

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: December 14, 2010

To: Honorable Members, Trade, Commerce, and Tourism Committee
Of the Los Angeles City Council

From: Miguel A. Santana, City Administrative Officer



Subject: **COUNCIL FILE 06-0362-S3, AIRPORT HOSPITALITY ENHANCEMENT ZONE
PAYMENT OF MINIMUM COMPENSATION TO HOTEL WORKERS**

SUMMARY

On July 5, 2008, Ordinance No. 178432 (Ordinance) became effective and established an Airport Hospitality Enhancement Zone (Enhancement Zone) within the Century Boulevard corridor situated immediately adjacent to the Los Angeles International Airport (LAX). Section 104.104.C of Article 4 of the Ordinance requires that within thirty months of the Ordinance effective date, the Office of the City Administrative Officer (CAO) shall complete a study on the effect of the minimum compensation requirements on hotels, hotel customers, and hotel workers.

The CAO contracted with the Economic Roundtable to comply with the Ordinance provisions. The Economic Roundtable has the proficiency and knowledge to successfully fulfill the Ordinance requirements. In summary, the report findings indicate that the Ordinance resulted in positive impacts to hotel workers and did not have any adverse impacts on the viability of hotels and hotel customers within the Enhancement Zone. A copy of the Executive Summary and full report from the Economic Roundtable is attached.

BACKGROUND

The purpose of the Ordinance is to "...improve and encourage the growth and development of the business community in the Century Boulevard Corridor, while simultaneously improving the welfare of service workers at LAX-area hotels by ensuring they receive decent compensation for the work they perform." The Ordinance sets wage rates at a minimum of \$9.39 per hour if health benefits are provided by employers, or \$10.64 per hour if health benefits are not provided. The wage rates adjust annually based on the Consumer Price Index for Urban Wage Earners and Clerical Workers in Los Angeles-Riverside Counties.

The Ordinance mandates a study and evaluation of the effect on hotels, hotel customers, and hotel workers that includes consideration of the following:

- a. The economic impact of the living wage requirements on Hotels and Hotel Workers, including any effects on worker retention and/or training;
- b. The effects of having a non-tiered living wage requirement that applies to tipped and non-tipped Hotel Workers alike, including any wage compression among hotel employees and the effects of such compression on worker retention; and,
- c. The impact of the enhancements described in section 104.103 on Hotel customer base, income, and retention and training of Hotel Workers.

Detailed information in the Economic Roundtable report addresses several of the points discussed below, with a specific focus on the Hospitality industry and the relevant Los Angeles area employers. The results of the study and CAO analysis indicate the Ordinance resulted in the following impacts:

- a. Hotels – A comparison of employment data indicates the annual employment rate among all hotel workers within the Enhancement Zone increased from 95% in 2007 to 99% in 2009. During this same time period, the annual employment rate among all hotel workers outside of the Enhancement Zone decreased from 96% to 88%. No evidence was found to indicate the wage increases to hotel workers had adverse effects on the viability of hotels. Rather, the increase in employment rates implies that hotels within the Enhancement Zone are performing better financially than Citywide hotels outside of the area. In addition, employers are estimated to save approximately \$4,100 in direct and indirect costs each time job turnover is avoided.
- b. Hotel Customers – The primary customer base for Enhancement Zone hotels are travelers who pass through LAX. The passenger volume from 2007 through 2009 has steadily declined 4% in 2008 and 5% in 2009. Even with a decline in the number of travelers, the annual earnings and employment rates of workers within the Enhancement Zone do not show any declines. This indicates hotel customers continued to stay at hotels within the Enhancement Zone because they are satisfied with the services received.
- c. Hotel Workers – The wages of the entire hotel labor force within the Enhancement Zone increased 29% after the adoption of the Ordinance, while the wages of Citywide hotel workers outside of the Enhancement Zone did not change significantly. In addition, the income received through tips does not unfairly advantage workers in tipped occupations compared to workers in non-tipped occupations. It appears that well-paid and well-trained workers contribute to the hotel's viability and customer satisfaction.
- d. Conference Center – On January 5, 2009, the Community Development Department (CDD) reported about possible locations and financing mechanisms for a conference center in the Enhancement Zone. The conference center would provide useful

services for the hospitality/tourism industry, including banquet services and workforce training programs. It was determined that City funding for the conference center was limited due to the budgetary deficit. The most recent forecast indicates a City budgetary deficit of \$349.8 million for Fiscal Year 2011-12.

- e. Workforce Development –CDD reported on January 5, 2009, that it partnered with the Los Angeles Community College District to provide workforce training and English as a Second Language courses to hotel workers. In addition, CDD entered into an agreement with the California Labor Federation to develop a comprehensive job-training program for hospitality sector workers. The training is provided for 282 workers with an average cost of \$2,305 per worker trained. The Economic Roundtable indicates significant cost savings for employers may result from worker training and increased satisfaction by hospitality sector customers.
- f. Marketing, Remote Check-In, and Power Rate Incentive – The Ordinance grants \$50,000 to the Century Corridor Business Improvement District, instructs CDD to work with the Los Angeles World Airports to establish a remote check-in facility at each interested hotel, and indicates the City shall investigate the feasibility to offer subsidized or incentive rates to reduce office vacancies. It is anticipated that these items, if implemented, will have positive impacts on hotels and hotel customers within the Enhancement Zone.
- g. Business Development – On October 3, 2008, the Office of Finance recommended to implement a business tax cap for up to 10 years for businesses specifically outlined in the Ordinance and to submit an application to the State of California for a State Enterprise Zone designation. If these recommendations are implemented, than the impacts would result in a decreased tax base for qualified businesses within the Enhancement Zone. These tax breaks could potentially lead to lower commercial rental vacancy rates and attract new businesses to the area (e.g. retail and restaurants).
- h. Street Improvements – On January 5, 2009, the Bureau of Street Services reported on the status of various street improvement projects, including streetscape improvements, resurfacing and sidewalk repairs, and new sidewalk construction. Much of the street improvements projects have been completed or are pending. To date, the street improvement projects have not resulted in any negative impacts as a result of the Ordinance.
- i. Integrated Waste Management – On March 17, 2009, the Board of Public Works Bureau of Sanitation reported on the assistance provided to the Los Angeles Airport Business Improvement District (Gateway to LA BID) to develop and implement a recycling and waste diversion program within the Enhancement Zone. The assistance provided included making presentations to interested parties and preparing a Request for Proposals for recycling collection services. The Bureau of

Sanitation indicates program implementation will take several years and that, once implemented, environmental and fiscal benefits will result for the Enhancement Zone community. Absent any changes to the recycling and waste diversion program, no negative impacts have resulted to date.

RECOMMENDATION

It is recommended that this report is received and filed. It is further recommended to continue the living wage provisions of the Airport Hospitality Enhancement Zone Ordinance.

FISCAL IMPACT STATEMENT

There is no impact on the General Fund.

MAS:TTS:07110018

Attachment

Impacts of Living Wages in the Airport Hospitality Enhancement Zone

Prepared for the
City of Los Angeles Administrative Officer
December 8, 2010

Executive Summary

This study of the Airport Hospitality Enhancement Zone examines the economic impacts of minimum compensation requirements, outcomes from the non-tiered living wage requirement for both tipped and non-tipped hotel workers, and the costs and possible benefits of training for hotel workers.

Hotels in the Airport Hospitality Zone are called upon by the City to pay workers a minimum of \$10.30 an hour and \$1.25 per hour in health benefits, or \$11.55 an hour if health benefits are not provided. This is part of an overall strategy to strengthen both the business and the employment environment in the Century Boulevard corridor immediately adjacent to Los Angeles International Airport (LAX).

Information gathered and analyzed for this study indicates that living wage standards and the workforce training program have had positive, or at least not negative, impacts on hotels, hotel customers and hotel workers.

Hotels

Changes in employment rates for hotel workers in the Hospitality Zone compared to the City as a whole provide one form of evidence about whether the wage increases called for by the Hospitality Zone Ordinance had an adverse effect on business viability. The 2007 recession was accompanied by declining employment rates for the Citywide hotel labor force in 2008 and 2009. The Citywide percent of hotel workers who had any work in the preceding 12 months dropped from 96 percent in 2007 to 88 percent in 2009.

In contrast, the annual employment rate among all hotel workers in the Hospitality Zone increased from 95 percent in 2007 to 99 percent in 2009. Many factors other than payments to workers affect the viability of hotels, the most important of these being the number of visitors. Still, evidence of growing employment rates among hotel workers in the Hospitality Zone, in contrast to declining Citywide rates indicates that there is not evidence that wage increases had an adverse effect on the viability of hotels in the Hospitality Zone. Higher levels of employment are an indication that these hotels are doing well, particularly in comparison to hotels Citywide.

