BEACON ECONOMICS

TO:	**OFFICE OF HERB WESSON, COUNCIL PRESIDENT**
FROM:	**CHRISTOPHER THORNBERG, FOUNDING PARTNER**
	BEACON ECONOMICS, LLC
DATE:	SEPTEMBER 22, 2014
SUBJECT:	**LOS ANGELES HOTEL LIVING WAGE ORDINANCE QUESTIONNAIRE**

Council President Wesson,

Below are the answers to the nine questions we were provided on the proposed Los Angeles Hotel Living Wage ordinance. I look forward to meeting with you on Tuesday to go through the analysis.

Please contact us if you need additional information.

Thanks,

Chris Thornberg

1) Does the hotel industry to be regulated have more than 15,000 employees working in the City?

No—by our estimate the number of workers in the part of the industry impacted by this ordinance is less than 15,000.

We calculate that there are approximately 16,180 people employed by hotels & motels in the City of Los Angeles. This employment figure includes all hotel & motel workers, and not just those in hotels with 100 rooms or more that would be subject to the $15.37 living wage. We derived these numbers from an analysis of two data sources: the California Employment Development Department's (EDD) Monthly Labor Force Report for July 2014, and the Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW). Using City level data from the EDD we estimate that as of the 4th quarter of 2013 there were approximately 16,825 people employed by hotels & motels in the City of Los Angeles.

Hotel Type	City Employees	County Employees
Fewer than 100 or Less Employees	3,881	-
More than 100 Employees	12,944	-
Total	16,825	41,391

Sources: EDD, QCEW

- City hotel employment is 40% of the County total, a similar ratio to overall employment. This was a surprise to us, since the City would seem to have a greater share of large hotels than the balance of the county. But it is worth noting, since it indicates that there is an active hotel industry outside the City that actively competes for visitors.
- Data from the CES survey suggests hotel employment has grown by 3.1% since the start of the year. This implies an additional 1,250 jobs countywide with 520 in the city. There are many new projects in the pipeline at the moment. According to PKF Consulting almost 5,000 new rooms are due to come on line, which would increase employment by an additional 400 to 600.
- Not all hotels would be impacted by the ordinance. According to the proposed statute, those hotels with more that 125 rooms would be subject to the ordinance. We cannot get data directly on employment by the number of rooms, but we can estimate that a hotel at such a size typically has more than 100 employees. Using County Business Patterns (CBP) data and information from the World Tourist Organization, we estimate that approximately 10% of hotels in the City of Los Angeles would be affected by this ordinance. This is less than the numbers from the EDD for the City of Los Angeles show. Analysis of the EDD data shows that about 15% of hotels in the city would be affected. These hotels are responsible for approximately 77% of employment in the

industry. As such we believe there are roughly 13,000 impacted employees in the city, and this number will be less than 14,000 when the statute—if implemented—comes fully into effect.

2) Is the number of employees being paid less than a living wage so substantial as to have a significant negative effect on the City economy as a whole?

No. The number of workers being covered by this statute represents a tiny fraction of the number of workers in the City earning less than $15.27 per hour. Additionally we also recognize that imposition of a high minimum wage will have some employment impact over time, which suggests that better wages for those in the industry will be offset in part by reduced employment opportunities.

To answer this question, we have to calculate the number of hotel workers earning less than the proposed minimum wage, and in addition the number of workers in the entire city. To analyze this question, Beacon used County-level data as an approximation for the City of Los Angeles since there is a lack of city-specific data available for this type of analysis. The numbers used in this analysis were derived using data from the 2012 American Community Survey (ACS), as this is the only publically available data source that allows a rough calculation of hourly pay.[1] The ACS wage figure is adjusted to 2013 using the OES wage growth variable for the Los Angeles Metro Area.

- Beacon estimates from this data that in 2013 the average hourly wage for all hotel workers to be approximately $14.20 an hour, or $28,100 annually.
- This is 60% of the average hourly wage for the rest of the workers in the County of Los Angeles by the same data source.
- By this same data almost two thirds of the workforce for the hotel industry makes less than the proposed living wage, as can be seen in Table 1.
- *We can say with some certainty that these figures underestimate the true income being earned by employees in the industry*.

Looking at QCEW data for wages, the average annual salary for hotel and motel workers as of the fourth quarter of 2013 is 32,700, over 15% higher than the data from the ACS. This data is more accurate as it is pulled directly from the payroll records for companies in the industry for unemployment insurance purposes. Unfortunately it is not available on a worker-by-worker basis and thus cannot be used for the current project.

This discrepancy seems common in that the *ACS consistently yields lower wage estimates for all occupations than do other sources of wage data* such as the QCEW. The problem here is that the ACS data is self-reported by the workers, and it is commonly believed that people tend to over estimate the number of hours they worked the previous year, and underestimate their income because they forget to add back in certain deductions that may occur. This tends to bias the ACS estimate of hourly wages down.

[1] The 2013 ACS public use data files will be released by the Census on October 23rd.

