A Living Wage for Sacramento

Assessing Benefits and Costs

The Living Wage in Sacramento could be set between $8.50 and $11.25. A family with a single worker currently earning the minimum wage will see an increase in purchasing power of $1,553 per year if the living wage is set at $8.50, or an increase of $2,824 if the living wage is set at $10. Direct costs to employers, the city, and customers would total $3,767 per worker if the wage is set at $8.50, and $6,997 if the wage is set at $10. Many benefits accrue to federal and state governments due to reduced dependence on social services.

This report highlights some of the financial implications of a living wage in Sacramento, focusing on the impact on workers who earn a living wage. The living wage issue is much bigger than a simple wage increase for working poor. It is a social movement that demonstrates the value cities place on self-sufficiency of workers employed by city contractors.

What Should the Living Wage Be in Sacramento?

An appropriate living wage level for Sacramento could fall anywhere between $8.50 and $11.25, depending upon the methodology employed. Since the city council is considering a proposal for a $10 living wage, an alternative living wage considered in this report is $8.50 to provide comparisons at the upper and lower ends of this range.

Table 1 presents the first of three alternative methods for determining the appropriate living wage. The first method uses actual living wage levels across California. These wages are transformed into an equivalent annual living income, assuming 2000 hours of work per year, and then adjusted for the cost of living in Sacramento. The average living wage in California is $8.83. Adjusting this for the cost of living in Sacramento gives a living wage of $8.50.

Table 1. Living Wages Across California

City	Living Wage	Annual Income	Sacramento Equivalent
San Jose	$10.10	$20,200	$18,821
Los Angeles	$7.99	$15,980	$16,038
Oakland	$9.13	$18,260	$19,689
San Francisco	$10.00	$20,000	$15,037
Berkeley	$9.75	$19,500	$16,884
Hayward	$8.61	$17,220	$17,610
Santa Cruz	$11.00	$22,000	$19,647
Pasadena	$7.25	$14,500	$14,332
San Fernando	$7.25	$14,500	$15,034
West Hollywood	$7.25	$14,500	$8,418[1]
Average Wage	**$8.83**		
Sac. Equivalent	**$8.50**		$17,000

The second method adjusts the federal poverty guideline by the cost of living in Sacramento. The poverty level for a family of 3 is $15,020. The cost of living in Sacramento is approximately 15% higher than the national average,[2] so the poverty level for Sacramento is $17,273. The wage sufficient for a family of three with one full time worker to reach this poverty line is $8.64.

The final method considers the spending needs of a typical family. Using the Consumer Expenditure Survey, annual spending of families with pre-tax income between $10,000 and $15,000 is used as a measure of the needs of the typical low-income family. Average expenditures for this population are $19,184 per year.[3] The breakdown of these expenditures for a 3 person family is presented in Table 2. Notice that expenditures for this population are greater than income, which means families are bridging the gap through public programs such as the EITC or food stamps, spending down savings or borrowing, or receiving assistance from family and friends. The living

[1] West Hollywood is excluded from the calculation of the average wage for Sacramento due to the extremely high cost of living.

[2] The Sacramento Metro Chamber of Commerce estimated costs at 19.2% above the national average. Other estimates include 9% and 12.8%. Observed estimates range from 10-20%, so 15% is used in this analysis.

[3] I have omitted entertainment, tobacco, cash contributions, and education expenses from this calculation, since these represent voluntary expenditures rather than necessities.

wage that would support this average level of spending is $11.25.

Table 2. Average Spending of Households with Income Between $10,000 and $15,000

	Family of 3
Food	$3410
Housing	$7998
Healthcare	$1234
Transportation	$4842
Clothing	$1038
Insurance, Social Security	$862
Miscellaneous	$374
Total Expenditures	$19,558
Adjusted for Cost of Living	$22,491
Living Wage	$11.25

Based on the 2000 Consumer Expenditure Survey

The Consumer Expenditure Survey does not separate childcare spending from other categories. For single parent households, this cost would be a major concern if no alternatives for childcare were available. The California Department of Health and Human Services calculates the average annual cost of childcare for a preschooler at $5,040. This additional cost to single working parents would be prohibitive. Most families in this income range would look for alternative arrangements, such as family or friends, or state subsidized childcare. Recent expansions to state subsidized child care would allow parents in this income range to receive child care services for $516 a year. Though waiting lists for subsidized (and non-subsidized) childcare present challenges for parents, this program can make childcare affordable for many working families. Over 417,000 children are receiving these services in California this year. Note that the expenditures presented above apply to the average 3 person household, which may or may not have a preschool child. A living wage targeted at meeting the financial needs of a family of 3 with one working parent should also take childcare expenses into account.

