



The Honorable Traci Park
Chair, Travel, Trade, and Tourism Committee
Los Angeles City Council
200 N. Spring St. #410
Los Angeles, CA 90012

Councilwoman Park,

On behalf of our broad and diverse coalition, I am writing to express our frustration and disappointment with the recently released economic impact analysis from Berkeley Economic Advising and Research (BEAR). The report is not an economic analysis. Robust economic analyses use models (such as input-output models) to predict how wage changes ripple through an economy. This report relies on surface-level observations without employing these standard economic tools. Critically important impacts to city tax revenue are ignored. And most importantly, the voices of the small and minority-owned businesses throughout the city who will be directly or indirectly affected by the ordinance were ignored.

The Alliance appreciates your thoughtful leadership on this issue, especially on the importance you have placed on an economic *analysis* of the proposed wage increase. This is not what BEAR has provided. Instead, with little data transparency, the report reaches unsubstantiated conclusions and economic benefits not based in reality. Moreover, the data they do rely on is incorrect, leading to inaccurate conclusions on which the foundation of their claims are based.

First and foremost, the exclusion of any discussion on the impact the ordinance will have on the Transient Occupancy Tax (TOT) is inexcusable. Not only is this a major source of revenue for the city and comes exclusively from those affected by the ordinance, but you rightly and explicitly asked the economic study to include an analysis of this revenue stream. The City of Los Angeles is currently facing a nearly half-a-billion-dollar deficit¹ and TOT revenue is the largest source of unrestricted tax revenue coming in to the City of Los Angeles. Reduction in TOT revenue will only exacerbate this shortfall, it will directly affect the City's ability to respond to the ongoing homelessness crisis and ability to fund vital services for our residents.

This omission alone is enough to call into doubt the thoroughness and accuracy of the report. But unfortunately, there are several other critical errors that demonstrate beyond a doubt that this report cannot be relied upon to provide any direction to Council regarding the true economic impacts of the proposed ordinance.

It is important to also note that researchers made little to no effort to complete a comprehensive study. No outreach was made to the Los Angeles Tourism and Convention Board, which regularly and accurately reports on the economic importance of the tourism industry in Los Angeles. In fact, LA Tourism

¹ Los Angeles Faces Possible Budget Shortfall Of \$400 Million, LAist, January 24, 2024
<https://laist.com/news/politics/los-angeles-faces-budget-shortfall>

aggregates critical data BEAR could have used for its report, including data that industries are not legally allowed to aggregate (e.g. data on hotel rates, employee, salaries).

Moreover, our Alliance stood ready and willing to speak to BEAR representatives; yet again, BEAR chose to ignore industry experts and come to conclusions not based in fact. From the beginning of this process, the Alliance has provided *multiple* communications with the CLA and BEAR, providing in-depth economic research, specifically called out concerns regarding issues like TOT revenue loss, provided information on the lack of economic recovery for both statewide and local tourism, provided key data on airport capacity, and the names of individuals and groups who will be directly affected by the ordinance. In every case, BEAR either chose not to reach out, or chose to omit that data from its report.

Below we outline other key concerns and inaccuracies regarding the report:

- **Lack of Detailed Data:** The report does not provide a thorough examination of how the wage increases could lead to business closures or relocations, especially for small businesses and those operating in lower-margin industries like hospitality, food services, and retail. Many small businesses will be unable to absorb the increased costs, potentially leading to widespread closures, which would have profound effects on local employment and the business environment.

Again, this was data that was readily available through public sources or through discussions with our Alliance members. As Los Angeles World Airports Chief Executive John Ackerman recently stated to the *Los Angeles Times*, “We previously expected 110 million passengers in 2028. We now expect slightly more than 90 million. While our traffic’s improving, it’s not improving at the rate that we need it to be successful. So we simply don’t need additional capacity at this point. We don’t need additional terminals — we need to fix our core infrastructure.”²

Instead, BEAR relied on “data” from Discover Los Angeles to support their claims about tourism and pandemic recovery. A tab on this website clearly shows its goal is promoting business investment. This is NOT a thorough economic review, a scholarly investigation of the tourism industry, or even an objective reflection of tourism-- again the purpose of this link is to encourage business to come here. That an economist would rely on such a website for economic data is troubling and once again demonstrates the lack of professionalism and industry knowledge BEAR possesses.

