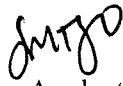


**REPORT OF THE  
CHIEF LEGISLATIVE ANALYST**

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DATE: September 18, 2017

TO: Honorable Members of the Economic Development Committee

FROM: Sharon M. Tso   
Chief Legislative Analyst

Council File No.: 15-0817-S1  
Assignment No.: 17-09-0892

SUBJECT: Impacts of Increasing the Living Wage Ordinance's Airport Living Wage

**SUMMARY**

During the last amendment of the Living Wage Ordinance (LWO) in 2016, it came to the City's attention that by July 1, 2018, the City's minimum wage would surpass the wage rates of the LWO's Airport Living Wage. On June 30, 2017, the Council adopted the Economic Development Committee report, which approved recommendations from Motion (Martinez – Price – Wesson – Bonin – Harris-Dawson – Cedillo) (C.F. 15-0817-S1) to revise the LWO's Airport Living Wage to maintain a rate above the Citywide minimum wage for airport contract employees. The Council requested the City Attorney to prepare and present a draft ordinance to amend the LWO Airport Living Wage, increase the annual health benefit to match percentage increases in the "U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers: medical care services", incorporate a supersession clause for collective bargaining agreements (CBA), require emergency response training for airport contract employees, and make additional technical amendments to the Service Contractor Worker Retention Ordinance as identified by the Bureau of Contract Administration (BCA).

As a note, as of July 1, 2017, the City's minimum wage (\$12.00 per hour) has surpassed the City's non-Airport living wage rate (\$11.48 per hour) resulting a wage discrepancy. Actions to address this are pending.

Further, the Council instructed the Chief Legislative Analyst (CLA) to analyze the impacts of the proposed amendments to the LWO's Airport Living Wage. The following report analyzes the potential impacts that could arise from increases to the Airport Living Wage.

**RECOMMENDATION**

Note and file.

**FISCAL IMPACT STATEMENT**

There is no General Fund impact.

**BACKGROUND**

In 1997, the City of Los Angeles became one of the first cities in the nation and the first in California to pass a LWO requiring certain City Contractors doing business with the City to pay employees a living wage. The establishment of the LWO was intended to improve the level of services to and for the City by requiring City contractors to provide their employees a

wage higher than the California Minimum Wage, including health benefits, and 12 compensated and 10 uncompensated days off.

In 1998, an amendment was made to the LWO, which recognized that the City also had a proprietary interest and genuine stake in the work performed at the City's airports, as these facilities are frequented by the public. This action made the living wage rate applicable to City contractors and subcontractors to the City's airport contractors and subcontractors. By 2009, in order to reduce turnover at the City's airports, the City increased the health benefits received by Airport employees to \$4.50 per hour, with annual increases thereafter. The LWO was further amended in 2016 to increase both the wage and health benefits for employees of Los Angeles World Airports (LAWA) contractors. Since this last amendment, it came to the attention of City staff that due to the annual increases of the City's minimum wage, the City's minimum wage will likely surpass the LWO's Airport Living Wage on July 1, 2018.

### **Proposed Increases to the Airport Living Wage Rate**

Motion (Martinez – Price – Wesson – Bonin – Harris-Dawson – Cedillo), introduced on June 23, 2017, recommended that the LWO's Airport Living Wage be revised to maintain a living wage rate above the City-wide minimum wage for airport contract employees. The Council adopted the Motion on June 30, 2017 and instructed the City Attorney to prepare the necessary ordinance.

In response to the Council, the City Attorney has prepared and transmitted a draft ordinance, dated August 16, 2017, and an updated draft ordinance on September, 14, 2017 (C.F. 15-0817-S1). The ordinance increases the wage rate in increments of \$1.23 per hour beginning July 1, 2018, and establishes equal annual increases to the LWO's Airport Living Wage with health benefits for Airport Employees as follows:

- On July 1, 2017, the Airport living wage rate shall be \$12.08 per hour.
- On July 1, 2018, the Airport living wage rate shall be \$13.31 per hour.
- On July 1, 2019, the Airport living wage rate shall be \$14.54 per hour.
- On July 1, 2020, the Airport living wage rate shall be \$15.77 per hour.
- On July 1, 2021, the Airport living wage rate shall be \$17.00 per hour.
- Beginning July 1, 2022, the Airport living wage rate shall increase annually, on July 1, to an amount \$2.00 above the minimum rate of the City's minimum wage.

