

Lost Wages, Soaring Revenue

An Analysis of the Impact of the Failure of Hotels to Implement the Century Corridor Living Wage

Los Angeles Alliance for a New Economy

464 Lucas #200, Los Angeles, CA 90017 (213) 977-9400 <http://laane.org>

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Prepared by James Elmendorf, LAANE Policy Director

On November 22, 2006 the Los Angeles City Council adopted an ordinance requiring LAX-area hotels to pay workers a living wage. The hotels responded by gathering signatures for a referendum and by filing a lawsuit that has delayed implementation of the living wage for more than a year.

This white paper attempts to quantify the cost to employees of that delay and also looks at the growth in revenue for the hotels during that time.

Background

The living wage ordinance was adopted by a vote of 12-3 and signed by Mayor Antonio Villaraigosa. It required 12 hotels in the Century Corridor to pay a wage no lower than \$10.64 an hour to all employees. The ordinance also credited hotels up to \$1.25 an hour for health care expenditures. The wage would increase each year according to the Consumer Price Index (CPI).ⁱ

The Century Corridor is Los Angeles' largest hotel submarket, with over 7,000 rooms. The City Council determined that wages in this submarket were significantly lower than elsewhere in Los Angeles County, and that the hotels derived a unique benefit from their proximity to the Los Angeles International Airport, a source of much of their business.ⁱⁱ

Century hotels engaged in a variety of strategies to block the ordinance. Initially, they lobbied against passage of the ordinance. When that failed, they established a campaign committee to place the ordinance on the ballot as a referendum, spending approximately \$900,000 to collect signatures.ⁱⁱⁱ In January 2007 the Los Angeles City Clerk determined that the necessary signatures were collected to place the ordinance on the ballot.

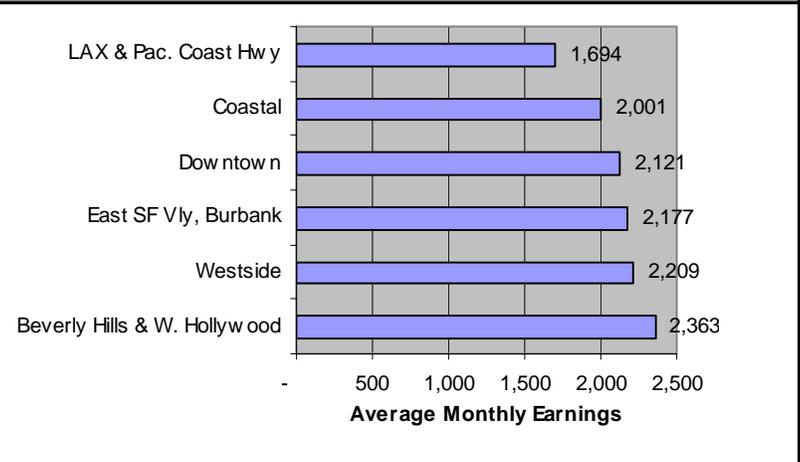
Throughout January 2007, hotel representatives, business leaders, elected officials and worker representatives held a series of discussions resulting in a compromise agreed to by most of the parties. The

agreement, which included substantive changes to the original living wage law designed to address concerns raised by business leaders, was announced in a press conference in late January with representatives of the Chamber of Commerce speaking in support. Two weeks later, the council adopted the new ordinance.

Before the ordinance could take effect, seven hotels and members of the Chamber of Commerce sued the City of Los Angeles to block implementation of the compromise ordinance. Since that time, the issue has been in the courts. The ordinance was upheld by the California Court of Appeals in December 2007, but in February 2008 the hotels and the other plaintiffs petitioned the California Supreme Court for review of the case; a determination on whether the court will hear the case is expected by early April 2008.^{iv}

Figure 1: Hotel Workers' Wages by Submarket

Average Monthly Earnings in Lodging Establishments in Select L.A. Markets



Source: Economic Roundtable analysis of Los Angeles County ES-202 data 2002

Findings^v

1. LAX-area hotel workers at 11 Century Corridor hotels have lost an estimated \$4.6 million as a result of the delays implementing the ordinance.
2. On average, individual workers lost between \$350 and \$4044 a year, depending on job classification.
3. During the time that hotels have delayed implementation of the ordinance, the eleven hotels have seen their revenues increase by an estimated \$30.1 million.

Estimate of Hotel Workers' Lost Wages

Based on wage information and job classification lists at several hotels, as well as census information about the average hours worked by hotel workers in Los Angeles, it is possible to estimate that workers at 11 Century Corridor hotels have lost an estimated \$4,666,123 in wages, as described in Table 1. The full methodology for this calculation is described in Appendix A.

