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City Club Study on Ballot Measure 25 and Ballot Measure 26-33

City Club of Portland (Portland, Or.)

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Ballot Measure Studies

Oregon State Ballot Measure 25: Increases Oregon Minimum Wage to \$6.90 in 2003; Increases for Inflation in Future Years

Majority Recommends “NO” on Measure 25

Measure 25 may help some full-time workers earn their way out of poverty, reduce their need for food aid and other assistance, and even increase wages for those earning slightly higher than the minimum wage. In addition, it may also boost wages for welfare recipients returning to work and help the young people, women, and minorities who make up a disproportionate share of minimum wage workers.

However, Measure 25 is a blunt instrument that has substantial effects beyond serving the poorest wage earners who legitimately need the increase. Passage of Measure 25 would have unintended results that would actually worsen the situation for Oregon's low-skilled workers. A higher minimum wage would effectively raise the qualification bar for entry level jobs, increase competition for minimum wage jobs by attracting skilled discretionary workers to the workforce, and potentially reduce the number of entry-level positions available. A single statewide minimum wage, with no provision for training wages, tipped employees and agriculture workers places an unhealthy burden on specific industries. In addition, Measure 25 fails to address the significant economic disparity that typifies urban and rural Oregon.

A majority of your committee recommends a **NO** vote on Measure 25.

The City Club membership will vote on this report on Friday October 18, 2002 . Until the membership vote the City Club of Portland goes not have an official position on this report. Bhe outcome of this vote will be reported in the City Club Bulletin dated November 1.

City Club Study on *Ballot Measure 25*

I. INTRODUCTION

Ballot Measure 25 will appear on the ballot as follows:

Caption: Increases Oregon Minimum Wage to \$6.90 in 2003; Increases for Inflation in Future Years.

Result of "Yes" Vote: "Yes" vote increases the Oregon minimum wage to \$6.90 in 2003, requiring annual increases for inflation in future years, based on consumer price index.

Result of "No" Vote: "No" vote rejects increasing Oregon minimum wage to \$6.90 in 2003, requiring annual increases for inflation in future years based on consumer price index.

Summary: Oregon's minimum wage is set by statute at \$6.50 per hour. That minimum wage has applied since January 1999; current law does not adjust the minimum wage for inflation. This measure increases Oregon's minimum wage to \$6.90 for calendar year 2003 and requires that minimum wage be increased for inflation in each subsequent year. Requires the Commissioner of the Bureau of Labor and Industries to calculate the adjustment for inflation each September, based on any increase in the U.S. City Average Consumer Price Index for All Urban Consumers for All Items that occurred during previous twelve months. Provides that recalculated minimum wage is rounded to nearest five cents and new minimum wage becomes effective January 1 of the following year.

Estimate of Financial Impact: The measure would require state expenditures of \$1.19 million in 2003, \$1.22 million in 2004, and \$1.26 million in 2005. The measure would result in an increase in state revenues of \$847,000 in 2003, \$872,000 in 2004, and \$898,000 in 2005. For the years after 2005 the impact on state expenditures and revenues is expected to increase at the rate of inflation.

Ballot Measure 25 would increase Oregon's minimum wage to \$6.90 and tie it to the *Consumer Price Index for All Urban Consumers for All Items* (CPI-U)¹ for annual increases. City Club created your committee to examine Measure 25 and to recommend a position to the City Club general membership. City Club does not have an established position on minimum wage issues.

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Committee members were screened to ensure that no member had an economic interest in the outcome of the study or had taken a public position on the subject. The committee interviewed proponents and opponents of Measure 25 along with three economists beginning August 16. The committee also reviewed articles, reports, and other materials deemed informative and relevant to the measure.

II. BACKGROUND

What is the History of the Minimum Wage?

In 1938 the federal minimum wage law was enacted through the Fair Labor Standards Act (FLSA). Today the FLSA allows states to set their own minimum wages at a rate higher than the federal government, and to set a different minimum wage for certain occupations. As Table 1 shows, Oregon is one of only ten states plus the District of Columbia to have a minimum wage above the federal minimum wage currently set at \$5.15 per hour.

Table 1: States with a Minimum Wage Higher than the Federal Minimum Wage of \$5.15	
State	Wage
Washington	\$6.90*
California	\$6.75
Massachusetts	\$6.75
Connecticut	\$6.70
OREGON	\$6.50
Hawaii	\$6.25
Vermont	\$6.25
Delaware	\$6.15
District of Columbia	\$6.15
Rhode Island	\$6.15
Maine	\$5.75
Alaska	\$5.65 (\$7.15* effective 1/1/03)
* Wage is tied to a CPI for annual increases.	

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What is the Purpose of the Minimum Wage?

The answer to this question depends on whom you ask. Upon passage of the FLSA, President Roosevelt said the act would "help those who toil in factory and on farm to obtain a fair day's pay for a fair day's work."² Over time, other ideas have become associated with the minimum wage. One of those ideas is that the minimum wage is an "entry level" or "training wage" appropriate for a person beginning employment and requires on-the-job experience or training before earning a wage commensurate with actual performance. Another view is that the minimum wage should provide wages for "necessities" similar to a "living wage."³ The third is as a regulatory device to prevent exploitation of workers.

Because neither the passage nor failure of Measure 25 would remove Oregon's minimum wage, further analysis of the purpose and merits of a minimum wage is beyond the scope of this ballot measure study.

Who Earns the Minimum Wage?