### **Basis for Increasing the Airport Living Wage Rate**

Factors such as wages earned, hours worked, and cost of living provide insight into the wages of airport employees. According to the Economic Roundtable's report "Flying Right – Giving U.S. Airport Workers a Lift<sup>1</sup>," approximately 48% of all airport employees in low-wage airport occupations (e.g., cabin cleaning workers, baggage handling, grounds maintenance workers, restaurant, food and bar workers, etc.) are paid less than \$15 per hour at airports across the country. Additionally, the Economic Roundtable's report found that approximately 76% of workers in the low-wage airport occupations have year-round, full-time employment compared to 85% of airport workers in higher wage airport occupations. The Economic Roundtable's report also indicates that workers in low-wage airport occupations work an average of 1,812 hours a year compared to 2,033 hours for higher-wage

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<sup>1</sup> [https://economicrt.org/wp-content/uploads/2017/06/Flying\\_Right\\_2017.pdf](https://economicrt.org/wp-content/uploads/2017/06/Flying_Right_2017.pdf)

airport workers. As a result, the combination of low wage rates and fewer hours worked creates earnings disadvantage for employees within low-wage airport occupations.

These earnings disadvantages often lead to economic distress for low-wage airport workers, as cost of living continues to rise. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers in the Los Angeles area has seen a gradual and steady increase of 2.5% relative to this time last year. In addition, the Economic Roundtable's report states that approximately 37% of all airport transportation workers are considered to be rent burdened, paying 30% or more of their household income on rent, which includes 15% of workers who pay 50% or more of their household income on rent. This situation is further exacerbated in the City, as Los Angeles is considered to have one of the highest rent-burdened areas in the country with 58.5% of households spending over 30 percent of their household income on rent and 32.8% of households spending more than half of their income on rent.<sup>2</sup>

By increasing the living wage rate for airport employees, low-wage airport workers will have more spending power to contribute to broader economic impacts across several industries, as well as have the opportunity to reduce the economic distress experienced by their households.

### **Impacts from an Increased Airport Living Wage Rate**

According to LAWA, an increased Airport Living Wage rate would result in increased labor costs and expenses for LAWA and their contractors. LAWA staff indicate that impacts from an increased Airport Living Wage rate for contractors would be minor in the first several years of the increased wage rate as the difference between the current and proposed wage rates are small. LAWA states, however, as Collective Bargaining Agreements (CBAs) and contracts expire, cost impacts from an increased Airport Living Wage rate will climb. For example, under the current Airport Living Wage rate, LAWA contractors with CBAs may not require employees to be compensated at the current Airport Living Wage rate, resulting in employees being paid below the current Airport Living Wage rate. The proposed amendments to the Airport Living Wage rate combined with the supersession clause for CBAs (discussed later in this report), will at a minimum, require LAWA contractors to pay the applicable Airport Living Wage rate. As a result, LAWA contractors may see an increased cost impact when a CBA expires.

Additionally, the magnitude of cost impacts will vary depending on the type of contract that is being negotiated or renewed (e.g., concessions, construction, etc.) and whether or not there is a CBA. For example, LAWA staff indicate that the full annual cost impact of an increased living wage rate for LAWA's Landside contracts (parking lot management, shuttles and FlyAway buses, commercial vehicle and taxi management) is estimated at \$5.8 million per year by 2025-2026 and may continue to increase as CBAs expire. LAWA has indicated that the contract type that may experience the biggest cost impact will be Concessions contracts. Construction and Professional Services contractors, on the other hand, would not be significantly impacted as these contractors are already paid the Prevailing Wage or wages that are at or above the applicable living wage rate, respectively.

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<sup>2</sup> [http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas\\_rental\\_housing\\_2015\\_web.pdf](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf)

As wage rates increase for employees of Airport contractors, contractors could begin to change their business practices in order to adjust to these increased cost impacts. For example, airport contractors may experience lower profits, reduce hours worked by employees, or pass these increased costs on to the consumer. According to LAWA, numerous Airport contractors have requested to renegotiate their current contracts in an effort to offset these increased cost impacts, and potentially have LAWA absorb the increased expenses from the labor costs. The extent of the cost impact that may be absorbed by either Airport contractors or LAWA are still under LAWA assessment and are unknown at this time.

**Adjusting Health Benefit Increases to Match Consumer Price Index for Medical Care Services**

Currently, Section 10.37.3(a)(5) of the City’s LWO provides that health benefit rate increases for Airport Employees are adjusted annually to correspond with adjustments to retirement benefits paid to members of the Los Angeles City Employees’ Retirement System (LACERS). Adjustments to retirement benefits paid to members of LACERS correspond to the CPI for all Urban Consumers (CPI-U) in the Los Angeles area. Pursuant to Council action on June 30, 2017, the draft ordinance amends Section 10.37.3(a)(5) of the Los Angeles Administrative Code (LAAC) to match annual health benefit rate increases to correspond to percentage increases of the U.S. Bureau of Labor Statistics “CPI-U: Medical care services.”

