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ECONOMICS

Economic Impact of City Council Motion (April 12, 2023) to Amend LWO and LA HWMO

City of Los Angeles, CA

May 2023

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1 Key Findings

A blue-tinted photograph of a city skyline, likely Los Angeles, with numerous palm trees in the foreground. The image is used as a background for a presentation slide.

Key Findings - \$25/Hour Minimum Wage

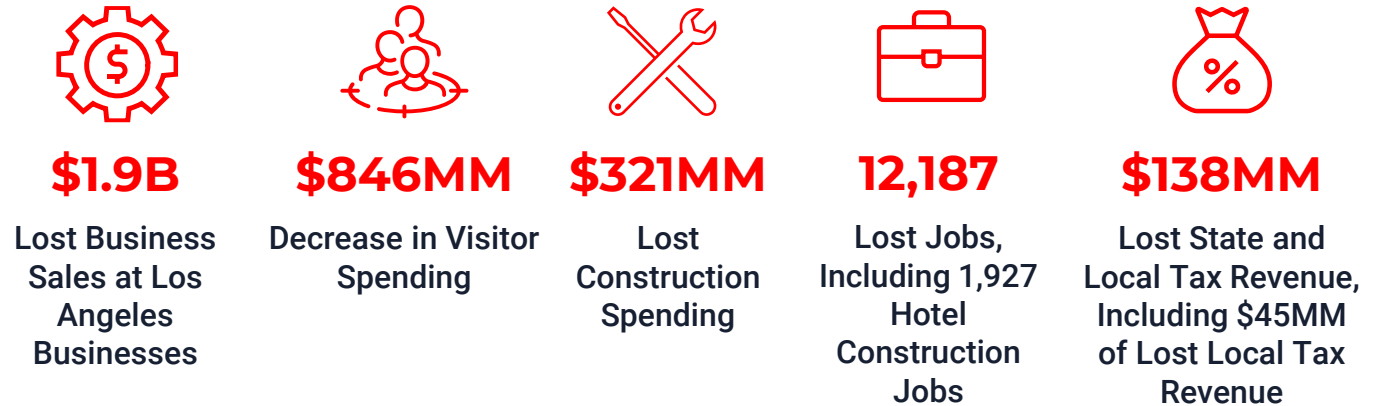
Oxford Economics prepared a comprehensive analysis of the expected economic impact of an April 12, 2023 motion by Los Angeles City Council (April 12 Motion).

The April 12 Motion would cause a reduction of economic activity in the City of Los Angeles.

With a proposed minimum wage of \$25 an hour, less visitor spending and less construction spending would result in a loss of \$1.9 billion of business sales annually, resulting in 12,187 lost jobs in the broader City of Los Angeles economy, and \$138 million of lost state and local tax revenue.

This includes losses such as fewer construction jobs, fewer restaurant, retail and arts and entertainment jobs, as well as fewer supply chain jobs, such as maintenance roles.

Annual Run-Rate of Losses



Note: Estimates measure total impact of lost visitor spending and hotel construction with an increase of the minimum wage for hotel workers and airport workers to \$25 an hour, expanded health care for hotel and airport workers, and the Hotel Worker Protection Ordinance, relative to a baseline scenario (April 12 Motion (\$25/hr) relative to LWO).

Source: Oxford Economics

Key Findings - \$30/Hour Minimum Wage

With a proposed minimum wage of \$30 an hour, less visitor spending and less construction spending would result in a loss of \$2.3 billion of business sales annually, resulting in 14,870 lost jobs in the broader City of Los Angeles economy, and \$169 million of lost state and local tax revenue.

This includes losses such as fewer construction jobs, fewer restaurant, retail and arts and entertainment jobs, as well as fewer supply chain jobs, such as maintenance roles.

Annual Run-Rate of Losses



Note: Estimates measure total impact of lost visitor spending and hotel construction with an increase of the minimum wage for hotel workers and airport workers to \$30 an hour, expanded health care for hotel and airport workers, and the Hotel Worker Protection Ordinance, relative to a baseline scenario (April 12 Motion (\$30/hr) relative to LWO).

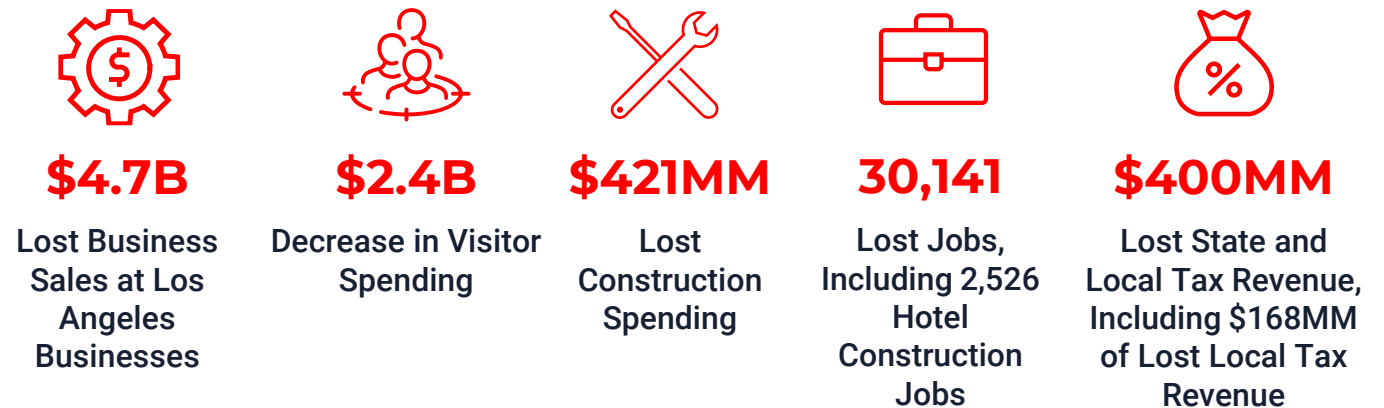
Source: Oxford Economics

Key Findings - \$30/Hour Minimum Wage + Impacts of Proposed Responsible Hotel Ordinance

With a proposed minimum wage of \$30 an hour and passage of the proposed Responsible Hotel Ordinance, less visitor spending and less construction spending would result in a loss of \$4.7 billion of business sales annually, resulting in 30,141 lost jobs in the broader City of Los Angeles economy, and \$400 million of lost state and local tax revenue.

This includes losses such as fewer construction jobs, fewer restaurant, retail and arts and entertainment jobs, as well as fewer supply chain jobs, such as maintenance roles.

Annual Run-Rate of Losses



Note: Estimates measure total impact of lost visitor spending and hotel construction with an increase of the minimum wage for hotel workers and airport workers to \$30 an hour, expanded health care for hotel and airport workers, and the Hotel Worker Protection Ordinance, and passage of the proposed Responsible Hotel Ordinance relative to a baseline scenario (April 12 Motion (\$30/hr) and RHO relative to LWO).

Source: Oxford Economics

Key Findings

Workers across a range of sectors in Los Angeles will realize lost wages as a result of the April 12 Motion. The losses range from \$714 million annually to \$1.7 billion across the three April 12 Motion scenarios.

Negatively impacted workers include (not limited to):

- Construction
- Restaurants
- Retail
- Transportation
- Maintenance
- Arts and recreation

With reductions in visitor spending and hotel construction, state and local tax revenue would be reduced between \$138 million and \$400 million annually.

Lost tax revenue must be made up by higher tax rates on businesses and households, or reduced government services.

Impact of City Council April 12 Motion Annual Run-Rate of Losses

Monetary amounts in millions, City of Los Angeles

	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Lost business sales	(\$914)	(\$1,915)	(\$2,326)	(\$4,653)
Lost visitor spending	(\$293)	(\$846)	(\$1,073)	(\$2,398)
Lost construction spending	(\$269)	(\$321)	(\$342)	(\$421)
Lost wages	(\$347)	(\$714)	(\$865)	(\$1,716)
Lost jobs	(5,643)	(12,187)	(14,870)	(30,141)
Lost state and local tax revenue	(\$55)	(\$138)	(\$169)	(\$400)
Lost state tax revenue	(\$43)	(\$94)	(\$114)	(\$232)
Lost local tax revenue	(\$12)	(\$45)	(\$55)	(\$168)

Note: Estimates measure total impact of lost visitor spending and hotel construction relative to LWO.
Source: Oxford Economics

Key Findings

Summary of scenario assumptions:

- **LWO:** *Living Wage Ordinance (LWO), this represents the baseline without HWPO and without April 12 Motion*
- **LWO and HWPO:** *LWO, plus Hotel Worker Protection Ordinance (HWPO)*
- **April 12 Motion (\$25/hr):** *LWO, HWPO, plus \$25/hr minimum wage and expanded health care for hotel and airport employees*
- **April 12 Motion (\$30/hr):** *Same as April 12 Motion (\$25/hr), but showing impact of \$30/hr minimum wage*
- **April 12 Motion (\$30/hr) and RHO:** *Same as April 12 Motion (\$30/hr) scenario plus the Responsible Hotel Ordinance (RHO)*

The background of the slide is a blue-tinted photograph of a city skyline, likely Los Angeles, with numerous palm trees in the foreground. The text is overlaid on a semi-transparent dark blue horizontal band.

