

**THE IMPACT OF A LIVING WAGE  
ORDINANCE ON THE CITY OF MIAMI**

**by Bruce Nissen and Theodore Carrasco  
Florida International University**

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## EXECUTIVE SUMMARY

### I. Proposed Living Wage Ordinance for the City of Miami

A coalition of local organizations and individuals has urged the city of Miami to pass a living wage ordinance to raise the wages of the lowest paid workers on the city's payroll and on the payrolls of the city's contractors. Miami-Dade County, Miami Beach, Broward County, and others have passed such ordinances. A living wage ordinance ordinarily requires that wages be paid at or above the poverty line for a family of four, and that health care coverage (or its equivalent in monetary payment) be provided.

This study assumes that a city ordinance would closely parallel the Miami-Dade County ordinance. The proposed ordinance would cover (1) all employees of the city, and (2) employees of locally based service contractors conducting city business through a contract with the city. The required pay levels would be \$9.25 per hour if health care coverage is provided, and \$10.59 per hour if it is not. This amount would be adjusted yearly for inflation. We use these pay levels as "baseline" hourly wage figures, and also calculate costs for a few intermediate levels of \$9.50, \$10.00, and \$10.50 per hour.

### II. Previous Research on Living Wage Ordinances

Research on what has occurred elsewhere after implementation of living wage ordinances is briefly reviewed. Two studies of Baltimore, one of the cities of Boston, New Haven, and Hartford, and one of a number of California cities are reviewed. All deliver positive assessments: costs to the city rise very little or sometimes even decline, poverty is reduced, "disemployment" (increased unemployment) impacts are insignificant, etc. No major negative impacts have been found (as opposed to predicted), to the best knowledge of the authors.

### III. Likely Costs to the City of Miami of a Living Wage Ordinance

Analysis reveals that **43 city contracts**, costing a little over **\$6 million**, would be covered by the proposed ordinance. Using a methodology relying on government statistics for Miami, we estimate the number, types, and pay levels of city contractor employees who would win wage increases under a living wage ordinance. We find that nearly 58 FTEs of city contractors would win wage increases, depending on the pay level chosen. These workers are in a wide variety of industries. Depending on the pay level chosen, final **increased payroll costs to these contractors range from \$371,315 (at \$9.25/hr.) to \$448,429 (at \$10.59/hr.) per year**. The following table gives details:

<b>Total costs to contractors at various living wage amounts</b>			
Living Wage	Wage Increase	FICA Increase	Total
\$9.25/hr.	\$344,928.83	\$26,387.06	<b>\$371,315.89</b>
\$9.50/hr.	\$364,320.24	\$27,870.49	<b>\$392,190.73</b>
\$10.00/hr.	\$393,031.18	\$30,066.89	<b>\$423,098.07</b>
\$10.50/hr.	\$413,002.78	\$31,594.72	<b>\$444,597.50</b>
\$10.59/hr.	\$416,562.76	\$31,867.06	<b>\$448,429.82</b>

Analysis of city payrolls reveals that **between 404 city employees (220 part-time and 184 full-time) and 512 (285 part-time and 227 full-time) would receive pay increases**, depending on the pay level chosen. Additional payroll costs to the city range from \$1.74 million to \$3.03 million, depending on the pay level chosen. The following table gives details.

<b>Total city employee pay increase costs</b>			
Living Wage	Part-time	Full-time	Total
\$9.25/hr.	\$1,157,410.08	\$584,701.41	<b>\$1,742,111.49</b>
\$9.50/hr.	\$1,279,232.21	\$690,744.12	<b>\$1,969,976.33</b>
\$10.00/hr.	\$1,522,876.45	\$912,881.39	<b>\$2,435,757.84</b>
\$10.50/hr.	\$1,780,015.59	\$1,155,448.16	<b>\$2,935,463.75</b>
\$10.59/hr.	\$1,827,158.87	\$1,201,193.38	<b>\$3,028,352.25</b>

Combining the last two tables, we arrive at total additional payroll costs to all employers, should a living wage ordinance be passed and implemented.

<b>Total additional payroll costs at differing living wage rates</b>			
Living Wage	Contracts	Employees	Total
\$9.25/hr.	\$371,315.89	\$1,742,111.49	<b>\$2,113,427.38</b>
\$9.50/hr.	\$392,190.73	\$1,969,976.33	<b>\$2,362,167.06</b>
\$10.00/hr.	\$423,098.07	\$2,435,757.84	<b>\$2,858,855.91</b>
\$10.50/hr.	\$444,597.50	\$2,935,463.75	<b>\$3,380,061.25</b>
\$10.59/hr.	\$448,429.82	\$3,028,352.25	<b>\$3,476,782.07</b>

#### **IV. Analysis and Conclusions**

There are two likely sources of cost reductions from the above figures as well as two likely sources of cost increases. The potential cost reductions come from (1) an “efficiency wage” effect, whereby efficiency will increase at the higher wage through reductions in employee turnover, absenteeism, tardiness, and the like; and (2) contractors not passing through to the county the entire additional labor costs. Both of these will likely reduce the final cost, but we do not put a magnitude on these factors in this study.