The ACS figures also point to an unusual income distribution, which raises red flags with us regarding the accuracy of the data. Approximately one quarter of the survey's respondents claim to have earned less than $8.00 per hour minimum wage that was in place in 2012. This seems implausible. Furthermore some shares of workers in the industry receive tip income, much of which is often not reported as income. By our count 5% of workers in the industry work as waiters, bartenders and valets—all occupations that receive generous tip compensation. Equivalently room cleaners also often receive small tips, albeit at a lower level. With this in mind we can estimate that roughly 40% to 50% of hotel employees current earn less than the proposed living wage level.

Table 1: Distribution of hourly pay for Los Angeles County hotel workers 2012 American Community Survey

Hourly Wage ($)	Annual Wage ($)	Distribution Percentile
5.77	7,598	5
6.25	8,915	10
6.73	11,144	15
7.69	12,157	20
9.23	15,197	30
10.58	18,236	40
12.02	21,275	50
13.46	25,328	60
15.63	30,393	70
19.23	40,524	80
21.01	42,550	85
25.64	50,655	90
33.65	81,048	95

Table 2: Average hourly pay for Los Angeles County hotel workers by age and hours 2012 American Community Survey

Hourly Wage				
18-25	$9.86	Full-Time	$14.53	75%
26-35	$12.79	Part-Time	$13.29	25%
36-45	$13.48			
46-55	$16.85	Source: 2012 ACS		
56 and older	$17.41	Adjusted to 2013		

We also collected other information that may be relevant to the issue. Looking at hourly wage by age group. We collected data on part time and full time employment from the ACS, as well as by age group. These wage estimates are derived again from the ACS, so they are likely to be 15% to 20% lower than what they actually are. One question is about full time vs part time status.

- Approximately one fourth of workers in the industry are part time, working less than 35 hours per week.
- Part-time employees are also making less than full-time employees. ACS data implies that part-time hotel workers average hourly wages that are 8.5% less than full-time workers wages.
- There is also a distinct relationship between age and income in the data. Those older than 56 make nearly twice the hourly pay of those in the 18-25 age range. This suggests that there is a career ladder in the industry, meaning as workers become older they receive increasingly better compensation.
- An additional wrinkle in the data is that large hotels, the ones that are to be affected by this proposal, actually pay employees an average wage that is above the living wage laid out in this proposal. Below is a breakdown of hotel by number of employees.

Table 3: Average Annual pay for City of Los Angeles hotel workers 2013 EDD

Hotel Type	Count	Employees	Average Wage
Less than 100 Employees	271	3,881	27,191
More than 100 Employees	46	12,944	36,662
Total	317	16,825	34,478

Despite the fact that many more hotel workers are being paid less than a living wage compared to the rest of the workers in the County of Los Angeles, Beacon does not feel this is so substantial as to have a significant negative impact on the City economy as a whole. There are two reasons for this. This first is that this population represents a small portion of workers in the area. The second reason is that the workers who earn the least in the industry are not in dead end positions. Rather they can earn higher incomes in a number of different ways.

According to the latest employment report by the EDD, the City of Los Angeles has 1,553,700 employed workers as of 2013. The 16,180 workers we estimate to be employed by hotels in the City account for a mere 1.0% of total employment in the City of Los Angeles. So although a great deal of hotel workers are making below the proposed living wage, they represent a fraction of a fraction of the overall labor force and as such do not impose a significant negative impact on the economy.

As seen in the data above, workers who earn the least in the industry tend to be part time, young or work for smaller hotels. As such, they can improve their incomes by simply working for larger hotels, working full time or gaining experience. As such, earning a living wage can be obtained simply through efforts on the part of the workers in question.

3) What have been the positive and negative impacts of the City's Airport Hospitality Enhancement Zone ordinance?

Three major results can be stated about what happened in the LAX region since the enhancement zone has been put in place.

- **Wages at the airport initially grew faster; however, wages in the rest of the city have caught up. As such, the actual current wage differential between the city and the rest of the region is negligible.**
- **There has been little significant impact on the performance of the hotels from a Rev Par (revenue per available room night) basis.**
- **Employment within the LAX area has significantly underperformed growth rates in the rest of the city.**

The airport hotel minimum wage law went into effect in 2008. The pay increase was less than the current proposal at just above $10 per hour.

REVPAR growth for hotels in the airport area is lower than for the county overall. While the area has a higher occupancy rate, it also has lower daily rates. According to data from PKF consulting, REVPAR in 2005 prior to the local hike in the minimum wage was 7.7% lower. In 2013, the most recent data available, REVPAR was 7.5% lower.

Airport area hotels were able to grow REVPAR faster than the average hotel in Los Angeles County mostly due to the ability to increase occupancy rates faster than the rest of the County, in addition to already having above average occupancy rates before the recession. Airport hotels increased occupancy rates to from 81% to 87% between 2006 and 2013. This is in contrast to the slight bump from 77% to 79% experienced countywide. Increases in average daily hotel rates were in line with rate increases across the county, growing 15.5% from 2006 to 2013 compared to the 18.0% growth in the rest of the county.

