Transforming the Gateway to L.A.:

The Economic Benefits of A Sustainable Tourism Model

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Prepared by LAANE
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Executive Summary

In 2006, a coalition of community members, workers, and clergy leaders joined together as the Coalition for a New Century in an effort to transform thousands of low wage hotel jobs into family-sustaining jobs and to upgrade a lackluster L.A. tourism district that is often the first glimpse visitors have of the region. Due to their proximity to Los Angeles International Airport (LAX), the dozen hotels that line L.A.’s Century Boulevard have high occupancy rates relative to other Los Angeles markets. Yet these hotels paid some of the region’s lowest wages, and the surrounding communities—where many tourism workers live—suffered from high rates of crime and poverty.

This report examines the impact of two major achievements related to that effort: (1) the living wage requirement adopted by L.A. City Council in the Airport Hospitality Enhancement Zone Ordinance (hereafter the Living Wage Ordinance), which went into effect in July 2008; and (2) the negotiation of collective bargaining agreements at four of the 12 Century Corridor hotels. This report estimates the benefit of the living wage policy and the union contracts for the 2,400 workers employed at the hotels over the first four years of their implementation—and the increased economic benefit to the community overall.

The analysis is especially timely in light of the fact that tourism—an industry generally noted for low wage employment and meager benefits—has recently surpassed international trade as L.A. County’s number one job generator. These initiatives provide an important model for how local leadership, responsible business practices and community engagement can help move an industry toward a high road model of development that helps the economy overall.

Key Findings

1. Measures to improve the quality of jobs in the Century Corridor hotel submarket are projected to have a nearly $23.9 million impact over their first four years of implementation, including $18.5 million in direct wage and benefit improvements and $5.4 million in additional local revenue generated by hotel workers’ increased spending in the region.

2. The increase in spending by hotel workers as a result of higher wages will generate an estimated 106 new jobs in L.A. County over four years.

3. Century hotel workers who are covered by union contracts are expected to see their wages increase by more than 14% over the four years, boosting their average annual wage above the federal poverty line for a family of four. These workers will receive, on average, an additional $13,002 in wages and benefits over the first four years of implementation.

4. The average worker affected by the Living Wage Ordinance is projected to receive an additional $4,141 in wages over the first four years of the law’s implementation.

5. By 2012, average wages paid to Century Corridor hotel workers are projected to surpass those paid to Anaheim hotel workers and to approach the average wages paid in Santa Monica and Downtown hotels. Century Boulevard hotel workers’ wages were once 15% below those paid in Santa Monica, but hotel workers who are covered by collective bargaining agreements are projected to earn within 3% of Santa Monica’s average wages by 2012.

### Table 1: Summary of Findings

<table>
<thead>
<tr>
<th></th>
<th>Hotels with Union Contracts</th>
<th>Non-Union Hotels Affected by Living Wage Ordinance</th>
<th>TOTAL: All Century Corridor Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Workers</td>
<td>879</td>
<td>1502</td>
<td>2381</td>
</tr>
<tr>
<td>Hotels Covered</td>
<td>4</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Increase in Wages and Benefits Over Four Year Period</td>
<td>$11,444,351</td>
<td>$7,064,776</td>
<td>$18,509,127</td>
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<tr>
<td>Average Increase per Worker per Year</td>
<td>$3,255</td>
<td>$1,176</td>
<td>$1,943</td>
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<tr>
<td>Amount of Total Wages Reinvested into Local Community</td>
<td>$5,015,268</td>
<td>$4,665,469</td>
<td>$9,680,727</td>
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<tr>
<td>Multiplier Effect – Additional Revenue Generated by Wage Increase</td>
<td>$2,784,602</td>
<td>$2,595,407</td>
<td>$5,380,009</td>
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<tr>
<td>Additional Jobs Created by Increased Revenue Note: All dollar amounts are in 2009 dollars</td>
<td>55</td>
<td>51</td>
<td>106</td>
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Introduction