Classification	Estimated # of Workers	Estimated Average Wage	Estimated Amount Below Living Wage	Estimated Loss Per Worker	Estimated Annual Loss
Housekeeping	1,012	\$9.83	\$0.81	\$1,418	\$1,434,178
Food Server	311	\$8.38	\$2.26	\$3,964	\$1,233,780
Bell	133	\$8.38	\$2.26	\$3,964	\$323,445
Houseman	119	\$9.01	\$1.63	\$2,853	\$339,638
Parking Attendant	105	\$9.77	\$0.87	\$1,523	\$160,575
Laundry	97	\$10.06	\$0.58	\$1,015	\$98,768
Bartender	85	\$9.00	\$1.64	\$2,870	\$242,848
Steward	80	\$9.83	\$0.81	\$1,418	\$113,946
Busser	62	\$8.85	\$1.79	\$3,133	\$195,008
Nightcleaner	62	\$10.27	\$0.37	\$648	\$40,309
LAX Hilton Banquet Servers ^{vi}	59	\$8.00-\$8.38	\$2.27	\$4,044	\$201,756
Dishwasher	53	\$10.44	\$0.20	\$350	\$18,404
Cashier	44	\$9.87	\$0.77	\$1,348	\$59,861
Total	2,223				\$4,666,123

These lost wages have a significant impact on workers and their families, many of whom live in the communities surrounding the airport. For example, one in four residents in the surrounding area lives below the poverty line, area median income is 25% lower than in L.A. County as a whole and more than 40% of children come from poor households.^{vii} Table 2 shows the California Budget Project's estimate of the hourly wage and annual total needed to support a family in Los Angeles.^{viii}

	Basic Family Wage	Annual Total
Single Adult	\$13.52	\$28,122
Single Parent Family	\$30.00	\$62,400
Two Parent Family (One Working)	\$24.54	\$51,043
Two Working Parent Family	\$17.80	\$37,024

Source: California Budget Project, 2007
Note: These figures assume full-time employment. Family figures are based on families with two children.

Estimate of Hotel Revenue Increases

The hotels' failure to pay a living wage occurred at the same time these hotels experienced an overall increase in revenue. During the past year, room rates and occupancy have risen for hotels throughout Los Angeles, particularly in the airport area. As a result, increased hotel revenues far exceed the additional costs hotels would have borne had they paid the living wage.

The standard industry measurement for hotel room revenue is Revenue per Available Room (RevPar). According to PKF Consulting, which measures hotel room rates and occupancy around the country, the airport area has seen its RevPar increase more than 10% annually since 2005, raising room revenues by an estimated \$19.6 million since the living wage ordinance was adopted.^{ix}

	RevPar	Estimated Annual Room Revenue	Estimated Annual Non-Room Revenue	Estimated Total Revenue
2005	\$69.26	\$165,528,613	\$89,130,792	\$254,659,405
2006	\$77.77	\$185,786,697	\$100,038,991	\$285,825,688
2007	\$85.96	\$205,351,993	\$110,574,150	\$315,926,143

Source: PKF Consulting

RevPar only accounts for room revenues, which are typically approximately 65% of total hotel revenue.^x The remaining 35%, for which we do not have data, includes food and beverage, retail, parking and other sales. If these revenue streams increased at the same rate as RevPar the 11 Century Corridor hotels would have seen an additional increase from 2006 to 2007 of \$10.5 million. In total, assuming all revenue sources increased at the same rate as RevPar, the 11 hotels earned an estimated \$30.1 million more in 2007 than they did in 2006.

Conclusion

Over the past year, the decision by seven Century Corridor hotels to challenge rather than comply with the living wage ordinance adopted by the Los Angeles City Council has cost workers an estimated \$4.6 million. At the same time eleven hotels have seen their revenues increase by an estimated \$30.1 million, approximately six times the additional cost of complying with the ordinance.

In the coming weeks, the California Supreme Court and the hotels will determine if these lost wages will continue to grow throughout 2008, or if workers will finally begin to receive a living wage. LAX-area hotels can act sooner and pay workers what they are owed under the living wage ordinance.

ⁱThe ordinance defines the hotels affected by this ordinance as all those over 50 rooms located within the Gateway to LA Property Business Improvement District. Thirteen hotels are located in this district, however one of them, the Travelodge LAX, was already required to pay a living wage because it is located on public property owned by Los Angeles World Airports (LAWA). The Four Points LAX is also excluded from this analysis as they announced in December 2006 that they would comply with the living wage ordinance and appear to have done so.

ⁱⁱDaniel Flaming, Patrick Burns and Brent Haydamack, 2005. "From the Pockets of Strangers: Economic Impacts of Tourism in Los Angeles and Five Competing Metropolitan Destinations," Economic Roundtable, Los Angeles.

ⁱⁱⁱCampaign Disclosure Statement, California Form 460, Save Los Angeles Jobs, 1/1/2006-12/31/06, filed with Los Angeles City Ethics Commission 1/30/07.

^{iv}Hotels did not challenge the city's right to adopt a living wage ordinance. Instead, they argued that the city could not rescind the living wage ordinance and replace it with a modified ordinance. The Court of Appeal ruled against the hotels in December 2007. The court determined that the City Council had made substantive changes in adopting the Airport Hospitality Enhancement Zone ordinance. In addition to the living wage, this ordinance included provisions suggested by the hotels and business groups such as: a) a phase-in of the wage; b) job training funds; c) infrastructure investment; d) review of the impact on health care; e) a waiver process if the hotels could demonstrate hardship; and f) a set of requirements and limitations for adoption of future living wage ordinances.