- **Presence of Inaccurate or Unsubstantiated Data.** As we previously stated, the report uses inaccurate data to reach its conclusions. The report estimates that ¼ of all County hotel rooms are covered by the law. However, that count is not accurate. There is little to no discussion on how they reached the conclusion that 35 percent of hotel workers are not being insured. They also make broad assumptions that most workers affected by the ordinance are City of LA

² LAX shifts focus from terminal expansion to infrastructure updates as passenger forecasts drop, *Los Angeles Times*, September 6, 2024

<https://www.latimes.com/california/story/2024-09-06/lax-shifts-focus-from-terminal-expansion-to-infrastructure-updates-as-passenger-forecasts-drop>

residents without doing any research to substantiate that claim. According to the American Community Survey, nearly half of all County residents commute more than 30 minutes to work³. Again, this is readily available and relevant data that BEAR chose to omit from its report.

By far the most egregious and troubling in the report is the conclusion that there would be an estimated \$700 million in new private income distributed throughout the City of Los Angeles. There is no explanation for the number and no methodology provided for its conclusion.

- **Lack of Regional Economic Context:** Los Angeles is an incredibly diverse city, with significant economic variation between regions. The report does not provide a comprehensive analysis of how different areas might experience the impacts of the wage increase differently. For example, higher-income areas might absorb the costs more easily than lower-income areas. This regional context is crucial for understanding the broad impact on the city's economy.
- **No Consideration of Inflation or Market Dynamics:** The report does not account for potential inflationary pressures or shifts in market dynamics that may result from wage increases. It fails to discuss how rising labor costs might drive businesses to increase prices, how consumers might respond to those price increases, or how businesses may innovate to maintain competitiveness.

There is strong evidence to support the inflationary effects of minimum wage increases that BEAR chose not to consider. For example, looking at the recent passage of the FAST Act, which, like this ordinance proposes, rapidly increased the minimum wage for fast-food workers, there is clear evidence that the Act has led to job loss *and* inflation in the industry. In Q1 of 2024, California has already lost 7,100 fast-food jobs⁴. At the same time, the associated costs are being passed on to consumers. Applying the same formula the Department of Finance uses to calculate the California CPI, inflation related to the Food Away from Home component (restaurants and take out) has largely abated in the country as whole. In contrast, restaurant prices are rising more than 5 times faster in California⁵.

- **No Comparative Analysis:** There is insufficient comparison with other cities that have implemented similar ordinances. In some regions, wage increases have caused businesses to relocate to areas with lower wage mandates, a potential outcome that is not properly addressed.
- **Shallow Discussion of Job Losses:** The report acknowledges potential layoffs and hour reductions but does not delve deeply into the scale of potential job losses across sectors. Without a proper quantitative assessment, the analysis is incomplete and does not give

³ Center for Jobs and the Economy. Commute Times to Work.

https://centerforjobs.org/ca/ca_counties/indicator/commuting_time-5yr?category=quality_of_life

⁴ UPDATED FACT CHECK: New Data Shows California Lost 7,100 Fast Food Jobs in the 1st Quarter, Center for Jobs and the Economy

<https://unearth.createsend.com/campaigns/reports/viewCampaign.aspx?d=j&c=BEC2A1331BF303A4&ID=71F2E89690DB9DD62540EF23F30FEDED&temp=False&tx=0&source=Report>

⁵ Full June Jobs Report, Center for Jobs and the Economy. <https://centerforjobs.org/ca/job-reports/full-june-2024-jobs-report>

businesses or policymakers a clear sense of the magnitude of the potential risks. The report also ignores data provided by the Alliance of ongoing economic research out of UCSD showing that minimum wage increases can lead to increased instances of homelessness⁶. His data shows that in cities that have increased the minimum wage, homelessness has increased by double-digits. He also found the effect was more acute in large cities and got worse over time. Despite providing this research to BEAR, the report is silent on any impacts job loss has on the homelessness crisis facing our City.

