Public Benefit Research and Innovation
Phone (213) 892-8104
Fax (213) 291-9245
www.economicrt.org
315 West Ninth Street, Suite 502
Los Angeles, CA 90015

ECONOMIC ROUNDTABLE

September 3, 2014

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

Dear Council President Wesson,

We write this letter in response to your letter to the County Federation of Labor dated July 7, 2014 requesting opinions from a panel of three economists on a series of questions related to the proposed hotel minimum wage ordinance currently being considered by the Los Angeles City Council. We are honored to have been selected to be part of this panel.

We have responded to the questions below, grouping our responses in several categories.

Impact of Proposed Ordinance

It is our understanding that these first two questions relate to the requirements for future regulation in the Airport Hospitality Enhancement Zone (AHEZ) ordinance, and are, in effect, asking whether the ordinance will affect an industry of a significant size with a significant number of workers earning low wages. The answer to those questions, in short, is yes.

In 2013, we released a report entitled "*Repaying Hospitality*," which estimated the potential effects of requiring a minimum wage for hotel workers. As part of this analysis, we determined that there are approximate 17,005 people employed in hotels in the City of Los Angeles. We derived these numbers from an analysis of three data sources: the US Census Bureau's *County Business Patterns* from 2011, the California Employment Development Department's (EDD) *Quarterly Census of Employment and Wages* for 2011; and the, US Census Bureau's *American Community Survey* for 2013; .

In that report, we estimate that at least half of these employees earn below the proposed wage of $15.37. We further estimate that the overwhelming majority (approximately 80 percent) of these hotel employees live in households where the average income is below $50,000 per year, while the median household income for LA County is over $56,000.

Effects of Airport Hospitality Enhancement Zone

In 2010, at the request of the CAO, we prepared a report analyzing the effects of the Airport Hospitality Enhancement Zone (AHEZ). At that time, we determined that the earnings of the hotel labor force in the zone had increased 29 percent, while wages at hotels throughout the city went up just 5 percent during the same time period. We also determined that as of that time, there was no evidence that wage increases had an adverse effect on the viability of hotels. In particular, we found no indication that employment at the hotels in the zone had decreased. In our more recent Repaying Hospitality, we have found that earnings in AHEZ are up 15 percent overall in inflation-adjusted dollars, while employment changes have essentially mirrored those across the city.

Another issue raised by some concerned about this ordinance is the impact on room rates or occupancy. These are generally measured using Revenue per Available Room (RevPar), which combines both factors. Prior to the ordinance, the Airport area's RevPar was approximately $59, tied for second lowest in the lowest in the region. Today, it is approximately $102, well ahead of 5 other Los Angeles submarkets. The Airport submarket also performed well relative to the South Bay, its nearest competitor, which increased from $80 to $113.50. The airport area increased more than the South Bay in both absolute numbers ($43.00 vs. $33.50) and percentage (67 percent vs. 40 percent).[1]

Comparison with Long Beach, Seattle and San Francisco Ordinances

The proposed ordinance is similar in key respects to the existing Long Beach hotel minimum wage ordinance, the recently adopted Seattle minimum wage ordinance and the proposed increase of the existing San Francisco minimum wage ordinance.

First, each city has chosen to raise wages to a roughly similar amount. As of July 1, 2018, the wage in Seattle for most businesses, including virtually all hotels,

---

[1] Sources: Flaming, Daniel, Patrick Burns, and Brent Haydamack. 2006. *From the Pockets of Strangers: Economic Impacts of Tourism in Los Angeles and Five Competing Metropolitan Destinations*, Economic Roundtable. Newer numbers are from PKF Hospitality Research. 2014. *Los Angeles Hotels Trend Report: April 2014*.

will be $15 an hour or more. The wage in San Francisco, assuming the November initiative is successful, will be $15. The wage in Long Beach for hotels will, assuming inflation increases at a similar rate, be $14.70, while the wage in Los Angeles hotels will be approximately $16 assuming inflation increases.

Each city has also chosen not to allow for other forms of compensation, including tips, bonuses or health care, to be counted as wages. Seattle does allow smaller businesses to opt to pay a larger amount in "compensation" that includes such other forms of compensation, but that is only for smaller businesses, and is only during an initial phase-in period.

