



Economic Analysis of the U.S. Virgin Islands Living Wage Ordinance



AN ECONOMIC ANALYSIS OF THE US VIRGIN ISLANDS LIVING WAGE ORDINANCE

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EXECUTIVE SUMMARY

The purpose of this report is to provide information on the potential costs associated with creating a living wage ordinance for government workers and contractors for the United States Virgin Islands (USVI). Living Wage is defined as the wage level that a full-time worker needs to earn to support a family above the federal poverty line. In order for an individual and/or family to make sufficient wages to live in the USVI, the following hourly full-time wages are required.

Living Wage Standards by Household Structure

Health Insurance Option	1 Adult	1 Adult 1 Child	2 Adults	2 Adults 1 Child	2 Adults 2 Children
Living Wage w/Employer Health	\$ 10.00	\$ 16.28	\$ 15.23	\$ 23.96	\$ 28.75
Living Wage w/o Employer Health	\$ 11.46	\$ 19.10	\$ 18.09	\$ 28.08	\$ 32.90

Source: The Self-Sufficiency Standard for the US Virgin Islands 2010, Bureau of Economic Research

The USVI living wage strategy is intended to focus on raising the wages for a select group of government workers, who are at the bottom rung of the islands economic ladder, low paid laborers who are employed by contractors to the government of the USVI, and those employed by the Economic Development Commission (EDC) beneficiaries. The motivation for focusing on these groups originates from two associated phenomena: the stagnant wages of low-income working families and the general trend of rising income and wage inequality. The fact that many of the low-wage jobs are created with the use of government subsidies and contracts demands that subsidized firms and those that receive government contracts pay a living wage.

ESTIMATED TOTAL IMPACT OF THE LIVING WAGE ORDINANCE

For this assessment, four living wages were evaluated ranging from \$10/hour for an individual to \$16/hour for a family of four with two working parents. The following is a summary of the impact assessment for increases in wages to \$10, \$12, \$14 and \$16 an hour.

How many workers would be affected by this Living Wage Ordinance?

- The living wage ordinance would impact between **270 to 3,737** government workers. This is somewhere between 2% to 31% of government employees in the USVI.
- Possibly an **additional 40 to 620 additional** government employees in semi-autonomous agencies may be impacted.
- In addition, the living wage ordinance would impact between **100 to 250 workers** through increases in contractual agreements made by government agencies.
- The living wage increase to EDC beneficiaries would impact **400 to 500 employees**, based on Bureau of Labor Statistics (BLS) industry standards.

Increasing the living wage anywhere from \$10 to \$16 an hour would affect **790 to 5,100 workers** in the USVI. With a total estimated workforce of 48,000, **1.6% to 10.6%** of the workforce would be raised from poverty.

At what cost?

- Payroll increases for central government employees would increase by **\$1.5 million** (or 0.18% increase in total operating budget) for an increase to \$10/hour and to **\$29 million** (or 3.5% increase in total operating budget) for an increase to \$16/hour in minimum wages.
- Contractual costs would increase by approximately **\$550,000** (or 0.22% increase in total contract value) for an increase to \$10/hour to **\$1.75 million** (or 0.71% increase in total contract value) for an increase to \$16/hour in minimum wages.
- Total costs to EDC beneficiaries (**private-sector**) for increased payroll would range from **\$2.8 million** (or 0.12% of operating costs) for an increase to \$10/hour to **\$8.8 million** (.39% of operating costs) for an increase to \$16/hour in minimum wages.

In essence, increasing the living wage anywhere from \$10 to \$16 an hour would affect the private-sector (EDC beneficiaries) anywhere from **\$2.8 million to \$8.8 million**. The public-sector would similarly see an increase in payroll and contractual costs of **\$2 million to \$30.75 million**. It is important to note that the highest increase represents approximately 3.62% of total government operating costs.

What is the Impact of Added Spending in the Overall Economy?

Since all this additional spending is in payroll dollars, it can be assumed that it will circulate back throughout the economy. Thus, these expenditures on the part of both public and private-sectors in turn mean **more spending power within the economy to the tune of \$3.8 million to \$32 million**.

How to pay for the added costs associated with the increases in the Living Wage?

Some of the common ways in which the public-sector has addressed the added costs of implementing a living wage ordinance are described below. If the USVI were to attempt any of these methods, the anticipated impact would be as follows:

1. Absorption/Replacement

Given that the Living Wage mandate accounts for somewhere between **0.25% to 3.62%** of the budget, there is a possibility that some of this additional cost could be absorbed by additional annual revenue.

2. Increase in Property Taxes

To raise \$2 million to pay for the living wage increase (from \$7.25 to \$10), property taxes would need to be **raised by \$0.90 per \$100 in property taxes**. On a \$200,000 home in USVI, an additional \$180 per year in property taxes would have to be paid.

If the living wage were to increase to \$16 per hour (that required for a family of four with both parents earning a full-time salary), property taxes would need to be more than doubled to a **new assessment of \$2.71 per \$100 in property taxes**.

3. Raising the Hotel Occupancy Tax

To raise \$2 million to pay for the living wage increase (from \$7.25 to \$10), hotel taxes would need to be **raised by \$0.93 per \$100 in occupancy taxes**. A hotel room for approximately \$200 per night would increase by \$2.00 in added hotel costs per room per night on existing occupancy taxes.

If the minimum wage were to be increased to \$16 per hour (that required for a family of four with both parents earning a full-time salary), the **occupancy tax would need to increase to 22%** (from the current 8%). This increase would mean \$28 more in hotel costs on a \$200 room per night on existing occupancy taxes.

4. Levying a new tax or re-appropriating tax revenue

Other forms of revenue raising could also be explored. Tourist spending could be taxed, as could docking/landing fees at the ferry terminals or airports be increased. While no one revenue system should take the entire burden of this increase in public-sector costs, a combination of increased taxes and new levies could be accommodated.

Recommendations

The suggestion is a steady, yet progressive movement over time with benchmarks clearly stated to move in this direction.

1. Mandate the \$10/hour minimum wage for all government workers, government contractors and EDC beneficiaries immediately. Additional costs associated with this are minimal and easily absorbed without any increases in revenues, mainly due to the fact that most workers in this category are already making \$10/hour.
2. At a minimum, keep pace with changes in federal minimum wage standards. At \$10/hour, the USVI is already paying 37% higher than the \$7.25 in minimum wages. Keeping that ratio steady would be beneficial.
3. Consider increasing the minimum wage of government workers to \$12/hour in 3 years. This increase would impact 15% of the government workforce (an estimated 2,000 people) and yet be absorbed within the present revenue.

Living Wage mandate as part of a Larger Economic Strategy

If the central government intends to move forward with the idea of a Living Wage, then it will need to develop a toolkit of government actions that will support the effort. This toolkit will provide both “carrots and sticks” to insure that those companies wishing to invest in the Territory or who wish to accept contracts contribute to the program.

If any investor makes a request for municipal participation through government land sales, capital improvements toward the investment, lower interest rate programs or regulatory changes, that investor would have to provide a living wage as one of the conditions for approval.