The potential increased costs come from (1) monitoring costs for the city, which will use city personnel to implement and monitor the ordinance, and (2) “ripple effect” costs, to the extent that employers grant wage increases beyond those required by the ordinance itself. Again, we do not attempt to quantify these additional costs in this study, but we emphasize that both of these

factors are under the city's control and are not mandatory under an ordinance. If the city chooses to handle both issues wisely, additional costs can be greatly minimized.

In the estimation of the authors, the additional potential savings and the additional potential costs will largely cancel each other out, so we stick by the figures in the final table above as the most likely costs of a living wage ordinance. These **costs range from a little under 7/10 of one percent of the city's personnel budget to slightly over 1.1% of that budget.** Where the final cost would fall depends on how many of the employees winning pay increases already have health insurance coverage – the more that do, the lower the cost and the less that do, the higher the cost. **Our own estimate is that the final cost will be approximately \$3 million per year, a little under 1% of the city's present personnel budget.**

Whether the benefits of a living wage ordinance justify this small cost is a political decision for the Miami City Commissioners to make. In our estimation, the well known anti-poverty benefits and the small cost make adoption of a living wage ordinance a very attractive option.

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## INTRODUCTION

A coalition of local organizations and individuals has urged the city of Miami to pass a living wage ordinance to raise the wages of the lowest paid workers on the payroll of the city and its contractors. Miami-Dade County, the city of Miami Beach, Broward County, and several other municipalities across the state of Florida have already passed such ordinances. A living wage ordinance ordinarily requires that wages be paid at or above the poverty line for a family of four, and that health care coverage (or its equivalent in monetary payment) be provided.

To date, despite expressed interest from the city's mayor and several city commissioners, no action has been taken on this request. One important piece of information that public officials have asked for is what the likely cost of such an ordinance would be. One of the authors of this report was approached with a request to undertake a study of the costs and benefits of passage of such an ordinance. Thanks to a generous grant from the Dade Community Foundation (administering a local grant program for the Knight Foundation) and a supplemental grant from the Community Coalition for a Living Wage (CCLW), we were able to undertake such a study.\* The following is a brief study of the likely impact of a living wage ordinance on the city of Miami. Emphasis has been given to the costs involved, although city officials should bear in mind the benefits such an ordinance is also likely to bring the city and its inhabitants.

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\* We thank the Dade Community Foundation and the CCLW for their financial support. However, neither bears any responsibility for the analysis or the results contained in this report. Likewise, neither was given any influence over, or knowledge of, the methodology employed in the report or in the conclusions reached.

The study is based on the assumption that a city ordinance would closely parallel the ordinance already in place since 1999 for Miami-Dade County. Thus, we assume that the ordinance would cover (1) all employees of the city, and (2) employees of locally based service contractors conducting city business through a contract with the city. We assume that required hourly pay levels will be comparable to those of the county's ordinance, which are adjusted yearly to keep up with increases in the cost of living. Currently the county's required pay levels are \$9.25 per hour if health care coverage is provided, and \$10.59 per hour if it is not. We use these pay levels as "baseline" hourly wage figures, and also calculate costs for a few intermediate levels of \$9.50, \$10.00, and \$10.50 per hour.

#### THEORETICAL ARGUMENTS ABOUT A LIVING WAGE

Arguments concerning living wage ordinances are similar to those concerning minimum wage legislation. Proponents argue that workers at the lowest wages cannot earn an adequate income unless the government sets a "wage floor"; the wealth of the country is being more unevenly and inequitably divided; that "living wages" keep families intact and are supportive of strong families; workers gain greater self sufficiency; that the government gains because of lowered need for social services; communities gain through increased consumer spending in the community; and that even employers gain through higher morale and efficiency with lower turnover of employees.

Opponents tend to rely on the ideological belief that the market should be the ultimate determinant of economic distribution; they see any deviation from a strictly "free market" approach as creating distortions and inefficiencies. Beyond purely ideological arguments, they argue that a living wage ordinance will cost the government too much; that it will likely lead to unemployment; administrative costs will be huge; competition for city contracts will decrease;

and that the "wrong signal" will be sent to the business community, thus discouraging investment in the area.

This report will not enter into the ideological debate, but will confine itself to the likely empirical effects of passage of a living wage ordinance. Much of the previous research on living wage ordinances gives some indication of the likely impacts.

### PREVIOUS RESEARCH ON LIVING WAGE ORDINANCES

To date over 110 municipalities and counties and other public entities in the United States have passed living wage ordinances, and a fair amount of research has been done on living wage impacts. They break down into two types: prospective studies, such as the present one, that predict the likely impact if a living wage ordinance is passed, and retrospective studies, which look back at the actual impact after passage.

Both types of studies are valuable, but of course the retrospective ones are probably the most valuable because they tell you what actually happened, as opposed to future projections of what will happen. Predictions of the future inevitably rely on assumptions, and are therefore less likely to be entirely reliable.

This study cannot review all the studies conducted on living wage ordinances. The interested reader is referred to several web sites that contain a large number of them.<sup>1</sup> Here we will confine our attention to the main “after-the-fact” retrospective studies, because they are the most reliable and most important.