Teens, young adults, women and minorities account for most minimum wage earners. Most proponents and opponents of minimum wage increases use data from the Bureau of Labor Statistics which tracks the demographic characteristics of U.S. minimum wage workers.⁴ According to this source, in 2001, roughly three percent (3.1 percent) of all hourly wage workers earned the federal minimum wage. As Table 2 indicates, more than one-quarter (28.2 percent) of minimum wage earners are age 16-19. Nearly twenty-six percent (25.7 percent) are age 20-24, and two-thirds (64.9 percent) are women.

² Skylar, Holly. *Raise the Floor: Wages and Policies That Work For All of Us*.

³ For the year 2000, the Northwest Policy Center, Northwest Federation of Community Organizations, and Oregon Action estimated a living wage to be \$11.05 per hour or \$22,985 per year for a single adult. Living wage is also a term used by some local governments, including Multnomah County, and the cities of Portland and Ashland, to define a level of pay required for any person working under contract for that government. Northwest Job Gap Study, "Searching for Work That Pays, 2001," Northwest Policy Center, Northwest Federation of Community Organizations, and Oregon Action, June 2001.

⁴ Unpublished statistics, Current Population Survey, Bureau of Labor Statistics, 2001.

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Table 2: 2001 Percent of U.S. Minimum Wage Earners by Gender and Age

Age	Men	Women	Total
16-19	12.2%	16.0%	28.2%
20-24	8.9%	16.9%	25.7%
25-29	3.4%	5.6%	9.2%
30-34	1.9%	5.2%	7.1%
35-39	2.1%	4.5%	6.6%
40-44	1.6%	4.7%	6.3%
45-49	1.1%	3.2%	4.2%
50-54	1.2%	2.6%	3.8%
55-59	.6%	2.1%	2.7%
60-64	.7%	1.7%	2.4%
65-69	.7%	1.1%	1.8%
70+	.7%	1.3%	2%
Totals	35.1%	64.9%	100%

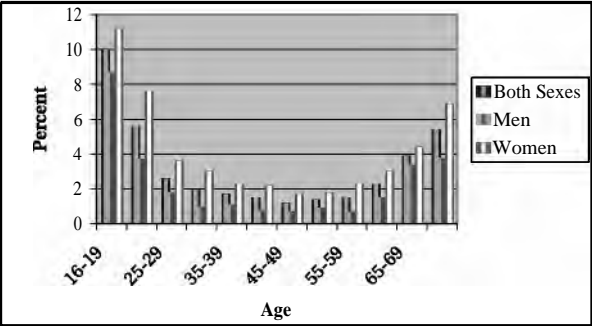
On the national level, an estimated 12 percent of full-time and part-time wage and salary workers who are paid at or below the federal minimum wage (\$5.15 per hour) are supporting families.⁵ An estimated six percent of minimum wage workers nationwide have more than one job.⁶

In Oregon, roughly four percent of workers, or about 76,000 people, earn minimum wage, of which 15 percent are minorities.⁷ According to the Oregon Department of Employment, more people are employed at the minimum wage

in urban areas than in rural areas simply because more jobs are available in larger cities.

Overall, most workers do not stay at the minimum wage for long. As they gain experience and skills, they begin to earn hourly rates above the minimum wage. According to a report prepared by the Employment Policies Institute, "as workers age, much lower percentages are found at the minimum."⁸ The same report claims 65 percent of minimum wage workers go on to earn a higher wage within their first year of employment.

Chart 1: Percent of Workers Paid an Hourly Wage at or Below the Federal Minimum Wage



⁵ Unpublished statistics, Bureau of Labor Statistics, 2001.
⁶ "Characteristics of Multiple Jobholders, 1995," *Monthly Labor Review*, U.S. Bureau of Labor Statistics, March 1997.
⁷ Estimates provided by Oregon Employment Department, Research Department, Workforce Analysis Unit.
⁸ Even, William and Macpherson, David. "Rising Above the Minimum Wage," Employment Policies Institute, January 2000.

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Has Oregon's Minimum Wage Kept Pace with Inflation?

No. In spite of periodic increases, the purchasing power of Oregon's minimum wage earners has eroded over time. In 1976, Oregon's minimum wage was \$2.30 per hour. At that time, using 1999 dollars, the purchasing power was \$7.01. By 1989, the purchasing power of Oregon's minimum wage had dropped to \$4.83. With the passage of the last minimum wage voter initiative in 1996, the value of Oregon's minimum wage rose consecutively for three years and reached its highest level in real dollars since 1976.

Who Employs Minimum Wage Workers in Oregon?

Most minimum wage workers are employed in the retail and food service industries. When tracked by *occupation*, the Bureau of Labor Statistics reports that 49.5 percent of minimum wage earners work in food service. When tracked by *industry type*, 59.9 percent of minimum wage workers work in retail.⁹

Four percent of hourly paid workers in the nation's agriculture industry are paid wages at or below the prevailing federal minimum wage of \$5.15 per hour. (Some employment categories are exempt from the federal minimum wage law, though the list of exemptions under the stricter Oregon law is very short.)

III. PROPONENTS' AND OPPONENTS' ARGUMENTS

Proponents of Measure 25 advance the following arguments:

Measure 25 would:

- Increase the earnings of Oregon's lowest wage earners.
- Benefit farm workers who lack union protection.
- Ensure that the purchasing power of minimum wage earners never falls.
- Benefit primarily minorities, women, the elderly and youth.
- Not significantly impact Oregon's overall economy.
- Increase income and thereby possibilities to purchase necessities.
- Help some families earn their way out of poverty.

