

*An Assessment of the Fiscal Impact of the Proposed
Sonoma County Living Wage Ordinance*



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SUMMARY

In 2014, the County of Sonoma, California will consider adopting a living wage ordinance. The basic features of the proposed living wage ordinance include:

- A. A mandate for covered businesses to adopt a \$15.00 minimum wage. This new minimum represents a 67 percent increase above the State's \$9.00 minimum.
- B. Covered businesses include: (1) County service contractors with contracts of at least \$20,000 (\$50,000 for non-profits), (2) lease, concession and franchise agreement holders with gross receipts greater than \$350,000, (3) recipients of business subsidies from the County exceeding \$100,000, and the County, including (4) regular County employees, and (5) In-Home Supportive Service workers.

This report assesses the fiscal impact of this proposal by examining its impact on these five major groups. The main findings include:

- The potential fiscal impact for Sonoma County due to the coverage of County service contractors; lease, concession and franchise agreement holders; business-subsidy recipients, and regular County employees will be minimal.

The living wage ordinance will impose a relatively modest cost increase for most covered businesses. County service contractors will experience, on average, a cost increase equal to 1.2 percent of their revenue. Among these covered businesses, service contractors take up the largest share of the County's budget. Some businesses' costs, such as food concessionaires, may increase by as much as 4 to 5 percent of their revenue. These businesses could potentially pass through their increased costs to the County by renegotiating their concession fees. Still, the fiscal impact will be minimal because their fees represent a small fraction of the County's budget.

Overall, costs transmitted to the County from covered businesses will equal less than 0.03 percent of the County's total budget of \$1.4 billion or 0.1 percent of the County's General Fund of \$390 million for FY2014-15. Raises for permanent County employees add a negligible amount to the County's payroll. This increase in County spending, including the costs for all four of these groups, amounts to less than \$3 annually per Sonoma County household.

- The cost of raising the pay of In-Home Supportive Service (IHSS) workers to \$15.00 constitutes the largest potential cost increase for the County. Still, the fiscal impact of these raises is relatively small and may be partially offset by cost-savings related to improved IHSS services.

These IHSS workers assist the County's low-income frail elderly and disabled adults with their essential daily activities. The Federal, State and County governments' current cost-sharing arrangement for these workers' pay requires the Federal and County governments to cover any raises above their current \$11.65 rate. My baseline

estimate of the cost increase to the County is \$10.6 million, equal to 0.8 percent of the total budget (2.7 percent of the General Fund) or \$64 annually per Sonoma County household.

Higher pay for IHSS workers could improve IHSS services and enable more low-income frail elderly and disabled adults to remain living at home. This would reduce government spending on nursing care facilities and give the State a financial incentive to re-negotiate its IHSS cost-sharing arrangement, even after accounting for an increase in the demand for the improved IHSS services. Such a re-negotiation could reduce the fiscal impact of IHSS raises on the County to as low as \$5.7 million, equal to 0.4 percent of the total budget (1.5 percent of the General Fund), or \$35 annually per Sonoma County household.

This assessment of the proposed Sonoma County living wage ordinance indicates that the total impact of a \$15.00 living wage, including the cost increases for all five groups, would have a small impact on Sonoma County's fiscal budget, in the range of 0.4 percent to 0.9 percent of the total budget (or 1.6 percent to 3.1 percent of the General Fund). An increase in government spending of this size is equal to \$37 to \$73 per Sonoma County household.

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More than 120 municipalities currently operate with living wage ordinances that establish higher wage standards for local economic activities, primarily those supported by taxpayer dollars.¹ Living wage ordinances effectively provide taxpayers a way to leverage their dollars to promote jobs that pay workers enough to sustain their households at a decent living standard.

Municipal governments, however, face the combined challenge of cultivating decent quality jobs *and* providing quality services within the constraints of a fiscal budget. Living wage proposals therefore commonly raise questions about two potential negative fiscal impacts: (1) Will the new wage requirement make government services too costly? And, (2) Will the stronger labor standard hamper municipalities' economic development efforts to grow their tax base?

In 2014, the County of Sonoma will consider adopting a living wage ordinance similar to others that exist across the country. North Bay Jobs with Justice has asked the Political Economy Research Institute (PERI) to examine the fiscal impact of this proposed living wage ordinance which would require covered employers to pay their workers a minimum wage of \$15.00 per hour.²

In contrast to the \$9.00 California minimum wage, the \$15.00 pay rate approximates a living wage. At \$9.00 per hour, a full-time year round worker earns \$18,720. This leaves a gap of nearly \$50,000 between what the worker earns and the \$66,800 that the average 3-person family living in Sonoma County would need cover its basic needs.³ These basic living expenses include food, shelter, childcare, transportation, health care, other necessities (e.g., personal care items such as toiletries) and taxes. This figure does not include any spending on restaurant meals or savings for retirement, education, or emergencies. Even with two full-time year-round earners at the \$9.00 minimum wage, this family would cover just over half of their basic needs household budget, leaving a gap of nearly \$30,000. A pay rate of \$15.00 would increase this dual-earner household's income to \$62,400—an amount that falls within \$5,000 of their basic needs budget.

This report provides an assessment of how this living wage requirement will likely impact employers that do business with the Sonoma County government and the consequences for the County's budget. The five major groups expected to be covered by the living wage ordinance include: (1) County service contractors with contracts of at least \$20,000 (\$50,000 for non-profits), (2) lease, concession and franchise agreement holders with gross receipts greater than \$350,000, (3) recipients of business subsidies from the County in excess of \$100,000, and the County government itself, this covers both (4) regular County employees, and (5) In-Home Supportive Service (IHSS) providers for whom the County acts as the Employer of Record.⁴

Based on this assessment, I conclude that the potential fiscal impact for Sonoma County due to coverage of the first four groups will be minimal.

The living wage ordinance will impose a relatively modest cost increase for most covered businesses. County service contractors will experience, on average, a cost increase equal to 1.2 percent of their revenue. Among these covered businesses, service contractors take up the largest share of the County's budget. Some businesses' costs, such as food concessionaires, may increase by as much as 4 to 5 percent of their revenue. These businesses could potentially pass through their increased costs to the County by renegotiating their concession fees. Still, the fiscal impact will be minimal because their fees represent a small fraction of the County's budget.

Costs transmitted to the County from covered businesses will equal less than 0.03 percent of the County's total budget of \$1.4 billion or 0.1 percent of the County's General Fund of \$390 million for FY2014-15, the portion of the County's budget over which the County Supervisors have the most discretion.⁵ The increase in payroll to cover the fourth group – permanent County employees—adds a negligible amount due to the small fraction of affected workers. The potential cost increase from these four groups amounts to less than \$3 annually per Sonoma County household.⁶

The fifth and largest group of covered workers is made up of approximately 3,800 IHSS providers. These workers assist the County's low-income frail elderly and disabled adults with their essential daily activities, such as eating and bathing, so that they can remain living in their own homes. The Federal, State and County governments share the costs of these workers' pay.⁷ The fiscal impact on the County will depend largely on how the three government bodies agree to share the costs of these workers' raises, from their current wage of \$11.65 to the \$15.00 living wage.

My baseline estimate of this cost increase to the County is \$10.6 million, assuming that only the workers' wages rise and all else remains the same. This cost increase is equal to 0.8 percent of the total budget (2.7 percent of the General Fund) or \$64 annually per Sonoma County household.

Past economic research has found, however, that higher wages tend to lower worker turnover, a critical quality for IHSS consumers who depend on IHSS providers for

help with their basic daily life functions. Disruptions in these care services can make living at home unsafe for IHSS consumers, and require them to move into nursing care facilities despite their preference to live at home. Greater continuity of care from IHSS could enable more low-income elderly and disabled adults to remain living at home, increasing the overall demand for IHSS services.

If more low-income elderly and disabled adults are able to remain living in their homes with the support of IHSS, the cost increase for the County could rise to \$11.6 million. At the same time, the State can expect a substantial reduction in the money it must spend on more expensive nursing care facilities. These potential savings for the State could motivate the State to support the County's living wage and assume more of the non-federal cost increase associated with the IHSS raises than the current cost-sharing agreement requires.

With more favorable cost-sharing terms with the State, the fiscal impact of IHSS raises on the County could be in the range \$5.7 million, equal to 0.4 percent of the total budget (1.5 percent of the General Fund). This increase in government spending is equal to \$35 annually per Sonoma County household.

Based on this assessment of how the proposed living wage ordinance would impact the major groups of covered employers, I conclude that the proposed living wage will have a small impact on Sonoma County's fiscal budget, in the range of 0.4 percent to 0.9 percent of the total budget (or 1.6 percent to 3.1 percent of the General Fund). An increase in government spending of this size equals \$37 to \$73 per Sonoma County household.

The cost of raising the pay of IHSS workers to \$15.00 constitutes the largest potential cost increase for the County. Therefore, when evaluating the merits of the proposed living wage ordinance, County residents will largely need to weigh how they value the principle of paying IHSS workers a wage that more closely approximates a living wage. County residents can expect these raises to both materially improve the living standards of IHSS workers, the main goal of the living wage ordinance, but also improve the quality of IHSS services to low-income frail elderly and disabled adult County residents.

COUNTY SERVICE CONTRACTORS

- *Applying a \$15.00 living wage to County service contractors will have minimal impact on the County's fiscal budget. Specifically, cost pass-throughs from service contractors to the County will likely be less than 0.03 percent of the County's total budget (or 0.1 percent of the County's General Fund). This spending increase amounts to about \$2.60 annually per Sonoma County household.*

The proposed living wage ordinance includes the coverage of all the work done for the County by service contractors with contracts in excess of \$20,000

(\$50,000 for non-profits). To estimate the potential cost pass-through from these contractors to the County's fiscal budget, I use past research on how business costs rise with increases in the wage floor. Specifically, several studies of minimum wage laws and living wage ordinances estimate how much business costs increase as a percent of overall sales revenue, by industry.⁸

The business costs included in these calculations include: (1) mandated raises, the raises employers give to workers to comply with a higher wage floor, (2) ripple-effect raises, the raises employers give some workers who earn more than the new wage minimum in order to preserve the firm's wage hierarchy and (3) employers' increased payroll taxes.

These cost increase to sales ratios basically measure how much a business would need to raise through higher revenue or retain through offsetting cost-savings to cover the higher wages. I use these cost increase to sales estimates to provide a basis for determining how much County contractors may try to increase their bid prices in order to cover the costs associated with a higher wage minimum.

I estimate that complying with a living wage rate of \$15.00, effectively a 67-percent minimum wage hike over California's \$9 minimum in 2014, will likely raise the average County service contractors' costs by about 1.2 percent of their overall revenue (see Technical Appendix for details). In other words, to fully cover the costs associated with the new living wage rate of \$15.00, the average County service contractor would need to raise its contract cost by 1.2 percent.⁹

These service contractors, however, will not likely fully pass through their cost increases to the municipal government because they bid competitively for County contracts. In other words, each service provider seeking to win a County contract can expect at least one other firm to place a similar bid. The competitive bidding process therefore incentivizes contractors to adjust to the living wage in ways other than raising their bid prices, since doing so could make their bid unsuccessful.

These businesses may alternatively adjust through some combination of cost savings from higher worker productivity and improved operational efficiencies, slowing the earnings growth of high-wage workers, and smaller profit margins (or operating surpluses for non-profits).¹⁰ For example, research on living wages and minimum wages consistently find that worker turnover rates fall when the wage floor rises. By retaining a greater share of experienced workers, employers reduce their recruiting, hiring and training costs.¹¹

Evidence from a 2003 study documents city administrators' observations from 12 different cities and counties on how their contract costs changed with the implementation of a living wage ordinance. The findings from this study suggest the contractors passed along about half of their cost increases.¹² Therefore, I

estimate that covered service contractors' bid prices will increase about 0.6 percent (half of the 1.2 percent cost increase to sales revenue ratio).

This 0.6 percent cost increase for County service contractors represents a much smaller share of the County's overall budget. Based on service contract information supplied by the County¹³, I estimate that the County spends approximately \$64 million annually on contracts in excess of \$20,000. This level of spending represents about 5 percent of the County's total budget, or 16 percent of the General Fund. As a result, the potential cost pass-through from County service contractors represents a 0.03 percent (0.6 percent x 5 percent) increase in the County's total budget, or a 0.1 percent increase in the General Fund (0.6 percent x 16 percent).

