



**Airlines for America**  
We Connect the World

September 16, 2017

The Honorable Curren Price  
Council Member, District 9  
Chair of Economic Development Committee  
Los Angeles City Council  
200 North Spring Street, Rm 420  
Los Angeles, CA 90012

Date: 9/19/17  
Submitted in EDC Committee  
Council File No: 15-0817-S1  
Item No.: 1  
Deputy: Adam R. Lid

Dear Chairman Price:

Re: Motion #15-0817-S1 on Living Wage at Los Angeles International Airport

Following up on my prior correspondence of July 21, I am again writing on behalf of the member air carriers of Airlines for America ("A4A"), which collectively provide the large majority of the passenger and cargo service at Los Angeles International Airport ("LAX"), to express our concerns with the pending Living Wage proposal for LAX employers.

Recognizing that the next wage increase under the proposed ordinance is not scheduled to take effect until July 2018, we would urge that the Economic Development Committee ("EDC") take advantage of the intervening months to fully evaluate the potential impact of the proposal before taking any final action.

Further examination of the financial impact of the proposed Living Wage is particularly imperative given the enormous cost increases that LAX travelers will be experiencing in the future as a result of the \$14 billion in capital improvement projects that have been authorized. As more fully described below, these capital improvements - while commendable and appropriate - will raise the Cost Per Passenger Enplanement (CPE) <sup>1</sup>at LAX by **123% to \$31.40 per enplaned**

---

<sup>1</sup> CPE is the standard measurement for comparing airports' costs per passenger. At LAX, there are approximately 40,000,000 enplaned passengers per year: boarding a flight, either as an originating or connecting passenger.

**passenger:** by far the highest of any major airport in the country. The proposed Living Wage mandate is likely to effectively add an additional \$5.11 in costs per enplaned passenger onto the \$31.40.

It should also be noted that the Los Angeles World Airports Authority (“LAWA”) met extensively with the tenant airlines over the expenses of the capital improvement projects **before** those projects were approved. However, there has not been any discussion of the Living Wage cost increases with the impacted airlines and service providers.

### **Overview**

A4A members fully comply with all state and local wage laws, and our members do not take a position on what the statewide or local minimum wage level should be. However, whatever the minimum rate is, it should apply equally to all employees and employers in the locality. Creating a patchwork of minimum wages that favors one group of employees over others is bad public policy that negatively impacts airlines as well as our contractors and passengers. Unfortunately, that is precisely what the pending LAX Living Wage proposal will do.

As currently drafted, the Ordinance targets only the airline industry and our passengers as it would require that all airport employers, including airlines, and airline service providers (“ASPs”), as well as restaurants and concessions in the terminals, and rental car companies, provide:

- By July 2021, a total compensation under the Living Wage Ordinance of at least \$22.18 (\$17.00 minimum wage plus at least \$5.18 in health benefits). The \$22.18 rate will be at least **48%** above the July 2021 Minimum Wage rate of \$15/hour for all other businesses in LA.

These additional labor costs cannot be absorbed by the airlines and our contractors - or the restaurants and concession stores in the terminal - but will have to be passed on to the passengers traveling through LAX. The timing and size of these labor increases could not be more negative, as the cost per enplaned passenger (“CPE”) at LAX is already scheduled to MORE than DOUBLE over the next 6 years.

As more fully detailed below and in the attached chart, the current capital improvement projects at LAX will raise the costs per enplanement (CPE) at LAX by **123%** by 2023: from roughly \$14.07 in 2015 to an estimated \$31.40 in 2023.<sup>2</sup>

With the impact of these capital improvements, LAX, already the 13<sup>th</sup> most expensive larger airport in the US, will almost certainly achieve the dubious honor of being the most expensive larger airport in the nation by 2023, and far in excess of other airports in the western US.

The proposed additional labor costs under the LAX Living Wage will be harmful to the Los Angeles community as airlines will likely have no choice but to offset these labor increases by either raising air fares or reducing service.

As detailed below, if one adds the artificially inflated labor costs of the Living Wage to the projected CPE of \$31.40, it would be the equivalent of an additional \$5.11 per enplaned passenger, for a total of at least **\$36.51** per passenger. Over three times higher than the current national mean for large airports of \$10 of costs per enplaned passenger.

Aside from the impact on passengers, there is also the unjustified, disparate treatment of employers --- simply because they have to operate their business at LAX. Airlines and our service providers employ approximately 30,000 workers at LAX. <sup>3</sup> They represent only 1.5% of the 1,950,000 workers in the city of Los Angeles. There is neither public policy nor legal justifications for imposing a higher minimum compensation obligation on one industry - airlines - while providing a lower minimum wage obligation for 98.5% of the other workers and their employers in Los Angeles.

