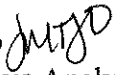


REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: June 19, 2015

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Assignment No: 15-06-0494

CITYWIDE HOTEL WORKER MINIMUM WAGE ADAPTIVE REUSE EXEMPTION

SUMMARY

On September 24, 2014, the City Council adopted an ordinance to require that hotels with 150 or more rooms pay their employees a minimum wage of \$15.37 an hour. Hotels with 300 or more rooms are required to implement this requirement beginning July 1, 2015 and hotels with 150 to 300 rooms are required to implement this requirement beginning July 1, 2016.

The action to approve this ordinance included an instruction to evaluate an exemption from the Citywide Hotel Worker Minimum Wage Ordinance for adaptive reuse buildings converted to hotels and an amending Motion (O'Farrell-Huizar) seeking a similar exemption of hotels that are listed or registered historic landmarks.

City staff do not have the technical expertise necessary to conduct such a study. As a result, a Request for Bids was sent to the City Administrative Officer's list of pre-qualified consultants for strategic planning for asset management and economic development. Only one bid was received to complete the necessary study, at a cost of \$90,000. An allocation of funds is needed to proceed with this study.

Additionally, direction is needed concerning the scope of the study. Adaptive reuse has a specific meaning in the context of the Municipal Code as it relates to specific building types and geographic areas of the City. Additional direction is needed concerning the intended scope of the buildings that would qualify for an exemption.

RECOMMENDATIONS

That the City Council, with the approval of the Mayor:

1. Appropriate \$90,000 from the Unappropriated Balance, Reserve For Mid-Year Adjustments to Fund 100, Department 28, Contractual Services Account 3040 for the purpose of conducting a study to evaluate the economic effects of an exemption of specified hotels from the Citywide Hotel Worker Minimum Wage ordinance; and
2. Instruct that the study use criteria defining adaptive reuse as provided in Section 12.22 of the Los Angeles Municipal Code and a geographic area covering the entire City.

BACKGROUND

On September 24, 2014, the City Council adopted an ordinance to require that hotels with 150 or more rooms pay their employees a minimum wage of \$15.37 an hour. Hotels with 300 or more rooms are required to implement this requirement beginning July 1, 2015 and hotels with 150 to 300 rooms are required to implement this requirement beginning July 1, 2016.

The Council also approved an instruction recommended by the Economic Development Committee that directs the Chief Legislative Analyst, with the City Administrative Officer and Economic and Workforce Development Department, to obtain a study of adaptive reuse projects and the effect of exempting those properties from the Citywide Hotel Worker Minimum Wage Ordinance. Specifically, the instruction sought a study of the following issues:

- a. Provide an analysis on the economic impact of historic preservation and reuse of buildings, and the economic impact of the presence of vacant older buildings in an otherwise revitalizing downtown urban environment.
- b. Analyze the risk factors and return on investment for adaptive reuse versus new construction hotel projects.
- c. Compare the cost of the per square foot price of delivering comparable adaptive reuse and new construction hotels in Downtown Los Angeles and Southern California, including but not limited to:
 1. the costs of land and building acquisition compared with just land or tear-down buildings
 2. seismic upgrades
 3. retrofit requirements
 4. building and health code requirements
 5. fire life safety systems
 6. furniture, fixtures and equipment
 7. infrastructure upgrades
 8. Planning, permitting and professional services costs associated with architects, designers and consultants which have very different requirements in adaptive reuse than new construction.
 9. Economies of scale achieved with new construction versus adaptive reuse.

When considered in Council on September 24, 2014, an amending Motion (O'Farrell-Huizar) seeking an evaluation of the economic impact of exempting hotels that are City registered historic landmarks and federally designated historic buildings from the Hotel Worker Minimum Wage Ordinance was introduced and adopted by Council, as well. The Chief Legislative Analyst was instructed to prepare the study with the assistance of the City Administrative Officer and the Economic and Workforce Development Department.

City staff do not have the resources necessary to conduct a study incorporating the detailed construction data and economic analysis as required by Council. As a result, a Request for Bids (RFB) was sent to the City Administrative Officer's list of pre-qualified consultants for strategic planning for asset management and economic development. The RFB was distributed to 17 firms. Only one bid was received, for a study cost of \$90,000. The bidding firm is qualified to complete the study requested and was responsive to the RFB.

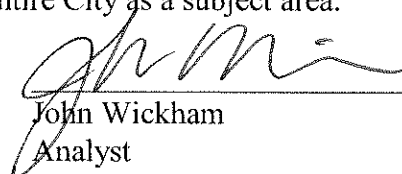
The September 24, 2014, action of the Council did not allocate any funds to complete this study. At this time, an allocation of funds is needed to proceed. As noted, the study will cost \$90,000. An allocation from the General Fund Unappropriated Balance would be required to move this study forward.

Additionally, direction is needed concerning the scope of the study. Adaptive reuse has a specific meaning in the context of the Municipal Code as it relates to building uses, age, and geographic distribution. The City implemented the Adaptive Reuse Ordinance in 2001 with the focused purpose of revitalizing the greater Downtown Los Angeles area. The ordinance allowed eligible buildings to change use to dwelling units, guest rooms, or joint living and work quarters in all or any portion of the building under certain procedures. Eligible buildings are those built before 1974 or listed or registered as historic properties.

In 2002, the ordinance was expanded to include Chinatown and Lincoln Heights; the Hollywood Community Redevelopment Project Area; the Wilshire Center/Koreatown Community Redevelopment Area; and Central Avenue, all as defined in the ordinance.

It is necessary to clearly designate the scope of the study. In this case, it is necessary to ensure a clear definition of the types of buildings that would be studied and the geographic areas to be included. The Adaptive Reuse Ordinance provides a clear definition of eligible buildings with regard to age or historic status and that definition is recommended for the scope of this study.

With regard to geographic area, the study could focus on buildings and construction costs within the five designated areas or could be generalized to any eligible property in the City. Since the Citywide Hotel Worker Minimum Wage Ordinance applies across the entire City, it may be appropriate, and is recommended, that the study use the entire City as a subject area.



John Wickham
Analyst