In fact, this 0.03 percent contract price increase sits squarely within the range of the cost estimates documented in the 2003 study mentioned. Among the twelve municipalities studied, living wage ordinances increased the wage floor by an average of 81 percent, somewhat more than the Sonoma County proposal (see Table 1). Government officials from these municipalities, however, reported contract cost increases of 0.04 percent of their overall budget compared to my estimate of 0.03 percent.

TABLE 1: INCREASE IN MUNICIPAL CONTRACT COSTS AFTER PASSAGE OF LIVING WAGE LAWS

Locality	Year of Passage	Original Living Wage Rate (no benefits)	Minimum Wage at Time of Passage	% Increase in Wage Floor	Contract Threshold	Cost Increase as % of Overall Budget
1. Alexandria, VA	2000	\$9.84	\$5.15	+91%	\$50,000	0.067%
2. Berkeley, CA	2000	\$11.37	\$5.75	+98%	\$25,000 (\$100,000 for non profits)	0.079%
3. Cambridge, MA	1999	\$10.00	\$5.25	+90%	\$10,000	0.067%
4. Hartford, CT	1999	\$10.51	\$6.15	+71%	\$50,000	0.038%
5. Hayward, CA	1999	\$9.25	\$5.75	+61%	\$25,000	0.006%
6. Madison, WI	1999	\$7.91	\$5.15	+54%	\$5,000	0.018%
7. New Haven, CT	1997	\$7.43	\$4.77	+56%	\$25,000	0.003%
8. Pasadena, CA	1998	\$8.50	\$5.75	+48%	\$25,000	0.049%
9. San Jose, CA	1998	\$10.75	\$5.75	+87%	\$20,000	0.006%
10. Warren, MI	2000	\$11.78	\$5.15	+129%	\$50,000	0.040%
11. Ypsilanti, MI	1999	\$10.00	\$5.15	+94%	\$20,000	0.044%
12. Ypsilanti Township, MI	1999	\$10.00	\$5.15	+94%	\$10,000 (\$20,000 for nonprofits)	0.00%
Avg. Wage Floor Increase:				+81%	Avg. Cost Increase:	0.035%

Sources: See technical appendix for list of sources.

In sum, any cost pass-throughs that County service contractors achieve by raising their contract prices can be expected to amount to less than 0.03 percent of the County's total fiscal budget or 0.1 percent of the County's General Fund. In other words, the fiscal impact to the County of this living wage mandate for County service contractors can be expected to be minimal.¹⁴

OTHER COVERED COUNTY BUSINESS CONTRACTS: LEASES, CONCESSIONS, AND FRANCHISES

- *Applying the \$15.00 living wage to leaseholders, concessionaires and franchisees with the County can be expected to have effectively no impact on the County's fiscal budget. Average cost increases for these businesses will likely range between 0.9 and 4.5 percent of their revenue. The favorable business arrangement that these County contracts offer will likely limit the extent to which businesses will pass on these costs to the County.*

The proposed living wage will also cover firms with more than \$350,000 in annual gross receipts that do business with the County in the following forms: (1) leases, (2) franchises, or (3) concessions.

Each set of firms could potentially pass-through their higher labor costs to the County by renegotiating the terms of their agreements. The size of this impact on the County will depend on basically three factors: (1) how much the businesses costs of the covered firms would likely be, (2) what share of these cost increases the covered firms would pass onto the County, and (3) what share of the County revenue these businesses fees and payments contribute. By combining these three factors, I am able to approximate the fiscal impact of the \$15.00 living wage on these types of businesses.

FRANCHISES AND CONCESSIONS. Franchise and concession agreements both supply private firms with a specific business advantage: exclusive access to County property. Franchisees, for example, typically receive "Exclusive Operating Rights" within the County in exchange for paying the County a percent of their sales revenue. Concessionaires are among a limited number of businesses allowed to operate on County properties such as the Charles Schultz Airport. Franchise and concession agreements, in other words, effectively give these firms exclusive access to a pool of Sonoma County customers. Given this favorable business arrangement with the County, as long as these firms do not experience a significant rise in their costs, they are unlikely to attempt to pass along their cost increase to the County.

As with the County service contractors, I estimate the business costs for these types of firms that will likely occur due the \$15.00 living wage by applying the results of past empirical research (see Technical Appendix). As described above, these cost increase measures represent how much more revenue these firms would need to raise in order to cover their increased costs.

For the kinds of businesses that typically hold franchise agreements (e.g., water supply services, emergency services and refuse collection), these figures range between 0.01 percent and 2.4 percent of sales. For the kinds of businesses that typically hold concession agreements (e.g., food services, arts and entertainment, and retail), the cost figures may fall within a wider range, reaching up to 4.5 percent for food services. Taken as a whole, the average cost increases across these firms can reasonably be described as modest. Given this, I assume that the firms are unlikely to require a reduction in their franchise or concessionaire fees. The one exception may be that some food service concessionaires may try to pass-through some portion of their higher costs to the County, which I discuss this further below.

LEASES. The County currently holds over 400 leases with individuals, for-profit and non-profit firms, and government agencies. Users of the County's Charles Schultz Sonoma County Airport make up the large majority of these leases and are treated separately below. Among those remaining, the proposed living wage ordinance will likely cover 19 County lease agreements.¹⁵

The majority (12) of these 19 leases are held by health and social services organizations or are otherwise engaged in activities supported by the County and allow for zero rent. Therefore, living wage coverage of these firms would generate no fiscal impact on the County.

The seven remaining leases include three in the health care and social services industry, two in food service and accommodations, and two in the arts and entertainment industry.¹⁶ These three industries can expect to experience cost increases in the range of 1.4 and 4.5 percent of the sales. Again, as above, I estimate these business cost increases from past research on minimum and living wage laws (see Technical Appendix).

If these firms exceed the \$350,000 gross receipt threshold for coverage, then it seems reasonable that each would be able to make use of the variety of adjustment channels I discussed above with regard to other covered businesses. As in the case with County contractors, I assume that these firms will adjust by a combination of price increases, productivity increases, gains in operational efficiencies, and redistributing revenue within the firm. Due to the variety of adjustment channels available to these firms, I assume they will negotiate a reduction in their rental fee by an amount that is roughly in proportion to its overall cost increase, i.e., between 1.4 and 4.5 percent.¹⁷

ESTIMATING COST PASS-THROUGHS. The County's proposed 2014-15 budget reports the revenue stream from franchises separately, but from rents and concessions combined. To err on the side of overestimating costs to the County, and to take account of the possibility that food concessionaires may pass through

some of their cost increases to the County, I simply assume that all County leaseholders and concessionaires will negotiate more favorable contract terms. Specifically, I assume that these businesses pass through to the County a proportionate amount of their cost increase—averaging around 2.6 percent of their revenue—through lower rents and fees. This would therefore amount to a reduction by 2.6 percent in the County’s projected rental/concession revenue of \$500,000 for FY2014-15, or \$15,000.¹⁸ I assume no changes in franchise fees, as discussed above. These figures are summarized in Table 2.

TABLE 2: FISCAL IMPACT ESTIMATES FOR FRANCHISEES, LEASEHOLDERS AND CONCESSIONAIRES

Estimate	Franchisees	Lease holders/Concessionaires
1. Range of Business Cost Increases as a % of Revenue	0.01% to 2.4%	1.4% to 4.5%
2. Potential Revenue Loss to County (%)	0%	2.6%
3. Projected County Revenue for FY2014-15	\$3.4 million	\$500,000
4. Potential Revenue Loss to County (\$) (row 2 x row 3)	\$0	\$15,000

In sum, any cost pass-throughs that businesses holding County leases, franchise or concession agreements, achieve by negotiating lower fees or rents that they pay to the County can be expected to amount to approximately \$15,000. This amount is equal to 0.001 percent of the County’s overall budget (0.004 percent of the General Fund), or \$0.09 per Sonoma County household. In other words, the fiscal impact to the County of this living wage mandate for County service contractors can be expected to be negligible.

A NOTE ABOUT THE SONOMA COUNTY CHARLES SCHULTZ AIRPORT. A subset of business that cut across the types just discussed—concessionaires and renters, in particular—operate at the county-owned Charles Schultz Airport. These businesses include the airlines and businesses that provide related services such as car rental services, parking, airlines fuel handling, and food services.

The fiscal impact of these businesses would be qualitatively different from other concessionaires and renters because the Airport basically operates as a self-funded unit (its budget is set as an enterprise fund).¹⁹ The airport generates the funds to cover its operations from such sources as the Airport’s concession program, parking, rents collected from non-airline businesses, as well as, rates and charges applied to the airlines. The County does not generate General Fund tax revenue through its lease and concession agreements at the Airport nor does the County levy taxes in order to fund the Airport’s operations. As a result, businesses that hold lease and concession agreements at the Airport cannot directly pass along their cost increases to the County.

The proposed living wage ordinance could indirectly impact the County's fiscal budget if it affects the Airport's overall economic health and as a consequence, its ability to support tax-revenue-generating economic activity within the County. However, as I show below, I estimate that the cost increase that these businesses experience will likely be small—in the range of one percent of sales revenue. Cost increases of this modest size cannot reasonably be described as a threat to the vitality of these businesses. Therefore, the living wage should not compromise the Airport's ability to support economic activity in the local economy and the County tax revenue that economic activity generates.

It is important to first note that the businesses operating at the Airport—both non-airline businesses and the airlines—effectively share the Airport's operating costs due to its self-funding structure. As a result of this structure, low-wage businesses (e.g., restaurants) have an additional channel through which they can adjust to the living wage: passing some of their cost increase onto less-affected businesses and their consumers, such as the airlines.

To see this, consider that businesses with a high concentration of low-wage workers, such as those providing food services, may cover part of their higher labor costs by raising their prices slightly. They may also re-negotiate their concession or lease agreements with the County in order to retain more revenue to cover their higher labor costs. Such agreement re-negotiations may create a gap between the revenue the Airport collects and the Airport's operating expenses. To cover this gap, the Airport can raise its rates and charges to the airlines. In this way, the living wage costs can be diffused across the Airport-based businesses.

Therefore, the crucial number for evaluating whether the \$15.00 living wage would affect the economic vitality of businesses operating at the Airport is the cost increase from the \$15.00 living wage across *all* of the covered businesses. To date, two studies examine the economic impact of living wage ordinances covering publicly owned airports (Reich et al. 2005; Zabin et al. 1999). I can approximate the overall impact of living wage ordinances on the types of businesses operating at the Airport by scaling up the basic cost estimates from these two studies to match the increase from the current \$9 minimum wage to the proposed \$15.00 living wage of the Sonoma County proposal. Averaging these two cost estimates, I estimate that businesses at the Airport would face cost increases in the range of 0.9 percent of total revenue (see Technical Appendix for details).

In other words, the cost increase associated with the proposed living wage ordinance could be covered fully by a modest 0.9 percent price increase in the goods and services offered at the Airport. A restaurant meal at the airport would, for example, rise from \$20.00 to \$20.18. A domestic flight round trip ticket would

rise from \$300.00 to \$302.70. Price increases of this size can reasonably be described as modest and unlikely to impact the economic vitality of the airport.

A NOTE ABOUT THE SONOMA COUNTY FAIR. The Fairgrounds, a department of the County, holds a relatively unusual position with the County's government. The department effectively contracts its function to the non-profit Sonoma County Fairgrounds and Exposition, Inc. (SCF), i.e., the SCF operates the Sonoma County Fair and manages the County's Fairgrounds. The Fairgrounds department, however, does not generate, nor receive, any General Fund dollars. The department appears to rely on its own self-generated funds, similar to the operation of the Airport. As a result, similar to the Airport, the SCF does not appear to be able to directly pass on cost increases from the \$15.00 living wage to the County.

Again, as with the case of the County's airport, I consider whether the proposed living wage may indirectly impact the County's fiscal budget by affecting the SCF's overall viability, and consequently, reduce the SCF's ability to support tax-revenue-generating economic activity within the County. The annual County Fair explicitly serves to promote the local economy.

