LOS ANGELES AREA
CHAMBER OF COMMERCE

Date: 9/23/14
Submitted in Econ. Dev. Committee
Council File No: 14-0223
Item No.: 1
[redacted] Communication from the Public

September 23, 2014

The Honorable Curren D. Price
City of Los Angeles
200 N. Spring Street, Room 420
Los Angeles, CA 90012

Dear Chairman Price and Members of the Committee,

Attached to this letter are excerpts from two of the studies commissioned by the City Council on the Hotel Mandatory Wage Ordinance under consideration.

These studies, as requested by Council President Wesson, document the results of similar ordinances pertaining to the LAX Hotels Hospitality Zone Living Wage that went into effect in 2008 and the Long Beach Hotel Mandatory wage that went into effect in 2012.

In both cases, the results are clear. The enactment of the ordinances resulted in a pay increase and a loss of jobs. That is what our city can expect if this ordinance is passed.

The unemployment rate in the City of Los Angeles exceeds 9 percent. This ordinance will not help. In fact, it will increase our unemployment rate unless other sectors of the economy pick up the slack and hire more people.

We urge the members of this committee to not submit this ordinance as drafted to the City Council for action.

Sincerely,

Gary Toebben

Gary Toebben
President and CEO
Los Angeles Area Chamber of Commerce

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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.

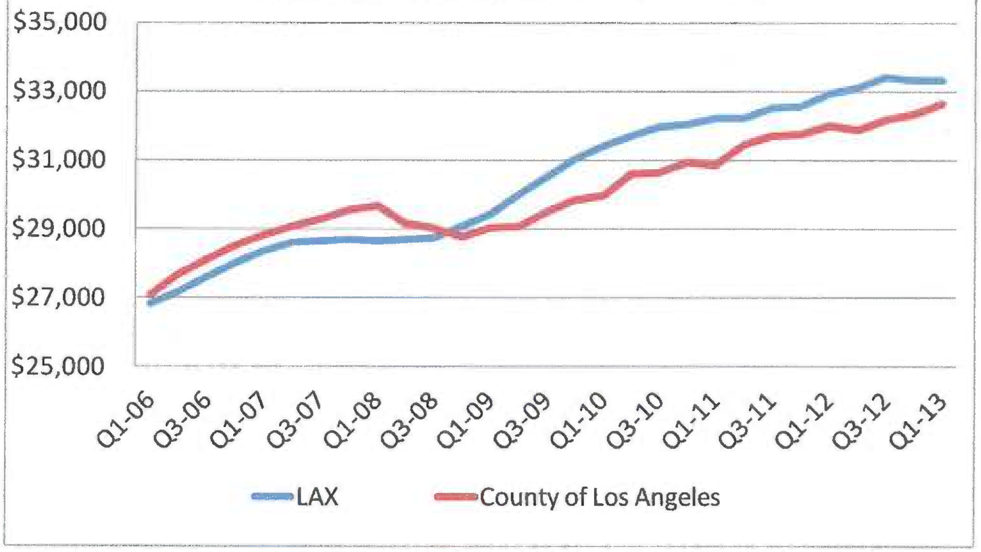
Please contact us if you need additional information.

