The Economic Impact of the Proposed Cook County Responsible Business Act

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Summary

Once fully implemented the proposed Cook County Responsible Business Act is likely to:

- Cover 67 employers, including large private employers, nonprofit organizations, and franchisees.
- Cover 117,277 employees.
- Result in 16,237 employees receiving an hourly minimum wage of $15, an average increase of $7.11 per hour.
- Result in $580.7 million total fee revenue paid between 2015 and 2019 to the county by employers who continue to pay some employees less than $15.00 per hour.
- Increase employment in Cook County by a total of 637 full-time equivalent job-years between 2015 and 2019. (A job-year is one job in one year.) This amounts to an average of 128 full-time equivalent jobs per year.

Introduction

This report provides estimates of selected impacts of a proposed Cook County Responsible Business Act. The proposed ordinance phases in a $15 per hour minimum wage over the period 2015 to 2019 and applies to

- all private non-religious employers with at least 750 employees in Cook County who are paid less than $15.00 per hour,
- franchisees of franchisors that collectively have at least 750 employees in Cook County who are paid less than $15.00 per hour, and
- contractors to firms that collectively have at least 750 employees in Cook County who are paid less than $15.00 per hour.

We refer to these employers as "covered employers" and to the employees to whom they pay less than $15.00 per hour as "covered employees." Salaried employees whose annual salary divided by annual hours worked is less than $15.00 per hour are also covered employees. For each employee for whom the employer does not increase the minimum wage, the employer must pay a fee to the County. The fee is equal to $750 times the difference between the proposed minimum hourly wage and the employee's hourly wage for each covered employee. The proposed ordinance rounds the difference to the nearest dollar.

The proposed ordinance provides for the following minimum wage and fee phase-in period.

Proposed Minimum Wage Phase-In Schedule

Year	*Proposed Minimum Wage Schedule*
2015	$9.60
2016	$10.95
2017	$12.30
2018	$13.65
2019	$15.00

The report provides estimates for

- the number of employers (excluding contractors, for which data are not available) and employees likely to be covered by the proposed ordinance,
- the net employment impact of the proposed ordinance, and
- the amount of fee revenue the county is likely to receive from these employers

Methodology

Data

Primary data for this analysis came from two sources. Dun & Bradstreet (D&B) proprietary data were used to ascertain names and characteristics of all employers (including franchisees) with at least 750 employees in Cook County. This source is the best publically available data that contains both individual employer and associated employment. However, it should be noted that these data do not always clearly identify the name of the ultimate holding company, contain variations in the spelling of business names, and in some instances double count employers and employment . We attempted to address these issues by aggregating the branches/franchisees listed in D&B data to the level of covered employers. The D&B data do not always make it possible to distinguish between a franchisor and its franchisees but instead list some such firms (and their employees) under "franchisees." (For example, Ford Motor Co. is listed as a franchisee because Ford dealers are franchisees, even though the company's Chicago manufacturing plant is Ford-owned.) Therefore, each franchisor and its franchisees operating in Cook County are treated as a single company. We also attempted to eliminate double-counting in the D&B data.[1]

D&B data do not contain information about employees' wages or work hours, except for executive pay. Nor is there any other source of information about the wages or hours of employees working for particular employers. As a result, in order to estimate wages and work hours, we combined American Community Survey (ACS) microdata for the years 2008-2012 for people employed in Cook County with the D&B data.[2] Using the ACS we were able to obtain this information for about 100,000 employees in Cook County. For each employer whose information we extracted from the D&B database, we assumed that the distribution of wages and work hours for that employer's employees was the same as that shown in the ACS for the employer's industry in Cook County.[3] Although no individual employer is likely to have exactly the same distribution of wages or work hours as its industry as a whole, industry data are the best available source of information to estimate firm-level wage and hour distributions.[4] Where the D&B database indicated that a single employer operated multiple establishments in different industry classifications, we estimated wage and hour distributions for that employer by using an employment-weighted average of the different industry classifications that apply to the different establishments. To obtain the number of employees paid less than $15.00 per hour by an individual employer, we multiplied the percentage of ACS employees in that employer's industry in Cook County who were paid less than $15.00 per hour (in 2015 dollars) by the D&B estimate of the number of employees working for that employer.

Under the proposed ordinance, absent any non-economic considerations such as reputational effects, each of these employers is expected to choose to pay the fee for some of its employees and raise the wages of others.[5] We assume that if the cost of increasing the wage were to be higher than the fee, then the employer would simply pay the fee.[6] In estimating the cost of increasing the wage, we assumed that a covered employer would have to pay, in addition to the wage increase, 6.2 percent of the wage increase for the employer's share of Social Security tax, 1.45 percent for Medicare tax, 0.6 percent for the Federal Unemployment Insurance premium, and 3.95 percent for the Illinois Unemployment Insurance premium.

Economic Impact Analysis

We use the 2011 IMPLAN input-output modeling software to estimate the economic impact of the proposed Cook County Ordinance. Input-output models describe the way industries are connected to one another and take into account that each industry's non-labor product inputs are the output of other industries. IMPLAN is a standard software package used to estimate or project the regional economic impacts of economic development initiatives.

The three economic activities used to estimate the economic impact for the proposed ordinance were

- the change in employment in the industries affected by the ordinance,
- the introduction of new fee revenues, and
- the increased labor income and associated spending of workers receiving higher wages.