Each city has chosen to require employers to provide sick days to their employees, though Seattle and San Francisco did so in a separate ordinance while Long Beach included the required in its minimum wage ordinance, as Los Angeles has done in past minimum wages.

Finally, each ordinance includes a cost of living adjustment tied to inflation, ensuring that wages continue to rise and reducing the need for the council to revisit the ordinance every few years as occurs at the state and national level.

All of these provisions seem common and best practices, and exist in Los Angeles's proposed ordinance.

There are several key differences between the ordinances.

First, the cities take different approaches to enforcement. San Francisco, Long Beach and Los Angeles's past living wage ordinances all rely on affected workers to enforce their rights in the courts, while Seattle's ordinance does not allow for "private right of action," and instead proposes that city government established a mechanism for enforcement. Seattle's system is far more expensive and burdensome to city government, and also seems to rely on workers filing complaints with a system they are less likely to know—the city rather than the courts, the more common instrument—and thus may result in less effective enforcement at greater cost.

The cities have also chosen different strategies to deal with small employers. Long Beach established a room threshold of 100 rooms, similar to the proposed 125-room threshold in Los Angeles. Seattle established an employee threshold of 500 employees nationally, and counts franchisees as employees. That means most hotels, which are managed or franchises by national chains, are considered as larger businesses anyway. This method of differentiation is controversial, and has resulted in a lawsuit by franchisees. It is also more difficult to count employees than rooms. San Francisco initially used a very low 10-employee threshold, but that exemption long-ago expired, and small businesses are treated the same as large businesses. We believe the room threshold used in LA and Long Beach is easier to monitor.

The cities also have different waiver provisions. Long Beach and past LA ordinances have a collective bargaining waiver, while San Francisco and Seattle do not. Seattle and past LA ordinances have a hardship waiver, while San Francisco and Long Beach do not. San Francisco has a waiver for certain categories of non-profit employees and Seattle has a waiver for certain categories of youth. The first two waiver provisions rely on categories of employers, rather than employees, and are designed to allow business to negotiate with employees to raise benefits if workers choose, or to help companies deal with rough circumstances. These seem sensible to us, so long as they must be specifically approved by all parties and are not automatic. This is the case in past LA ordinances. The second category of waivers either do not apply (there are no non-profit hotels) or could create perverse incentives (if some employees are cheaper than others, hotels would be incentivized to employ more part-time youth than full-time adults supporting families), and thus we do not recommend such waivers.

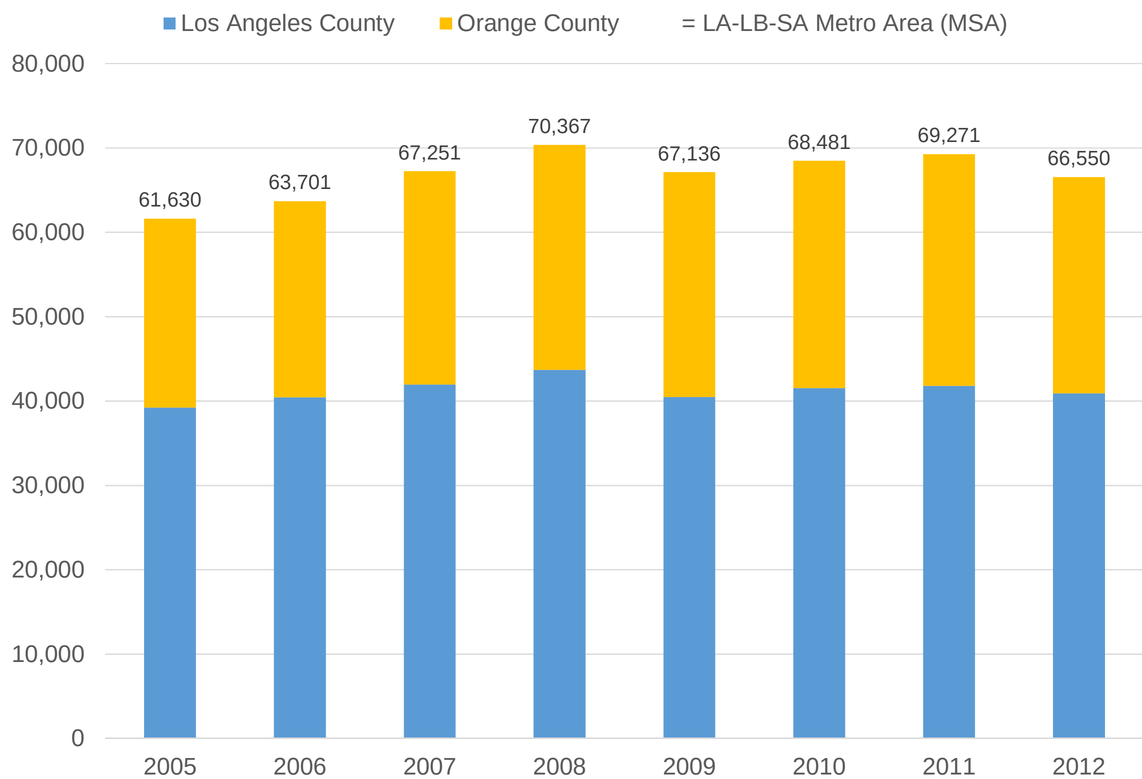
Employment, Payroll and Wage Trends for the Hotel Industry in the Los Angeles-Orange County Area