2 Economic Impact Analysis

Economic Impact

City of Los Angeles, CA - Direct and Total Impacts

The combined hotel and airport economic impact shows the result of:

- **Hotel:** Lost visitor spending and lost hotel construction (renovation and new construction)
- **Airport:** Lost visitor spending associated with airline/service provider labor cost increases

In this analysis, these impacts are additive. The hotel and airport impacts are the result of higher wage and health care costs.

The economic impact is quantified in terms of direct effects, and total effects.

- **Direct effects** refer to the first-round impacts, consisting of the reduction in visitor spending and hotel construction spending.
- **Total effects** refer to the direct effects, plus the downstream or multiplier effects that happen in the local economy as a result of the direct effect reduction. For example, this includes supply chain effects as restaurants purchase fewer inputs from wholesalers, and as employees supported by visitor spending have less wages and salaries to spend at local businesses.

Combined economic impact: hotel and airport (lost visitor spending and hotel construction)

in millions (except jobs)

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Total					
Output		-\$913.7	-\$1,915.1	-\$2,325.5	-\$4,652.8
GDP		-\$510.2	-\$1,091.3	-\$1,329.5	-\$2,683.9
Wages and salaries		-\$347.0	-\$714.3	-\$864.9	-\$1,716.3
Jobs		-5,643	-12,187	-14,870	-30,141
Taxes		-\$125.2	-\$285.0	-\$347.0	-\$756.3
Federal		-\$69.9	-\$146.7	-\$178.1	-\$356.4
State and local		-\$55.3	-\$138.4	-\$168.9	-\$399.9
State		-\$43.1	-\$93.6	-\$114.3	-\$232.4
Local		-\$12.2	-\$44.8	-\$54.5	-\$167.5
Taxes on lodging		\$4.3	-\$1.8	-\$3.6	-\$73.0
Property taxes		-\$7.7	-\$23.3	-\$26.7	-\$44.7
Direct					
Output		-\$562.2	-\$1,167.0	-\$1,415.0	-\$2,818.8
GDP		-\$297.0	-\$637.0	-\$776.5	-\$1,569.4
Wages and salaries		-\$224.3	-\$450.3	-\$542.8	-\$1,064.4
Jobs		-3,865	-8,423	-10,292	-20,941
Taxes		-\$77.2	-\$184.0	-\$224.2	-\$510.0
Federal		-\$43.9	-\$90.8	-\$110.1	-\$218.9
State and local		-\$33.3	-\$93.1	-\$114.1	-\$291.1
State		-\$25.1	-\$56.4	-\$69.2	-\$142.6
Local		-\$8.2	-\$36.8	-\$44.9	-\$148.5
Taxes on lodging		\$4.3	-\$1.8	-\$3.6	-\$73.0
Property taxes		-\$7.7	-\$23.3	-\$26.7	-\$44.7

Source: Oxford Economics

Economic Impact Approach

How visitor spending generates employment and income

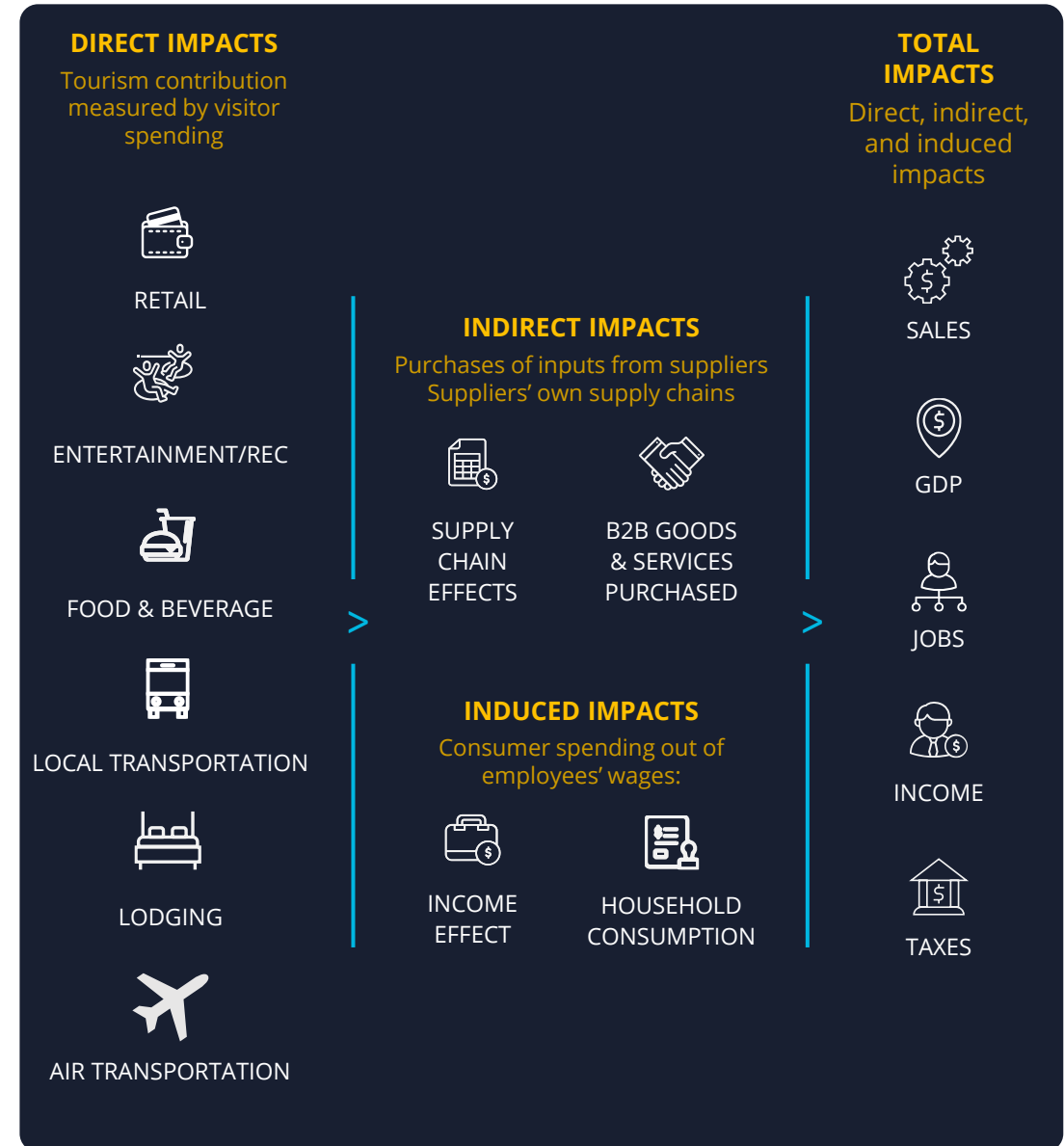
Our analysis of the economic impact of the April 12 Motion in the City of Los Angeles begins with actual spending by visitors but also considers the downstream effects of this injection of spending into the local economy. To determine the total economic impact in Los Angeles, we input visitor spending into a model created in IMPLAN. The model calculates three distinct types of impact: direct, indirect, and induced.

The impacts on business sales, jobs, wages, and taxes are calculated for all three levels of impact.

1. **Direct Impacts:** Visitors create direct economic value within a discreet group of sectors (e.g., recreation, transportation). This supports a relative proportion of jobs, wages, taxes, and GDP within each sector.
2. **Indirect Impacts:** Each directly affected sector also purchases goods and services as inputs (e.g., food wholesalers, utilities) into production. These impacts are called indirect impacts.
3. **Induced Impacts:** Lastly, the induced impact is generated when employees whose wages are generated either directly or indirectly by visitors spend those wages in the local economy.

IMPLAN is particularly effective because it calculates these three levels of impact – direct, indirect, and induced – for a broad set of indicators. These include the following:

- Spending
- Wages
- Employment
- Federal Taxes
- State Taxes
- Local Taxes



Methods and Data Sources

This research is based on data we gathered, our discussions with local hotel operators, and airline / service provider operators at Los Angeles International Airport, our understanding of the hotel and airline sectors, and our customized economic impact models.

As part of our research, we:

- obtained hotel operating statistics from STR/Costar, the leading provider of hotel statistics;
- researched minimum wage research by academic researchers and think tank organizations;
- prepared economic models to help quantify changes in hotel and airport operations;
- conducted telephone interviews with multiple hotel operators, a major airline, and a major airline service provider to gain an understanding of how operators would respond to wage increases, and some of the factors involved;
- considered previous research we have done on the HWPO for the California Lodging Association;

- considered previous research on visitor spending and visitor behavior in response to price changes;
- gathered data on airport passenger activity at LAX; and,
- prepared a customized IMPLAN input-output model to quantify changes in visitor spending and hotel construction. This model incorporates industry data on employment, wages, and sales from the U.S. Census, the Bureau of Economic Analysis, and the Bureau of Labor Statistics.