According to the U.S. Bureau of Labor Statistics, the CPI-U in the Los Angeles area has seen an average increase of 2.71% since 2000. In a BCA Report (C.F. 15-0817), dated February 22, 2016, adjusting annual health benefits increases based on changes to the CPI-U has caused the health benefit rates to fall below industry market rates. Similarly, a joint City Administrative Officer and Chief Legislative Analyst report (C.F. 07-2247), dated September 8, 2009, stated that using the CPI-U in the Los Angeles area is not necessarily an accurate indicator that takes into account changes in health care costs. An additional constraint that prevents health care benefits from keeping pace with rising health care costs is that CPI adjustments to City employee retirement benefits are capped at 3%.<sup>3</sup> According to the Kaiser Family Foundation’s 2016 Annual Survey on Employer Health Benefits, the cost of premiums for family coverage have experienced a 58% increase since 2006.<sup>4</sup>

According to the U.S. Bureau of Labor Statistics, CPI-U: Medical care services data have seen an average increase of 3.98% since 2000. As proposed by the Council, using the CPI-U: Medical care services for health benefit adjustments for Airport Employees may be a more accurate indicator of changes in health costs, as it specifically measures changes to medical care services in the country rather than an aggregate of all goods and services. The impact of corresponding adjustments of health care contributions to increases in CPI-U: Medical care services is that changes will no longer be capped at 3%, per the restrictions of Los Angeles Administrative Code Section 4.1022. No restrictions on future increases to adjustments of health care contributions could result in further undetermined impacts to LAWA and Airport contractors. As adjustments to health care contributions are no longer capped, contractors could likely experience increased health care costs.

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<sup>3</sup> Los Angeles Administrative Code, Section 4.1022

<sup>4</sup> Kaiser Family Foundation – 2016 Annual Survey: Employer Health Benefits  
<http://www.kff.org/report-section/ehbs-2016-summary-of-findings/>

### **Express Supersession by Collective Bargaining Agreements**

According to the latest City Attorney report and draft ordinance, dated September 14, 2017, CBAs subject to the Railway Labor Act do not expire, resulting in employees receiving the same wage for many years. For example, CBAs negotiated in the past several decades included provisions that allowed for employers to pay their employees the City or State's minimum wage, which is often lower than the City's living wage rates. Because the LWO currently has an exemption provision for employers with a CBA, airline catering employers operating under the Railway Labor Act have little incentive to renegotiate a new CBA when their current agreements allow them to pay their employees less than the Airport Living Wage.

In order to ensure the LWO's Airport Living Wage is effective, the Council requested the City Attorney to include in the draft ordinance an amendment to Section 10.37.12 of the LAAC to add that when any CBA expires or is open for negotiation of compensation terms, the CBA may only expressly supersede the requirements of the LWO for airport contractors when an employee is paid a wage not less than the applicable living wage rate. CBAs subject to the Railway Labor Act are considered to be open for negotiation when there is a change in laws that enforce wages for employees. Additionally, employers who are Airline Food Caterers must also pay their employees a total compensation package not less than the Airport Living Wage rate plus the an additional health wage rate in order to supersede from the requirements of the LWO for airport contractors with a CBA. This amendment would only apply to airport employers if they expressly agree with employees and their unions to supersede the requirements of the LWO. If supersession is agreed upon, employers must pay their employees at a minimum no less than the Airport Living Wage rate; and for airport employees of airline food caterers, compensation should be no less than the total economic package of the Airport Living Wage rate plus the additional health wage rate. In agreeing to an express supersession by CBA, Airport employers and their employees could negotiate to be exempted from the compensated time off, uncompensated time off, health care benefits, or BCA enforcement provisions of the LWO.

### **Emergency Response Training for Certified Service Provider License Agreement (CSPLA) Contractors**

When an emergency occurs at the airport, airport employees are often the first to respond. In order for airport employees to properly assist passengers and first responders in the event of an emergency or crisis at the airport, airport employees of CSPLA contractors should be trained for an emergency response at the airport.

Per Council instruction, the proposed ordinance includes a provision that makes it mandatory for airport employees of CSPLA contractors be provided 16 hours on an annual basis of additional compensated release time for the purposes of emergency response training. The 16 hours of compensated release time can only be used to attend Airport-approved emergency response training courses. The additional 16 hours of compensated release time shall not be included as a portion of the 96 hours of compensated time off as required by the LWO.



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