We have compiled an 8 year history of employment, payroll and wage data for the hotel industry within the Los Angeles-Long Beach-Santa Anna Metro Area. Sales is not included because the Economic Roundtable does not have this data for both counties.

Employment

This area, which includes Los Angeles and Orange Counties combined, had a total of 66,550 hotel employees in 2012. The historical employment trend is shown in Figure 1.

Figure 1: Total Hotel Employment in the Los Angeles-Long Beach-Santa Ana Metro Area, 2008-2012



Economic Roundtable analysis; U.S. Census Bureau. 2014. Los Angeles Co., CA: 2005-2012 County Business Patterns (NAICS).

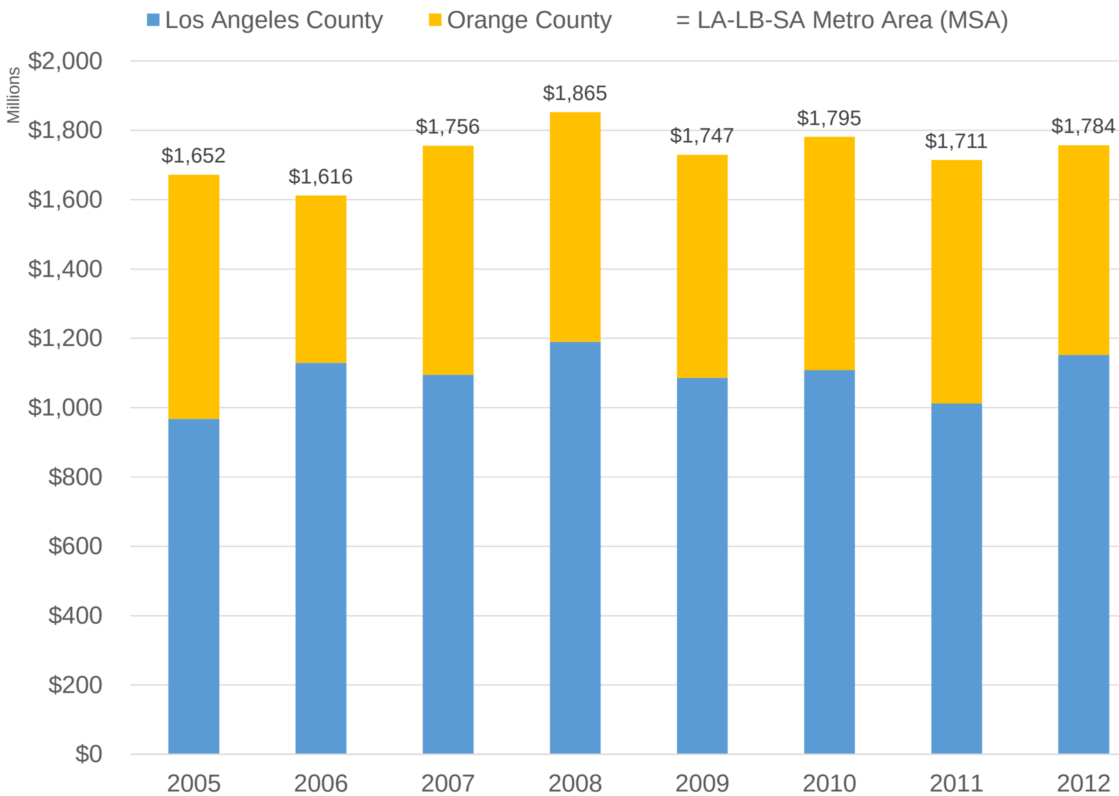
Los Angeles County's has accounted for 62 percent of the Metro Area's total hotel industry employment over this period, and 19 percent of the state's total. These data do not account for unreported employees paid under the table. The data table for Figure 1 is below.