In preparing our estimates of impacts in the various scenarios, we focused on annualized impacts relative to the baseline scenario. These are estimates of impacts that may take several years to reach stabilization, allowing time for operators to institute changes and for visitor behavior to respond.

3 April 12 Motion



April 12 Motion

Los Angeles City Council

On April 12, 2023, the Los Angeles City Council moved for a new draft of amendments (April 12 Motion) to the Living Wage Ordinance (LWO) and the Hotel Worker Minimum Wage Ordinance (LA HWMO).

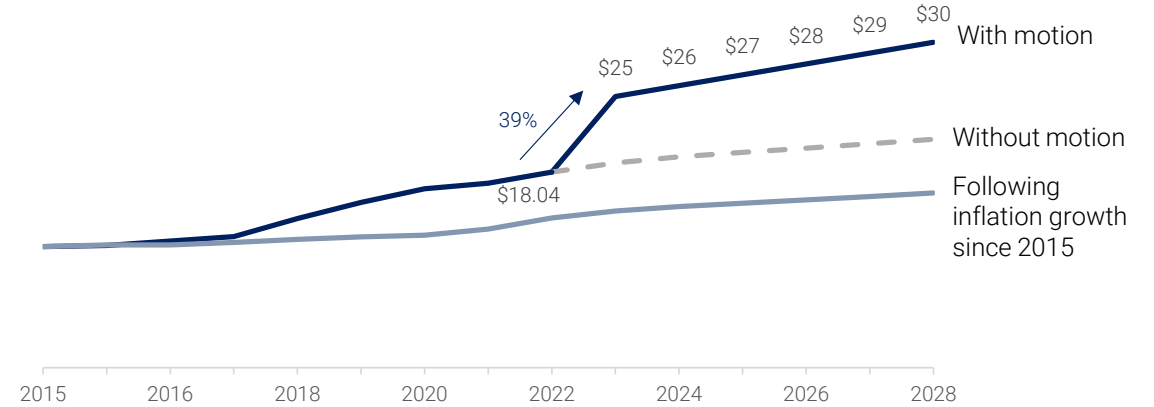
April 12 Motion

The following provisions would apply directly to the LWO and HWPO specifically regarding airport and hotel workers.

- Raise the hourly minimum wage to \$25 in 2023, and by \$1 every year thereafter, to reach \$30 an hour by 2028. This is a 39% increase to airport workers under the LWO and a 33% increase for hotel workers under the HWPO.
- Adjust the health care credit to meet the average cost of healthcare coverage, add minimum health benefit requirements including family coverage, and require transparency around health care payments.

Living Wage Minimum for Airport Employees

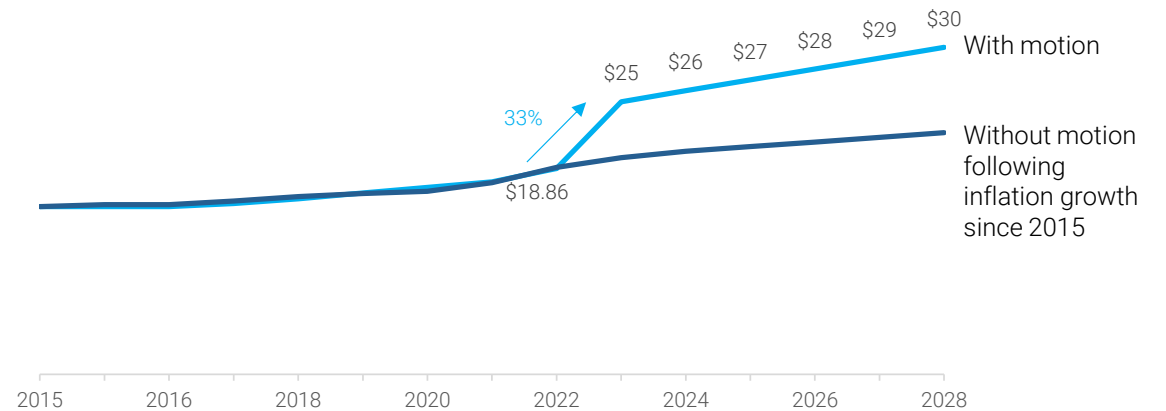
Los Angeles



Source: City of Los Angeles, Oxford Economics

Hotel Employee Minimum Wage

Los Angeles

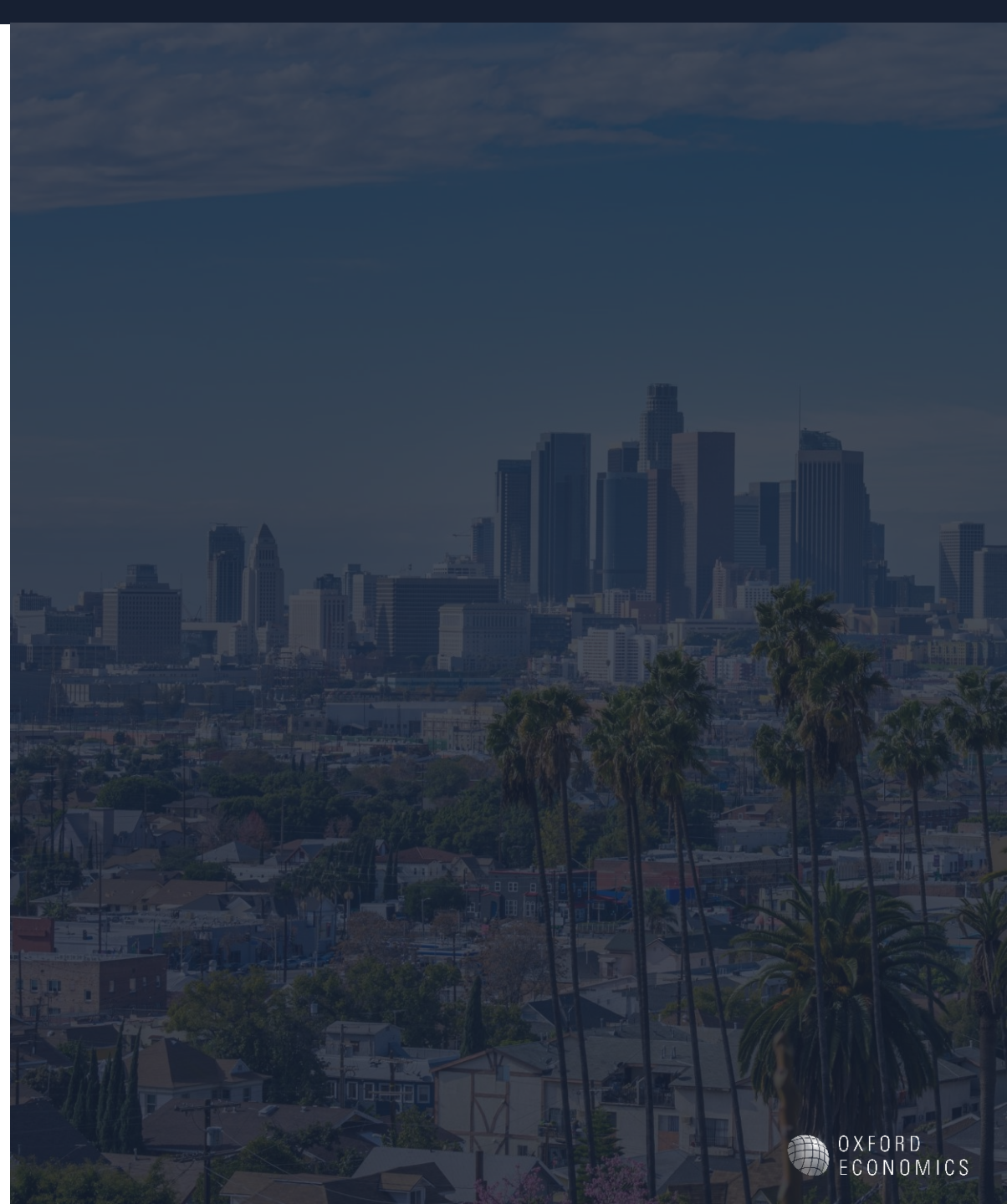


Source: City of Los Angeles, Oxford Economics

Note: In the hotel graph, the dark blue line follows inflation growth since 2015, which is the same as the grey inflation line in the airport graph.

Ordinance Summary

- **The Living Wage Ordinance (LWO)**
 - The LWO currently requires airport employers to pay workers \$18.04 an hour at a minimum, which is above the city minimum wage at \$16.04 per hour.
 - The LWO currently requires airport employers to pay workers an additional health wage minimum of \$5.77 per hour if they don't offer health insurance.
- **The Hotel Worker Protection Ordinance (HWPO)**
 - The HWPO currently requires a minimum of \$18.86 per hour for hotel workers (hotels with 60 rooms or more).
 - Amended the previous minimum wage scope to hotels with 60 rooms or more (previously 150+ rooms) which expanded to an additional 17% of Los Angeles hotels.
 - If a room attendant cleans more than 3,500 square feet in a day (60 room hotel or more) their pay rate doubles for the whole day.
- **The Responsible Hotel Ordinance** – Was not passed by city council but is on the 2024 voting ballot.
 - Voucher program would allow the otherwise unhoused to book vacant rooms.
 - New hotel development that demolishes or converts existing housing requires projects to include new affordable housing on a one-to-one basis.
 - Unprecedented annual permitting process via the appointed Police Commission.