- **Service Reductions Overlooked:** Many businesses, especially in the hospitality and retail industries, reduce the quality or availability of services to cope with increased labor costs. This is being observed right now as the FAST Food Act continues to impact local small businesses. The report fails to explore how these reductions could impact customer satisfaction, business viability, and the city's economy. Likewise, the report fails to fully account for the impact of automation on job loss.
- **Lack of Analysis on Impact on Convention Tourism.** Much of the City's tourism revenue is related to conventions. In fact, that is why we and many others have long supported the work of the Council to improve the Los Angeles Convention Center and we are delighted to see that project moving forward. The ordinance will increase labor costs just as the City has finally committed to modernizing and expanding the convention center to make LA more competitive. Drastically raising wages and passing along those costs to customers will undercut the city's efforts to attract more conventions and could jeopardize the success of the convention center expansion.

Moving beyond the myriad issues with the information in the report, we also object to the process by which the report was compiled. We have aggregated all of our communications with the CLA and BEAR [here](#), which includes:

1. July 23, 2023 Letter to Council and CLA regarding the aforementioned research linking homelessness to minimum wage increases;
2. December 31, 2023 Letter to Council and CLA on the Alliance's concerns about small and minority-owned businesses and the impact of the ordinance on TOT and other City tax revenue;
3. A February 7, 2024 email correspondence from the then-President of the Hotel Association of Los Angeles (HALA) indicating that the organization itself did not keep wage data (due to anti-trust law restrictions) but provided both previous research and *three separate ways* BEAR could access the data themselves;
4. A March 12, 2024 email correspondence confirming interviews with Airlines for American were conducted and data provided to BEAR;
5. A March 29, 2024 letter to Council and CLA reiterating the Alliance's desire to provide information regarding the impact of the ordinance on our members;
6. A May 25, 2024 email correspondence providing names, phone numbers, and email addresses for Alliance members;

⁶ Minimum Wages and Homelessness <https://osf.io/preprints/osf/z2fqj>

7. A June 5, 2024 letter to Council and CLA reiterating concerns about the ordinance's impact to City tax revenue and its fiscal sustainability;
8. A June 21, 2024 email correspondence providing *additional* names, emails, and phone numbers for Alliance members to be interviewed;

To date, *only three* Alliance members were ever reached out to for interviews or information, and in every case, the data provided was not used in this analysis.

In conclusion, BEAR did not provide an economic analysis as requested. They failed to meet even the loosest definition of an objective analysis. Critically important analysis (e.g. TOT impacts) were not completed, and those analyses that were provided are either incomplete or without transparent discussion of the data and methodology.

The report **glosses over the real, substantial negative impacts** that the wage ordinance could have on businesses and the economy of Los Angeles. It provides a shallow examination of the risks, fails to quantify job losses, service reductions, and business closures, and does not offer a comprehensive analysis of competitive pressures or sector-specific vulnerabilities. Without addressing these critical issues, the report does not fully capture the economic challenges that this ordinance may create.

Before moving forward with any future discussions of this ordinance, the City *must* do what it promised more than a year ago, and what you yourself have championed—a *thorough* and *accurate* analysis of the ordinance and the myriad direct and indirect impacts it will have on residents and city services.

Sincerely,



MARIA SALINAS

Alliance for Economic Fairness

President and CEO, Los Angeles Area Chamber of Commerce

cc: Members, Los Angeles City Council
Sharon Tso, Chief Legislative Analyst