A workforce training program underwritten by the City is currently providing training for 282 new and experienced hotel workers at an average cost of \$2,305 each. If this training extends the duration for which workers are retained in their jobs by increasing job satisfaction and opening opportunities for career advancement, it will create significant cost savings for employers. These savings come from reduced costs for managing terminations, filling vacancies, providing orientation and training, and the lost productivity of experienced workers. Each job turnover that is avoided is estimated to save employers \$4,100 in direct and indirect costs.

Hotel Customers

Hotels in the Century Boulevard corridor have access to 30 million passengers a year who pass through LAX, many of them needing a place to stay. Roughly 1.5 million passengers who arrived at LAX in 2009 are estimated to have stayed in high-end hotels in the Los Angeles area, and another 2.5 million are estimated to have stayed in mid-level hotels. This flow of visitors needing a hotel to stay in is the primary source of guests for the Hospitality Zone. A smaller but still important group of guests is local residents attending conferences and banquets, or spending the night at Hospitality Zone hotels. Local residents are estimated to account for 27 percent of guests.

The volume of passengers moving through Los Angeles International Airport declined 4 percent from 2007 to 2008, and then an additional 5 percent from 2008 to 2009. Nevertheless, annual earnings and employment rates of hotel workers in the Hospitality Zone do not reflect this downward trend, or the downward trend in earnings and employment for the Citywide hotel labor force. This is an indication hotel guests, who often have discretion about where they stay, are patronizing hotels in the Hospitality Zone and are happy with the services they receive there.

Hotel Workers

By 2009, the average earnings reported by maids and housekeepers in the Hospitality Zone had increased 15 percent over levels before the Ordinance was approved, earnings of all hotel service workers increased 18 percent, earnings of sales and office workers increased 2 percent, and earnings of the entire hotel labor force in the Zone increased 29 percent. In contrast, there was little overall change in wages for the City's total resident labor force of hotel workers from 2000 through 2009. The Airport Hospitality Zone Ordinance clearly resulted in significant wage increases for hotel workers.

Wages of workers in the Hospitality Zone are subject to the same wage floor, whether or not they receive tips. The average wage reported in 2009 by employers for non-tipped hotel workers is 14 percent higher than the average wage reported for tipped workers. For the most part, tipped employees have fewer hours of work than non-tipped employees and lower total earnings; although tips appear to slightly reduce the gap in wages in the Zone. It is reasonable to conclude that income received through tips does not unfairly advantage workers in tipped occupations compared to workers in non-tipped occupations.

The purpose of the workforce training program is to benefit hotels in the Hospitality Zone as well as hotel workers. Training is expected to lead to increased job satisfaction and opportunities for career advancement.

Improved employment and earnings outcomes for hotel workers in the Hospitality Zone are an indication of the overall strength of the LAX hotel cluster. Well-paid and well-trained workers appear to be contributing to the resilience of these hotels and the satisfaction of their customers.

Impacts of Living Wages in the Airport Hospitality Enhancement Zone

Economic Impact of Minimum Compensation Requirements

Hotels in the Airport Hospitality Zone are called upon by the City to pay workers a minimum of \$10.30 an hour and \$1.25 per hour in health benefits, or \$11.55 an hour if health benefits are not provided. This is part of an overall strategy to strengthen both the business and the employment environment in the Century Boulevard corridor immediately adjacent to Los Angeles International Airport (LAX).¹ This report provides information about the impacts of the Airport Hospitality Enhancement Zone Ordinance on workers and their employers.

The first section of this report analyzes economic impacts of the minimum compensation requirements. We begin by defining earnings bands for hotels workers, which serve as benchmarks for assessing impacts. We then look at the effect of the ordinance on hotel workers' salaries in the zone compared to hotel workers' salaries in the City as a whole. In the last part of this section, we look briefly at the customer base for hotels inside the zone and in the balance of the City.

Earnings Bands for Hotel Workers

The U.S. Census Bureau's 2009 American Community Survey estimates the earned income over the past 12 months of hotel workers residing in Los Angeles County. The average earnings reported by hotel workers was \$29,775 a year or \$2,481 a month.² The most reliable and detailed information about the wage *distribution* for occupations within Los Angeles' hotel industry comes from employer surveys carried out by the California Employment Development Department. We applied this occupational wage *distribution* to the *average earnings* reported by hotel workers in the county to create the ten wage bands shown in Table 1.

Workers in the *first*, lowest and biggest of the ten wage bands earn 70 to 80 percent of the average industry wage, or \$1,737 to \$1,985 per month. This band includes maids and housekeepers and accounts for 44 percent of all hotel workers.

Workers in the *second* band include foods service helpers and security guards. They receive 81 to 90 percent of the industry average or \$1,986 to \$2,233 per month, and account for 16 percent of the industry labor force.

Workers in the *third* band include switchboard operators, waiters and bartenders. They receive 91 to 100 percent of the industry average, or \$2,234 to \$2,482 per month, and account for 15 percent of the industry labor force.

Workers in the *fourth* band include cooks and bookkeepers. They receive 101 to 110 percent of the industry average, or \$2,483 to \$2,729 per month, and account for 6 percent of the labor force.

Table 1
2009 Monthly Wage Bands for Hotel Workers in Los Angeles County

Wage Band	Major Occupations in Band	Wage as % of Hotel Average		Wage Range		% of All Hotel Jobs
		Low	High	Low	High	
1	Baggage Porters and Bellhops Laundry and Dry-Cleaning Workers Maids and Housekeeping Cleaners Janitors and Cleaners Grounds Cleaning and Maintenance Dishwashers Food Servers, Non-restaurant Cashiers	70%	80%	\$1,737	\$1,985	44%
2	Hotel, Motel, and Resort Desk Clerks Dining Room, Cafeteria and Bar Helpers Hosts and Hostesses, Restaurant Security Guards	81%	90%	\$1,986	\$2,233	16%
3	Switchboard Operators Office Clerks Waiters and Waitresses Bartenders	91%	100%	\$2,234	\$2,482	15%
4	Cooks Bookkeeping, Accounting Clerks	101%	110%	\$2,483	\$2,729	6%
5	Housekeeping Supervisors Maintenance and Repair Workers	111%	120%	\$2,730	\$2,978	6%
6	Secretaries Massage Therapists	121%	130%	\$2,979	\$3,225	1%
7	Managers of Food Preparation and Serving Office Managers	131%	150%	\$3,226	\$3,721	4%
8	Personal Services Managers Meeting and Convention Planners	151%	170%	\$3,722	\$4,218	1%
9	Sales Representatives Accountants and Auditors	171%	200%	\$4,219	\$4,962	2%
10	Chefs and Head Cooks Lodging Managers Food Service Managers	201%	450%	\$4,963	\$11,166	4%
AVERAGE – ALL HOTEL WORKERS		100%		\$2,481		100%

Sources: U.S. Census Bureau, 2009 American Community Survey for wage and salary income in the past 12 months for hotel workers 18-64 years of age residing in Los Angeles County with earned income. California Employment Development Department Labor Market Information Division and Economic Roundtable for proportionate distribution of wages in hotel occupations.

Workers in the *fifth* band include housekeeping supervisors and maintenance workers. They receive 111 to 120 percent of the industry average, or \$2,730 to \$2,978 per month, and account for 6 percent of the labor force.

Workers in the *sixth* band include secretaries and massage therapists. They receive 121 to 130 percent of the industry average, or \$2,979 to \$3,225 per month and account for 1 percent of the labor force.

Workers in the *seventh* band include food and office managers. They receive 131 to 150 percent of the industry average, or \$3,226 to \$3,721 per month, and account for 4 percent of the labor force.

Workers in the *eighth* band include personnel managers and convention planners. They receive 151 to 170 percent of the industry average, or \$3,722 to \$4,218 per month, and account for 1 percent of the labor force.

Workers in the *ninth* band include sales representatives and accountants. They receive 171 to 200 percent of the industry average, or \$4,219 to \$4,962 per month, and account for 2 percent of the labor force.