Thanks,

Chris Thornberg

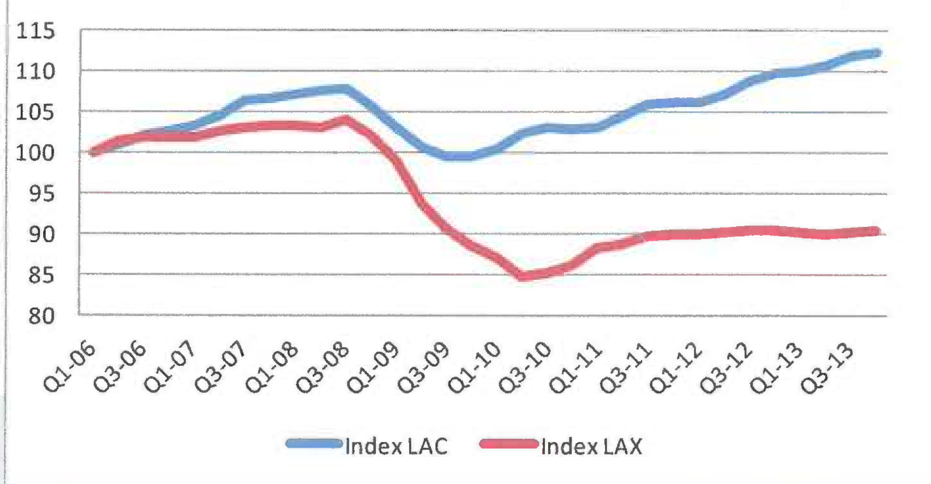
5777 W. CENTURY BLVD SUITE 895 LOS ANGELES CA 90045

Figure 1: Average Annual Hotel Wages
Source: QCEW, EDD, Beacon Economics



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.

Figure 2: Hotel Industry Employment Levels (indexed)
Source: QCEW, EDD, Beacon Economics



PKF
CONSULTING
USA
A CBRE Company

September 22, 2014

Herb J. Wesson, Jr.
President, Los Angeles City Council
Councilmember, 10th District
200 North Spring Street, Room 430
Los Angeles, California 90012

Dear Mr. Wesson:

We have completed our analysis of the potential impact of the proposed City of Los Angeles (LA) Living Wage Ordinance based upon the questions provided to us in your letter dated July 7, 2014. The answers provided herein are based on our present knowledge of the competitive lodging market as of the completion of our fieldwork in September 2014. The following report summarizes our findings and reflects the conclusion of our analysis.

The terms of this engagement are such that we have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of completion of our fieldwork; however, we are available to discuss the necessity for revision in view of changes in the economy or market factors which have a material effect on the proposed property. This report is subject to the Statement of Assumptions and Limiting Conditions presented in the Addenda, as well as to any assumptions presented herein.

We appreciate the opportunity of working on this assignment and look forward to answering any questions you may have regarding our findings and conclusions presented herein.

Sincerely,

PKF Consulting USA

Bruce Baltin
Senior Vice President

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"sorry, we can't help you", instead of: "we cannot help you, but my colleagues in Torrance can likely accommodate your needs.

There is one over-arching tourism entity in San Francisco, which has proved very successful. Stakeholders like to deal with one entity, and this interaction needs to be fluid and seamless. In this case, the regional tourism office can work with the larger groups and can do its best to insure that all areas of the region are fairly and equally represented. Thus, a regional tourism authority that links all of the various Destination Marketing Organizations within the County would help to streamline the marketing process. Since many of these jurisdictions delegate manpower to tourism generation, there must be duplication of effort in many cases.

Job Impacts of the LAX and Long Beach Wage Initiatives

Because the LAX hotels were not able to pass on the costs of the increased wages to their hotel guests, the affected hotels have had to implement cost-saving measures such as reduced staffing and benefits, and reduced hotel amenities. Most all affected hotels have experienced reduced staffing levels, with food and beverage receiving the largest portion of the cuts. One hotel reported a reduction of 84 hourly full-time equivalent employees (FTEs) since the ordinance was implemented, with 52 percent of these reductions occurring in food and beverage. Many of the affected hotels have eliminated room service and banquet and service charges, and have built these fees into the menu pricing. This makes it challenging for the sales team as they must explain the difference in pricing to potential clients. This also impacts banquet servers and bartenders as they are now paid a flat rate. The LAX hotels are now operating with a competitive disadvantage because some of their competitive set hotels, such as those in El Segundo, were not impacted by the ordinance.

In Long beach, at least two hotels have removed rooms from inventory in order to fall below the 100-room threshold. This has led to reduced revenue and staff cuts at these hotels. Another hotel has cut 25 FTEs (55,000 man hours) at the same time that occupancy has increased 7 points. The majority of these cuts were in the food and beverage department. One full-service hotel has calculated that the annual financial impact post-reduction of staff is approximately $785,000 in incremental wages, benefits, and payroll taxes. This impact would have been $1.5 million annually if the staff reductions had not been implemented. In many cases, the staff reductions have resulted in increased workloads, which have impacted service levels. Room service and banquet service charges are now built into menu pricing, which makes it difficult for the sales team to sell against Anaheim hotels.

