

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** October 12, 2007

**IBA Report Number:** 07-99

**Budget & Finance Committee Docket Date:** October 17, 2007

**Item Number:** 2

**Subject:** Living Wage Ordinance Administration during Fiscal Year 2007

### OVERVIEW

On April 12, 2005 the City Council approved the Responsible Wage and Benefits Ordinance, otherwise known as the Living Wage Ordinance (LWO). The Ordinance requires employers for specified contracted City Services to compensate employees performing work on these contracts a 'Living Wage' and healthcare allowance. The living wage rate, adjusted annually based on the regional Consumer Price Index, currently stands at \$10.34/hour plus \$2.07/hour for health benefits.

In an October 10, 2007 report released by the Mayor (No: 07-144), measures taken by Purchasing & Contracting to implement the Living Wage Ordinance during the Fiscal Year 2007 (July 1, 2006 – June 30, 2007) are outlined. This annual report fulfills the requirements of the Municipal Code (§22.4235).

The Independent Budget Analyst (IBA) has reviewed the Mayor's Report and has identified questions and recommendations. The purpose of this report is to contribute to the discussion at the Budget & Finance Committee Hearing of October 17, 2007, and illuminate issues surrounding the enforcement, impacts, and implementation of the Living Wage Ordinance.

### FISCAL/POLICY DISCUSSION

#### *Issues Concerning Staff Capacity*

At the time the Living Wage Ordinance (LWO) was passed, no staff had been assigned to the implementation of the Ordinance. Prior to the 2005 Council hearing, a report was produced indicating that "at least five positions would be required to adequately staff an LWO compliance program" (Report 05-090; pg. 28)<sup>1</sup>. However, the equivalent of one half-time staff person has been assigned to monitor the implementation of the LWO.

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<sup>1</sup> Manager's Report 05-090, *City Manager's Analysis of Proposed Responsible Wage and Benefits Ordinance*

The capacity of staff to perform all related administrative duties for the LWO depends, in part, on the number of contracts that need to be reviewed. The administrative duties for the LWO include:

- Identification of applicable contracts
- Maintenance of records related to LWO compliance
- Investigation of LWO complaints
- Response to concerns of the Mayor, Council, community-based organizations and the general public
- Proactive work such as compliance audits and field visits to City facilities.

Staff has indicated that the contract renewal process requires relatively little staff time. Staff reviews material related to applicable contracts, such as cost-of-living adjustments and Certificates of Compliance. However, the process becomes more time-consuming with the awarding of new contracts. As a result, staff time necessary to fulfill all requirements related to noticing and preparation of documents increases significantly. By the end of Fiscal Year 2008, approximately 200 contracts are expected to be under review. The amount of time required to process contracts prevents staff from taking more proactive measures, including contractor compliance audits and facility field visits. As staffing levels have not been reviewed since initial implementation of the LWO, it may be useful to do so to determine if they are adequate to fulfill all duties related to implementation of the LWO.

#### *Issues Concerning the Budget*

Manager's Report 05-090 projected that the additional cost impact of the initial implementation of the LWO to the City would be approximately \$3.15 million in Fiscal Year 2007, based on assumptions regarding 200 non-professional service contracts. Staff reports the actual amount of increase as a result of the LWO to be \$1.2 million based on 35 amended or renewed contracts. At this time, the difference between the projected impact and the actual impact of the LWO has not been evaluated.

At the beginning of Fiscal Year 2008, the LWO was phased in at City facilities, including:

- Petco Park
- Qualcomm Stadium
- iPay One Center (formerly known as the San Diego Sports Arena)
- San Diego Convention Center; and
- San Diego City Concourse

The budgetary impact of the implementation at City facilities in Fiscal Year 2008 is unknown at this time. In subsequent years, once all contracts are phased into the Living Wage Ordinance, the impact to the budget is expected to be minimal, between 3% and 3.5%. This increase is based on the cost-of-living adjustment determined by the regional Consumer Price Index.

The primary contractor functions impacted by the LWO cover the following services:

- Janitorial
- Landscaping
- Security
- Laundry

City departments with a higher numbers of service contracts are likely to see a greater impact to their budgets. The Park and Recreation Department has a substantial number of landscaping contracts, including those covering Maintenance Assessment Districts, and will likely see the greatest impact to their budget. One reason for this is the significant disparity between the initial wage paid to landscapers and the LWO rate.

The Chief Financial Officer confirmed, and the IBA verified, that the budgetary impacts of the LWO were included in the Mayor’s Five Year Forecast issued in November of 2006. The IBA will ensure that these impacts will remain accounted for in the update to the Five Year Forecast.

Issues Concerning the Impact of the LWO

The IBA believes that the Manager’s Report 05-090 raised important questions regarding the potential impact of the LWO on the community and as a tool to alleviate poverty in the City of San Diego. The LWO is only in its second year of implementation, making it difficult to determine any long-term impacts of the policy on the community. Following 3–5 years of implementation, City Council may choose to direct staff to analyze these broader impacts of the LWO. The IBA believes that this kind of information will be critical in future evaluations on the impact of the Living Wage.

**CONCLUSION**

The IBA recommends further discussion regarding the adequacy of current staffing levels to completely implement the LWO as intended. The IBA will ensure impacts to the budget as a result of the LWO remain accounted for in the update to the Mayor’s Five Year Forecast. Also, after 3–5 years of implementation, the IBA recommends that a study be performed to evaluate the broader impacts of the Living Wage Ordinance on our community.

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