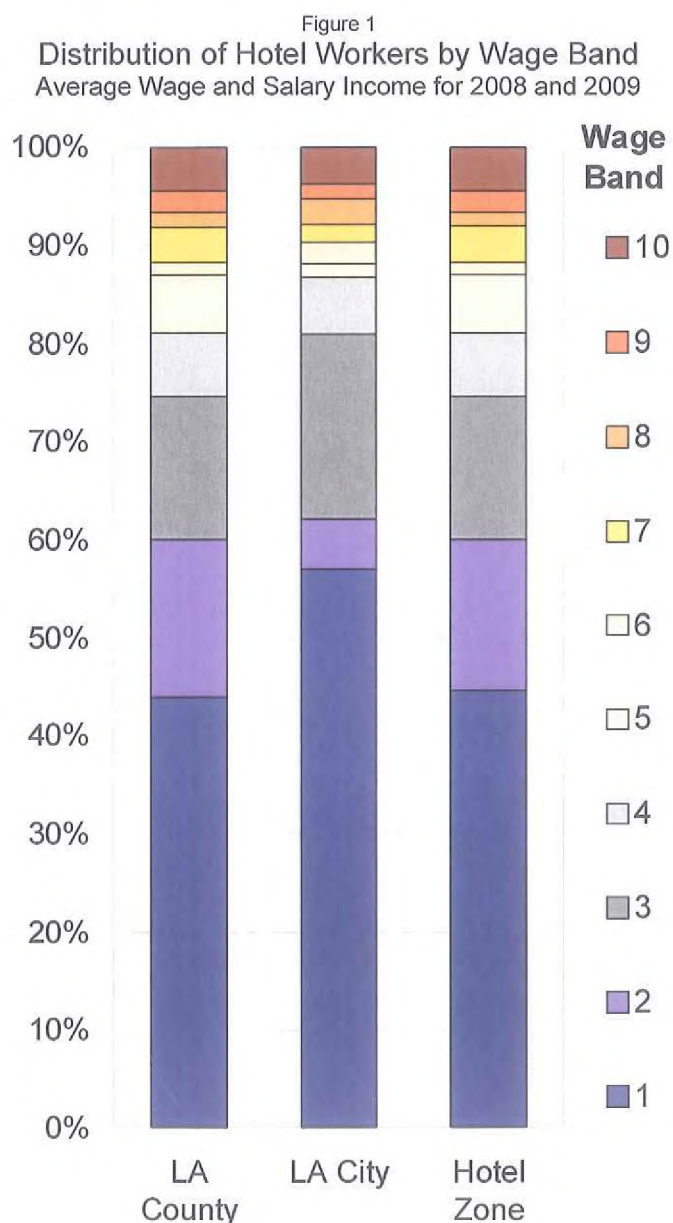
Workers in the *tenth* and highest band include chefs and hotel managers. They receive 201 to 450 percent of the industry average or \$4,963 to \$11,166 per month, and account for 4 percent of the labor force.

Number of Hotel Workers in Each Wage Band.

The average monthly wage and salary earnings reported by hotel workers within the Hotel Zone and outside of the Zone over the two-year period of 2008 to 2009 was:³

- Hotel Hospitality Zone \$2,523
- Los Angeles City \$2,386
- Los Angeles County \$2,544

Applying the wage spread among occupations found in the state's survey of Los Angeles County hotel employers to the



Sources: California Employment Development Department, U.S. Census Bureau 2009 American Community Survey, Economic Roundtable

average wage for each area, we can estimate the share of hotel jobs that fall in each wage band, as shown in Figure 1 (see endnote for supporting data).⁴

The Hotel Zone is very close to parity with the hotel wage distribution in Los Angeles County, with 45 percent of workers in the lowest wage band vs. 44 percent for the county. The City of Los Angeles as a whole has 57 percent of hotel workers in the lowest wage band. The wage profile in the Hotel Zone may well have been similar to this Citywide profile before minimum wage standards were established, raising the wage floor and quite likely the overall wage ladder in the Zone.

Impacts of Wage Standards for Hotel Zone Workers

We are able to determine wage trends for hotel workers using the Public Use Microdata Sample (PUMS) records released by the Census Bureau. These records are the complete long-form census responses from individual households. Each record is weighted so that the sample of responses can be expanded to represent the entire population. The identities of individual respondents are masked in these records, and one of the ways that is done is by rolling up respondents' place of residence into Public Use Microdata Areas (PUMAs).

The City of Los Angeles is broken out into 24 PUMAs. We used data for 7 PUMAs that are within a 6-mile radius of the airport, some inside the City and some outside, to capture information about hotel workers who are likely to be employed in the Hospitality Zone. Figure 2 shows a map of these PUMAs.

PUMS records from the 2000 decennial census and the American Community Survey from 2005 (when city-level data became available) to 2009 were filtered as follows to identify records of hotel workers:

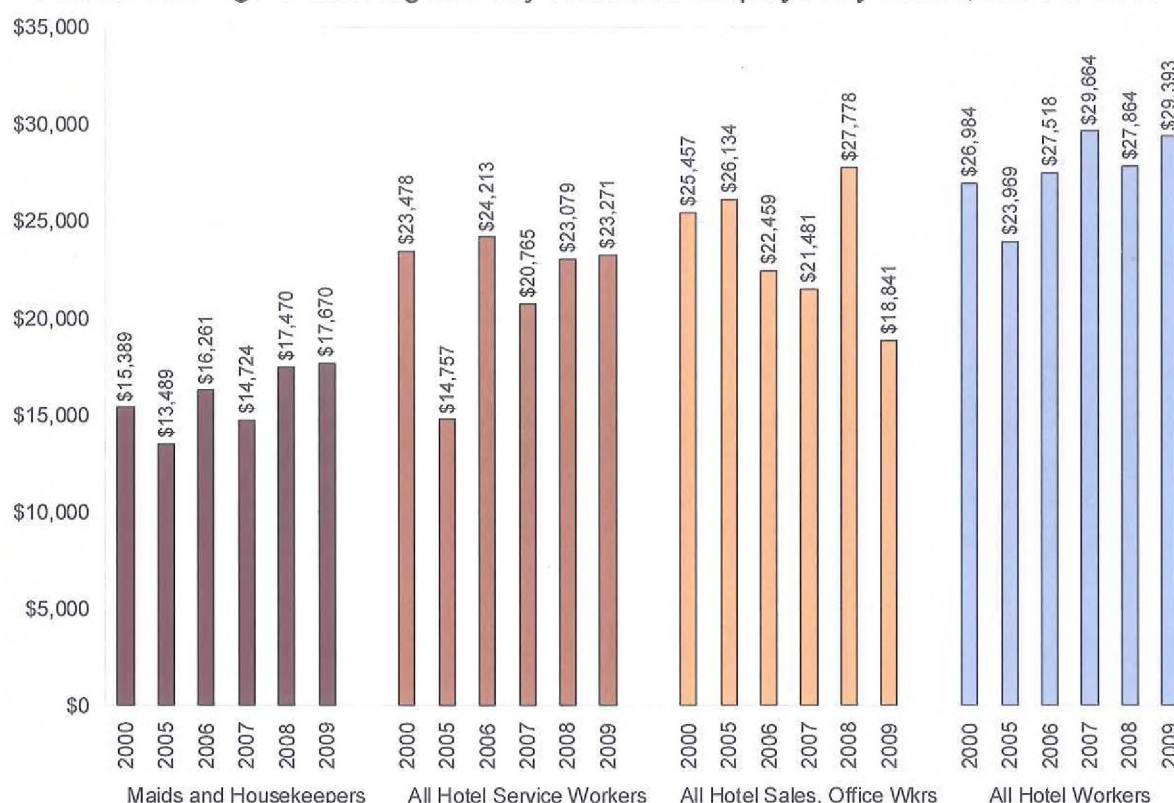
- Employed in the Traveler Accommodations industry
- Wage and salary income in the past 12 months
- 18 to 64 years of age

Figure 2
Public Use Microdata Areas Used to Identify Workers Employed in the Hospitality Zone



Source: Economic Roundtable

Figure 3
Annual Earnings of Los Angeles City Residents Employed by Hotels, 2000 to 2009



Source: U.S. Census Bureau, 2000 decennial census, 2005 to 2009 American Community Surveys. Wages shown in 2009 dollars.