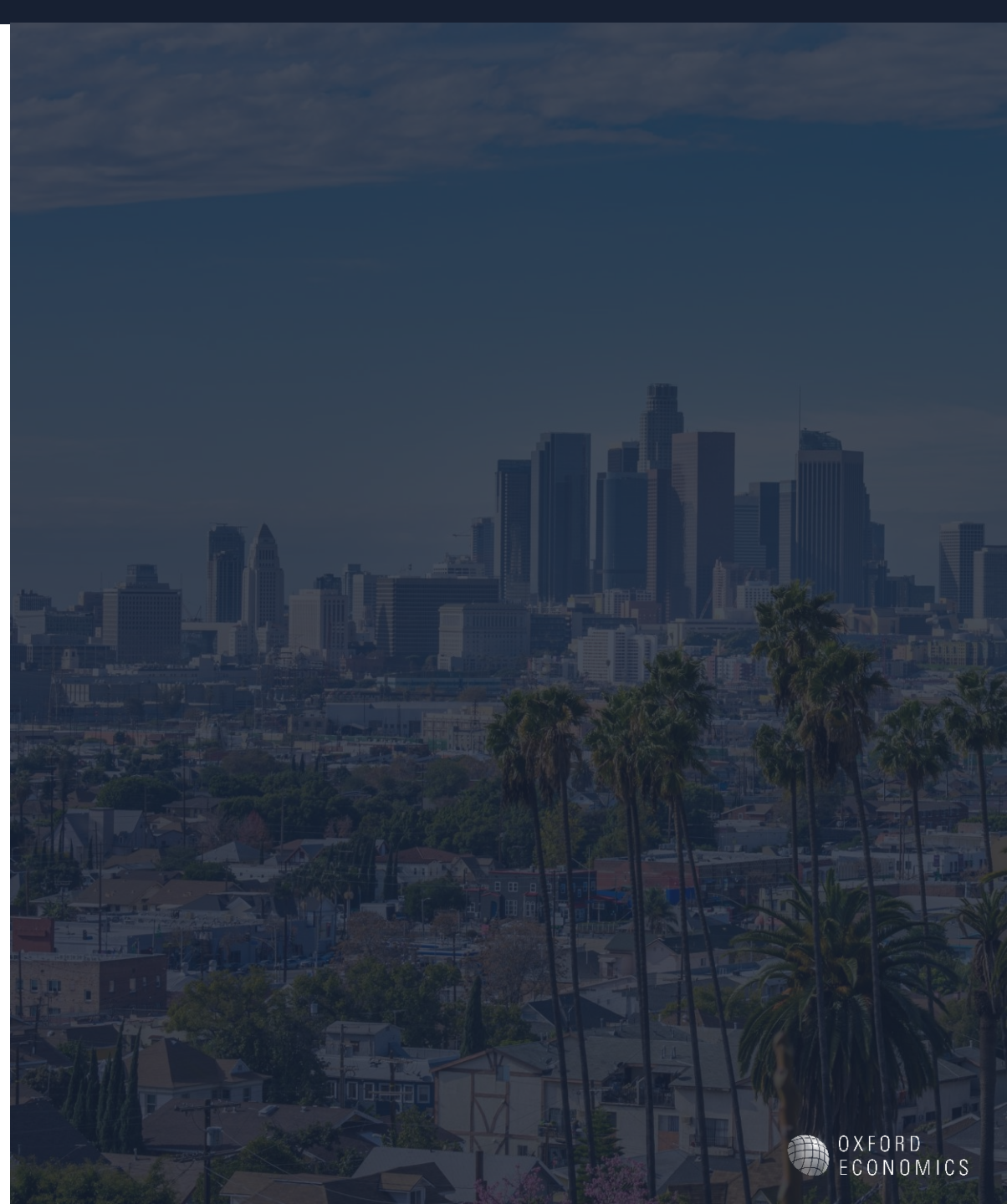


4 Impact to Hotel Operations

The background of the slide is a blue-tinted photograph of a city skyline, likely Los Angeles, viewed from an elevated position. In the foreground, numerous tall palm trees are scattered across the landscape. The city buildings are visible in the mid-ground, and a hazy horizon line is seen in the distance. The overall aesthetic is clean and professional, with a monochromatic color scheme.

Ordinance & Hotel Summary

- **The Hotel Worker Protection Ordinance (HWPO)**
 - The HWPO contains several provisions. Of these, the most significant impact to hotel operations results from workload limitations for room attendants that restrict the amount of space they are permitted to clean each day at standard pay.
 - Overall, as a result of HWPO, hotels are experiencing an approximate doubling of housekeeping labor costs (room attendants and managers).
- **April 12 Motion**
 - The motion stipulates an increase in the minimum wage for hotel workers from \$18.86 to \$25 per hour.



Impact to hotel operations

- **Housekeeping**

- Hotels have very limited ability to respond to increased housekeeping costs through cost savings measures within housekeeping. As a result, hotels must either attempt to pass on cost increases to customers or find other operational changes.

- **Food and beverage**

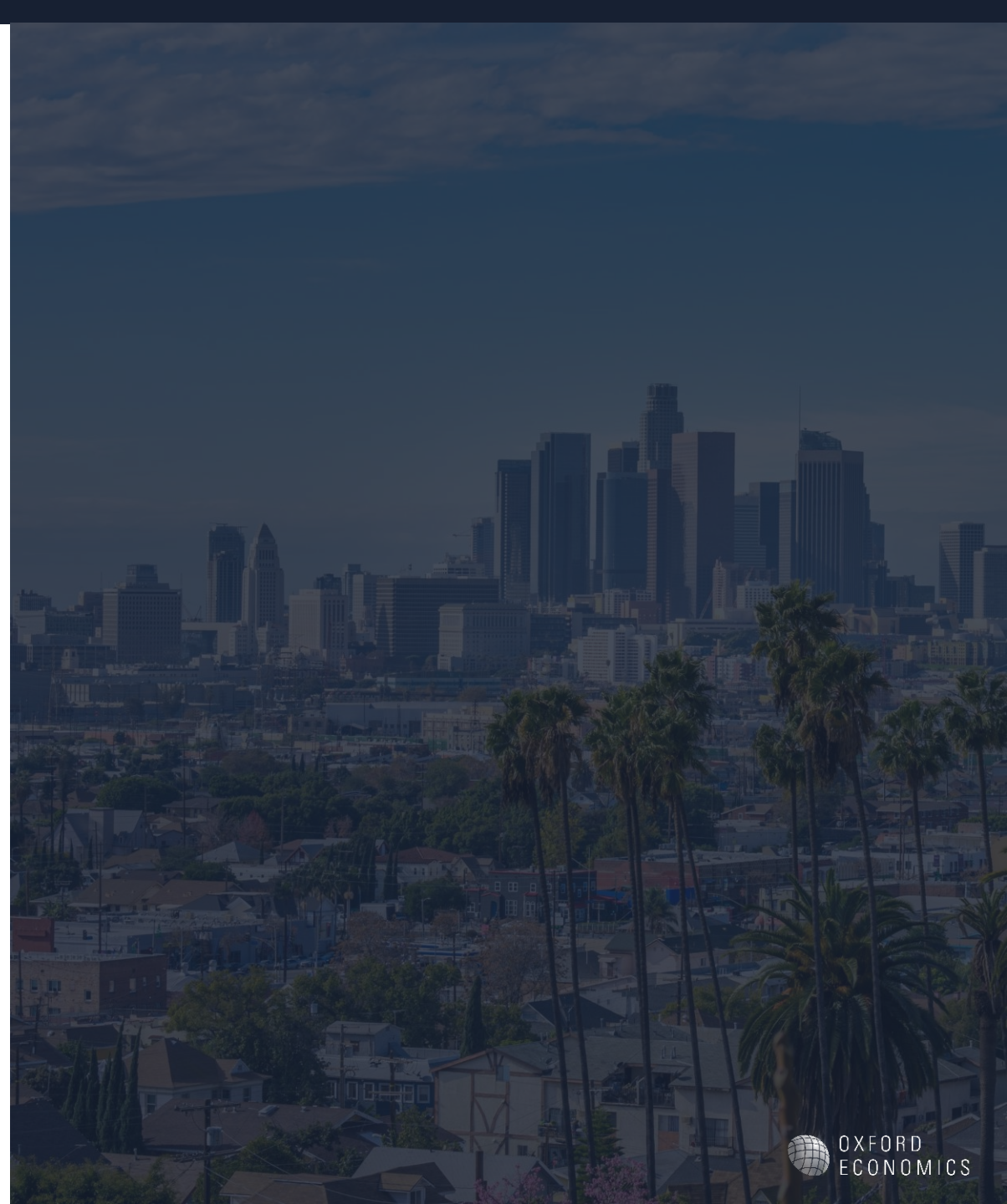
- Food and beverage operations such as restaurants and room service have very low, if any, profitability for hotels. With HWPO and the April 12 Motion, hotels are expected to reduce hours, close outlets, eliminate room service and reduce positions.
- Hotels will also reduce menu selections and raise prices. For example, one operator will consider closing the restaurant and offering a bar menu with five items, including a \$45 hamburger.
- Banquet and catering are important to hotels' ability to attract group business, such as business events. Higher wage costs are expected to make Los Angeles hotels some of the most expensive places to hold a business event. Many business events have a choice of destinations and will shift business to other markets.
- The April 12 Motion does not have an exemption or lower rate for tipped employees like many union hotels have in their collective bargaining agreements. Tipped employees will make more than other hotel employees, resulting in stark differences between positions.

