CITY OF LONG BEACH

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**R-20**

**REVISED**

September 19, 2023

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Request the City Council to receive and file a report on a proposed Long Beach Minimum Wage for Hotel Workers, and direct City Manager on next steps; and,

Request City Attorney to prepare a ballot measure for consideration during the March 2024 municipal election amending the Long Beach Hotel Worker Wage Ordinance (LBMC Chapter 5.48) to authorize a market pay adjustment that ensures fair and competitive wages for hotel workers. (Citywide)

DISCUSSION

**Background**

On November 6, 2012, voters adopted Measure N, a ballot initiative requiring minimum compensation and sick days for hotel workers. Approval of the measure established the Long Beach Hotel Worker Wage Ordinance, Long Beach Municipal Code Chapter 5.48.020 (LBMC Chapter 5.48.020), increasing hotel workers minimum compensation to $13.00 per hour for hotels with 100 or more guest rooms. This rate is adjusted annually by the amount of increase in the federal minimum wage or by the Consumer Price Index (CPI), whichever is greater. The current minimum wage for Long Beach hotel workers is $17.55 per hour.

On July 11, 2023, the City Council requested the City Manager and Economic Development staff to conduct a labor market analysis on hotel workers wage rates across the Southern California region and trends where these salary rates are headed between now and 2028. Staff were directed to refer the report to the Economic Development and Opportunity Committee for public input and discussion. The City Council further requested the City Attorney to prepare a ballot measure for consideration during the March 2024 municipal election amending the Long Beach Hotel Worker Wage Ordinance (LBMC Chapter 5.48.020) to authorize a market pay adjustment that ensures fair and competitive wages for hospitality industry employees. Because the original Ordinance was established by ballot initiative and popular vote, amending the Ordinance would require the same process.

Economic Development staff reached out to consultants and academic institutions to assist in the development of the requested analysis, several of whom politely declined. Two of the contacted consultants expressed a possible interest, but due to the timeline to accommodate a March ballot, they cannot assist us at this time. However, staff have assembled as much relevant information available to help inform the City Council on this complex issue.

**Long Beach Hotel Industry**

There are approximately 27 Long Beach hotels in the vicinity of Downtown and the Long Beach Airport. Of these, 12 hotels have fewer than 100 guest rooms and are exempt from the current hotel worker minimum wage requirement. These 27 hotels are estimated to employ about 2,500 hotel workers, with approximately 2,000 of those workers in hotels with 100 or more guest rooms. The current minimum wage for Long Beach hotel workers is $17.55 per hour.

Hotels play a critical role in the broader hospitality industry which has an estimated $1.8 billion economic impact and supports almost 18,000 related jobs. In the City of Long Beach, Transient Occupancy Tax (TOT), including revenues generated from the additional one percent from Measure B, ended Fiscal Year 2022 (FY 22) at $23.0 million.

**Minimum Wage: Theory and Evidence**

On August 2, 2022, the City Council was presented with an economic analysis prepared by the Los Angeles County Economic Development Corporation (LAEDC) in consideration of the proposed Long Beach Minimum for Wage for Hotel Workers ballot measure. Some of the conceptual analysis prepared for that report is applicable to the broader discussion of minimum wage, and so staff have included the relevant section titled “The Minimum Wage: Theory and Evidence” as Attachment A.

A summation in the LAEDC report states, “While economic theory generally supports the idea that a minimum wage increase will result in a variety of unintended negative economic effects, the empirical evidence is more mixed. While empirical findings are not unanimous, particularly for the US, evidence suggests that minimum wages lead to a number of negative economic consequences in the long run for significant real inflation-adjusted minimum wage increases including a potential reduction in the number of jobs available to low-skill workers.” Broad potential benefits and risks are described below.

**General Benefits and Risks:**

Benefits:

- Increased labor income to low wage hotel workers in covered businesses.
- Potential increase in labor supply and retention for covered hotel workers.
- Potential short run increase in morale and productivity for covered hotel workers.
- Potential increase to TOT due to increases in average cost of stay for guests.

Risks:

- Short run employment losses, particularly for low wage workers.
- Potential long run business exits, employment losses and reduced future employment growth and business entry for covered occupations.

- Potential non-labor adjustments such as decreased business profits and quality/access reductions to pay for increased labor costs.
- Potential decrease to TOT due to reduction in guest visits from increased costs of stay that may lead to less visitor spending impacting the local economy.

**Status of Other Local Communities:**

While a full market analysis could not be conducted due to the timing and resources available, staff have provided a summary of recent local activity specific to hotel workers wages in the region. The communities of Los Angeles, Santa Monica, Anaheim, and Culver City all have pending activity related to minimum wage considerations for hotel workers:

Los Angeles:

On April 12, 2023, the Los Angeles City Council directed the Chief Legislative Analyst to prepare an economic analysis of a proposal to amend certain wage related ordinances in the City of Los Angeles, including the Hotel Workers Minimum Ordinance. Specific to hotel workers, the proposal would increase their minimum wage to $25 per hour this year and increase on an annual basis up to $30 per hour by 2028. The City of Los Angeles released a request for proposals the week of August 14, 2023 for the related economic analysis, with a response period of 45 days. They are still in the selection process. The minimum wage in Los Angeles for hotel workers is currently $18.86 per hour.

Santa Monica:

On July 18, 2023, Unite HERE Local 11 filed a ballot initiative that would require Santa Monica hotels to pay a minimum wage of $30 per hour, which would be the highest in the nation. Under the proposed measure, the minimum wage would increase annually based on the Consumer Price Index (CPI) for the Los Angeles area or by 5 percent, whichever is greater, through July 1, 2029, when it would be aligned with the CPI. Union hotels could be exempted if waived during collective bargaining discussions. Proponents of the initiative are currently in the process of obtaining signatures to qualify for public vote. The timing for that public vote has not yet been determined. The minimum wage in Santa Monica for hotel workers is currently $19.73 per hour.

Culver City:

On May 18, 2023, hotel workers with Unite HERE Local 11 filed an initiative for consideration to increase the hotel minimum wage to $25 and increasing the minimum wage to $30 by 2028. Proponents of the initiative are currently in the process of obtaining signatures to qualify for public vote. The timing for that public vote has not yet been determined. The current minimum wage in Culver City is $15.50.

Anaheim:

On May 16, 2023, the Anaheim City Council voted not to adopt a proposal that would increase the minimum wage for hotel workers to $25 per hour, including a minimum 3 percent cost of living adjustment. Anaheim commissioned a report on the potential impact on Anaheim's TOT (Attachment C). The report's Executive Summary concluded the proposed increase to hotel workers' minimum wage would have an adverse effect on the long-term financial health of Anaheim's hotel industry but may have a slightly positive impact on TOT revenue over the next two or three years. The report noted however, that in the long run, the proposed increase will lower the growth trajectory of TOT and turn the net effect negative.

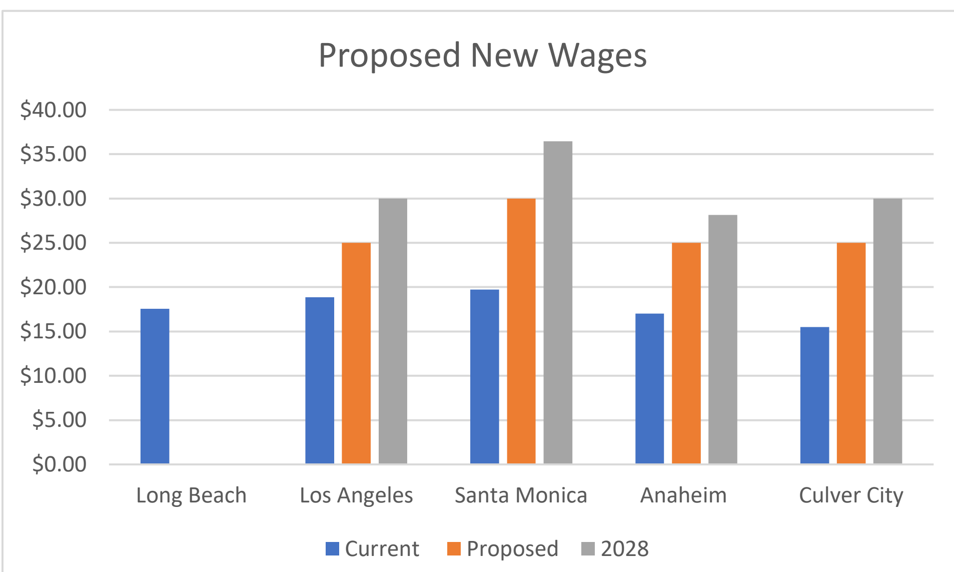
On June 13, 2023, the Anaheim City Council voted to send the proposal to special election. The minimum wage in Anaheim for hotel workers is currently approximately $17.00 per hour.

**Public Feedback**

This report was presented at the September 12, 2023 meeting of the Economic Development and Opportunity Committee providing the community with an opportunity for public input and discussion. A summary of this feedback is provided as Attachment B.

**Current and Potential Wage Comparison**

Based on the various proposed initiatives, new and future minimum wage levels would drastically increase in the communities considering such proposals. Currently, minimum wage for hotel workers in these communities, including Long Beach, range from $15.50 per hour to $19.37 per hour. Of the four peer communities, three are proposing an initial minimum wage increase to $25 per hour, while one is proposing a $30 per hour initial minimum wage. Through 2028, based on minimum proposed adjustments hotel workers' minimum wage in these communities, minimum wage would range from $28.14 per hour to $36.47 per hour.



**Potential Options:**

Based on the research and stakeholder feedback provided at the September 12, 2023 meeting of the Economic Development and Opportunity Committee meeting, we have developed some options for a proposed prevailing wage to help with Council's discussion of this matter.

| | **Initial** | **Annual** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** |
| Option A | 42.45% | µ 4.66% | $17.55 | $25.00 | $27.00 | $27.00 | $28.00 | $30.00 |
| | | | | | | | | |
| | | | | | | | | |
| Option B | 11.32% | 11.32% | $17.55 | $19.54 | $21.75 | $24.21 | $26.95 | $30.00 |
| | | | | | | | | |
| | | | | | | | | |
| Option C | 31.05% | µ 6.45% | $17.55 | $23.00 | $25.00 | $26.50 | $28.00 | $29.50 |

Option A is the stated position of Tourism Workers Rising of $25 dollars per hour in 2024, which represents an increase of approximately 42.45%, followed by specific annual increases to get to $30 by 2028. This is similar to the stated proposals currently under consideration in Los Angeles and Culver City.

Option B proposes a phased approach as suggested by hotel interests. The proposal still looks at a goal of $30 per hour by 2028, but does this through equally phased increases of over 11% over the next five years.

Options C represents a middle position with an initial 31.05% increase to $23 per hour in 2024, followed by prescribed increases of a $1.50 each year over the following four years averaging approximately 6.45% annually.

These options are meant to spur discussion. City Council may also consider amending other provisions of the ordinance that were referenced by community stakeholders, such as the following:

> *Service Charge Language:* Hotel worker stakeholders requested strengthening the Service Charge provision of the current ordinance. This provision requires that service charge revenue go directly to hotel workers and not to the hotel. Adding clarification or stronger definition of service charges was mentioned as a possible path to strengthening this provision.
>
> *Future Wage Adjustments:* Hotel Worker stakeholders have requested that the City Council amend the ordinance such that future amendments to the ordinance could be done under City Council authority. One approach to this that would address this request but also allow future predictability for the hotel industry is to allow the City Council to review wage rates once every five years.

In summary, the literature and practical application of minimum wage suggests mixed results, although there seems to be some consensus that in the long-term there may be negative impacts to the hotel industry and broader labor market. It should be noted, though, that none of the studies that were reviewed quantified the human level impacts of a stronger living wage, or its effects on families. Additionally, it should be noted that hotel prevailing wages are being considered and evaluated in different ways in our neighboring communities. While a formal labor market analysis could not be prepared within the time constraints, we hope the information provided can help inform the City Council's direction to the City Attorney's office on the scope and content of any proposed ordinance contemplated for a March 2024 ballot.

Staff will need direction on the particular wage level, any proposed escalators, and direction on any other proposed provision amendments in order to bring back a specific ordinance for consideration.

This matter was reviewed by Deputy City Attorney Atoy H. Wilson on September 5, 2023 and by Budget Management Officer Nader Kaamoush on September 1, 2023.

## TIMING CONSIDERATIONS

City Council action is requested on September 12, 2023 to accommodate the timing necessary for the March 2024 municipal election. October 24, 2023 is the last day for the City Council to add a measure to the March ballot. Some other significant dates and deadlines include:

- July 11, 2023: City Council direction to study Hotel Workers Minimum Wage
- September 12, 2023: Report to the Economic Development and Opportunity Committee
- September 19, 2023: Report to City Council, City Council refers recommendation to Clerk and City Attorney
- October 16, 2023: Last day to submit City Council letter, Ordinance, and Resolution for ballot initiative to City Clerk
- October 24, 2023: City Council adopts Resolution calling for the March 5, 2024 Election
- October 24, 2023: Mayor announces argument writers for ballot items
- November 11, 2023: City Council approves Mayor's list of argument writers
- December 8, 2023: Last day to submit City Council Resolution to Los Angeles County Registrar-Recorder/County Clerk (LARRCC)
- January 25, 2024: Beginning of Sample Ballot Mailing
- February 5, 2024: Beginning of Vote by Mail ballots
- March 5, 2024: Election Day

FISCAL IMPACT

The upcoming March 2024 election was initially planned for even districts only. The addition of the Healthcare Minimum Wage ballot initiative considered in November of 2022 triggers a citywide election and increases the estimated election costs from $551,000 to $1,901,000 which is currently budgeted. A second citywide ballot initiative, such as this one, increases the estimated election cost by $150,000 for a total estimated cost of $2,051,000. Election costs are incurred in the General Fund Group in the City Clerk's Office. The Fiscal Year 2024 Budget includes one-time appropriations of $1,922,000 to support the 2024 election cost. If additional appropriation is needed, staff will return to City Council with the amount and potential offsets later.