This suggests that the hotels were able to 1) pass on the increased labor costs to customers without losing any business due to higher rates, or 2) they have been absorbing the impact through lower profits or 3) they have adjusted to the pay increase with investments in labor saving technologies and thus reducing employment.

To look into this, data from the QCEW was used to look at the wage effects as well as the level of employment. This information is shown in Figure 1. On the income side, it is true that the minimum wage ordinance did raise the relative pay for workers in the LAX area—but not by as much as might have been expected. In 2006, the average hotel worker in the LAX area earned 3.2% less than for the county overall, or about $900 less per year. When wages stagnated during the recession for the overall County, they rose in the airport region, likely due to the ordinance. In 2013, LAX hotel workers were earning 4% more than for the county overall—or about $1,300 more per year.

While the wage trends are not terribly dramatic, employment trends have been. Employment growth is very different between LAX hotels and hotels in the rest of the county. From mid-2006 to the end 2013, employment shrank 10.0% in LAX hotels and grew 9.2% throughout Los Angeles County. This is due almost exclusively to non-existent employment growth in LAX hotels post-recession, combined with a much larger drop in jobs during the recession, where, LAX hotel employment fell 20%, compared to a 7.4% drop for Los Angeles County.

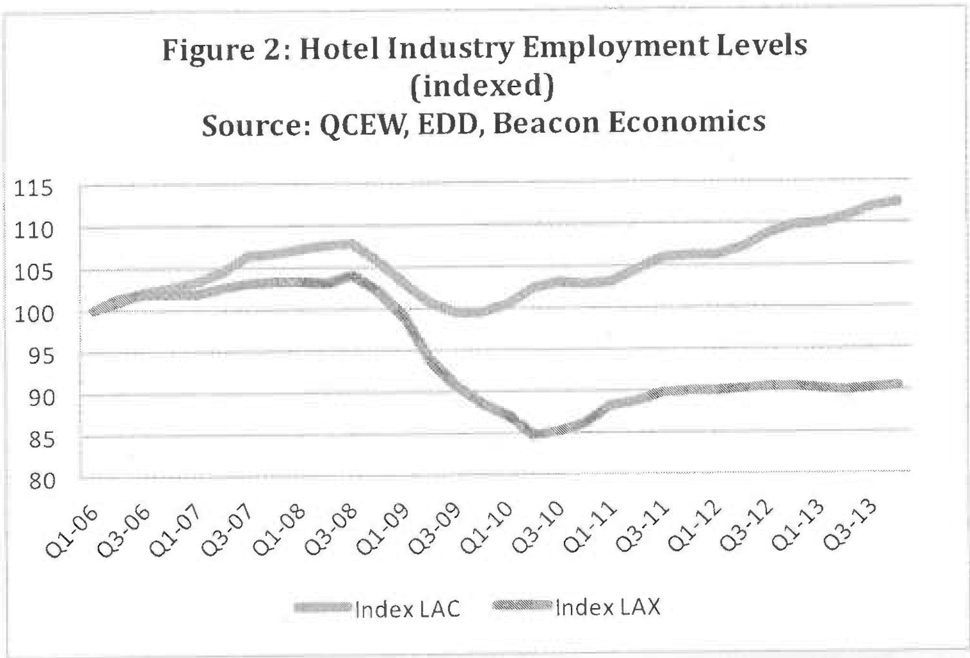

Table 4: Averages Wages & Employment for 11 LAX Hotels and Los Angeles County Hotels

	Average Wage		% Change in Average Wage		Employment		% Change in Employment	
	LAX	Los Angeles County	LAX	Los Angeles County	LAX	Los Angeles County	LAX	Los Angeles County
2006	27,182	28,084	-	-	2,735	37,912	-	-
2013	33,483	32,201	23.2%	20.3%	2,461	41,391	-10.0%	9.2%

Source: Employment Development Department

Overall, here are the positives and negatives usually associated with minimum wage increases:

Potential Positives:

- Increased incomes for workers who received higher wages leads to higher spending in the economy.
- Higher incomes decrease Government welfare spending.

Potential Negatives:

- Increases in labor costs will have to be offset in one of, or a combination of the following ways:
  - Decreased profit margins as businesses absorb higher labor costs.
  - Increased prices as businesses pass through costs to consumers.
  - Decreased employment as businesses substitute of out of labor due to the increased input costs.

Summing up the previous data, while it is true that airport hotel worker wages look to have grown by 2.9 percentage points more than hotel workers throughout the county from late 2006 to 2013, on the other side of the equation, the region's hotel employment declined by 10%. To be fair, this cannot be exclusively linked to the LAX hotel minimum wage ordinance, but certainly some of the blame can be laid there.

4) What provisions of the Long Beach "Minimum Wages for Hotel Workers" ordinance should be considered?

The Long Beach "Minimum Wages for Hotel Workers" ordinance features three major components that are comparable to the proposed Los Angeles ordinance and consistent with city policy to this point.