The Living Wage policy will grow to the point that it becomes pervasive in the USVI unless it moves beyond the EDC, contractors and lowest paid government workers. It must become part of the reality of investments in the community. A good start in this direction would be to focus on investments that require a private-public partnership.

AN ECONOMIC ANALYSIS OF THE US VIRGIN ISLANDS LIVING WAGE ORDINANCE

I. INTRODUCTION

The purpose of this study is to provide information on the potential fiscal and economic impact of creating a living wage ordinance for government workers, government contractors, and private-sector companies receiving government subsidies in the United States Virgin Islands. The research focused on answering three main questions: how many workers potentially will be covered by a living wage ordinance, what will be the likely financial costs to employers at different wage levels, and the potential economic impact of an ordinance.

The aim of a living wage ordinance is to set a wage floor sufficient to enable a full-time worker to support a family at a living standard above the federal poverty level. The impetus for the policy is based upon the need to uplift the wages of workers in the USVI to reduce poverty and to stem the trend of rising income and wage inequality. A living wage law that applies to firms and business receiving government contracts and subsidies can potentially be a tool to improve worker's wages and work to reduce the level of poverty.

There are two key points that are essential in understanding the implementation of the USVI living wage ordinance. First, it is intended to focus on raising the wages for a select group of government workers who are at the bottom of the islands economic ladder; low paid laborers who are employed by contractors to the government of the USVI; and private-sector entities that require subsidy from the government. Focusing on these three groups would be an initial step by government to improve the wage base on the islands. The USVI government and its contractors would set both the standard and the example. Moreover, the living wage ordinance covers a set of workers from which careful analysis could occur over time to determine if raising their wages has contributed to their well-being. In other words, it will provide a large enough control group to determine if the policy works. Secondly, it is essential that this living wage strategy be combined with a comprehensive strategy for economic development that will both attract new investment and contribute to the widespread acceptance of a living wage.

II. CURRENT PERSPECTIVE ON A LIVING WAGE

While a minimum wage standard refers to the lowest wage allowed by law, a living wage attempts to address issues of well-being and dignity. A minimum wage is not a living wage; a minimum wage may not allow low-wage workers a minimally secure way of life. For many communities, their minimum wage—even those set above the federal level—does not allow low-wage workers to meet their very basic living needs such as food, shelter, and basic medical care. If a community is successful in the passage of a living wage standard, the living wage becomes the legal minimum wage for the regulated businesses and institutions. Thus, living wage initiatives represent an approach to raising the minimum wage for the affected businesses regulated by the law.

Pollin et al., identify another distinction between a minimum wage and a living wage in that a minimum wage affects the vast majority of the low-wage workforce, while living wages have a much narrower coverage. Typically, a living wage ordinance is a local law that establishes a wage floor for specific group of workers. By far, the most common ordinance applies only to businesses holding service contracts with government. There are instances where a living wage law can go beyond contractors-only and can be an area-wide measure. Even if a living wage standard is a contractors-only measure, its passage can be a catalyst for discussion and change of the minimum wage.

There are two types of distinctions, therefore, that must be made when discussing living and minimum wage standards—the wage standard that is set (living or minimum) and the extent of the coverage (contractors-only or area-wide).

Glickman (1997) defines a living wage as a wage level that offers workers the ability to support families to maintain self-respect and to have both the means and the leisure to participate in the civic life of the nation. Pollin et al., (2008, p. 22) state that at the very least, the living wage standard should enable workers and their families to live above the official poverty line. They note that the poverty line is woefully inadequate as a measure of a living standard. In part, this is due to the poverty line being defined by the very basic “economy food plan” and the minimization of other costs such as child care, housing, and transportation (that have increased at a much higher rate than food). Another problem with using the poverty line as a baseline for the living wage is that it does not recognize regional differences that are real and extremely varied. This regional consideration is critical in areas with high living expenses such as the USVI.

While calls for a living wage in the United States date back to the 19th century, the late 20th century brought renewed concern. The current living wage movement began in 1994 in Baltimore and was initiated by religious workers operating shelters and soup. The workers observed that many of those who sought such services held jobs and worked every day. The presence of those who held jobs indicated that they were not making a living wage (although they were making the legal mandated minimum wage) and still could not afford shelter or food. Pollin et al., (2008) identify three factors that led to this current movement: the work of

activists seeking economic justice, outsourcing of government jobs to the private-sector, and the devaluing of the federal minimum wage (i.e. an absolute decline in the minimum wage since 1968).

In the United States, there were at least 140 living wage ordinances in cities throughout the country and more than 100 living wage campaigns underway in cities, counties, and states. The major cities in the US that have adopted living wage laws include Baltimore, San Francisco, Los Angeles, Boston, Chicago, Cleveland, Detroit, Miami-Dade, Milwaukee, Minneapolis, New York, Washington, DC, Santé Fe, and Albuquerque. On January 1, 2011 seven states increased their minimum wage requirement above the federally-set minimum wage: (Arizona, \$7.35/hr.; Colorado, \$7.36/hr.; Montana \$7.35/hr.; Ohio, \$7.40/hr.; Oregon, \$8.50/hr.; Vermont \$8.15/hr.; and Washington, \$8.67/hr.). Two states (Florida and Missouri) had ballot initiatives but opted to maintain their minimum wage rates.

The current federal minimum wage at \$7.25/hour has been in effect since January 2009. States and communities must assess whether \$7.25/hour is a wage that allows their citizens in low-wage paying jobs to live in their community; that is paying for food, transportation, housing, health, and child care without government social welfare programs. There is little debate that \$7.25/hour pay-rate, even for fully employed individuals, is not sufficient to meet life's basic needs. In other words, \$7.25 is not a living wage.

A frequently cited overall goal of living wage ordinances is to create a more egalitarian society or counter rising inequality. Proponents of a living wage are committed to helping low-wage workers and their families raise their standard of living. Additionally, the proponents note that by increasing the wage of the working poor, their need for social services will be alleviated. Opponents of a living wage voice concerns that businesses will face increased labor costs and the government should not interfere with the private-market and business decisions. Specifically, individual businesses and potential employees should determine the appropriate wage-rate, not governments. These opponents anticipate outcomes of a living wage ordinance including laying off workers, hiring of fewer low-wage workers, relocating potential business to cities and towns without a living wage standard, and diminishing of social services and/or poverty reduction efforts.

Pollin et al., (2008) recognize that each community needs to address whether a living wage initiative is worth pursuing and if so, under what circumstances. Their research concludes that living and minimum wage ordinances bring benefits to the low-wage working class and can do so without serious cost burdens for the regulated businesses, governments, and other affected institutions. They found that the costs are distributed without significant burden to non-poor segments of the affected community.

How does a community define a living wage?

What is the wage-rate that is minimally adequate in a community? What is the wage-rate that enables workers and their family members to lead lives that are at least minimally secure in a material sense and allows for a minimally decent level of dignity? Both proponents and opponents must consider what the minimum wage threshold is before the wage creates excessive cost burdens. In other words, it is important to identify the tipping point, where the costs of the standard exceed the benefits.