I expect the SCF to experience an above-average impact due to its staff of 600 temporary workers who work the 16-Day Sonoma County Fair and typically earn minimum or near minimum wages. These workers, even in their temporary status, appear to make up the majority of the work hours of the SCF staff since the SCF has only 34 FTE positions.²⁰

Based on publicly available County documents that describe the employment status of the 600 temporary workers and the SCF's budget, I estimate that the raises for these temporary employees would increase its payroll by approximately \$500,000 (see Technical Appendix for details). This cost increase represents 5.0 percent of its 2013 revenue estimate of \$9.9 million.²¹ This cost increase is at the high-end of my cost increase estimates for businesses.

As I discussed above, businesses can use a variety of channels, including price increases, through which to adjust to this cost increase. If the SCF chose to raise prices to cover half of this cost increase this would represent a modest cost increase of about 2.5 percent. An adult's general admission ticket for the County Fair, for example, would increase from \$11.00 to \$11.30. If the SCF decided to fully pass on the cost increase to consumers – raising its prices by 5 percent – the ticket price would rise to \$11.60.

To insure, or even boost, consumer demand for its events even while raising prices as much as 5 percent, the SCF could promote its living wage policy. This would complement well the main mission of the annual fair. The SCF's stated goal is "...to showcase and provide education on the wealth of our agricultural

community...while we celebrate the talents of our community in particular.”²² Two New York University researchers surveyed the findings of more than 83 research papers examining consumers’ “willingness to pay” for socially responsible products.²³ They conclude that consumers are willing to pay, on average, 17 percent more to purchase socially- or environmentally- responsible products. A 5-percent price premium falls well within what researchers have found consumers will pay for socially- and environmentally- responsible products.

In sum, the SCF can expect to face above-average cost increases relative to other employers from the proposed \$15.00 living wage. At the same time, the SCF’s position in relation to the County government prevents any direct impact on the County’s budget. Instead, the SCF may indirectly impact the County if the cost increases from the living wage make it difficult for it to operate the Fairgrounds, and as a result, promote less tax-revenue-generating economic activity. The SCF may consider promoting the living wage as a feature of its operations, in order to insure—or even boost—consumer demand for its events, particularly the annual County fair. The 3 to 5 percent price increase it may use to adjust to the cost increase of a \$15.00 living wage falls well within the range of what consumers report they are willing to pay for socially responsible products.

BUSINESS SUBSIDY RECIPIENTS

- *The County’s ability to promote economic development with business subsidies and enlarge its tax base should be unaffected by the living wage ordinance. The average private sector firm targeted by the County’s economic development subsidies can expect to experience cost increases of less than 1.0 percent of total sales from the living wage.*

The proposed living wage ordinance includes coverage of all businesses that receive subsidies—e.g., below-market sales, favorable loans, and grants—from the County worth at least \$100,000. The living wage ordinance may produce an impact on the County’s fiscal budget in an indirect way. If attaching a minimum wage mandate to development subsidies stifles business growth this could, in turn, limit the expansion of the County’s tax base.

This type of business assistance clause is unlikely to produce any significant fiscal impact. This is because past research indicates such living wage business assistance clauses have limited impact on covered firms. Therefore, any indirect impact on the County’s fiscal budget is unlikely. Two reasons explain the limited impact of business assistance clauses: (1) municipalities have applied living wages to a limited number of firms²⁴, and (2) firms covered by this clause do not typically have a large share of low-wage workers.²⁵

Additionally, according to the Sonoma County Economic Development Board’s Strategy and Jobs Plan (2011), the Economic Development Board intends to

promote certain clusters of employers, those in professional services, manufacturing, construction, food manufacturing (e.g., wine and dairy), agriculture, tourism, and health care. These industries span the pay scale from relatively high paying (professional services, manufacturing, construction), moderate paying (health care, and food manufacturing) and relatively low paying (agriculture and tourism). As a result, the cost impact on this grouping of firms will likely span the full range of what I have documented above: cost increases between zero and 4.5 percent of revenue.

The average business-subsidy firm potentially covered by the living wage proposal would likely reflect the situation for the average firm. I estimate that the average firm's cost increase would equal less than one percent of sales (see Technical Appendix for details). It is reasonable to expect that a cost increase of less than one percent of sales would not have any discernible impact on economic development, particularly given that these firms take on these modest cost increases while receiving financial assistance in excess of \$100,000 from the County.

Some firms, particularly those in tourism may experience noticeably higher cost increases—in the range of four to five percent of their sales revenue. Whether these cost increases dissuade businesses from opening (or remaining) in Sonoma County will depend on how these cost increases compare to both the advantages of locating in Sonoma County, as well as the benefits of receiving \$100,000 or more in business subsidies from the County. For these types of firm—hotels, restaurants, entertainment—location matters.²⁶ Therefore, it is reasonable to assume that the combination of receiving a substantial business subsidy from the County combined with a desirable market specific to Sonoma County will serve as important counterweights to the cost increases that result from the proposed living wage.

Overall then, the County's ability to promote economic development with business subsidies and enlarge its tax base should be unaffected by the proposed living wage ordinance.

COUNTY EMPLOYEES

- *Raising the pay of the County's IHSS workers constitutes the largest potential cost increase for the County, ranging between \$5.7 million and \$11.6 million. These figures represent a range of between 0.4 percent and 0.8 percent of the County's total budget (or between 1.5 percent and 3.0 percent of the General Fund). The smallest potential cost increase in this range could result if the County re-negotiates more favorable cost-sharing terms with the State.*

The living wage proposal will primarily impact two groups of County employees (1) regular (permanent) staff earning near but above \$15.00 who will likely re-

ceive ripple-effect raises and (2) 3,800 IHSS workers currently earning \$11.65 per hour. The fiscal impact of the first group of workers is basically negligible amounting to roughly \$17,500. My baseline estimate of the cost increase generated by the raises for IHSS workers is \$10.6 million. However, as I discuss below, the fiscal impact of the second group will depend largely on the County's ability to re-negotiate the current cost-sharing arrangement with the State. Due to the potentially large fiscal impact from the living wage coverage of these workers, I treat this group separately.

REGULAR COUNTY EMPLOYEES Based on my review of the County's permanent workforce, only a small share (2 percent) will likely receive raises. These workers earn roughly in the range of \$15.00 and \$17.25 per hour. In other words, the raises for the County's own workforce will primarily come through raises the County decides to give to workers earning more than \$15.00 in order to preserve a similar wage hierarchy before and after the adoption of a \$15.00 living wage. Few permanent staff earn less than \$15.00 per hour.

I use past research estimates on the impact of minimum wage hikes on the overall wage distribution to estimate ripple effect raises (Pollin et al., 2008, ch. 11; see Technical Appendix for details).²⁷ Among the 3,906 permanent positions (number of full-time equivalents, or FTEs, during FY2013-14), the County will likely provide roughly 75 FTEs with ripple effect raises in the range of one to five percent, totaling to a \$17,500 overall increase in the County's annual wage bill (including workers' wages as well as employer's higher payroll taxes). This amount of \$17,500 is equal to 0.001 percent of the County's overall budget (0.004 percent of the General Fund), or \$0.11 per Sonoma County household. In other words, the fiscal impact to the County of this living wage mandate for County employees can be expected to be negligible.

IN-HOME SUPPORTIVE SERVICE (IHSS) WORKERS The proposed living wage ordinance would raise the pay rate of the County's home care workforce by 29 percent from \$11.65 to \$15.00. IHSS workers provide the essential care-taking services low-income frail elderly and disabled adults need in order to safely live in their own homes, and avoid moving to a nursing care facility.²⁸ Examples of IHSS services include bathing, feeding, non-medical assistance with medical equipment, meal preparation, and some paramedical care (e.g., administering medicine, wound care).

As noted above, the Federal, State and County governments share the costs of these workers' pay. The existing cost sharing structure puts the responsibility of any improvements in IHSS pay on the Federal and County governments, not the State. For FY2014-15, the State has only approved an overall compensation rate of up to \$13.46 (this includes \$11.65 hourly pay, as well as, employer taxes, benefits and administrative costs)²⁹, the rate Sonoma County currently pays. As

a result, the County is expected to pay for the non-federal share of any raises beyond the State's approved rate.

In this section, I detail the costs and cost sharing arrangement of raising the wage rates of IHSS providers to \$15.00. I first provide a baseline estimate for the fiscal impact of the proposed living wage for IHSS providers where I assume only the pay rate of IHSS workers increases, and all else remains the same.

Past economic research has found, however, that when workers' wages rise, worker turnover, i.e., the rate at which employers must replace workers, typically falls (Dube et al. 2011; Fairris 2005; Pollin et al. 2008, ch. 5; Reich et al. 2005). Studies on IHSS workers, specifically, by economics professor Candace Howes of Connecticut College (2005, 2011, 2012, 2014) document how better pay for IHSS workers improves this crucial determinant of the quality of IHSS care—continuity of service.³⁰ A \$15.00 wage for Sonoma County IHSS workers would set them at the high end of the local area's pay scale for personal care aides.³¹

Greater continuity of care from IHSS providers would make the service more reliable—a necessity for IHSS consumers who depend on their caretakers for assistance with their essential daily activities. Such an improvement could enable more low-income elderly and disabled adults to remain living at home, increasing the overall demand for IHSS. The greater use of IHSS, in turn, would reduce the need for more expensive nursing care facilities, for which the State must pay a significant portion. These cost-savings to the State may give it sufficient financial incentive to take up some of the cost of the \$15.00 living wage by approving a higher pay rate for Sonoma County's IHSS workers. To the extent that the County can re-negotiate the State's IHSS approved pay rate higher, this would reduce the impact on the County's budget of the proposed \$15.00 living wage.

I therefore next estimate the potential off-setting cost-savings that could result from the \$15.00 living wage. These calculations are necessarily speculative since no firm data exist on the number of frail elderly and disabled adults that move to nursing care facilities due to disrupted IHSS services. However, I can combine existing empirical evidence to approximate the potential magnitude of such savings. These estimates, combined with my baseline estimates, provide the possible range of the cost increases associated with paying IHSS workers a \$15.00 living wage.

BASELINE COST INCREASE ESTIMATE. During FY2013-2014, Sonoma County's 3,800 IHSS workers covered 5,095 cases and provided a total of 6.2 million service hours.

In Table 3, I present the estimated cost figures associated with compensating IHSS providers for this same level of service in FY2014-15.³² In the first col-

umn, I show the cost figures based on the current \$11.65 hourly rate. In the second column I show the same figures based on the proposed \$15.00 living wage. As the table shows, I estimate that for FY2014-15, the overall compensation costs for these workers, based on the \$11.65 hourly rate³³, will total to \$83.7 million.

TABLE 3: BASELINE ESTIMATE OF INCREASE IN GOVERNMENT SPENDING ON IHSS SERVICES DUE TO \$15.00 LIVING WAGE PROPOSAL, FY2014-15

	Without Proposed Living Wage Ordinance	With Proposed Living Wage Ordinance	Difference
1. Annual Service Hours (3,800 Providers x 5,095 Cases x 1,216 Hours/Case)	6.2 million	6.2 million	0
2. Hourly Wage	\$11.65	\$15.00	\$3.35
3. Compensation Cost Per Hour (including wage, benefits, employer taxes, administrative costs)	\$13.51	\$17.40	\$3.89
4. Total Annual Cost (row 1 x row 3)	\$83.7 million	\$107.8 million	\$24.1 million
4a. Federal Share	\$46.9 million	\$60.4 million	\$13.5 million
4b. State Share	\$22.7 million	\$22.7 million	\$0
4c. County Share (MOE)	\$14.1 million	\$24.7 million	\$10.6 million

The cost-sharing arrangement between the Federal government, State of California, and California counties has been in flux, in part due to the roll out of health care reforms of the 2010 Affordable Care Act (ACA). Until recently, the three levels of government paid for the wage and benefits of IHSS workers in roughly the following proportions: Federal (50 percent), State (32.5 percent), and County (17.5 percent).³⁴ With the implementation of the ACA, the federal share of the IHSS costs rose slightly to 56 percent. Finally, as of FY2012-13, county shares have been fixed to a “maintenance of effort” (MOE) level equal to their spending in FY2011-12. These MOE levels will adjust annually for inflation, at a rate of 3.5 percent, starting in FY2014-15. I use these figures to estimate that Sonoma County’s MOE for FY2014-15 will be \$14.1 million.³⁵

The last three rows of Table 3 show how the three government bodies share the overall cost of \$83.7 million. The federal government would be responsible for \$46.9 million, or 56 percent of the total cost figure of \$83.7 million. Sonoma County’s MOE level of \$14.1 million equals about 17 percent of the total costs. The State pays the difference of \$22.7 million – equal to about 27 percent of the total costs.