The Century Corridor area adjacent to Los Angeles International Airport (LAX) is home to the largest hotel submarket in Los Angeles. These hotels enjoy some of the highest occupancy rates in Los Angeles, deriving a unique benefit from their proximity to LAX airport, a source of much of their business. Yet LAX-area hotels also have historically paid some of the lowest wages in the county. According to a 2006 study, hotel workers in this region were earning 20% less than their counterparts in downtown L.A. The nearby communities of Lennox, Inglewood and Hawthorne, where many hotel workers live, are characterized by high rates of poverty, crime, and overcrowding. One in five residents in these communities lives below the federal poverty line, a measure of extreme poverty, and more than 28% of children come from poor households. Median household income is 12% lower than in L.A. County as a whole.

In November 2006, the Los Angeles City Council, by a vote of 12-3, adopted an ordinance requiring 12 hotels on Century Boulevard near LAX to provide a living wage for their workers. Hotels located on the corridor sued to block the ordinance, but their appeal was denied by the California Supreme Court in April 2008 and went into effect in July of that year.

The ordinance requires airport hotels to pay their workers a minimum of $11.13 per hour without health insurance, or $9.88 plus $1.25 for health insurance in 2009. The “health credit” is intended to encourage employers to provide health insurance to their workers. Despite the improvements, the health care differential is insufficient to encourage employers to provide quality family coverage, according to recent studies. While the living wage ordinance clearly improves the wages of hotel workers, the average Century Boulevard hotel worker will still earn 6.4% below the federal poverty line for a four person household.

In order to advocate for better compensation and working conditions than the ordinance could guarantee, Century Boulevard hotel workers at four hotels fought for and won union recognition. Between 2007 and 2009, workers at the Four Points LAX, Westin LAX, Radisson LAX and the Sheraton Gateway successfully negotiated collective bargaining agreements. In addition to increased wages, health care, and pension, these contracts have many other benefits for workers, such as greater job security, commitments to diversity in hiring, and reduced workloads that alleviate hazards to safety and health.

This report seeks to quantify the benefits of both the Collective Bargaining Agreements (“CBA”) and the Living Wage Ordinance for workers and communities. It is worth noting that the Coalition for a New Century has made progress on other important goals, including development of a job training program, a major increase in infrastructure investment and initial design of a conference center in the region. This report, however, focuses solely on calculating the benefit of the agreements and the policy that affects workers’ wages and benefits.
The estimates in the report were derived using two primary sources: collective bargaining agreements at the four unionized hotels and pre-contract wage information provided by those hotels to UNITE HERE during the contract negotiations. While we calculated the benefit of those increases over a four year period, it is important to note that each of the four contracts and the Living Wage Ordinance had different start dates. The Living Wage Ordinance went into effect July 2008. The CBAs went into effect over a two-year period, between March 2007 and April 2009. The benefits for each contract were calculated based on the initial four years of the particular contract. This data was collected during a period of economic growth for the hotel; consequently, our data does not account for the possibility of layoffs or a reduction in hours. However, the benefits of the increases will persist well beyond the four-year period selected for this study, making this aggregation a conservative measure of the benefits.

Furthermore, we underestimated the wage benefit of the living wage law. In a previous study of a living wage ordinance affecting public contractors and financial aid recipients in the City of Los Angeles, LAANE found that 40% of employers gave non-mandated wage increases to workers making slightly more than the living wage rate in order to maintain wage differentials within the workplace. This “ripple effect” was not accounted for in this study.

We also estimated the multiplier effects of the increase in wages, using the 2007 IMPLAN input-output model for Los Angeles County with assistance from the Economic Roundtable. This model predicts the local effect of increased household spending by workers’ households, in terms of increased demand for goods and services they consume, the impacts of their increased consumption on supply chains, and the employment impacts of their spending.