Geography	2005	2006	2007	2008	2009	2010	2011	2012
LA MSA	61,630	63,701	67,251	70,367	67,136	68,481	69,271	66,550
LA County	39,234	40,451	41,943	43,693	40,462	41,523	41,807	40,910
Or. County	22,396	23,250	25,308	26,674	26,674	26,958	27,464	25,640
California	202,085	207,643	213,949	235,337	218,373	215,211	220,342	227,954

Annual Hotel Industry Payroll

The total payroll of hotels in the Los Angeles-Long Beach-Santa Anna Metro Area was $1.78 billion in 2012, adjusted to current dollars. Due in part to the great recession, annual payroll for the industry has fluctuated, reaching a previous highpoint of $1.87 billion in 2008, as shown in Figure 2.

Figure 2: Total Hotel Payroll in the Los Angeles-Long Beach-Santa Ana Metro Area, 2008-2012, Adjusted to Mid-2014 Dollars



Source: Economic Roundtable analysis; U.S. Census Bureau. 2014. *American Community Survey 1-yr. Public Use Microdata Sets (PUMS), 2005-2012*; U.S. Census Bureau. 2014. Los Angeles Co., CA: *2005-2012 County Business Patterns (NAICS)* [Table] ; U.S. Bureau of Labors Statistics, *Consumer Price Index - All Urban Consumers, All Items: Los Angeles-Riverside-Orange County, CA*, Data extracted August 2014, Base Period: 1982-84 = 100.

The data table for Figure 2 is shown below, in millions of dollars.

Geography	2005	2006	2007	2008	2009	2010	2011	2012
LA MSA	$1,652	$1,616	$1,756	$1,865	$1,747	$1,795	$1,711	$1,784
LA County	$967	$1,129	$1,095	$1,190	$1,086	$1,109	$1,012	$1,152
Or. County	$705	$483	$661	$662	$644	$673	$702	$605
California	$5,188	$5,260	$5,628	$6,353	$5,680	$5,377	$8,205	$5,428

Average Annual Wages

The annual average wages earned by all hotel workers employed within the Los Angeles-Long Beach-Santa Anna Metro Area was $26,809 in 2012 (adjusted to mid-2014 dollars), which includes those working full- and part-time hours. The trend in annual wages within the Metro Area has been stagnant aside from a slight increase in 2008; Adjusted for inflation into 2014 dollars, 2012 average wages are no higher than those earned in 2005. This trend of recent wage stagnation in the hotel industry is shown in Figure 3.

Figure 3: Average Annual Hotel Wages Earned in the Los Angeles-Long Beach-Santa Ana Metro Area, 2008-2012, Adjusted to Mid-2014 Dollars

Source: Economic Roundtable analysis; U.S. Census Bureau. 2014. *American Community Survey 1-yr. Public Use Microdata Sets (PUMS), 2005-2012;* U.S. Bureau of Labors Statistics, *Consumer Price Index - All Urban Consumers, All Items: Los Angeles-Riverside-Orange County, CA*, Data extracted August 2014, Base Period: 1982-84 = 100.