Two studies looked at the impact of the Baltimore living wage ordinance, passed in 1994. The first study, conducted in 1996, examined the impact after one year in operation (Weisbrot

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<sup>1</sup> Three sources giving listings of such studies (two with a favorable view toward living wage ordinances and one with an extremely negative view) are the following: [www.umass.edu/peri/resources/livingwages.htm](http://www.umass.edu/peri/resources/livingwages.htm), [www.epinet.org/content.cfm/issueguides\\_livingwage\\_livingwage](http://www.epinet.org/content.cfm/issueguides_livingwage_livingwage), and [www.epionline.org/lw\\_publications.cfm](http://www.epionline.org/lw_publications.cfm).



and Sforza-Roderick, 1996). The study found evidence supporting nearly all of the claims of proponents, and was unable to find any of the negative consequences predicted by opponents.

Main findings were:

- \* The real cost of city contracts actually decreased after the ordinance went into effect. For the average contract (weighted by its share in the sample), this decline was statistically significant.
- \* Of companies interviewed that held contracts before and after enactment of the law, none reported reducing staffing levels in response to the higher wage requirements.
- \* The cost to taxpayers of compliance has been minimal, with the city allocating about 17 cents per person annually for this purpose.
- \* The average number of bids per contract declined from 1994 to 1995, but this decline was not statistically significant, nor did it affect the competitiveness of the bidding process as manifested in actual contract costs.
- \* There is no evidence that businesses have responded negatively to the passage of the ordinance. In fact, the value of business investment in the City of Baltimore actually increased substantially in the year after passage of the law.

The second study examined the impact after two years of operation (Niedt, Ruiters, Wise, and Schoenberger, 1999). The overall conclusions were similar to those of the previous study:

- \* The living wage ordinance has had positive effects on a relatively small number of workers in Baltimore without significant financial cost to the City.
- \* Due to the prevalence of part-time and seasonal work, however, living wages do not always amount to living incomes. Greater consideration must be given to increasing and stabilizing hours worked.
- \* The small financial impact on the city suggests that living wages could be paid more generally in the private and non-profit sectors with a relatively low impact on costs and competitiveness.
- \* Evidence suggests that higher wages and hours improve the stability and reliability of the workforce.
- \* Non-compliance in terms of paying the living wage and/or providing adequate payroll documentation remains a significant problem, affecting the impact of the living wage ordinance and our ability to analyze that impact.
- \* The benefits of the living wage may be threatened by the effects of welfare reform.

These two studies indicate that the more ideological arguments against a living wage ordinance are not well founded. Another study examining the impact of living wage ordinances on Boston, New Haven, and Hartford found that the cost to the city of covered contracts actually fell in the vast majority of cases (Pollin, 2003). This does not, of course, mean that the living wage requirement caused the decrease in costs (although that is theoretically possible, through “efficiency wage” effects making the higher paid workforce more efficient), but it does indicate that any increased costs were so small that they were outweighed by other factors causing overall costs to decrease.

A retrospective study of a number of California cities with living wage ordinances found that they were effective in substantially raising the wages of covered workers, and had an impact on reducing urban poverty (Neumark, 2002). The author, David Neumark, is a well known opponent of minimum wage legislation, so his findings surprised him. Neumark found a small insignificant “disemployment” effect, meaning that a slight decline in jobs occurred. He had expected this disemployment impact to be much larger than the insignificant amount he discovered.

Thus far the retrospective studies have been overwhelmingly positive. Despite this positive evidence, a prudent public official will still want to know the likely cost if a local living wage ordinance is passed. In this study, we will use very conservative assumptions so that any errors in prediction will be on the side of overstating costs, not understating them. The actual cost to the city is likely to be less than our final projection, but we feel it is safer to err on the side of caution.

## LIKELY COSTS OF A LIVING WAGE ORDINANCE

In assessing the effects of implementing a living wage ordinance, one must ask the following questions:

- Who benefits from the new wage standard and how much?
- How much will a living wage cost city of Miami?

The first step is to identify the benefactors. The primary benefactors would of course be individuals earning less than the designated “living wage” either as municipal employees or as workers for contractors used by the city in service industries (janitorial, landscaping, security guard, etc). The families of these individuals would also benefit. The city and its citizens may benefit through a decrease in the level of poverty and all the attendant ills that come with poverty (crime, welfare dependence, etc.) Taxpayers may also benefit from savings through not having to provide health care and public assistance to those now able to support themselves. And even the contractors employing these individuals may benefit through a more reliable and motivated workforce: absenteeism, tardiness, labor turnover, and the like decrease when rates “above the going rate” are paid.

Assuming the ordinance was implemented, to whom would the burden fall? For the increased costs of higher wages and benefits for direct city employees, the burden obviously falls on the city’s budget. For the private contractors, the limited evidence we have to date indicates that they are likely to pass some of any increased costs on to the city, but not all. Those not passed on are handled through internal adjustments within the firm. However, for the purposes of this study we will make a “worst case” assumption for the city: that all additional costs to the contractors will be passed through to the city. We will also, until the end of the analysis, ignore any “efficiency wage” savings, although available evidence indicates that they do exist. In other

words, we rely on pessimistic assumptions, to make certain we are not underestimating costs to the city.