Arguments for or against a living wage center on the morality and/or economic logic. While Krugman (1998) presents a critical review of Pollin and Luce (1998), he states that the living wage standard is really about morality. The value of a living wage is that increasing wages, rather than increasing social programs improves workers dignity. Increase funding of social programs does not have the same effect at improving individual self-esteem. This current study does not address arguments for a living wage based on morality; rather this study addresses the economic logic of a living wage by assessing the economic effects for the USVI.

Research on the economic effects of a living wage ordinance can either be prospective or retrospective. Prospective research anticipates what is likely to happen if a living wage standard is established, while retrospective research observes, identifies, and measures what actually happens after a living wage standard is established.

The economic logic is addressed through research, much of which is prospective and based on available data, appropriate use of data, and model assumptions. Anticipated, unintended consequences argued by opponents of the living wage include the following: 1) that a living wage standard will create employment losses in the low-wage labor market and, therefore, negatively affect the workers who are meant to benefit from the living wage standard, 2) a living wage standard will result in businesses relocating to areas without living wage standards, and 3) a living wage standard will simply result in the institutions, which have to pay the living wage, eliminating or diminishing resources and programs that previously helped those low-wage workers. For example, a city will reallocate funds from their poverty prevention programs in order to pay the now regulated higher wages.

III. OVERVIEW: THE SELF-SUFFICIENCY STANDARD FOR THE USVI

The USVI Self-Sufficiency Standard with health insurance benefits ranges from \$10.00 (for an individual) to \$28.75 (for two adults with two children) as summarized below. This living wage rate is based on the calculations expressed in Phase 1 of this study titled, *The Self-Sufficiency Standard for the US Virgin Islands 2010* (BER 2010). To arrive at these wage rates, a determination was made as to the level of earnings that different household structures in the USVI would need in order to meet only their basic needs. These basic needs include housing, transportation, child-care, food, other necessities (such as clothing, diapers, non-prescription medication, and personal hygiene items) and taxes. This budget does not include any savings for the future or funds for expenses beyond basic living needs, such as entertainment or restaurant meals. Based on the calculations, the living wage for different household configurations is estimated as follows:

Table 1: Living Wage Standards by Household Structure

Health Insurance Option	1 Adult	1 Adult 1 Child	2 Adults	2 Adults 1 Child	2 Adults 2 Children
Living Wage w/Employer Health	\$ 10.00	\$ 16.28	\$ 15.23	\$ 23.96	\$ 28.75
Living Wage w/o Employer Health	\$ 11.46	\$ 19.10	\$ 18.09	\$ 28.08	\$ 32.90

Source: *The Self-Sufficiency Standard for the US Virgin Islands 2010*, Bureau of Economic Research

A single adult would need to make a minimum of \$10.00 per hour with benefits or \$11.46 per hour without benefits to make ends meet. An adult with a child needs to make a minimum of \$16.28 per hour with benefits or \$19.10 without benefits. If two adults lived together, they would both need to make a combined wage of \$15.23 per hour with benefits and \$18.09 without benefits. Similarly, if two adults resided together with one child, they would need to earn a combined wage of \$23.96 with health care benefits or \$28.08 without it. In the case of two adults and two children living in the same household, both adults would need to earn a combined wage of \$28.75 with benefits or \$32.90 without it in order to supply their most basic necessities. In this USVI living wage study, an assessment was made on the financial and economic impact of a living wage at \$10, \$12, \$14 and \$16 an hour.

Characteristics of Minimum Wage Workers

According to the US Department of Labor, Bureau of Labor Statistics, Current Population Survey of 2009, minimum wage workers tend to be young, less educated and work part-time. Approximately 5% of all hourly workers (3.6 million workers) are paid at or below minimum wage (\$7.25/hour) on a national scale.

- About 19% of teenagers paid hourly make at or below minimum wage.
- About 6% women paid hourly wages earn at or below minimum wage compared with about 4% of men.
- Approximately 10% of employees without a high school education compared to 4% with a high school diploma earned at or below minimum wage.
- Roughly 11% of part-time workers compared to 2% of full-time workers earned at or below minimum wage.
- Service occupations, mostly food preparation and serving related jobs have the highest percentage of workers (13%) earning at or below minimum wage.
- From an industry standpoint, the leisure and hospitality industry account for the highest proportion (21%) of workers earning at or below minimum wage. In fact 50% of all minimum wage workers are employed in this sector.

IV. POTENTIAL ECONOMIC IMPACT OF A LIVING WAGE ORDINANCE

Methods Overview

An outline of the methods used to determine the economic impact of a living wage standard is as follows: (for a detailed description of the methods, see Technical Appendix)

To project the economic impacts of a living wage standard in the USVI, this study:

1. Determines payroll expenses of a subset of employers.
2. This subset includes receivers of government contracts in the construction, general services and professional services industry, entities receiving government subsidies, and the government itself.
3. The study then determines general industry-specific percentages of payroll expenses that would be paid as minimum wages.
4. Subsequently, the study applies this percentage to the payroll expenses of the analyzed subset to come up with a portion of wages that would be affected by the enactment of a living wage.
5. And finally, the wage increase for different levels of living wage standards is calculated and presented as absolute amounts and as percentages for reference.

Analysis of Benefits and Costs

This section examines the impact of a living wage ordinance as it applies to public-sector full-time workers, businesses receiving government contracts and beneficiaries of government subsidies. The analysis will show how an ordinance is likely to impact the wages of affected workers and government and business costs.

A. Central Government Employee Payroll

Most USVI government employees already earn a minimum of \$10/hour. In order to calculate the increased costs of raising wage levels, data were collected on the number of employees in several wage categories. The next table highlights this data:

Table 2: Wage Profile of Central Government Workers

Wage Brackets (\$/hr.)	Number of Government Workers	Cumulative Summary of Workers	Percent of Government Workers
Less than \$10	270	270	2%
\$10.1 to \$12	1,541	1,811	15%
\$12.1 to \$14	991	2,802	23%
\$14.1 to \$16	935	3,737	31%

Employing the Self-Sufficiency Standards ranging from \$10 to \$16 an hour, a living wage ordinance would impact from **270 to 3,737** government workers as shown in Table 3. This is somewhere between 2% to 31% of government employees (approximately 12,000) in the USVI.

Based on the information presented in Table 2, a calculation was made on the total payroll needed to raise all affected workers to the new living wage thresholds as also shown in Table 3.

Table 3: Increase in Payroll and Percent of Operating Budget

Living Wage/hour	Increase in Payroll	Number of Workers Affected	Annual Payroll Increase per Worker	As a % of Total Operating Costs
\$ 10.00	\$ 1,544,400	270	\$ 5,720	0.18%
\$ 12.00	\$ 5,872,880	1,811	\$ 3,243	0.69%
\$ 14.00	\$ 15,487,920	2,802	\$ 5,520	1.82%
\$ 16.00	\$ 29,069,040	3,737	\$ 7,779	3.43%

In effect, adoption of a living wage ordinance would cost the central government anywhere from \$1,544,400 to \$29,069,040 annually. This increase represents between 0.18% to 3.43% of the annual operating budget.

