defined as those who earn more than 10 percent of workers but less than 90 percent of workers) in the Pittsburgh metropolitan area increased by 4.3 percent from 1998 to 1999. If wages increased by the same amount from 1999 to 2000, then workers earning \$6.94 in 1998 would now be earning about \$7.55. A wage of \$7.55 is \$1.57 below \$9.12 or only 72 percent of the \$2.18 gap when wages were at \$6.94. Based on this 72 percent figure, the text adjusts downward by a weight of 0.72 the estimates of the cost of mandated and non-mandated wage increases and the estimates of the savings from reduced turnover.

<sup>28</sup> According to the 1998 Allegheny County budget, 94 percent of the funding for the county human services departments (p. 107), 97 percent of the funding for economic development (p. 93), all of the budget for "Federal Programs," and 92 percent of the funding for the Kane Regional Centers came from state and federal sources (p. 138). In addition, 8 percent of the budget for the jail came from the federal government (p. 122).

<sup>29</sup> Neumark and Adams, "Do Living Wage Ordinances Reduce Urban Poverty."

<sup>30</sup> Steven V. Brull, "What's So Bad About Paying a Living Wage? Paying Above the Minimum Seems to Do More Good than Harm," *Business Week*, September 4, 2000.



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