In the second column of Table 3, I set the IHSS pay rate to \$17.40, which includes the proposed \$15.00 living wage rate, along with an additional \$2.40 to cover employer taxes, benefits, and administrative costs. Assuming that the level

of service remains the same, I estimate that the overall cost of IHSS services will increase by \$24.1 million, rising up to \$107.8 million. The last three rows show how the three government bodies share these costs. Recall that the State will not cover any pay above their approved rate. Therefore, the State's cost remains at \$22.7 million, the same as if the IHSS wage is set to \$11.65. Instead, the federal government and the County will cover the additional cost of the pay raises—\$24.1 million. The federal government will cover the same share as before, 56 percent or \$13.5 million, and the County must cover the entire non-federal portion of \$10.6 million.

A cost increase of this size, \$10.6 million is small but non-trivial—equal to 0.8 percent of the County's overall budget or 2.7 percent of the General Fund. Per Sonoma County household, \$10.6 million represents about \$64 annually. This represents the baseline cost figure for establishing a \$15.00 living wage for the IHSS workers.

POTENTIAL COST SAVINGS. As noted above, the baseline cost estimates assume that only the wage rate changes, and all else remains the same. In this section, I consider what level of savings could result as the higher pay rate for IHSS workers improves that quality of the home care services they provide. Specifically, I expect that raising the pay rate of IHSS workers to \$15.00 will improve the continuity of home care services for IHSS consumers by reducing the IHSS worker turnover rate.

Frequent interruptions in these care services can cause IHSS clients to take up residence at a nursing care facility in order to insure that the basic routine of their care will be relatively consistent, as well as, managed by others. This occurs even when the elderly or disabled adult has a strong preference to live at home.³⁶ Interrupted IHSS service can be dangerous for IHSS clients—leaving them in a lurch to find someone to assist them meet their needs for physical hygiene, eating and drinking, and to simply get in and out of bed. The transition between providers not only requires the client to get comfortable again with a new person involved in the client's most essential functions of daily life, but each transition also typically requires an IHSS client to find, hire and train his/her IHSS caretaker. High turnover among IHSS providers, therefore, can be considerably disruptive to the client in the management of his/her basic life activities.

Higher quality IHSS services, consequently, promotes greater use of IHSS services, reducing the need for low-income elderly and disabled adults to use nursing care facilities. Since taxpayer dollars provide for the care of low-income frail elderly and disabled adults who require this high-level of support, each time such individuals choose to use IHSS services instead of living in a nursing care facility, the taxpayer experiences an overall cost savings.

Estimating the level of these potential savings necessarily requires some speculation since no one can know with certainty how many more low-income elderly and disabled adults would remain with IHSS services, rather than move into a nursing care facility, if the quality of IHSS services improves. Research by Prof. Howes on California's IHSS workers provides some indication.

First, a 2004-5 survey conducted by Prof. Howes of over 5,000 IHSS providers across eight California counties suggests that nearly one in four instances of an IHSS provider leaving the IHSS workforce results in an IHSS consumer moving to a nursing care facility (Howes, 2011). Specifically, IHSS providers reported that 24 percent of their IHSS clients would move to a nursing care facility if they lost their current provider. Another 33 percent said that they would seek out a new IHSS provider, i.e., they would continue to use IHSS services, and 19 percent would try to manage without the program's services. These IHSS consumers may seek support from unpaid friends and family members and/or take the risk of living without adequate support. Second, Howes' research (2011) on the relationship between wages and turnover suggests that a \$15.00 living wage in Sonoma County could result in a 20-percentage point decline in the IHSS workers' annual turnover rate (see Technical Appendix).

I combine these research findings with current levels of Sonoma County nursing care facility use by Medicaid-funded residents and admission rates to approximate that 150 fewer IHSS consumers would enter nursing homes, annually, as a result of the improved continuity of higher-paid IHSS providers (see Technical Appendix for details).

Retaining 150 IHSS consumers would generate significant savings because of the large cost difference between IHSS and nursing home care, even after taking into account the higher living wage rate. Consider that the average IHSS case in Sonoma County uses 1,216 hours of IHSS care annually. Compensation for this service, including a \$15.00 hourly wage, amounts to approximately \$21,200 per case.³⁷ The average semi-private nursing home facility, on the other hand, costs \$102,000 annually.³⁸ After accounting for larger Supplemental Security Income and State Supplementary payments (SSI/SSP) that IHSS clients typically receive when living in their own homes, the cost of nursing home care per case is still about \$92,000.

Note, however, that the lower turnover rate among IHSS workers will also likely cause fewer IHSS users to drop out of the program and try to manage on their own. Based on past research, I estimate that roughly 320 fewer IHSS consumers would make this choice as IHSS services improve (see Technical Appendix for details). These 320 IHSS consumers would cause IHSS spending to rise without any savings from reduced use of nursing care facilities.

In Table 4, I provide estimates of how government spending could potentially change, with the \$15.00 living wage, taking both factors discussed above into account. In the first set of rows (Panel A), I show how much annual government spending would fall as lower turnover among IHSS providers cause fewer Sonoma County frail elderly and disabled adults to move into nursing care facilities. Recall that each time an individual decides not to move to a nursing care facility, this saves taxpayers approximately \$92,000 annually.³⁹ Based on my estimate of 150 such IHSS consumers, government spending on nursing care facility services would therefore fall by \$13.8 million.

TABLE 4: POTENTIAL GOVERNMENT SPENDING CHANGES DUE TO GREATER RETENTION OF IHSS CONSUMERS AS IHSS WORKER TURNOVER RATE LOWERS

A. Potential Cost Savings	
1. Number of IHSS consumers who remain in the IHSS program, rather than moving into a nursing care facility	150
2. Total Savings	-\$13.8 million
2a. Federal Share	-\$6.4 million
2b. State Share	-\$7.4 million
2c. County Share	\$0 million
B. Potential Cost Increases	
3. Number of IHSS consumers who remain in the IHSS program*	470
4. Total Cost Increase	\$9.9 million
4a. Federal Share	\$5.6 million
4b. State Share	\$3.4 million
4c. County Share	\$1.0 million
C. Potential Net Cost Increases (Cost Savings + Cost Increases)	
5. Total Net Cost Increase	-\$3.9 million
5a. Federal Share	-\$0.9 million
5b. State Share	-\$4.0 million
5c. County Share	\$1.0 million

Notes: See Technical Appendix for details. *This includes the 150 IHSS consumer from row 1 plus, 320 IHSS consumers who stay in IHSS program instead of trying to manage without services.

The next three rows in Panel A show each governmental body’s share of these savings. The State benefits from the majority of these cost savings (\$7.4 million), slightly more than the federal government’s savings of about \$6.4 million. The County, on the other hand, does not benefit from these shifts. This is due to the fact that nursing care costs of these low-income elderly and disabled adults are equally shared between the federal government and the State, and not the County.⁴⁰

Next, in Panel B, I summarize the increase in spending on IHSS that would result if more IHSS consumers decide to stay in the program because of the improved quality of care, rather than giving up and trying to manage without. These cost increases, totaling to \$9.9 million reflect the expanded level of IHSS

use at the higher living wage rate. Again, I show how these costs are shared across the three government bodies in rows 4a-4c.

The cost increases represented in Panel B of Table 4 are largely due to the potential additional level of IHSS services demanded in response to the improved quality of IHSS services rather than from the increase in the pay rate. As a result, the Federal government would carry the largest share of the increased costs (\$5.6 million), followed by the State (\$3.4 million) and the County (\$1.0 million).

Finally, in Panel C of Table 4, I present the net cost savings—the cost savings from Panel A net of the cost increases detailed in Panel B. That is, Panel C shows the net changes in government spending on the long-term care of low-income frail elderly and disabled adults. These changes result if lower turnover rates among IHSS providers enable 470 more IHSS consumers to remain living in their own homes with IHSS services (i.e., 150 would avoid moving into nursing care facilities and 320 would not resort to remaining at home without IHSS services).

Given the current cost-sharing arrangements, the savings on nursing care facility services for the federal government nearly completely offset the cost increase it would acquire from the small expansion of IHSS services. The federal government's net change in spending comes out to just under \$1 million. The net change for the County is similar (\$1.0 million) because it does not experience any savings from the reduced level of nursing care facility use. The situation for the State, however, is strikingly different: the State would experience a net savings of \$4.0 million.

ALTERNATIVE COST INCREASE ESTIMATE. With these figures, I can now approximate what the fiscal impact would be of a \$15.00 living wage for IHSS workers, now taking into account the possibility that IHSS services would improve enough to retain more IHSS consumers than would be the case without the \$15.00 living wage. In Table 5, I show these changes in government spending on the long-term care of Sonoma County's low-income frail elderly and adult disabled residents.

In Table 5, the first two sets of rows simply replicate the base line figures from Table 3 and changes in spending from Table 4 for reference. The last set of rows combines these figures to show an alternative cost estimate. This alternative estimate nets out the cost savings that could result if the quality of IHSS services improved sufficiently to retain 470 more IHSS consumers than would be the case without the \$15.00 living wage. The total net cost increase of \$20 million from this alternative estimate is \$4 million less than the baseline estimates, even while IHSS services expand by nine percent (+470 additional cases).

TABLE 5: ALTERNATIVE ESTIMATE OF INCREASE IN GOVERNMENT SPENDING ON LONG-TERM CARE OF FRAIL ELDERLY AND DISABLED ADULTS DUE TO \$15,00 LIVING WAGE PROPOSAL, FY2014-15

A. Baseline estimates*	
1. Total Cost Increase	\$24.1 million
1a. Federal Share	\$13.5 million
1b. State Share	\$0.0 million
1c. County Share	\$10.6 million
B. Additional change in spending due to higher retention in IHSS consumers**	
2. Total Net Cost Increase	-\$3.9 million
2a. Federal Share	-\$0.9 million
2b. State Share	-\$4.0 million
2c. County Share	\$1.0 million
C. Alternative estimate: Baseline estimates plus additional change in spending due to higher retention in IHSS consumers	
3. Total Net Cost Increase	\$20.2 million
3a. Federal Share	\$12.6 million
3b. State Share	-\$4.0 million
3c. County Share	\$11.6 million

Notes: * These figures are taken from rows 4a-4c from Table 3. **These figures are taken from rows 5a-5c from Table 4.

TABLE 6: NET COST INCREASES UNDER ALTERNATIVE POLICY SCENARIOS FOR THE STATE OF CALIFORNIA AND SONOMA COUNTY

A. Total Cost Increase Net of Savings (State and County Only)*		
1. Cost increase		+\$15.0 million
2. Savings		-\$7.4 million
3. Cost increase + Savings		+\$7.5 million
	Current Cost-Sharing Rules	Alternative Scenario
B. Cost Figures for State		
4. Cost increase	\$3.4 million	\$9.2 million**
5. Savings	-\$7.4 million	-\$7.4 million
6. Cost increase + Savings	-\$4.0 million	\$1.8 million
C. Cost Figures for County		
7. Cost increase	\$11.6 million	\$5.7 million
8. Savings	\$0.0 million	\$0.0 million
9. Cost increase + Savings	\$11.6 million	\$5.7 million

Notes: * These numbers combine figures from: (1) Table 3, rows 4b and 4c, and Table 4, rows 4b and 4c; (2) Table 4, rows 2b and 2c. ** This is equal to the 62 percent of the overall state and county cost increases from raising IHSS pay to \$15.00 living wage. These cost increases include both the \$3.4 million cost figure from row 4b of Table 4 for the State resulting from expanded IHSS service and the \$11.6 million cost figure covering IHSS pay for the County from row 3c of Table 5.

As the figures in Table 5 show, in the current cost-sharing arrangement the County would shoulder a \$11.6 million increase in pay for IHSS providers, but not benefit from any savings as fewer IHSS consumers move into nursing care

facilities. Instead, the State benefits these savings without paying for any IHSS raises.

Given the unevenness of the distribution of these potential net savings, the County could seek better cost-sharing terms. In particular, these net savings provide the State a fiscal incentive to promote a \$15.00 living wage in Sonoma County. In Table 6, I consider an alternative cost sharing scenario between the County and the State, to provide a sense of the range of possibilities.