Impact on Semi-Autonomous Government Agencies

Detailed assessments for semi-autonomous government agency employees and payroll were not attempted due to data sensitivity and excessive time involved in collecting data; however, there was an assessment of basic payroll and employees in 10 agencies with a payroll of over \$102.5 million and approximately 2,000 employees. Assuming the same ratios as the central government employees, between **40 to 600 additional government workers may be affected.**

B. Government Contracts For Construction And Professional Services

In order to determine the impact on government contracts, an examination of contract expenditures in the construction and service categories for 12 government agencies was performed for the years of 2007 through 2009. Contracts were divided into professional and general services.

The 12 agencies include:

- Water and Power Authority (WAPA)
- Virgin Islands Housing Authority (VIHA)
- Magens Bay Authority
- Virgin Islands Public Finance Authority (VIPFA)
- Department of Property and Procurement
- Housing Finance Authority (HFA)
- University of the Virgin Islands (UVI)
- Economic Development Commission (EDC)
- Governor Juan F. Luis Hospital and Medical Center
- Schneider Regional Medical Center
- Government Employees’ Retirement System (GERS)
- USVI Port Authority (*data not received to date*)

The increased cost associated with a living wage is assumed to be either absorbed within the profit margins of the service providers or passed on directly to the contracting government agency through increasing contract costs. Table 4 illustrates increases in dollar value as well as percent of total contracts for 2007, 2008 and 2009 fiscal years.

Table 4: Estimated Dollar Value Increase and Percentage Increase of Total Contract Value

Living Wage/hour	Increase from Mimimum Wage/hr.	2007		2008		2009		3 Year Average	
		Estimated Dollar Value Increase	% Increase of Total Contract Value	Estimated Dollar Value Increase	% Increase of Total Contract Value	Estimated Dollar Value Increase	% Increase of Total Contract Value	Estimated Dollar Value Increase	% Increase of Total Contract Value
\$ 10.00	\$ 2.75	\$ 169,342	0.08%	\$ 386,455	0.14%	\$ 547,451	0.22%	\$ 367,749	0.15%
\$ 12.00	\$ 4.75	\$ 292,499	0.13%	\$ 667,513	0.23%	\$ 945,597	0.39%	\$ 635,203	0.25%
\$ 14.00	\$ 6.75	\$ 415,657	0.19%	\$ 948,571	0.33%	\$ 1,343,744	0.55%	\$ 902,657	0.36%
\$ 16.00	\$ 8.75	\$ 538,815	0.24%	\$ 1,229,628	0.43%	\$ 1,741,890	0.71%	\$ 1,170,111	0.47%

As the minimum wage is currently \$7.25/hour, incremental increases ranging from \$2.75 to \$8.75 are estimated. On average, contracting costs are expected to rise in the range of \$367,749 for a living wage of \$10/hour to \$1,170,111 for a living wage of \$16/hour.

While these numbers appear to be large, they represent only a 0.08% to 0.71% of the value of all contracts awarded from 2007 to 2009. In essence, if wages were increased to \$10 an hour, government agencies would see a 0.08% to 0.22% cost increase in contracting services. This would rise to 0.24% to 0.71% if wages were increased to \$16/hour. The living wage ordinance would potentially impact from 100 to 250 workers out of 4,300 within that control group.

C. Entities Receiving Government Subsidies

The Economic Development Commission (EDC) provides subsidies to four major industrial sectors. These include:

- Manufacturing and Product Assembly
- Hotels, Recreation Facilities, Marina & Transportation
- Designated Service Businesses
- Utilities and Others

To estimate the impact of living wage increases, data on EDC beneficiaries were evaluated for 2007 and 2008. Data for 2009 was unavailable at the time of writing this report. The EDC currently provides economic benefits to 100 companies employing approximately 4,500 workers. Based on US Bureau of Labor Statistics (BLS) industry standards, an estimated 400 to 500 employees will be affected by a living wage ordinance.

As expected, a living wage ordinance would affect each of the four sectors in different ways. The hotels, recreation facilities, and marina & transportation sectors would experience the biggest difference as 12% to 14% of their workers would be affected by the increases in living wage standards. An estimated 0.5% of manufacturing workers, 2.6% of service workers and 0.5% of utility workers would be correspondingly affected (see Appendix 2, page 30).

Table 5 shows the estimated increase in payroll based on the living wage standards by industrial sector as well as the increase as a percent of total sales by industrial sector for the same living wage standards.

Table 5: Estimated Payroll Increase and Cost Increase as a Percent of Total Operating Budgets

Estimated Payroll Increase					
Living Wage/hr.	Manufacturing	Hotel and Leisure	Business Services	Utilities	
\$ 10.00	\$ 16,188	\$ 2,439,466	\$ 69,046	\$ 4,138	
\$ 12.00	\$ 27,960	\$ 4,213,622	\$ 119,261	\$ 7,148	
\$ 14.00	\$ 41,970	\$ 6,324,869	\$ 179,018	\$ 10,730	
\$ 16.00	\$ 53,154	\$ 8,010,318	\$ 226,722	\$ 13,589	
Estimated Cost Increase as a Percent of Total Operating Budgets					
Living Wage/hr.	Manufacturing	Hotel and Leisure	Business Services	Utilities	
\$ 10.00	0.01%	1.01%	0.01%	0.02%	
\$ 12.00	0.02%	1.75%	0.01%	0.03%	
\$ 14.00	0.03%	2.63%	0.02%	0.05%	
\$ 16.00	0.04%	3.33%	0.02%	0.07%	

While payroll increases are significant, payroll is, however, one factor in the total value-added equation. As can be seen in Table 5, the most affected industry, hotel and leisure, would experience a 1.01% to 3.33% increase in costs in the total operating budgets based on the living wage standard. All other sectors cumulatively experience less than half a percent change in operating budgets.

V. ESTIMATED TOTAL IMPACT OF A LIVING WAGE ORDINANCE

Summary of Key Findings

This assessment provides a summary of impact on government workers, government contractors and beneficiaries of the EDC program. As discussed in Section III, raising the wages of workers based on the living wage standards ranging from \$10 to \$16 an hour will potentially affect as many as 5,100 workers and their families who stand to benefit. However, this will also result in added payroll and contractual costs.

A. How many workers would be impacted by a living wage ordinance?

The exact number of workers that would be impacted by raising wage levels is difficult to estimate as data on current wages for individual workers or groups of workers is not available for any sector other than central government payroll. As such, industry averages have been used for both EDC beneficiaries and government contractors. A more specific and detailed assessment of government employees is presented below.