In addition, our members are perplexed as to the rationale for the City proposing to abolish the Living Wage - and related Health Benefits

---

<sup>2</sup> In its financial disclosure filings, LAWA has estimated the CPE will increase to over \$23.40 by 2023 as a result of improvements directly undertaken by LAX. However, that estimate excludes the cost of an additional \$4 billion in capital expenditures that will occur under the Landside Access Modernization Program ("LAMP"). The debt service on those acquisitions will increase the CPE by an additional \$8.

<sup>3</sup> Airlines and their contractors operating under the Certified Service Provide Program have roughly 30,000 badged employees at LAX: 16,000 airline employees; 14,000 CSPP employees.

requirement – everywhere else in the City of Los Angeles, but maintaining and expanding the Living Wage and Health Benefits provision at LAX. On its face, the Motion discriminatorily targets just one industry and one group of citizens: airlines and their passengers.

Equally inexplicable is the proposal to TRIPLE the differential for the Living Wage at LAX from \$0.60 above the 2016 city Living Wage (currently \$12.08 versus \$11.48) to \$2.00 per hour above the future city Living Wage/ Minimum Wage (\$17.00 versus \$15.00 in 2021). Similarly, A4A maintains that -- just as the city Minimum Wage does not contain an exemption for collective bargaining agreements -- the LAX Living Wage should also treat all companies and employees the same, regardless of union status.

Finally, for discussion purposes, and as more fully reviewed below, the complexity of attempting to calculate and administer the hourly health care benefits program, has resulted in most employers paying the \$5.18 per hour in cash wages, leaving the employees without health insurance. If the City Council chooses to maintain a health benefit requirement, we would urge that it switch to the Minimum Standards Health Care policy adopted by San Francisco Airport. A minimum standards policy is not only easier to administer, but more likely to lead to health care coverage for workers.

### **LAX Passengers will face higher costs**

As you are aware, the airlines serving LAX have committed to \$14 billion in capital improvement projects over the coming decade. These costs will make LAX a more modern facility, but the costs are formidable and will ultimately be borne by the passengers through LAX.

As detailed in the attached chart, the CPE at LAX – which includes all airport operating expenses (wages and benefits for LAWA personnel; contractual services, utilities, etc.) and capital costs (debt service for bonds) – was \$14.07 as of December 2015. That was already well above the national average of \$10 per passenger, and in excess of most other western airports such as Phoenix (\$5.99), Sea-Tac (\$10.12), San Diego (\$10.29), Portland (\$10.72) and Las Vegas (\$11.79).



With the forthcoming capital improvements, LAX will quickly leap far above any other airport in the nation. The estimated CPE at LAX will **rise 123%** from \$14.07 in 2015 to approximately \$31.40 by 2023, when most of the capital improvement projects, including the Landside Access Modernization Program ("LAMP") and terminal acquisitions, are completed.

Compounding these capital expenditures with a Living Wage that is **48%** above the Minimum Wage in the rest of the City will further aggravate the operational costs at LAX. While obtaining precise payroll costs from the 130 airlines and CSPP entities at LAX is legally and practically impossible, it is clear that the annual labor expense increase by July 2021 will be staggering.

A4A estimates that the labor differential under the Living Wage for LAX airlines and CSPP companies - above what they would pay in 2021 if the city minimum wage of \$15/hour was in effect at LAX - will be **\$204,630,000**<sup>4</sup> or approximately \$5.11 per enplaned passenger.

Even using the current Living Wage and Health Benefit requirement at LAX of \$17.26 (\$12.08 wage plus \$5.18 for Health Benefits) as the basis for cost increases, the labor cost differential for airlines and CSPPs at LAX would still be **\$140,220,000**.

To keep our labor cost estimates on the conservative side, A4A:

- Did not include the impact on the thousands of employees of the concessions, restaurants, and other vendors in the terminals.
- Assumed that annual work hours for badged employees were only 1,500 rather than a traditional 2,080.
- Did not add in the compounding impact of annual increases in the Consumer Price Index for Medical Care Services to the \$5.18 Health Care requirement that will likely occur between 2017 and

---

<sup>4</sup> Our estimates are based on full implementation of the LAX Airport Living Wage of \$22.18 in July 2021 versus the city minimum of \$15.00 in July 2021. Our estimate assumes that approximately 19,000 of the 30,000 airline and CSPP companies' badged employees would be paid the new minimum of \$22.18, and that the hourly rates of other, more senior and higher paid employees would also be increased because of wage compression: i.e. employers need to pay higher differentials to more senior employees during their second, third and subsequent years of employment.