In the first three rows of Table 6, I restate only the non-federal cost increase figures, based on Tables 3 and 4. As indicated in row 3 of Table 6, raising IHSS wages to \$15.00 would increase State and County spending on the long-term care of low-income frail elderly and disabled adults in Sonoma County, on net, by \$7.5 million.

In column 1 of the Panel B, I show the cost figures using the current cost-sharing rules. In column 2, I show the figures based on an alternative cost-sharing arrangement. Here, the State covers the same *share* of IHSS workers' living wage pay as it currently covers (i.e., approximately 62 percent). In column 2, we can see that covering a greater share of the \$15.00 living wage, the State will likely experience a net cost increase of about \$1.8 million and the County's share of the increased costs would fall by about half, to \$5.7 million. This would lower the cost increase for the County's budget to 0.4 percent of its overall budget (1.5 percent of the General Fund). This level of increased spending amounts to \$35 per year per household.

Why would the State adopt such a policy? Even in this scenario, the State has a financial incentive to support the \$15.00 living wage because two additional factors would basically offset the State's \$1.8 million increase in spending on the long-term care of the Sonoma County's frail elderly and disabled adult residents.

First, increasing IHSS pay to \$15.00 would draw in nearly \$13 million of additional federal funds (see Table 5, row 3a) into the California economy. This infusion of federal funds could generate in the range of \$1.2 million in additional income and sales tax revenue since the increase in federal funds would go primarily to raising the earnings of IHSS workers.⁴¹ Second, raising IHSS pay rates to \$15.00 could produce a \$325,000 savings in Medi-Cal spending on subsidies to IHSS providers as their higher earnings reduce their need for public subsidies.⁴²

Taking these additional factors into account—about \$1.5 million in increased revenue and reducing spending—the State would experience a net cost increase of nearly zero. In other words, this alternative cost sharing arrangement would allow the State to support a greater level of improved IHSS services to low-income frail elderly and disabled adults at basically no cost.

In sum, the potential impact of a \$15.00 living wage for IHSS workers on the County has a wide range: from \$5.7 million to \$11.6 million. These figures represent a range of between 0.4 percent and 0.8 percent of the County's total \$1.4 billion budget (or between 1.5 percent and 3.0 percent of the County's \$390 million General Fund). This represents an annual increase in government spending equal to \$35 to \$70 per Sonoma County household.

My baseline cost increase estimate for the County is \$10.6 million (see Table 3). This estimate assumes that only the pay rate of IHSS workers change, and all else remains the same. However, past research indicates that better pay leads to lower turnover rates among IHSS workers and therefore greater continuity of care, a key determinant of the quality of IHSS services. It is safe to assume that raising the pay rate of IHSS workers to the \$15.00 living wage would significantly improve the quality of IHSS services.

My second set of estimates take into account how spending on the long-term care of the County's low-income frail elderly and disabled adults could change if the improved quality of IHSS services increased the program's retention of IHSS consumers. This would reduce the number of IHSS consumers that decide to move into a nursing care facility because they find IHSS services too difficult to use. These cost increase figures for the County range between \$5.7 million and \$11.6 million. The largest potential cost increase would result only if the County failed to re-negotiate cost-sharing terms with the State. The fact that the State has a financial incentive to support the County's living wage should assist such a re-negotiation.

In weighing this range of potential costs, County residents will need to consider how they value IHSS services, keeping in mind two important benefits for the IHSS program itself that would result from the \$15.00 living wage, in addition to paying IHSS workers a pay rate more closely approximating a living wage. First, raising the wages of IHSS workers can be expected to significantly improve the quality of IHSS services by reducing worker turnover and increasing the continuity of care for current IHSS clients. This would directly improve the quality of life for those among the County's highest need elderly and disabled adult residents.⁴³

Second, part of the highest cost increase I estimate results from the greater *demand* for IHSS services expected to result from higher quality services. These costs account for the potential for an additional 470 low-income elderly and disabled adults to remain living in their homes with the support of IHSS services, instead of a nursing care facility or trying to manage without. In other words, the cost increases estimated here include an expected improvement and expansion of IHSS services, as well as an improvement in wages for IHSS workers.

CONCLUSION

The potential fiscal impact of the proposed Sonoma County living wage ordinance based on the coverage of: (1) county service contractors with contracts that exceed \$20,000 (\$50,000 for non-profits), (2) businesses with gross receipts greater than \$350,000 and holding County leases, franchise or concession agreements, (3) businesses receiving financial assistance from the County in excess of \$100,000 and (4) non-IHSS county employees will be negligible (see Table 7 which summarizes all of the cost increase estimates). The potential cost increases for these four groups of covered businesses add up to less than \$3.00 annually per Sonoma County household.

TABLE 7: SUMMARY OF POTENTIAL SONOMA COUNTY FISCAL IMPACTS DUE TO \$15.00 LIVING WAGE PROPOSAL

Covered Businesses	Overall Potential Annual Cost Increase	Potential Cost Increase		
		% of County Overall Budget	% of County General Fund	Per Household Annually (\$)
Service Contractors	\$420,000	0.03%	0.1%	\$2.55
Other Contract-Types (Franchisees, Lease-holders, and Concessionaires)	\$15,000	0.001%	0.004%	\$0.09
Business Assistance Recipients	\$0.00	0.0%	0.0%	\$0.00
Regular County Employees	\$17,500	0.001%	0.003%	\$0.11
IHSS Providers	\$5.7 - \$11.6 million	0.4% - 0.8%	1.5% - 3.0%	\$35 - \$70
Total	\$6.2 million - \$12.1 million	0.4% - 0.9%	1.6% - 3.1%	\$37 - \$73

The reason why these costs impose a negligible cost to the County is due to a combination of several factors. First, the typical covered private sector business will itself only experience a modest cost increase from the living wage ordinance. Second, these businesses have several different channels through which they may absorb these cost increases, aside from passing them onto the County. These include cost savings due to lower worker turnover and improved productivity in their workforce, price increases, greater operational efficiencies and potentially slower growth in the wages of highly paid workers and/or profits. Consequently, any cost pass-throughs from the covered business to the County will be smaller still. Likewise, there is little evidence that the \$15.00 living wage will impede the County’s use of business subsidies to pursue its economic development goals, and therefore should leave the County’s ability to foster a healthy tax base unaffected.

The consequence of IHSS worker coverage, on the other hand, will depend largely on whether the State of California and Sonoma County can negotiate a different cost sharing arrangement than currently exists. The State has a financial incentive to cover a larger share of the non-federal cost increase associated with the \$15.00 living wage than it is currently required. A more favorable cost-sharing agreement could potentially reduce the County's cost increase to a relatively modest \$5.7 million. A cost increase of this size amounts to \$35 annually per Sonoma County household. If, however, the State is unwilling to negotiate its share of costs, Sonoma County residents will have to weigh whether upgrading IHSS jobs to pay a living wage and improving—and possibly expanding—IHSS services is worth an annual increase in County spending equal to \$70 per household.

Overall, the proposed living wage has the potential to strengthen Sonoma County's ability to cultivate decent quality jobs and even increase its capacity to provide quality services, while imposing a modest cost increase on the County's budget. These costs, in total, can be expected to range between \$6.2 million and \$12.1 million, equal to between 0.4 percent and 0.9 percent of the County's total budget (or 1.6 percent and 3.1 percent of the General Fund). This represent an annual increase in County spending of \$37 - \$73 per Sonoma County household. ⁴⁴

TECHNICAL APPENDIX

1. Estimating Paid Sick Days Costs for IHSS providers

To estimate the added costs of providing paid sick days for IHSS workers, I use estimates from a 2009 San Francisco survey of over 1,000 workers and 700 employers conducted by Drago and Lovell (2011) on level of paid sick day use. Drago and Lovell's study examines the question of how the San Francisco Paid Sick Leave Ordinance operated after its passage in 2007, including its impact on both employers and workers.

Based on their survey, Drago and Lovell found that among workers who used sick days, they used on average, three out of a possible eight paid sick days (or about 40 percent, see p. 9 and endnote 26). Also, among all workers, about 30 percent did not need any sick days (see p. 8).

I apply these figures to estimate that about 70 percent of IHSS workers would use their newly acquired paid sick days and that among those, IHSS workers would use about 5 out of their possible 12 days (i.e., about 40 percent). This would amount to raising labor costs by 1 percent annually ($5/365=1.4$ percent) for about 70 percent of the workforce, for a total increase in labor costs of about 1 percent (1.4 percent x 70 percent =1 percent).

From the figures in Tables 3 and 4 in the main text (combining col. 2 of row 4 in Table 3 with row 4 of Table 4), I estimate that the overall labor costs for IHSS workers will be in the range of \$120 million (this is the total cost shared by the federal, state and county governments). The costs of providing 12 paid sick leave days for IHSS workers would therefore amount to a figure in the range of \$1.2 million (1 percent of \$120 million). Since the paid sick days would be an increase in compensation above the state approved rate, the federal and county governments would share this cost. The County's share would be 44 percent, or about \$500,000.

2. Estimating Business Cost Increases

All of the business cost increase to sales revenue ratios used in this report are derived the same way. Specifically, they are estimated by extrapolating from past business cost increases associated with minimum and living wage laws that raise the wage floor by between 19 percent and 87 percent.

To do this, I estimate a linear relationship between the various studies' estimates of the cost increase to sales ratios and the corresponding percent change in the minimum wage, by sector. I then use the estimated relationship to determine the likely cost increase to sales ratio that would result from increasing the minimum wage from \$9.00 to \$15.00—a 67-percent minimum wage hike.

In Table A.1, I list the various sectors for which I have cost increase estimates along with the business cost increase associated with a 67 percent rise in the wage floor.

TABLE A.1: COST INCREASES TO SALES RATIOS DUE TO 67% INCREASE IN MINIMUM WAGE BY INDUSTRY

Industry	Cost Increase/Sales Revenue Due to 67% Increase in the Wage Floor
Food Services (and Accommodations*)	4.5%
Administrative & Support, Waste Management & Remediation Services	2.4%
Health Care and Social Services	1.8%
Arts, Entertainment, and Recreation	1.4%
Retail Trade	0.9%
Transportation and Warehousing	0.6%
Finance, Insurance, Real Estate	0.3%
Utilities	0.01%
All Industries	0.8%

*Notes: *I do not have a separate estimate for hotels. However, I have found, based on past research, hotel cost increases almost certainly would be the same or smaller than that for the food service industry.*

Sources: I used the following eight studies to produce these cost increase estimates by industry (not all studies could be used for each estimate): 1) Pollin, Brenner, and Wicks-Lim, 2004; 2) Pollin, 2005; 3) Pollin and Wicks-Lim, 2006; 4) Pollin et al. 2008 (chapter 5); 5) Pollin and Brenner, 2000, 6) Aaronson, French, and MacDonald, 2008; 7) Lee, Schluter and O’Roark, 2000, and 8) Pollin et al., 2008 (chapter 4).

COUNTY CONTRACTORS. SEIU 1021 received data for the 2012 calendar year from the County on service contracts exceeding \$20,000 in response to its public records request. From these data, I identified the five departments that held the largest share of contracts (by contract value). These include: Health Services, Human Services, Water Agency, Human Resources, and Transportation and Public Works. The contract values of these five departments comprised 84 percent of the total value across all contracts exceeding \$20,000.

To estimate an overall cost increase to sales ratio for a 67 percent minimum wage hike (i.e., the business cost increase of establishing a \$15.00 living wage as a percent of revenue) for County contractors I do the following. I weight the cost-increase-to-sales ratio for each of the five County departments listed above (using the industry that matches most closely the activity of each department) by the share of its overall contract value. I present all the relevant figures in Table A.2. I use the weighted average (last row) as the average for County Contractors.

TABLE A.2: COST INCREASE TO SALES RATIOS DUE TO 67% INCREASE IN MINIMUM WAGE FOR COUNTY SERVICE CONTRACTS THAT EXCEED \$20,000, BY DEPARTMENT

Department	Industry	Estimated Cost Increase to Sales Ratio Due to 67% Minimum Wage Increase	Share of Contracts
Health Services	Health Care and Social Services	1.8%	30%
Human Services	Health Care and Social Services	1.8%	21%
Water Agency	Utilities	0.01%	17%
Human Resources	Financial, Insurance, and Real Estate	0.3%	8%
Transportation and Public Works	Transportation and Warehousing	0.6%	8%
Cost Increase to Sales Ratio, Weighted Average			1.2%

FRANCHISEES I use the following industry cost increase to sales ratio estimates for businesses with County franchise agreements: utilities, health care and social services, and administrative & support, waste management & remediation services. I chose these industries based on the franchise agreements that I was able to obtain through County documents, such as County of Sonoma Agenda Item Summary Reports on-line (e.g., [County of Sonoma Summary Report: Solid Waste Collection Franchise Agreement, accessed August 2014](#)).