^vNeither the increase in revenue experienced by the Century Boulevard hotels or the hotel worker wages lost due to the hotels' failure to implement the ordinance has been adjusted to account for inflation. If they had been adjusted, the estimate of lost wages would be slightly higher and the hotels' revenue increase would be slightly lower.

^{vi}At most hotels, banquet servers are paid above a living wage, though they do not receive the 20% service charge added to banquet and event bills. At the LAX Hilton, however, banquet servers are paid minimum wage (though they do receive some of the service charge as a tip). As a result, only the Hilton banquet servers are included in this chart. The City Council also had adopted an ordinance requiring that hotels pay the entire service charge to workers. Workers at seven hotels have filed suit alleging that their employers have not complied with this ordinance.

^{vii}Los Angeles Alliance for a New Economy, 2006, "Century Corridor: Turning the Gateway to Los Angeles into a Gateway to Prosperity."

^{viii}California Budget Project, 2007, "Making Ends Meet: How Much Does It Cost to Raise a Family in California?"

^{ix}PKF Consulting, December 2005, December 2006, July 2007, "Trends in the Hotel Industry, Los Angeles."

^xHospitality Research Group, PKF Consulting, 2005, "Perspectives on the Road to Recovery: U.S. Lodging Industry 2005."

Appendix A—Methodology for Estimating Hotel Workers' Lost Wages

Without payroll records for all Century Corridor hotel workers, developing a precise calculation of the lost wages is impossible. Below are the assumptions used to estimate lost wages.

1. **Estimating Total Number of Hotel Workers.** The Los Angeles Business Journal's 2005 Book of Lists provides the number of employees for eight of the eleven hotels. To estimate workers at the remaining three hotels, it was assumed that the three smaller hotels had the same ratio of workers per room as the eight larger hotels, for which data already existed. Based on this assumption, the total number of workers at the 11 hotels is estimated at 3,022. Two hotels are excluded from this analysis. The first, the Travelodge LAX, has long been required to pay a living wage because it is on public land. The second, the Four Points LAX, announced in December 2006 that they would comply with the ordinance, and they appear to have done so.
2. **Estimating Number of Hotel Workers by Job Classifications.** UNITE HERE Local 11 provided a complete list of employees by job classification for two hotels, both obtained from the respective hotel companies. These lists were used to estimate the average percentage of workers in each of 23 job classifications at the two hotels. These percentages were used to determine the number of workers by job classification at the remaining nine hotels.
3. **Estimating Average Wages by Job Classification.** UNITE HERE Local 11 provided a complete list of wages for all workers at one hotel (obtained by the union from the hotel in late 2007) and one partial list of wages for a second hotel (based on a survey of workers conducted in late 2006). Using these two wage lists, an average wage was generated for each job classification, and assumed to apply to workers at the other hotels. Initially, there were 16 job classifications where workers earned below the living wage. In cases where workers made the minimum wage, they were assumed to have earned the current minimum wage of \$8 per hour for the entire time period, even though during much of this time the minimum wage was lower.
4. **Accounting for the Health Care Credit.** The hotel living wage is currently \$10.64 per hour, but

employers may take a credit of up to \$1.25 an hour for health care expenditures. Without access to specific information on employer health care costs, two assumptions were made. First, it was assumed that any employer expenditures on health care would amount to at least \$1.25 an hour. Second, based on estimates provided by UNITE HERE Local 11, it was assumed that approximately 30% of workers receive health insurance that is partially employer-paid. Few, if any, Century workers receive free job-based health insurance. In most cases, they must contribute to the plans, and thus hotels pay only for those workers who also agree to pay into the plan. The health care adjustment used was \$0.375 per hour, or 30% of \$1.25 for each worker. As a result of this adjustment, the average wage was raised for all job classifications, and four classifications were moved entirely out of the non-living wage category.

5. **Estimating Average Hours Worked:** According to "From the Pockets of Strangers," a 2006 report commissioned by LA Inc and completed by LA Economic Roundtable, hotel workers in Los Angeles work an average of 1,750 hours per year.

Summary

The lost wages for each job classification except for LAX Hilton banquet servers were determined by the following formula: number of workers in classification x 1750 hours x (living wage – average wage).

Calculating Lost Wages for LAX Hilton Banquet Servers

The lost wages for banquet servers were calculated separately, based on an analysis of 2006 paychecks for 10 of the 59 banquet servers at the LAX Hilton. At that time, these workers were paid a minimum wage of \$6.75 an hour. The minimum wage has since increased to \$8 an hour, and so all wages for LAX banquet servers were assumed to be \$8 an hour. Full-time employees were assumed to receive the full \$1.25 health credit, while it was assumed that on-call employees did not receive any health insurance, and thus their wages do not include any health care credit. The hours worked for the 10 employees for whom we had paychecks were then applied to remaining workers, and the wage loss was calculated by the following formula: hours worked x workers x (living wage-average wage).