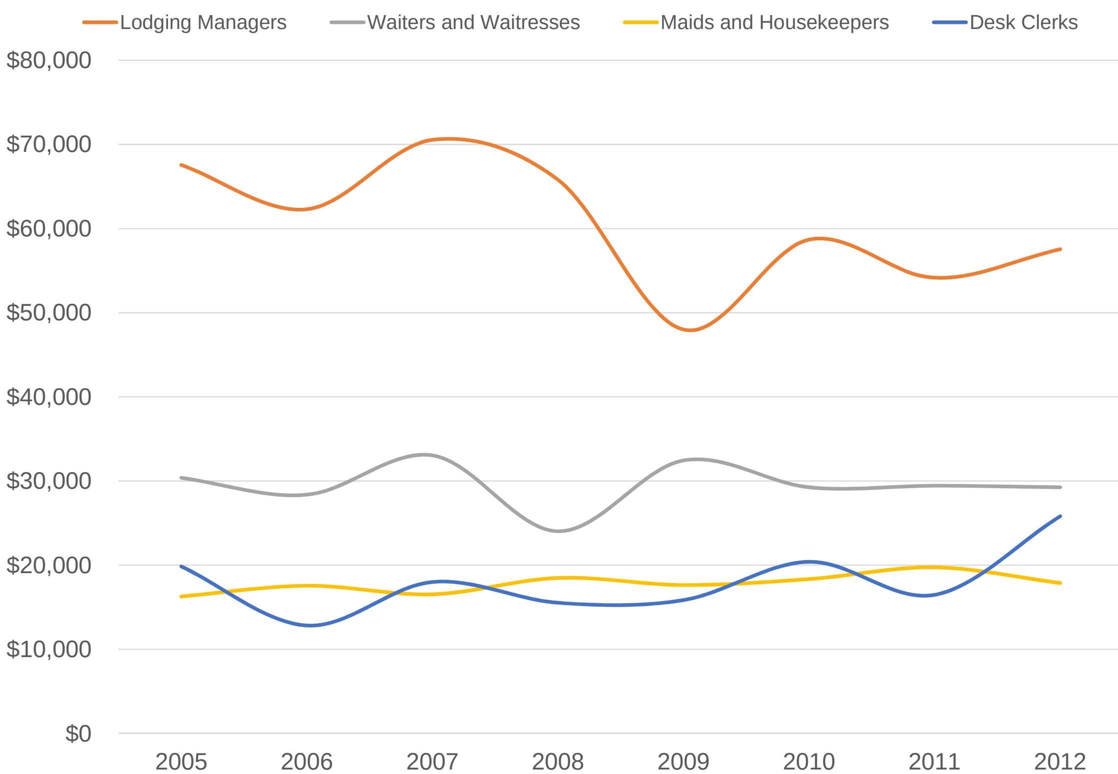
The data table for Figure 3 is shown below.

	2005	2006	2007	2008	2009	2010	2011	2012
Avg. Wages	$26,803	$25,374	$26,105	$29,562	$26,017	$26,206	$24,698	$26,809

Average Wages for Typical Payroll Classifications (Occupations)

Average annual wages for hotel workers employed in the Los Angeles-Long Beach-Santa Ana Metro Area varied by position in 2012, from $57,544 for

Figure 4: Average Annual Hotel Wages Earned in the Los Angeles-Long Beach-Santa Ana Metro Area, 2008-2012, Adjusted to Mid-2014 Dollars



Source: Economic Roundtable analysis; U.S. Census Bureau. 2014. *American Community Survey 1-yr. Public Use Microdata Set (PUMS), 2005-2012;* U.S. Bureau of Labors Statistics, *Consumer Price Index - All Urban Consumers, All Items: Los Angeles-Riverside-Orange County, CA*, Data extracted August 2014, Base Period: 1982-84 = 100.. Note: These four hotel occupations represent 60 percent of hotel employment; other jobs are not statically reliable for displaying average annual wage data.

managers to $17,883 for maids and housekeepers in current dollars. Figure 4 shows the trends over time.

The data table for Figure 4 is shown below.