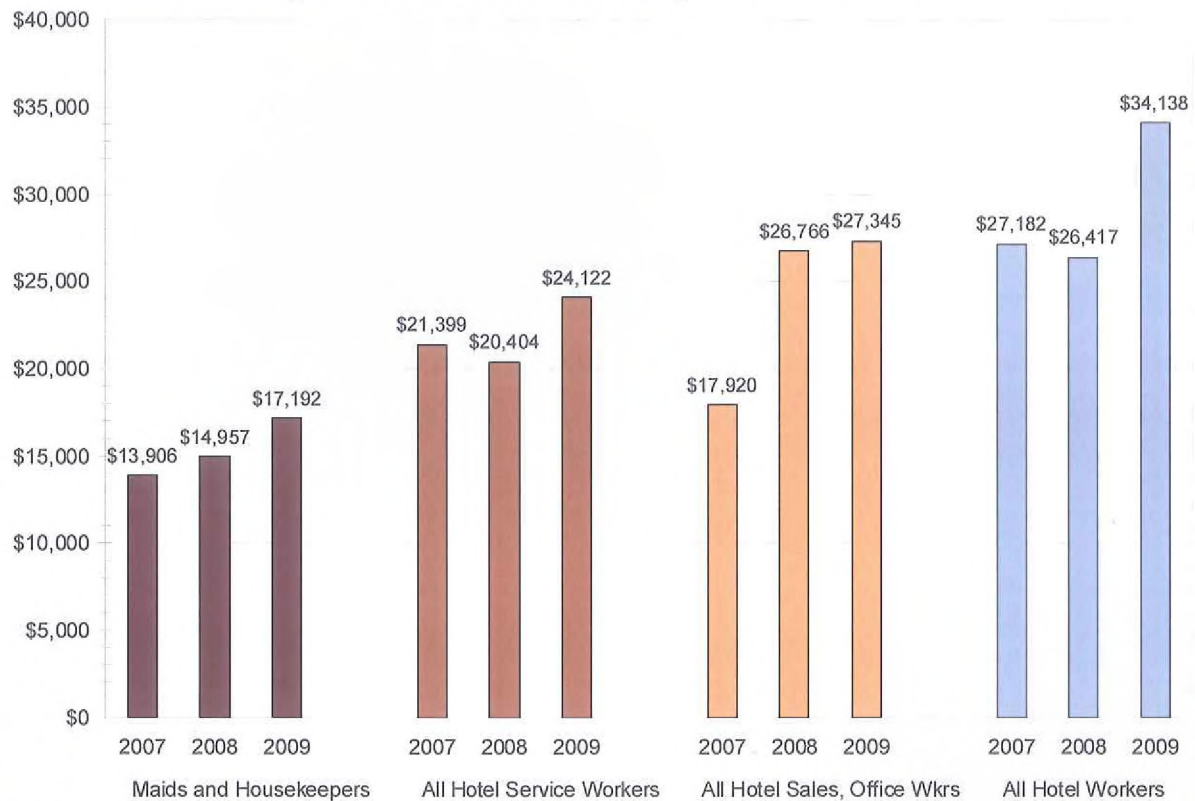
Comparable data sets were assembled for both the City of Los Angeles and the 7 PUMAs where Hospitality Zone workers are most likely to reside.

When we look at the entire labor force of hotel workers residing in the City, there is little overall change in wages from 2000 through 2009, as shown in Figure 3.⁵ In addition to the total hotel labor force, earnings are broken out for three occupational groups:

- Maids and Housekeepers, who are the largest group of hotel workers
- Service workers, a job family that includes maids and housekeeping cleaners, cooks, waiters and waitresses, janitors, food servers, bartenders, baggage porters, dishwashers, and security guards.
- Sales and office workers, a job family of hotel workers that includes cashiers and sales representatives

Workers' annual earnings can change as the result of at least two things – changes in wage rate or changes in the number of hours worked in a year. For example, the dip in earnings in 2005 was probably the result of fewer hours of work during the year. From 2006 through 2009, after adjusting wages for all years to 2009

Figure 4
Annual Earnings of Hotel Workers Residing in the LAX Area, 2007 to 2009



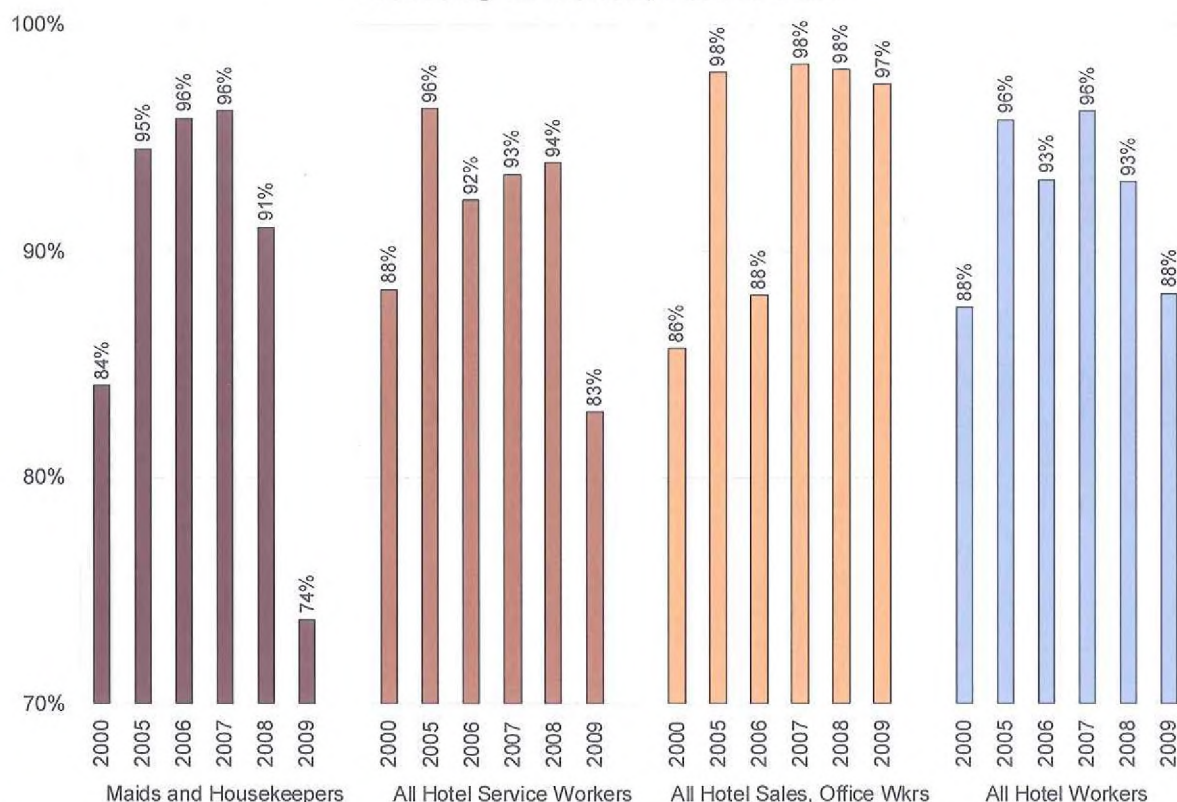
Source: U.S. Census Bureau, 2007 to 2009 American Community Surveys. Wages shown in 2009 dollars. Data years 2000, 2005 and 2006 are not shown because the annual sample of PUMS survey records for Los Angeles was too small to breakout wage trends among workers in the Hospitality Zone.

dollars, the typical annual change in the earnings of LA City hotel workers shown in Figure 3 was very modest:

- \$56 annual increase, or 0.3 percent, for maids and housekeepers
- \$31 annual increase, or 0.1 percent, for all hotel service workers
- \$124 annual increase, or 0.6 percent, for hotel sales and office workers
- \$279 annual increase, or 1.0 percent, for all hotel workers

We see a different picture when we look at the wages of workers residing in the Hospitality Zone. The minimum wage provisions of the Airport Hospitality Enhancement Zone Ordinance took effect July 1, 2007, and required a minimum hourly wage of \$8.25 with health benefits or \$9.50 without health benefits. The minimum wage is adjusted annually based on changes in the Consumer Price Index. The minimum wage of \$8.50 in 2007 was the equivalent of \$17,160 in annual earnings for a full-time worker. Hotels with severe financial problems had the option of seeking a one-year waiver from the new wage requirements.