CONCESSIONAIRES I use the following industry cost increase to sales ratio estimates for businesses with concession agreements: retail, food services, and arts and entertainment. I chose these industries based on the types of venues that typically use concessionaires, as suggested by an industry survey conducted by the National Association of Concessionaires (See: <http://naconline.org/2014/08/nac-releases-summary-of-industry-survey/>; accessed August 2014).

LEASEHOLDERS I provide details for which industries I use for these in the main text.

BUSINESS SUBSIDY RECIPIENTS I provide details for which industries I use for these in the main text. Note that cost increases for the food services industry exceeds the cost increases for nearly all other industries, including all those listed among the clusters of employers that the ECB intends to promote. As a result, the cost increase to sales revenue ratio of 4.5 percent serves as an upper-bound estimate for this grouping.

3. Estimating Cost Increases for Businesses Operating at the Sonoma County Charles Schultz Airport

For this estimate, I use the results of two studies that examine the economic impact of living wage ordinances covering publicly-owned airports.

OAKLAND. Oakland’s living wage ordinance increased the wage floor from \$5.75 to \$9.55, or 61 percent. Zabin et al. (1999) estimate that the cost increase from this living wage, as a percent of sales, equals 1.1%. I scale this estimate upward, in a linear way, to reflect the proposed 67 percent increase in the Sonoma County wage floor. Based on this exercise, I estimate the cost increase as a percent of sales equals 1.2 percent.

SAN FRANCISCO. In the case of San Francisco, the wage floor rose 80 percent from \$6.25 to \$11.25. Reich, Hall, and Jacobs (2005) estimate that the cost increases due to the living wage amount to 0.7 percent of all fare revenue. Scaling this upward, again in a linear way, to reflect a 67 percent increase in the wage floor, implies a cost increase equal to 0.6 percent of fare revenue.

Unfortunately, the Reich et al. report does not provide a figure for the airport’s overall revenue that could be used to estimate a cost increase to sales revenue ratio comparable to the Oakland Airport figure. At the same time, the cost increase to sales revenue ratio would clearly be smaller if the revenue came from all sources at the airport rather than just the passenger airlines. As a result, we can use the 0.6 percent figure as a conservative figure (i.e., overestimate of the costs). Taking the average of the two, we can approximate that costs at the Sonoma County Airport may be in the range of 0.9 percent of the total revenue generated by businesses operating at the Airport.

4. Estimating Cost Increases for Sonoma County Fair Temporary Workers

I use data from the County of Sonoma Agenda Item Summary Report, “Sonoma County Fair and Temporary Employees,” dated October 8, 2013. [This report](#) provides employment details for the Sonoma County Fair temporary workers.

Specifically, this report provides information about hours, number of employees, and wages. Based on this information, I present in Table A.3, the figures for the total increase in earnings and the expected increase in employer payroll taxes due to the \$15.00 living wage proposal. For these calculations, I assume only changes in the wage rates and I assume that all workers earn the current California minimum wage. The Summary Report referred to above states that most workers earn between \$8.00 and \$10.00 per hour, with some earning as much as \$30 per hour. Typical hours are 7-9 hours per day, and the Fair lasts 16 days.

I estimate a change in total payroll of about \$500,000 for the Sonoma County Fair Temporary Workers due to the proposed \$15.00 living wage ordinance.

TABLE A.3: CHANGE IN EARNINGS FOR SONOMA COUNTY FAIR TEMPORARY WORKERS DUE TO PROPOSED \$15.00 LIVING WAGE ORDINANCE

	Before Ordinance	After Ordinance	Change
Days	16	16	0
Hours/Day	8	8	0
Hourly Wage	\$9.00	\$15.00	\$6.00
Number of Workers	600	600	0
Total Earnings	\$691,200	\$1,152,000	\$460,800
Payroll taxes (7.65%)	\$52,877	\$88,128	\$35,251
Total Payroll	\$744,077	\$1,240,128	\$496,051

5. Estimating Raises for County Employees Due to Living Wage

I use the position allocation listing in the adopted Sonoma County Budget, FY2013-14 to determine the number of workers who would get raises, as well as the size of their expected raise.

For each pay range of the positions listed, I use the midpoint figure to determine an hourly rate for a full-time year-round worker (i.e., employee working 2,080 hours annually). I then identify the number of workers who earn between \$15.00 and \$17.25. These workers will receive ripple-effect raises, as noted in the main text. I estimated that about 78 FTE positions fall within this range, making up about 2 percent of the total 3,906 FTE positions listed.

To calculate raises for these 78 FTEs, I use ripple-effect estimates from Pollin et al. (2008, ch. 11). These raises range between one and five percent, with the largest raises going to workers who currently earn \$15.00. As a result, the \$15.00 living wage would compress the wage distribution at the low-end, among the small number of worker earning wages near that level.

I then sum the raises in annual earnings for the reported number of FTE positions and add 7.65 percent for the rise in employer taxes. Based on these calculations, I estimate raises for regular County employees would amount to approximately \$17,500.

6. Estimating how the \$15.00 living wage impacts IHSS turnover rate and the retention of IHSS consumers

To produce this estimate I evaluate the following:

- a) How much would turnover likely fall if IHSS workers' wages increase to \$15.00?

To estimate this figure, I assume that the Sonoma County IHSS worker turnover rate would fall in a similar way as that observed by Howe (2011) in nearby Santa Cruz County.

I specifically use Howe's study of Santa Cruz County because Santa Cruz's IHSS workers pay scale, over the time period of her study, resembles that in Sonoma County today. Two specific features of Sonoma County's IHSS working conditions matches that in Santa Cruz: 1) the average wage for personal care aides, the occupational category which includes IHSS workers, is positioned similarly in the wage distribution in Sonoma County as in Santa Cruz. In Sonoma County, personal care aides earned \$11.64, on average. This is 25 percent higher than the 10th wage percentile (\$9.30) across all occupations.⁴⁵ This is nearly the same as the relative wage position of the IHSS workers in Santa Cruz that Howes' analyzed. In her study, the Santa Cruz IHSS workers earned 24 percent more than the mean 10th wage percentile of all occupations⁴⁶ and (2) IHSS workers in both Sonoma County and Santa Cruz have limited health insurance benefits. These two counties, in other words, appear to be similar with regard to two primary compensation attributes.

Howes estimated that if the Santa Cruz IHSS worker's wage relative to the 10th wage percentile fell from 1.24 to 1.14, turnover rates among IHSS workers would increase by 7.5 percentage points.⁴⁷ In other words, her statistical results links a 0.10 decline in the ratio of the IHSS workers' relative wage to the 10th wage percentile to a 7.5 percentage point increase in annual turnover. I use this estimated relationship to predict the likely *decrease* in turnover given an *increase* in Sonoma County's IHSS workers' relative wages from \$11.65 to \$15.00, or 1.25 (\$11.65/\$9.30) to 1.61 (\$15.00/\$9.30). To do this I apply the ratio of the change in turnover rates to the change in relative wages that Howes' observed in Santa Cruz (+0.075 turnover rate/-0.10 relative wage, or -0.617) to the proposed change in the relative IHSS wages in Sonoma County (from 1.25 to 1.61, or +0.36). The product of these two factors is: -0.22 or -22 percentage points (0.36 x -0.617=-0.22). Howes' research findings, in other words, suggests that if Sonoma County's IHSS workers' wage rose to \$15.00, their annual turnover rate would fall by about 20 percentage points.

Sonoma County currently employs about 3,800 IHSS workers who provide services from 5,095 IHSS recipients.⁴⁸ If the annual turnover rate among a workforce of this size fell by 20 percentage points—i.e., 20 percent fewer IHSS vacancies occurred over the year—this would impact 1,020 cases (0.20 x 5,095 = 1,020).

In other words, over a one-year period, increasing the wage rate of the County's IHSS workers from \$11.65 to \$15.00 can be expected to reduce the number of vacancies (separations between an IHSS consumer and his/her provider) that

arise by 1,020.

b) What share of IHSS consumers would typically move into a nursing care facility if their IHSS provider left the IHSS workforce?

The second factor I need to evaluate is, among these 1,020 cases, how many are likely to resort to living in a nursing care facility in response to their IHSS provider leaving the workforce. As described in the main text, a 2004-5 survey by Howe of over 5,000 IHSS providers across eight California counties suggests that in the range of 24 percent of IHSS consumers would move to a nursing care facility if they lost their current provider.⁴⁹ Another 33 percent said they would seek out a new IHSS provider, i.e., they would continue to use IHSS services, and 19 percent would try to manage without the program's services.⁵⁰ This survey evidence suggests increasing IHSS providers' wages to \$15.00 could potentially prevent about 245 current IHSS consumers (24 percent of 1,020) from moving to nursing care facilities. Another 194 current IHSS consumer (19 percent of 1,020) would also be retained instead of dropping out of the program and trying to manage without services or moving to a nursing care facility.

These figures, however, are based on a single statewide survey so it would be useful to also consider other data. Another way to approximate what share of IHSS consumers would turn to using a nursing care facility would be to figure out (1) how many IHSS consumers currently lose their provider to turnover, and compare this to (2) the number of annual nursing home admissions likely to come from the IHSS program. The ratio of this figure would tell us what share of IHSS consumers that lose their providers to turnover move to nursing care facilities. I can then apply this ratio to the likely number of cases that would no longer result in separations as the turnover rate among Sonoma County IHSS workers declines by 20 percentage points.

1) How many consumers currently lose their provider to turnover? Assuming that Sonoma County has a similar turnover rate as estimated by Howes (2011) for nearby Santa Cruz County—40 percent—I estimate that about 2,000 of Sonoma County's current 5,080 IHSS consumers lose their provider to turnover.⁵¹

2) How many new residents do Sonoma County nursing care facilities admit each year? Currently, Sonoma County has roughly 1,700 nursing care beds. The average stay for nursing care residents is two years and about 35 percent rely on Medicaid funds.^{52,53} Combining these figures, I estimate that currently about 300 IHSS consumers turn to nursing home beds each year (1,700 residents x 50 percent annual turnover rate x 35 percent Medicaid-funded= 285). It is reasonable to assume that most of these residents would be transitioning out of IHSS services since the vast majority of Medicaid-eligible frail elderly and disabled adults in California use IHSS services to remain living at home (69 percent).⁵⁴

Therefore, I can approximate that about 15 percent (300/2,000) of IHSS consumers who lose their IHSS provider to turnover end up moving into a nursing care facility.

I apply this 15 percent to the 1020 fewer IHSS consumers expected to lose their provider to turnover, i.e., about 150 IHSS consumers.

For my estimate of the cost savings from fewer IHSS consumers entering nursing care facilities annually, I use this lower number (150).

c) What about IHSS users who remain in the program due to the improved quality of IHSS services, but would have otherwise sought other care arrangements aside from a nursing care facility?

Recall that IHSS providers reported that 19 percent of their clients would drop out of the IHSS program if they lost their current provider, but would *not* move to a nursing home. I use this figure to estimate the expanded number of IHSS consumers who would stay with IHSS services if the turnover rate declined by the estimated 20-percentage points by doing the following:

1. I assume that 15 percent (my lower estimate) of IHSS consumers who lose their providers due to turnover go to nursing homes. That implies that 85 percent of IHSS consumers who experience a separation with their IHSS providers, choose an alternative to moving into a nursing care facility.
2. I assume that among this 85 percent, IHSS consumers choose each of the other two options (find another IHSS provider or try to manage without IHSS, but remain at home) in equal proportion to the responses recorded by Howes' 2004/5 survey. Recall, that 33 percent said they would seek another IHSS provider and 19 percent said they would drop out of the IHSS program. In other words, I assume that 55 percent (85 percent x (33 percent / (33 percent + 19 percent)))=55 percent) would remain in the IHSS program with a different provider, and 31 percent (85 percent x (19 percent / (33 percent + 19 percent)))=31 percent) would drop out of the IHSS program.
3. Therefore, if turnover rates fall sufficiently to retain 1,020 more IHSS consumers/provider matches, this implies that 320 fewer IHSS consumers would drop out of the IHSS program, but remain living at home (31 percent x 1,020=320).