- **The Long Beach ordinance set a floor for the minimum wage by limiting the policy to hotels with 100 rooms or more. Like the proposed policy for Los Angeles, this floor allows smaller hotels more time to adapt to a wage increase without substantively increasing labor costs in the immediate term.**
- **The Long Beach ordinance provides an allotment of sick days for hotel workers that is actually smaller than the allotment set forth in the Los Angeles Airport Hospitality Enhancement Zone minimum wage increase several years ago. Los Angeles has proposed an allotment of 80 uncompensated hours off for sick days into its own plans, in addition to 96 hours of compensated time off per year.**
- **The Long Beach measure includes a measure allowing hotels to waive the minimum wage if the hotels and their workers engage in collective bargaining negotiations. Similarly, the Los Angeles proposal would introduce a waiver for hotels if the wage provisions are expressly waived in a collective bargaining agreement. These are measures that do not weaken the position of hotel workers while maintaining the negotiating position of hotel unions in Los Angeles. Indeed, in the case of Long Beach, the measure even led to unionization at two city hotels.**

The Los Angeles minimum wage ballot measure for hotel workers is modeled very closely to the Long Beach ordinance, and the wage escalation for hotel workers is very similar in each piece of legislation. Each provides a safeguard to smaller hotels by limiting wage increase to workers at hotels with larger numbers of rooms. The Long Beach measure implemented a wage of $13 per hour in 2012 for hotels with 100 rooms or more, while the Los Angeles ordinance will implement a wage of $15.37 per hour for hotels with 300 or more rooms by July 2015 and for hotels with 125 rooms or more by July 2016.

The Long Beach measure's provision of five paid sick days per year for full-time employees is actually lower than the Los Angeles 2007 Airport Hospitality Enhancement Zone requirement of 12 paid sick, vacation, or personal days.[2] An allotment of sick days for Los Angeles's proposed citywide hotel wage ordinance would be consistent with existing policy.

Like the Long Beach ballot measure, Los Angeles's ordinance will include a waiver for employers entering into collective bargaining agreements with their workers. This is a union-strengthening measure that accommodates a proactive negotiating position for workers and does not exclude any specific class of hotel workers. Upon its implementation, the Long Beach ballot measure affected only 15 of the 17 hotels with 100 workers or more, as two hotels, Hotel Maya and the Queen Mary hotel, employed unionized workers.[3] Since then, workers at two other hotels, Hyatt

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[2] http://clkrep.lacity.org/onlinedocs/2006/06-0362-s3_ord_178432.pdf.

[3] Silavent, Joshua H. "Measure N: Voters Approve $13 Wage and Benefits for Long Beach Hotel Workers." *Long Beach Business Journal*. 20 Nov. 2012.

Regency Long Beach and Hyatt The Pike Long Beach, have elected to unionize,[4] leaving 13 hotels subject to the policy. Like the Long Beach measure, Los Angeles should ensure, as it has in the Airport Hospitality Enhancement Zone ordinance, that the waiver is only applicable if expressly waived in collective bargaining agreements.

5) What provisions of the Seattle ordinance regarding minimum wage should be considered?

The Seattle minimum wage ordinance, while more complex than the proposed Los Angeles ordinance and broader-based, may not establish a substantively different year-by-year wage increase between smaller firms and larger firms in the hotel industry.

- **The Seattle ordinance applies to businesses citywide, rather than the hotel industry in specific.**
- **The Seattle ordinance sets different wage increases for businesses with 500 or more workers and those businesses with fewer than 500 workers, which, like the Los Angeles proposed ordinance, is designed to help smaller businesses adjust to the wage increase more slowly over time.**
- **However, by counting workers nationally rather than locally, the Seattle ordinance will likely put smaller businesses that are part of a franchise on the same track as much larger businesses. In the case of hotels, this could work to the detriment of hotels that have relatively few rooms but are franchises of much larger national hotel chains.**

Table 5: Seattle Minimum Wage Ordinance, June 2014

Date of Wage Increase	Minimum Wage, 500 or More Workers Nationally	Minimum Wage, 500 or More Workers Nationally with Medical Benefits	Minimum Wage, Fewer than 500 Workers Nationally	Minimum Compensation, Fewer than 500 Workers Nationally* (where applicable)
April 2015	$11 per hour	$11 per hour	$10 per hour	$11 per hour
January 2016	$13 per hour	$12.50 per hour	$10.50 per hour	$12 per hour
January 2017	$15 per hour	$13.50 per hour	$11 per hour	$13 per hour
January 2018	Raise equal to CPI increase	$15 per hour	$11.50 per hour	$14 per hour
January 2019	Raise equal to CPI increase	Raise equal to CPI increase	$12 per hour	$15 per hour

[4] http://www.presstelegram.com/general-news/20130901/long-beach-may-be-setting-for-further-push-on-living-wage-laws.