Figure 5
Percent of Los Angeles City Residents Employed by Hotels with Earned Income in the
Preceding 12 Months, 2000 to 2009

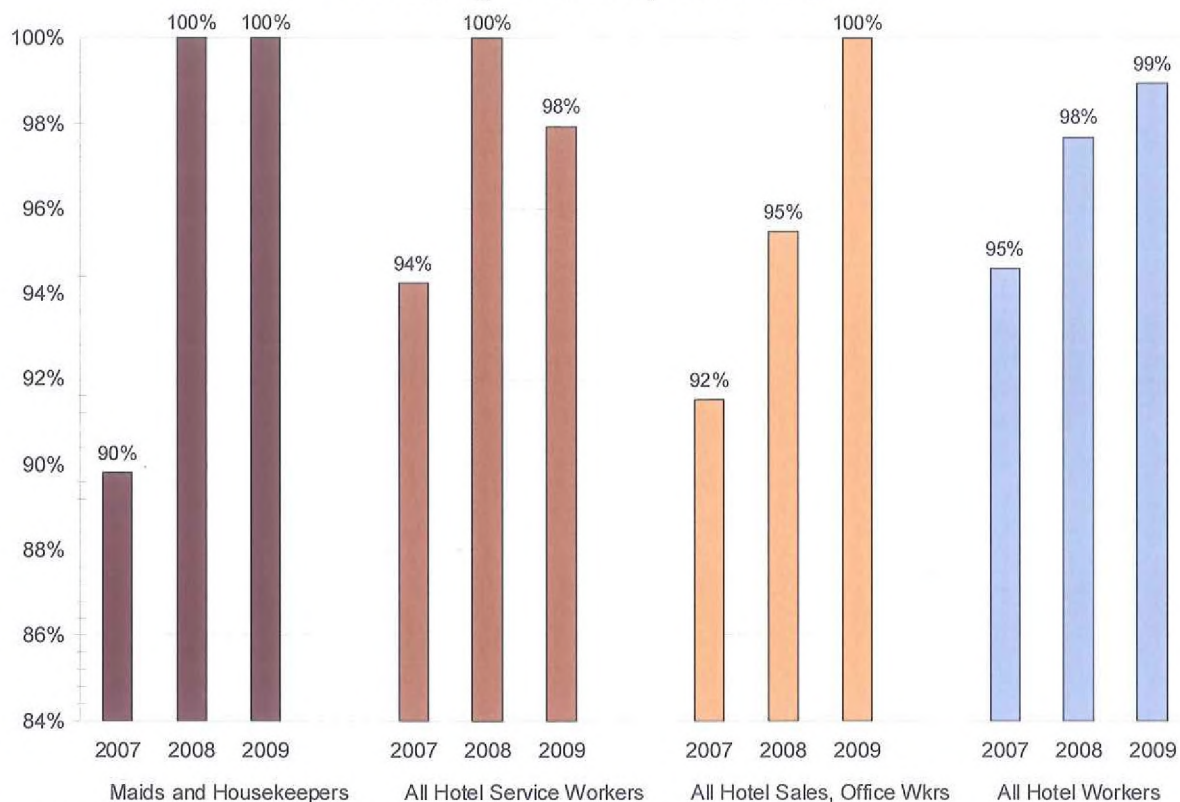


Source: U.S. Census Bureau, 2000 decennial census, 2005 to 2009 American Community Surveys.

The earnings shown in Figures 3 and 4 represent wages received in the 12 months preceding the date when residents completed the Census questionnaire, and thus reflect earnings from January 2006 through December 2008. This means that wage increases resulting from the Hotel Zone Ordinance became completely apparent in 2009 data, when workers reported their 2008 earnings.

By 2007, the annual sample of PUMS survey records for Los Angeles had grown sufficiently large to breakout wage trends among workers in the Hospitality Zone. Annual average earnings from 2007 through 2009 are shown in Figure 4.⁶ However, the sample of records for Hospitality Zone workers in the occupational groups for maids and housekeepers, and sales and office workers are small, so these results should be treated cautiously. Maids and housekeepers are part of the larger job family of service workers; if both demonstrate the same trends, the outcomes shown for maids and housekeepers are validated. Similarly, if trends for the entire workforce of hotel workers are similar to those for occupational groups within this industry, this validates the trends for those occupational groups. For the most part, this is the case with data for the Hotel Zone. On the other hand, if trends shown for smaller occupational groups diverge from those shown for larger groups, then data for the smaller groups is called into question.

Figure 6
Percent of Hotel Workers Residing in the LAX Area with Earned Income in the
Preceding 12 Months, 2007 to 2009



Source: U.S. Census Bureau, 2007 to 2009 American Community Surveys.

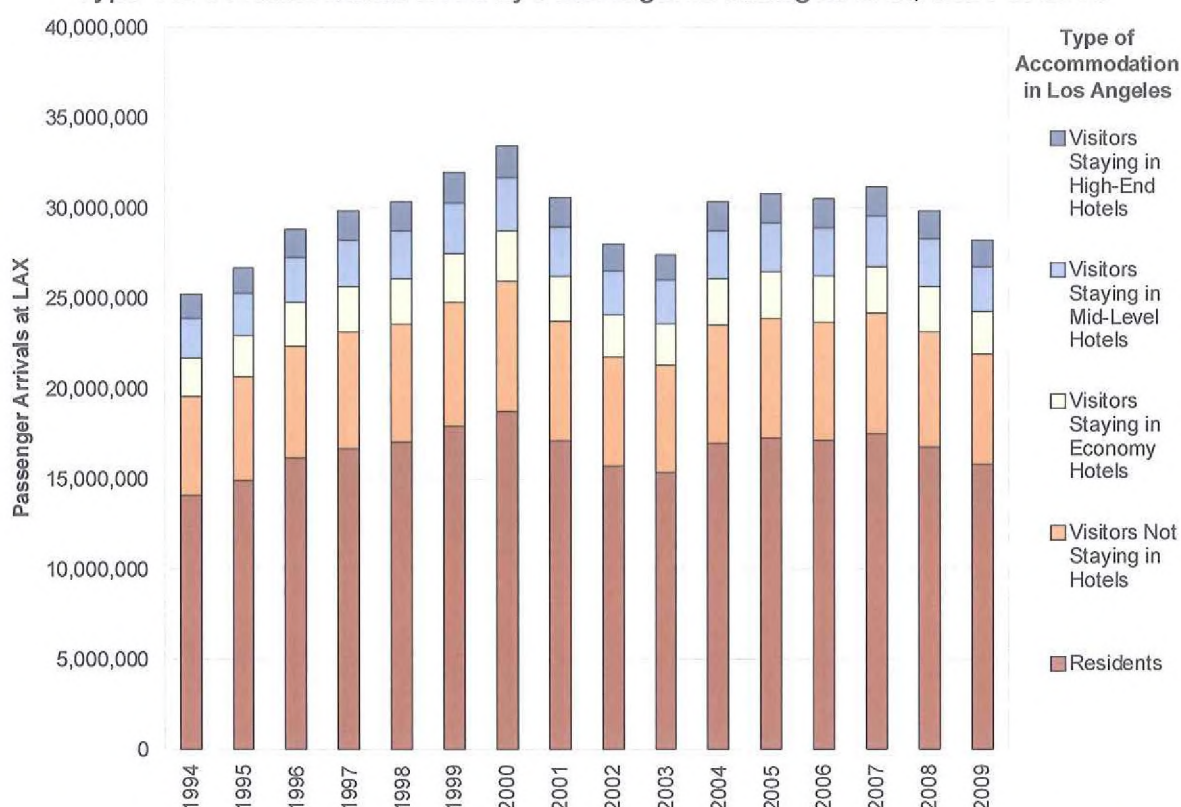
In 2009, the average earnings reported by maids and housekeepers in the Zone were \$17,192, an increase of 15 percent over earnings reported in the preceding year. Earnings increased 18 percent for all hotel service workers, 2 percent for sales and office workers, and 29 percent for the entire hotel labor force. *The Hotel Zone Ordinance clearly resulted in significant wage increases for hotel workers.* In comparison, the City's total resident labor force of hotel workers, shown in Figure 3, reported only a 5 percent change in earnings from 2008 to 2009 – a change only one-sixth as great as in the Hospitality Zone.⁷

Employment Change in the Airport Hospitality Enhancement Zone

Changes in employment rates for hotel workers in the Hospitality Zone compared to the City as a whole provide one form of evidence about whether the wage increases called for by the Hospitality Zone Ordinance had an adverse effect on business viability.

The 2007 recession was accompanied by declining employment rates for the City's resident hotel labor force in 2008 and 2009. The percent of workers who had any

Figure 7
Type of Accommodation Used by Passengers Arriving at LAX, 1994 to 2009



Source: Los Angeles World Airports for passenger volume, California Travel and Tourism Commission, 2009 data tables, for type of accommodation.