- The living wage ordinance would impact between **270 to 3,737** central government workers. This is somewhere between 2% to 31% of government employees.
- Possibly an **additional 40 to 600 additional** government employees in semi-autonomous agencies may be impacted.
- In addition, the living wage ordinance would impact between **100 to 250 workers** through increases in contractual agreements with government agencies.
- The living wage increase to EDC beneficiaries would impact **400 to 500 employees**, based on BLS industry standards in the manufacturing & product assembly; hotels & recreation facilities; marina & transport designated service businesses; and utilities.

In essence, increasing the living wage anywhere from \$10 to \$16 an hour would affect **790 to 5,100 workers** in the USVI. With a total estimated workforce of 48,000, approximately **1.6% to 10.6%** of the workforce would be raised above poverty level wages.

B. At what cost?

- Payroll increases for government employees would increase by \$1.5 million (or 0.18% increase in total operating budget) for an increase to \$10/hour to \$29 million (or 3.5% increase in total operating budget) for an increase to \$16/hour in living wages.
- Contractual Costs would increase by approximately \$550,000 (or 0.22% increase in total contract value) for an increase to \$10/hour to \$1.75 million (or 0.71% increase in total contract value) for an increase to \$16/hour in minimum wages.
- Total costs to EDC beneficiaries for increased payroll would range from \$2.8 million (or 0.12% of operating costs) for an increase to \$10/hour to \$8.8 million (0.39% of operating costs) for an increase to \$16/hour in minimum wages.

Table 6: Costs Associated with EDC Beneficiaries, Government Contracts, Central Government Payroll, Private and Public-Sectors

Costs Associated with EDC Beneficiaries, Government Contracts and Central Government Payroll						
Living Wage Standard	Costs Associated with EDC Beneficiaries		Costs Associated with Government Contracts		Costs Associated with Central Government Payroll	
	Total Payroll Increase	% of Operating Budget	Total Payroll Increase	% of Operating Budget	Total Payroll Increase	% of Operating Budget
Rate Increase to \$10/hour	\$ 2,727,864	0.12%	\$ 547,451	0.22%	\$ 1,544,400	0.18%
Rate Increase to \$12/hour	\$ 4,763,583	0.21%	\$ 945,597	0.39%	\$ 5,872,880	0.69%
Rate Increase to \$14/hour	\$ 6,769,302	0.30%	\$ 1,343,744	0.55%	\$ 15,487,920	1.82%
Rate Increase to \$16/hour	\$ 8,775,021	0.39%	\$ 1,741,890	0.71%	\$ 29,069,040	3.43%
Private and Public Sector Cost Summary						
Living Wage Standard	Private Sector Cost Summary		Public Sector Cost Summary		Combined Public and Private Sector Cost Summary	
	Total Payroll Increase	% of Operating Budget	Total Payroll Increase	% of Operating Budget	Total Payroll Increase	Power at 80% Gross Income
Rate Increase to \$10/hour	\$ 2,757,864	0.12%	\$ 2,091,851	0.25%	\$ 4,849,715	\$ 3,879,772
Rate Increase to \$12/hour	\$ 4,763,583	0.21%	\$ 6,818,477	0.80%	\$ 11,582,060	\$ 9,265,648
Rate Increase to \$14/hour	\$ 6,769,302	0.30%	\$ 16,831,664	1.98%	\$ 23,600,966	\$ 18,880,772
Rate Increase to \$16/hour	\$ 8,775,021	0.39%	\$ 30,810,930	3.63%	\$ 39,585,951	\$ 31,668,761

In essence, increasing the living wage by \$2 increments from \$10 to \$16 an hour would affect the private-sector (EDC beneficiaries) anywhere from \$2.8 million to \$8.8 million. The public-sector would similarly see an increase in payroll and contractual costs of \$2 million to \$30.75

million. It is important to note that the highest increase represents approximately 3.63% of total operating costs.

C. Impact of adding Spending in the Economy

Since all this additional spending is in payroll dollars, it can be assumed that it will circulate back throughout the economy. Thus, these expenditures on the part of both public- and private- sectors, in turn, mean more spending power within the economy to the tune of \$4.8 million to \$40 million.

Table 7: Extra Dollars being invested in Basic Services

Item Category	Percent of Average Annual Expenditures	USVI Basic Expenditures	Additional Spending Money in the Economy at \$4.8M	Additional Spending Money in the Economy at \$40M
Food	13%	15%	\$ 581,966	\$ 4,750,314
Housing	30%	32%	\$ 1,241,527	\$ 10,134,004
Transportation	16%	9%	\$ 349,179	\$ 2,850,188
Health Care	6%	9%	\$ 349,179	\$ 2,850,188
Education and Child Care	5%	19%	\$ 737,157	\$ 6,017,065
Miscellaneous and Other Necessities	20%	11%	\$ 426,775	\$ 3,483,564
Personal Insurance and Pensions and Taxes	10%	5%	\$ 193,989	\$ 1,583,438
TOTAL	100%	100%	\$ 3,879,772	\$ 31,668,761

Source: US Consumer Expenditure Survey 2009 and 2005 Virgin Islands Household Income and Expenditure Survey.

VI. PAYING FOR THE ADDED COSTS ASSOCIATED WITH THE LIVING WAGE

If the USVI Legislature mandated a living wage for government workers and any entity contracting with the government for services or construction, it may be assumed that the government would incur additional costs for services provided to the general citizenry. While this might constitute a small portion of the total operating budget, there is a dollar cost associated with this mandate. The next section looks at ways in which this additional expense for the *public-sector* costs may be absorbed or recovered through additional taxes and/or fees. This section is based on research on other municipalities and states that have mandated living wage laws and is only intended to provide direction.

A. Absorption/Replacement

Given that the Living Wage mandate accounts for somewhere between 0.25% to 3.62% of the executive budget, there is a chance that some of this additional cost (living wage increase to \$12/hour) may be absorbed by additional revenue once the economy returns to a growth path.

B. Increase in Property Taxes

The current property tax rate of 1.25% generates approximately \$26.5 million in property tax revenue. This means every \$1 increase in the property tax would yield approximately \$2.1 million in revenue. To raise \$2 million to pay for the living wage increase (from \$7.25 to \$10), property taxes would need to be raised by \$0.90 per \$100 in property taxes. On a \$200,000 home in the USVI, an additional \$180/year in property taxes would have to be paid.

If the minimum wage were to be increased to \$16 per hour (that required for a family of four with both parents earning a full-time salary), property taxes would need to be more than doubled to a new assessment of \$2.71 per \$100 in property taxes. On a \$200,000 home in the USVI, an additional \$2,750 per year in property taxes would have to be paid. In essence, the tax payment on a \$200,000 home would more than double (additional 102%).

If the property tax option were to be considered as the only option, perhaps the taxes on commercial real estate or on larger, more expensive homes in the million dollar range could be taxed at the higher level while average homes could be exempt from this tax hike.

C. Raising the Hotel Occupancy Tax

The current hotel occupancy tax of 8% generates approximately \$17 million in revenue annually. This means every \$1 increase in the hotel tax would yield approximately \$2.16 million in revenue. To raise \$2 million dollars to pay for the living wage increase from \$7.25 to \$10, hotel taxes would need to be raised by \$0.93 per \$100 in occupancy taxes. A hotel room for approximately \$200 per night would increase by \$2 in added hotel costs per room, per night on existing occupancy taxes.