January 2020	Raise equal to CPI increase	Raise equal to CPI increase	**$13.50** per hour	**$15.75** per hour
January 2021	Raise equal to CPI increase	Raise equal to CPI increase	**$15** per hour	
January 2022	Raise equal to CPI increase	Raise equal to CPI increase	**$15.75** per hour	
January 2023	Raise equal to CPI increase	Raise equal to CPI increase	**$16.50** per hour	
January 2024	Raise equal to CPI increase	Raise equal to CPI increase	**$17.25** per hour	
January 2025	Raise equal to CPI increase	Raise equal to CPI increase	Equal to employees of businesses with 500 or more workers nationally	Minimum compensation no longer applies

*Businesses may also pay an amount equal to the minimum wage for businesses with 500 or more employees, if lower.

The minimum wage in the City of Seattle stands at $9.32 per hour. The city's minimum wage ordinance, passed in June 2014, seeks to steadily raise the minimum wage to $15 per hour, which would lead the country. The wage ordinance implements a differentiated scale of wages distinguished by total number of workers, as Long Beach and Los Angeles do, but the floor is much higher—500 workers versus 125 workers—and union workers are not exempted. In April 2015, when the first changes go into effect, wage growth starts higher:

- $11 per hour for "large" businesses with 500 or more employees
- $10 per hour for "smaller" businesses with fewer than 500 employees

Wages also escalate more quickly through the phase-in period. For example:

- By January 2016, the minimum wage will increase to $13 per hour for large businesses, compared to $10.50 per hour for smaller businesses
- By January 2017, the minimum wage will increase to $13.50 per hour for large businesses, compared to $11 per hour for smaller businesses
- By January 2018, the minimum wage will increase in line with inflation for large businesses, compared to $11.50 per hour for smaller businesses
- The minimum wage in January 2017 will reach $15 per hour at large businesses but will not reach that level until January 2021 at smaller businesses.

Seattle has a substantially smaller proportion of lower-skilled workers than Los Angeles. The impact of the citywide ordinance will likely be much smaller than a comparable ordinance would be in Los Angeles. According to the 2013 U.S. Census American Community Survey, 12.9% of workers in the City of Seattle possess a high school diploma or equivalency or lower, compared to 40.6% of workers in the City of Los Angeles. Even by differentiating large businesses from small businesses, the Seattle ordinance would likely impact relatively few workers compared to a city like Los Angeles.

However, the City of Seattle substantially widens the reach of the minimum wage ordinance by counting workers in other states as part of the total worker count. Businesses that employ less than 500 workers locally but are part of chains that employ more than 500 workers nationally are subject to a higher minimum wage increase every year through January 2025, in which the minimum wage at "smaller" businesses must equal the minimum wage at "large" businesses. In June, the International Franchise Association filed suit to block the implementation of the ordinance, claiming that the ordinance unfairly treats local small businesses as big businesses.[5]

Although the floor of the proposed Los Angeles ordinance is much lower than the Seattle ordinance, it sets a much more reasonable policy for small hotels, as it puts hotels of comparable *local* size on equal footing while still implementing the policy only on those businesses that will be less impacted by an increase in variable costs.

The Seattle ordinance differentiates the increase in the minimum wage during the phase-in period between businesses that offer minimum compensation (tips, bonuses, commissions) or medical benefits and those that do not. Businesses that offer medical benefits to their employees face a slower escalation in the minimum wage for their workers. For example, businesses with 500 or more employees must pay workers $15 per hour by January 2017, compared to January 2018 for businesses with 500 or more employees that provide medical benefits. At the same time, businesses with fewer than 500 employees and minimum compensation must provide workers either a minimum wage equal to that of businesses with 500 or more employees OR a minimum compensation that is marginally higher than the minimum wage for businesses with fewer than 500 employees. For example, this type of business would be required by January 2017 to pay a minimum wage of $15 per hour OR minimum *compensation* of $13 per hour. Meanwhile, the minimum wage for businesses with fewer than 500 employees would be slightly lower, at $11 per hour, at that time. However, by January 2025, all businesses must pay an equal minimum wage.

This is a mechanism to mitigate shocks to businesses in labor-intensive industries such as the hospitality industry with an abundance of workers earning wages through tips. In California, tip compensation is non-exempt; employers are required to pay workers the minimum wage even if those workers earn tips. Los Angeles's ordinance cannot differentiate businesses that employ tipped workers from those that do not. However, Seattle's ordinance provides a useful model for Los Angeles in terms of its sensitivity to different types of employers. If, during a phase-in period, a business opts to provide its workers with an equivalent or better benefit (such as a good health care plan) compared to a higher wage, it may reduce the impact of an increase in labor costs while not decreasing the benefit its workers receive under the new policy. Compare to the

[5] http://www.franchise.org/IFA_NEWS/IFA_Files_Lawsuit_Against_Seattle_for_Equal_Treatment/.

collective bargaining agreement provision under the Los Angeles proposed ordinance. Employers gain some flexibility while their workers do not lose out under the new policy.

6) What provisions of the San Francisco ballot measure regarding minimum wage should be considered?

Like the Los Angeles proposal, the San Francisco minimum wage ballot measure has few variations in wages across businesses and few exemptions.