The remainder of this study will calculate costs to the city, should it pass and implement a living wage ordinance with the “living wage” set at levels between \$9.25 per hour and \$10.59 per hour. First we will consider the increased cost of paying employees of service contractors with the city a living wage. Then we will consider increased direct costs to the city’s payroll from paying all of its employees a living wage.

#### *City Contract Workers*

To determine increased cost of city contracts, we filtered all services contracts from a list detailing every open city contract in the calendar year 2004, which was provided by the City of Miami Purchasing Department. Of the 306 open contracts, the authors sorted each for service-only contracts with contractors located in Miami-Dade County or neighboring counties. This ultimately left 43 contracts.

Many contracts were for time periods other than one year in length. In these cases, the costs were annualized the following two ways:

- In the case where contracts were awarded in years, the total amount awarded was divided by the number of years the contract was to be active.
  - o  $contract\ amount / contract\ years = annualized\ cost$
- Where contracts were awarded for specific months, the total amount awarded was divided by the number of months and multiplied by 12.
  - o  $(contract\ amount / contract\ months) (12) = annualized\ cost$

**Overall, the city’s total cost for the 43 service contracts is \$6,020,004.34.**

From these 43 contracts, Standard Industrial Classification (SIC) and North American Industry Classification System (NAICS) codes were assigned based on the contract descriptions to specify which industry the contract serves as listed by the U.S. Census.

(<http://www.census.gov/epcd/www/econ97.html>) Both SIC and NAICS codes needed to be used

since the Census began using NAICS codes in 1997 to classify industries. The Census, however, provides a bridge to link the SIC codes to NAICS.

(<http://www.census.gov/epcd/www/naicstab.htm>) To ensure the assigned codes were correct for every contract, each was verified with the vendors' registered codes as listed in the Florida Business Directory (2004) and the Dun and Bradstreet Regional Business Directory for South Florida (2004). As a result, the following SIC/NAICS codes were used:

- 1711/235110 – Plumbing, Heating, and Air-Conditioning Contractors
- 1743/235430 – Tile, Marble, Terrazzo, and Mosaic Contractors
- 1795/235940 – Wrecking and Demolition Contractors
- 1796/235950 – Building Equipment and Other Machinery Installation Contractors
- 1799/235990 – All Other Special Trade Contractors
- 2951/324121 – Asphalt Paving Mixture and Block Manufacturing
- 7534/326212 – Tire Retreading
- 4151/485410 – School and Employee Bus Transportation
- 4499/488330 – Navigational Services to Shipping
- 7549/488410 – Motor Vehicle Towing
- 4215/492100 – Couriers
- 8734/541380 – Testing Laboratories
- 7363/561320 – Temporary Help Services
- 7381/561613 – Armored Car Services
- 7342/561710 – Exterminating and Pest Control Services
- 7349/561720 – Janitorial Services
- 0782/561730 – Landscaping Services
- 7217/561740 – Carpet and Upholstery Cleaning Services
- 4212/562111 – Solid Waste Collection
- 4953/562211 – Hazardous Waste Treatment and Disposal
- 1799/562910 – Remediation Services
- 7999/711310 – Promoters of Performing Arts, Sports, and Similar Events with Facilities
- 7537/811113 – Automotive Transmission Repair
- 7539/811118 – Other Automotive Mechanical and Electrical Repair and Maintenance
- 7532/811121 – Automotive Body, Paint, and Interior Repair and Maintenance
- 7536/811122 – Automotive Glass Replacement Shops
- 7534/811198 – All Other Automotive Repair and Maintenance
- 7629/811212 – Computer and Office Machine Repair and Maintenance

Aside from using the Census to classify industries, data reporting industry total receipts, salaries, number of establishments, and employees (part-time and full-time) was collected from the U.S. Economic Census website. (<http://www.census.gov/epcd/ec97/us/US000.HTM>) For

most industries, the data was extracted at the Miami PMSA level given that it provides the most accurate description of employment and industry activity as possible. In some cases, data was not reported at this level so state or national figures were used instead<sup>2</sup>.

To determine an approximate total of employment per \$100,000 in receipts, the following equation was used:

$$\frac{\#employees}{receipts} = \frac{x}{100000}$$

The number of employees was multiplied by 100,000 and divided by the total receipts. Aside from generating the industry's receipts per 100,000 employee totals, we converted the total employees earning less than the proposed living wage into full-time equivalent (FTE) totals using the equation below:

$$(\text{mean hours worked} / 40) (\# \text{ of employees}) = \text{FTE}$$

FTE is equal to one person working full-time for an entire year. The mean hours were determined by taking the average number of hours reported by the Integrated Public Use Microdata Series (IPUMS) data for each industry and then divided by 40. This amount, multiplied by the total employees earning below the living wage levels, provides the FTE figures for each industry. The purpose of converting employee totals to FTE is simply for comparison purposes when dealing with part-time and full-time employee figures.

