

2007



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# Investing in Change:

## Pacific Community Ventures 2007 Social Return

### Pacific Community Ventures Background

Pacific Community Ventures (PCV) provides resources and capital to businesses that bring economic gains to low- and moderate-income communities in California. PCV targets small- and medium-sized, “brick and mortar” companies that are critical to economic growth, job creation, and poverty reduction in lower-income communities.<sup>1</sup>

PCV invests equity capital in a select set of Financed businesses to create strong financial returns for its fund investors and positive outcomes for California communities. Through its nonprofit lines of business, PCV invests human capital in a larger set of Advised businesses, building capacity at all its portfolio companies by connecting entrepreneurs and managers to business advice and critical resources that help companies grow.

### Purpose and Methodology

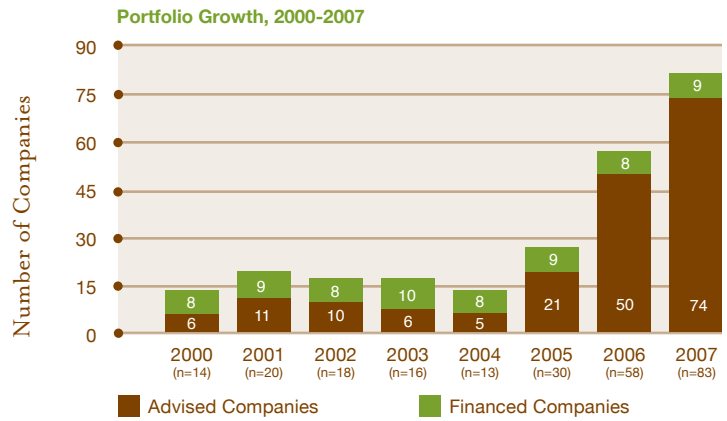
Ongoing measurement is critical to articulating the impact of PCV’s work. In 2007, PCV worked with BTW—*informing change* to collect social return data at all PCV portfolio companies. Of the 83 companies in PCV’s Advised and Financed portfolios, sixty-nine (83%) participated.

PCV focuses on increasing the number and quality of jobs provided to residents of California’s low- to moderate-income (LMI) communities. PCV measures progress against this goal by assessing the number and quality of jobs provided to hourly workers in its portfolio.<sup>2</sup> Job quality is an indicator of the economic advancement opportunities PCV portfolio companies are providing to their lower-income, hourly employees. Typically, hourly wage earners are less likely to have access to employer-sponsored benefits programs and more likely to have lower wages.<sup>3</sup> Further, hourly workers are more likely to face language and cultural barriers, which can hinder their progress up the economic ladder. PCV also uses “hourly workers” as its unit of analysis because the term is universally understood by business leaders, policy makers and investors and because it represents a dataset easily compared to socio-economic and industry benchmarks.

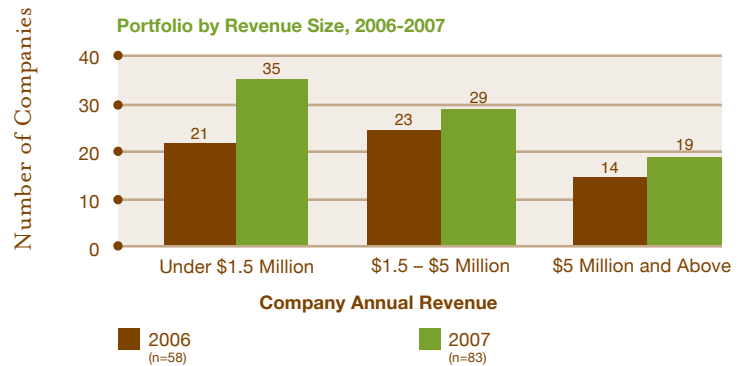
PCV’s focus on hourly workers marks a significant step towards creating a standard approach to capturing and articulating non-financial outcomes for institutional investors in the community economic development arena. Together with its growing base of evaluation consulting clients, PCV is assessing the social return on nearly one billion dollars of private equity investment targeted at disadvantaged communities.