This is my estimate of the additional increase in the number of IHSS consumers due to the improved quality of IHSS services. These IHSS consumers, however, would *not* have moved into a nursing care facility in the absence of the improvement in IHSS services and therefore would not generate any cost-savings from reduced spending on nursing care facilities.

7. Background calculations for Tables 4 and 5

In Table A.4, I provide additional details of my calculations for Tables 4 and 5

TABLE A.4: DETAILED COSTS AND SAVINGS FIGURES ASSUMING GREATER RETENTION OF IHSS CONSUMERS AS IHSS WORKER TURNOVER RATES FALLS

Scenario: Assume that annual turnover rate falls by 20-percentage points	IHSS wage= \$11.65	IHSS wage= \$15.00	Change
<i>IHSS Spending</i>			
1. Annual IHSS hours per case	1216	1216	0
2. IHSS Cases	5,095	5,565 (+470 cases re-tained)	+470
3. Annual hours	6,195,520	6,767,040	571,520
4. Current wage rate	\$11.65	\$15.00	\$3.35
5. Current compensation rate	\$13.51	\$17.40	\$3.89
6. Total Cost of IHSS (row 3 x row 5)	\$83.7 million	\$117.7 million	\$34.0 million (\$9.9 more than baseline figure of \$24.1 million in Table 3, row 4)
<i>Other affected long-term care spending</i>			
7. SSI/SSP payments*	\$52.5 million	\$53.9 million**	\$1.5 million
8. Skilled Nursing Facility (SNF): Assume 150 fewer cases move to SNF with \$15.00 living wage	\$0.0 million	-\$15.3 million***	-\$15.3 million
<i>Total annual costs (IHSS spending and other long-term care spending combined)</i>			
Total annual costs (row 6 + row 7 + row 8)	\$136.2 million	\$156.4 million	\$20.2 million
Federal share	\$89.8 million	\$102.4 million	\$12.6 million
IHSS Pay	\$46.9 million	\$65.9 million	\$19.1 million
SSI/SSP payments (SSI portion)	\$42.9 million	\$44.1 million	\$1.2 million
SNF payments (50%)	\$0.0 million	-\$7.7 million	-\$7.7 million
State share	\$32.3 million	\$28.3 million	-\$4.0 million
IHSS Pay	\$22.7 million	\$26.1 million	\$3.4 million
SSI/SSP payments (SSP portion)	\$9.5 million	\$9.8 million	\$0.2 million
SNF payments (50%)	\$0.0 million	-\$7.7 million	-\$7.7 million
County share (IHSS Pay only)	\$14.1 million	\$25.7 million	\$11.6 million

Notes: * SSI/SSP annual payments per case, while not residing in nursing care facility: \$10,296 (SSI: \$8,424; SSP: \$1,872). SSI/SSP annual payments per case, while residing in nursing care facility (i.e., Personal Needs Allowance (PNA) per case): \$600 (SSI: \$360; SSP: \$240). **This figure takes into account the larger \$10,296 SSI/SSP payments that the 150 IHSS consumers would receive relative to the \$600 SSI/SSP payment they would have received in a nursing care facility (i.e., $150 \times (\$10,296 - \$600) + \$52.5 \text{ million} = \53.9 million). ***Annual SNF cost for Sonoma County in 2013 is \$102,000.

8. *Estimates of Reduced Medi-Cal Spending with \$15.00 Living Wage*

Prof. Howes (2011) estimates, based on her 2004/2005 survey, that 19 percent of IHSS providers were enrolled in Medi-Cal (see p. 11). Her estimate is consistent with the estimate from PAS (2012). I use this figure to estimate the number of IHSS providers in Sonoma County that would likely be enrolled at the current \$11.65 pay rate.

From the figures in Table 3 we know that 3,800 Sonoma County IHSS providers have a caseload of 5,095 or 1.3 cases per provider. I assume that with improved IHSS services, the caseload would increase by 470, adding 350 workers to cover the additional cases for a total of 4,150 IHSS workers. Based on Howes' estimate, 830 receive Medi-Cal benefits (20 percent of 4,150).

The next question is, how many of these 830 workers would lose their benefits if their wage increased to \$15.00? I assume that half of these 830 workers would lose their Medi-Cal benefits for the following reasons.

At the current wage rate of \$11.65 and average 1,630 annual hours of work the typical IHSS worker would earn \$19,000. According to the California Budget Project (CBP), working parents lose their eligibility at about the poverty line, which was \$19,530 for a family of three in 2013, just over the \$19,000 in average IHSS earnings at \$11.65 (CBP, 2013). If these workers earn \$15.00, their annual earnings would rise to \$24,470, about \$5,000 above the poverty income threshold. In fact, if IHSS workers earn anywhere between about \$15,000 and the average \$19,000, their raises to a \$15.00 wage would put their earnings over the income eligibility line.⁵⁵ Based on these figures, it seems reasonable to assume that a large share of IHSS providers who receive Medi-Cal benefits would exceed Medi-Cal's low income-eligibility threshold for non-disabled adults if they earned \$15.00 per hour.

How much would this save the State? According to California Healthcare Foundation's Health Care Almanac 2013, Medi-Cal spending per non-disabled adult was \$1,800 in 2009. After adjusting for inflation (annual rate of 3.2 percent), I estimate this figure would be \$2,110 in 2014, \$780 of which the state funds (i.e., 37 percent). That is, for each IHSS provider that drops out of Medi-Cal the State saves about \$780 annually.

I therefore estimate that the State would save approximately \$325,000 in Medi-Cal spending ($1/2 \times 830$ providers no longer eligible for Medi-Cal \times \$780 annual State spending per non-disabled adult).

9. Estimates of Increase Income Tax Revenue from \$15.00 Living Wage

I combine the Institute for Taxation and Economic Policy's (ITEP) estimate that low to middle income households in California pay about 6.5 percent of their income in sales and income taxes (Davis et al., 2013) with my estimate that the federal government would inject \$12.6 million in additional IHSS earnings into the California economy with a \$15.00 living wage. Based on these figures I approximate that the State of California will draw about \$850,000 in additional sales and income tax revenue when IHSS workers earn the \$15.00 living wage.

This net increase in federal spending on IHSS providers' earnings can be expected to stimulate additional economic activity in the state's economy. I can approximate this additional amount of economic activity by applying a "multiplier" that captures the overall level of economic activity added to the state's economy due to an income injection to low-to-middle income households (personal assistants typically come from lower income households, see PAS 2012).

The multiplier I use is based on estimates from the Congressional Budget Office's (CBO) report analyzing the potential impact of the 2009 American Recovery and Reinvestment Act (CBO, 2011). Specifically I use the midpoint of the range of multipliers listed by the CBO for an injection of transfer payments to individuals, or 1.5.

This multiplier applies to the national economy, however, and therefore could overstate the impact for a single state. At the same time, according to the U.S. Bureau of Economic Analysis, California has the largest state economy in the nation – with a state GDP equal to \$1.5 trillion in 2013, or 13 percent of U.S. As a result, California's multiplier likely closely approximates the nation's. Additionally, Nakamura and Steinsson (2013) estimate an "open economy relative multiplier," i.e., the impact on relative output of an increase in government spending in one region of the country relative to another, is 1.5. I therefore estimate that the additional economic activity generated from the higher earnings of IHSS workers in California would likely be in the range of \$6 million, (0.5 x \$12.6 million).

To estimate the income and sales tax from that additional \$6 million, I use the CBPs estimate that those taxes add up to 5.5 percent of the income among middle-income households. That is, this economic activity would generate about \$350,000 in additional revenue (0.055 x \$6 million).

In total, California could expect an additional \$1.2 million (i.e., \$850,000 + \$350,000) in tax revenue due to the increase in federal spending on IHSS earnings of about \$12.6 million.

10. List of Sources for Living Wage Ordinances

Detailed information about living wage ordinances must be collected from a variety of sources since no central information hub with all the items listed in Table 1 exists. The sources include:

- *Living Wages and Communities: Smarter Economic Development, Lower than Expected Costs* by Andrew J. Elmore (New York: Brennan Center for Justice, 2003).
- *Taking the High Road: Communities Organize for Economic Change* by David B. Reynolds (Armonk, NY: M.E. Sharpe, 2002).
- *Policy Effect Analysis of the Proposed Amendment to the Living Wage Law in New Haven* prepared by the Committee on Economics, Roosevelt Institution at Yale, April 2005. Committee Members: Alexander Bartik, Chair, Eric Kafka, Ross Kennedy-Schaffer, Greg Lipstein, Jesse Wolfson. Available at: [http://www.rooseveltcampusnetwork.org/sites/all/files/Living_Wage_Briefing_Sheet_Roosevelt_\(final_format\)_in_word.doc](http://www.rooseveltcampusnetwork.org/sites/all/files/Living_Wage_Briefing_Sheet_Roosevelt_(final_format)_in_word.doc); accessed Nov. 2013.
- “City Council Agenda Report Re: Living Wage Ordinance, One Year Status,” by Cynthia Kurtz, Pasadena City Manager, Feb. 7, 2000. Available at: http://ww2.cityofpasadena.net/councilagendas/agendas/fe_07_00/10a.pdf; accessed Nov. 2013.
- San Jose City Resolution No. 76653, “A Resolution of the Council of the City of San Jose Approving Revisions to Council Policy 3-3 Relating to Living Wage,” 5/20/2013. Available at: <http://www.sanjoseca.gov/documentcenter/view/18806>; accessed Nov. 2013.
- Hayward Municipal Code, “Article 14: Hayward Living Wage Ordinance.” Available at: <http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/CITY-CLERK/MUNICIPAL-CODE/LivingWageOrdinance.pdf>; accessed Nov. 2013.
- *Living Wage Laws in Practice*, by Mark Brenner and Stephanie Luce (Amherst, MA: Political Economy Research Institute, 2005).
- *Wages, Benefits, Poverty Line, and Meeting Workers’ Needs in the Apparel and Footwear Industries of Selected Countries*, Alexis M. Herman, Secretary, U.S. Department of Labor; and Andrew J. Samet, Deputy Under Secretary, Bureau of International Labor Affairs. (Washington DC: U.S. Department of Labor and Bureau of International Labor Affairs, 2000).
- “Berkeley’s Living Wage Ordinance Is Upheld in Federal Appeals Court,” by Henry Weinstein, *LA Times*, June 17, 2004.
- “The Living Wage Movement. What Is It, Why Is It and What’s Known about Its Impact?” by Jared Bernstein. In *Emerging Labor Market Institutions*

for the Twenty-First Century (pp. 99-140), Richard B. Freeman, Joni Hersch and Lawrence Mishel, eds. (Chicago, IL: University of Chicago Press, 2004).

ENDNOTES

¹ For a listing of living wage ordinances, see the National Employment Law Project's website, "Local Living Wage Laws and Coverage." See: <http://www.nelp.org/page/-/Justice/2011/LocalLWLawsCoverageFINAL.pdf?nocdn=1>; accessed August 2014.

² I am grateful to Marty Bennett of North Bay Jobs with Justice, Nicholas Peraino of SEIU 1021, and Benigno Delgado of SEIU UHW for furnishing the details about the proposed living wage ordinance and for their comments on an earlier draft. At the same time, this study was prepared at PERI as an independent research project. Neither Mr. Bennett, Mr. Peraino, Mr. Delgado, nor anyone else at North Bay Jobs with Justice or SEIU exercised any authority over the final contents of the study. This study also benefitted from the comments of my PERI colleague Robert Pollin. Emily Bloch, PERI Communications Director, produced the polished appearance of this report.

³ This basic family budget is based on the Economic Policy Institute's (EPI) Family Budget Calculator. See: <http://www.epi.org/resources/budget/>; accessed Aug. 2014. Another similar measure, the Basic Family Budget published by the California Budget Project (CBP) suggests that the basic needs of a family of three may be even higher. The CBP does not produce a measure specifically for the average 3-person family, but its measure for a 4-person family is about 20 percent higher than EPI's. See: <http://www.cbp.org/MakingEndsMeet/>; accessed Aug. 2014.

