



CITY OF SOMERVILLE, MASSACHUSETTS

Department of Purchasing

JOSEPH A. CURTATONE

MAYOR

To: Ed Bean, Director of Finance | City Auditor

From: Angela M. Allen, Purchasing Director

Date: March 7, 2019

Re: **Order #205478 – Implications for Vendor Contract Costs**

The above-referenced Order poses two primary questions:

1. What would be the cost to the City if the living wage were raised to \$15.00?
2. Is the current formula for annually adjusting the living wage appropriate, or would another factor or methodology be more appropriate?

My staff and I have considered these questions in terms of potential impacts on vendor contracts. Based on our review of available literature on this subject and of the City's current contracts, we believe that the impact on costs, while unknown, would be small.

I recommend that the City adjust the living wage to \$15.00 effective 7/1/2019 for fiscal year (FY) 2020, and continue to use the ordinance's existing formula for calculating the annual adjustments.

Basis for this recommendation:

- In Somerville, and generally in the greater Boston area, many public contracts are subject to state or federal prevailing wages that are generally higher than the local living wage.
 - Such prevailing wages apply to construction trades and a few other services (e.g. street-sweeping, driving school buses, hauling waste).
 - Massachusetts prevailing wage schedules are generated by the Division of Labor Services and are taken from collective bargaining agreements in the geographic area where the work is to be performed.
- The living wage has the biggest impact on contracts that (i.) are not subject to prevailing wages and (ii.) where a high percentage of the services and overall contract cost is from low-wage earners¹ (i.e. workers paid minimum wage or lower).² In Somerville, few contracts fall into this category.

¹ The economic impact of local living wages, *Jeff Thompson and Jeff Chapman, Economic Policy Institute, February 15, 2006*, p. 3. <https://www.epi.org/publication/bp170/>

² The Massachusetts minimum wage for 2019 is \$12.00 (up from \$11.00 in 2018). <https://www.paycor.com/resource-center/minimum-wage-by-state-and-2018-increases>

- Competitive sourcing can help keep the cost of vendor contracts from rising significantly.
 - Findings from researchers on this topic (see [Thompson and Chapman](#))³ could apply to Somerville:

The competitive bidding environment may prevent firms from passing costs back onto the municipal government, and the relatively small size of the costs of the living wage may make it still worthwhile for the company to continue to bid on contracts. It will be easier for firms to absorb small cost increases, rather than dramatically adjust operations (moving, laying off workers, not bidding, etc.).
- A higher wage floor can level the playing field.⁴ Somerville's living wage is currently 11-17% lower than the living wage of two nearby peer cities and towns (Table 1).⁵ Adjusting it to \$15.00 would bring Somerville's living wage within closer range of other area communities' living wages. The living wages of Boston, Brookline and Cambridge will likely exceed \$15.00 in FY 2020, but the difference between the living wages in these communities and Somerville's would be appreciably smaller than in FY 2019.

Table 1. 2019 Living Wages of Selected Jurisdictions

FY 2019 Living Wages		Higher Compared to Somerville	
Boston	14.82	2.02	16%
Brookline	14.26	1.46	11%
Cambridge	14.95	2.15	17%
Somerville	12.80		

The proposed adjustment of the Somerville living wage to \$15.00 would mean a relatively large increase of 17 percent over the FY 2019 wage, or 13 percent over the currently (i.e. "business as usual") projected FY 2020 living wage (Table 2). Thereafter, the year-to-year change is expected to follow a similar trend as seen in recent years, if the methodology for rate adjustment remains unchanged.

³ The economic impact of local living wages, *Jeff Thompson and Jeff Chapman, Economic Policy Institute, February 15, 2006*, p. 4. <https://www.epi.org/publication/bp170/>

⁴ Ibid, p. 5.

⁵ See related analysis submitted to Somerville City Council (prepared by Michael Mastrobuoni, February 2019) for living wages in Boston-area cities and towns.

Table 2. Somerville Living Wage History and Projections

Somerville Living Wage History			
FY	Wage	Change (\$)	Change %
2004	\$ 9.55		
2005	\$ 9.91	\$ 0.36	4%
2006	\$ 10.17	\$ 0.26	3%
2007	\$ 10.51	\$ 0.34	3%
2008	\$ 10.84	\$ 0.33	3%
2009	\$ 10.84	\$ -	0%
2010	\$ 11.22	\$ 0.38	4%
2011	\$ 11.30	\$ 0.08	1%
2012	\$ 11.61	\$ 0.31	3%
2013	\$ 11.71	\$ 0.10	1%
2014	\$ 11.89	\$ 0.18	2%
2015	\$ 12.05	\$ 0.16	1%
2016	\$ 12.24	\$ 0.19	2%
2017	\$ 12.31	\$ 0.07	1%
2018	\$ 12.49	\$ 0.18	1%
2019	\$ 12.80	\$ 0.31	2%
Currently projected 2020	\$ 13.22	\$ 0.42	3%
Proposed adjustment 2020	\$ 15.00	\$ 2.20	17%

The current formula for calculating the annual adjustments to Somerville’s living wage is appropriate. It is the standard methodology for Somerville’s peer communities that have living wage laws. It considers the regional CPI-U index as well as the federal HHS guidelines for poverty and income. It is in the City’s best interest to remain competitive with its peer communities that solicit quotes and bids for the same goods and services and have many of the same contractors. A living wage standard aligned with nearby communities can level the playing field for prospective bidders and possibly result in more bids.

Using the formula that has determined the living wage for the past 10 years, the FY20 living wage would be \$13.22 (up from \$12.80 in FY19). Making a broad assumption that the CPI-U index will increase at the steady rate we have seen in recent years, we would not arrive at a \$15.00 living wage until 2024 or, more likely, 2025. Rough projections are shown below for the annual CPI-U⁶ in the years 2019 through 2024 to derive the estimated Living Wage through 2025.

⁶ Note: the methodology for the living wage calculation includes two data points – the CPI-U and the HHS poverty guidelines. The HHS number applies to the 48 contiguous states and the District of Columbia, whereas the CPI-U number applies to urban populations. We show the CPI-U in this table because it is generally always higher than the HHS number and thus is the one used to calculate the annual living wage adjustment.

Table 3. Projection of Somerville Living Wage in Business as Usual Scenario

Year	Jan	Mar	May	Jul	Sep	Nov	Annual	
2008	231.98	233.084	235.344	241.258	238.519	232.354	235.37	\$ 10.84
2009	230.806	232.155	231.891	233.018	236.596	236.589	233.778	\$ 10.84
2010	237.266	237.986	238.083	236.132	236.474	238.103	237.446	\$ 11.22
2011	239.814	242.787	244.574	244.256	245.31	245.03	243.881	\$ 11.30
2012	245.891	247.166	246.582	246.326	249.488	249.929	247.733	\$ 11.61
2013	249.957	250.835	250.036	251.067	251.918	252.23	251.139	\$ 11.71
2014	253.123	254.982	255.209	255.296	255.878	256.262	255.184	\$ 11.89
2015	254.556	257.013	256.839	256.999	256.643	258.407	256.715	\$ 12.05
2016	257.215	258.587	260.809	260.8	262.606	261.675	260.496	\$ 12.24
2017	264.865	265.07	266.256	266.429	269.757	269.149	267.033	\$ 12.31
2018	272.229	274.591	274.668	275.402	278.663	277.632	275.815	\$ 12.49
2019							282	\$ 12.80
2020							289	\$ 13.22
2021							297	\$ 13.51
2022							306	\$ 13.85
2023							315	\$ 14.23
2024								\$ 14.66
2025								\$ 15.29