### Portfolio Growth

Pacific Community Ventures’ 2007 portfolio includes businesses in four geographic markets: the Bay Area, Central Valley, Los Angeles and San Diego. PCV’s portfolio grew from 58 companies in 2006 to 83 companies in 2007. The Advised Portfolio has more than tripled in size from 21 companies in 2005 to 74 companies in 2007.



PCV’s ongoing social return assessment indicates that job quality is typically higher at medium- and large-sized PCV portfolio companies. However, PCV seeks deeper impact by targeting smaller companies for its capacity-building services and investments, recognizing that as companies grow, they have great potential to increase the number and quality of jobs they provide. Smaller companies (annual revenues between \$250k and \$1.5 million) now make up the largest proportion of the PCV portfolio, increasing from 36% of the portfolio in 2006 to 42% of the portfolio in 2007.



PCV Portfolio companies fall into four industry sectors: general manufacturing (42%), services (44%), technology-related manufacturing (7%) and wholesale trade (6%).

1 Small- and medium-sized companies have annual revenues between \$500,000 and \$30M and have 10 to 100 employees. “Brick and mortar” refers to companies that are not technology-driven, such as manufacturing, service and food companies.

2 In 2007, PCV collected data on hourly workers. In previous years, PCV collected data on “designated employees,” who constituted a special group of employees defined by their wage level and area of residence. A comparative analysis

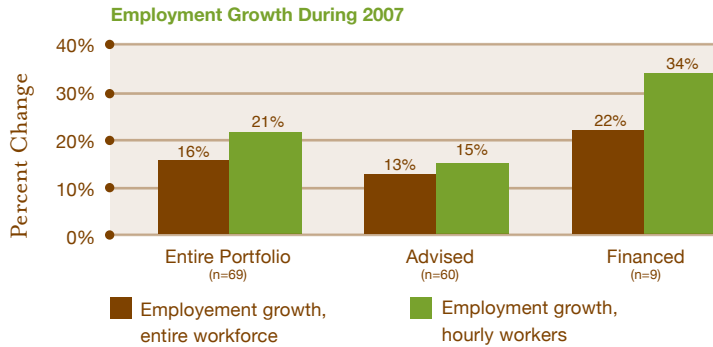
between companies that completed the survey in both 2006 and 2007 reveals that the transition in data collection and analysis from designated employees to hourly workers excludes only a small group of lower-income portfolio employees from PCV’s social return analysis, (largely administrative workers in moderate-income, salaried positions).

3 Families and Work Institute. Supporting Entry-level, Hourly Employees. Research Brief #1. November 2006. <http://familiesandwork.org/site/research/reports/brief1.pdf>

## Employment Growth

PCV's 2007 Portfolio experienced a higher rate of employment growth than California as a whole. During 2007, the total number of employees at PCV's nine Financed companies increased 22% (from 601 to 733 employees), and the number of employees at PCV's 60 Advised companies grew 13% (from 1,499 to 1,697). As a framework for comparison, total employment for non-farm workers in California grew by approximately 1% during 2007.<sup>4</sup>

Over two-thirds (69%) of PCV portfolio employees are hourly workers. During 2007, the number of hourly workers at PCV's nine Financed companies increased 34% (from 400 to 535). The number of hourly workers at PCV's 60 Advised companies grew 15%, (from 992 to 1,143). Employment grew the most at companies that received equity investment from PCV during 2007.



## Portfolio Employees

As of the end of 2007, PCV Portfolio companies employ a total of 2,430 people, 84% of whom are employed full-time. PCV Portfolio companies employ a diverse set of workers. Women comprise 43% of the PCV portfolio workforce, Latino/a workers make up 41%, non-Hispanic Whites 28%, Asian Pacific Islanders 13%, African-Americans 6%, and unknown or other 12%.

Of all employees at PCV-Financed companies, 62% live in zip codes primarily comprised of LMI census tracts.<sup>5</sup> Of all employed Californians, 38% live in an LMI census tract.<sup>6</sup> This is a strong indicator that PCV investment funds create and support economic opportunities for individuals residing in California's lower-income communities.