Direct Benefits from the LAX Enhancement Zone Living Wage Ordinance

The Living Wage Ordinance affects approximately 2,400 hotel workers at the 12 Century Boulevard hotels. It requires hotels within a designated region to pay their workers at least $11.13 (or $9.88 per hour plus at least $1.25 for health benefits). Approximately 900 of Century Boulevard hotel workers are employed at four hotels with collective bargaining agreements that supersede the Living Wage Ordinance. These workers are receiving improved benefits as well as increased wages that often exceed those required by the ordinance; the impact of these increases is analyzed below. In total, the Living Wage Ordinance covers the remaining estimated 1,502 workers on Century Blvd. Of these workers, 59%, or 889 workers, are estimated to have earned less than the living wage prior to the law going into effect and consequently are receiving increased pay due to the ordinance.

Over the course of its first four years, the Living Wage Ordinance is projected to result in an additional $7 million in increased wages for these 889 workers. The average worker who qualified for an increase is expected to receive an additional $1,986 per year, or a 10.3% increase in wages. If the increase is averaged over all workers including those who earn , the Living Wage Ordinance creates $1,170 in additional income per worker per year.
Direct Benefits from Collective Bargaining Agreements

The four collective bargaining agreements signed between 2007 and 2009 affected a total of 879 workers. They included benefits such as greater job security, commitments to diversity in hiring, and safer, reduced workloads. Although many of these improvements cannot be easily quantified, we were able calculate the increased earnings for workers and the value of improved benefits.

On average, a unionized hotel worker is projected to receive an additional $2,154 in wages per year for the first four years of her union contract. Prior to the collective bargaining agreement, the average Century Corridor hotel worker earned $19,191 annually. After four years of a collective bargaining agreement, the average Century Corridor union worker will be earning $23,707. After taking into account projected cost of living increases, this represents a 14.1% increase in real wages. The federal poverty level for a family of four in 2012 is projected to be $23,400, meaning that these increased union wages could make the difference between living in poverty and being able to meet their basic needs.

Prior to the collective bargaining agreements, the LAX-area hotel market was among the lowest-paying sub-markets of the hospitality industry in Los Angeles County, with wages markedly below those paid to hotel workers in Anaheim, Santa Monica, and Downtown. The wage increase due to the union contracts means that the Century Corridor area will surpass Anaheim in 2012 in terms of hotel worker wages, and will be competitive with Downtown and Santa Monica.

In addition to higher wages, all employees at union hotels working over 25 hours a week are eligible for family health and dental insurance. The average union worker will receive an additional $1,078 per year in health and dental benefits over the first four years of her contract.

The increased expenditures by hotels on health insurance not only represent a cost savings for workers with health insurance, but also provided an additional 36.5% of workers with insurance they did not have previously. Such a dramatic increase in health insurance rates potentially saves lives. Uninsured patients are much more likely to die in the hospital than insured patients, forgo needed medical care or prescription drugs for chronic conditions because they cannot afford the costs, and uninsured women with cancer are more likely to be diagnosed at late stage and less likely to survive. The Urban Institute has estimated that 22,000 people in the U.S. between the ages of 25 and 64 died in 2006 because of a lack of health insurance. That is twice the number of deaths due to homicide in the same year.

Note: All dollar amounts are in 2009 dollars.
Additionally, all four union hotels now contribute to a pension fund. Previously, employees had the option of participating in a 401k retirement plan but did not have access to a pension fund. Only 25% of employees participated in the retirement plan. Under the union contract, the employer contributes to the pension plan on behalf of all employees. With a 401k plan, employees bear much of the cost and the risk of saving for retirement; however, a pension plan means that retired employees have the security of a fixed pension check every month for the remainder of their lives.

Benefits to the Community

The improved compensation due to the Living Wage Ordinance and the four union contracts will bring an estimated $18.5 million in wages and benefits to hotel workers over the next four years. However, the economic impacts will be felt well beyond the individual workers affected and their families.