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- Increase wages for caregivers of the elderly and children.
- De-politicize future wage increases.
- Not cause significant job loss.

Opponents of Measure 25 advance the following arguments:

Measure 25 would:

- Decrease the jobs available for workers who would earn the minimum wage or who need job training.
- Have a disproportionate impact on the retail, farm and restaurant industries.
- Adversely impact communities outside the Portland metropolitan area where beginning market wages are lower.
- Raise wages to higher levels than those in cities of comparable sizes.
- Make Oregon's farmers less profitable in the global market because their prices are set to commodities markets.
- Reduce some full-time workers at the minimum wage level and above to part-time status.
- Lead to inappropriate wage escalation caused by annual indexing.
- Not reduce wages if the CPI-U drops.
- Have an inappropriate impact on rural areas since the CPI-U is an urban index.
- Hurt small businesses during an economic recession.

IV. DISCUSSION AND ANALYSIS

A person working at the current minimum wage of \$6.50 for 40 hours per week for 52 weeks would earn \$13,520 per year. This is above the federal poverty line for one- and two-person households (\$8,860 and \$11,940 respectively), but falls below the poverty line if the person is the sole wage earner for a three-person household (\$15,020). The U.S. Census Bureau measured Oregon's overall poverty rate for 1997-98 at 13.3 percent. The rate is considerably higher for children, single women and minority group members.¹⁰

Assuming an annual income based on a 40-hour week for 52 weeks is somewhat generous, as most (61.6 percent) minimum wage earners

¹⁰ Novak, Theresa "Working Poor Dominate Poverty Rolls" A Portrait of Poverty in Oregon, Oregon Extension Service.

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work part-time. With this in mind, one can see how difficult supporting a family on minimum wage can be. However, even if Measure 25 passes, it still would not increase the minimum wage to a "living wage."

Witnesses for the opposition, as well as state and private economists, spoke of "market wages." Market wages stand in stark contrast to minimum wages in that minimum wages are artificial, where as market wages are determined through natural market forces and vary by occupation and industry. Your committee was unable to quantify the number or types of jobs in Oregon for which the market wage does not exceed the minimum wage. However, information from the U.S. Department of Labor, Bureau of Labor Statistics ¹¹ tends to indicate that many typical low-wage jobs often pay more than the minimum wage. Below are a few examples of median and mean wages to illustrate this point:

Table 3: Median and Mean Wage Variances

Industry	Median Wage/hr.	Mean Wage/hr.
Cooks (fast food)	\$7.41	\$7.51
Food Preparation Workers	\$7.75	\$8.19
Waiters/Waitresses	\$6.82	\$7.41
Farm Workers and Laborers (farm and ranch animals)	\$6.83	\$7.91
Farm Workers and Laborers (crop, nursery, greenhouse)	\$7.21	\$7.81

Who will benefit from the minimum wage increase and by how much?

All minimum wage earners would receive a boost in their income. For a full-time minimum wage earner, the monthly increase would be approximately \$64 per month before taxes. In addition, a recent study by the Oregon Center for Public Policy claims that increases in the minimum wage also increase the earnings for workers in the lowest 15 percent income bracket, not just those earning the minimum wage. ¹²

Would Measure 25 really help?

Proponents claim the minimum wage increase would help people work their way out of poverty by increasing the level of pay for women

¹¹ U.S. Department of Labor, Bureau of Labor Statistics, 2000 State Occupational Employment and Wage Estimates Oregon.
¹² Thompson, Jeff, "Oregon's Increasing Minimum Wage Brings Raises to Former Welfare Recipients and Other Low-Wage Workers Without Job Losses," Oregon Center for Public Policy, June 2002.

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and minorities, the young and the old, and heads of households who rely on their income for the expenses of daily living. Though this may be true for workers who retain their jobs, the increase will not help low-wage workers who lose their jobs or have their hours cut so employers can maintain their profit margins. According to the economists we interviewed, employers compete for qualified workers by paying them whatever wage the market allows. The economists also said that employers might not hire low-skilled workers at a higher wage. Instead, employers may decide to cut costs by mechanizing production, reducing hours or cutting jobs. As a result, low-skilled workers with insufficient work experience and qualifications could become further entrenched in poverty.

Although it may be obvious, your committee feels it is important to note that the minimum wage does not help people who are unemployed. This includes some of the most impoverished people in our society. In fact, a higher minimum wage may further reduce their chances of entering the job market.

Should Oregon increase its minimum wage during an economic recession?

Opponents of Measure 25 stated consistently that an increase in the minimum wage would increase unemployment. This contention is neither supported nor refuted by the available statistics. Too many variables are involved to quantify this type of cause-and-effect relationship. Looking at two recent minimum wage increases (1997 and 1998), the Oregon Center for Public Policy reported that employment in retail trade, one area expected to be affected significantly by a minimum wage increase, grew by 3.5 percent in 1997 and only two percent in 1998. Was the slowdown in retail growth due to the minimum wage increase? Perhaps, but these numbers may simply reflect a slowing of the overall economy. According to the Oregon Employment Department, this slowdown was partly due to the Asian financial crisis.

