

June 9, 2014

Honorable Eric Garcetti
Mayor of Los Angeles

Honorable Curren Price
Chairman, City Council Economic Development Committee

Dear Mayor Garcetti and Chairman Price:

A few months ago, the City of Los Angeles commissioned the Blue Sky Consulting Group to analyze the current proposal to create a minimum wage of \$15.37 per hour for employees working in Los Angeles hotels with 100 or more rooms. This report was released last week.

The independent Blue Sky Consulting report confirmed all of the concerns that the Hotel Industry in Los Angeles has repeatedly expressed regarding this proposed mandatory wage increase. Specifically, this report affirmed that this mandate for Los Angeles hotels would:

- Lead to a loss of hotel jobs and a loss in hotel employee hours worked, thereby hurting those who the policy is intended to help.
- Put hotels in the City of Los Angeles at a competitive disadvantage to their counterparts in neighboring cities, causing a downward spiral of a loss of revenue, employment, and Transient Occupancy Tax (TOT) to the City.
- Discourage, if not completely eliminate, desperately needed new hotel developments in Los Angeles.
- Diminish construction and maintenance projects at the impacted hotels – causing a loss in well paying construction jobs and negatively impacting the visitor experience.
- Lead to a reduction of hotel amenities including restaurants, room service, etc. again leading to a loss of jobs and a diminished visitor experience.

The 16-page Blue Sky report – an independent report commissioned by the City of Los Angeles - makes approximately 15 references to the fact that a mandated wage increase for Los Angeles hotels will lead to job losses and a reduction in hours worked for hotel employees.

A sample of some of the statements from the report regarding job losses includes:

“Most of the Los Angeles hotels subject to the new requirement would be limited in their ability to pass along any increased labor costs in the form of higher room rates. The result would therefore likely be reductions in staffing levels.” Page 3

“Economists and business owners alike have suggested that increases in the minimum wage act to reduce employment among the low-wage workers these policies are intended to help.”
Page 5

“Economic theory suggests that, in a competitive labor market, increases in the minimum wage should lead to reductions in employment, either in the number of jobs or the number of hours worked. Many studies have supported this conclusion.” Page 6

“...a more recent review of the employment effects of the minimum wage in 2007...concluded that among the papers we view as providing the most credible evidence, almost all point to negative employment effects.” Pages 6 & 7

According to the Congressional Budget Office (CBO), *“Increases in the minimum wage can be expected to reduce the number of jobs for low wage workers and a larger increase in the minimum wage will result in a greater reduction in employment.”* Page 8

“...it is likely that either the number of jobs or the number of hours worked by hotel employees in Los Angeles would decline.” Page 10

“Together, these factors would likely act to reduce... the number of hotel industry jobs in the City or the number of hours worked by hotel workers relative to what would have been the case absent such a policy.” Page 11

“...these benefits would come at the expense of laid-off hotel workers or those not hired in the first place.” Page 14

These quotes are just a sample of the large number of statements and conclusions written in the Blue Sky report that predict job and working hour losses with a new wage policy.

In addition to the numerous references to the certain loss of jobs and hotel employee hours worked through a mandated hotel wage increase, the Blue Sky report discusses the competitive disadvantage that this increase would have on local hotels. This disadvantage will include a number of unintended consequences such as the elimination of new hotel developments in Los Angeles, a decrease in renovations and facility upgrades, and the possible relocation of existing Los Angeles hotels to other nearby municipalities.

Some statements regarding these issues from the Blue Sky report include:

“Such increases could also encourage firms to relocate to other areas where wages are lower.” Page 6

“In the longer run, economic activity could be reduced if investment in new hotels is diminished or capital investments on the part of hotel owners are deferred.” Page 12

“Some hotels would also likely seek to address the increase in wage costs by reducing purchases of other goods and services, for example by delaying investments in facility upgrades or scheduled maintenance of hotel facilities.” Page 13

“This reduction in profitability would put downward pressure on new development, reducing the likelihood that new hotels would be developed in the City.” Page 13

The Blue Sky report goes on to state that if the City of Los Angeles decides to move forward with a mandated wage increase for local hotels, additional study on the impacts of such a

policy is needed. Specifically, the report states, *“Anecdotal evidence suggests that some hotels in Long Beach (where a hotel wage increase was enacted) may have reduced staffing levels in response to the minimum wage policy”* (Page 15). It goes on to further recommend, *“A study aimed at assessing the effects of these two minimum wage policies (Long Beach and LAX area hotels) could help to shed some light on the limited question of what effects such policies might have on employment in the Los Angeles hotel industry”* (Page 15).

The Hotel Industry in Los Angeles contributed \$179 million in Transient Occupancy Tax (TOT) to the City of Los Angeles in the 2012-13 fiscal year. It is expected that in the current fiscal year, Los Angeles hotels will contribute even more TOT revenue to the City’s General Fund. For decades now, our hotels have served as partners with the City to promote tourism, Los Angeles based conventions, and economic activity. We provide quality jobs with good benefits for our employees and serve as a key driver in our City’s economy.

We have warned our elected officials that the unintended consequences of a mandated wage hike for LA hotels would be devastating. The Blue Sky Consulting Group report – a report that was commissioned by the City – has now confirmed our position.

It is our sincere hope that this independent analysis will provide our City leaders with the data that you need to discontinue any and all efforts to establish an artificial wage increase for Los Angeles hotels. However, in the event that the City decides to move forward with such an effort, we request that the Hotel Association of Los Angeles, the Los Angeles Chamber of Commerce, and other key stakeholders from the business community are included as partners in future discussions impacting the hotel industry. Our hotels employ tens of thousands workers, we pay our fair share in taxes, we serve as the anchor for tourism in Los Angeles, and we are good corporate citizens. In short, we view ourselves as partners with the City of Los Angeles and we want to be at the table for this discussion and any future efforts that will have a dramatic impact on our industry.

We thank you for taking the time to hear our concerns and we trust that once you read the report, you will come to the same conclusions that we have – a mandated wage increase for Los Angeles hotels will have an incredibly negative impact on jobs and the economy in our City.

Sincerely,



Bob Amano
Executive Director
Hotel Association of Los Angeles



Gary Toebben
President & CEO
Los Angeles Chamber of Commerce

CC: Los Angeles City Council President Herb Wesson
Members of the Los Angeles City Council
Chief Legislative Analyst Sharon Tso
City Administrative Officer Miguel Santana