- Of the $7 million in increased wages generated by the Living Wage Ordinance, $4.7 million will be reinvested in the local community through increased spending at grocery stores, restaurants and other local shops and services.

- Of the $7.6 million generated by wage increases at the four union hotels, over $5.0 million will be reinvested into the local community.

- This total increased community revenue of $10 million will, in turn, generate an additional $3.4 million due to the increased spending and result in the creation of 111 new jobs.

As wages and benefits increase, workers will have less need to rely on public assistance in order to meet their households’ basic needs, thereby alleviating the burden on the public. According to a 2004 study, the average low-income one-parent one-child family in California receives $4,700 in annual public assistance.
Increased access to affordable health care for these hotel workers will help alleviate the strain that is caused to the public by the uninsured. Lack of health care creates tremendous public cost; both monetarily, as taxpayers cover the cost of care for the uninsured, and socially, as public health is jeopardized when portions of the population are not receiving adequate care. In 2002, providing healthcare coverage for working families through the Medi-Cal and Healthy Families programs cost California taxpayers more than $4 billion. Health care providers also attempt to recover their costs of treating the uninsured by increasing charges to patients with private insurance, which results in higher insurance premiums. In California, the increased cost for employer-provided family coverage due to the uninsured is projected to reach almost $1,800 per insured person per year by 2010.

Since we do not know the exact amount spent by the individual employees on health care (or by the public to subsidize uninsured hotel workers), we cannot estimate the change in health care spending resulting from the improvements to the Century Boulevard workers’ benefit plans. However, any net increase in health care spending resulting from more workers having health insurance would have a multiplier effect in the community. For every additional $1 million spent on health care, an additional $754,000 would be generated in local revenue and 13 more jobs would be created. If the entire $3.8 million in additional health care spending by the hotels were new spending, an additional $2.9 million would be generated in local revenue and 42 new jobs would be created.

**Minimal Impact on Century Boulevard Hotels**

Although an additional $18.5 million in wages and benefits over four years constitutes a significant increase to affected workers, the additional expense represents a small percentage of the hotels’ total revenue. From the table below, we can see that the wage and benefit increases as a percentage of total hotel revenue is minimal, whether we examine the highly profitable year of 2006 or the recession-affected year of 2009. By

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Total Revenue</th>
<th>Total Wages</th>
<th>Total Wages as % of Total Revenue</th>
<th>Wage Increase as % of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$328,266,400</td>
<td>$44,450,380</td>
<td>13.54%</td>
<td>1.41%</td>
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<tr>
<td>2009 Forecast</td>
<td>$285,369,815</td>
<td>$49,086,955</td>
<td>17.20%</td>
<td>1.62%</td>
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<tr>
<td>2012 Forecast</td>
<td>$344,323,549</td>
<td>$53,723,531</td>
<td>15.60%</td>
<td>1.34%</td>
</tr>
</tbody>
</table>

Source: PKF Hospitality Research
2012, the total wages will comprise 15.60% of total revenue, compared to 13.54% in 2006 – the difference being only 2.06%.

The industry will likely find that the increase in wages and benefits is partially offset by higher worker retention rates, increased productivity, and decreased spending on training, recruitment and hiring. A June 2000 study for Cornell’s Hotel and Restaurant Administration Quarterly found that the cost of replacing one front desk associate ranged from $5,688 at a Miami hotel to as high as $12,882 at a New York hotel. Studies of Baltimore, Boston, Los Angeles, and San Francisco employers have shown that firms enjoy lower turnover and higher productivity among employees as a result of living wage ordinances.

This increase does come at a time when hotels are facing a severe economic downturn, and some workers are seeing their hours cut and others are experiencing layoffs. Reduction in hours will reduce the economic benefit to workers and to communities of the wage increases (and will also reduce the cost to the hotels). Yet, if patterns over the last two decades hold true these reductions in hours and layoffs may be disproportionate to their actual need: “Expense reductions have been so dramatic at both the property and corporate level that even a modest pick up in RevPAR [Revenue per Available Room, a key industry metric] growth should lead to outsized profit gains.”