Looking at the most recent statewide employment statistics, retail employment has continued to grow during the current economic recession, with more jobs now than one year ago. Restaurants and bars accounted for 900 of the 1,200 retail jobs added in Oregon in August 2002; they now employ 2,900 more than in August 2001.¹³

¹³Ayre, Art, state employment economist, "Jobs Data Find State Running In Place," *The Oregonian*, Joe Rojas-Burke, September 14, 2002.

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Should the minimum wage be indexed to inflation?

Since the end of 1980, the CPI-U rose 114 percent nationally while Oregon's wage rose only 94 percent. This disparity illustrates that Oregon's minimum wage has not kept pace with the rate of inflation. If the minimum wage had been tied to the CPI-U at the end of 1980, Oregon's current minimum wage would be \$7.17, sixty-seven cents higher than today's minimum wage.

Measure 25 would provide an annual cost of living increase for minimum wage workers. Oregon would join Washington and Alaska as one of only three states to have their minimum wage tied to a consumer price index. The economists we interviewed said the indexing scheme proposed in Measure 25 does not appear to have any fatal flaws, and they do not expect it to have an adverse impact on the state's economy as a whole or a disproportionate impact on any particular group(s). In fact, they said the CPI-U best represents the actual rate of inflation of most areas in Oregon. The CPI-U is not a Portland-based index. It is derived from cities, large and small, throughout the United States. Therefore, the proposed index would not be overly sensitive to the nuances of the Portland economy.

Tying the minimum wage to the CPI-U would prevent the purchasing power of the wage from eroding. It would also remove the periodic necessity of going to the legislature or filing initiatives to update the state minimum wage. The current proposal provides for increases based on the index, but not for decreases. Although the CPI rarely decreases, it seems inconsistent to allow only for increases if the intent of the measure is to maintain an appropriate level of purchasing power.

Is there a disproportionate impact on certain segments of the economy.

Minimum wage earners can be found in many occupations and industries, but most are found in food service and retail. Because these industries employ the greatest number of people at the minimum wage, they will be the employers most affected by this measure. Tips and commissions often supplement the hourly wages received in these industries though, by law, they must be in addition to Oregon's minimum wage. According to the Oregon Restaurant Association, restaurant waitstaff in Oregon earn an estimated \$8-12 per hour in tip income. Measure 25 would effectively increase the wage of a waitperson to \$14.90-\$18.90 per hour.¹⁴ The combined earnings from

¹⁴ Tip estimates provided by the Oregon Restaurant Association. Based on "The Impact of Increases in the State Minimum Wage on the Oregon Restaurant Industry: 1997 to 1999," University of Oregon, 1999, and data available from the Internal Revenue Service.

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wages and tips already puts waitstaff incomes out of line with other restaurant employees.

Oregon's agricultural economy may be hardest hit. In 2001, approximately 38,550 agricultural workers were employed in Oregon, many of whom were low-wage workers. Opponents indicate that the average wage for farm workers already exceeds the minimum wage (see Table 3), and any additional costs will cause farm employers to choose either to go out of business or to mechanize production, thus reducing total available employment.

Though the impact on employment is difficult to predict, your committee strongly believes the agriculture industry is in a unique position because farmers cannot pass on costs to consumers as other industries do. Artificially increased labor costs coupled with prices dictated by global commodities markets would make it even more difficult for Oregon farmers to be profitable. Opponents suggested that an increase in the minimum wage might cause individual farmers to make one of three choices change crops, increase mechanization to reduce labor costs or simply give up farming.

What effect will the pro osed minimum wage increase have on the overall economyr

Oregon's economy is affected by many diverse factors. Predicting the effect of a minimum wage increase is challenging. However, based on the evidence we found, your committee believes the proposed increase in the minimum wage would have minimal effect on the state's economy as a whole. After all, minimum wage earners make up only about four percent of Oregon's labor force. However, for the retail, restaurant and agriculture sectors, the effect could be considerably more negative. Opponents of the minimum wage increase say those who employ the vast majority of minimum wage workers will be the hardest hit. As a result, either their profit margins will shrink, slowing their ability to invest in their business growth, or they will have to cut their employment costs by shifting full-time workers to part-time status, lay off workers, or raise their prices to absorb the cost. Your committee believes the impact would be more significant in rural areas.

Your committee is also concerned that such disproportionate impacts on these same employers may also have the unintended consequence of reducing the number of entry-level and low-skilled jobs available in

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Oregon. Oregon's unemployment rate (7 percent in August 2002) is already higher than the national average of 5.7 percent (August 2002).¹⁵

V. MAJORITY CONCLUSIONS

Fewer Jobs, More Unemployment

Employers typically hire employees whom they expect will produce the most value for the wage paid. A basic principle of business dictates that, at a minimum, an employee's job-related performance must produce value that is equal to or greater than the wage paid. If wages are set by an artificial minimum wage, rather than by the market and without respect to the value that employees create, employers logically would reconsider hiring and/or staffing decisions.

According to some witnesses interviewed, raising the minimum wage would reduce employers' incentive to hire low-skilled workers thereby putting those who are already the least likely to be hired at a greater disadvantage. Many of these are the very people Measure 25 seeks to help. Employers would be less likely to hire workers that require significant training because the employer would gain little productivity during the training period. Your committee believes incorporating a "training wage" into future minimum wage legislation could resolve this issue. For example, during the initial 60 days of employment, the employee could legally be paid less than the minimum wage.