As noted, the FTE equation relies on data from IPUMS. IPUMS data consists of samples from U.S. Census data that focuses primarily on individual and household information. The 2000 5% Census PUMS sample was used to determine the hourly wage for employees of each

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<sup>2</sup> The following industries were not available at the Miami PMSA level:

- Florida – 235110, 235430, 235950, 235990, 324121
- U.S. – 235940, 326212
- IPUMS - 561720
- Dunn & Bradstreet - 561730

industry<sup>3</sup>. The purpose of using the industry variable is to match those respondents that worked in industries similar to the open contracts being examined in Miami. IPUMS does not provide an hourly wage for the workers. To calculate an hourly rate variable, the authors divided the worker's income by the number of weeks worked and then by the average weekly hours worked as illustrated by the equation below.

$$\frac{\left( \frac{\textit{income}}{\textit{weeksworked}} \right)}{\textit{hoursworked}}$$

While the sample does not list NAICS codes to six digits as the Census does, it offers NAICS codes between two and five digits<sup>4</sup>. The aim of using IPUMS data is to determine an average hourly wage and the proportion of workers earning less than the specific amounts. In this case, the specified living wage standards examined are \$9.25 and \$10.59 per hour to represent the upper and lower ends of the pay range with 50-cent intervals between \$9.50 and \$10.50 in between. Based on the average wages, one is able then to determine the average

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<sup>3</sup> The following variables were selected: (1) Miami/Hialeah Metropolitan Area, (2) if the respondent was in the labor force the previous year, (3) number of weeks worked, (4) number of hours worked, and (5) wage and salary income. (<http://beta.ipums.org/usa/>) State data from IPUMS was needed for industries 3241M and 32621 because there were not enough respondents available at the municipal level to develop an accurate estimate of the industry in the region.

<sup>4</sup> The industry codes used as listed by IPUMS are listed by code and industry description:

- 23 - Construction
- 3241M - Misc. Petroleum and Coal Products
- 32621 – Tires
- 485M - Bus Service and Urban Transit
- 488 - Services Incidental to Transportation
- 492 - Couriers and Messengers
- 5413 - Architectural, Engineering and Related Services
- 5613 - Employment Services
- 5616 - Investigation and Security Services
- 56173 - Landscaping Services
- 5617Z - Services to Buildings and Dwellings
- 561M - Other Administrative and Other Support Services
- 562 - Waste Mgmt and Remediation Services
- 711 - Performing Arts and Related Services
- 8111Z - Automotive Repair and Maintenance
- 8112 - Electronic Equip. Repair and Maintenance

increase cost. For comparison purposes, Table 1 shows the average hourly pay increase those below the living wage would gain, should an ordinance be passed at that level.

Table 1 Average hourly pay increases for each industry at differing “living wage” rates					
Industry	\$9.25/hr.	\$9.50/hr.	10/hr.	\$10.50/hr.	\$10.59/hr.
23 – Construction	\$2.94	\$3.20	\$3.33	\$3.55	\$3.57
3241M - Misc. Petroleum and Coal Products	\$2.25	\$2.50	\$3.00	\$2.07	\$2.16
32621 – Tires	\$2.87	\$3.12	\$3.33	\$3.40	\$3.49
485M - Bus Service and Urban Transit	\$2.64	\$2.69	\$2.92	\$3.28	\$3.31
488 - Services Incidental to Transportation	\$2.81	\$2.96	\$3.10	\$3.33	\$3.36
492 - Couriers and Messengers	\$2.72	\$2.97	\$2.92	\$3.08	\$3.10
5413 - Architectural, Engineering and Related Services	\$2.50	\$2.69	\$2.95	\$2.97	\$3.01
5613 - Employment Services	\$3.17	\$3.33	\$3.68	\$3.80	\$3.77
5616 - Investigation and Security Services	\$3.03	\$3.23	\$3.51	\$3.81	\$3.86
56173 - Landscaping Services	\$3.39	\$3.55	\$3.88	\$4.17	\$4.21
5617Z - Services to Buildings and Dwellings	\$3.33	\$3.51	\$3.85	\$4.24	\$4.31
561M - Other Administrative and Other Support Services	\$3.17	\$3.29	\$3.43	\$3.70	\$3.67
562 - Waste Mgmt and Remediation Services	\$3.24	\$3.49	\$3.49	\$3.56	\$3.44
711 - Performing Arts and Related Services	\$3.37	\$3.33	\$3.60	\$3.90	\$3.87
8111Z - Automotive Repair and Maintenance	\$2.92	\$3.06	\$3.26	\$3.47	\$3.53
8112 - Electronic Equip. Repair and Maintenance	\$2.97	\$2.63	\$2.48	\$2.98	\$3.07

From the information provided by the tables above, assuming that the labor demand remains constant, one could estimate the cost of implementing a living wage on the city’s service contracts. The first task was to determine how many FTEs were required to fulfill the services the contracts demanded. This was estimated by taking the FTE totals from the Census data and applying it to the following equation:



$$\frac{\text{industryFTErate}}{100000} = \frac{x}{\text{contract cost}} = \text{contractFTE}$$

The contract FTEs were then multiplied by the average hourly wage differences determined using the IPUMS data to show the hourly cost of raising employees in each industry to the living wage minimum.

Table 2 shows increased cost by industry, and total increased costs, at each possible level of the “living wage”. Table 1 was used to determine the costs by multiplying the contract FTE by the average increase. We assumed 2,080 hours per year worked (40 hours per week X 52 weeks per year). A 7.65% FICA (social security and Medicare tax) was aggregated to determine the final total cost for vendors to meet the living wage standard for all employees.

