



BEACONECONOMICS

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.

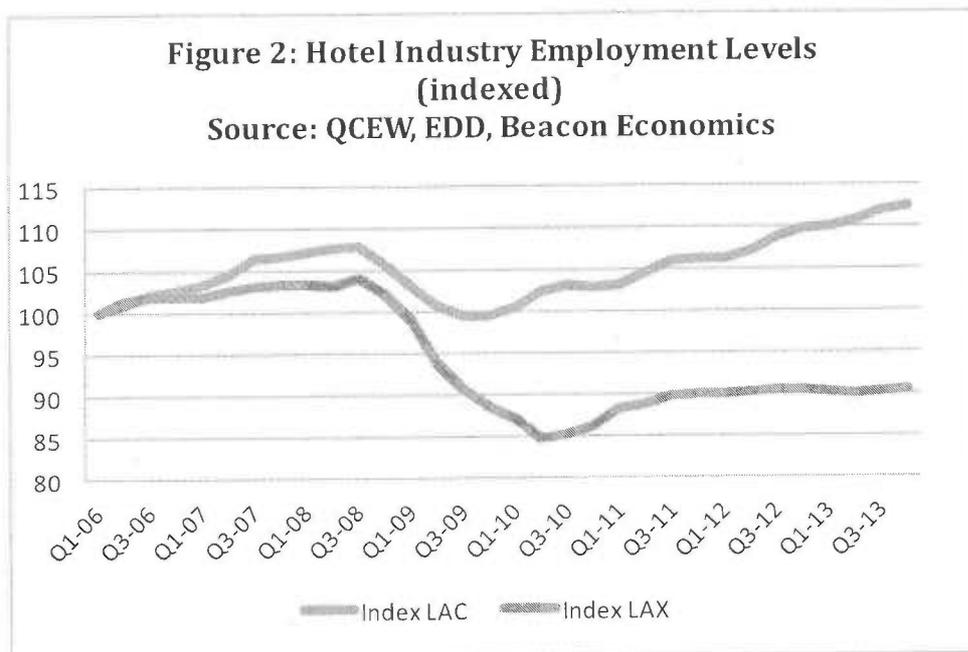


Table 4: Averages Wages & Employment for 11 LAX Hotels and Los Angeles County Hotels

	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 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

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>.