The exact impacts to TOT are currently unknown but is expected to potentially increase TOT in the short term due to increases in average cost of stay for guests. The long-term effects can potentially decrease TOT due to reduction in guest visits from increased costs of stay. Depending on the details of a final City Council recommendation there may be some staffing impact beyond the normal budgeted scope of duties, but there are currently staff assigned to enforcement of the exiting hotel minimum wage. Significant local job impacts, consistent with the benefits and risks noted in this report, will likely result from this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

BO MARTINEZ
DIRECTOR
ECONOMIC DEVELOPMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER

Attachment: A – Excerpt from LAEDC Report
B – Feedback from Economic Development and Opportunity Committee
C – City of Anaheim Report on TOT and Hotel Worker Minimum Wage

ATTACHMENT A

Excerpt From:

# A PROPOSED MINIMUM WAGE FOR PRIVATE HEALTHCARE FACILITIES

## *In the City of Long Beach*

## An Economic Study

INSTITUTE FOR APPLIED ECONOMICS

444 S. Flower Street, 37th Floor

Los Angeles, CA 90071

Shannon M. Sedgwick
Alexander Specht
Max Dunsker

August 2022

This report was commissioned by City of Long Beach.

The LAEDC Institute for Applied Economics specializes in objective and unbiased economic and policy research in order to foster informed decision-making and guide strategic planning. In addition to commissioned research and analysis, the Institute conducts foundational research to ensure LAEDC's many programs for economic development are on target. The Institute focuses on economic impact studies, regional industry and cluster analysis and issue studies, particularly in workforce development and labor market analysis.

# 3. THE MINIMUM WAGE: THEORY AND EVIDENCE

Proponents of the minimum wage have justified increases on moral, social, and economic grounds.[8] Overall, the main objective of such increases is to raise incomes and improve living standards of low-wage workers while reducing inequality. Minimum wage opponents claim that minimum wages can be counterproductive and decrease rather than improve the welfare of many low-income workers, while also leading to economic and social inefficiencies. In this section economic theory and empirical evidence both supporting and opposing minimum wage implementation and increases will be reviewed.

## Economic Theory Supporting Minimum Wage Increases

**Point of View:** Minimum wage increases have theoretically been shown to result in little to no economic disruption while also leading to a number of potential economic benefits.

This section will provide a brief overview which is split in two sections, theory pertaining to businesses and theory pertaining to workers.

### Businesses

Employment reductions due to increased labor costs are frequently cited by critics of minimum wage increases, however, proponents state that labor markets do not operate in the same way as markets for products and other services.[9] Instead, they argue that, unlike other markets where price increases do not usually change the quality of the product, increased wages above the market equilibrium may lead to better quality labor due to factors such as improved morale and decreased turnover in labor markets. This increase in labor quality can serve to offset the possible negative effect that an increase in wages may have on employment as employers would not feel as strong a need to reduce the number of workers or hours worked.[10] Furthermore, employment decreases can be avoided if businesses pass on higher labor costs to their customers by increasing prices for goods and services, decrease wages for higher income workers to keep labor costs constant, or reduce profits to maintain the current price level.[11]

In models analyzing the minimum wage in terms of efficient worker search and job matching, the minimum wage has multiple, opposing effects on job creation and can lead to more jobs.[12] Although in these models the minimum wage serves to decrease demand for labor by raising the cost of hiring a new worker, the higher minimum wage also makes employment attractive relative to unemployment for prospective workers, thus leading to increased job search effort by unemployed workers. By augmenting the pool of workers looking for a job as well as the intensity of their job search, the minimum wage increases the quality of matches between employers and employees. If prospective employees' additional search effort significantly improves the employee-employer match quality, employment may not be

[8] Sodsriwiboon, P., and Srour, G. March 2019. "Does a Minimum Wage Help Workers?" International Monetary Fund. https://www.imf.org/Publications/fandd/issues/2019/03/does-a-minimum-wage-help-workers-basics
[9] Card, D., & Krueger, A. B. 1993. "Minimum Wages and Employment: A Case Study of The Fast Food Industry in New Jersey and Pennsylvania." NBER. https://www.nber.org/papers/w4509
[10] Leigh, J.P. and Du, J. October 4, 2018. "Effects Of Minimum Wages on Population Health." Health Affairs. https://www.healthaffairs.org/do/10.1377/hpb20180622.107025/full/
[11] Leigh, J. P. 2019. "Arguments For and Against The $15 Minimum Wage For Health Care Workers." American journal of public health, 109(2), 206-207.
[12] Cahuc, P. and Zylberberg, A. 2004. *Labor Economics*. Cambridge: The MIT Press.

negatively affected and may even increase due to a minimum wage increase. This increased match quality due to the higher minimum wage could lead to less job turnover among healthcare workers, especially among the lesser paid Patient Care Technicians and Certified Nursing Assistants who leave their positions at higher rates than any other occupations in hospital settings. This turnover is costly for businesses and likely impacts the quality of care being provided. As a result, covered healthcare facilities and patients stand to benefit from reduced turnover.

### Workers

Supporters of minimum wage increases often argue that they increase the wages of employees with the least bargaining power, those who would be getting paid more if markets were fully competitive.[13] In a market characterized by significant employer market power, a minimum wage increase above the equilibrium could theoretically increase employment and raise wages.

Importantly, the current proposed minimum wage increase was in part brought about because proponents argue that the healthcare industry is not experiencing full employment. Proponents argue that this is due to the fact that there is not a sufficient supply in the labor market of the positions that are short-staffed. These positions are likely those receiving the lowest wages, which affects the quantity supplied of workers to fill them. Increasing wages is a straightforward way to stimulate supply among workers for these positions, thereby addressing the understaffing crisis.

Finally, the minimum wage may serve as a tool to decrease inequality by closing wage gaps in the healthcare industry. With lower wage jobs being highly represented by minority workers, this could potentially reduce racial wage gaps in the private healthcare sector.

## Economic Theory Opposing Minimum Wage Increases

**Point of View:** A minimum wage increase has also theoretically been found to result in a number of negative economic consequences.

This section will provide a brief overview of those consequences, organized in two subsections.

### Businesses

Adjustments in response to the increase in the minimum wage may include price increases for consumers or cost saving adjustments by businesses, such as substituting lower-skilled workers with higher-skilled employees, eliminating jobs or reducing hours, and increasing automation over the long-run. Potential reductions in employment resulting from the increase in the minimum wage may not take place automatically and may take months or even years to materialize, as employers substitute labor-saving equipment and make other adjustments in response to the increased minimum wage. Some businesses may adjust to the new minimum wage by leaving a jurisdiction altogether.

Full worker compensation contains monetary and nonmonetary forms of compensation. Some employers may adjust non-monetary forms of compensation to help offset the increase in the minimum wage. These offsetting actions may include a reduction in health care benefits, reduced childcare benefits, reduced vacation time, and elimination of workplace features attractive to employees. An increase in the minimum wage may do little to decrease employment but could instead reduce fringe benefits that workers value

[13] Bernstein, J., and Schmitt, J. June 2000. “The Impact of the Minimum Wage.” Economic Policy Institute. https://www.epi.org/publication/briefingpapers_min_wage_bp/

more highly than the increase in wages.[14] As a result, a minimum wage increase may make workers who receive higher wages worse off. Adjustments in terms of nonmonetary forms of compensation are prohibited by the ordinance after the minimum wage increase goes into effect. While this prohibition will serve to mitigate long-term employer reactions made in terms of nonmonetary compensation, short run adjustments may take place before the minimum wage goes into effect. In addition, some types of nonmonetary compensation valued by employees are not easily measured and may be reduced as a result of imperfect measurement and enforcement.

An increase in the minimum wage may exert negative effects on businesses as increased labor costs decrease profits, with this phenomenon particularly impacting small businesses and businesses that are just staying afloat. In response to minimum wage increases, some businesses may react by eliminating jobs, replacing employees with labor-saving technology, or leaving the city altogether. Minimum wage increases are particularly impactful for businesses in industries that rely on low-skilled workers with little education, such as restaurants, bars, retail stores, fitness centers, sports stadiums, and concert venues. As an essential part of the economy, anything that negatively impacts small businesses has the potential to reduce a jurisdiction’s economic performance.

### Workers

Economists have long discussed the potential negative employment effects of minimum wages on low-skilled workers – the very group that minimum wage laws intend to help. All else equal, just as with any other good or service, when wages are raised less labor will be demanded by employers. While some employees may benefit from the higher minimum wage others may see a reduction in work hours or may lose their jobs altogether. Those workers whose production is valued most below the minimum wage may be most negatively affected by minimum wage laws, with many of these individuals not having graduated high school and coming from low-income backgrounds.

Minimum wage laws prohibit affected businesses from paying less than a given wage. If that given wage is higher than the market wage, it stimulates the supply of labor, attracting workers. Meanwhile, all else equal, the increased wage would cause employers to demand less labor. When the labor market finds its new equilibrium with the minimum wage, some low-skilled workers may be priced out by the entry of new higher skill workers, reduction in demand from employers, or introduction of labor-saving capital machinery.

Another potential negative consequence of a higher minimum wage is reduced on-the-job training and experience for some low-skilled workers. Low-skilled workers who are priced out of the labor market may be prevented from acquiring on-the-job training and experience that will allow them to become more productive and earn higher wages. All else equal, this will reduce the number of workers with the level of training and job skills that would have been available otherwise, making it more difficult for businesses to fill certain higher-skilled positions.

## Concluding Thoughts: Economic Theory and Minimum Wage Increases

Economic theory generally supports the conclusion that minimum wage increases are associated with a variety of negative economic impacts. These negative results are more likely to take place under certain

[14] Lee, D. R. 2004. “The Minimum Wage Can Harm Workers by Reducing Unemployment.” Journal of Labor Research, 25(4), 657-666.

conditions: holding other factors constant, the larger the increase in the minimum wage over the competitive market wage, the greater the potential negative economic impact. Furthermore, all else equal, the longer the minimum wage is in place, the more firms and employees will make adjustments in response. As a result, the theoretical long run negative impacts of a significant real inflation-adjusted minimum wage increase would be greater than short run impacts.

Competitive markets with little to no employer market power will be more likely to exhibit negative effects as a result of a significant increase in a minimum wage. In a theoretical labor market where an employer holds significant labor market power, worker mobility is limited, meaning that individual employers have significant discretion when it comes to setting wages. In this theoretical case, the effect of increasing the minimum wage is unclear. In most markets, employers must compete for labor which strips them of market power. Furthermore, the market power case is generally not applicable to labor markets for unskilled labor that are subject to a minimum wage.[15]

There are other scenarios where the minimum wage will result in little to no negative economic effects. Short run impacts will likely be muted as economic actors figure out how to best adjust to the changing economic environment. Furthermore, small increases in the minimum wage will be limited in their ability to negatively impact labor and product markets as well as business profitability and survival prospects. Moreover, if employers in an industry want to hire approximately the same number of workers despite an increase in wages, meaning that their demand for labor is not very responsive to changes in the price of labor, a minimum wage increase may not significantly reduce employment. This situation is more likely to hold in the short term than in the long term and more likely to characterize certain industries, including healthcare. Another long-term effect is dependent upon whether the minimum wage has an inflation-adjustment mechanism. The presence of such an effect makes it so that the minimum wage is not eroded by inflation over time, resulting in a permanent increase in real wages that is more significant.

Industries heavily reliant on labor subject to the minimum wage may experience a loss in establishments and employment with potential negative impacts on state and local tax revenues. This is particularly true for small businesses and those on the margin of survival, who may relocate to avoid the minimum wage or close down altogether. **Overall, the degree of a minimum wage increase matters more than the mere fact that a minimum wage increase will take place.** This conclusion is supported by a number of professional economists. A 2021 Chicago Booth Initiative on Global Markets Poll asked a panel of expert economists whether they agreed with the statement that “an increase in the federal minimum wage of $15 per hour would lower employment for low-wage workers in many states.” The current federal minimum wage is $7.25 per hour. Only 14 percent of respondents disagreed with the statement with 45 percent agreeing.[16] A quote provided by an economic expert that responded to the poll indicates that the degree of increase is an important determinant of the minimum wage increase’s potential effect:

> “Research has shown modest min. wage increases do not increase unemployment. But going from $6 to $15 in the current situation is not modest.”
>
> -Pinelopi Goldberg, Yale University

[15] Staiger, D., Spetz, J.E. and Phibbs, C.S. July 1999. “Is There Monopsony in the Labor Market? Evidence from a Natural Experiment.” NBER Working Paper No. w7258. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=202434

[16] IGM Economic Experts Panel. February 2, 2021. “The U.S. Minimum Wage.” https://www.igmchicago.org/surveys/the-us-minimum-wage/

A small minimum wage increase will likely result in only slight or even zero negative employment outcomes. A theoretical explanation for the slight negative employment effects resulting from moderate minimum wage increases is that at modest levels, minimum wage increases make up only a small share of an employer's total costs.[17] As a result, businesses can absorb the increase in a variety of ways that do not significantly distort employment outcomes.