Benefits to Workers

Living wages are intended to improve the circumstances of low wage workers. Workers employed by city contractors will earn at least the living wage. Table 3 presents the impact of this increase in earnings on disposable income of one parent and two parent families. The minimum wage is presented for comparison purposes.

Table 3. Benefits to Workers

	1 Parent, 2 Children			2 Parents, 2 Children		
EARNINGS AND TAXES	**Minimum Wage**	**$8.50 Living Wage**	**$10 Living Wage**	**Minimum Wage**	**$8.50 Living Wage**	**$10 Living Wage**
Wage	$6.75	$8.50	$10.00	$6.75	$8.50	$10.00
Gross Income	$13,500.00	$17,000.00	$20,000.00	$13,500.00	$17,000.00	$20,000.00
Social Security Taxes	($1,032.75)	($1,300.50)	($1,530.00)	($1,032.75)	($1,300.50)	($1,530.00)
Federal Tax Liability	$0.00	($85.00)	($385.00)	$0.00	$0.00	$0.00
California Disability Insurance	($121.50)	($153.00)	($180.00)	($121.50)	($153.00)	($180.00)
Child credits	$350.00	$785.00	$1,200.00	$350.00	$700.00	$1,000.00
EITC	$3,921.65	$3,184.55	$2,552.75	$3,921.65	$3,184.55	$2,552.75
Disposable Income	$16,617.40	$19,431.05	$21,657.75	$16,617.40	$19,431.05	$21,842.75
Change in Disposable Income		**$2,813.65**	**$5,040.35**		**$2,813.65**	**$5,225.35**
IN-KIND TRANSFERS						
Annual Food Stamps	$2,533.20	$1,273.20	$484.80	$3,976.80	$2,716.80	$1,636.80
Cost to Worker of Healthy Families/Medi-Cal	$0.00	$0.00	($168.00)	$0.00	$0.00	($168.00)
Disposable Income After Transfers	$19,150.60	$20,704.25	$21,974.55	$20,594.20	$22,147.85	$23,311.55
Change in Disposable Income after Transfers		**$1,553.65**	**$2,823.95**		**$1,553.65**	**$2,717.35**

Single parents with two children currently earning the minimum wage would see an increase in disposable income of $2,813.65 if the living wage were set at $8.50, and an increase in disposable income of $5,040.35 if the living wage were set at $10.00. These families would lose some in-kind transfers, such as food stamps and Medi-Cal benefits. After the reduction in food stamps and the increased cost of Healthy Families, compared to no-cost Medi-Cal, the family's purchasing power rises by $1,553.65 if the living wage is set at $8.50, or $2,823.95 if the living wage is set at $10.00. Similar calculations are presented for families with two parents and two children.

A recent study produced by David Neumark at the Public Policy Institute of California compared employment conditions in cities with living wages to cities without living wages. His estimates suggest that a 50 percent increase in the living wage would raise wages for low wage workers by 3.5 percent, reduce employment of these workers by 7 percent, while reducing poverty rates by 1.4 percentage points. Another recent analysis found that increases in minimum wages create winners and losers, and that some families escape poverty, but that others fall into poverty when they lose their jobs.[4] Employers in Sacramento may decide to hire fewer workers if they have to pay living wages, creating a large burden on some families. This effect is less important when economic conditions are strong because displaced workers would have less trouble finding new jobs.

Cost to Employers, the City, or Customers

The cost of the living wage will be borne by some combination of employers, taxpayers, and customers. The direct cost per employee who is currently earning the minimum wage is $3,500 in wages if the living wage is set at $8.50, and $6,500 if the living wage is set at $10. In addition, employers will owe more social security taxes; $267.75 for the lower living wage, and $497.25 for the higher living wage.