Conclusions

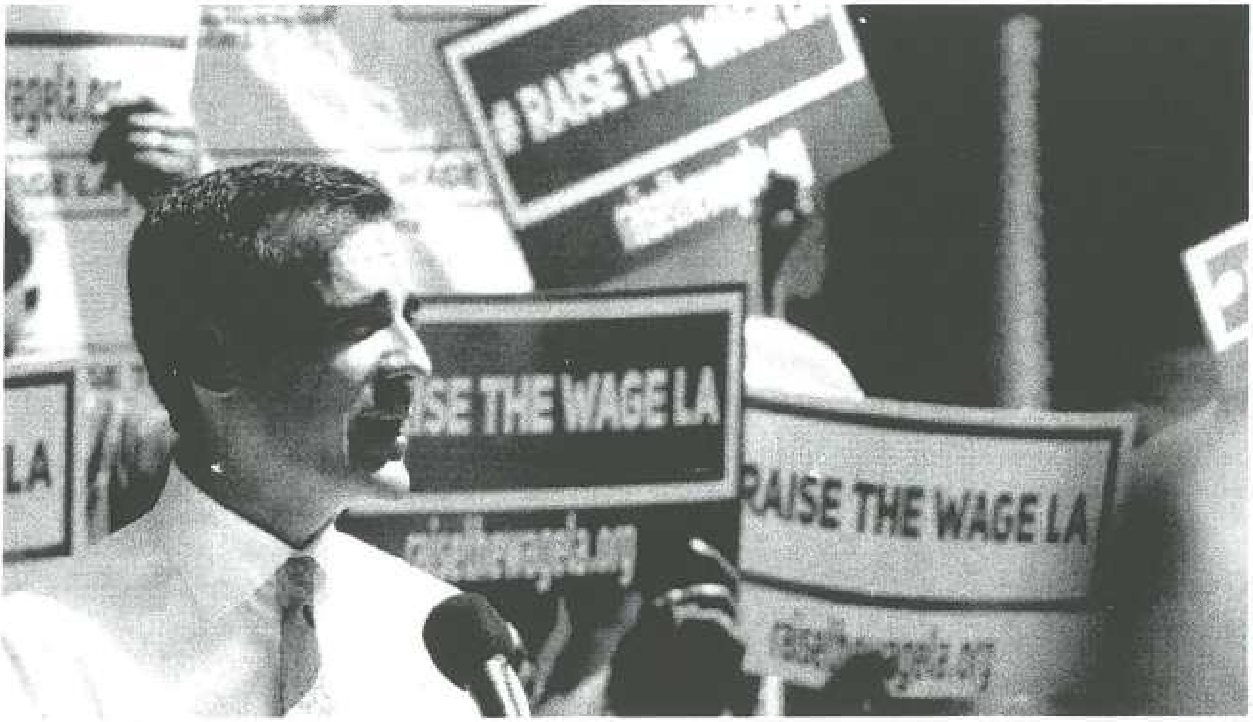
Based upon our internal analysis and the third-party research summarized herein, we believe that any ordinance that is implemented should be designed so that it benefits the greatest number of people, without placing an overly onerous burden on the City of Los Angeles hotels. Thus, we believe that a phased-in approach to the wage increase over several years will spread out the financial and operational impacts, allowing the hotels to adjust gradually to the increasing wages. This approach would hopefully prevent the loss of jobs that were experienced in the LAX, Long Beach and SeaTac Airport hotel markets. Additionally, we believe the prudent thing to do would be to include a provision for tip credits in the final wording of the ordinance. Tipped employees should be carved-out as most of these employees already earn well in excess of $15.37. Without this carve-out, many of the employees that the ordinance is designed to help could end up losing their jobs due to the almost-certain layoffs that have been previously experienced in the precedent hotel markets.