Table 2 Living wage costs by industry at differing “living wage” rates					
NAICS	\$9.25/hr.	\$9.50/hr.	\$10/hr.	\$10.50/hr.	\$10.59/hr.
235110	\$2,705.62	\$2,944.89	\$3,064.53	\$3,266.99	\$3,285.40
235430	\$882.12	\$960.13	\$999.14	\$1,065.15	\$1,071.15
235940	\$8,432.84	\$9,178.60	\$9,551.48	\$10,182.51	\$10,239.88
235950	\$1,849.83	\$2,013.41	\$2,095.21	\$2,233.64	\$2,246.22
235990	\$329.15	\$358.26	\$372.81	\$397.44	\$399.68
324121	\$89.45	\$95.16	\$114.20	\$78.79	\$82.22
326212	\$4,022.85	\$4,373.27	\$4,667.62	\$4,765.74	\$4,891.90
485410	\$5,934.92	\$6,047.33	\$6,564.38	\$7,373.69	\$7,441.13
488330	\$1,755.45	\$1,849.15	\$1,936.61	\$2,080.30	\$2,099.04
488410	\$4,265.93	\$4,493.65	\$4,706.18	\$5,055.35	\$5,100.89
492100	\$986.64	\$1,077.33	\$1,059.20	\$1,117.23	\$1,124.49
541380	\$143,113.35	\$153,989.97	\$168,873.76	\$170,018.67	\$172,308.48
561320	\$4,528.53	\$4,757.10	\$5,257.10	\$5,428.52	\$4,299.96
561613	\$61.06	\$65.09	\$70.73	\$76.78	\$77.79
561710	\$119.30	\$125.75	\$137.93	\$151.90	\$154.41
561720	\$60,537.46	\$63,809.74	\$69,990.74	\$77,080.72	\$78,353.28
561730	\$28,444.19	\$28,053.51	\$29,237.44	\$32,558.40	\$33,092.38
561740	\$24,312.75	\$25,460.25	\$27,826.98	\$29,906.83	\$30,193.70
562111	\$9,042.87	\$9,385.18	\$9,784.55	\$10,554.76	\$10,469.18
562211	\$486.07	\$523.57	\$523.57	\$534.07	\$516.07
562910	\$1,842.71	\$1,984.89	\$1,984.89	\$2,024.70	\$1,956.45
711310	\$15,818.46	\$16,881.15	\$17,023.23	\$17,484.52	\$16,948.55
811113	\$5,297.18	\$5,234.30	\$5,658.70	\$6,130.26	\$6,083.11

811118	\$1,451.49	\$1,521.08	\$1,620.50	\$1,724.88	\$1,754.71
811121	\$39,569.37	\$41,466.53	\$44,176.76	\$47,022.51	\$47,835.58
811122	\$849.97	\$890.72	\$948.94	\$1,010.07	\$1,027.53
811198	\$2,824.52	\$2,959.94	\$3,153.40	\$3,356.53	\$3,414.57
811212	\$1,761.83	\$1,690.76	\$1,697.47	\$1,916.53	\$1,962.07

Table 3 summarizes the total increased costs to contractors at each of the living wage levels discussed previously. The wage increase column represents the cost for contractors to increase their workers' wages in order to meet the living wage. Given that the full amount awarded by the city for service contracts is \$6,020,004.34, the payroll increase to meet living wage requirements would be a 6.17% at \$9.25 per hour or 7.45% at \$10.59 per hour addition to the city's current contract expenses. As for the impacts at \$9.50, \$10, and \$10.50 an hour, the increases are 6.51%, 7.03%, and 7.39% respectively.

Table 3 Total costs to contractors at various living wage amounts			
Living Wage	Wage Increase	FICA Increase	Total
\$9.25/hr.	\$344,928.83	\$26,387.06	<b>\$371,315.89</b>
\$9.50/hr.	\$364,320.24	\$27,870.49	<b>\$392,190.73</b>
\$10.00/hr.	\$393,031.18	\$30,066.89	<b>\$423,098.07</b>
\$10.50/hr.	\$413,002.78	\$31,594.72	<b>\$444,597.50</b>
\$10.59/hr.	\$416,562.76	\$31,867.06	<b>\$448,429.82</b>

*City of Miami Employees*

A list of every city employee earning less than \$12 per hour was collected from the Department of Employee Relations for the City of Miami. This list was used to assess the cost of increasing payroll to meet the same living wage levels examined for the city's contractors. The cost of implementing a living wage for the City's employees equals the sum of the differences between the living wage standard and each employee's hourly rates. This would determine the city's total cost on an hourly basis.

To attain a biweekly cost, each employee’s living wage difference was multiplied by his/her scheduled hours. The biweekly total was then multiplied by 26 to determine an annual cost. For the sake of accuracy, part-time and full-time employees were assessed separately.