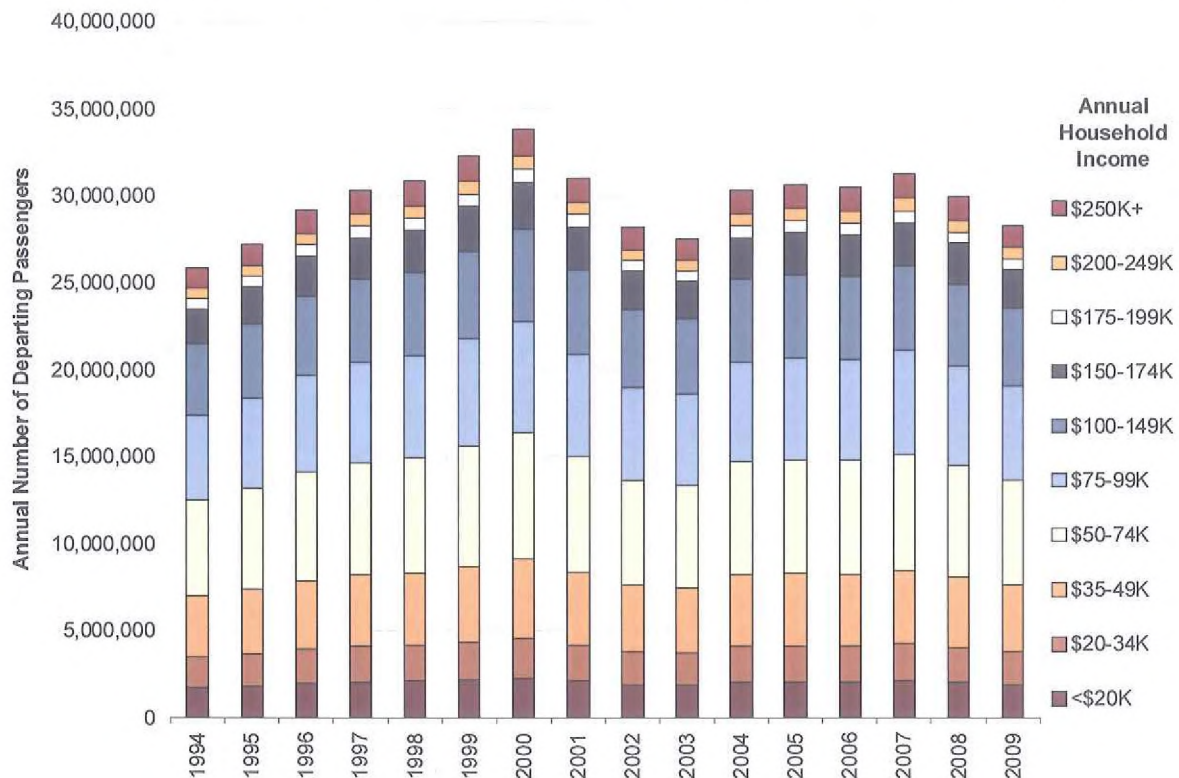
work in the preceding 12 months is shown in Figure 5.⁸ This Citywide annual employment rate dropped from 96 percent in 2007 to 88 percent in 2009.

In contrast, the annual employment rate among all hotel workers in the Hospitality Zone increased from 95 percent in 2007 to 99 percent in 2009, as shown in Figure 6.⁹ Many factors other than payments to workers affect the viability of hotels, the most important of these being the number of visitors. Still, evidence of growing employment rates among hotel workers in the Hospitality Zone, in contrast to declining Citywide rates indicates that *there is not evidence that wage increases had an adverse effect on the viability of hotels in the Hospitality Zone.*

Customer Base within and Outside the Hospitality Zone

Hotels in the Century Boulevard corridor have access to a large flow of travelers needing a place to stay. The United States Bureau of Economic Analysis (BEA) estimates that 73 percent of hotel business comes from travelers, with the remaining 27 percent coming from local residents.¹⁰ In the case of LAX hotels, the roughly three-quarters of guests who are travelers are most likely to be people who are arriving at the

Figure 8
Annual Household Income of Passengers Departing through LAX, 1994 to 2009



Source: Los Angeles World Airports for passenger volume, Applied Management and Planning Group 2006 Survey for household incomes of departing passengers.

airport. Air travelers are the primary customer base for hotels in the Hospitality Zone. The volume of air travelers has declined with the recession, dropping 4 percent from 2007 to 2008, and then an additional 5 percent from 2008 to 2009.

Roughly 1.5 million passengers who arrived at LAX in 2009 are estimated to have stayed in high-end hotels in the Los Angeles area, and another 2.5 million are estimated to have stayed in mid-level hotels, as shown in Figure 7.¹¹ This flow of visitors needing a hotel to stay in is the primary source of guests for the Hospitality Zone. They are augmented by roughly another quarter of the customer base that is drawn from local residents, for example, people living in Los Angeles who come to banquets and conferences held at LAX hotels.

Two factors that determine whether passengers traveling through LAX stay at a hotel, and if they do, the type of hotel they stay at are whether they are visitors or local residents, and their income level. The estimated income distribution of passengers departing from LAX is shown in Figure 8.¹² In 2009, an estimated 9.2 million passengers departing through LAX had annual household incomes over \$100,000 a year. Assuming that 44 percent of these passengers were visitors rather than local

residents, this means that an estimated 4 million passengers could reasonably afford to, and might have a need to stay at hotels in the LAX Hospitality Zone.

The Hospitality Zone has 14 percent of the hotel bed inventory in Los Angeles County and 29 percent of the bed inventory in the City of Los Angeles.¹³ The customer base for the balance of the City includes visitors traveling through LAX whose destination is outside of the Hospitality Zone, visitors arriving by automobile, train and ship, and the roughly one-quarter of the customer base drawn from local residents attending conferences and banquets at local hotels.

Conclusions about the Economic Impacts of Minimum Wage Requirements

Information gathered and analyzed for this study indicates that living wage standards and the workforce training program have had positive, or at least not negative, impacts on hotels, hotel customers and hotel workers.

Evidence of growing employment rates among hotel workers in the Hospitality Zone, in contrast to declining Citywide rates indicates that there is not evidence that wage increases had an adverse effect on the viability of hotels in the Hospitality Zone. Higher levels of employment are an indication that these hotels are doing well, particularly in comparison to hotels Citywide.

Annual earnings and employment rates of hotel workers in the Hospitality Zone do not reflect the downward trend in airport passengers, or the downward trend in earnings and employment for the Citywide hotel labor force. This is an indication hotel guests, who often have discretion about where they stay, are patronizing hotels in the Hospitality Zone and are happy with the services they receive there.

The Airport Hospitality Zone Ordinance clearly resulted in significant wage increases for hotel workers. Improved employment and earnings outcomes for hotel workers in the Hospitality Zone are an indication of the overall strength of the LAX hotel cluster. Well-paid workers appear to be contributing to the resilience of Hospitality Zone hotels and the satisfaction of their customers.

Non-tiered Living Wage Requirement for Both Tipped and Non-tipped Hotel Workers

Tipped and Non-tipped Hotel Worker Wages Within and Outside the Hospitality Zone

The minimum wage standard established by the Airport Hospitality Enhancement Zone Ordinance applies equally to both tipped and non-tipped employees. In this section we analyze the wages of these two groups of workers as the first step in analyzing their overall wage parity. Managers and supervisors are excluded from this analysis, as well as professional workers in occupations such as Meeting and Convention Planners and Accountants and Auditors. *Tipped* employees account for 51 percent of line workers in hotels and include:

- Baggage Porters and Bellhops

- Bartenders
- Concierges
- Food Servers
- Maids and Housekeeping Cleaners
- Parking Lot Attendants
- Waiters and Waitresses

Non-tipped employees account for 49 percent of line workers in hotels and include:

- Bookkeeping, Accounting, and Auditing Clerks
- Cashiers
- Cooks, Restaurant
- Dining Room and Cafeteria Attendants and Bartender Helpers
- Dishwashers
- Food Preparation Workers
- Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop
- Hotel, Motel, and Resort Desk Clerks
- Janitors and Cleaners, Except Maids and Housekeeping Cleaners
- Laundry and Dry-Cleaning Workers
- Maintenance and Repair Workers
- Sales Representatives
- Security Guards
- Switchboard Operators

By applying the occupational wage spread reported by hotel employers to the average 2009 earnings reported by hotel workers in Los Angeles County, Los Angeles City and the LAX Hospitality Zone, we obtain the average wages (before tips) for tipped and non-tipped line hotel workers shown in Table 2.

The average pre-tip wage reported by employers for non-tipped hotel workers is 14 percent higher than for tipped workers: \$2,322 vs. \$2,043 Countywide, \$2,178 vs. \$1,916 Citywide, and \$2,303 vs. \$2,027 in the LAX Hospitality Zone.

