

SMALL HOTEL COALITION FOR JOBS

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VIA ELECTRONIC MAIL

March 25, 2014

The Honorable Curren Price
Chair, Economic Development Committee
Los Angeles City Hall
200 North Spring Street, Room 420
Los Angeles, CA 90012

Date: 6/10/14

Submitted in Econ. Dev. Committee

Council File No: 14-0223

Item No.: 1

~~Subject:~~ Communication from the public

Re: Proposed Living Wage Ordinance; Council File 14-0223

Dear Councilmember Price:

This letter is submitted on behalf of the "Small Hotel Coalition for Jobs," a group of hotel owners who are concerned about the potential negative impacts the proposed living wage ordinance will have on small hotels. We share your goal of reducing income disparity, and applaud your efforts to solicit and incorporate stakeholder input at such an early juncture. However, we have strong concerns about the singling out of one industry for this heavy mandate that we understand would immediately nearly *double* the current minimum wage.

Before moving this proposal forward, we do agree that a study of its economic impacts is absolutely imperative. The city must recognize that small hotels – those under 200 rooms – operate under a completely different economic reality than the larger, often publicly- or syndicate-owned corporate hotels in Los Angeles. Many are independent, family-owned businesses that provide a quality work environment – good wages, health benefits, and generous bonuses. This, in turn, has resulted in many long-term satisfied employees. A one-size-fits-all model is rarely successful in a city as diverse as Los Angeles. Thus, in the economic impact study, we ask that you pay special attention to the issues we've identified that are unique to small hotel owners and consider increasing the 100-room threshold, or come up with an alternative method of determining to which hotels the new policy will apply, if any.

I. Large Corporate Hotels vs. Small Independent Hotels: Economies of Scale

The average hotel size in the City of Los Angeles is 326 rooms, and most are affiliated with larger, public corporations. Hotels with high room capacity generally benefit from economies of scale which allow them to efficiently distribute fixed costs. They are able to share resources and materials, and the result is a lower product cost. Smaller, independent hotels lack such economies of scale. Small hotels operate under a different business model, and any substantial cost increase must be made up elsewhere.

II. Loss of Jobs, Reduced Work Hours

Without an exemption, small hotel owners will be forced to cut costs to make ends meet. Many of these hotels operate on very tight profit margins, and any increase in the cost of labor threatens this delicate balance. Unfortunately, the likely result will be a loss of jobs, reduced work hours, more outsourcing, and fewer services provided to guests. For the city, this equates to more unemployment, less tax revenue and fewer consumers. This strategy is counterproductive, and hurts the families the city is trying to help. Our coalition is available to meet with the individuals who are preparing the economic impact study to provide more detailed information about these impacts, among others.

III. Tipped Employees and the Ripple Effect on Salaries

In addition, the proposed wage increase does not take into consideration that many tipped employees already make well over \$15.37 an hour with tips. This will cause a devastating ripple effect on salaries – adding even more costs to hotels. If passed, tipped hourly employees will earn more than shift supervisors with more seniority or other employees with more advanced skill sets. This creates personnel problems that can only be solved by increasing managerial level salaries as well. This is financially infeasible and could lead to unintended consequences. This ripple effect will occur with non-tipped employees as well.

IV. Increased Costs Cannot be Recouped with Higher Room Rates

Despite prevailing beliefs, substantially increased operating costs cannot simply be passed onto consumers. Small hotels will not be able to recoup these costs with higher room rates because it will put them at a significant disadvantage versus others in their competitive set. If owners do decide to increase room rates, they will likely price themselves out of the market and consumers will head to hotels in City of Los Angeles adjacent communities such as West Hollywood, Santa Monica, Marina Del Rey, Pasadena, Burbank, Glendale, El Segundo, Torrance and Simi Valley, which are not subject to wage ordinances of this kind. It is important that these issues, and pricing vis-a-vis cities adjacent to Los Angeles, be carefully studied.

In addition, an arbitrarily set 100-room threshold will put small hotels in the 100-200 room category at a competitive disadvantage with small hotels under 100 rooms. Those in the latter category will not have to raise room rates to offset wage increases and will take market share away from other small hotels in the City.

V. Reduction of Hotel Development

Another issue to consider is the potential reduced development of hotels in the 100-room range, such as adaptive reuse projects vital to Downtown's renaissance and other independent hotels throughout the City. If projects do not "pencil out" in Los Angeles, adjacent communities will once again reap the benefits of our high cost of doing business. Los Angeles will be hurt as more hoteliers choose to develop elsewhere. Permanent and construction jobs will be lost as well as an ongoing revenue stream of Transient Occupancy Tax the city would otherwise collect.

Conclusion

Finally, this proposal may bring about the unintended consequence of minimizing job opportunities for youth. The hotel industry accounts for a large majority of seasonal and temporary jobs for young workers, and hotel owners will be inclined to hire more experienced workers at such a high starting wage. We strongly urge you to carefully examine these important issues, and be mindful of the impact this proposal will have on small hotels in the City. We thank you for your consideration and the opportunity to continue working with you.

Sincerely,



Veronica Perez
Small Hotel Coalition for Jobs

Cc: The Honorable Paul Krekorian
The Honorable Jose Huizar
The Honorable Gil Cedillo
The Honorable Nury Martinez
John Wickham, Chief Legislative Analyst's Office
Richard Williams, Office of the City Clerk