However, minimum wage increases that are too high may result in significant employment losses, increasing income inequality as low-income workers lose jobs.[18] Low-skilled workers subject to the minimum wage may suffer job losses, benefit reductions, and cuts in hours worked. Additionally, one invisible potential impact of a minimum wage increase is reduced hiring of low-skilled workers compared to what otherwise would have happened without the minimum wage increase.[19] These **jobs that were never created should be considered a cost of a minimum wage increase although they are never seen**.

**Workers who keep their jobs, do not see their hours worked significantly impacted, do not experience an offsetting decrease in other nonmonetary forms of compensation, and whose employer does not relocate or close will benefit from the minimum wage increase.** Additionally, new workers attracted to the field would reap these benefits, so long as they are able to get a job. With this increase in income, there may be additional benefits such as improved worker health outcomes and increased spending within the economy.[20] Some argue that a growing and prosperous healthcare sector and economy can absorb a minimum wage increase with few disruptions.[21] Disemployment effects would likely be less for industries like healthcare where consumers do not alter demand significantly as a result of changes in prices.[22]

Discussions surrounding the minimum wage often center on the impact on workers, in particular jobs and income figures. **The overall effect of the minimum wage on workers depends on a combination of the policy's effect on employment numbers, hours worked, and labor income.**[23]

Theoretically, when it comes to employment numbers and labor income, a minimum wage could result in three outcomes.

1. Total employment and total labor income decrease. In this situation, a minimum wage increase results in large enough disemployment of affected workers that the higher wages to workers that kept their jobs is less than the employment losses resulting from layoffs, business relocation, and reduced hours.
2. Total employment and total labor income increase. In this case, other changes beyond a mandated increase to the minimum wage may have taken place in the economy. A thorough

[17] Sodsriwiboon, P., and Srour, G. March 2019. "Does a Minimum Wage Help Workers?" International Monetary Fund. https://www.imf.org/Publications/fandd/issues/2019/03/does-a-minimum-wage-help-workers-basics

[18] Sodsriwiboon, P., and Srour, G. March 2019. "Does a Minimum Wage Help Workers?" International Monetary Fund. https://www.imf.org/Publications/fandd/issues/2019/03/does-a-minimum-wage-help-workers-basics

[19] Boudreaux, D. December 9, 2014. "The Detectable and the Undetectable." Café Hayek. https://cafehayek.com/2014/12/the-detectable-and-the-undetectable.html

[20] Leigh JP, Du J. October 4, 2018. "Health Policy Brief: Effects of Minimum Wages On Population Health." Health Affairs. Available at: https://www.healthaffairs.org/do/10.1377/hpb20180622.107025/full.

[21] Himmelstein, K. E., & Venkataramani, A. S. 2019. "Economic Vulnerability Among US Female Health Care Workers: Potential Impact of A $15-Per-Hour Minimum Wage." American Journal of Public Health, 109(2), 198-205.

[22] Leigh, J. P. 2019. "Arguments For and Against The $15 Minimum Wage for Health Care Workers." American Journal of Public Health, 109(2), 206-207.

[23] Leigh, J.P. and Du, J. October 4, 2018. "Effects Of Minimum Wages on Population Health." Health Affairs. https://www.healthaffairs.org/do/10.1377/hpb20180622.107025/full/

empirical study would control for other factors in order to isolate the effect of the minimum wage on employment. Total employment and total labor income may both increase due to a rise in the minimum wage in a labor market situation where an employer has significant market power.

3. Total employment decreases and total labor income increases. This is a scenario with a clear tradeoff. Workers subject to the minimum wage who have kept their jobs and have not had hours cut will experience an increase in income and standards of living. On the other hand, some workers have lost jobs or have had hours cut as a result of the minimum wage. In this scenario, there are both winners and losers in the labor market from the minimum wage increase.

**Which of these three scenarios will hold depends on a variety of factors which include market conditions, responses to the minimum wage increase by economic actors, and the specific details of the minimum wage and relevant sector.** A review of the empirical evidence looking at real-world implications of minimum wage increases will be conducted in the next section.

It is also essential to understand how minimum wage increases impact consumers, especially in a field like healthcare. Consumers may end up paying higher prices or receiving lower quality for a number of goods and services. Healthcare prices for patients, governments, and insurance companies may rise as a result of the minimum wage increase in the private healthcare sector, though the response would not be immediate due to the market mechanisms within healthcare. Also, if covered healthcare facilities demand less labor, so that the minimum wage increase does not in turn increase their labor costs, it would exacerbate staffing issues and may result in a decrease in the quality of care. These impacts could also potentially reduce access to healthcare for patients, specifically lower-income patients.

However, the wage increase could theoretically be financed with decreases in wages for higher income workers or profits of healthcare businesses so that prices would not increase.[24] Additionally, if staffing levels stay the same, then the quality of care for patients may improve, as the additional worker income bolsters the quality of labor. Furthermore, acknowledging the reported understaffing in some covered healthcare facilities, if the minimum wage was able to attract workers and the covered healthcare facility could weather the increased labor costs, then the increased number of workers should have a positive effect on quality of care.

## Empirical Evidence Supporting Minimum Wage Increases

Empirical evidence is mixed regarding the effect of minimum wage increases. However, this does not appear to impact the opinion of the general public, with polls showing that a majority of Americans support increases in minimum wages. In 2014, the Pew Research Center reported that 73 percent of polled Americans support increasing the federal minimum wage from $7.25 to $10.10.[25]

### Businesses

Proponents of increasing the minimum wage state that it would serve to increase worker productivity and decrease worker turnover.[26] Studies have found a potential positive impact on increasing the minimum

[24] Leigh, J. P. 2019. "Arguments for and Against the $15 Minimum Wage for Health Care Workers." American Journal of Public Health, 109(2), 206-207.
[25] Drake, B. March 4, 2014. "Polls Show Strong Support for Minimum Wage Hike." Pew Research Center. https://www.pewresearch.org/fact-tank/2014/03/04/polls-show-strong-support-for-minimum-wage-hike/
[26] Janet L. Yellen, "Efficiency Wage Models of Unemployment," Information and Macroeconomics, May 1984

wage on worker productivity due to improved morale and work ethic. In addition, increasing the minimum wage may reduce employee turnover, leading to reduced recruiting and training costs. Employee turnover can have a significant negative impact on the bottom line of a business. **One study estimates that the cost to employers of replacing a low-wage employee equals approximately 16 percent of the worker's yearly salary.** Research has found that higher minimum wages are associated with lower absenteeism rates thus increasing productivity. One study found "evidence that… turnover rates for teens and restaurant workers fall substantially following a minimum wage increase," declining by approximately 2 percent for a 10 percent rise in the minimum wage.[27]

## Workers

Multiple academic studies find that modest minimum wage increases do not result in significant employment losses.[28] Studies suggest that in these cases, wages can grow and racial earnings gaps may close as a result of the minimum wage without significantly reducing opportunities for low-income workers.[29] One study finds that the overall number of low-wage jobs was relatively unchanged five years following a minimum wage increase.[30] This result held for the restaurant and retail sectors which employ high numbers of minimum wage workers. Furthermore, the study finds that the absence of employment loss was not explained by the substitution of higher skilled labor. However, the study did find evidence of job loss in sectors of the economy where goods and services are traded internationally, including manufacturing. This is largely due to the fact that consumers have more options to purchase competing internationally traded goods and services, however this is not the case in healthcare.[31]

A famous empirical study by David Card and Alan Krueger found that a 1992 increase in New Jersey's minimum wage may have been associated with an increase in fast-food industry employment.[32] The study surveyed 410 fast food restaurants just before New Jersey increased its minimum wage as well as 10 months after the increase while neighboring Pennsylvania did not increase its minimum wage. No statistically significant change in employment was found for New Jersey franchises. However, Pennsylvania franchise employment fell during this period. Thus, employment in the New Jersey franchises increased relative to employment in Pennsylvania fast food franchises. These results were interpreted by many as showing that an increase in the minimum wage does not necessarily negatively impact employment, which may actually increase.

Minimum wages are designed to target poverty. **One study found that assuming a 9.4 percent decrease in total workhours as a result of a $15 national healthcare minimum wage, poverty rates for healthcare workers would be reduced by 27 percent.**[33] A higher minimum wage may also serve to reduce government welfare spending: a study by the Center for American Progress found that raising the federal

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27 Arindrajit Dube, T. William Lester, and Michael Reich. Oct. 2014. "Minimum Wage Shocks, Employment Flows and Labor Market Frictions," irle.berkeley.edu.

28 Paul J. Wolfson and Dale Belman. 2016. "15 Years of Research on U.S. Employment and the Minimum Wage," Tuck School of Business Working Paper no. 2705499.

29 Ellora Derenoncourt and Claire Montialoux. February 2021. "Minimum Wages and Racial Inequality," Quarterly Journal of Economics 136, no. 1.

30 Cengiz, D., Dube, A., Lindner, A., & Zipperer, B. 2019. "The Effect of Minimum Wages On Low-Wage Jobs." The Quarterly Journal of Economics, 134(3), 1405-1454.

31 Harasztosi, P., & Lindner, A. 2019. "Who Pays for the Minimum Wage?" American Economic Review, 109(8), 2693-2727.

32 Card, D., & Krueger, A. B. 1993. "Minimum Wages and Employment: A Case Study of The Fast Food Industry in New Jersey and Pennsylvania." NBER. https://www.nber.org/papers/w4509

33 Himmelstein, K. E., & Venkataramani, A. S. 2019. "Economic Vulnerability Among US Female Health Care Workers: Potential Impact of A $15-Per-Hour Minimum Wage." American Journal of Public Health, 109(2), 198-205.

minimum wage by 6 percent would decrease spending on the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) by 6 percent, which translated to $4.6 billion.[34] In addition, the Economic Policy Institute found that increasing the minimum wage could result in millions of Americans no longer being dependent on government assistance programs and could save billions in government spending on income-support programs.[35]

Research has found that increasing the minimum wage could reduce crime. One study finds that "higher wages for low-income individuals reduce crime by providing viable and sustainable employment… raising the minimum wage to $12 by 2020 would result in a 3 to 5 percent crime decrease (250,000 to 540,000 crimes) and a societal benefit of $8 to $17 billion dollars."[36]

Supporters of a higher minimum wage often cite health benefits to low-income workers that would result. One study found that increasing California's minimum wage could lead workers earning a higher wage to eat better, exercise more, be less likely to smoke, and experience fewer emotional and psychological problems.[37] Higher incomes from minimum wage increases may also serve to improve infant health, decrease child abuse, and reduce teenage pregnancy.[38]

Additionally, increasing the minimum wage could serve to increase the incomes of workers who make slightly above the minimum wage, also improving their morale and livelihood. A Brookings Institution study found that an increase in the federal minimum wage could result in higher wages not only for workers earning the minimum wage, but also for millions of workers making up to 150 percent of the federal minimum wage.[39]

## Empirical Evidence Opposing Minimum Wage Increases

While most of the general public believes that minimum wage laws serve to benefit low wage workers, many economists believe that minimum wage mandates may actually harm the very people they are supposed to help, in addition to harming businesses. **When surveyed on the minimum wage, professional economists differ significantly from the general public.** A survey of members of the American Economic Association (AEA) in 1992 found that 79 percent of respondents believed that a minimum wage serves to increase unemployment among young and low-skilled workers – the very population that the minimum wage seeks to help; however, a follow-up survey of AEA economists in 2000 showed that only 46 percent did at that point.[40] A 2019 poll of professional economists found that 74 percent opposed raising the federal minimum wage to $15 per hour, with 84 percent of respondents stating that it would have a negative impact on low skilled youth employment levels. In addition, only six percent of the surveyed

[34] Rachel West and Michael Reich. March 2014. "The Effects of Minimum Wages on SNAP Enrollments and Expenditures," Center for American Progress.

[35] David Cooper. October 16, 2014. "Raising the Federal Minimum Wage to $10.10 Would Save Safety Net Programs Billions and Help Ensure Businesses Are Doing Their Fair Share," Economic Policy Institute.

[36] Jose Fernandez, Thomas Holman, and John V. Pepper. July 5, 2013. "The Impact of Living Wage Ordinances on Urban Crime," people.virginia.edu.

[37] Rajiv Bhatia. May 2014. "Health Impacts of Raising California's Minimum Wage," Human Impact Partners.

[38] George L. Wehby, Dhaval M. Dave, and Robert Kaestner. 2020. "Effects of the Minimum Wage on Infant Health," Journal of Policy Analysis and Management 39, no. 2 (Spring 2020); Kerri M. Raissian and Lindsey Rose Bullinger, "Money Matters: Does the Minimum Wage Affect Child Maltreatment Rates?"

[39] Melissa S. Kearney and Benjamin H. Harris. Jan. 10, 2014 "The 'Ripple Effect' of a Minimum Wage Increase on American Workers," The Hamilton Project.