- **Overall impacts to operations**

- Payroll costs are already the highest operating cost of hotels . For example, total payroll costs per occupied room at a custom set of hotels considered in this analysis reached \$120, representing 56% of total operating expenses per occupied room of \$215 (expenses before gross operating profit).
- An increased minimum wage affects not only employees currently earning at or near the minimum wage, it also requires increases in other positions to help maintain premiums for positions with greater responsibility. For example, the wage for a lead role with a \$3 to \$5 premium, must also be increased. This increases the overall cost of minimum wage increases.
- Analysis assumes health care expansion equivalent to a 30% increase in payroll costs, on average.
- RHO analysis assumes a large city program with prevalent use of housing stay vouchers across a large range of hotel properties with little ability for hotels to manage negative impact on perceptions of potential travelers, particularly leisure and group.
- In response to higher costs, we anticipate hotels will:
 - Reduce staff hours and positions by reducing F&B and other hotel services and reducing non-essential maintenance and upkeep.
 - Reduce funding and devotion of staff time to community involvement.
 - Increase room rates, charge additional fees, raise menu and catering pricing. Experience a decline in demand from guests, resulting in fewer occupied guest rooms (particularly leisure and group).

Impact to hotel operations

- **Impacts to renovations**
 - Hotels will have significantly reduced funds for renovations, and hotel owners will have reduced interest in investing in the upkeep of Los Angeles hotels and valuation decline due to increased costs.
 - Examples from hotel operators include plans to delay renovations and plans to cancel projects for expanding new space that would have supported new jobs (e.g., adding a bar in unused space).
- **Impacts to new construction**
 - New construction of hotels will slow significantly. The profitability of the market will be substantially reduced, making it difficult to justify new investment.
 - Also, the market gains a reputation for unpredictable negative policies, further discouraging new investment.
 - Reduced new construction means a loss of construction activity as well as a loss of the jobs and tax revenue supported by additional visitors.



Hotel Performance Is Still Below 2019 Levels

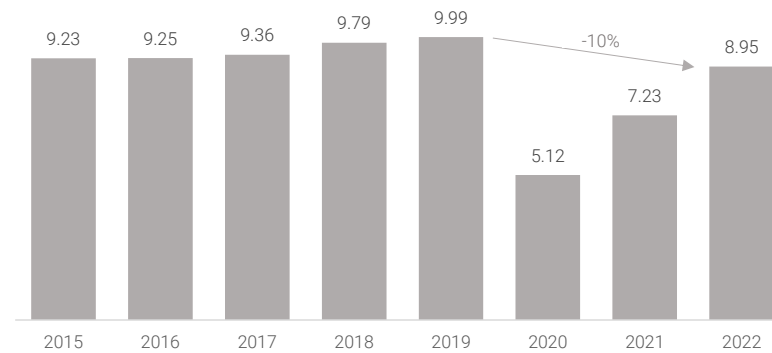
Hotel Demand, Real ADR, Real Room Revenue, and Occupancy since 2015

Los Angeles hotels are still operating below pre-pandemic levels.

- Hotel demand (occupied room nights) in 2022 was down 10% from 2019 levels.
- Real hotel ADR in 2022 was down 5% from 2019 levels.
- Real room revenue in 2022 was down 15% from 2019 levels.
- Hotel occupancy in 2022 was down 12% from 2019 levels.

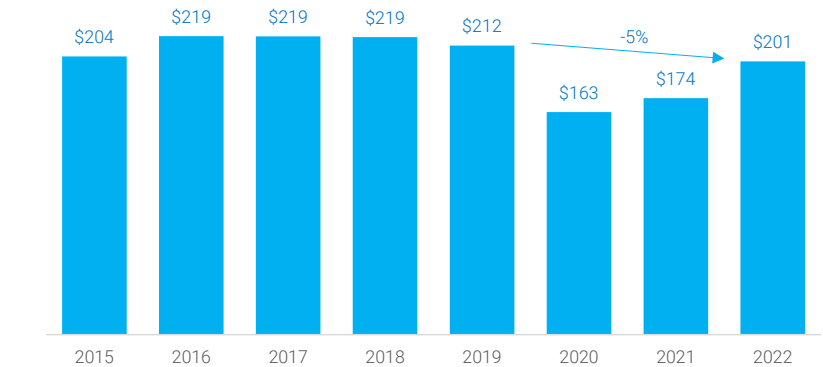
Real dollar values are adjusted for inflation based on CPI and shown in 2022 dollars.

Hotel Demand
Los Angeles, CA; in millions



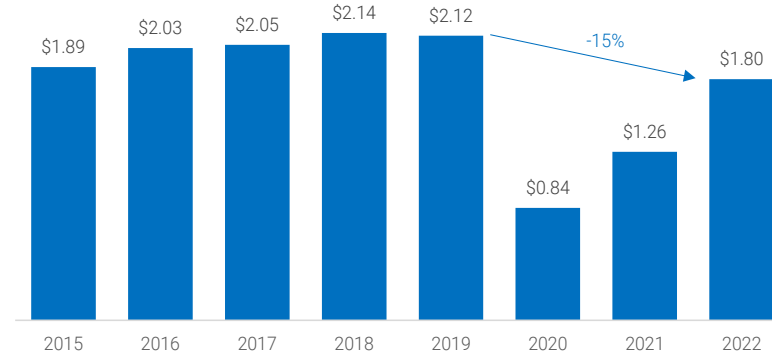
Source: STR, Oxford Economics

Hotel ADR, Real
Los Angeles, CA



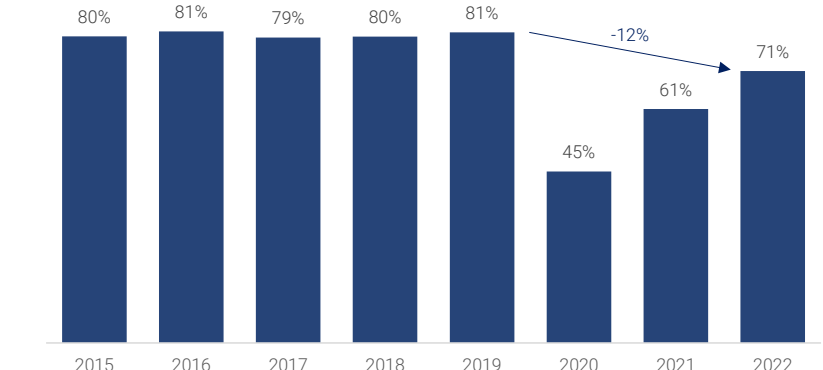
Source: STR, Oxford Economics

Room Revenue, Real
Los Angeles, CA; in billions



Source: STR, Oxford Economics

Hotel Occupancy
Los Angeles, CA



Source: STR, Oxford Economics

Historical Rooms Payroll Increase

City of Los Angeles, CA

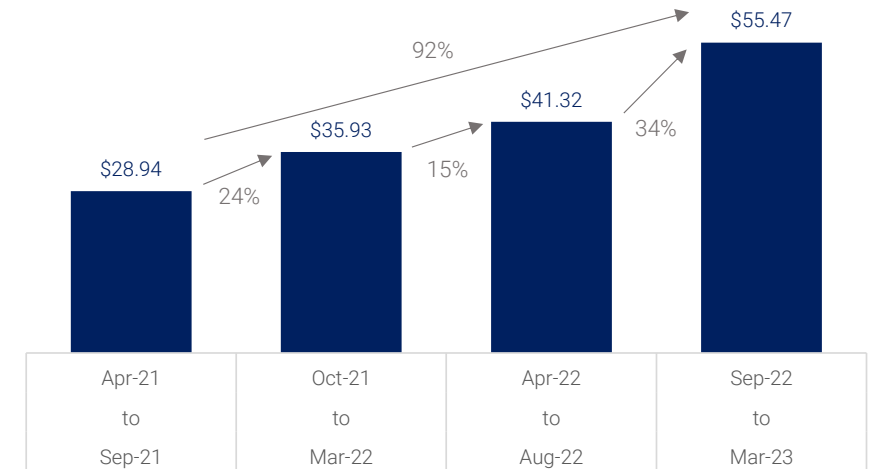
In addition to demand and ADR that is below pre-pandemic levels, hotels have experienced strong increases in payroll costs.