- **Unlike the Seattle ordinance, the San Francisco ballot measure does little to protect smaller firms from potentially high labor cost increases in the short term.**
- **However, San Francisco has a very low percentage of lower-skilled workers whom this policy would likely impact—less than half the percentage of lower-skilled workers in Los Angeles.**
- **However, the model the San Francisco ballot measure sets of allowing few exemptions for categories of workers may be one to follow in the Los Angeles proposal. Only "government supported employees," which represent a small proportion of city workers, are exempt from the wage increase. This policy neither encourages nor discourages certain types of workers (younger workers, for instance) from finding jobs in the hotel industry due to differences in wages. By comparison, the Los Angeles proposal only exempts hotel workers under collective bargaining agreements that have waived the wage increase. No other category of workers are exempted.**

Table 6: San Francisco Minimum Wage Ballot Measure, November 2014

Date of Minimum Wage Increase	Minimum Wage
May 2015	$12.25 per hour
July 2016	$13 per hour
July 2017	$14 per hour
July 2018	$15 per hour
July 2019	Raise equal to CPI increase

The City of San Francisco's November 2014 minimum wage ballot measure, Measure J, is farther reaching than Seattle's ordinance. It is set to raise the city's minimum wage from $10.74 per hour at present to $15 per hour by July 2018.

As in Seattle, San Francisco's measure would likely impact far fewer businesses than would a comparable ordinance in Los Angeles, as the city has far fewer lower-skilled workers. Roughly 18.8% of workers in San Francisco possess a high school diploma or equivalency or below, compared to 40.6% of workers in Los Angeles. However, San Francisco's measure has few exemptions compared to the Seattle ordinance.

The measure, set to take effect in May 2015 if passed, provides no minimum compensation credit to employers, and exemptions apply to only two small categories of workers. It sets a different wage for "government supported employees," which include:

- Residents under 18 and employed in after-school or summer jobs subsidized by federal, state, or local government, and
- Residents over 55 employed by a non-profit for core social services.

The minimum wage for these workers would increase to $12.25 per hour by May 2015 but would increase only in line with the growth of the San Francisco consumer price index each year beginning in July 2016.

These exemptions would clearly not apply to the Los Angeles hotel industry, but exemptions based on employee types more broadly warrant caution.

These exemptions could encourage hiring among certain categories of workers based on their labor costs. Specifically, exemptions may promote hiring among exempt workers that command lower wages and discourage hiring among nonexempt workers that command higher wages. The overall profile of hotel workers citywide would more closely mimic the existing, lower-wage profile than intended, while potentially leaving many workers that could currently benefit from the wage increase out of work. Inversely, however, some exemptions could provide a benefit to workers that may be struggling. Consider an exemption for workers age 21 and under. According to the 2013 U.S. Census American Community Survey, the unemployment rate in the City of Los Angeles for these workers is roughly 27%, including 20% among workers 20 to 21 years old. The unemployment rates among older age groups are significantly lower—for example, 8.9% of individuals in the Los Angeles labor force 35 to 44 years old are unemployed. An increase in hiring among younger workers, commanding lower wages, could be a significant benefit to young people struggling to find work. Ultimately, though, this might mean hiring lower-skilled, younger workers at the expense of some higher-skilled, older workers.

7) Provide a five to ten year history of sales, payroll, and employment data for the hotel industry within the Los Angeles – Long Beach – Santa Ana Metro Area. Include a list of typical payroll classifications with current average wages.

Hotels in the Los Angeles – Long Beach – Santa Ana MSA experienced a steep decline in REVPAR, payrolls, and employment in 2009 after reaching a pre-recession peak in 2008. Growth in all three categories resumed the following year in 2010 and as of 2014 REVPAR, payrolls, and employment are at all time highs.

For historical data on payrolls and employment in the hotel industry, Beacon used the County Business Patterns data released by the Census Bureau. Current average wage data for typical payroll classifications is taken from the 2013 Occupational Employment Statistics (OES) published by the Bureau of Labor Statistics (BLS). The RevPAR data used for analysis comes from Visiting California.

During 2008, shortly before the economic downturn, the hotel industry in the Los Angeles-Long Beach-Santa Ana Metro Area employed 69,309 people and had an annual payroll of $1.87 billion. The next year, the industry shed over 3,000 jobs and $120 million in payrolls, but was able to resume growth in both employment and payrolls the following year. Employment in the hotel industry rose to 68,095 in 2011 before contracting to 66,000 the following year. Payrolls on the other hand continued to grow, reaching a five-year high of $1.96 billion in 2012.