Overall, there are 317 part-time and 327 full-time employees in the city as of January 2004 who are earning less than \$12 per hour. Table 4 shows the total number of employees earning below the living wage levels being examined. In total, **the city had 404 employees earning under \$9.25 per hour; 414 below \$9.50 per hour; 472 under \$10 per hour; 507 less than \$10.50 per hour; 512 below \$10.59 per hour.**

Living Wage	Part-time	Full-time
\$9.25/hr.	220	184
\$9.50/hr.	220	194
\$10.00/hr.	266	206
\$10.50/hr.	281	227
\$10.59/hr.	285	227

The **part-time employees** referred to in Table 4 have the following characteristics: **the 220 earning less than \$9.25/hr. and \$9.50/hr. earn an average of about \$6.35 per hour, and work an average of about 32.5 hours per week. The 266 earning less than \$10.00/hr. earn an average of \$6.87/hr., and average about 32.5 hours per week. The 281 and 285 earning less than \$10.50/hr. and \$10.59/hr. average \$7.03 and \$7.08 per hour respectively, and again average between 30 and 35 hours per week.**

The **full-time employees** referred to in Table 4 have the following characteristics: **all of them average 40 hours per week, and they earn on average \$7.83/hr., \$7.91/hr., \$8.02/hr., \$8.23/hr., and \$8.23/hr. at each of the respective “living wage” levels.**

Table 5 shows the costs of increasing part-time worker wages to meet the living wage. Included is an annual cost with the 7.65% FICA increase. At \$9.25 per hour, the FICA expense amounts to \$82,249.76, while at \$10.59 per hour, it sums to \$129,727.55.

Table 5 Living wage costs for City of Miami <b>part-time employees</b>				
Living Wage	Hourly	Biweekly	Annually	Annual Cost w/FICA
\$9.25/hr.	\$635.01	\$41,352.32	\$1,075,160.32	<b>\$1,157,410.08</b>
\$9.50/hr.	\$701.26	\$45,704.82	\$1,188,325.32	<b>\$1,279,232.21</b>
\$10.00/hr.	\$833.76	\$54,409.82	\$1,414,655.32	<b>\$1,522,876.45</b>
\$10.50/hr.	\$973.72	\$63,596.97	\$1,653,521.22	<b>\$1,780,015.59</b>
\$10.59/hr.	\$999.37	\$65,281.32	\$1,697,314.32	<b>\$1,827,158.87</b>

Table 6 demonstrates the costs of increasing full-time employee payroll to equal living wage standards in addition to the 7.65% FICA expense. At \$9.25 per hour, the FICA expense amounts to \$41,551.01, while at \$10.59 per hour, it sums to \$85,361.16.

Table 6 Living wage costs for City of Miami <b>full-time employees</b>				
Living Wage	Hourly	Biweekly	Annually	Annual Cost w/FICA
\$9.25/hr.	\$261.13	\$20,890.40	\$543,150.40	<b>\$584,701.41</b>
\$9.50/hr.	\$308.49	\$24,679.13	\$641,657.33	<b>\$690,744.12</b>
\$10.00/hr.	\$407.70	\$32,615.72	\$848,008.72	<b>\$912,881.39</b>
\$10.50/hr.	\$516.03	\$41,282.22	\$1,073,337.82	<b>\$1,155,448.16</b>
\$10.59/hr.	\$536.46	\$42,916.62	\$1,115,832.22	<b>\$1,201,193.38</b>

By adding the costs for both part-time and full-time employee, the city can obtain its total labor costs as presented in Table 7. The increased costs represent 0.56% of the city's personnel expenses in FY 2004 at \$9.25 per hour and 0.98% at \$10.59 per hour. (City of Miami, 2003)

Table 7 <b>Total city employee costs</b>			
Living Wage	Part-time	Full-time	Total
\$9.25/hr.	\$1,157,410.08	\$584,701.41	<b>\$1,742,111.49</b>
\$9.50/hr.	\$1,279,232.21	\$690,744.12	<b>\$1,969,976.33</b>
\$10.00/hr.	\$1,522,876.45	\$912,881.39	<b>\$2,435,757.84</b>
\$10.50/hr.	\$1,780,015.59	\$1,155,448.16	<b>\$2,935,463.75</b>
\$10.59/hr.	\$1,827,158.87	\$1,201,193.38	<b>\$3,028,352.25</b>

In conclusion, Table 8 provides the total additional payroll costs incurred if the city were to adopt the living wage. The total cost includes both municipal payroll costs and increased payrolls costs for service contractors.

Table 8 Total additional payroll costs at differing living wage rates			
Living Wage	Contracts	Employees	Total
\$9.25/hr.	\$371,315.89	\$1,742,111.49	<b>\$2,113,427.38</b>
\$9.50/hr.	\$392,190.73	\$1,969,976.33	<b>\$2,362,167.06</b>
\$10.00/hr.	\$423,098.07	\$2,435,757.84	<b>\$2,858,855.91</b>
\$10.50/hr.	\$444,597.50	\$2,935,463.75	<b>\$3,380,061.25</b>
\$10.59/hr.	\$448,429.82	\$3,028,352.25	<b>\$3,476,782.07</b>

These figures illustrate the total increased payroll costs to all employers. The authors believe this is an “upper end” estimate of what the total costs to the city could be, because it incorporates assumptions that maximize costs to the city beyond what is likely. For example, we assume that all additional contractor payroll costs will be passed on the city in the form of higher contract costs. As research elsewhere has demonstrated, often living wage ordinances do not result in any increased contract costs to the city adopting a living wage. Also, we made no allowance for an “efficiency wage” effect, although evidence indicates that there will likely be one. Workers who are paid “above the norm” tend to be absent less, tardy less often, less prone to quit, to have higher morale and to put in greater effort, etc. The savings from lower employee turnover alone will likely be substantial. None of these savings are incorporated into the calculations used to arrive at the above figures.