If the living wage were to increase to \$16 per hour (that required for a family of four with both parents earning a full-time salary), the occupancy taxes would need to increase to 22% (from the current 8%). This increase would mean \$28 more in hotel costs on a \$200 room per night on existing occupancy taxes.

D. Levying a new tax (amusement tax, leisure tax, docking fees, etc.)

Other forms raising revenue could also be explored. Tourist spending could be taxed or docking/landing fees at the ferry terminals or airports could possibly be increased.

While no one revenue stream should take the entire burden of this increase in public-sector costs, a combination of increased taxes and new levies could be accommodated.

VII. SUMMARY

The research results are consistent with finding from studies where living wage ordinance which show that the costs to government and employers are quite modest. A modest number of workers and their families also benefit from wage gains. Why, then, should the USVI undertake this effort? After all, if any of the elements of the Living Wage are implemented, someone will have to pay for it. Part of the answer to the question rests in the ability and response of governments to meet the needs of its people, including the working poor. The economy, structured as it is at this time will not enable its workers to move up the economic ladder to the point of self-sufficiency. Thus, if change is to occur, it will require government intervention to start the movement toward better wages. This movement is neither large in terms of the number of workers affected, nor are the costs involved inhibitive. In short, a test of the policy focusing on government employees, government contracts, and EDC beneficiaries makes sense over time.

The real question centers upon who benefits and who pays. At the minimum rate, there is a raise in the wages of the poor to \$10.00 per hour. Given the annual increase in tax revenues in good times and given the political will, there is the ability of the government to cover those costs of this increase with little impact on its overall budget. In fact, a large majority of government workers already make a minimum wage of \$10/hour. Reinforcing this mandate and expanding it to government contractors would be a simple first step to achieving a degree of living wages.

At the high rate of \$16.00 per hour, the ability of the government to meet the costs out of additional projected revenues would not be possible. The government would have to increase taxes, shift funds or tap into other revenue sources. While a combination of relying on additional property tax revenues, levying other fees, and using other funding will allow for payment of the additional costs, the current economic and political reality might not allow for that at the present time.

VIII. RECOMMENDATIONS

If the government wishes to raise the standard of living of its people and begin to create a class of people who can live above the poverty line, there will be a need for direct intervention. The recommendation is steady, but progressive movement over time with clearly stated benchmarks to move in this direction.

1. Mandate the \$10/hour minimum wage for all government workers, government contractors and EDC beneficiaries immediately. While this will not affect too many workers, it is a symbolic move in the right direction. Additional costs associated with this are minimal and easily absorbed without any increases in revenues, mainly due to the fact that most workers in this category are already making \$10/hour.
2. At a minimum, keep pace with changes in federal minimum wage standards. At \$10/hour, the USVI is already paying 37% higher than the \$7.25 in minimum wages. Keeping that ratio steady would be beneficial. As there is no proposal to increase minimum wage standards at the federal level, this again would be a symbolic move in the right direction.
3. Consider increasing the minimum wage of government workers to \$12/hour in 3 years. This increase would impact 15% of the government workforce (an estimated 2,000 people) and yet be absorbed within the present revenue trends (not counting future increases in revenues).

Living Wage mandate as part of a Larger Economic Development Strategy

In addition to these benchmarks, the living wage policy can become part of an overall economic strategy to build more equitable public-private partnerships within the context of a more diversified economy, focusing on sectors with strategic, competitive advantages and the potential for growth in well-paying jobs.

If the central government intends to move forward with a Living Wage, it will need to develop a toolkit of government actions that will support the effort. This toolkit will provide both “carrots and sticks” to insure that those companies wishing to invest in the Territory or who wish to accept contracts, contribute to the program. For example, any company wishing to build a hotel and that requests a tax break for its investment would not be eligible to obtain relief unless it pays its workers a living wage. On the other hand, if the company wants to build the hotel without the tax relief program, it would not be forced to do so. It would simply pay its workers the prevailing wage. If the USVI is going to sacrifice by lowering e taxes, then it must have a good reason: a condition for tax abatements would be to comply with the living wage program.

The same “carrots and sticks” type approach can be used for other programs as well including the discounting of government-owned land that is proposed for development; obtaining low-interest bond proceeds and the expansion of infrastructure and re-zoning. If any investor makes a request for abatements through government land sales, capital improvements toward the investment, lower interest rate programs or regulatory changes, that investor would have to provide a living wage as one of the conditions for approval. The greatest value of this approach is that it does not force the investor to pay the wage. However, if the investor needs the help of the government, it must meet this important element of economic reform.

In many ways, this approach is similar to the leveraging programs for housing that have long been in place in the more progressive mainland cities. For example, the City of Boston has long had a practice of negotiating with developers over the size, form, and uses of proposed buildings. If the proposed developer wishes to obtain higher densities, a change in zoning, funding for capital improvements etc., that developer must contribute to a defined city need. Most often in the core of Boston, it was affordable housing. In the core of the USVI, it could be the Living Wage.

In short, it is unlikely the Living Wage policy will grow to the point that it becomes pervasive in the USVI unless it moves beyond the EDC, contractors and lowest paid government workers. It must become part of the reality of investments in the community. A good start in this direction would be to focus on investments that require a private-public partnership.

Appendix A.

Excerpts from Articles about the Impacts of Living Wage Ordinances on Communities

The Brookings Institution

Title: Metropolitan Economy Initiative | Number 6 - Living Wage Laws: How Much Do (Can) They Matter?

Author: [Harry J. Holzer](#), Nonresident Senior Fellow, [Metropolitan Policy Program](#)

Date: December 10, 2008

In recent years, many municipalities and counties throughout the nation have enacted living wage laws which require businesses that benefit from government contracts or other forms of public financial assistance to pay wages well above the federal minimum wage, and sometimes benefits to their workers. Advocates of these laws often view them as ways to raise the earnings of low-wage workers and reduce wage inequality. Opponents often believe that the laws reduce the number of jobs available to low-wage workers and drive businesses away from the jurisdictions that enact them.

This discussion paper describes the living wage laws that currently exist and reviews the academic evidence on their impact. It focuses on the laws' impacts on labor market outcomes such as wage levels, employment rates, poverty, and inequality. The review's most important findings for policymakers and practitioners are:

- Living wage laws affect very few workers directly. Few employees work for firms that are subject to living wage laws. Most studies suggest that the laws cover only 2%-3% of the bottom tenth of wage-earners. Even in a city of 1 million people, only about 1,500 workers are likely to be covered. However, it is possible that the impacts of living wage laws spill over to other workers who do not work for covered employers.
- Living wage laws have both modest benefits and modest costs for low-wage workers. Living wage laws raise the wages of the lowest-wage workers. They may also result in lower turnover, better worker morale, and modest reductions in poverty. However, they lead to modest reductions in employment for the lowest-wage workers and may also result in reductions in training and in the use of part-time or overtime work.
- Living wage laws can be useful, but meaningful increases in the earnings of low-wage workers and reductions in poverty require more powerful public policies. Because of their limited coverage and modest effects on wages, living wage laws cannot have a large impact on low wages or poverty. Other public policies, such as those to expand collective bargaining, education and training, and publicly financed health insurance and parental leave are likely to have more impact. Living wage laws can be useful if they raise awareness of pay disparity issues and build support for more powerful policies to raise the earnings of low-wage workers.