⁴ There are four aspects of the proposed living wage ordinance I have not incorporated in this fiscal analysis.

First, I do not account for the coverage limit to employees working at least two hours weekly on covered contracts. Second, I do not differentiate between for-profit and non-profit County service contractors. The latter has a higher contract threshold level of \$50,000. My calculations assume coverage of all contracts that exceed the lower threshold of \$20,000. Third, I do not exclude small firms. The proposed ordinance will only apply to for-profit firms with at least six workers and non-profit firms with at least 25 workers. These omissions have the effect of over-estimating the actual fiscal impact.

Fourth, I do not account for the paid sick leave requirement that includes 12 days of paid time off. For the average firm, the cost of providing this benefit will likely be negligible since across industries, the majority of employers already provide some paid sick days. Moreover, survey data suggests that when workers do have paid sick days they typically use fewer than they are allowed (see for example, Drago and Lovell, 2011). For In-Home Supportive Service workers, the cost associated with this benefit will likely increase County costs in the range of \$500,000 (see Technical Appendix for details). This amounts to 0.1 percent of Sonoma County's General Fund FY2014-15.

If I took account of the coverage limits described above, this would offset the \$500,000, so that the net cost increase would be an even smaller amount. Therefore, the paid sick day provision will not significantly change the fiscal impact conclusions of this report.

⁵ These figures are taken from the FY2014-15 Recommended Budget for Sonoma County. See: http://www.sonoma-county.org/auditor/pdf/fy_2014-2015_recommended_budget.pdf; accessed August 2014. The General Fund includes all funds for the general operation of the County.

⁶ In 2013, the population of Sonoma County was 495,000 and the average household included 3 people. Based on these figures I approximate that Sonoma County has approximately 165,000 households. U.S. Census Bureau: State and County QuickFacts, 2013 (see: <http://quickfacts.census.gov/qfd/states/06/06097.html> ; accessed August, 2014).

⁷ IHSS is a Medi-Cal program that provides services to low-income individuals who might otherwise be placed in a facility when they are unable to care for themselves in their own home. IHSS is an entitlement program.

⁸ Eight studies provide cost increase estimates by industry: 1) Pollin, Brenner, and Wicks-Lim, 2004; 2) Pollin, 2005, 3) Pollin and Wicks-Lim, 2006; 4) Pollin et al. 2008 (chapter 5); 5) Pollin and Brenner, 2000, 6) Aaronson, French, and MacDonald, 2008; 7) Lee, Schluter and O’Roark, 2000; and 8) Pollin et al., 2008 (chapter 4). See Technical Appendix for further details.

⁹ Note that this is the *average* across County contractors. Some contractors that rely on a large proportion of low-wage workers will have significantly higher cost increases (e.g. janitorial services). At the same time, other contractors that rely primarily on high-wage workers (e.g., legal or architectural services) will have basically no cost increases. See Technical Appendix for further details.

¹⁰ Several studies document the variety of channels by which businesses have adjusted to their higher labor costs, including those listed here. See Brenner and Luce (2005) and Hirsch et al. (2011).

¹¹ See for example, studies by Dube et al. 2011 and Fairris et al., 2005.

¹² See Elmore (2003, p. 8).

¹³ SEIU 1021 submitted a request for data on service contracts in excess of \$20,000 and shared the data they received from the County for calendar year 2012.

¹⁴ I used this same methodology to analyze Milwaukee County’s living wage proposal (since adopted in July 2014). At about the same time that I produced my report (Wicks-Lim, 2013), the County’s Comptroller’s office produced its own fiscal impact assessment, including an estimate of the potential rise in County service contract costs. My estimates lined up squarely with the County Comptroller’s.

In particular, the County’s estimate indicated that contract costs would potentially rise by an amount equal to 0.12 percent of Milwaukee County’s total budget (\$1.7 million contract cost increase/\$1.4 billion budget = 0.12 percent). I estimated that the cost increase to contractors would be exactly the same size (0.12 percent of the overall budget) but I assume that the contractors would only pass through half of their cost increases. The County Comptroller, on the other hand, assumed that contractors would fully pass through their cost increases to the County. As I note in the main text of that report, that assumption does not reflect the actual experience of other municipalities’ experience with living wage ordinances as reported by public administrators (Elmore, 2003).

¹⁵ SEIU researcher Nicholas Peraino consulted with County government officials fulfilling his public records request to identify the 19 leases likely to be covered by the proposed living wage ordinance.

¹⁶ I have no information about gross receipts of the businesses holding leases with the County.

¹⁷ In each of these industries, payroll typically takes up 50 percent or less of sales revenue (see Wicks-Lim and Thompson, 2010). That means that all other costs, including rent, make up 50 percent or more of their sales. If these firms pass along half of their cost increases onto their consumers through higher prices (or service fees), they will need to offset the remainder of their higher labor costs by finding savings in other areas. I assume that these mainly come from sources aside from payroll, i.e., businesses absorb half the cost increase through savings in areas aside from payroll. If spread evenly across these other sources, the costs savings from each source would be roughly in proportion to the overall cost increase.

¹⁸ This figure is the mean business cost increase across the following industries: arts and entertainment, restaurants, hotels, retail, and health services. I do not have sufficient data to weight these industries by contract size.

¹⁹ According to a financial consulting firm that specializes in municipalities, Pioneer Consulting Group, Inc., “An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange

for goods or services. Under enterprise accounting, the revenues in expenditures of services are separated into separate funds with its own financial statements, rather than commingled with the revenues and expenses of all other government activities.” See: http://www.municipalconsultants.net/enterprise_fund_accounting_systems.aspx, accessed August 2014.

²⁰ The FY2013-14 Adopted City Budget lists about 34 FTE positions for the Fairgrounds department. The 600 temporary fair workers typically work 8 hours/day for 16 days. Multiplying these figures out the 34 FTE workers would work a total of about 71,000 hours in a year (34 FTEs x 40 hours/week x 52 weeks/year) and the 600 temporary workers would work a total of 77,000 hours (600 workers x 8 hrs/day x 16 days/year).

²¹ This \$9.9 million estimate of total revenue comes from the County’s proposed FY2014-15 budget.

²² See the SCF’s website: <http://www.sonomacountyfair.com/about.php>; accessed August 2014.

²³ Winer and Tully, 2013.

²⁴ This aspect of business assistance clauses has been in debate in the economic research literatures (Pollin et al. 2008, Lester and Jacobs, 2010; Neumark et al. 2012). These mixed findings suggest, at minimum, that the number of businesses directly affected by living wage assistance clauses is unclear and unlikely to be extensive.

²⁵ Take for example, the type of firms that receive below-market loans from the Sonoma County’s Redevelopment program: affordable housing developers. These employers typically do not staff their businesses with low-wage workers. In a survey of firms that would potentially be covered by a similar clause in a 2003 Sebastopol City \$14.00 living wage proposal, UC Berkeley researcher Peter Hall identified only one worker at the Burbank Housing Development Corporation with wages low enough to be affected by the proposed ordinance (see Hall, 2003).

²⁶ See discussion of how businesses can be categorized based on whether they compete with other businesses primarily within or outside their local market in Ch. 4 of Pollin et al. (2008, pp. 56-61).

²⁷ For the list of positions for permanent County staff, see the County’s Recommended Budget for FY2014-15.

²⁸ The original impetus for this program, in 1973, came from advocates from disabled adult community who wanted a way to live more independent lives by remaining in their own homes, instead of in an institutional setting (Heinritz-Canterbury, 2002).

²⁹ These costs are broken out by County in the CDSS (2013). See: <http://www.cdss.ca.gov/cdssweb/entres/localassistanceest/May13/AuxiliaryTables.pdf>; accessed August 2014.

³⁰ In 1996, California’s Little Hoover Commission, an independent state oversight agency, identified both IHSS caregivers’ low wages and high turnover rate as key factors in lowering the quality of care provided by the IHSS program in its report, “Long-Term Care: Providing Compassion Without Confusion.” (See: <http://www.lhc.ca.gov/studies/140/report140.pdf>, accessed August 2014.)

³¹ According to the May 2013, BLS OES survey, the 90th wage percentile for personal care aides in Santa Rosa MSA (the geographic equivalent to Sonoma County) was \$14.52.

³² CDSS (2013).

³³ SEIU-UHW provided this hourly wage rate for the current fiscal year.

³⁴ California Legislative Analyst’s Office, 2013. “The 2013-14 Budget: Analysis of the Health and Human Services.” See: <http://lao.ca.gov/analysis/2013/ss/hhs/health-human-services-022713.aspx>, accessed August 2014.

³⁵ This figure is the FY2012-13 MOE figure of \$13.6 million (CDSS, 2013) inflated by 3.5 percent starting in FY2014-15, or \$14.1 million.

³⁶ Researchers of the long-term care industry widely accept that disabled and elderly adults prefer to live at home. John Hopkins University School of Nursing researchers, for example, state, “Most older adults strongly prefer to live at home, but limitation in multiple basic or instrumental activities of daily living (ADLs or IADLs) is the leading modifiable predictor of nursing home admission.” (See: http://nursing.jhu.edu/faculty_research/research/projects/capable/abstract.html , accessed August 2014.)

³⁷ This is at an overall compensation rate of \$17.40, which includes a wage rate of \$15.00 plus employer taxes, benefits and administrative costs.

³⁸ See U.S. Department of Human and Health Services data base at: <http://longtermcare.gov/cost-of-care-results/?state=US-CA#>; accessed August 2014.

³⁹ This includes the \$102,000 annual expense of the average semi-private room at a Sonoma County nursing care facility minus the typical \$9,700 more in SSI/SSP payment such individuals receive when living at home.

⁴⁰ The difference between the two savings amounts reflect the federal government’s greater level of support in the form of SSI payments for low-income elderly and disabled adults when they are living at home.

⁴¹ See Technical Appendix.

⁴² See Technical Appendix.

⁴³ In order to qualify for these services, they must: (1) need a high level of care—enough that in the absence of IHSS services they would need to live in a nursing home setting; and (2) qualify for Medi-Cal (California’s Medicaid program). For a single adult, his/her income must fall below 130 percent of the Federal Poverty Level (about \$14,400 in 2014).

⁴⁴ My estimates fall broadly in line with other earlier studies of proposed living wage ordinances for three different cities in the region: Petaluma (Mayer and Zabin, 2006), Sebastopol (Hall, 2003), and Sonoma (Harris and Hall, 2004). Each study examined the impact of a living wage—about double the state minimum wage of \$6.75 at the time. The fiscal impact estimates of these proposals ranged between 0.1 percent and 0.9 percent of the municipalities’ total budgets.

⁴⁵ These wages come from the May 2013 release of the Occupational Employment Statistics data from Labor Department’s Bureau of Labor Statistics.

⁴⁶ This is a slightly different measurement since Howes’ mean 10th wage percentile would weigh equally the 10th wage percentile of each occupation, whereas I calculated the 10th wage percentile for all occupations pooled together. For my measure, occupations with higher employment levels will have greater influence on this measure.

⁴⁷ See p. 39 “Result” section of Howes (2011).

⁴⁸ See “average monthly caseload” for FY2013-14 (CDSS, 2013).

⁴⁹ Howes (2011).

⁵⁰ The remaining 23 percent responded “I don’t know.” See Howes (2011, Table 4, p. 42).

⁵¹ Howes’ 2011 study estimates a 37 percent IHSS annual turnover rate for Santa Cruz in 2009 and a 38 percent turnover rate for 2011 (see p. 39).

⁵² For number of nursing home beds, see Long Term Care Ombudsman website (see: <http://senioradvocacyservices.org/ombudsman-facts-0>; accessed August, 2014). The figure of 1,687 beds on this website is in line with the number of nursing home residents (estimated by the Kaiser Commission: <http://kff.org/other/state-indicator/number-of-nursing-facility-residents/>) likely to reside in Sonoma County and live in a nursing care facility.

⁵³ The average length of stay and share of nursing home residents relying on Medicaid funding in the Western region comes from the CDC's 2008 data tables on nursing care facilities (see:

http://www.cdc.gov/nchs/data/nnhsd/Estimates/nnhs/Estimates_PaymentSource_Table.s.pdf; accessed August 2014).

⁵⁴ See Howes (2012, Table 7.6, p.171).

⁵⁵ I calculate the lower bound of this range by doing the following: annual earnings = \$19,500/1.29, or \$15,145.

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