Rooms department payroll, which includes housekeeping, as well as staff such as front desk, guest relations, and reservations, has increased to \$55.47 per occupied room during the most seven-month period since enactment of the HWPO in August 2022. This represents a 92% increase relative to the six-month period ending September 2021. Part of this increase reflects steps by hotels to restore staffing levels post-pandemic, but it also reflects the impacts of tight labor markets and the HWPO.

Total payroll per occupied room increased to almost \$120 in the seven-month period ending March 2023. This includes all hotel staff.

Rooms Payroll Per Occupied Room Comparison

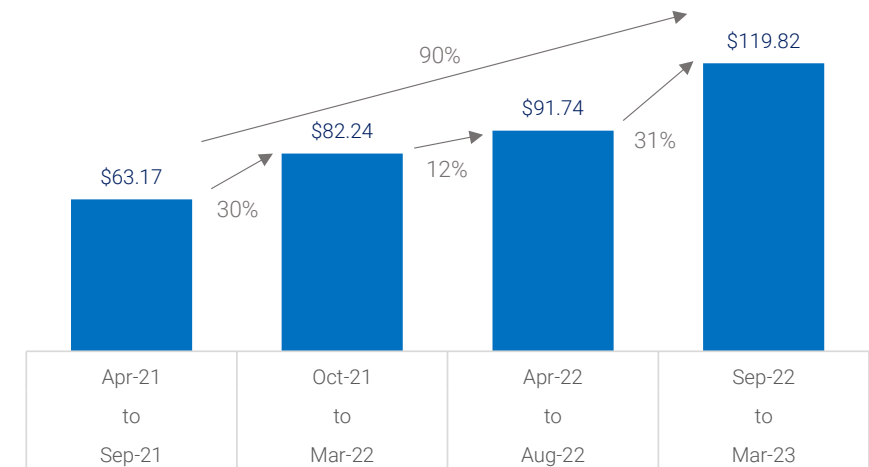
City of Los Angeles, CA; Selected Non-Union Hotels



Source: STR; Oxford Economics

Total Payroll Per Occupied Room Comparison

City of Los Angeles, CA; Selected Non-Union Hotels



Source: STR; Oxford Economics

Ordinance Scenarios: Hotel Operations

City of Los Angeles, CA

Los Angeles is estimated to lose \$293 million of visitor spending annually from the already enacted HWPO.

With a \$25 minimum wage and increased health care, this loss increases to \$750 million per year.

With the increased minimum wage in the April 12 Motion (\$25/hr) scenario, we expect hotels will realize an increase to payroll costs of \$339.0 million, even after reducing hours and staffing. Hotels will be forced to raise ADR, causing a -15% loss in demand relative to the LWO only, and only generating an additional \$21.5 million of room revenue, contributing to reduced profits/increased losses.

Decreased demand (occupied rooms) will result in a loss of \$750 million of visitor spending on an annual basis.

Ordinance scenarios

Relative to LWO; in millions (except ADR increase)

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
ADR increase (%)		6.8%	19.0%	22.5%	20.3%
ADR increase (\$)		\$14.00	\$39.11	\$46.32	\$41.79
Demand loss (%)		-5.0%	-15.0%	-17.2%	-35.1%
Demand loss (room nights)		-0.45	-1.36	-1.56	-3.19
Room revenue increase (%)		1.5%	1.2%	1.4%	-21.9%
Room revenue increase (\$)		\$27.3	\$21.5	\$26.7	-\$410.1
Increase in housekeeping payroll (%)		82.96%	160.8%	189.4%	122.1%
Increase in housekeeping payroll (\$)		\$114.0	\$220.9	\$260.3	\$167.8
Increase in total payroll (%)		13.8%	46.3%	57.6%	21.7%
Increase in total payroll (\$)		\$101.2	\$339.0	\$421.1	\$158.5
Visitor spending loss (%)		-4.6%	-11.9%	-14.8%	-35.7%
Visitor spending loss (\$)		-\$293.1	-\$750.1	-\$932.6	-\$2,257.6

Source: STR, Oxford Economics

Ordinance Scenarios: Hotel Capital Spending

City of Los Angeles, CA

Los Angeles is estimated to lose \$269 million in hotel capital spending annually from the already enacted HWPO.

With a \$25 minimum wage and increased health care, this loss increases to \$321 million per year.

Hotels have already started delaying new renovations after the HWPO became effective in August 2022. In the April 12 Motion (\$25/hr) scenario we expect renovation spending to decrease \$90.2 million relative to the LWO.

We expect the April 12 Motion (\$25/hr) scenario to reduce development spending by \$230.9 million annually relative to the LWO.

This results in a combined hotel capital spending (hotel construction) loss of \$321.2 million relative to the LWO.

Hotel Capital Spending

Relative to LWO; \$ in millions

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Renovation spending loss (\$)		-\$82.5	-\$90.2	-\$93.5	-\$101.2
Renovation spending loss (%)		-75%	-82%	-85%	-92%
New development spending loss (\$)		-\$186.52	-\$230.94	-\$248.70	-\$319.76
Hotel capital spending loss (\$)		-\$269.05	-\$321.16	-\$342.23	-\$420.98

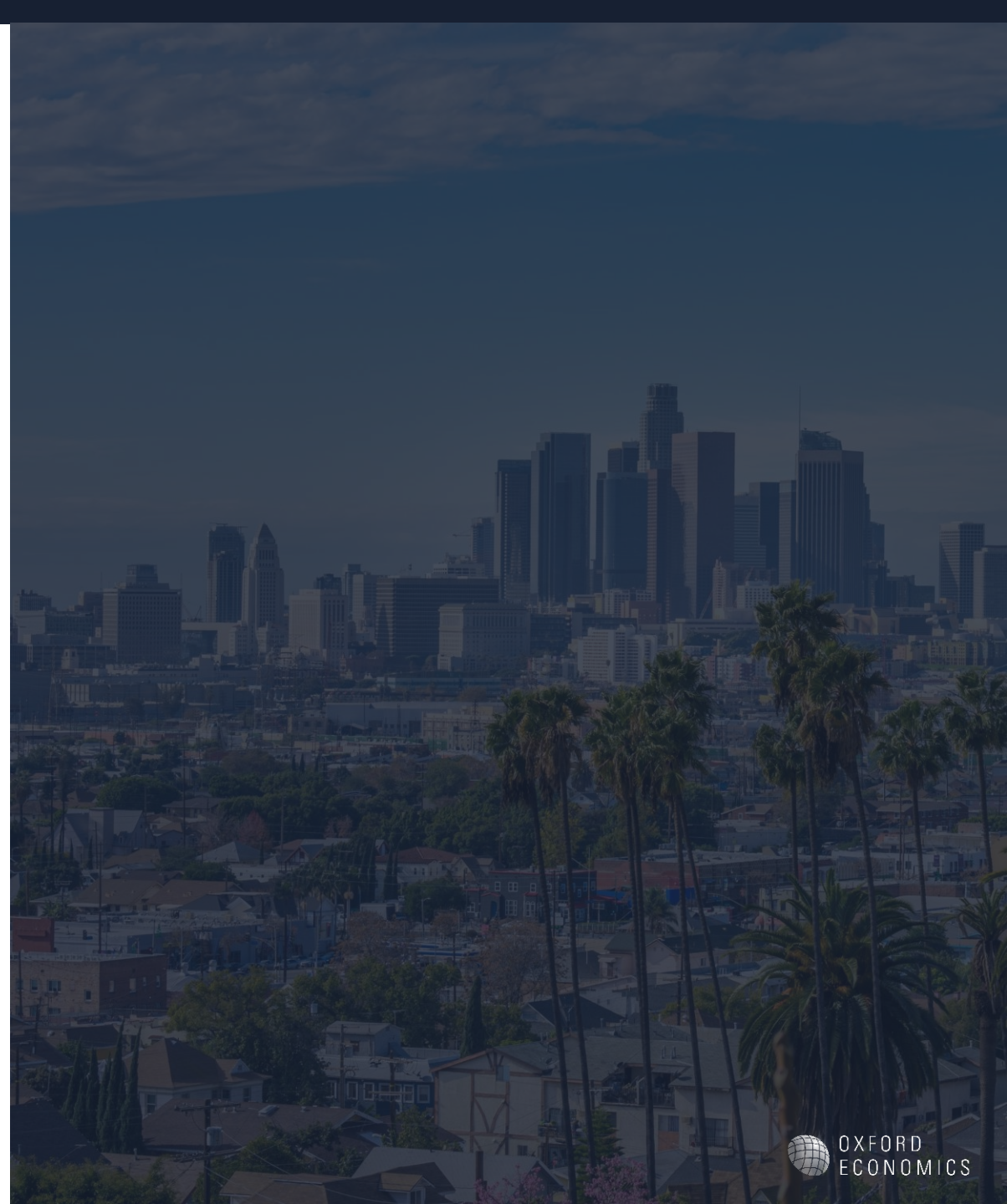
Source: STR, Oxford Economics

5 Impact to Airport Operations

The background of the slide is a blue-tinted photograph of a city skyline, likely Los Angeles, with numerous skyscrapers and a dense residential area in the foreground. Tall palm trees are scattered throughout the scene, particularly in the lower half. The overall atmosphere is calm and professional.