*The data in this report were collected by BTW-informing change, a nationally recognized leader in nonprofit program evaluation. BTW-informing change also verified the analysis used to produce this report.*

## Job Quality

PCV assesses its social return by measuring the quality of jobs provided to hourly workers in its portfolio. Of the sixty-nine companies that participated in PCV's 2007 social return survey, 66 employ hourly workers. PCV measures job quality in four areas that contribute to an employee's standard of living: wages, health insurance, wealth building opportunities, and access to full-time employment. PCV's portfolio performance in these four areas, as well as PCV's integrated Job Quality Index (JQI), is discussed in the sections below.

### Wages

Wages for PCV's hourly portfolio employees compare favorably to the mandated living wage with health benefits in all four of PCV's geographic markets.<sup>7</sup> Hourly workers in PCV's 2007 portfolio earn a weighted average hourly wage of \$12.55. At PCV-Financed companies, the average wage for hourly workers is \$12.07 per hour, and at Advised companies, it is \$12.77 per hour.

#### Average Wages for Hourly Workers by Geography, 2007

	PCV weighted average wage for hourly workers	Living wage with health benefits <sup>8</sup>	PCV wage differential
<b>Bay Area</b> (n=958)	\$12.49	\$10.77	+16%
<b>Central Valley</b> (n=220)	\$11.20	\$8.63	+30%
<b>Los Angeles</b> (n=314)	\$13.97	\$9.71	+44%
<b>San Diego</b> (n=186)	\$12.02	\$10.28	+17%
<b>PCV Portfolio</b> (n=1,678)	\$12.55	N/A	N/A

■ PCV weighted average wage for hourly workers ■ Living wage with health benefits<sup>8</sup> ■ PCV wage differential

The weighted average wage for hourly workers at PCV portfolio companies ranges from 97%-130% of the mandated living wage without health benefits in all four PCV geographic markets.

### Health Benefits

Eight of nine PCV-Financed companies offer health insurance to hourly workers.<sup>9</sup> Of the 57 PCV-Advised companies with hourly workers, 70% offer health insurance to hourly workers, and across the entire portfolio, 73% of PCV companies offer health insurance to hourly workers. Nationally, 60% of all employers, and 71% of employers in California, offer health coverage to at least some of their employees.<sup>10</sup>

Within the PCV portfolio, larger companies are more likely than smaller companies to offer health insurance to hourly workers. Of PCV companies with annual revenues less than \$1.5 million, 58% offer health insurance to hourly workers, compared to 75% of PCV companies with annual revenues between \$1.5 and \$5 million and 100% of those with annual revenues above \$5 million.

<sup>4</sup> Bureau of Labor Statistics. <http://www.bls.gov/cgi-bin/dsrv>. Accessed 2.22.08.

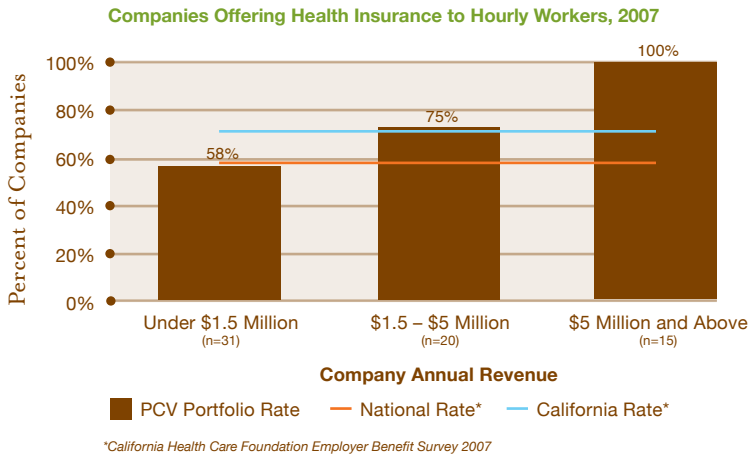
<sup>5</sup> A census tract is designated low- to moderate-income if at least one of the following conditions holds true:  
a. For census tracts within metropolitan areas, the median income of the census tract is at or below 80% of the metropolitan statistical area median  
b. At least 20% of the population lives at or below the national poverty line  
c. The unemployment rate is at least 1.5 times the national average

<sup>6</sup> US Census 2000. Geographic Information Systems analysis conducted by Green Info Networks.

