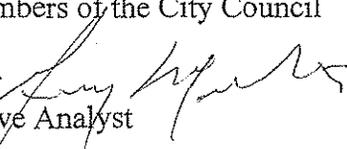


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: June 6, 2014

TO: Honorable Members of the City Council

FROM: Gerry F. Miller 
Chief Legislative Analyst

Miguel A. Santana 
City Administrative Officer

HOTEL LIVING WAGE PEER REVIEW

SUMMARY

At its meeting of February 25, 2014, the Economic Development Committee considered a Motion (Bonin-Martinez-Price-Koretz-LaBonge, CF# 14-0223, Attachment A) which would impose a living wage of \$15.37 for hotel employees working in hotels with more than 100 rooms. Following public testimony and discussion, the Committee requested that the public and interested parties submit to the City any data, studies, and comments on this subject matter. The Committee also instructed the Chief Legislative Analyst (CLA), with the assistance of the City Administrative Officer (CAO), to obtain a peer review of the data, reports, or comments submitted relating to this matter, and report back with analysis and findings on this proposal.

The City received three reports and seven comment letters from the public and interested parties for consideration (Attachment B). The CAO's Office of Economic Analysis completed a competitive bidding process and selected Blue Sky Consulting Group to review the materials submitted. The Blue Sky report (Attachment C) evaluates studies and findings concerning the imposition of living wage requirements, as well as the comments and studies submitted to the City, and determines that existing research is not adequate to determine any specific outcome from the imposition of this policy.

RECOMMENDATION

Inasmuch as the Council may choose to implement a policy that would impose a living wage of \$15.37 for hotel employees at hotels with more than 100 rooms, it would REQUEST that the City Attorney prepare and present the ordinances necessary to implement this policy and specify any adjustments to the policy such as a phase-in period, exception of tipped employees, and the number of rooms in a hotel that would be required to comply.

FISCAL IMPACT STATEMENT

There is no fiscal impact on the City General Fund associated with this action.

BACKGROUND

A Motion (Bonin-Martinez-Price-Koretz-LaBonge, CF# 14-0223, Attachment A) was presented for consideration by the Los Angeles City Council that seeks to require hotels with 100 or more rooms to pay their employees an hourly wage of at least \$15.37. Upon consideration of this Motion in the Council's Economic Development Committee, members of the Committee requested that interested parties submit to the City their analyses, data, and other documentation concerning this proposal, and further instructed the Chief Legislative Analyst and City Administrative Officer to seek the assistance of an economist to evaluate all submissions received.

Peer Review Process

Three reports and seven letters were received in response to the Committee's request for the public and interested parties to comment on this proposal. All of these materials were posted on the web at <http://hotellivingwage.lacity.org/>, as well as on the Council File Management System.

Concurrent with the comment submittal period, the CLA and the CAO's Office of Economic Analysis conducted a competitive bid process to select an economic team to evaluate the submitted materials. At the conclusion of that process, Blue Sky was selected to prepare the requested peer review.

Blue Sky evaluated all of the reports, data, and comments submitted for consideration. To ensure that the Council would have the benefit of all available information on this subject matter, Blue Sky also conducted a literature review to identify additional studies related to the subject of living wage requirements and local or industry-targeted living wage requirements. Finally, Blue Sky conducted follow-up interviews with several of the interested parties that submitted studies and comments. These interviews were focused on technical issues related specifically to the materials that these parties submitted.

The result of Blue Sky's review is provided in Attachment C, "Hotel Minimum Wage: Analysis of the Impact on the City of Los Angeles of the Proposed Minimum Wage for Hotel Works" (Report).

Report Findings

The Report provides a review of various studies into the general effects of minimum wage legislation based on a review of literature on the subject matter. Concepts identified in that review indicate that a local policy could increase local wages, reduce employment in the affected hotels, reduce hotel profits, increase local economic activity, impact room rates, reduce local spending by hotel on services or improvements, affect new hotel development, and/or cause disruptions in employment for hotel workers.

The conclusion, though, is that these various effects represent various trade-offs: new and current hotel employees who remain employed would likely see a benefit from higher wages, as would the

businesses these workers engage; but these benefits would come at the expense of laid-off hotel workers or individuals who would not be hired, of hotel owners who see profits decline, and possibly the City which could see a decrease in hotel construction.

If the City chooses to adopt an increase in the minimum wage for hotel workers, the Report recommends that such a policy should be phased-in. A gradual implementation of the policy could help minimize any adverse impacts or severe disruptions. Further, if the new minimum wage for hotel workers is adopted, the Report recommends that an exemption for tipped employees be considered because hotel food services, in particular, face competition from local restaurants, and a minimum wage policy applied to hotel food services would have a "disproportionate effect on hotel restaurants and the workers at those restaurants."

The Report concludes that no consensus exists concerning the effects of minimum wage policies that have been previously enacted and, therefore, the possibility for research to demonstrate the likely future outcomes of a proposed policy is limited.

However, the Report suggests that additional research into the minimum wage policies for hotel workers in the LAX Hospitality Zone and in the City of Long Beach might provide insight into the question of how such a policy might impact hotel employment in the City.

Though not addressed directly in the Blue Sky report, several commenters requested consideration of the size of a hotel that would be required to comply with this policy. The policy could require a different number of rooms, such as 150 or 200, be set as the minimum number of rooms that would be obligated to provide a living wage to their employees. A larger minimum room threshold would result in few hotels that are required to comply with the policy and fewer employees receiving a wage of \$15.37 per hour.

Blue Sky will be available to address questions concerning policy phase-in, exemption of tipped employees, and the number of rooms in a hotel that would be required to comply with the policy.

- Attachment A Motion (Bonin-Martinez-Price-Koretz-LaBonge, CF 14-0223)
- Attachment B Reports, Data, and Comment Letters Submitted by the Public and Interested Parties
- Attachment C "Hotel Minimum Wage: Analysis of the Impact on the City of Los Angeles of the Proposed Minimum Wage for Hotel Works" by Blue Sky Consulting Group