Ordinance & Airport Summary

- **April 12 Motion**
 - The motion stipulates an increase in the minimum wage for airport workers from \$18.06 to \$25 per hour.
 - The motion also includes adjustments to the health care credit to meet the average cost of healthcare coverage, add minimum health benefit requirements including family coverage, and require transparency around health care payments.
- **Living Wage Ordinance (LWO) - Airport Employees:**
- There are multiple categories of stakeholders affected by the ordinance at LAX.
 - Los Angeles World Airports (LAWA): Operating airport
 - Airlines: Operating flights
 - Service providers: Providing services to airlines, such as baggage handling, cleaning planes, wheelchair service
 - Concessionaires: operating airport concessions
- Our analysis focuses on:
 - Airlines and service providers combined
- We did not include LAWA staff costs in the analysis as we do not yet have clear understanding of the potential impact of the Motion.
 - LAWA has a budgeted FY2023 headcount of 3,584 full and part-time positions, with annual personnel costs of \$497.5 million. Of these, approximately 2,000 are in operations and maintenance, or public safety and security.



Ordinance Scenarios: Airline/Service Providers

- **Airline/service providers**
 - Airlines rely on direct airline staff and staff of service providers to operate at LAX.
 - Both the airlines and the service providers have experienced the impact of previous cost increases and tight labor market conditions and have worked extensively to find efficiencies and limit cost increases. As a result, there is very little flexibility to absorb further cost increases without passing the full cost on to passengers.
 - With previous labor cost increases, airlines and service providers have looked for ways to reduce the staff positions assigned to each flight. For example, to reduce costs, an airline and service provider may decide to eliminate 16 labor hours associated with the process to turn a flight (deplane passengers, ready plan for departure, enplane passengers). This would be accomplished by cutting four positions with four hours each.
 - Eventually there is a limit to this type of cost management, for example, as further reductions place a greater burden on remaining staff, and result in planes that are less clean.
- In scenarios with the April 12 Motion, we expect airlines and service providers will attempt to pass on a large portion of cost increase to passengers and will make further reductions in staffing and service levels.

Impact to Airline/Service Providers

In the April 12 Motion (\$25/hr) scenario, we expect 1.3 million fewer passengers than the LWO scenario.

With the increased minimum wage in the April 12 Motion (\$25/hr) scenario, and the shift to expanded health care, we expect a \$10.04 in labor costs per enplaned passenger for airline and service providers combined. This is expected to result in the loss of 1.3 million passengers relative to the LWO. The increase in labor costs represents an increase of 34.8% relative to the LWO, representing \$342.8 million of additional costs.

We anticipate the decline in passenger volume and staff reductions per flight will result airline and service provider job losses that will offset a part of the labor cost increase.

Airline and service provider labor costs Wages and health care

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Estimated incremental labor costs per enplaned passenger			\$10.04	\$14.70	\$14.70
Lost passengers (enplanements and deplanements)			(1,342,732)	(1,964,526)	(1,964,526)
Airline and service provider aggregate costs					
Baseline cost without minimum wage increase and health care expansion (in millions)			\$984.0	\$984.0	\$984.0
Incremental cost with minimum wage increase and health care expansion (in millions)			342.8	501.5	501.5
Total cost with minimum wage increase and healthcare expansion (in millions)			\$1,326.8	\$1,485.6	\$1,485.6
Percentage difference relative to baseline			34.8%	51.0%	51.0%
Potential cost reduction due to reduction in passenger volume (in millions)			(\$26.1)	(\$42.8)	(\$42.8)
Potential cost reduction due to staffing reductions (in millions)			(66.3)	(89.1)	(89.1)
Net increase to airline and service provider labor costs relative to baseline (in millions)			\$1,234.4	\$1,353.7	\$1,353.7
Percentage difference relative to baseline			25.4%	37.6%	37.6%

Impact to Airline/Service Providers

In the April 12 Motion (\$25/hr) scenario, we expect a loss of \$95.8 million of visitor spending relative to the LWO scenario.

With the increased minimum wage in the April 12 Motion (\$25/hr) scenario, and the shift to expanded health care, we expect higher fares and reduced service levels will result in approximately 671,000 fewer passenger enplanements annually. This will result in the loss of approximately 131,000 annual overnight visitors to the City of Los Angeles, representing \$95.8 million of lost visitor spending.

Impact to concession activity and visitor spending

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Lost concessions					
Lost enplanements			-671,366	-982,263	-982,263
Gross concession revenue per enplanement			\$12.11	\$12.11	\$12.11
Lost gross concession revenue (in millions)			-\$8.13	-\$11.90	-\$11.90
Lost visitor spending					
Lost visitors (overnight, City of Los Angeles)			(130,835)	(191,423)	(191,423)
Lost visitor spending (in millions, City of Los Angeles)			-\$95.8	-\$140.2	-\$140.2

Ordinance Scenarios: Concessionaires

- **Concessionaires**
 - LAWA reported gross concession revenue of \$366.3 million during FY2022, including significant amounts of in-terminal revenue, such as duty free, food and beverage, and advertising; as well as off-terminal revenue, such as auto parking and rent-a-car.
 - We did not specifically analyze the impact of the April 12 Measure on labor costs and operations across these categories of concessions, due to the tight timeline on this analysis.
 - Based on our understanding of operations such as airport concession F&B, we would anticipate that the April 12 Measure would represent a significant increase in operating cost that would cause most operators to institute significant price increases, reduce hours, reducing staffing and close outlets. The result would include fewer staff positions, fewer staff hours, increased costs for passengers, and decreased passenger satisfaction with the airport. Ultimately, we expect this would result in some reduction in passenger volumes.

6 Net Impact to Wages and Benefits

A blue-tinted photograph of a city skyline, likely Los Angeles, with numerous palm trees in the foreground. The image is used as a background for the title text.

Net Impact to Wages and Benefits

We estimated the impacts to wages and benefits on a net basis as well. We started with the lost wages and benefits as a result of lost visitor sales and hotel construction, and we added the increased wages and benefits at hotels and the airport, including induced, downstream, effects. The net result is shown in the last row. This shows:

- In the LWO and HWPO scenario, there is a net reduction to wages and benefits of \$222.8 million;
- In the April 12 Motion (\$25/hr) scenario, the increase to hotel and airport wages and benefits is narrowly greater than the loss in visitor spending and hotel construction, resulting in a net increase of \$8.5 million; and,
- In the April 12 Motion (\$30/hr) scenario, the increase to hotel and airport wages and benefits is greater than the loss in visitor spending and hotel construction, resulting in a net increase of \$104.9 million; and,
- In the April 12 Motion (\$30/hr) and RHO scenario, there is a net reduction to wages and benefits of \$1.1 billion.

In each of these scenarios, we anticipate some hotel and airport workers will lose hours and others will lose their job, with higher wages earned by certain remaining employees. The increase of wages and benefits will accrue to certain remaining workers at hotels and the airport, while the losses will affect certain other hotel and airport employees, and across a range of sectors, including jobs in construction, as well as F&B, and downstream services such as maintenance and wholesale distribution.

Net impact to wages and benefits

in millions, annual impact

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Impact to wages and benefits					
Lost wages and benefits due to visitor sales and hotel construction		-\$347.0	-\$714.3	-\$864.9	-\$1,716.3
Increased hotel wages and benefits		\$101.2	\$339.0	\$421.1	\$158.5
Increased airport wages and benefits		\$0.0	\$250.4	\$369.7	\$369.7
Induced effect of net change to wages and benefits		\$22.9	\$133.5	\$179.1	\$119.6
Net total impact to wages and benefits		-\$222.8	\$8.5	\$104.9	-\$1,068.6

Source: Oxford Economics

7 Minimum Wage Tipping Point

The background of the slide is a blue-tinted photograph of a city skyline, likely Los Angeles, with numerous skyscrapers and a dense residential area in the foreground. Tall palm trees are scattered throughout the scene, particularly in the lower half. The overall aesthetic is clean and professional.