<sup>7</sup> The Central Valley is the only region without a living wage ordinance. The living wage in the Bay Area, Los Angeles and San Diego is mandated by law.

<sup>8</sup> Bay Area living wage from San Francisco Minimum Compensation Ordinance Administrative code section 12P. Los Angeles living wage from Los Angeles Administrative Code, Division 10, Chapter 1, Article 11, Section 10.37. San Diego living wage from San Diego Municipal Code, Chapter 2, Article 2, Division 42, Section 22.4201. For Central Valley, when living wage data is not available locally, PCV's practice is to use the living wage called for by the Penn State University Poverty in America Living Wage Calculator, adjusted for inflation by the CPI. <http://www.livingwage.geog.psu.edu>. Penn State does not modify its estimates of living wages based on employer-provided health care coverage, but takes into account the costs of health care, child care, and other living expenses.  
<sup>9</sup> The remaining Financed company offers health insurance to its lower-income, salaried workers.  
<sup>10</sup> California Health Care Foundation Employer Benefits Survey 2007

## Health Benefits (Cont.)



In California, the average monthly health insurance premium is \$374 for an individual and \$1,025 for a family.<sup>11</sup> Between 2006 and 2007, California health insurance premiums rose 8.3%, more than twice the rate of inflation (3.4%).<sup>12</sup> Smaller companies tend to experience disproportionately greater increases in premiums than larger companies.<sup>13</sup>

The majority (77%) of PCV companies are smaller companies that employ fewer than 50 employees each. Increasing health care costs limit the ability of PCV's smaller companies to cover employee health premiums, leaving hourly workers responsible for a significant share of this rapidly growing monthly expense. PCV companies with annual revenues less than \$1.5 million cover 73% of premiums on average, compared to 76% at companies with revenues between \$1.5 and \$5 million, and 84% at companies with annual revenues greater than \$5 million. Only 20% of PCV portfolio companies that offer health insurance also provide some level of dependent coverage. As this trend continues, health insurance becomes increasingly out of reach for lower-income workers who face difficult trade-offs in covering other basic necessities such as food, housing, clothing and transportation.

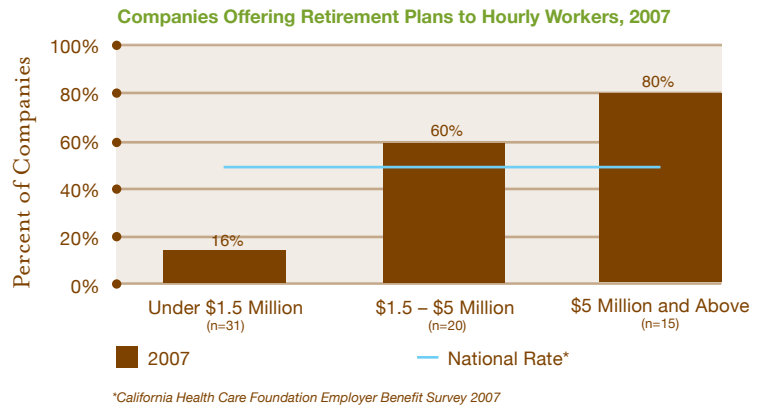
PCV recognizes a need to improve this situation for companies and their workers. PCV helps lower-income employees learn about and access low-cost private insurance products and public programs (including the Healthy Families Program).<sup>14</sup> PCV is developing an innovative solution to provide employees with affordable access to basic health care and is creating a Health Policy Forum to help companies and stakeholders understand the state and local health care policy debates and weigh in for a real, workable solution.