Increased Competition for Low-Wage Jobs

A higher minimum wage would attract discretionary workers to the labor market thereby increasing competition for low-wage jobs. Discretionary or optional workers are those that do not need to work, but do so as a matter of personal choice. Included in this category are spouses providing a "bonus" income in a two-income household and youth who are not dependent on their income. Many of these people have higher education and more developed skills creating even further competition for low-skilled workers seeking employment. Again, this unintended effect hurts the very people Measure 25 proponents want to help.

Tips Not Included In Wage Calculation

Because Oregon law dictates that tipped employees must be paid at

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least the minimum wage in addition to their income derived from tips, waitstaff typically earn far more than other restaurant employees. To compensate for the skewed incomes of waitstaff, restaurant owners must pay non-waitstaff employees significantly more than the minimum wage just to retain them. Your committee believes this issue could be addressed with a tip credit provision in Oregon's minimum wage legislation. Such a provision would allow tipped workers to be paid less than the minimum wage as long as their total income including tips meets or exceeds the minimum wage.

Agriculture Sector Cannot Pass Through Labor Costs

Agriculture accounts for approximately 25 percent of Oregon's overall economy. Because farmers sell their products on international commodity markets, Oregon farmers, faced with a mandatory wage increase, would be essentially powerless to adjust prices to counteract the effect of Measure 25. Oregon Farm Bureau describes farmers as "price-takers, not price-makers." Raising the minimum wage would increase farm labor costs, cutting even deeper into already thin profit margins leaving farmers with rather bleak options: switch to less labor-intensive crops, mechanize production or quit farming. All of these would result in fewer jobs in Oregon.

Market Wages Higher in Urban Areas Than Rural Areas

The cost of living is higher in the Portland, Salem and Eugene metropolitan areas than it is in other areas of the state. Rural areas, where the cost of living and corresponding wage scales are typically lower than urban areas, would be negatively affected by a mandatory minimum wage set far above what the natural market wage would be. Though your committee believes the CPI-U is the best index to use, we are concerned that it does not adequately represent the economic realities of rural Oregon.

Minimum Wage Is Not A Living Wage; A False Sense of Accomplishment

Measure 25 does very little to help Oregon's impoverished citizens and could potentially create a false sense of accomplishment among lawmakers and the general population. A minimum wage is not a living wage and is unlikely to make a significant difference in the lives of those the proponents would most like to help. A few extra dollars a week will not help Oregon's poorest households manage the rising costs of health care and childcare, nor will it create opportunities for

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meaningful change that comes from targeted training and education programs.

VI. MAJORITY RECOMMENDATION

The majority recommends a **NO** vote on Measure 25.

Respectfully submitted by:

Mark Magnuson
Darren Beatty
Roger F. Smith
Alan Brickley, chair

VII. MINORITY CONCLUSIONS

The minority representation of your committee reached the following conclusions in support of Measure 25.

An Increase Is Necessary to Keep Pace with Inflation

Oregon's minimum wage has not kept pace with inflation. In 1996, Oregon voters increased the minimum wage from \$4.75 per hour to \$6.50 per hour over three years. Since the last increase became effective in 1999, Oregon's minimum wage has been stagnant. If Measure 25 fails, the purchasing power of the current minimum wage would continue to decline.

Oregon's Minimum Wage Should Be Consistent with Neighboring States

The proposed minimum wage increase to \$6.90 per hour would be consistent with other west coast states. Washington's minimum wage is currently \$6.90 per hour and is tied to a Consumer Price Index. California's minimum wage is slightly lower at \$6.75 per hour.

Measure 25 De-politicizes Future Minimum Wage Increases

Having a minimum wage that increases annually based on the CPI-U would de-politicize the subject. The passage of Measure 25 would

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remove the periodic necessity of going to the legislature or filing initiatives to update Oregon's minimum wage.

Minimum Wage Increases Do Not Hurt the Economy or Cause Job Loss

Increasing the minimum wage to \$6.90 per hour would have very minimal effect positive or negative on the overall economy. Evidence that it would have an adverse effect on the retail, restaurant and/or agriculture industries has not been substantiated. Furthermore, previous minimum wage increases have not caused widespread job loss, and we have no reason to believe Measure 25 will increase overall unemployment in Oregon.

Measure 25 Is Good for Everyone Particularly Women, Minorities, the Young and the Elderly

The minimum wage sets a reasonable wage floor for all Oregonians. The proposed minimum wage would ensure a fair entry-level wage for workers of all skill levels; many of whom would move up the wage scale. Perhaps most importantly, Measure 25 would protect the most vulnerable segments of our society single women, minorities, the young and the elderly.

Now is the appropriate time to increase Oregon's minimum wage. We strongly support Ballot Measure 25.

VIII. MINORITY RECOMMENDATION

The minority recommends a YES vote on Measure 25.

Respectfully submitted by:

Claire Corwin-Kordosky
Dr. William Connor

IX. ACKNOWLEDGEMENTS

Andy Sloop, research advisor
Wade Fickler, research director

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X. APPENDICES

Witnesses

Art Ayre, state employment economist, Oregon Employment Department

Julie Brandis, legislative representative, Association of Oregon Industries

Bill Connerly, economist

Phil Donovan, campaign manager, Coalition to Raise the Minimum Wage Yes on Measure 25

Cassandra Garrison, policy advocate, Oregon Food Bank

John Mitchell, western regional economist, U.S. Bank

Bill Perry, director of government relations, Oregon Restaurant Association

Representative Diane Rosenbaum, chief petitioner

Don Schellenberg, assistant director, governmental affairs, Oregon Farm Bureau

Dwayne Stevenson, occupational analyst, Oregon Employment Department

Resource List

Coalition to Raise Minimum Wage, campaign material.