2021.<sup>5</sup> Assuming a modest 4% annual increase in Health Care costs, the \$5.18 will increase to \$6.05 in 2021. That would produce an annual total Living Wage compensation at LAX of **\$23.05...54%** higher than the city minimum wage of \$15.00 in 2021.

- Did not add in the long term compounding impact of the annual increases to the Living Wage to keep up with the Consumer Price Index (“CPI”). Assuming a 3% annual increase in the CPI, the \$204 million in 2021 would reach **\$266,000,000** annually by 2030.

Paradoxically, imposing labor costs that artificially exceed the standard wages in a region can negatively impact workers. Many businesses find it hard to pass on labor costs to customers (e.g. restaurant customers in airport terminal) that are 52% above those of similar employers in the same metropolitan area. This is particularly true for airport terminal restaurants and stores that are subject to “street pricing” policies. Consequently, the only recourse for many LAX employers will be to reduce overtime expenses and worker hours (including thru replacement with new technology such as the electronic menus at restaurants that reduce the number of wait staff.)<sup>6</sup>

**Collective Bargaining Exemption is harmful to unionized CSPP workers; legally discriminatory, and counterproductive.**

Under the proposed Motion, some employers with collective bargaining agreements (“cba’s”) could negotiate with their union for some exemptions from the Living Wage and Health Care provisions. As all parties are aware, the purpose of the cba exemption is to favor CSPP employers represented by unions, in particular the Service Employees International Union (“SEIU”), to gain a competitive advantage when bidding for airline work at LAX and expanding membership through government legislation.

---

<sup>5</sup> Section 1037.3 (a) (5) of the proposal requires annual adjustments to the Health Benefit component.

<sup>6</sup> A recent University of Washington study of the higher minimum wage that was enacted in the city of Seattle concluded that companies responded to the higher wage costs by reducing hours and cutting back overtime to offset some of the higher hourly wages.

Under the recently signed 2017-2022 Master Passenger Services Agreement between the SEIU United Service Workers West and eight CSPP companies, the minimum compensation (pay plus health care benefit) for those unionized workers as of July 2021 will be just **\$17.12** per hour versus up to \$23.05 for non-union workers.

The \$17.12 will be composed of \$15.15 in wages (\$0.15 above the statutory minimum wage of \$15) plus --- after eight months of employment, a company contribution of \$1.97<sup>7</sup> to the SEIU Kaiser 5808 Health Plan (which has a \$4,500 individual deductible with 40% copay.)

Further, under the SEIU Master Agreement, employees are not eligible for the \$1.97 in health care benefits until after 8 months of employment. By contrast, the proposed Living Wage ordinance for LAX requires payment of the \$5.18 in health care benefits (or cash) during the first month of employment. In addition, under the SEIU standard Kaiser Bronze 5808 health care plan, the individual deductible is \$4,500 plus 40% copay for doctor visits and brand name drugs.

Not only is a lower labor cost differential of up to \$5.93 per hour (\$23.05 v. \$17.12) in favor of unionized employers discriminatory against their competitors, there is no policy or legal justification for the city of Los Angeles and LAX to sanction unionized workers being compensated **23% less** than non-union workers at the same location.

To the contrary, the City Council rejected proposals by unions for a collective bargaining exemption from the minimum wage when it was enacted in 2015. There is a sound public policy behind that decision: the cost of living for a unionized employee is not lower than the cost of living for other workers in the city.

Further, rather than reducing employee turnover---which the preamble to the ordinance asserts to be one of the purposes -- the differential of up to \$5.93 will accelerate turnover at the airport. New hire employees at the SEIU represented companies will quickly learn that workers at CSPPS not represented by the SEIU are earning up \$5.93 more per hour

---

<sup>7</sup> Section 3 c.i of the cba requires a company contribution of \$348 per month per employee. Assuming a standard 173.3 pay hours per month that equates to \$1.97 per hour.

(or roughly \$11,500 per year before overtime), and will eventually migrate to jobs at the non-union companies.

### **Health Benefit Requirement Should be Sunset or Modified**

The June 9 2017 report of the Chief Legislative Analyst to the Economic Development Committee states that the Health Benefit requirement in the City wide Living Wage Ordinance – currently \$1.25 per hour) should sunset by July 1, 2018:

“in order to allow employers under the LWO ordinance to transition to the newly proposed LWO rate.”

If other companies in Los Angeles are to be permitted to eliminate the \$1.25 health care benefit requirement to adjust to the new citywide minimum of \$15 per hour, the need for transition period relief is logically even greater for airport employers that will be facing a \$17 per hour living wage plus \$5.18 by 2021.