## Employee Wealth Creation

Sixty-seven percent of PCV-Financed companies and 40% of PCV-Advised companies offer retirement benefits to hourly workers. Nationally, 45% of all businesses with one to 99 employees provide retirement benefits to at least some of their workers.<sup>15</sup> As with health insurance, larger PCV portfolio companies are more likely to offer

retirement benefits to hourly workers. Just 16% of PCV companies with annual revenues less than \$1.5 million offer retirement benefits, compared to 80% of PCV companies with revenues above \$5 million.

One PCV-Financed company currently offers stock options to its hourly workers. Three additional Financed companies have broad-based employee ownership plans in development.



The majority of PCV portfolio companies that offer retirement benefits to hourly workers also offer matching contributions (66%). Employer retirement matching programs are important supports for lower-income workers trying to build a more stable financial future for themselves and their families. However, some hourly workers are better positioned to take advantage of employer-sponsored retirement plans than others. While 43% of hourly workers at PCV portfolio companies are eligible for their company retirement plans, only half (47%) of those eligible workers are enrolled. PCV has learned through its Individual Development Account program (offered in partnership with Lenders for Community Development) that a need for financial education, rather than income constraints, can contribute to low employee savings rates.

PCV partnered with Citibank in 2007 to deliver workplace-based financial education workshops that teach hourly workers about basic banking services, personal budgeting, credit and savings. PCV also helps portfolio employees apply for the Earned Income Tax Credit by providing access to free tax preparation assistance. These programs support PCV portfolio workers in their efforts to retain income and build wealth.

## Job Quality Index

PCV's Job Quality Index (JQI) was created by PCV and BTW-*informing change* in 2002 as a means to assess overall job quality at PCV companies. PCV adjusted its JQI slightly in 2007 to account for revised data collection methods. The JQI is a 25-point scale that weights and relates PCV's four components of job quality – wages, health insurance, retirement and wealth building mechanisms, and full-time status.

The JQI assesses how companies provide various combinations of these wage and benefit components to maintain a baseline standard for job quality. PCV understands that Portfolio companies

<sup>11</sup> California Health Care Foundation Employer Benefits Survey 2007

<sup>12</sup> Ibid.

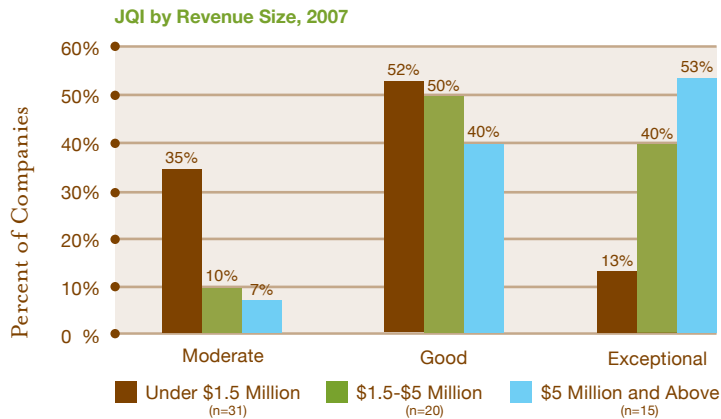
<sup>13</sup> In 2007, California companies with three to nine employees saw health premiums increase 13.5%, compared to a 10.8% increase at companies with ten to 49 employees and 8.2% at companies with 50-199 employees. Ibid.

<sup>14</sup> The Healthy Families Program is low-cost public insurance program that provides health, dental and vision coverage to children who do not have insurance and do not qualify for Medi-Cal (California's Medicare program).

<sup>15</sup> US Bureau of Labor Statistics; National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2006

## Job Quality Index (Cont.)

have varied capacity to provide all JQI components. For example, one PCV portfolio company offers high wages and covers a large percentage of health insurance premiums, but provides mostly part-time positions without retirement benefits. Another PCV company pays high wages, has a high percentage of full-time workers and offers retirement benefits, but does not cover employee health premiums. Both companies provide good quality jobs and score similarly on the JQI.