Economic Impact of Change in Employment

The analysis described above allowed us to identify the employers who will be affected by the ordinance, the total number of employees for each employer who will be covered by the ordinance (*i.e.*, employees currently earning less than $15 per hour), and the total cost to each employer for both raising the wages and paying the fee. Based on findings in the literature, our analysis assumes that employers absorb wage increases proposed by the Ordinance in 2015 and 2016 because the wage increases in the first two years are within the range where research finds no job loss.[7] For wage rate increases after 2016, we assumed that this increase in employer costs would exert modest downward pressure on the number of employees. To account for this, we applied a conservative minimum wage elasticity employment of 0.2.[8] A 0.2 elasticity means that for every 1 percent change in the minimum wage there is a loss in full-time equivalent employment of 0.2 percent. These modified employment estimates were then entered into IMPLAN by economic sector for the period 2015-2019.

Economic Impact of Fee Revenue

Based on the academic literature regarding the impact of minimum wage on employment, we adopt two approaches to calculating the fee revenue.[9] Based on the mixed findings of literature, we first assume that the number of covered employees would change based on a 0.2 elasticity

of employment with respect to the minimum wage increase. We then assume that changes in employment based on the wage increase would not affect covered employees. IMPLAN scenarios were run using both assumptions separately. Results provided below are based on the average result of these two scenarios.

The fee revenue generated by the ordinance will be used to enhance the spending of the following Cook County functions:

- Pretrial services (25% of fee)
- Housing assistance (25% of fee)
- Family assistance (25% of fee)
- Administrative cost (5% of fee)

This eighty percent of fee revenue will be used on spending that would not otherwise occur. The remaining 20 percent will be used to fund some existing healthcare related spending.

Economic Impact of Increased Labor Income

The increase in wages associated in the ordinance was added to our IMPLAN model which, in turn, calculates the impact of any associated increase in spending by workers on employment.

Results

- Some 16,237 workers in Cook County would receive a $15 per hour minimum wage (an average increase of 81.8 percent).
- Driven by the economic impact of using fee revenue to provide services to Cook County residents, the proposed ordinance would increase employment in Cook County by a total of 637 full-time equivalent job-years between 2015 and 2019. (A job-year is one job in one year.) This amounts to an average of 128 full-time equivalent jobs per year.
- Between 2015 and 2019 the proposed ordinance would produce a total of $580.7 million in fee revenue to the county government, ramping up from $15.1 million in 2015 to $248.3 million in 2019.

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About the Center for Urban Economic Development

The Center for Urban Economic Development (CUED) conducts research, policy analysis, and evaluation on urban and regional economic and workforce development issues. Established in 1978, CUED is a unit of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago and is affiliated with the university's Great Cities Institute.

[1] We cannot guarantee that we were fully able to eliminate duplication.

[2] We combined five years of ACS data to ensure that sample sizes would be sufficient to estimate distributions of wages and work hours by industry for employees working in Cook County.

[3] Some of the industry groups were combined so as to obtain reasonable standard errors for the estimated wage distribution. We restricted the sample to 16- to 64-year-olds who reported having worked in the previous year. Since 2008, ACS micro data report the weeks worked during the previous year only in intervals. Using 2005-2007 ACS data, we used a regression analysis to estimate the actual number of weeks worked for each employee in the 2008-2012 ACS sample. Following common practice, we imputed hourly wages using the ACS estimates of annual weeks worked, usual hours worked per week, and annual wages or salaries. We omitted all observations with wage rates below $0.50 or in excess of $100 in 1989 dollars because these wage rates were likely to be erroneous; this is the practice followed in the Economic Policy Institute's *State of Working America* series (www.stateofworkingamerica.org). All estimated wages were inflated to 2013 dollars by using the Bureau of Labor Statistics' Occupational Employment Statistics (OES) estimates of wage growth for the workers at the 25th percentile in the Chicago-Joliet-Naperville metropolitan area. All wage estimates were then inflated to estimated 2015 dollars by assuming that the OES 25th percentile wages would increase between 2013 and 2015 at the same average annual rate at which they increased between 2003 and 2006, a period after the recovery from the 2001 recession but prior to the Great Recession. Most of our choices regarding the details of the analysis of the ACS data follow those described in Jeremy Walsh-Loveman, Ian Perry, and Annette Bernhardt, "Data and Methods for Estimating the Impact of Proposed Local Minimum Wage Laws," Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment, University of California, Berkeley, June 2014; differences between our approach and the approach described there are due to differences between the proposed Cook County ordinance and the more typical across-the-board local minimum wage law.

[4] Nevertheless, the estimates should be regarded with care for individual employers whose wage and hours distributions may be far from their industry norms.

[5] The rationale behind this choice is that most covered workers work in excess of 750 hours per year, so that the cost of increasing their wage by $1 per hour is more than the fee of $750 per dollar of shortfall in wage rate. Consequently, we estimate that covered employers will choose to raise the wages of only 13.8 percent of the covered workforce, and pay the fee for the remaining covered employees.

[6] Any productivity effect of the increase in the wage is not included in this analysis.

[7] A summary of the literature can be found in the following article: Wolfson, Paul and Dale Belman. 2014. *What Does the Minimum Wage Do?* Kalamazoo, MI: Upjohn Institute for Employment Research. For more information see David Neumark and William Wascher. 2006. "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research." National Bureau of Economic Research Working Paper 12663. Cambridge, MA: National Bureau of Economic Research. http://www.nber.org/papers/w12663 and David Neumark and William Wascher. 2007. "Minimum Wages and Employment." Foundations and Trends in Microeconomics, vol. 3, no. 1, pp. 1-182.

[8] Recent consensus literature finds that minimum wage increases of the size that have occurred in recent decades produce no statistically and economically meaningful job losses. We employ this assumption for the first two years of the proposal. For 2017-2019 we employ findings from earlier literature and assume that the midpoint of this earlier literature consensus (-0.2) applies because the wage increases assumed for those years are larger than those covered by the literature that shows no meaningful job losses.

[9] Ibid

The original memo referred to the Responsible Business Act as the "Fair Share Fee Ordinance." That has been changed to reflect the accurate name of the proposal.