If the ordinance is implemented as currently proposed, there will also be a direct impact on new job creation as well, because developers will not want to risk an investment in new hotels due to the long-term real estate risks associated with development in areas with such high land costs. It should be noted that the compound average annual growth rate for new hotel supply in the City of LA is 0.7 percent from 1988 to the present day. This growth rate is significantly below the national average of 1.9 percent over this same period, and the result is an under-supply of hotel rooms in the market, particularly in Downtown. At present, the convention center is under-utilized due to its inability to attract larger groups because of a lack of hotel rooms in the immediate area. The issue with a lack of adequate new supply in Downtown is that it is currently not economically feasible to develop a hotel in Downtown and the proposed ordinance would only exacerbate the problem.

Similar to what happened in both the LAX Corridor and Long Beach, developers will likely shy away from future development deals if the proposed ordinance is implemented. No new hotels have been built in the LAX Corridor, and only one hotel (which was already under development when the ordinance was implemented) has been built in Long Beach, since their respective ordinances went into effect.

Based upon our research, we have determined that there are owners and potential investors who have slowed the progression of potential deals, and are waiting to see what is going to happen with the proposed ordinance. Three projects have been curtailed in Downtown alone. We believe that if the proposed ordinance is implemented for the City of LA, any new hotel development will likely take place outside if the city limits, which also translates to a loss of transient occupancy tax revenue (TOT).

Editorial Why single out L.A. hotel workers for a wage boost?



Mayor Eric Garcetti is seen on Sept. 1 announcing his plan to raise the minimum wage in L.A. to more than $13 an hour. (Los Angeles Times)

By THE TIMES EDITORIAL BOARD

SEPTEMBER 22, 2014, 6:09 PM

The Los Angeles City Council is, again, trying to rush through a proposal to establish a special $15.37-an-hour minimum wage just for hotel workers. A committee hearing has been scheduled for Tuesday and a full council vote is expected the following day, even though three reports from economists on the potential impacts of the proposal were only due Monday. What? You expected council members to actually read and digest the economic analysis before making a major decision?

That was never going to happen. It's been clear for months that the proponents of the wage on the council have no desire to have a real debate on the merits of raising pay just for hotel workers. Instead, they've ignored unfavorable economic studies, tuned out valid industry concerns and overridden their own existing laws in an effort to enact what is in fact bad public policy.

Under the proposal, large hotels in Los Angeles would be required to pay their workers the second-highest base wage in the country — 70% above the state minimum wage. Is that reasonable? Is it fair? Will it dissuade hotels from locating inside the city limits? Will hotels pass the cost on to guests, or will they cut back jobs? There has not been an adequate debate on these issues, but the proposal is moving full steam ahead, even though Mayor Eric Garcetti recently proposed a far better alternative, which would gradually raise the minimum wage for all workers in the city to $13.25 an hour in 2017.

Proponents of the hotel wage proposal, including the powerful Los Angeles County Federation of Labor, have never offered a compelling reason why the government should single out one industry for special treatment, creating a situation in which a dishwasher at a large hotel would earn $15.37 an hour next July while a dishwasher at a restaurant next door could still be paid as little as $9 an hour. Instead, they've offered the flimsy justification that the tourism industry benefits from L.A.'s public attractions and therefore the city can impose a higher wage on hotels. If so, what businesses will be the next target of City Hall? Ice cream parlors near city parks? Tire shops near potholes?

It is hard to see why any company would open up shop in L.A. if it might be subjected at any time to the whims of the city's political leadership. This should be a big concern for Garcetti, who has made job creation his top priority and who has repeatedly declared that L.A. is "open for business." But he announced in January — before the hotel worker proposal was even released, much less studied — that he would sign the ordinance. That's a shame. Garcetti would do better to urge his colleagues to reject random, industry-specific wage hikes and instead dedicate their energies to raising the minimum wage gradually and across the board, and to working with him on developing a larger strategy for economic development.

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