In 2007, 30% of PCV portfolio companies provide exceptional jobs to their hourly workers. Typically, these companies offer living wages, full health benefits, retirement benefits and employee ownership plans, and significant full-time employment to hourly workers. Of PCV's companies, 49% provide good jobs, and

21% provide moderate quality jobs. Job quality is highest at companies with revenues over \$5 million. Companies that provide low quality jobs pay minimum wages and provide little or no benefits or opportunities for employee advancement. PCV does not invite companies that provide low quality jobs into its portfolio.

## Green Business Practices and Community Service Programs

There is a growing trend for companies to report on "green" business practices and community service programs. 2007 marks the first year that PCV is assessing its own portfolio in these areas.

Within the PCV portfolio, 84% of companies incorporate at least one green business practice,<sup>16</sup> while 71% incorporate two or more. Approximately half (48%) of PCV portfolio companies also have formal programs to support employees in giving back to their communities through community service or environmental programs.

## Concluding Remarks

PCV invests financial and human capital into small- and medium-sized companies to help build their capacity for sustainable, long-term growth, accelerate their expansion, and increase the availability of quality jobs in LMI communities. PCV's investments are creating opportunities for significant economic gains by residents of lower-income areas across California.

<sup>16</sup> Green business practices include: recycle materials; use only recycled-content paper; clean with non-toxic products; energy efficiency programs; locally green certified company; ISO 14001 certified; produce eco-friendly products.

## PCV Portfolio Companies - 2007

APPL Inc	Dawson Custom	Extreme Pizza	LAX Tacos	Panational Inc.	TheWindowWasher.com
Apple Valley Farms	Workroom	Feeney Wire Rope & Rigging	Lormac Plastics, Inc.	Physicians Imaging	Titan Hardware
Ariakon	Design Guild	FoamMatrix	Lyon Technologies, Inc.	Pyramid Inc.	Value Finders
Artcraft Bedding & Drapery	Moulding	Galaxy Desserts*	Marin Design Works	QED Automation	Vigitron
Baja Designs, Inc	DeVoll's Rubber Products, Inc.	Gemini Duplication	Melissa Joy Manning	Reynolds Mason Industries, Inc.	Wah King Noodle Co., Inc.
Bentek*	Dura Flooring, Inc.	Gems Fitness Center	Mercados Suvianda*	Rhythm and Motion	Wonderland Treatment Center
Blik	Eagle Medical Services, Inc	Give Something Back	MexGrocer.com	RJ Demolition & Disposal	
Cactus Media Group, Inc.	East Bay Cash Register Systems, Inc.	Heath Ceramics	Moving Solutions*	Saint-Gaudens Metal Arts	
Chromatic Inc.	Edwards Sheet Metal, Inc./IAH	Hi-TEM	New Key Financial*	Scout's House, Inc.	
Lithographers	Ego Id, Inc.	Home Health Advocates	New Vine Logistics*	Silver Shield Security	
Chuo Chocolatier	El Clasificado	Homemade Baby	Niman Ranch*	Siteler Wash	
Colortone	Elan Organic Coffees	Industrial Glass Products	NLP Furniture	SleepQuest, Inc.	
Combo Aluminum Products	Equator Estate Coffees & Teas, Inc.	Jeannot Fine Furniture, Inc.	Northwest Circuit Corp	Source of Health, Inc.	
CP-MFG	Evergreen Lodge*	Jeremiah's Pick	OAP Packaging	Star Finishes	
Crunchy Foods	Executive Financia Enterprises, Inc.	John Lewis Glass	OptiStreams	Summit Software	
Dandy Don's Home-Made Ice Cream		Laura + Kiran	Pacific Gyre	Technicon Engineering Services, Inc.	
			Pacific Pharmacy Group*		

\*Indicates a PCV-Financed company

If you have questions or comments about this report, or would like to learn more about Pacific Community Ventures' work assessing Social Return on Investment, please email or call Beth Sirull, Director, at bsirull@pcvmail.org, 415.442.4315.