The Economic Impact of Local Living Wages

Authors: Jeff Chapman and Jeff Thompson

Date: February 16, 2006

Publication: EPI Briefing Paper #170

Living wage laws have small to moderate effects on municipal budgets.

- A detailed survey of 20 cities found that the actual budgetary effect of living wage laws had been consistently overestimated by city administrators; actual costs tended to be less than one-tenth of 1% of the overall budget.
- Two separate studies of the Baltimore living wage found that city contract costs increased less than the rate of inflation.
- A study of the Los Angeles ordinance found no measurable effect on the city's fiscal health.
- A study of living wage ordinances in three New England cities found that contract costs only raised in one city.
- Multiple studies have shown that the bidding for municipal contracts remained competitive, or even improved, as a result of living wage ordinances.

Living wage laws benefit working families with few or no negative effects.

- Recent studies using original surveys in both Los Angeles and Boston have shown that the workers affected were mostly adults and mostly working full-time.
- Both the Boston and Los Angeles studies also showed that most living wage workers were in households struggling to meet a basic-needs budget.
- In Baltimore and Boston, empirical studies have found no evidence of diminished employment.
- In Los Angeles, surveys of workers and firms show that job losses affected just 1% of workers getting a raise.
- Two studies of San Francisco's living wage policies found employment increased among airport workers and home health care workers.
- An exception to the general conclusion of research on living wages is a series of studies by David Neumark and Scott Adams (2005, 2003) that estimate relatively large wage gains and employment losses. The method of these studies has been severely criticized, and the findings discredited by many researchers (CITE).

Living Wage Laws in Practice: The Boston, New Haven and Hartford Experiences

Publication: Amherst, MA: University of Massachusetts, Political Economy Research Institute

Date: 2005

Authors: Mark D. Brenner and Stephanie Luce

Some cities have taken active steps to mitigate the costs of their living wage laws. For example, in a one-year report filed in February 2000, Pasadena city manager, Cynthia Kurtz, found that the cost of five contracts rose by \$168,000; the report did not specify the total contract cost. However, according to Steve Mermell, who oversees Pasadena's living wage law, the city had actually budgeted \$340,000 to cover an expected cost increase. Officials negotiated with their contractors to split the higher costs, agreeing in exchange to extend existing contracts rather than put them out for competitive bid.

In a similar case, Multnomah County, Oregon, reported a 5 percent rise in total contract costs for covered services after implementing its living wage policy. However, costs would have risen 27 percent under the old contracts: the county saved funds by consolidating janitorial services at the Department of Corrections, the courthouse and the county jail into a single contract. This appears to be an example of "relational contracting"—wherein the parties recognize "that for all intents and purposes they depend on one another," and "that it's in their self-interest to establish a long-term cooperative relationship." This quote comes from Sclar (2000). Multnomah County data come from Facilities and Property Management Division (n.d.). For more on relational contracting, see Sclar (op. cit.).

From: Santa Fe's Living Wage Ordinance and the Labor Market

Publication: Employment Policies Institute

Date: September 23, 2005

Author: Aaron S. Yelowitz

Overall, the results of this complete economic analysis show that the living wage in Santa Fe had an indisputable negative effect on the labor market. As a result of the increase in the wage floor, unemployment is significantly increased in the city and individuals who were able to keep their jobs are being forced to work fewer hours. Most troubling, though, is the fact that the least skilled employees are those who are being most hurt by this ordinance.

Living Wage Laws & Communities: Smarter Economic Development, Lower Than Expected Costs

Publication: Economic Justice Report

Date: November 2003

Author: Andrew J. Elmore

For city contracts, local officials reported that cost increases have been small and less than initially expected.

- For most cities, contract costs increased by less than 0.1% of the overall local budget in the years after a living wage law was adopted.
- Generally, in each city, a few contracts involving large numbers of low-wage workers—for example, contracts for janitorial or security guard services—increased substantially in price. For these few contracts, the contracting businesses submitted higher bids, or negotiated for higher prices, to perform the city work once the living wage requirement took effect.
- But the officials interviewed found that most contracts increased little, if any, in cost. In many cases, contracting employers were reported to have absorbed much or all of the additional labor costs without demanding increased funds from the cities.
- Living wage requirements encouraged some local governments to institute competitive bidding for contracts that had not been put out for bid in many years, reportedly yielding savings for the cities.
- In localities that extended living wage requirements to contracts for human services such as home health care or child care, cost increases were slightly larger—ranging from 0.3% to 2.79% of local human services budgets—although still quite moderate overall.
- These increased costs reflect both the high concentrations of low wages among city-contracted caregivers, and the fact that cities have sometimes agreed to automatically pay for some or all of the increased wage costs for such contracts because of the vital nature of human services and the budgetary constraints faced by the non-profit agencies that often provide these services.

Appendix B

TECHNICAL APPENDICES

Calculating the economic impact of the Living Wage Ordinance is important to public policy makers. Since this is not an ex-post assessment, several assumptions are made for each affected group. These assumptions are based on industry specific information from the Bureau of Labor Statistics. Whenever possible, local industry data is used. The goal of the assessment was to estimate the dollar impact on both the public and private-sectors of increasing the minimum wage to a living wage standard. In essence, the analyses needed to identify the payroll implications for workers at or below minimum wage for each industrial sector affected by the change.

For the **government employee** subgroup, we were provided with payroll data and employment figures. For the **government contracts** subgroup, we were provided with total contract value for the last 3 years (2007, 2008 and 2009) in three basic categories: construction, general services and professional services. We assumed professional services were those that required at least a college degree. For the **EDC Beneficiary** subgroup, we were provided with industry specific data for the USVI and with the level of subsidies by 4 major sectors.

I. Calculation Steps for Central Government Payroll

1. In order to calculate the increased costs of raising wage levels, information on number of employees with several wage categories was collected.

Wage Profile of Central Government Workers

Wage Brackets (\$/hr.)	Number of Government Workers	Cumulative Summary of Workers	Percent of Government Workers
Less than \$10	270	270	2%
\$10.1 to \$12	1,541	1,811	15%
\$12.1 to \$14	991	2,802	23%
\$14.1 to \$16	935	3,737	31%

2. Based on the information presented, the total payroll needed to raise all affected workers to the new living wage thresholds was calculated by multiplying the number of affected workers in each wage bracket by the \$ increase in pay from the base pay to the desired living wage.