The US hotel industry is a cyclical business that reacts to the health of the overall economy. It has seen a number of ups and downs since the early 1990s. However, the industry, as a whole, has remained profitable since 1991. Between 2004 to 2007, RevPAR increased by an average of 12.4% each year. RevPAR in 2008 only declined 1.6% from the record profits of 2007. Although the industry’s profits will decline over the next few years, by 2013, industry revenues are expected to rise to 2007 peak levels.

Better Pay, Working Conditions Improves the Life of a Hotel Worker and Her Children

Prior to the union agreement at the LAX Four Points Hotel, housekeeper Blanca Aldana struggled to pay her bills on time. She avoided restaurants and was pained when she had to tell her two children she could not afford to buy them new clothes.

The agreement, negotiated in May 2008, boosted her hourly wage from $9.40 an hour to $12.03 per hour, increasing her annual wages by over $5,000. She used to pay $70 per month for her individual health coverage, but now she pays $15.

She said that prior to the union contract, she would feel badly whenever her children asked her for new toys or clothes because she would have to say no. “Now, I can take my kids out to eat on the weekends,” said Aldana, who has worked at the hotel for the last 10 years.

Things are still not easy for Aldana who shares a one-bedroom apartment in the Hyde Park neighborhood of L.A. with a 10-year-old son, a 19-year-old son and a 21-year-old son, who moved in with his wife and child after he was recently laid off. But the union contract as made a real difference to her and her children.

Before the collective bargaining agreement, Aldana used to worry when she got sick or had to stay home to take care of her children, as she did not have much paid time off. Her 21-year-old son has kidney problems, and now she feels that she is able to stay home when he needs her to take care of him, since she has increased sick and personal days.

In addition, prior to the agreement, Aldana would clean 17 rooms a day, leaving her too drained to spend quality time with her family after work. Now, she cleans between 12 and 14 rooms a day, which she says is much more manageable and leaves her with more energy.
Conclusion

The ongoing shift away from good manufacturing jobs to an economy based on low-wage tourism employment represents a potential threat to the region’s economic health given the quality of many of the jobs in the industry. But it is critical to note that hospitality jobs do not need to be low-paying. Manufacturing jobs only became good jobs that offered pathways to the middle class after workers and community members advocated for improvements. A similar trend is underway on Century Boulevard due to the efforts of the Coalition for a New Century and far-sighted leadership from the Mayor and the Los Angeles City Council.

The significant benefits for workers and community members of improved hotel jobs demonstrate the success of a high-road sustainable tourism model. In the span of a few years, the Coalition—working with the Mayor and the Los Angeles City Council—has managed to transform one of the lowest paying hotel submarkets in the region into one that is on the path to providing quality, middle-class jobs. These wage and benefit increases represent more than a 10% increases for workers, but constitute less than 2 percent of hotels’ revenue. This is a model for economic development that can be replicated in Los Angeles and around the country.

The Living Wage Law provides a new wage floor that offers a moderate but important boost to workers’ earnings. The union contracts negotiated at four of the 12 hotels provide wage increases, family health insurance and pension benefits that will dramatically increase these workers’ economic security. The increased earnings and benefits—from the policy and from the union agreements—help communities as well, as workers spend their increased wages at local establishments and rely less on taxpayer-funded public assistance.

Of course, the achievements are not limited to the important wage increases and benefit improvements analyzed in this report. The Coalition has advocated for a job training program and infrastructure investment as part of a comprehensive approach to remaking the gateway to L.A. and making the region’s largest industry sustainable. Both elements are underway, and are important components in the effort to ensure that the region and its largest industry can thrive.