[40] The Economist. February 8, 2021. "What Harm Do Minimum Wages Do?" https://www.economist.com/schools-brief/2020/08/15/what-harm-do-minimum-wages-do

economists believe that the minimum wage increase is an efficient way to help individuals out of poverty.[41]

### Businesses

All else equal, when the price of labor changes, employers change the quantity of labor that they demand. When analyzing the employment impact of an increase in the minimum wage the question is by how much will employers alter their demand for labor. A major meta-analysis on labor demand responses as a result of wage changes provides a number of findings:

1. The change in quantity of labor demanded by employers as a result of a wage change is greater in the long run than in the short run. This is due to the increased time economic actors have to adjust to the new labor market situation.

2. The change in quantity demand for low-skilled labor is more responsive to wage changes than for higher skilled labor.

3. A conservative long run estimate of labor demand response resulting from a change in a market wage finds that raising wages by 4 percent permanently will decrease employment by 1 percent. This response underestimates the employment loss response specific to low skilled labor lending a conservative bias to the estimate. On the other hand, this response would be lower for an industry where consumer demand does not significantly response to the price of goods or services offered such as the healthcare industry.

**Minimum wage increases have been found to encourage business exit from a jurisdiction, especially the exit of financially weaker businesses**. A study of the impact of an increase in the minimum wage on firm exit in the restaurant industry finds that the impact depends on whether a restaurant was already close to the margin of exit.[42] In general, restaurants closer to the margin of exit were at significant risk of being driven out of business by increases in the minimum wage. In addition, these restaurants generally increased prices in response to increases in the minimum wage.

**Research has found that minimum wage increases may serve to deter new businesses from locating to an area**, particularly deterring businesses in industries that rely on workers with low levels of education.[43] This may occur because an increase in the minimum wage serves to reduce business profitability, therefore reducing the incentive to enter the industry.

### Workers

**An extensive review of over 100 studies analyzing the employment effects of minimum wages found that almost two-thirds of the studies estimated that the minimum wage had negative effects on employment, with only eight finding positive employment effects**.[44] Of the 33 empirical studies judged

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[41] Corder, L. March 2019. “Survey of US Economists on a $15 Federal Minimum Wage.” Employment Policies Institute. https://epionline.org/studies/survey-of-us-economists-on-a-15-federal-minimum-wage-2/

[42] Luca, D. L., & Luca, M. 2019. “Survival of the Fittest: The Impact of the Minimum Wage on Firm Exit.” (No. w25806). National Bureau of Economic Research.

[43] Rohlin, S. M. 2011. “State Minimum Wages and Business Location: Evidence From a Refined Border Approach.” Journal of Urban Economics, 69(1), 103-117.

[44] Neumark, D., Wascher, W. 2007. "Minimum wages and employment" Foundations and Trends in Microeconomics 3:1−2 (2007): 1−186.

most credible, 28 (85 percent), found negative employment effects. **Of the reviewed studies, those focusing on low-skilled workers found the strongest evidence of negative employment effects.**

Research has found that, across the 21 states and Washington, D.C. that increased their minimum wages in 2019, 64 percent of restaurants reduced employee hours and 43 percent eliminated jobs.[45] Research has also found that job losses for black teenagers and the handicapped as a result of a minimum wage are even larger than for most workers.[46]

Opponents of the minimum wage cite the policy's potential negative impact on job training and experience. One study found that a 10 percent increase in minimum wages decreased on-the-job training for young workers by 1.5 to 1.8 percent.[47] Since on-the-job training allows low-skilled workers improve their skills and become more productive, this finding suggests that minimum wage laws also serve to reduce future opportunities for unskilled workers.

In 2019, the Congressional Budget Office (CBO) analyzed how increasing the federal minimum wage from $7.25 per hour to $10, $12, or $15 per hour by 2025 would affect economy-wide employment.[48] As would be expected, the CBO found that employment responses due to increases in the minimum wage varied by the amount of the increase. For the $15 option the estimated response indicated that the 107 percent increase would result in a decrease in employment of around 28 percent. For the $12 option, the 65 percent increase in the minimum wage would result in an employment decrease of 15 percent. This $12 option is similar to the proposed healthcare minimum wage increase in terms of percentage increase in the minimum wage (67 percent). Finally, for the $10 option, the 38 percent increase in the minimum wage would result in an employment decrease of around 8 percent.

**Some researchers argue that the effect of the minimum wage is more pronounced in terms of new employment growth compared to employment levels.**[49] The minimum wage has been found to decrease net job growth, mostly through the effect on job creation by expanding businesses. In addition, these negative effects are greater in industries with a higher proportion of low-wage workers. The negative effects of the minimum wage may therefore be delayed instead of immediate.

Another study, confirms the longer-term effects of the minimum wage, finding that during the late 2000s, the average minimum wage increased by 30 percent and reduced the national employment-population ratio by 0.7 percentage points.[50] This effect was significantly pronounced for low-income workers. In addition, artificial wage increases have been found to reduce the incomes of many low-skilled workers under what they would have been over time since reduced job creation results in fewer opportunities to gain experience and increase productivity and income.

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[45] Shenker, N. 2020. "How Restaurants are Dealing with Minimum Wage Increases," On the Line. https://pos.toasttab.com/blog/on-the-line/how-restaurants-deal-with-minimum-wage-increases

[46] Gorman, L. "Minimum Wages." The Library of Economics and Liberty. https://www.econlib.org/library/Enc/MinimumWages.html

[47] David Neumark and William Wascher. 1998. "Minimum Wages and Training Revisited," NBER Working Paper no. 6651, National Bureau of Economic Research, Cambridge, Mass.

[48] Congressional Budget Office. 2019. *The Effects on Employment and Family Income of Increasing the Federal Minimum Wage*. https://www.cbo.gov/system/files?file=2019-07/CBO-55410-MinimumWage2019.pdf

[49] Meer, J., & West, J. 2016. "Effects of the Minimum Wage on Employment Dynamics." Journal of Human Resources, 51(2), 500-522.

[50] Clemens, J., & Wither, M. 2014. "The Minimum Wage and the Great Recession: Evidence of Effects on the Employment and Income Trajectories of Low-Skilled Workers." NBER Working Paper 19262.

While much of the theoretical and empirical minimum wage research focuses on employment effects, there is also evidence that minimum wage increases may lead to increases in prices to consumers.[51]

## Concluding Thoughts: Empirical Evidence and Minimum Wage Increases

Overall, most economists believe that higher minimum wages have the potential to increase unemployment among low-skilled workers.[52] While some studies find no significant negative effects on employment,[53] others find that minimum wage increases reduce employment,[54] particularly the employment of low-skilled workers.

There are many empirical studies that find that increases in the minimum wage may have significant negative effects on employment. For example, a study of restaurant industry employment by Chicago Federal Reserve Bank economists Daniel Aaronson and Eric French found that a 10 percent increase in the minimum wage would reduce unskilled restaurant workers employment by 2 to 4 percent.[55]

However, a number of empirical studies suggests that there are only small negative employment effects due to minimum wage increases. **The empirical minimum wage literature that finds little to no negative employment effects has often focused on estimating short-run employment responses to minimum wage increases.**[56] The most famous of these studies, the Card and Krueger study, studied a 9-month window while other studies focus on responses during a quarter. These short-run employment responses only capture employment response that result in a change in output with little or no capture of the substitution of labor for capital or skilled labor for low skill labor. This substitution effect has been found to be significant in the longer run.[57] **The long-run, which may differ significantly from short-run, is the time period that is policy relevant**.

Critics of minimum wage studies finding little to no effect of minimum wages on employment also claim that the bulk of these studies look at situations where economic actors have already adjusted to the minimum wage policy and to the strong likelihood that minimum wages will be raised in the future.[58] As a result, these empirical studies really show how economic actors adjust to unexpected increase in the minimum wage above and beyond what is anticipated. The critics claim that studies finding little to no

[51] Aaronson D. 2016. "Price Pass-Through and The Minimum Wage." Review of Economics and Statistics. 2001;83:158–169.
[52] University of Minnesota. 2016. Principles of Economics. https://open.lib.umn.edu/principleseconomics/
[53] Card, D. and Krueger, A. B. 1994. "Minimum Wages and Employment: A Case Study of The Fast Food Industry in New Jersey and Pennsylvania." American Economic Review, 84(4), 772-793.
Dube, A. T., Lester, W., and Reich, M. 2010. "Minimum wage Effects Across State Borders: Estimates Using Contiguous Counties." The Review of Economics and Statistics, 92(4), 945- 964
[54] For a review see: Neumark, D. and Wascher, W. 2007. "Minimum Wage and Employment." In W.K. Viscusi (Ed.), *Foundations and Trends in Microeconomics* Vol 3 No. 1-2 (pp 1-182). Boston, MA: Now Publishers.
[55] Aaronson, D., & French, E. 2007. "Product Market Evidence on The Employment Effects of the Minimum Wage." Journal of Labor economics, 25(1), 167-200. https://www.jstor.org/stable/10.1086/508734
[56] See Neumark, D., & Wascher, W. 1992. "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws." ILR Review, 46(1), 55-81.
Dube, A., Lester, T. W., & Reich, M. 2010. "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties. The Review of Economics and Statistics, 92(4), 945-964.
[57]
Sorkin, I. 2015. "Are There Long-Run Effects of the Minimum Wage?" Review of Economic Dynamics, 18(2), 306-333.
[58] Boudreaux, D. April 25, 2016. "A Proposed Minimum-Wage Experiment." Café Hayek. https://cafehayek.com/2016/04/40727.html

negative effect on employment after minimum wage increases are not answering the question of what would happen to employment if no minimum wage increases were expected.

Employers adjusting to a minimum wage increase can respond in a variety of ways. A large percentage of workers at nursing homes are low-income workers subject to the minimum wage. **Research has found that an increase of the federal minimum wage would result in a high number of nursing assistants experiencing a wage increase, increasing labor costs to nursing homes, and potentially reducing nursing home profits; to not impact their profit level, nursing homes could respond by passing on prices to the consumer, reducing nonlabor costs such as spending on food and amenities, or reducing labor costs by decreasing employee hours, decreasing spending on employee benefits, or decreasing higher income employee wages, hours, or benefits.**[59]

A principal argument made in favor of minimum wage increases is that they help poor and low-income families increase their living standards. However, **the existence of some disemployment effects mean that minimum wage increases create both winners and losers as a result**. The winners get a higher wage with no loss in employment or hours worked while the losers experience job losses, reduced work hours, or increased difficult finding jobs. **If the gains to the winners are large, and if the winners come disproportionately from low-income families with losses concentrated among higher-income workers, customers, business owners, or any other groups that policymakers are willing to redistribute income from, then the losses experienced by the losing groups may be considered acceptable.** However, multiple research studies fail to find evidence that minimum wages help the poor, instead finding that they may increase the number of low-income households.[60]

**The empirical evidence on the distributional effect of minimum wages provides mixed results.** Increasing the minimum wage has been found to both increases the probability that a low-income family will escape poverty due to higher wages as well as the probability that another nonpoor family will become low-income as the minimum wage increase prices family members out of the labor market.[61] Unemployment resulting from a minimum wage increase is found to be highly concentrated among low-income families. This indicates that **minimum wage increases usually redistribute income among low-income households rather than redirecting income from families with high incomes to those with low incomes.** Although some families do benefit from the minimum wage increase, generally the raise increases the proportion of families that are low-income and near-poor.

**The main issue with using the minimum wages as a tool to increase the incomes of low-income families is that it targets low-wage workers, not low-income families, which may not be the same.** In the United States, the link between low wages and low family income has been found to be relatively weak. According to Current Population Survey (CPS) data, over half of poor families with heads of household aged 18–64 have no workers. Furthermore, some workers are poor due to low hours worked rather than low wages. Finally, teenagers are highly overrepresented in the minimum wage workforce meaning that many low-wage workers do not belong to low-income families. As a result, one estimate suggests that when the

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[59] Lepose, M., Livingstone, I., Naden, D., Hatem, M., Feng, Z. June 2020. "Impacts of Minimum Wage Increases on Nursing Homes: Final Report." Office of Disability, Aging and Long-Term Care Policy Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

[60] Neumark, D. 2018. "Employment Effects of Minimum Wages." IZA Institute of Labor Economics. https://wol.iza.org/articles/employment-effects-of-minimum-wages/long

[61] Neumark, D., Schweitzer, M., and William Wascher. February 1, 1999. "Will Increasing the Minimum Wage Help the Poor?" Federal Reserve Bank of Cleveland Economic Commentary.

minimum wage is increased, even assuming no employment loss, far more of the increase in income goes to households in the top half of the income distribution rather than to families below the poverty line.[62]

Despite the lack of evidence supporting the conclusion that minimum wages reduce poverty, some studies have shown that a higher minimum wage reduces the dependency on government assistance. However, a recent study of spending on Medicaid, welfare, and other assistance programs did not find that higher minimum wages lower participation in public assistance programs, except for SNAP.[63]

While low wages themselves clearly make life difficult for many poor and low-income households, the argument that a higher minimum wage is an effective tool to improve their economic well-being is not generally supported by the empirical evidence.[64]

Since minimum wage laws mandate higher wages for low-wage workers rather than higher earnings for low-income families this tool is imprecise at best. Generally, empirical evidence from studies focused on the United States do not find evidence that minimum wages help the poor. However, some subgroups may benefit when minimum wages are combined with other targeted programs such a targeted tax credit.[65]

## Combining Theory and Evidence on Minimum Wage Increases

While economic theory generally supports the idea that a minimum wage increase will result in a variety of unintended negative economic effects, the empirical evidence is more mixed. While empirical findings are not unanimous, particularly for the US, evidence suggests that minimum wages lead to a number of negative economic consequences in the long run for significant real inflation-adjusted minimum wage increases including a potential reduction in the number of jobs available to low-skill workers.