Occupation	2005	2006	2007	2008	2009	2010	2011	2012
Lodging Managers	$67,551	$62,292	$70,535	$65,792	$47,992	$58,684	$54,145	$57,544
Waiters and Waitresses	$30,384	$28,373	$33,052	$24,026	$32,447	$29,259	$29,444	$29,255
Maids and Housekeepers	$16,286	$17,562	$16,540	$18,489	$17,639	$18,351	$19,746	$17,883
Desk Clerks	$19,857	$12,836	$18,006	$15,536	$15,856	$20,408	$16,480	$25,821

Regional Tourism Authority

We had not previously considered the idea of a Regional Tourism Authority, but understand it was recently suggested in the 2020 Commission's "A Time for Action" report. That report cited Hawaii and New York as examples of the benefits of such authorities in attracting more tourists.

Hawaii created its authority in 1998, and the effect does appear substantial, though what other factors may be related is unknown. Nonetheless, according to this site, from 1990 to 1998, visitors to Hawaii went from just 56.4 million to 57.3 million, while after the authority was created, visitors have increased from $56.4 million to $73.7 million in 2012. The increase began immediately, dipped following 9/11, and then visitor numbers have steadily increased since that time.

New York created a public-private regional authority called NYC Go in 2006. The results there overall are less obvious, though international visitors do appear to have increased substantially. From 2000 to 2006, visitors to New York rose from 36.2 million to 43.8 million, while from 2006 to 2012, visitors rose to 52.7 million. Visitors did increase slightly more in the latter period, but only by about 200,000 per year. However, international visitors increased substantially; after changing from just 6.8 million to 7.3 million from 2000 to 2006, the number jumped to 10.9 million in 2012. As international visitors generally stay longer and spend more, this represents a real value to New York City.

As a point of comparison, from 2006 to 2012, visitors to Los Angeles also increased substantially, from 35.7 to 41.4 million. This is a smaller increase than experienced in both Hawaii and New York. While there are many factors that result in visitors to a region, it does appear a regional tourism authority could have some benefit to Los Angeles based on the experiences of these two regions.

Overall Evaluation of Long Beach & Los Angeles Hotel Minimum Wage Ordinances

Our research has found that hotel workers are among the lowest-paid in the formal economy, and that workers in Los Angeles are paid lower wages than workers in LA's competitor cities, such as New York, San Francisco, Las Vegas and even San Diego.

We have studied the effects of the ordinance adopted in Los Angeles in 2007, affecting airport-area hotel workers. These workers were previously among the lowest paid workers, and the hotel submarket was among the lower performing submarkets. Since the passage of the ordinance, wages and earnings have increased significantly, and workers in these hotels now appear to make at above the average wage and earnings for the region. Hotel performance has not suffered, and in fact, the submarket has not only improved earnings per room by 2/3rds, this improvement is greater than the rest of the region, and has allowed the submarket to climb past four other submarkets.

We have not looked at the results in Long Beach as extensively; less than two years in, the results may not be yet evident. Looking at RevPar, Long Beach has increased slightly from 2013 to 2014, and occupancy in particular has increased rather than decreased, suggesting that the wage increase did not result in lost business. No hotels have closed, though one hotel did reduce the number of rooms it had available to rent to get below the 100-room threshold, but hotel management told the Long Beach Business Journal this did not result in any job loss.[2]

We are available to answer any questions the City Council may have about the information provided in this letter.

Sincerely,

Daniel Flaming
President
(213) 892-8104 x204

Patrick Burns
Senior Researcher
(213) 892-8104 x203

cc: Office of Council President Herb Wesson: Andrew Westall
cc: Office of Councilmember Mike Bonin: Chad Molnar
cc: Office of Councilmember Curran Price: Marisa Alcaraz
cc: Office of Councilmember Nury Martinez: Jim Dantona

[2] Silavent, Joshua. 2013. “Downsizing, Layoffs, Collective Bargaining Measure N And Its Consequences” Long Beach Business Journal, January 15, 2013. http://lbbusinessjournal.com/long-beach-business-journal-newswatch/189-13-01-14/1201-downsizing-layoffs-collective-bargaining-measure-n-and-its-consequences.html