Minimum Wage Tipping Point

- In many situations, researchers examining the impact of minimum wage increases are looking at situations with either small changes to a minimum wage, or a large change that still results in a wage that is low relative to other wages.
- That such studies do not generally find strong indication of large negative employment effects does provide good guidance for a situation in which the wage increase is large, and results in a wage that is at a level well above more typical entry-level wages.
- In the economic literature, there has been evidence that large hikes that cross a tipping point threshold from low minimum wage-to-median earnings to high minimum wage-to-median earnings cause significant declines in employment among low-income workers.
- **Thus, while the employment impact of minimum wage increases is debated, there is a foundation of evidence to suggest that large increases in the minimum wage, particularly above a certain threshold value, can lead to notable declines in employment among the most vulnerable workers.**

Research examples

- The 1966 amendment to the Fair Labor Standards Act, which raised the national minimum wage 28% to \$13.54 per hour in 2022 dollars and extended coverage to an additional 9.1 million workers, was found to significantly lower employment rates in certain subgroups, such as African-American men, who experienced a sharp and significant decline in employment during the year and annual hours worked.
- During the 41% Federal minimum wage hike between July 23, 2007 and July 24, 2009 from \$5.15 to \$7.25, employment among low-wage workers fell. In addition, this increase led to a reduction in upward mobility among low-skilled workers by limiting their access to opportunities for accumulating work experience.
- France has been plagued by high unemployment, and high youth unemployment in particular, a feature often attributed to the relatively high minimum wage. In France, the minimum wage is relatively high – 11.52 euros per hour as of May 1, 2023 or about \$12.63 per hour. The 2019 French minimum wage increase in 2019 directly affected 13.4% of workers. Comparatively, in the U.S. approximately 1.1% of workers were at or below the Federal minimum wage in 2019.

Minimum Wage Tipping Point (continued)

- In Denmark, when workers turn 18, they become eligible for the adult rate – approximately a 40% increase to a level comparable to a \$15 minimum wage. This rise in the wage requirement has been found to cause a 33% drop in the employment rate and a 45% fall in hours worked for those impacted.
- Significant increases in minimum wages have also been found to impact growth in the number of business establishments. Following Hungary's minimum wage increase in 2001 from 35% of median earnings to 50%, an estimated 30,000 minimum wage workers lost their jobs (10.3% of total minimum wage workers) as firms substituted labor with capital. Not only did contemporaneous employment decline as a result of this minimum wage hike, but employment growth at the firms most affected by the minimum wage hike declined in future periods.

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A blue-tinted photograph of a city skyline, likely Los Angeles, with numerous palm trees in the foreground. The image is used as a background for the title text.

8 Additional Economic Impact Tables

Economic Impact: Hotel Visitor Spending

City of Los Angeles, CA - Direct and Total Impacts

The accompanying table shows the impact of lost visitor spending due to hotel labor cost increases.

The direct impact loss of visitor spending in the April 12 Motion (\$25/hr) scenario relative to the LWO scenario is shown as \$750.1 million of reduced output (business sales).

Hotel visitor spending economic impact

in millions (except jobs)

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Total					
Output		-\$487.2	-\$1,246.7	-\$1,550.0	-\$3,752.4
GDP		-\$285.0	-\$729.4	-\$906.8	-\$2,195.3
Wages and salaries		-\$177.4	-\$453.9	-\$564.3	-\$1,366.1
Jobs		-3,221	-8,243	-10,249	-24,811
Taxes		-\$71.0	-\$193.1	-\$237.8	-\$631.3
Federal		-\$37.3	-\$95.5	-\$118.8	-\$287.5
State and local		-\$33.7	-\$97.5	-\$119.1	-\$343.8
Taxes on lodging		\$4.3	\$3.4	\$4.3	-\$65.2
Property taxes		-\$7.7	-\$23.3	-\$26.7	-\$44.7
Direct					
Output		-\$293.1	-\$750.1	-\$932.6	-\$2,257.6
GDP		-\$167.0	-\$427.3	-\$531.3	-\$1,286.2
Wages and salaries		-\$107.8	-\$275.9	-\$343.1	-\$830.6
Jobs		-2,251	-5,761	-7,162	-17,339
Taxes		-\$45.1	-\$126.8	-\$155.5	-\$432.0
Federal		-\$22.7	-\$58.1	-\$72.2	-\$174.9
State and local		-\$22.4	-\$68.7	-\$83.2	-\$257.1
Taxes on lodging		\$4.3	\$3.4	\$4.3	-\$65.2
Property taxes		-\$7.7	-\$23.3	-\$26.7	-\$44.7

Source: Oxford Economics

Economic Impact: Hotel Construction

City of Los Angeles, CA - Direct and Total Impacts

The accompanying table shows the impact of reduced hotel construction activity as a result of higher labor costs at hotels.

The direct impact loss of \$321.2 million of reduced hotel construction spending in the April 12 Motion (\$25/hr) scenario relative to the LWO scenario is shown as reduced output (business sales).

Hotel construction economic impact
in millions (except jobs)

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Total					
Output		-\$426.5	-\$509.1	-\$542.5	-\$667.4
GDP		-\$225.1	-\$268.8	-\$286.4	-\$352.3
Wages and salaries		-\$169.6	-\$202.4	-\$215.7	-\$265.3
Jobs		-2,421	-2,890	-3,080	-3,789
Taxes		-\$54.2	-\$64.7	-\$68.9	-\$84.8
Federal		-\$32.6	-\$38.9	-\$41.5	-\$51.0
State and local		-\$21.6	-\$25.7	-\$27.4	-\$33.7
Taxes on lodging		\$0.0	\$0.0	\$0.0	\$0.0
Property taxes		\$0.0	\$0.0	\$0.0	\$0.0
Direct					
Output		-\$269.0	-\$321.2	-\$342.2	-\$421.0
GDP		-\$130.0	-\$155.1	-\$165.3	-\$203.4
Wages and salaries		-\$116.5	-\$139.1	-\$148.2	-\$182.3
Jobs		-1,614	-1,927	-2,053	-2,526
Taxes		-\$32.1	-\$38.3	-\$40.8	-\$50.2
Federal		-\$21.2	-\$25.3	-\$27.0	-\$33.2
State and local		-\$10.9	-\$13.0	-\$13.8	-\$17.0
Taxes on lodging		\$0.0	\$0.0	\$0.0	\$0.0
Property taxes		\$0.0	\$0.0	\$0.0	\$0.0

Source: Oxford Economics

Economic Impact: Total Hotel Impact

City of Los Angeles, CA - Direct and Total Impacts

The accompanying table shows the impact of reduced visitor spending and reduced hotel construction activity as a result of higher labor costs at hotels.

Total hotel economic impact
in millions (except jobs)

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Total					
Output		-\$913.7	-\$1,755.8	-\$2,092.5	-\$4,419.8
GDP		-\$510.2	-\$998.1	-\$1,193.2	-\$2,547.6
Wages and salaries		-\$347.0	-\$656.3	-\$780.0	-\$1,631.5
Jobs		-5,643	-11,134	-13,329	-28,600
Taxes		-\$125.2	-\$257.7	-\$306.7	-\$716.1
Federal		-\$69.9	-\$134.5	-\$160.3	-\$338.6
State and local		-\$55.3	-\$123.3	-\$146.5	-\$377.5
Taxes on lodging		\$4.3	\$3.4	\$4.3	-\$65.2
Property taxes		-\$7.7	-\$23.3	-\$26.7	-\$44.7
Direct					
Output		-\$562.2	-\$1,071.2	-\$1,274.8	-\$2,678.6
GDP		-\$297.0	-\$582.5	-\$696.6	-\$1,489.5
Wages and salaries		-\$224.3	-\$415.0	-\$491.3	-\$1,012.8
Jobs		-3,865	-7,688	-9,215	-19,865
Taxes		-\$77.2	-\$165.1	-\$196.3	-\$482.2
Federal		-\$43.9	-\$83.4	-\$99.2	-\$208.1
State and local		-\$33.3	-\$81.7	-\$97.1	-\$274.1
Taxes on lodging		\$4.3	\$3.4	\$4.3	-\$65.2
Property taxes		-\$7.7	-\$23.3	-\$26.7	-\$44.7

Source: Oxford Economics

Economic Impact: Airport Visitor Spending

City of Los Angeles, CA - Direct and Total Impacts

Airport visitor spending economic impact
in millions (except jobs)

	LWO	LWO and HWPO	April 12 Motion (\$25/hr)	April 12 Motion (\$30/hr)	April 12 Motion (\$30/hr) and RHO
Total					
Output			-\$159.2	-\$233.0	-\$233.0
GDP			-\$93.2	-\$136.3	-\$136.3
Wages and salaries			-\$58.0	-\$84.8	-\$84.8
Jobs			-1,053	-1,541	-1,541
Taxes			-\$27.3	-\$40.2	-\$40.2
Federal			-\$12.2	-\$17.9	-\$17.9
State and local			-\$15.1	-\$22.4	-\$22.4
Taxes on lodging			-\$5.2	-\$7.8	-\$7.8
Property taxes			\$0.0	\$0.0	\$0.0
Direct					
Output			-\$95.8	-\$140.2	-\$140.2
GDP			-\$54.6	-\$79.9	-\$79.9
Wages and salaries			-\$35.2	-\$51.6	-\$51.6
Jobs			-736	-1,077	-1,077
Taxes			-\$18.8	-\$27.8	-\$27.8
Federal			-\$7.4	-\$10.9	-\$10.9
State and local			-\$11.4	-\$17.0	-\$17.0
Taxes on lodging			-\$5.2	-\$7.8	-\$7.8
Property taxes			\$0.0	\$0.0	\$0.0

Source: Oxford Economics

The accompanying table shows the impact of reduced visitor spending as a result of higher labor costs for airlines/service providers at the airport.

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