**Next, the economic theory and existing empirical evidence discussed above will briefly be considered in terms of the proposed Long Beach healthcare minimum wage increase in the covered private healthcare facilities.**

## Applying Theory and Evidence on Minimum Wage Increases to the Long Beach Proposal

### The Minimum Wage in the Context of the Healthcare Industry and Healthcare Labor

**The 67 percent increase in the proposed minimum wage for covered healthcare workers is significant.** This suggests that the economic effects of the proposed minimum wage will also be significant.

Demand response conditions in the healthcare industry relative to other sectors in the economy are such that **significant changes in employee numbers as a response to a minimum wage increase may not be as pronounced as employment changes would be in other industries.** In addition, long-run prohibition

[62] Lundstrom, S. M. 2014. "When is a Good Time to Raise the Minimum Wage?" Contemporary Economic Policy 35:1 (2017): 29–52. Sabia, J. 2014. "Minimum Wages: An Antiquated and Ineffective Antipoverty Tool." Journal of Policy Analysis and Management 33:4 (2014): 1028−1036.

[63] Sabia, J., and T. T. Nguyen. 2017. "Do Minimum Wages Really Reduce Public Assistance Receipt?" Working Paper.

[64] Neumark, D. 2018. "Employment Effects of Minimum Wages." IZA Institute of Labor Economics. https://wol.iza.org/articles/employment-effects-of-minimum-wages/long

[65] Neumark, D. 2018. "Employment Effects of Minimum Wages." IZA Institute of Labor Economics. https://wol.iza.org/articles/employment-effects-of-minimum-wages/long

on certain labor market adjustments as outlined in the Long Beach minimum wage ordinance will likely dampen the negative effect of the proposed minimum wage on employment numbers.

**However, some short run employment losses may still take place as will some longer-run employment losses as the result of the minimum wage.** For example, in the long run, even with perfectly enforced labor market adjustment prohibitions in place, job losses may result due to employee quits and retirements that are not rehired as well as business closures and relocations due to the higher labor cost environment. Furthermore, in the long run, employee growth in the healthcare industry may be negatively affected.

The minimum wage increase may serve to attract more labor into affected healthcare occupations in the long run. In addition, the minimum wage increase may result in increased morale and productivity thus increasing labor demand by employers. This may serve to reduce possible negative impacts on future employment. However, all else equal, the increased cost of labor would likely reduce the quantity of labor demanded by employers resulting in an ambiguous net employment effect. In addition, **it is possible that the positive effects of the minimum wage on morale and productivity are relatively short term and may erode over time as employees factor the new baseline wage into expectations.**

**Proponents of the minimum wage increase have claimed that the healthcare labor market is not competitive, resulting in significant market power to employers and wages below the competitive level for certain occupations.** While employer market power for certain segments of the healthcare industry may be higher than for other sectors of the economy, such as for retail and for food services, employers in the covered healthcare sector still face considerable competition for labor from other Long Beach private healthcare businesses, public healthcare facilities, and healthcare employers in nearby cities. In addition, employers must compete for a labor pool that is also being attracted by employers in industries outside of healthcare. As a result, it is possible that the wages currently being paid to employees in occupations targeted by the Long Beach private healthcare minimum wage proposal are currently near competitive market wages.

If labor shortages were only the result of monetary wages sitting below their true competitive level, competition would drive employers to raise wages to attract workers away from competitors and eliminate the shortage of healthcare workers in certain occupations. In this way, profit-seeking employers could overcome labor shortages and provide more services to patients therefore increasing profits. **The fact that this has not happened may indicate that there are other non-wage issues depressing labor supply for certain healthcare occupations that should also be considered, such as healthcare occupations' toll on mental health or insufficient nonmonetary benefits.**

**If enacted, low-wage employees in covered healthcare facilities that remain employed will enjoy an increase in their incomes.** This will likely lead to higher living standards for these workers and their families. Additionally, both theory and empirical evidence state that low-income households spend a larger percent of their income than other groups, so a larger percentage of the increased income would be spent in the economy, as opposed to if higher wage workers were given additional labor income. However, these benefits may come at the cost of job losses for some employees.

## The Minimum Wage and Non-Labor Adjustments

The above analysis of the proposed minimum wage's effect on the covered Long Beach private healthcare sector focused on labor markets. However, **there will likely be other non-labor market adjustments made in the healthcare industry as a result of the proposed minimum wage increase**.

**A number of non-labor market adjustment mechanisms can be used to pay for the increased labor costs resulting from the minimum wage.** For example, businesses may reduce service quality, increase prices, reduce access to patients, close or relocate, or may experience a reduction in business profits to offset the increase in labor costs and resulting increase in labor income to remaining covered employees. Each of these possible adjustments represent potential costs of the minimum wage policy. For example, a reduction in business profits may lead to business closures and relocations, reduced spending for consumption goods by business owners who would have spent the profits, and reduced investment that could have improved healthcare service provision. **Even if business profit reductions were the primary mechanism by which increased labor costs were paid for, decreased profits could have a negative impact on patients since businesses generally finance investment and expansion directly through profits and loans that will eventually need to be paid back out of profits.**

**Affected facilities will not all react to the proposed minimum wage increase in the same way.** It is highly likely that different facilities would make different adjustments to a minimum wage increase based on unique characteristics such as profitability, customer base, and type of healthcare service provided. For example, facilities with a significant portion of their patients on government provided plans will face a market situation where prices are relatively fixed. As a result, price adjustments to cover increased labor costs as a result of the minimum wage will be limited. These types of facilities will need to find other ways to effectively manage costs or risk relocation out of the city or even closure.

**If fewer labor adjustments are made as a result of the minimum wage due to the measure's employment-adjustment prohibitions, adjustments will likely be concentrated in non-labor market reactions.**

## The Minimum Wage and Tradeoffs

**The minimum wage proposal will likely involve a number of short and long term tradeoffs in terms of employment and non-employment variables.** Economic theory and empirical evidence can provide us with some insight regarding potential tradeoffs in the Long Beach healthcare industry associated with the proposed minimum wage increase.

***Benefits:***

- Increased labor income to remaining low wage workers in covered healthcare facilities.
- Potential increase in labor supply and retention in certain covered healthcare occupations.
- Potential short run increase in morale and productivity for covered healthcare workers.

***Risks:***

- Short run employment losses, particularly for low wage workers.
- Potential long run business exits, employment losses and reduced future employment growth and business entry for covered occupations.
- Potential non-labor adjustments such as decreased business profits and quality/access reductions to pay for increased labor costs.

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# Attachment B

***Economic Development and Opportunity Committee***
***September 12, 2023***
***Summary of Public Comment***

***Regular Agenda Item 2 (23-1068)***

- Recommendation to receive and file a report on increasing the minimum wage for hotel workers. This will include public comment for business and industry, labor organizations, and individuals to share thoughts as well.

***Attendees General Position on Agenda Item 2 (23-1068)***

- Proponents: 23
- Opposition or Concern: 12 (inclusive of 1 eComment received)

***Summary of Public Comments for Agenda Item 2 (23-1068)***

At the September 12, 2023, meeting of the Economic Development and Opportunity Committee public feedback was solicited in response to a report on a potential amendment to the Long Beach Hotel Workers Minimum Wage ordinance (LBMC 5.48.020). Thirty-four members of the public provided comment at the meeting or via eComment, with approximately 23 supporting an amendment, and 12 expressing opposition or concern. Commentators identified themselves as representatives of Unite HERE Local 11, United Federation of Labor, various community organizations, the Long Beach Chamber of Commerce, hotel operators, owners of limited services hotels, local business owners, residents, and hotel workers. What follows is a summary of their comments.

***Summary of Feedback from Proponents***

Proponents of increasing the Hotel Workers Minimum Wage felt strongly that increasing the minimum wage would significantly and positively affect individuals and families near the poverty line. They pointed out that many hotel workers are single parents working long hours. It was also noted that the increase in housing costs has outpaced wages. In some cases, housing costs represent 70 percent or more of the monthly earnings for hotel workers. Their current wages make accessing quality healthcare and housing difficult, in addition to contributing to food insecurity. Workers from local hotels often have long commutes to find housing they can afford, adding to the negative impacts of their current minimum wage.

Proponents of an increased minimum wage also stated that hotels have experienced significant growth since the pandemic and were subsidized during that time via PPP Loans and other sources. Proponents expressed that the resulting current profitability should be shared with deserving workers and those profits could support the wage increase without having to increase prices to guests.

Proponents also expressed a desire to strengthen provisions in the ordinance that direct service charges be paid directly to workers, and to consider the possibility of amending the ordinance such that future changes could be made directly by the City Council, as opposed to requiring a ballot initiative, as long as the changes strengthen or support workers.

The most commonly expressed proposal from proponents was that the 2024 minimum wage for hotel workers be increased to $25 per hour, increasing to $30 per hour by 2028. A letter was also submitted by Tourism Workers Rising outlining many of these above stated positions in more detail. This is attached hereto as Exhibit 1.

***<u>Summary of Feedback from Opponents or Expressions of Concern</u>***

Those who expressed concerns or opposition to a proposed increase to the Hotel Workers Minimum Wage also shared their views during public comment. Operators of limited-service hotels shared that the labor cost impacts to their businesses would be particularly difficult. As owner-operators this is their primary source of income. Their only offset is to increase their average daily rate, which would make them uncompetitive in the marketplace. It was also noted that many limited-service hotel owners are immigrants and people of color, and their hotels often provide temporary or accessible housing for those on the brink of homelessness. For these reasons, limited-service hotel owners believe they should be exempted from the proposed minimum wage provisions.

Other hotel interests noted that an initial increase to labor costs of over 40% would cause undue harm to hoteliers located in Long Beach, likely to require measures such as layoffs, automation, or increases to the average daily rate. It was stated that a hotel worker minimum wage should not be considered until more research is conducted to better understand impacts to TOT, taxes and their corresponding long-term effects. It was also noted that an increase in wages for hospitality workers may impact other related businesses in the City. Small businesses cannot afford to compete for labor, which is then monopolized by larger corporations. This forces layoffs, increasing supply of labor placing downward pressure on wages.

If a minimum wage increase is proposed, the preference of hotel or business interests who commented was that a phased approach should be implemented to allow the market and hotels to more reasonably adjust. They described this compromise approach as the Long Beach way. This phased approach would also allow assessment of these increases over time.

***Highlighted Statements from Proponents of Agenda Item 2 (23-1068)*:**

- Due to cost-of-living outpacing current wages, hospitality workers who reside within the City put 70% - 80% of their monthly income towards housing, creating an environment where families and individuals must sometimes forgo basic necessities such as food and health care to avoid becoming homeless.

- Those who have had to move due to the scarcity of affordable housing are forced to conduct long commutes, exacting considerable stress on the mind, body, and family relationships, and by increasing wages, they will once again be able to find housing in the community where they work.
- By increasing wages, hospitality workers will have more purchasing power, positively impacting local businesses due to more families being able to buy more goods and services.
- Ensure that various loopholes are closed in the hospitality industry that allow for service charges to be captured as revenue by owners instead of those funds being dispersed directly to employees.
- Empower City Council by ballot initiative to amend Measure N at their discretion to ensure that Hospitality Workers' wages are protected, without the need to take additional amendments to the ballot for public approval.

***Highlighted Statements from Speakers Opposing Item 2 (23-1068)*:**

- Should council approve the agenda item, an increase of 50% in wages for Hospitality Workers will cause undue harm to hoteliers located throughout the City, and due to impacts not being known to TOT, taxes and their corresponding long-term effects, the item should not be put on the ballot, until more research is conducted.
- Limited-service hotels, many of whom are minority-owned businesses, should be excluded from this motion due to these businesses not having ancillary revenue sources to offset this increase in labor cost, with the only avenue to offset this cost to increase the Average Daily Rate (ADR) making their rates uncompetitive in the market.
- With this increase in ADR, individuals experiencing homelessness who utilize limited-service hotels will no longer be able to afford lodging at these hoteliers, increasing homelessness within the City. Limited-service hotels should be exempted.
- An increase in wages for hospitality workers will impact other businesses in the City, as employees pursue different wage levels across businesses.

Exhibit 1

# Letter from Tourism Workers Rising

TOURISM WORKERS RISING
LONG BEACH

**September 12, 2023**

**Dear Economic Development and Opportunity Committee,**

Workers in Long Beach's thriving tourism industry are struggling to put food on the table and keep a roof over their heads because wages have not kept up with the region's skyrocketing cost of living. Meanwhile, the hotel industries have built back using billions of dollars in public investment and pandemic relief funds—leaving workers behind.