However, if the City Council should choose to maintain a Health Benefit requirement, we would urge that the Hourly Pay measurement system be scrapped. The current \$5.18 per hour standard has proven to be virtually impossible for employers to administer or document (with reasonable accuracy) on an hourly basis.

Most companies negotiate health contracts with insurance carriers based on an annual claims or “experience” basis that is unrelated to the hours worked by employees.<sup>8</sup> Unable to document the actual expenditure for a single employee’s health care coverage on an hourly basis, many employers at LAX have curtailed health care coverage and simply pay the \$5.18 as straight cash wages.

---

<sup>8</sup> The premium paid to the Insurance carrier by a company reflects all of the various family members (aka “lives”) covered under the plan: the employee, spouse/ partner, children and other dependents. As any health insurance professional can relate, the total premium paid by the company to the insurance carrier cannot be segregated out to just the health care benefits provided to single employees. In addition, rates can change significantly from one year to another based on experience and local medical cost fluctuations. Changes in the demographics of the covered workforce and dependents also impact annual costs and premiums.

In place of the current hourly health benefit compliance system, A4A would urge that LAX adopt the “Minimum Standards Health Care” program used at San Francisco Airport. A minimum standards plan guarantees a floor of health care benefits for the employees while providing companies with the maximum flexibility to negotiate with the insurance carriers to provide that the standard benefits. Further, it would relieve both the airport employers and the City’s Bureau of Contract Compliance of the challenges and complexities of calculating the hourly value of employee benefits.

### **Emergency Response Training for CSPP Workers**

Section 10.37.2 (b)(4) would require that CSPP companies release employees for 16 hours of emergency response training courses approved by the airports – both annually and recurrently. The lack of specifics in the section is alone a source of concern. Further, A4A is troubled by reports that the training would be conducted under the auspices or at the facilities of a union.

In addition, our rough calculation is that the annual costs of providing 14,000 badged CSPP employees with 16 hours of paid leave, plus the costs of calling in other employees to cover for the workers in training, will exceed \$5.1 million.

But more fundamentally, the training of employees who service airlines and our passengers and cargo – whether they work directly or through a contractor – is an area that the federal government has delegated solely to the air carriers, with oversight from the Federal Aviation Administration (“FAA”) and the Transportation Safety Administration (“TSA”). In all matters of safety and security, airlines are legally obligated, and work with our service providers, to ensure that both airline and service provider employees are equally well trained to handle any emergencies. Subjecting CSPP employees to separate training that is neither sanctioned by the airline nor needed would be both poor human resources policy, and a violation of federal law.

**Conclusion**

Accordingly, A4A respectfully requests that the Economic Development Committee postpone further consideration of the LAX Living Wage Motion until all interested parties have had the opportunity to more fully explore the ramifications of the proposal.

Respectfully,

A handwritten signature in cursive script that reads "Robert J. DeLucia".

Rob DeLucia  
Vice President – Labor & Employment, and  
Associate General Counsel  
Phone: 202-626-4001

Cc: Honorable Joe Buscaino  
Honorable Jose Huizar  
Deborah Flint

**Passenger Airline Cost per Enplanement (CPE)**  
(as of 12-31-2015)

<b>Airport</b>	<b>CPE</b>
<b>Atlanta</b>	\$2.86
<b>Salt Lake City</b>	\$3.92
<b>Phoenix</b>	\$5.99
<b>US Large Airports Mean</b>	\$10.00
<b>Sea-Tac</b>	\$10.12
<b>Portland</b>	\$10.72
<b>Las Vegas</b>	\$11.79
<b>LAX *</b>	\$14.07
<b>Boston</b>	\$14.54
<b>Chicago - ORD</b>	\$14.65
<b>San Francisco</b>	\$16.60
<b>New York -LGA</b>	\$18.04
<b>New York -JFK</b>	\$24.62
<b>Newark (highest in US in 2015)</b>	\$28.31
<b>LAX - 2023 **</b>	\$31.40 (est.)
<b>LAX -Combined CPE and LW Costs - 2023 ***</b>	\$36.51 (est.)

\*LAX ranked as the 13<sup>th</sup> most expensive airport out of the top 60 largest airports in the US.

\*\* LAX Cost per enplaned passenger after approved capital improvements to be completed in 2023 as detailed in LAWA financial filings, plus the costs of terminal acquisitions, and Landside Access Modernization Program (LAMP).

\*\*\* Total Costs including projected 2023 CPE of \$35.00 plus additional \$5.65 in higher labor costs under the proposed LAX Living Wage.

Source: FAA Operating and Financial Summary (Form 127)

<https://cats.airports.faa.gov/reports/reports.cfm>