Oregon Bureau of Labor and Industries, www.boli.state.or.us.

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Ballot Measure Studies

City of Portland Ballot Measure 26-33: Five-year Levy for Children's Investment Fund

Committee Recommends “YES” on Measure 26-33

Your committee unanimously recommends support for Measure 26-33. Although specific implementation issues need to be defined, we agree with proponents that additional funding is needed for early childhood services, after school and mentoring programs and programs designed to prevent child abuse and neglect. We also believe that this measure offers a practical way of providing these services. The relatively modest short-term cost of this measure is worth the probable long-term gain for the children involved and the community as a whole.

The City Club membership will vote on this report on Friday October 18, 2002. Until the membership vote the City Club of Portland does not have an official position on this report. The outcome of this vote will be reported in the City Club Bulletin dated November 1.

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I. INTRODUCTION

Ballot Measure 26-33 will appear on the ballot as follows:

Caption: Five-year levy for Children's Investment Fund.

Question: Shall Portland support early childhood, after school, child abuse programs; five-year levy \$0.4026 per \$1,000 assessed value beginning 2003?

Summary: Measure would finance Portland Children's Investment Fund to support proven programs designed to help children arrive at school ready to learn, provide safe and constructive after school alternatives for kids, and prevent child abuse and neglect and family violence.

The Children's Investment Fund can only be used for:

- . Child abuse prevention and intervention, which addresses juvenile crime, school failure, drug and alcohol abuse and homeless youth.
- . Early childhood programs which make childcare more affordable and prepare children for success in school.
- . After school and mentoring programs that promote academic achievement, reduce the number of juveniles victimized by crime and increase graduation rates.

Accountability measures include:

- . Programs must be cost effective and have a proven record of success.
- . Investment fund will be subject to annual audits.
- . Administrative costs cannot exceed 5%.

Levy produces an estimated \$50 million over 5 years, averaging \$10 million per year. Levy is \$0.4026 per \$1,000 of assessed property value. A home valued at \$150,000 pays \$5.03 per month, \$60.39 per year.

The language of the caption, question, and summary was prepared by the City of Portland, Auditors Office, Elections Division.

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Measure 26-33 asks the voters of Portland to approve a new funding source for services to children. City Club created our committee to review Measure 26-33 and to recommend a position on the measure. Committee members were screened for possible conflicts of interest to ensure that no member had an economic stake in the outcome of the study or was publicly identified with the issue.

The committee met for five weeks beginning in early August. Pro -ponents, likely opponents and other witnesses considered relevant to the study were interviewed. In addition, the committee reviewed articles, reports and other material on the subject.

II. BACKGROUND

Many children start life at a disadvantage, without the support systems needed to thrive. They struggle every day to overcome poverty, homelessness, hunger and violence. Long-term research documented in the Citizens Crime Commission's KIIDS (Kids Intervention Investment Delinquency Solutions) report shows that delinquency and other anti-social behavior can often be accurately predicted based on certain risk factors. These factors include an abusive, neglectful or violent home life; lack of supportive adult relationships; criminal history in the immediate family; drug and/or alcohol abuse; and poor school attendance and failure in school.

Recent research also reveals the extent to which early childhood experiences physically shape the brain and its functions, and the impact this has on later success in life. By age three, our brains reach 90 percent of their adult size. During this period, personal experiences and environment have the strongest impact on children's ability to learn. Children who enter school unprepared to learn are often doomed to failure. Children who begin behind usually stay behind, and the cost of failing and/or dropping out of school can be tragic. Nearly 80 percent of Oregon's adult prison population dropped out of high school.

After school hours are a particularly vulnerable time for children. Most juvenile crime is committed between 2:00 p.m. and 8:00 p.m. The largest spike in the crime rate occurs in the hours immediately following school when children are most likely to be unsupervised by

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an adult. Children are also most likely to be crime victims in this same time period. Portland, like other cities, suffers from a chronic shortage of after school programs. According to a report issued by the U.S. Department of Education and the U.S. Department of Justice, only about 31 percent of primary school parents and 39 percent of middle school parents report that their children attended some form of after school program in 1998. In addition, many child care programs are both too expensive and inadequate to serve the working poor, although some families are able to provide quality childcare if a qualified non-working adult (e.g., grandparent or other relative) is available. In 1998, 68 percent of the women in Multnomah County with children under the age of six were in the work force. At the same time, the number of childcare spaces available met only about one-fourth of the need. Annual childcare costs range from \$8,500 for infant care to \$5,500 for a young child, which is a heavy burden for many families.

On February 6, 2001, the Portland City Council passed Ordinance No. 176251 referring Measure 26-33 to be decided by voters at the municipal election on November 5, 2002. The measure's proponents propose a five-year funding source for a variety of programs that have been proven effective at addressing child-related issues. The City would distribute money from the fund on an annual basis after a five-person committee composed of two citizen representatives and one each from the City, County and Portland Business Alliance¹ has selected specific programs to be funded.

Two past City Club studies, "Juvenile Services in the Portland Metro Area" (1987) and "Recent State and Local Efforts to Prevent Juvenile Delinquency" (1990), looked at problems that would be addressed by Measure 26-33. In 1990 a study group concluded, "...that a consistent emphasis on prevention is the best way to break the multi-generational cycle of delinquent behavior." The 1987 study recommended that "a well-planned and well-integrated continuum of care, ranging from prevention to re-integration" and "appropriate levels of stable funding and evaluations of cost-effectiveness" were needed.