Employers may see some gain in productivity of workers, due to offering the higher wage. The living wage could act as an 'efficiency wage,' where businesses become more efficient because they offer higher wages. Employers may draw a larger pool of applicants for each position allowing them to be more selective, and employees may recognize that they will probably have to take lower paying jobs if they are dismissed. This induces employees to work harder because they do not want to get caught shirking on the job. Evidence on the increase in productivity resulting from higher wages is mixed. If efficiency wages pay for themselves, employers should pay the high wages voluntarily. One estimate of the magnitude of the efficiency wage effect found that dismissals for disciplinary reasons fell 5 percent when wages increased 10 percent.[5] The value of the enhanced productivity resulting from the living wage in Sacramento is unknown, but would probably constitute only a small portion of the total cost of the living wage.

Costs beyond those recouped from increased efficiency will be shared among employers, taxpayers, and customers. The share of the cost that can be passed on to customers depends on the ability of the firm to raise prices, without losing customers. If the firm faces competition from other firms that do not have to pay living wages, it will be difficult for the firm to raise prices. If the firm is the only supplier of a particular product, (i.e. concessionaire, zoo) it would be more feasible for the firm to raise prices. Note that increases in prices hurt consumers, but the burden would be spread over many individuals.

Depending on the degree of competition in the bidding process, the city may bear a share of the cost of the living wage. If the city has no alternative but to contract with a single provider, the firm could ask the city to cover its increase in labor costs. Employers will be left with the remaining cost of living wages.

Savings at Federal and State Levels

Federal and state governments will benefit from a living wage, because workers who earn living

[4] Neumark & Wascher, "Do Minimum Wages Fight Poverty?" Economic Inquiry, 2002.

[5] Cappelli & Chauvin, "An Interplant Test of the Efficiency Wage Hypothesis," Quarterly Journal of Economics, 1991.

wages will pay more taxes and qualify for fewer federal and state social services. These savings are largest for families with children, since they qualify for the most social services.

A living wage substitutes local money for federal and state social programs. A significant portion of the wage increase is offset by reductions in the worker's ability to qualify for the EITC and food stamps. Income taxes and social security taxes also increase. In this range of the income distribution, workers face extremely high effective marginal tax rates as our social safety net is phased out.

Table 4. Benefits to Federal and State Government, per Worker*

	$8.50 Living Wage	$10 Living Wage
Social Security Taxes	$267.75	$497.25
Income Taxes	$85.00	$385.00
Child Credit	($435.00)	($850.00)
EITC	$737.10	$1,368.90
Food Stamps	$1,260.00	$2,048.40
Healthy Families	$0	$168.00
Disability Insurance	$31.50	$58.50
Total Savings	**$1,946.35**	**$3,676.05**

*Assuming that the worker is a single parent with two children.

Health Insurance Component

The health insurance component of the living wage helps to ensure a higher standard of living for workers. Because Medi-Cal is not generally offered to working poor adults,[6] any health insurance purchased for the employee will directly benefit the employee, without distorting federal or state expenditures. The proposal before the City of Sacramento recommends health insurance compensation for the worker and dependents. It should be noted that families in this range of the income distribution should qualify for the Healthy Families program, which provides low cost health insurance for the children of low-income working parents. If health insurance is mandated for the employee and dependents, these costs will be shifted from the federal and state levels to the local level (employers, customers, and the city).

The Social Dilemma

The proposal before the city council provides low wage workers the ability to earn their way out of poverty. Simultaneously, it will reduce dependence on public programs. The living wage will provide savings to the federal and state governments, but could increase costs at the local level. Instituting the living wage sends a signal to the state that cities support programs that raise wages for low wage workers.

In considering this proposal, the city should also consider other alternatives for reaching the working poor. Other cities have instituted programs similar to an Earned Income Tax Credit that provide income targeted to families in need.[7] City funded childcare services would also help single working parents provide for their families. When choosing to implement a living wage, the city needs to believe that it is the best feasible means of reaching their goal of helping working poor families.

In 1998 the U.S. Census reported that 187,948 people in Sacramento County, 15.9% of the population, lived in poverty. The living wage cost estimate produced by the City of Sacramento, of $2.6 million per year, suggests that they expect the equivalent of 400 full time workers to have their pay increase from the minimum wage to the living wage. Only a portion of these workers are living in poverty, because they do not have children or have other sources of income in their households. The city council will need to determine whether the benefits to workers outweigh the costs to the local community.

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[6] One exception includes parents who have recently left CalWORKS.

[7] These cities include Denver, Colorado and Montgomery County, Maryland.