The tourism industry benefited from massive bailouts during the pandemic, including **$13 billion in PPP loans to the hotel industry.**[1] A recent report written by Dr. William Lester states, that the Long Beach Recovery Act awarded a portion of the $71.19M in funds received from the federal American Rescue Plan Act (ARPA) and the State of California's "Visit California" program to the Long Beach Convention and Visitors Bureau (CVB) to "restore hotel occupancy, boost room nights, and bring workers back to jobs in a range of hospitality- related occupations." [2] This investment has allowed the tourism industry, including hotels to make a rapid recovery "a step ahead of the Los Angeles market". [3] Hotels are making record revenues. According to Dr. William Lester, "The Average Daily Revenue is forecasted to be 20% higher in 2023 than in 2019." [4]

It is evident that while the hotel industry has recovered, the workers that keep the tourism industry functioning, safe, and profitable – including hotel housekeepers, who are primarily BIPOC immigrant workers—are facing housing insecurity as Long Beach grapples with an unprecedented housing and homelessness crisis. Under the present wage scale, Long Beach hospitality workers must pay an average of 77% of their income towards rent to live in the city. In downtown Long Beach, since the passage of Measure N in 2012, rents have increased by 109%, compared to a 60% increase across Los Angeles County. [5]

The solution is clear: pay workers the living wage they deserve. Long Beach city leaders have the power to transform the lives of working families and their communities by including a **2024 ballot measure** that amends existing wage policies to ensure that Long Beach hospitality workers receive fair and competitive wages to live and thrive in this City. The proposed ordinance will bring current city laws up to date by:

1. **Raising the Wage for Long Beach hospitality workers to $25 by July 1, 2024 and $30 by 2028**
   Income equality is one of the most pressing economic, social and civil rights issues facing Long Beach. By requiring a higher minimum wage and expanding its coverage for more hotel workers, the City seeks to promote the health, safety and welfare of thousands of hotel workers by ensuring they receive fair and competitive wages. Doing so will benefit the local economy. When workers can afford to live where they work, they are able to spend more in the local economy — at our local restaurants, cafes, shops, grocery stores. When workers thrive, we all thrive. For this reason, 144 Long Beach small businesses have endorsed raising the wage for Long Beach hospitality workers.

   We propose raising the wage to $25/hour in July of 2024, with an escalator to reach $30 by the 2028 Olympics. Starting on July 1, 2024, the minimum wage for each hotel worker, not including gratuities, service charge distributions, commissions, or bonuses, to the hotel worker, shall be as follows:

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[1] https://www.unitehere11.org/wp-content/uploads/PPP-In-Name-Only-Research-Brief.pdf
[2] Long Beach Recovery Act (LBRA) Updates, accessed May 2023.
[3] "Hospitality Submarket Report, Long Beach, Los Angeles County, CA," March 2023. CoStar.
[4] "Report on the Impact of Long Beach's Proposed Living Wage for Tourism Workers, June 2023.
[5] "Small Area Fair Market Rents" US Department of Housing and Urban Development, Office of Policy Development and Research, 2023. https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html#year2023

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July 1, 2024 $25.00 per hour
July 1, 2025 $26.00 per hour
July 1, 2026 $27.00 per hour
July 1, 2027 $28.00 per hour
July 1, 2028 $30.00 per hour

Starting on July 1, 2029, and annually thereafter on July 1 of each year, this rate shall be adjusted by the amount of increases in the federal minimum wage over the amount in effect on July 1, 2028.

2. **Preventing Loopholes in Service Charges**

   Currently, there is language in Measure N on service charges. We need to strengthen the existing law by improving the language and definition of service charges to ensure that workers performing the service are paid fairly and equitably. This will also prevent loopholes and ensure that service charges are not retained by a hotel employer but the entirety goes to hotel worker (s) performing services for the customers from whom the service charges are collected. This is an industry issue that is being seen across regions as hospitality employers continue to be investigated for pick-pocketing service charges that should be going directly to their workers.

   - In Los Angeles, a hotel in Hollywood was charging a 5% service charge claiming that this fee was in support of health care benefits to the staff. But several workers allege that they do not work enough hours to qualify for health benefits. [6]
   - In San Francisco, Banquet workers are being awarded $9 million in unpaid gratuities.[7]

Strengthening the language to service charges will prevent hospitality employers from illegally keeping service charges, and ensure that workers and customers are protected.

3. **Amendments to the law**

   Currently, Measure N does not give authority to the Long City Council to amend the existing law. We want to ensure that we prevent this issue by allowing the City Council to be empowered to amend the provisions of this proposed ordinance as long as the amendment strengthens or expands upon the protections for hotel workers. This currently exists in Measure WW as follows, " This Chapter does not preempt or prevent the establishment of superior standards or the expansion of coverage by ordinance, resolution, contract, or any other action of the City of Long Beach." We recommend similar language to the proposed ordinance.

It's time to update the laws that set the standard in the Long Beach tourism industry. We need an Olympic wage of $25 now and $30 by 2028 to ensure that ALL hospitality workers thrive.

**Sincerely,**

UNITE HERE! LOCAL 11
laane 30 A NEW ECONOMY FOR ALL
LB FOR A JUST ECONOMY
CLUE Clergy and Laity United for Economic Justice

[6] Two L.A. Hyatts Investigated for Adding Service Fees for Restaurant Workers. May, 2023
[7] Marriott Banquet Servers in San Francisco to Be Awarded Approximately $9 Million in Unpaid Gratuities. April 2023

ATTACHMENT C

# Anaheim Hotel Worker Ballot Initiative

## Fiscal Impact Analysis

# Anaheim Hotel Worker Ballot Initiative

## Fiscal Impact Analysis

## Executive Summary

The following report analyses the impact of the Hotel Worker Ballot Initiative (HWBI) on the City of Anaheim's Transient Occupancy Tax (TOT) revenue. Beacon Economics finds that the HWBI will have an adverse effect on the long-term financial health of Anaheim's hotel industry. The HWBI will more than double hotel labor costs, some of which will be passed onto guests in the form of higher average daily room rates (ADR). Because of their higher prices, hotels will receive fewer guests and lower occupancy rates, while incurring more expensive operating costs.

However, the HWBI will have a slightly positive impact on the City's TOT revenue over the next two to three years. The TOT is a 15% charge on hotel room revenue. Because Hotels will need to charge higher rates, their rooms will generate more revenue. While these higher rates will lead to a decrease in occupancy rates, the decrease will not fully offset the increased revenue from higher ADR. Therefore, the City's TOT is expected to increase between 0.5% to 2.5% over the next couple of years. For illustration purposes, the City expects TOT revenue to total $236M for the for the next fiscal year, 2023/2024. Therefore, a 0.5% to 2.5% increase is roughly $1.2M to $5.9M. These empirical finding are supported by stakeholder interviews conducted with Hoteliers in Anaheim, case studies on similar regulations implemented in comparable markets, and peer-reviewed academic research[1,2,3].

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[1] Corgel, Jack; Lane, Jamie; and Woodworth, Mark (2012) "Hotel Industry Demand Curves," Journal of Hospitality Financial Management: Vol. 20 : Iss. 1 , Article 6. Available at: https://scholarworks.umass.edu/jhfm/vol20/iss1/6

[2] Hudson, S., Meng, F., So, K. K. F., Smith, S., Li, J., & Qi, R. (2021). The effect of lodging tax increases on US destinations. *Tourism Economics*, *27*(1), 205–219. https://doi.org/10.1177/1354816619890752

[3] Collins, Clay, and E. Frank Stephenson. 2018. "Taxing the Travelers: A Note on Hotel Tax Incidence." *Journal of Regional Analysis & Policy* 48.

While the HWBI will have a slightly positive effect on the City's TOT in the short run, in the long run, HWBI will lower the growth trajectory of TOT and turn the net effect negative. Since the pandemic, the average month-over-month growth rate of TOT has been just over 4%. This growth rate will vary as the industry recovers, but it will likely decrease by 30% to 70% as a result of the HWBI over the next five plus years. This means TOT will be roughly $4M less with HWBI than it otherwise would be during the 2027/2028 fiscal year. The additional financial strains that the HWBI places on the industry could push some Hotels out of business, and it will lower the attractiveness of Anaheim as a place to invest and build hotels. Thus, the growth in the number of hotels and hotel rooms may dramatically decrease or even stop altogether in the long run.

While outside the scope of this analysis, a depressed tourism market will have adverse indirect impacts on other tax revenue sources as well. For example, increased hotel rates will mean that tourists stay in Anaheim for shorter durations, spend less money in the City, and therefore pay less sales tax. Also, less hotel development will mean less construction spending, and the related direct and indirect economic effects.

The social goals of the bill are laudable. However, policymakers should be very careful about balancing these trade-offs with nurturing the overall tourism market, and they should be cautious about long-term unintended consequences.

## Introduction

In May 2023, the City of Anaheim ordered a Fiscal Impact Analysis of the Initiative Petition entitled Hotel and Event Center Minimum Wage, Worker Retention, and Hotel Worker Safety and Workload Initiative – hereafter referred to as the Hotel Worker Ballot Initiative (HWBI). Beacon Economics was commissioned to estimate the impact this bill will have on the City's Transient Occupancy Tax (TOT). The Anaheim TOT is 15% of room sales derived from hotel, motel, and timeshare stays of less than thirty days.

Beacon Economics had limited time to conduct this analysis, but relied on three methods to triangulate the estimates in this analysis. First, we quantified the effects using econometric modeling and conducted robustness checks to ensure the validity of its estimates. Second, we investigated case studies of similar measures implemented in other cities. Third, we conducted interviews with stakeholders in the Anaheim Hotel industry to gather qualitative information on the bill's effects on operating and implementation expenses.

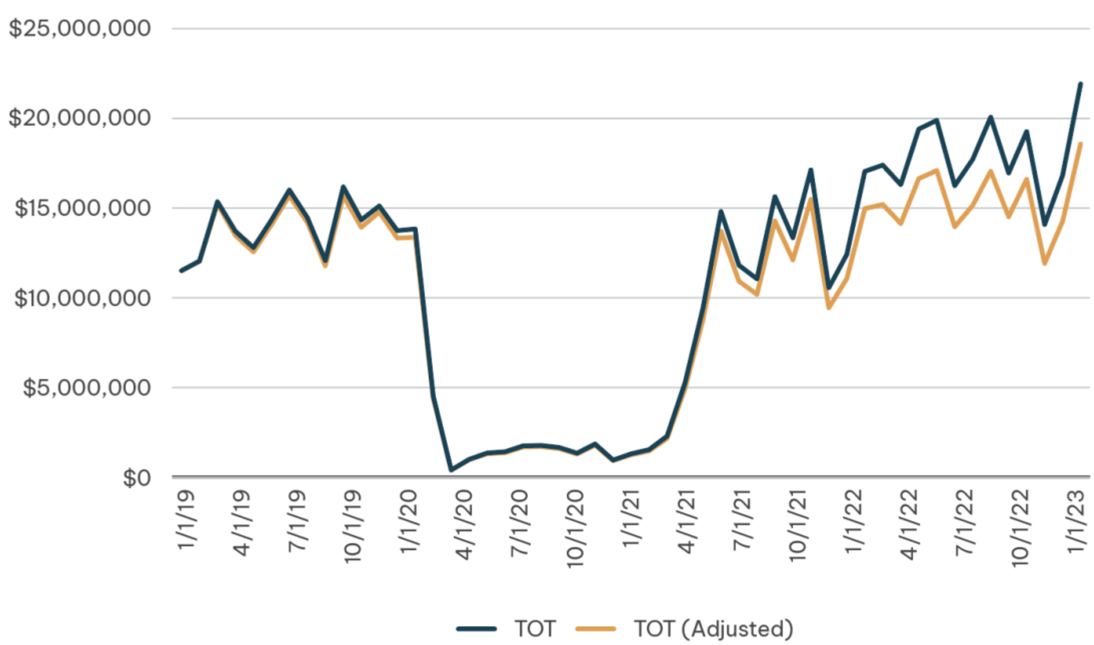
## The Anaheim Transient Occupancy Tax

The Transient Occupancy Tax is a crucial source of revenue for the City of Anaheim. During the fiscal year 2021-2022, which runs from July 1st to June 30th, the city collected a record $177M in TOT. To put this into perspective, over the same period, the Anaheim Police Department cost the City $148M. For the next fiscal year, 2023/2024, TOT is expected to bring in 42% of all the City's revenues.

TOT is on track to reach a new high for fiscal year 2022/2023. By June 30th, it should reach roughly $223M. Next fiscal year, it is expected to reach $236M, another record high.