III. ARGUMENTS PRO AND CON

A. Arguments Advanced in Favor of the Measure

Proponents of the measure have concluded from their research that:

- * Children who arrive at school ready to learn have more academic success and become more productive citizens.
- * After school and mentoring programs increase school success and graduation rates, and give kids constructive activities during the hours when they are most likely to get into trouble.
- * Preventing and intervening in child abuse and neglect not only keeps children safer, but also eliminates the greatest risk factor for juvenile crime, drug and alcohol abuse and homelessness.

These findings lead to the primary arguments in favor of Measure 26-33 and indicate the types of programs that would be funded. The arguments include the following:

- * Early childhood programs produce long-term benefits to children, including enhanced school achievement, increased high school graduation, higher earnings, and decreased involvement in the criminal justice system. Head Start and Early Head Start are examples of successful programs in this area.
- * After school programs are successful in improving academic performance and helping kids avoid high-risk and dangerous situations. They also have a positive impact on workplace productivity by giving parents peace of mind. Examples in this area include the SUN School Program, Self-Enhancement, Inc., Friends of the Children and the Police Activities League.
- * A variety of programs have been successful in reducing incidents of child abuse, neglect and family violence, including child abuse assessment centers, teen parent programs and relief nurseries.

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In addition to the beneficial results from these programs, other arguments in favor of the measure come from its funding method. The measure appears to be cost-effective and efficient because a program must meet the following criteria to receive funding:

- have a proven track record for delivering results;
- provide services in an accessible, culturally relevant and neighborhood-based manner;
- maintain rigorous quality standards; and
- use existing administrative systems to keep overhead to a minimum.

Finally two other features of the measure produce arguments in favor of its passage.

- Advocates of the measure have produced well-documented evidence that it is less costly for society in the long run to pay for prevention and intervention than to wait until disaffected youth enter the criminal justice system later in life.² The cost per child for the types of programs funded by this measure is a fraction of the cost of a jail bed, let alone the cost of a larger police force and a larger court system to cope with more crime.
- The measure will end or be renewed after five years, allowing Portland residents an opportunity to evaluate its effectiveness in addressing social problems.

B. Arguments Advanced Against the Measure

The promoters of Measure 26-33 have learned from the experiences of other communities and have submitted a "voter friendly" measure. As of this writing, the measure faces no organized opposition. Nonetheless, your committee examined concerns in three areas.

Source of the money.

Some assert that "no tax is a good tax" and are opposed to any proposal that would create an additional tax burden. A poll

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commissioned by the proponents indicates 20-25 percent of voters fall into this category.

How the money will be used.

Is it really dedicated funding? The measure does not specifically define a process to ensure the funds are distributed to the most effective programs.

Will it be well spent? Will the oversight promised by the measure and its backers be adequate to ensure accountability for the tax revenue generated? Voters cannot be completely sure about the effectiveness of the programs to be funded.

Is this measure going to help or hurt? The measure itself does not guarantee that existing state and/or federal funds would not be reduced for the programs funded by Measure 26-33. Current funding (e.g., state and federal government, non-governmental organizations) could decrease for programs that would receive new funding from the Children's Investment Fund. Measure 26-33 could create a scenario where programs receiving money from the Children's Investment Fund would become a lower priority for other government and private sector funding sources.

Timing of the measure.

Given the current school-funding crisis, school districts statewide, including Portland, are considering their own dedicated funding proposals. If this measure passes, would property owners provide additional funds to local schools or will they suffer from "voter fatigue" and reject other funding measures out of hand? Your committee could not answer this question, but did consider the possible implications of multiple levy requests while forming our recommendation.

IV. DISCUSSION & CONCLUSIONS

Your committee's analysis focused on the following four areas of concern.

Funding

The first concern stems from the nature of the property tax system in

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Oregon. Due to Ballot Measure 5 (1990), Measure 47 (1996), and Measure 50 (1997), county property tax rolls are now subject to "proportional reduction." Commonly known as "compression," this means that all new property tax measures, such as this one, will compete with all other levies for a limited pool of total property tax dollars in Multnomah County.

If passed, voters cannot be certain that Measure 26-33 would raise \$50 million over five years, or whether the amount generated would be less. Because of the effects of compression, Measure 26-33, as well as Portland Parks and Recreation (Measure 26-34) and Multnomah County Library (Measure 26-36) could receive less money than estimated. The Multnomah County Budget and Service Improvement Division was unable to say what the exact impact of adopting all or some of the potential measures would be.

In its 2002 research report, City Club's Tax Reform Task Force determined that the property tax is somewhat regressive and ideally should not be the source of funding for this type of program. However, the report also recognized that, given the current structure of the state's overall tax system, no viable alternatives to the property tax currently exist for these programs.

Ideally, the City of Portland and the programs to be funded by Measure 26-33 would use the Children's Investment Fund to leverage additional dollars through matching grants. This would help mitigate the effects of compression.

Your committee also considered the lack of experience of both the City of Portland and Multnomah County with this type of funding mechanism for social service programs. Your committee believes the measure's proponents have adequately addressed this by learning from the experiences of other communities, specifically San Francisco, Seattle, and Pierce County (Tacoma). All of these communities have had significant success with similar programs.