Table 2
Average Monthly Wage in 2009 Reported by Employers
for Tipped and Non-Tipped Hotel Workers in Non-
supervisory, Non-professional Occupations

	Los Angeles County	Los Angeles City	LAX Hospitality Zone
Tipped Workers	\$2,043	\$1,916	\$2,027
Non-tipped Workers	\$2,322	\$2,178	\$2,303
Percent Difference	14%	14%	14%

Sources: California Employment Development Department OES employer survey for wage spread among hotel occupations and U.S. Census Bureau 2009 American Community Survey for average earnings of hotel workers in each geographic area

Effect of Tips on Earnings Parity between Hotel Workers in Tipped and Non-tipped Line Occupations

Little information is available about the income that Los Angeles hotel workers receive from tips. Our approach is to analyze post-tip outcomes in the form of number of hours worked and total earnings reported by workers. Then, we compare the post-tip earnings spread for tipped and non-tipped hotel workers to the spread reported by employers for pre-tip wages. This approach does not produce a specific estimate of the

Table 3
Average Monthly Earnings, Hours Worked and Hourly Earnings in 2009
Reported by Tipped and Non-Tipped Hotel Workers in Non-
supervisory, Non-professional Line Occupations (2009 dollars)

	Los Angeles County	Los Angeles City	LAX Hospitality Zone
<i>Average Monthly Earnings</i>			
Tipped Workers	\$1,811	\$1,936	\$1,755
Non-tipped Workers	\$1,881	\$1,780	\$2,349
Percent Difference	4%	-8%	34%
<i>Average Monthly Hours Worked</i>			
Tipped Workers	139	146	139
Non-tipped Workers	147	138	165
Percent Difference	6%	-6%	19%
<i>Average Hourly Earnings</i>			
Tipped Workers	\$13.04	\$13.25	\$12.64
Non-tipped Workers	\$12.80	\$12.91	\$14.24
Percent Difference	-2%	-3%	13%

Source: U.S. Census Bureau, 2009 American Community Survey, workers in the Traveler Accommodations industry, age 18-64 years, with wage and salary earnings in the past 12 months.

amount of income that workers receive through tips, but it does provide information about the effect of tips on earnings parity between hotel workers in tipped and non-tipped line occupations. This analysis is shown in Table 3.¹⁴

What we see for the most part is that tipped employees have fewer hours of work than non-tipped employees and lower total earnings, although tips appear to reduce the gap in wages that employers are

shown paying in Table 2. When we look at the County, the City and the Hospitality Zone in Table 3, outcomes are least favorable for tipped workers in the Hospitality Zone. These employees report 19 percent fewer hours of work and post-tip earnings that are 13 percent lower than non-tipped workers. The magnitude of this post-tip wage gap for tipped workers should be viewed with caution because of the comparatively small sample size for the Hospitality Zone.¹⁵ However, it is reasonable to conclude that *income received through tips does not unfairly advantage workers in tipped occupations compared to workers in non-tipped occupations.*

Average Training Cost per Hotel Worker within the Hospitality Zone

The Airport Hospitality Enhancement Zone Ordinance calls for an investment in workers that includes a workforce training program underwritten by the City. This training is currently being provided by the California Labor Federation AFL/CIO under a \$650,000 contract with the City's Community Development Department. The training includes:

- Boot camp training for new hires
- Career advancement training for room attendants
- Career advancement training for banquet servers

Training is provided in 40-hour training modules for 282 workers. Most classes are planned to have 16 participants, and altogether, 11,280 person hours of training are planned. The average training cost is \$2,305 per worker who completes training.

Human capital investments in the form of worker training can increase productivity and reduce turnover. If this training program extends the duration for which workers are retained in their jobs by increasing job satisfaction and opening opportunities for career advancement, it will create significant cost savings for employers. This includes:

- Reduced termination costs for separation processing, exit interviews and accrued vacation
- Reduced vacancy costs for temporary help, preparing and running job ads, screening and interviewing applicants, checking references and finalizing hiring agreements
- Reduced orientation and training costs for new hires
- Reduced indirect costs for lost productivity of experienced workers, increased time spent supervising new workers, and decreased satisfaction on the part of customers served by inexperienced workers

The American Hotel and Motels Association cites a \$4,100 turnover cost for line employees. This includes \$2,500 in direct costs and \$1,600 in indirect costs.¹⁶

ENDNOTES

¹ The Airport Hospitality Enhancement Zone Ordinance, number 178432, was adopted by the Los Angeles City Council on February 21, 2007. As specified in Ordinance 177211, the Hospitality Zone includes properties along the north side of Century Boulevard between La Cienega Boulevard and Sepulveda Boulevard and along the south side of Century Boulevard from La Cienega Boulevard to Aviation Boulevard; and includes properties on the north side of 98th Street between Sepulveda Boulevard and Aviation Boulevard, and nearby properties that have addresses on La Cienega Boulevard, 102nd Street, 98th Street, and Aviation, Sepulveda and Airport Boulevards.

² U.S. Census Bureau, 2009 American Community Survey Public Use Microdata Sample for Los Angeles County and California Employment Development Department, industry-occupation matrix based on 2009 employment, <http://www.labormarketinfo.edd.ca.gov/?pageid=1012>.

³ Wages in the preceding twelve months reported by hotel workers in the 2008 and 2009 American Community Survey were adjusted to 2009 dollars and averaged. Data for the two-year period was used to increase sample size. Average annual earnings reported by hotel workers countywide were higher for the combined two-year period of 2008-2009 than for 2009 alone because average annual earnings adjusted to 2009 fell from 2008 to 2009, from \$31,532 to \$29,775.

⁴ Supporting data for Figure 1, Distribution of Hotel Workers by Wage Band:

Wage Band	LA County	LA City	Hotel Zone
1	43.9%	57.0%	44.6%
2	16.1%	5.1%	15.5%
3	14.6%	18.9%	14.6%
4	6.5%	5.8%	6.5%
5	5.8%	1.3%	5.8%
6	1.3%	2.2%	1.3%
7	3.5%	1.9%	3.6%
8	1.5%	2.6%	1.4%
9	2.2%	1.5%	2.2%
10	4.5%	3.7%	4.5%
Total	100.0%	100.0%	100.0%

⁵ Supporting data for Figure 3, Annual Earnings of Los Angeles City Residents Employed by Hotels, 2000 to 2009:

	Year	Average Annual Earnings – 2009 \$	Number of workers	Number of records
Maids and Housekeepers	2000	\$15,389	3,932	194
	2005	\$13,489	4,774	34
	2006	\$16,261	3,405	30
	2007	\$14,724	4,733	33
	2008	\$17,470	4,175	35
	2009	\$17,670	3,776	34
All Hotel Service Workers	2000	\$23,478	11,613	557
	2005	\$14,757	12,663	91
	2006	\$24,213	9,612	78
	2007	\$20,765	11,091	84
	2008	\$23,079	11,000	94
	2009	\$23,271	9,747	87
All Hotel Sales and Office Workers	2000	\$25,457	3,091	160
	2005	\$26,134	2,318	24
	2006	\$22,459	3,460	32
	2007	\$21,481	3,213	25
	2008	\$27,778	3,601	31
	2009	\$18,841	3,743	30
All Hotel Workers				

2000	\$26,984	17,864	870
2005	\$23,969	19,900	153
2006	\$27,518	17,385	145
2007	\$29,664	18,006	140
2008	\$27,864	16,722	146
2009	\$29,393	18,743	160

⁶ Supporting data for Figure 4, Annual Earnings of Hotel Workers Residing in the LAX Area, 2000 to 2009:

	Year	Average Annual Earnings – 2009 \$	Number of workers	Number of records
Maids and Housekeepers	2007	\$13,906	1,955	12
	2008	\$14,957	1,994	12
	2009	\$17,192	2,140	15
All Hotel Service Workers	2007	\$21,399	5,114	39
	2008	\$20,404	4,650	34
	2009	\$24,122	4,897	36
All Hotel Sales and Office Workers	2007	\$17,920	1,618	14
	2008	\$26,766	1,538	13
	2009	\$27,345	1,637	16
All Hotel Workers	2007	\$27,182	8,085	64
	2008	\$26,417	7,456	56
	2009	\$34,138	9,706	75

⁷ The sample of records for Hotel Zone workers in the occupational groups for maids and housekeepers and sales and office workers are small, so these results should be treated cautiously. However, if anything, the smaller samples may understate the magnitude of changes in earnings. For example, hotel service workers, which include maids and housekeepers, show greater wage increases than maids and housekeepers by themselves. And the total hotel labor force in the Hotel Zone shows greater wage increases than service workers by themselves.