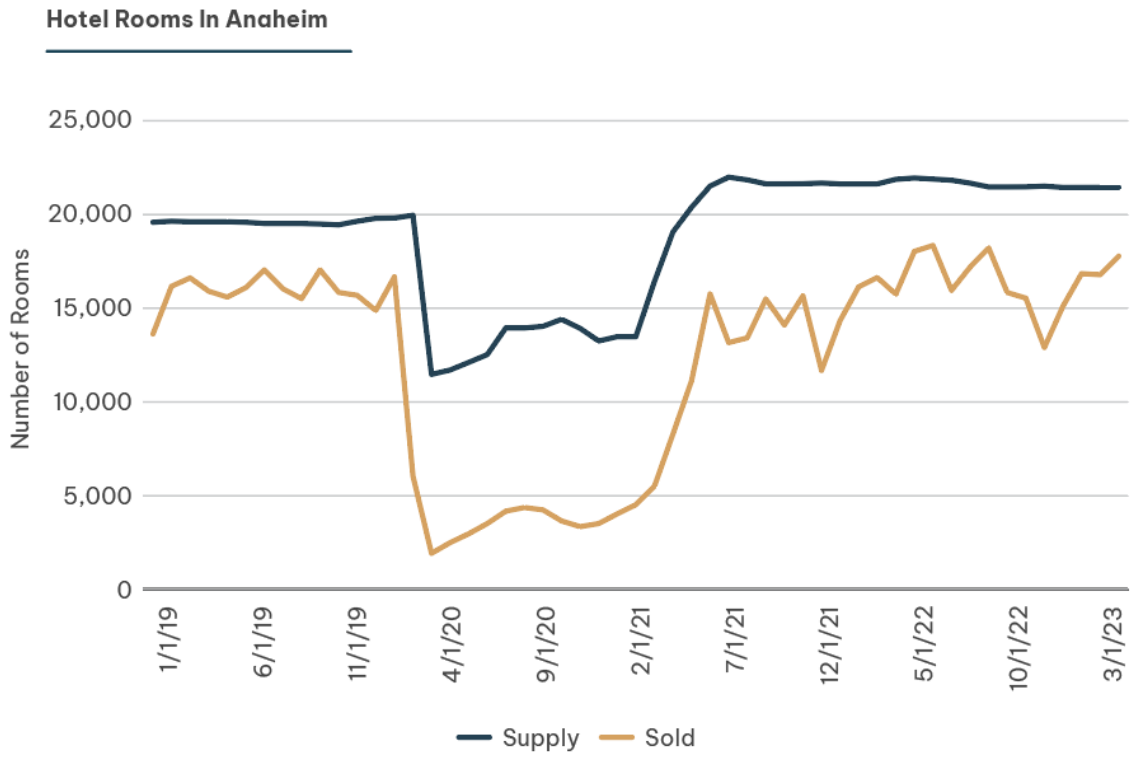
There are currently 162 hotels or other lodging establishments in Anaheim that pay TOT. As the figure below illustrates, TOT fell around 90% from March 2020 to May 2022 as a result of COVID-19 restrictions. It has since rebounded. In March 2023, these establishments paid $21,181,269, the highest monthly total ever recorded. The high numbers can be partially explained by inflation, which has increased by 18% since 2019, the last pre-pandemic year.

**TOT Revenue**




Source: City of Anaheim and the Bureau of Labor Statistics; Analysis by Beacon Economics

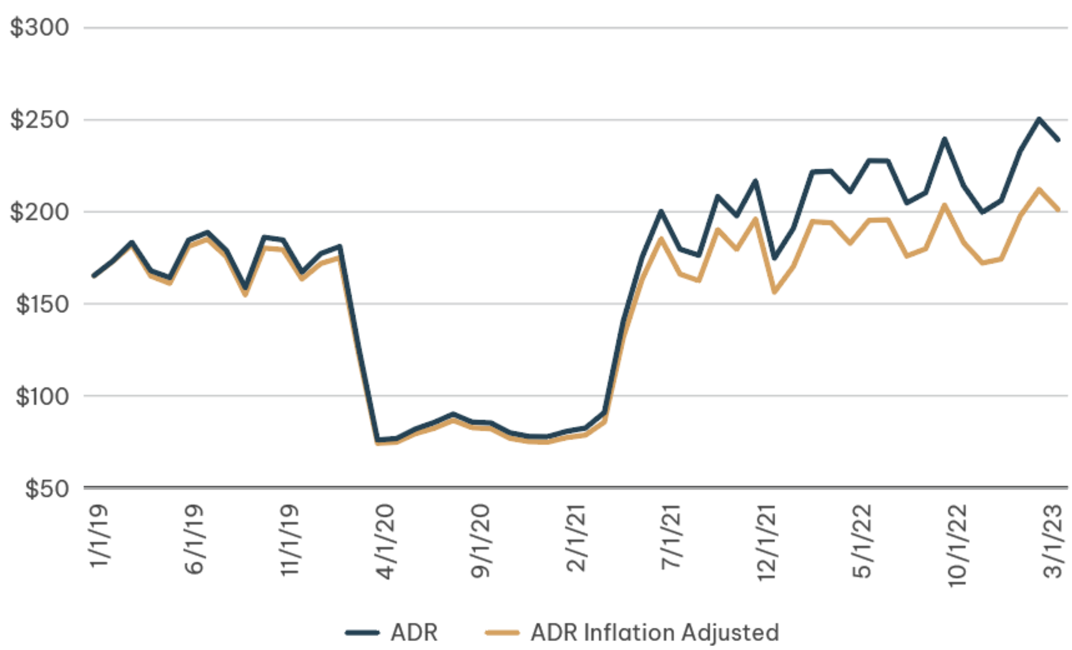
The reason TOT reached a new high in March is not because of an increase in the number of hotels, available rooms, or the occupancy rate. In fact, as shown in the figure below, the pre-pandemic occupancy rate was in the low eighties, but, since the pandemic, has hovered around the low seventies. Accordingly, Anaheim hotels have not yet recovered to their pre-pandemic occupancy rates. It is worth noting that the Anaheim occupancy rate is a few percentage points higher than the cities of Los Angeles, Long Beach, and other northern neighbors. Also, several large new hotels were opened in the last three years, increasing the overall supply, such as the Westin, JW Marriot, Element, and others.




Source: STR and the City of Anaheim; Analysis by Beacon Economics

The reason for the TOT increase is an increase in the Average Daily Rate (ADR) of rooms. In the 12 months prior to the pandemic, ADR was $176. From April 2022 to April 2023, it was $222 in nominal terms. When inflation is taken into account, this figure drops to $190 but is still 8% higher than pre-pandemic rates.

Average Daily Room Rates




Source: STR and the City of Anaheim; Analysis by Beacon Economics

The City's TOT revenue has benefited from its hotels' ability to charge slightly higher rates in the last couple of years than they could before the pandemic. Anaheim's world-class destinations, such as Disneyland, The Anaheim Convention Center, and Angel Stadium, play a large role in attracting tourists and providing hotels with this pricing power.

## The Hotel Worker Bill

There are several provisions in the Hotel Worker Bill, but there are two that have the most impact, the Daily Cleaning Area Restrictions, and the Worker Minimum Wage, which are described in further detail below. If implemented, these two measures in particular will set in motion a chain of economic forces, that will ultimately impact the amount of TOT collected by the City of Anaheim:

- Hotel labor costs will increase, because of higher wages and especially because of reduced cleaning productivity, as a result of the square footage requirements
- These higher labor costs will force hotels to increase Average Daily Rates (ADR)
- Higher ADR will make Anaheim hotels less price competitive and discourage guests from staying in Anaheim hotels or cause them to reduce their length of their stay.

### Daily Cleaning Area Restrictions:

The most impactful measure concerns restrictions on the square footage that room attendants can be required to clean. This measure will have the largest impact on the operation of hotels, and thus the most significant impact on the City's TOT revenue. These restrictions include:

- In hotels with fewer than 60 guest rooms, a room attendant can only be expected to clean up to 4,000 square feet (sq ft) of floor space in an eight-hour day and must be paid twice the regular hourly rate if they are required to work more.
- In hotels with more than 60 guest rooms, a room attendant can only be expected to clean up to 3,500 sq ft of floor space in an eight-hour day and must be paid twice the regular hour rate if they are required to work more. Additionally, 500 feet of allowable cleaning is reduced for each of the following:
    - if the cleaning attendant cleans more than six special-attention rooms (a checkout room for which the occupant declined daily room cleaning on the immediately preceding day) or additional-bed rooms (rooms with two or more beds).
    - If a room attendant is required to clean floor space in more than one hotel building
    - If a room attendant is required to clean floor space on more than one floor
    - Further reductions shall be reduced on a prorated basis if a room attendant works less than eight hours in a workday
- Written consent is required by room attendants if they are to work more than 10 hours a day.
- Hotels must clean an occupied room each and every night they are occupied.
- Hotels must maintain a record of each room attendant's name, rate of pay, pay received, identification of rooms cleaned, actual square footage of each room cleaned, number of special-attention rooms, number of additional hotel buildings, number of additional-bed rooms, and total square footage cleaned for each workday, overtime hours worked for each workday, and any written consents provided regarding overtime.

These stipulations have the largest impact on TOT of all the measures because it substantially reduces the worker productivity of room attendants. Most hotels in Anaheim have multiple floors, multiple-bed rooms, and/or special attention rooms, meaning that room attendants will be restricted to cleaning 2,500 sq ft per eight-hour shift.

Room attendants in Anaheim currently clean at a rate of roughly 800 to 1,000 sq ft per hour, which is two or three rooms per hour. This equates to roughly 6,000 to 8,000 sq ft per eight-hour shift. Consequently, room attendants will be roughly two-thirds less productive in hotels with more than 60 rooms, because they will only clean 2,500 sq ft. In hotels with less than 60 rooms, where they are limited to 4,000 sq ft room attendants will be about one-third to a half less productive.

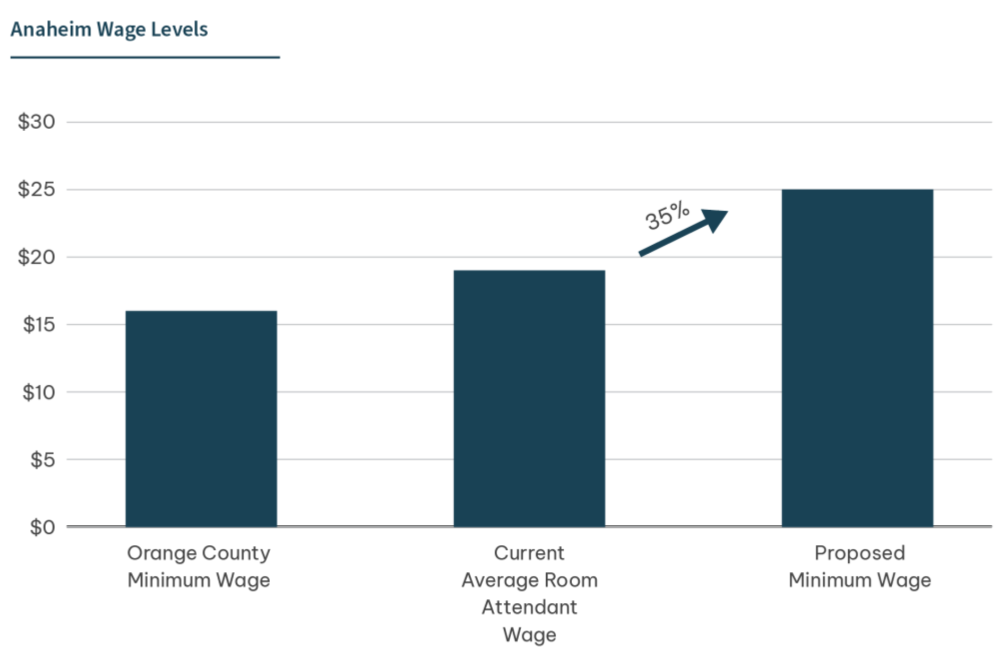
However, it is worth noting that hotels with less than 60 rooms make up only 2% of the City's TOT and 7% of the City's hotel rooms. Out of the 162 hotels paying TOT in Anaheim, 55 have less than 60 rooms. The other 107 hotels make up 98% of all TOT revenue. Therefore, the two-thirds reduction in room attendant productivity applies to the majority of hotels and almost all of the tax-generating entities.

Hotels will also incur expenses and need to hire additional staff to implement and monitor these regulations. There are strict daily reporting requirements involved, and hotels are at risk of class action lawsuits if room attendants clean more square footage than they are supposed to.

### Minimum Wage Increase:

This measure stipulates that all hotel workers or event center workers must be paid $25/hour and that the minimum wage will increase annually on January 1 each year by 3% or based on inflation, whichever is greater.

Currently, non-supervisor hotel positions, such as room attendants, make on average $18.50/hour. Therefore, $25/hour constitutes a 35% increase from current compensation levels. Hotels will likely reduce employee benefits, to offset the higher wages. The minimum wage in Orange County is $15.50.




Of note, the number of job openings for Hotel workers is currently high. Before the pandemic, the industry had a Job Openings rate of roughly 4.5%. Since the pandemic, the Job Openings Rate has hovered around 7.5%. Hotels have been struggling to find enough Hotel workers and have been gradually raising pay as a result. There are roughly 900 hotel maids working in Anaheim currently.

There is extensive economic literature on minimum wage laws and their effects. While there continues to be disagreement on its outcomes, the most recent research suggests it likely has a net negative impact on the level of poverty in a community[4],[5].

### Less Impactful Measures:

There are several other measures included in the bill that are important for the industry but do not have a significant impact on City TOT. While they are important to consider from a policy implementation standpoint, they are not directly included in the empirical modeling of this fiscal analysis because they do not directly impact TOT in a meaningful way.

These include the measures to protect hotel workers from violent or threatening conduct, the measure stipulating that hotel workers receive all service charges and limited waivers for certain hotel and event center employers. Other measure will make the investment environment less appealing to developers, such as the Notice of Change in Control and Hotel and Event Center Worker Retention (although the cleaning area restrictions would have a large influence on a developer's investment decisions). There are several other components regarding enforcement and collective bargaining agreements that will affect the bill's economic impact. However, these considerations are outside the purview of this report, as they do not have a significant impact on the City's TOT revenue.

### Event Centers

Anaheim is home to several world-class event centers – the Honda Center, Angel Stadium, the City National Grove, and of course the Anaheim Convention Center. The minimum wage component, the service charge component, and others impact these centers. They will make operating these Centers more expensive. It will be difficult for these centers to raise their rates to offset these expenses and still remain competitive. Therefore, it is highly likely they will have a negative fiscal impact on the City's budget. However, because they do not pay TOT, this is outside of the scope of the analysis of this report.