Increase in Payroll and Percent of Operating Budget

Living Wage/hour	Increase in Payroll
\$ 10.00	\$ 1,544,400
\$ 12.00	\$ 5,872,880
\$ 14.00	\$ 15,487,920
\$ 16.00	\$ 29,069,040

Additional Possible Impacts on Semi-Autonomous Agencies

Semi-Autonomous Agencies (2009)	Payroll	Number of Employees
Schneider Regional Medical Center	\$ 20,797,845	N/A
Water and Power Authority (WAPA)	\$ 27,066,863	654
Virgin Islands Public Finance Authority (VIPFA)	\$ 609,597	7
Virgin Islands Housing Authority (VIHA)	\$ 8,354,692	263
Economic Development Authority (EDA)	\$ 2,405,000	43
Virgin Islands Lottery	\$ 3,333,446	65
Housing Finance Authority (HFA)	\$ 2,258,068	46
Government Employees' Retirement System (GERS)	\$ 7,260,377	91
West Indian Company (WICO)	\$ 2,145,427	86
University of the Virgin Islands (UVI)	\$ 28,384,579	492
TOTAL	\$ 102,615,894	1,747

2. Calculation Steps for Government Contracts

1. The number of employees in the USVI, by industrial sector, was determined through BER data for the 3 years (2007-2009).
2. Average annual payroll by industrial sector for USVI workers was determined through BER data for the 3 years (2007-2009).
3. Multiplying average payroll by number of workers provided total payroll by industrial sector for each year.

4. The Bureau of Labor Statistics (BLS) issues a national industrial report that estimates the percentage of workers that make minimum, or less than minimum wage, by industrial sector. In the absence of local data, these national percentages were used for each affected sector in the corresponding year. The table below shows the estimates used in our calculations.

Industry	2007	2008	2009
Construction	0.60	0.50	1.00
General Services	2.70	4.00	6.90
Professional Services	0.70	1.00	2.50

5. Applying these percentages to actual USVI employment figures allow us to estimate the number of workers affected in each sector by year.
6. We used this calculated figure of affected workers to generate the estimated minimum wage payroll:
- a. Number of affected workers
 - b. Multiplied by a minimum wage of \$7.25/hour
 - c. Multiplied by number of hours in a working year – 2,080 hours
7. This calculation provided us with an estimate of minimum wage payroll as a percentage of total payroll.
8. Since contract services data was not aggregated by personnel costs, an input-output model was created to estimate the personnel costs for each industrial sector. This model is USVI specific and based on BLS 2007 data.

Output: Value Added and Employment in Dollars/Percentage

Industry	Employee Compensation*	Proprietor Income*	Other Property Income*	Indirect Business Tax*	Total Value Added*
Ag., Forestry, Fish & Hunting	\$ 41,790	\$ 24,939	\$ 82,875	\$ 9,549	\$ 159,152
Mining	\$ 64,918	\$ 51,284	\$ 134,353	\$ 22,027	\$ 272,582
Utilities	\$ 62,868	\$ 27,551	\$ 151,996	\$ 46,679	\$ 289,095
Construction	\$ 440,861	\$ 131,741	\$ 104,998	\$ 11,247	\$ 688,847
Manufacturing	\$ 949,490	\$ 89,657	\$ 473,987	\$ 54,966	\$ 1,568,100
Wholesale Trade	\$ 421,065	\$ 32,998	\$ 145,743	\$ 168,571	\$ 768,377
Retail Trade	\$ 485,800	\$ 57,965	\$ 139,546	\$ 194,447	\$ 877,758
All Other Services	\$ 2,630,151	\$ 407,710	\$ 2,191,365	\$ 473,852	\$ 5,703,078
Professional Services	\$ 1,185,527	\$ 232,355	\$ 249,784	\$ 34,162	\$ 1,701,828
Government & Non-NAICs	\$ 1,531,103	\$ -	\$ 247,679	\$ -	\$ 1,778,782
TOTAL	\$ 7,813,573	\$ 1,056,200	\$ 3,922,326	\$ 1,015,500	\$ 13,807,600
Industry	Employee Compensation*	Proprietor Income*	Other Property Income*	Indirect Business Tax*	Total Value Added*
Ag., Forestry, Fish & Hunting	26.26%	15.67%	52.07%	6.00%	1
Mining	23.82%	18.81%	49.29%	8.08%	1
Utilities	21.75%	9.53%	52.58%	16.15%	1
Construction	64.00%	19.12%	15.24%	1.63%	1
Manufacturing	60.55%	5.72%	30.23%	3.51%	1
Wholesale Trade	54.80%	4.29%	18.97%	21.94%	1
Retail Trade	55.35%	6.60%	15.90%	22.15%	1
All Other Services	46.12%	7.15%	38.42%	8.31%	1
Professional Services	69.66%	13.65%	14.68%	2.01%	1
Government & Non-NAICs	86.08%	0.00%	13.92%	0.00%	1
TOTAL	56.59%	7.65%	28.41%	7.35%	1

9. Using the I/O table, we calculated the percent of contract value that would be personnel related and, thus, affected by changes in payroll.
10. Applying the percent calculated in Step 7, to get at the amount of payroll at minimum wage.
11. Dividing the payroll at minimum wage by \$7.25 (minimum wage), we get the total hours worked at minimum wage.
12. These numbers of hours are then multiplied by the different increases in minimum wage (to get to the living wage standards) to estimate total dollar impacts.
13. Finally, those dollar impacts are converted to percentage change in total contract value to put the numbers into perspective.

3. Calculation Steps for EDC Beneficiaries

1. The number of employees within the subsidized firms, by industrial sector, was provided through EDC data for the 2 years (2007 and 2008). Data for 2009 was not available at the time of this study.
2. Average annual payroll by industrial sector for USVI workers was determined through EDC data for the 2 years (2007 and 2008).
3. Multiplying average payroll by number of workers provided total payroll by industrial sector for each year.
4. The Bureau of Labor Statistics (BLS) issues a national industrial report that estimates the percentage of workers that make minimum, or less than minimum wage, by industrial sector. In the absence of local data, these national percentages were used for each affected sector in the corresponding year. The table below shows the estimates used in our calculations.

Industry	2007	2008
Manufacturing	0.40	0.60
Hotel and Leisure Services	12.40	14.40
Professional Services	2.50	2.70
Utilities	0.50	0.40

5. Applying these percentages to actual employment figures in subsidized firms, allows an estimation of the number of workers affected in each sector by year.
6. This calculated figure of affected workers was used to generate the estimated minimum wage payroll:
 - a. Number of affected workers
 - b. Multiplied by minimum wage of \$7.25/hour
 - c. Multiplied by number of hours in a working year – 2,080 hours
7. This calculation provided an estimate of minimum wage payroll as a percentage of total payroll.
8. Applying the percent calculated in Step 7, to get at the amount of payroll at minimum wage.
9. Dividing the payroll at minimum wage by \$7.25 (minimum wage), to get the total hours worked at minimum wage.

10. These numbers of hours are then multiplied by the different increases in minimum wage (to get to the living wage standards) to estimate total dollar impacts.

Finally, those dollar impacts are converted to percentage change in total contract value to put the numbers into perspective.