Of course there would be other benefits and savings to the city from adoption of a living wage policy. These “indirect benefits” would be very hard to quantify however, and we make no attempt to do so here. However, it is important to realize that workers who are able to pull

themselves out of poverty, perhaps afford the down payment on a modest home, provide for their own health care rather than relying on the emergency room of Jackson Memorial Hospital, send their children on to college rather than making them work to support the family, etc. become an asset to the city and the surrounding county, rather than a “drag” on it, both economically and in civic contributions to the community.

There could be additional indirect costs too, however. The two most significant are potential monitoring costs, and a “ripple” effect cost. Monitoring costs refer to the personnel expenses the city may incur in implementing and overseeing the living wage ordinance. Predicting the cost of this on Miami is difficult. It may cost next to nothing, if the city is able to assign living wage monitoring duties to existing city personnel already overseeing similar work. If the city would need to add additional personnel, costs may rise. We make no prediction of what the city would do in this regard – we only note that the cost could range anywhere from \$0 to \$200,000, depending on how elaborate the city chooses to be in its monitoring and oversight. Monitoring costs are not mandatory and it is up to the city’s discretion as to how the living wage initiative would be implemented and monitored.

The same is true for potential “ripple” effects. The ripple effect refers to pay increases that may be granted beyond what is required by the living wage ordinance. The city and/or city contractors may choose to do this to maintain some degree of pay differentials at the bottom of the wage structure between employees with different skills and/or length of employment. For example, if the new living wage floor is \$10 per hour, will an employer raise the pay of employees previously making \$6.50 per hour and \$9.75 per hour to \$10 per hour? Or will the employee previously making \$9.75 per hour get a larger increase, beyond that required by the law?

This is an issue that is up to employers to decide, but many of them (almost certainly the city) will decide to grant additional raises, to maintain a degree of pay differential. It is important to note here that a “ripple effect” pay increase is not mandatory. As long as the city pays contract and municipal employees at the legally mandated level, the extent of a ripple cost would depend solely on the city’s judgment.<sup>5</sup>

Determining the size of the ripple effect is perhaps the most challenging issue to address. Because this is entirely a discretionary matter for the city to decide, we can only recommend that the city keep ripple effects to a minimum, using a method similar to that advocated in footnote 5. Because there is no way to predict what the city will decide to do regarding “ripple effect” wage increases, we leave out any estimate here. (We do know that private contractors will make the ripple effect raises minimal, because market pressures will induce them to highly compress the wage differentials at the very bottom of the wage scale. So we are very confident that ripple costs will be very minimal for the city’s service contracts.)

If the city rationally addresses the monitoring and ripple costs, we are very confident that all increased costs will be completely offset by the efficiency wage and partial-pass-through cost savings. Therefore, we stand by the numbers in Table 8 as prudent estimates of total costs to the city, should it pass a living wage ordinance. With intelligent implementation, the costs could be lower – much lower, as experience elsewhere has shown.

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<sup>5</sup> While the final decision belongs to the city, the authors would recommend that the city consider implementing pay increases to those below the new living wage level in a manner that compresses, but maintains, the pay differentials. For example, starting with the lowest paid worker, if the new pay structure maintains a 2 cent pay differential for each 10 cent pay differential under the old pay structure, the pay increases would get progressively smaller as you move up the pay scale, eventually decreasing to \$0 at some point between \$1 and \$1.50 above the new “living wage” floor. Differential pay levels are maintained, additional costs are minimized, and the city avoids inadvertently paying wage increases to employees who are in a higher segment of the labor market than that of the living wage beneficiaries.

## SUMMARY AND CONCLUSIONS

**As illustrated, implementing a living wage in Miami at \$9.25 per hour could cost the city roughly \$2.1 million. The corresponding figure would be \$3.5 million at a \$10.59 per hour living wage rate. These figures represent 0.7% and 1.1% of the city's current personnel budget of \$309.38 million.**

This report has focused only on costs, not the benefits of a living wage ordinance. We find the costs to be rather small, in the vicinity of 1% of the city's personnel budget. If the city were to follow the pattern set by the Miami-Dade Living Wage Ordinance by requiring a wage of \$9.25/hr. if health insurance benefits are provided or \$10.59/hr. if they are not (indexed for inflation in later years), the final cost would end up somewhere between the \$2.1 million and \$3.5 million cost calculated at those two wage levels, depending on the number of covered employees who already are provided health insurance. Since some presently have health coverage and many do not, **the final cost is likely to be approximately \$3 million.** It could very well end up costing less than this, but budgeting for this amount would be prudent if the city wishes to be certain it can afford the cost.

Whether this cost is worth the many benefits of a living wage is a political decision for the Miami City Commission to make. This report has detailed the likely costs, which end up being rather small. In the estimation of the authors, the well known anti-poverty benefits and the small cost make adoption of a living wage ordinance a very attractive option.



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