⁸ Supporting data for Figure 5, Percent of Los Angeles City Residents Employed by Hotels with Earned Income in the Preceding 12 Months, 2000 to 2009:

	Year	Annual Employment Rate	Number of Records	Number of Workers
Maids and Housekeepers	2000	84%	232	4,678
	2005	95%	37	5,050
	2006	96%	32	3,551
	2007	96%	36	4,920
	2008	91%	39	4,585
	2009	74%	41	21,266
All Hotel Service Workers	2000	88%	633	13,151
	2005	96%	96	13,147
	2006	92%	84	10,417
	2007	93%	93	11,872
	2008	94%	101	11,712
	2009	83%	99	11,759
All Hotel Sales and Office Workers	2000	86%	187	3,607
	2005	98%	25	2,368
	2006	88%	34	3,929
	2007	98%	26	3,270
	2008	98%	32	3,674
	2009	97%	31	3,844
All Hotel Workers	2000	88%	999	20,413
	2005	96%	163	20,771

2006	93%	153	18,659
2007	96%	152	18,990
2008	93%	158	18,017
2009	88%	178	21,226

⁹ Supporting data for Figure 6, Annual Percent of Hotel Workers Residing in the LAX Area with Earned Income in the Preceding 12 Months, 2007 to 2009:

	Year	Annual Employment Rate	Number of Records	Number of Workers
Maids and Housekeepers	2007	90%	15	2,177
	2008	100%	12	1,994
	2009	100%	15	2,140
All Hotel Service Workers	2007	94%	43	5,426
	2008	100%	34	4,650
	2009	98%	37	5,000
All Hotel Sales and Office Workers	2007	92%	16	1,768
	2008	95%	14	1,611
	2009	100%	16	1,637
All Hotel Workers	2007	95%	70	8,547
	2008	98%	58	7,633
	2009	99%	76	9,809

¹⁰ Information about US tourism-related output employment and the tourism ratio for the Lodging sector sectors is from the Industry Economics Division (IED), Bureau of Economic Analysis BE-51, U.S. Department of Commerce. The files used for this report contain data from the 1998-2003 U.S. Travel and Tourism Satellite Accounts (TTSA's) as published in "U.S. Travel and Tourism Satellite Accounts for 1998-2003," Survey of Current Business" (Sept 2004). This article provides further information about the definitions and conventions used in the travel and tourism satellite accounts and can be downloaded from the publications tab on the BEA web site, www.bea.gov.

¹¹ The annual number of arriving passengers is from data released by Los Angeles World Airports, <http://www.lawa.org/>. The breakout of passengers by residents and visitors is based on a 2006 survey conducted for Los Angeles World Airports by Applied Management and Planning Group, Los Angeles, CA. The breakout of passengers by type of accommodation is based on 2009 statewide data prepared for the California Travel and Tourism by D. K. Shifflet & Associates, Ltd., VcLean, VA, www.dksa.com. The 2009 data about the share of passengers that are visitors, and the 2006 data about the type of accommodation used by visitors is applied to passengers arriving in all years from 1994 through 2009. Supporting data for Figure 7, Type of Accommodation Used by Passengers Arriving at LAX, 1994 to 2009 is as follows:

Year	Residents	Visitors Not Staying in Hotels	Visitors Staying in Economy Hotels	Visitors Staying in Mid-Level Hotels	Visitors Staying in High-End Hotels
1994	14,133,385	5,441,353	2,109,913	2,220,961	1,332,576
1995	14,937,927	5,751,102	2,230,019	2,347,389	1,408,433
1996	16,134,506	6,211,785	2,408,651	2,535,422	1,521,253
1997	16,704,184	6,431,111	2,493,696	2,624,943	1,574,966
1998	17,017,758	6,551,837	2,540,508	2,674,219	1,604,531
1999	17,909,151	6,895,023	2,673,580	2,814,295	1,688,577
2000	18,741,579	7,215,508	2,797,850	2,945,105	1,767,063
2001	17,135,033	6,596,988	2,558,016	2,692,648	1,615,589
2002	15,703,723	6,045,933	2,344,341	2,467,728	1,480,637
2003	15,365,410	5,915,683	2,293,836	2,414,564	1,448,739
2004	17,001,989	6,545,766	2,538,154	2,671,741	1,603,045
2005	17,270,441	6,649,120	2,578,230	2,713,927	1,628,356
2006	17,102,924	6,584,626	2,553,222	2,687,602	1,612,561
2007	17,468,820	6,725,496	2,607,845	2,745,100	1,647,060
2008	16,735,410	6,443,133	2,498,358	2,629,850	1,577,910
2009	15,810,274	6,086,955	2,360,248	2,484,472	1,490,683

¹² The annual number of departing passengers is from data released by Los Angeles World Airports, <http://www.lawa.org/>. The distribution of departing passengers by household income is based on a 2006 survey conducted for Los Angeles World Airports by Applied Management and Planning Group, Los Angeles, CA. The 2006 data about household income distribution is applied to passengers departing in all years from 1994 through 2009. Income data is shown in unadjusted 2006 dollars. Supporting data for Figure 8, Household Income of Passengers Departing through LAX, 1994 to 2009 is as follows:

Distribution of Departing Passengers by Annual Household Income in 2006										
Year	<\$20K	\$20-34K	\$35-49K	\$50-74K	\$75-99K	\$100-149K	\$150-174K	\$175-199K	\$200-249K	\$250K+
1994	1,740,141	1,740,141	3,480,281	5,510,446	4,930,399	4,060,328	2,030,164	580,047	580,047	1,160,094
1995	1,836,024	1,836,024	3,672,048	5,814,075	5,202,067	4,284,056	2,142,028	612,008	612,008	1,224,016
1996	1,966,041	1,966,041	3,932,082	6,225,797	5,570,450	4,587,429	2,293,715	655,347	655,347	1,310,694
1997	2,043,619	2,043,619	4,087,239	6,471,461	5,790,255	4,768,445	2,384,223	681,206	681,206	1,362,413
1998	2,078,215	2,078,215	4,156,430	6,581,015	5,888,276	4,849,169	2,424,584	692,738	692,738	1,385,477
1999	2,177,457	2,177,457	4,354,914	6,895,280	6,169,461	5,080,733	2,540,366	725,819	725,819	1,451,638
2000	2,281,084	2,281,084	4,562,168	7,223,432	6,463,071	5,322,529	2,661,264	760,361	760,361	1,520,723
2001	2,090,422	2,090,422	4,180,844	6,619,670	5,922,863	4,877,652	2,438,826	696,807	696,807	1,393,615
2002	1,899,875	1,899,875	3,799,750	6,016,271	5,382,980	4,433,042	2,216,521	633,292	633,292	1,266,583
2003	1,856,940	1,856,940	3,713,879	5,880,309	5,261,329	4,332,859	2,166,430	618,980	618,980	1,237,960
2004	2,045,654	2,045,654	4,091,309	6,477,905	5,796,021	4,773,194	2,386,597	681,885	681,885	1,363,770
2005	2,066,247	2,066,247	4,132,493	6,543,114	5,854,365	4,821,242	2,410,621	688,749	688,749	1,377,498
2006	2,056,189	2,056,189	4,112,377	6,511,264	5,825,868	4,797,773	2,398,887	685,396	685,396	1,370,792
2007	2,106,355	2,106,355	4,212,709	6,670,123	5,968,005	4,914,828	2,457,414	702,118	702,118	1,404,236
2008	2,017,819	2,017,819	4,035,638	6,389,761	5,717,154	4,708,245	2,354,122	672,606	672,606	1,345,213
2009	1,907,070	1,907,070	3,814,141	6,039,056	5,403,366	4,449,831	2,224,915	635,690	635,690	1,271,380

¹³ Economic Roundtable (2006), "From the Pockets of Strangers," p. 41, www.economicrt.org.

¹⁴ The estimate of number of hours worked is obtained by multiplying the number of weeks that workers report working in the past year by the number of hours they typically work each week. The estimated number of hours worked annually produced by this computation are likely to be imprecise, but this provides a useful benchmark for comparing hours of work and estimated hourly wages of tipped and non-tipped workers.

¹⁵ The 2009 American Community Zone provides 49 records of hotel workers 18 to 64 years of age, with wage and salary income in the preceding 12 months who reside in the neighborhoods surrounding LAX shown in Figure 2. Using the person weights for these records, they represent 6,453 workers.

¹⁶ Sasha Corporation (2007), "Compilation of Turnover Cost Studies," <http://www.sashacorp.com/turnframe.html>