Oversight & Administration

A 1983 agreement between the City of Portland and Multnomah County redefined how the city and county would provide public services. The agreement known as *Resolution A* stipulates that the city should provide urban services and the county should focus on social

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services. The intent of the agreement was to eliminate duplication of services and make more efficient use of limited administrative resources. *Resolution A* is the basis for the cooperative city-county oversight of the Children's Investment Fund. In essence, the City would provide funding through Measure 26-33, but would rely on the expertise and infrastructure of the County to execute the programs.

According to the proponents, a five-person "allocation committee" composed of two citizen representatives and one each from the City, County and Portland Business Alliance would nominate organizations for funding. The allocation committee would select the best programs in each category through a competitive public process. The County would then review the proposed funding plan and, once approved, forward it to the City Council for final approval. This process, while a bit cumbersome, ensures ample opportunity for public input and oversight of the funding process. Though this process is not embedded in the measure itself, the public nature of the written commitments by the measure's advocates, and the broad range of interests represented by those in favor of the measure, provide reasonable assurance that the process should work as outlined. In addition, your committee has obtained a copy of the proposed memorandum of understanding between the City of Portland and Multnomah County.³ Though not yet binding, the proposed language is consistent with all other information gathered on this topic.

Several features written into the measure alleviate other concerns about management of the fund. First, a provision in the measure explicitly states that no more than five percent of the funds would be spent on administrative costs. Second, the measure requires annual financial audits of the fund. Third, all of the programs must be proven to deliver results, though the gauge of effectiveness is undefined in the measure. Finally, the five-year term for the measure would provide a good opportunity to evaluate the effectiveness of both the funded programs and the funding mechanism itself, allowing taxpayers to determine if continuation is warranted.

Ambiguity in the Measure

Because Measure 26-33 does not explicitly state which programs would be funded, your committee had some concerns about the "looseness" of the measure's language. However, your committee ultimately decided that the proposed process for selecting programs is

³Multnomah County - City of Portland Children's Levy Memorandum of Understanding (draft).

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preferable to being locked into a five-year commitment to fund specific programs. We support having flexibility in the measure to vary funding from year to year. Your committee believes that an annual public process is the best method to choose programs for funding.

Unintended Consequences

Your committee has lingering concerns that the state legislature and possibly other funding sources might under-fund programs that receive funding from the city's Children's Investment Fund. Proponents acknowledge that this could happen. Your committee concluded that the need for increased funding for children's services in Portland is real, and so great, that it overrides this and other concerns about what is known and unknown in the measure.

V. RECOMMENDATION

The benefits of providing better funding to the types of programs targeted by Measure 26-33 are clear. A wide range of Portlanders familiar with the problems of our youth, from law enforcement personnel to social service providers to school officials, are united in support of Measure 26-33. They see the potential for a significant reduction in youth crime, better school attendance and performance, and less child abuse and neglect. The relatively modest short-term cost of this measure is worth the probable long-term gain for the individuals directly affected and for the community as a whole.

Consistent with past City Club recommendations, your committee unanimously recommends a **YES** vote on Measure 26-33.

Respectfully submitted,

Brian Campbell
Robin Denburg
David Greenberg
Moses Ross
Rhidian Morgan, chair

Tamsen Wassell, research advisor
Wade Fickler, research director

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VI. APPENDICES

A. Witnesses

Mark Campbell, principal analyst, Multnomah County, Budget & Service Improvement Division

Jeff Cogen, policy director, Office of City Commissioner Dan Saltzman

Joanne Fuller, director, Department of Community Justice, Multnomah County

Alice Galloway, child advocate/ consultant

Bernie Giusto, chief of police, Gresham Police Department; Multnomah County sheriff-elect

Nancy Hamilton, executive director, The Campaign for Safe and Successful Kids - Yes on Measure 26-33

Drew Kirkland, assistant chief of Police, Portland Police Department

Ray Mathis, former executive director, Citizens Crime Commission

Don McIntire, president, Taxpayer Association of Oregon

Mark Murray, financial planning director, Office of Management and Finance, City of Portland

Dan Saltzman, commissioner, City of Portland

Cynthia Thompson, executive director, Children's Trust Fund

Carol Witherell, professor of education, Lewis and Clark College

B. Resource Material

Ballot Measure Statement, Office of the Secretary of State,
www.sos.state.or.us/elections/.

Campaign literature, The Campaign for Safe & Successful Kids,
www.voteeyesforkids.com.

KIIDS report, Citizens Crime Commission, June 2000,
www.pdxccc.org/kiids.pdf.

"Father Steals Best - Crime in an American Family," *New York Times*, August 21, 2002.

"Achieving Results for Children," Oregon Community Foundation, February 2000.

Children's Funding Initiative Report #1, Office of Commissioner Dan Saltzman, City of Portland, February 2001.

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Children's Funding Initiative Position Paper, Office of Commissioner Dan Saltzman, City of Portland, March 2001.

Children's Funding Initiative Vision Paper, Office of Commissioner Dan Saltzman, City of Portland, March 2001.

"Recent State and Local Efforts to Prevent Juvenile Delinquency," City Club of Portland, 1990.

"Juvenile Services in the Portland Metro Area," City Club of Portland, 1987.

Greenwood, P.W.; Model, K.E.; Rydell, C.P. & Chiesa J., *Diverting Children from a Life of Crime*, Santa Monica, California, Rand, 1996.