Table 7: Total Employees and Payrolls for Los Angeles-Long Beach-Santa Ana, CA Metropolitan Statistical Area

Total Mid-March Employees	Total Annual Payroll ($1,000)	Year
66,309	1,757,429	2007
69,720	1,872,589	2008
66,573	1,755,869	2009
67,383	1,822,428	2010
68,095	1,942,427	2011
65,999	1,956,211	2012

Overall Sales data is not accessible for the hotel industry, thus revenue per available room (RevPAR) will be used as a proxy for historic sales growth. Since the recession, RevPAR has grown significantly. RevPAR bottomed out at $68.82 in February of 2010 and has rebounded to an all time high of $107.03 as of March 2014, a 55.5% increase. The March 2014 RevPAR of $107.03 is also 14.6% above the prerecession peak. Overall, from January 2005 to March 2014, RevPAR has grown by 47.2% despite significant revenue decrease of 26.2% during the recession. The strong post-recession growth in RevPAR can be attributed equally to a rebound in occupancy rates and average daily room rates. After reaching a low in March of 2009, occupancy rates reached a 10-year high of 78.97% in January of this year, an increase of 16.78 percentage points from the trough of the recession. Average daily rates grew even more from trough-to-peak growing 28.8% from February 2010 to January 2014.

When looking at average wages for specific payroll classifications, Beacon elected to focus on a few occupations with a large amount of workers that would be affected by an increase in the living wage. The occupations highlighted are Maids, Bellhops, and Hotel Desk Clerks. The current average hourly wage for Maids and Housekeeping Cleaners in the Los Angeles MSA is $11.23, which is 37% less than the proposed living wage, but it is also 25% higher than the current minimum wage. Baggage Porters and Bellhops earn a slightly lower hourly wage than Maids at $11.14 an hour, while hotel and motel desk clerks earn an average hourly rate of $11.71. Overall, there are 41,600 workers in these occupations earning an average of $11.36 an hour.

8) Would a regional tourism authority help or hinder the current trends in the hotel industry?

Data suggest that a regional tourism authority in Los Angeles might be a benefit to the City of Los Angeles by increasing visitor traffic to an already strong and growing tourism industry.

- **Tourism in Los Angeles is already growing very quickly. Passenger traffic at LAX increased 6.9% from April-June 2013 to April-June 2014, compared to 5.2% statewide. International arrivals increased 9.9% in that time, compared to 8.9% statewide.**
- **Hawaii and New York tourism growth, measured by total visitor and international visitor counts, following implementation of a regional tourism authority suggest that the authority may have helped bring new visitors to those areas.**
- **A regional tourism authority like that of New England or the Central Coast may help to reduce marketing costs across member cities and to develop a marketable common brand or identity across those cities.**

Current trends suggest that the hotel industry is already growing strongly as economic growth nationwide, as well as in countries in Asia and elsewhere, has led to substantial increases in business and leisure travel to Los Angeles. The question becomes whether a regional tourism authority would be able to leverage the existing demand for business and leisure travel into tourism in our city.

According to data from Visit California, the total number of domestic and international travelers through Los Angeles International Airport increased more quickly than across all California airports in both the near-term and longer-term. From April-June 2013 to April-June 2014:[6]

- Passenger traffic increased 6.9% at LAX compared to 5.2% statewide.
    - International arrivals increased 9.9% at LAX compared to 8.9% statewide.
- Over the course of the last three years, passenger traffic increased 13.5% at LAX compared to 12.2% statewide.
    - International arrivals increased at a slightly slower pace at LAX, 14.4%, compared to 17.8% statewide.
- The longer the window of observation, the stronger LAX appears in total visitor traffic relative to the state overall. Over the course of the last five years, passenger traffic increased 27.9% at LAX compared to 18.2% statewide.
    - International arrivals increased 33.9% at LAX compared to 35.2% statewide.

Hotel data from Visit California show how strongly the Los Angeles hospitality sector has grown in recent years. From February-April 2013 to February-April 2014:[7]

[6] Numbers are averaged across three months to reduce volatility from month-to-month statistics.

- The occupancy rate among Los Angeles County hotels increased 3.0 percentage points to 79.1%.
    - The rate increased 7.8 percentage points over three years and 16.3 percentage points over five years.
- The revenue per available hotel room (REVPAR) shows even stronger growth. In one year—from February-April 2013 to February-April 2014—REVPAR in Los Angeles County increased 8.9% to $111.52.
    - In three years, REVPAR increased 27.0%; in five years, 55.0%.

Data from PKF Consulting shows that while the outlook is quite positive in many key locations of the city. For the 2014 year to date (January to June):

- REVPAR among downtown Los Angeles hotels increased 5.6% from the 2013 year to date.
- In the LAX airport area, REVPAR increased 10.9% in that time, while REVPAR in Hollywood increased 7.6%.
- Hotels in Beverly Hills and Santa Monica, both of which would stand to gain from a successful regional tourism authority, are showing strong growth as well. REVPAR in Santa Monica increased 9.8% from January-June 2013 to January-June 2014, while REVPAR in Beverly Hills increased 8.2% in that time.

Clearly, a regional tourism authority would not be tasked in the immediate future with turning around a struggling hotel industry but rather expanding on the industry's growth even more.

The LA 2020 Commission's *A Time for Action* report claims that New York and Hawaii have established regional tourism authorities that have helped tourism in those locations to grow. Tourism has grown significantly in those areas over time. According to *New York City Tourism: A Model for Success* by NYC & Company:[8]

- New York City visits increased from 43.8 million in 2006, the year the local tourism authority was created, to 52.0 million in 2012.
- International visits increased from 7.3 million in 2006 to 11.0 million in 2012.
- Hotel room nights sold increased from 22.4 million in 2006 to 29.0 million in 2012.