Taken together, these Coalition-backed initiatives to raise wages, provide public investment in infrastructure, and job training opportunities to local residents offer a new model for transforming the region’s low wage tourism sector in a way that benefits workers, communities, and employers alike.

Footnotes

1. Flaming, Daniel; Burns, Patrick & Haydamack, Brent. From the Pockets of Strangers: Economic Impacts of Tourism in Los Angeles and Five Competing Metropolitan Destinations. Economic Roundtable. 2006.
2. Flaming, Daniel. From the Pockets of Strangers.
4. The Travelodge LAX is excluded from this analysis, as it is located on public land and was already subject to a living wage requirement.
7. These estimates were approximated using the number of workers known to be covered by collective bargaining agreements at the Century Boulevard hotels. The number does not include workers in classifications not covered by union representation, such as administrative staff, valets, retail workers, managers, sales staff, some parking attendants and shuttle drivers. In fact, the Living Wage Ordinance could cover as many as a additional 500 workers.
8. This estimate is conservative in the sense that it may under value the benefits of workers’ health plans. After the collective bargaining agreement went into effect, there was a 36.5% increase in the number of employees opting for employer-provided health insurance. Over the course of a contract, health coverage becomes increasingly affordable. However, we did not assume any other increases in the number of employees covered, although it is quite likely that an increasing number of employees would opt for coverage over the duration of the contract.
12. Local community is defined as Los Angeles County.
In order to address the issues affecting the Century Corridor region, community leaders, clergy and hotel workers come together to form the Coalition for a New Century. Members of the Coalition include organizations such the Lennox Teachers’ Association, the Inglewood NAACP, and the Westside Democrats. The Los Angeles Alliance for a New Economy (LAANE) is a leading member of the Coalition.

Workers call for a boycott of the Hilton LAX to demand a fair process to organize a union in an environment free of harassment and intimidation.

Over 300 workers, students, clergy, community leaders and elected officials are arrested in an act of civil disobedience in support of immigrant rights and a living wage.

The L.A. City Council passes a trio of ordinances including a living wage law for hotel workers who work at 13 hotels on Century Boulevard near LAX. The ordinance is passed with a vote of 12-3 and signed by Los Angeles Mayor Antonio Villaraigosa.

Hotels spend nearly $1 million to collect signatures for a ballot referendum on the ordinance.

The City Council rescinds the original Century Corridor living wage ordinance in response to the hotels’ actions. A compromise is reached and announced at a press conference by the Mayor, Los Angeles County Federation of Labor, and the Los Angeles Area Chamber of Commerce.

A new ordinance with significant changes from the original is passed. The LAX Enhancement Zone Ordinance set wage standards for Century Boulevard hotel workers while addressing concerns raised by business leaders. Seven hotels file suit against the City to stop the passing of the law on procedural grounds.

Workers negotiate a collective bargaining agreement with the Sheraton Gateway.

The California Superior Court rules against the City’s decision, preventing the LAX Enhancement Zone Ordinance from going into effect. The City appeals this ruling to the California Court of Appeal.

The California Court of Appeals reverses the Superior Court’s ruling and upholds the LAX Enhancement Zone Ordinance as constitutional.

Century Boulevard hotel workers, along with supporters, participated in a week long hunger fast highlight their struggle for a living wage.

The Century Boulevard hotels appeal the decision to the California Supreme Court, further delaying implementation of the LAX Enhancement Zone Ordinance.

Workers negotiate a collective bargaining agreement with Westin LAX.

The California Supreme Court denies the hotels’ appeal of the living wage law, allowing the law to be published and go into effect in 30 days.

Community and clergy leaders send a letter to clients of LAX-area hotels warning of an impending boycott of hotels that persist in refusing to implement the living wage law upheld by the California Court of Appeal.

Workers negotiate a collective bargaining agreement with Four Points LAX.

Living Wage Ordinance goes into effect.

Workers negotiate a collective bargaining agreement with Radisson LAX.