There is concern among Hoteliers that higher wages will force the Convention Center to increase its prices. This may be true in the long run, but not for a few years, because the Convention Center typically negotiates its contracts five years in advance of events. Thus, events and their prices for the next several years have already been set and scheduled.

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[4] Richard V. Burkhauser & Drew McNichols & Joseph J. Sabia, 2023. "Minimum Wages and Poverty: New Evidence from Dynamic Difference-in-Differences Estimates," NBER Working Papers 31182, National Bureau of Economic Research, Inc.

[5] Loukas Karabarbounis, Jeremy Lise, Anusha Nath, 2023. "Economic Impact Evaluation of the City of Minneapolis's Minimum Wage Ordinace," Federal Reserve Bank of Minneapolis. https://www.minneapolisfed.org/topic/minimum-wage

If event centers start losing more bids because of high prices and hosting fewer events, this would have serious adverse effects on group demand, which is an essential component of Anaheim's hotel customer base. Hotel "group demand" refers to the total demand for hotel accommodations generated by a specific group or organization. It represents the collective need for rooms, services, and facilities by a group of individuals traveling together for a common purpose, such as a corporate event, conference, or tour. Because of the large number of event centers in Anaheim, group demand plays an outsized role compared to other destination markets.

## Impact on Transient Occupancy Tax Revenue

This bill would have a very significant impact on the operations, profitability, and health of the Hotel Industry in Anaheim. However, it will not have a very substantial impact on the City's TOT in the short run. This is because TOT payments are based on a hotel's revenue, not their net income. Hotels will receive fewer customers because they will have to raise rates to cover their increased labor costs. However, these increased room rates will offset much of the loss in occupancy, resulting in similar TOT revenue to the City. The following section walks through these calculations in more detail.

To start with, the marginal labor costs that hotels will face will more than double. Not only do the square footage restrictions substantially diminish the productivity of room attendants, but Hotels will also need to pay all hotel workers much higher wages (roughly 35%). Labor costs make up roughly 35% to 50% of variable costs, depending on a hotel's size and service offerings. Therefore, these increases constitute very significant financial burdens.

Hotels cannot pass through all of these increased expenses, largely because they operate in a highly competitive market environment. For example, the City of Los Angeles mandated that on July 1, 2015, hotels with more than 300 rooms increase their wages to $15.37 per hour, and hotels with 150 rooms increase their wages to $15.37 on July 1, 2016. This wage increase constitutes roughly the same percent increase the current HWBI would enforce. For both the large hotels and smaller hotels, there was not statistically significant increase in ADR in the months following the implementation of the $15.37 increase. Beacon also looked specifically at the West L.A. area, where there is intense competition and porous borders with Beverly Hills and Santa Monica. Likewise, there were no significant changes to ADR in the West L.A. market.

More recently, in August 2022, the City of Los Angeles implemented a bill that regulated the square feet that room attendants can clean, in the same manner as it is being proposed in Anaheim. In other words, the same 3,500 square feet restriction levels and related stipulations that are being proposed in Anaheim have existed in Los Angeles for the last 10 months. This is not a lot of time to see economic consequences, however, there appears to be no large change to ADR or occupancy rates.

These situations in Los Angeles tell us two important things. First, hotels often absorb a lot of the increase in expenses themselves. Second, these regulations damage the financial health of the hotel industry. As will be discussed later, Los Angeles' hotel market has been depressed relative to Anaheim's.

Regarding TOT forecasting, the key question is - how much does an increase in ADR, decrease the occupancy rate? Beacon Economics analyzed this question using several methods. We ran timeseries regressions based on historical ADR and occupancy rates in Anaheim. We discussed the matter with half a dozen hoteliers. Also, we conducted an extensive literature review, taking into consideration academic articles and recent research. The relationship between ADR and occupancy will vary from one hotel to the next based on a number of factors such as geography, its level of offerings, customer loyalty, etc. All research and empirical analysis point to the same finding. In the short run, the vast majority of Anaheim hotels face an inelastic demand curve, meaning a 1% increase in price leads to a slightly less than 1% decrease in demand. This is why the HWBI will have a positive impact on TOT next year. If a 1% increase in prices leads to a slightly more than 1% decrease in demand, TOT would drop. However, all observations indicate this is not the case. Supporting this conclusion is the fact that Garden Grove hotels, which will not be subject to the HWBI, only have 4,300 rooms in total. This is only 20% of Anaheim's room supply, and not enough to absorb Anaheim's demand.

Based on these estimations, Beacon Economics estimates TOT to increase by 0.5% to 2.5%. The City of Anaheim expects TOT revenue to total $236M for the next fiscal year, 2023/2024. If this is correct, TOT will likely increase by $1.2M to $5.9M.

It is important to note this only includes TOT revenue. Other tax revenue sources will decline as well from the result of fewer guests in hotels, such as sales and use taxes and event center fees. Hotels will inevitably face more financial hardship, lowering their attractiveness to investors. This could decrease their valuation, and therefore the property taxes they pay in the long run, which is discussed in more depth in the following section.

## Long Run Impacts

How will the HWBI impact TOT in the long run, roughly five or ten years into the future? To gain insight into this question let us look at the current state of the Anaheim hotel industry, and then analyze how it may change in the future as a result of the bill.

In summary, the hotel industry is doing well and recovering from the pandemic, although faces uncertainty about the future. As noted earlier, while ADR is at record highs, occupancy rates have not returned to pre-pandemic levels. Consequently, revenue per available room (RevPAR), is only at 75% of the level achieved in 2019.

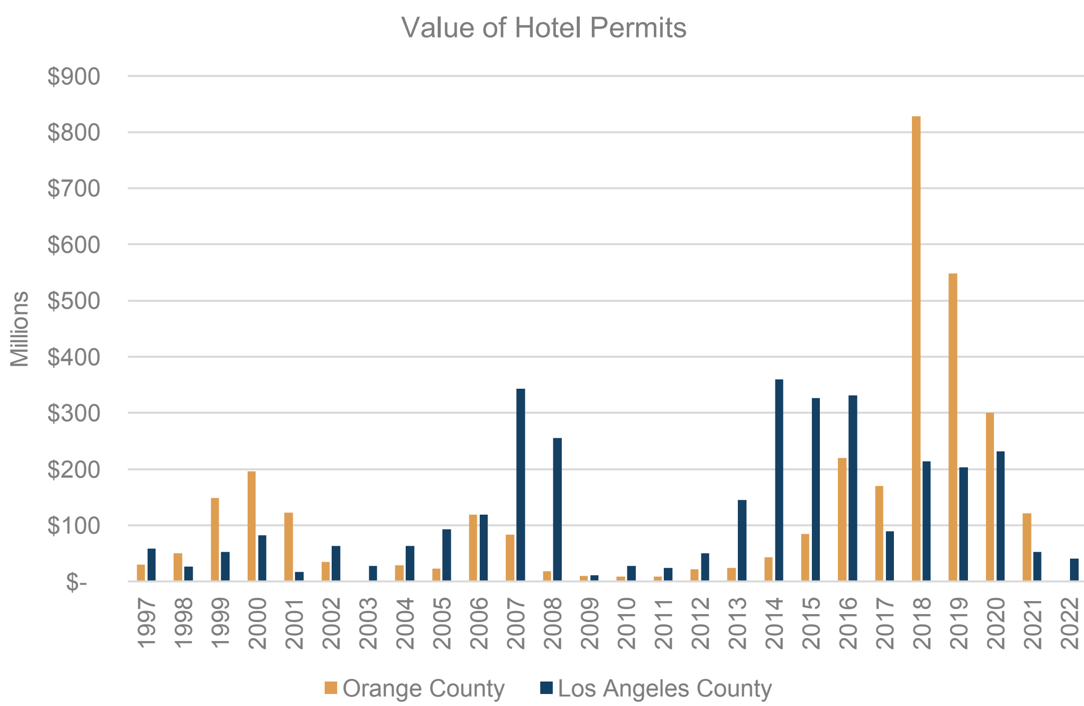
Perhaps more worrying, is that group demand was down 60-65% in 2022. It is expected to reach 75% this year, and fully recover in the next two or three years. There are several new attractions that should help this recovery, such as the Avengers Campus, Mickey & Minnie's Runaway Railway, Mickey's Toontown, and the Indiana Jones Adventure ride.

One risk is that the HWBI could stifle group demand through higher event costs leading to stalled occupancy recovery. Group demand is a critical customer market for Anaheim hotels, and could significantly lower occupancy rates if it continues to lag behind its historical average.

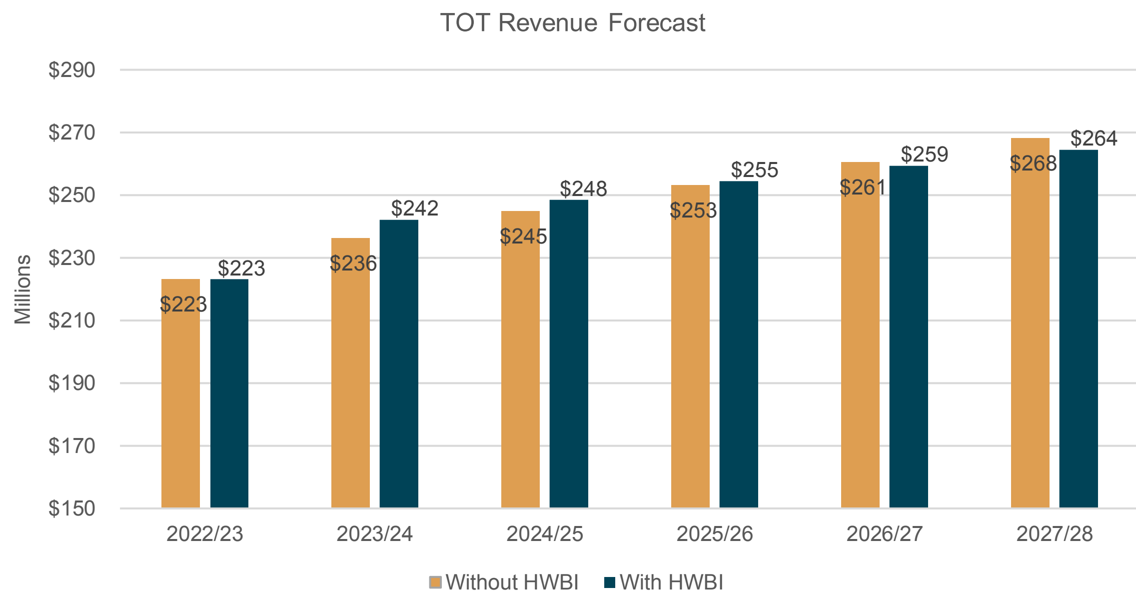
More worrying are the long-term effects that HWBI may have on the investment attractiveness of Anaheim. As detailed explained above, the HWBI will certainly lower the profitability of Anaheim hotels, and thus their return to investors. Estimates indicate that the profitability of some Anaheim hotels could be decreased by as much as 50%.

For commercial investors, the question is not whether they should they develop a property in Anaheim or not – the question is, where they should develop a property? If Anaheim does not promise higher returns than alternatives, then new development will not move forward. In fact, at least one hotel development project has been canceled because of the HWBI already.

To a certain degree, the Los Angeles market serves as a good example of this. Los Angeles hotels have faced higher minimum wage laws, and more square footage cleaning restrictions than Anaheim. While the Los Angeles market is not exactly an apples-to-apples comparison, it mirrors many of the same market dynamics that Anaheim faces. The square footage cleaning restrictions went into place in Los Angeles in 2015 and 2016. Since that time, the value of new hotel investment (as measured by the value of their permits) has never been as high again. Los Angeles has also faced considerable challenges getting new hotel development in its Downtown, and still has less hotel development than Anaheim today. Orange County's population is only one-third the size of Los Angeles County's, and yet had 17% more hotel development projects over the last 12 years, at $2.37B compared to $2.03B respectively. The occupancy rate of Los Angeles hotels is close to 70%, several percentage points lower than Anaheim's.



Therefore, it is very possible the Anaheim market will suffer the same lack of investment, and lower occupancy rates as Los Angeles if it is subject to the same labor regulations. The month-over-month average TOT growth has been 4% since August 2022, when the tourism industry fully opened back up. However, because of the suppression in hotel development caused by the HWBI, long-term growth of TOT will likely be lowered between 30% and 70%. This means the net TOT effect of the bill will turn negative in the next four years. By the 2027/2028 fiscal year, TOT will be roughly $4M less with the HWBI than it would have been otherwise.




## Additional Considerations

This analysis focuses TOT but there will be other spillover effects into the broader economy. For example, Travelers will reduce the length of their stay in Anaheim, and consequently their spending. Moreover, a reduction in new hotels will equate to a loss in millions of dollars of construction spending and indirect economic impacts.

In conclusion, the situation presents a trade-off between the objective of improving the livelihoods of hotel workers through a higher minimum wage and improved working conditions and the potential negative effects on the hotel industry and the city's tax revenue. While raising the minimum wage can positively impact workers' income and address concerns about income inequality, the increased costs and subsequent decline in demand can pose challenges for hotel owners and the local economy.

# About Beacon Economics

Founded in 2007, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis required to understand the significance of on-the-ground realities and to make informed business and policy decisions.
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