According to data from the Hawaii Tourism Authority,[9] the regional tourism authority established in 1998:

- Total visitor days across all Hawaiian islands increased by 1.9% to 57.4 million from 1990 to 1998.
- However, from 1998 to 2006, total visitor days increased by 20.3% to 69.1 million. This rapid rate of growth slowed in the next six years, increasing by 6.5% to 73.7 million from 2006 to 2012.

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8 http://www.nycgo.com/assets/files/pdf/New_York_City_Tourism_A_Model_for_Success_NYC_and_Company_2013.pdf.

9 http://www.hawaiitourismauthority.org/research/reports/historical-visitor-statistics/.

- At the same time, across all Hawaiian islands, total visitors staying overnight or longer *decreased* 1.8% to 6.6 million from 1990 to 1998.
- From 1998 to 2006, total visitors staying overnight or longer increased 14.1% to 7.5 million, and from 2006 to 2012 increased 4.5% to 7.9 million.
    - Within this group, the number of international visitors increased 7.1% from 1990 to 1998 to 2.6 million, *decreased* 23.4% from 1998 to 2006 to 2.0 million, and increased 24.5% from 2006 to 2012 to 2.5 million.

These profiles of tourism in New York City and Hawaii suggest that a regional tourism authority *could have* increased tourism to these areas, but the data are not conclusive. Economic growth, not just locally but nationally and internationally, plays a fundamental role in increases and decreases in tourism over time. Tourism in Los Angeles is growing primarily because the local economy is getting stronger while cultural and other amenities are abundant. However, these regional tourism authorities appear to create a unified identity across different cities that may help in branding the region to travelers.

Similarly, the Central Coast Tourism Council was established to market the Monterey Bay, San Luis Obispo, Santa Barbara, and Ventura regions as parts of a whole Central Coast experience for tourists.[10] Regions like Santa Barbara and San Luis Obispo are marketed as wine tourist hubs, while Monterey Bay promotes its redwood forest hikes and renowned coastal towns and Ventura markets its farmlands, arts, and proximity to Los Angeles among other amenities. Despite the differences between these regions, both geographically and culturally, the Central Coast Tourism Council seeks to promote a unified brand of the Central Coast as a sort of oasis locale unlike the Bay Area or Southern California.

Likewise, Discover New England is a cooperative marketing entity funded by the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont that focuses on branding a common New England identity across these states to European travelers.[11] Discover New England promotes the seafood and shipping culture, fall foliage, winter resorts, harvests, and colonial history that American tourists may identify with some or all of those states but that may be unknown to European tourists. An regional tourism authority like these may help the City of Los Angeles to market itself in common with cities that share its cultural history and geographical amenities, such as Beverly Hills, Santa Monica, and West Hollywood.

These case studies suggest that there would likely be a positive impact to creating a regional tourism authority in the Los Angeles area. The authority would be able to reduce the costs of marketing for each of the citywide tourism organizations by pooling resources and helping to develop a common "brand" of the Los Angeles area across cities. The cases of New York and Hawaii suggest that their regional tourism authorities may be working. Given the current tourism climate in Los Angeles, the goal would not be to revive a lagging tourism sector but to take full advantage of the strong growth underway in the tourism sector.

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[10] http://www.centralcoast-tourism.com/.
[11] http://www.discovernewengland.org/about-dne/.

9) What have been the overall employment trends within the hotel industry in Los Angeles and Long Beach respectively?

Similar to the overall MSA, both Los Angeles and Long Beach hotels were negatively impacted by the recession and employment in both areas reached a pre-recession peak in early 2008 before bottoming out in the first half of 2010. Post-recession employment is at all time highs for Long Beach and Los Angeles hotels.

Beacon was unable to obtain hotel-industry-specific data for the City of Long Beach, but data for the Accommodations industry was available for analysis. From the first quarter of 2006 to the first quarter of 2008, employment in the Accommodations industry grew by 33.5% to a peak of 2,527 employees. Due to the recession, employment in Accommodations contracted 40.7% to 1,497 jobs before resuming growth in the second quarter of 2010. As of the third quarter of 2013, employment in Accommodations is 8.8% above the pre-recession peak, and has grown 9.2% from Q3 2012 to Q3 2013.

Employment data from the EDD for the City of Los Angeles is too volatile so we will examine employment data for Los Angeles County from the QCEW. From the first quarter of 2006 to the first quarter of 2008, employment in the Hotels and Motels industry grew by 6.2% to 38,975 employees. Due to the recession, employment in Hotels and Motels contracted 9.4% to 36,059 jobs before resuming growth in the first quarter of 2010. As of the fourth quarter of 2013, employment in Hotels and Motels is 4.0% above the pre-recession peak, and has grown 2.1% from Q4 2012 to Q4 2013.