

# Minimum Wage Increases Can Lead to Lower Family Incomes and Economic Uncertainty: *A Case Study of the Proposed City of Los Angeles Minimum Wage Increase*

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# EXECUTIVE SUMMARY

The Center for Jobs and the Economy is a nonprofit research organization that provides economic data and detailed analyses of policies affecting state, regional and local economies. As part of its mission, the Center helps quantify the cost-of-living crisis in the state and various regions. This report, ***Minimum Wage Increases Can Lead to Lower Family Incomes and Economic Uncertainty: A Case Study of the Proposed City of Los Angeles Minimum Wage Increase***, examines the overall effect of the proposed \$30/hour minimum wage for travel and tourism industry workers currently being debated by the Los Angeles City Council.

While there has been extensive economic analysis of the impact of minimum wage increases, this report seeks to quantify the overall impact to the family budget, not just focused on the wage increase, but what that wage increase means in the context of overall household income. As demonstrated in this report, the full effects of the proposed wage increase can vary widely depending on individual household circumstances after taking into account factors such as increased tax liability, reduction of social program support and other income-based benefits, and whether workers retain their jobs and hours.

Moreover, there is little debate from economic and industry experts that minimum wage increases lead to higher unemployment. But growing research is looking beyond the numbers to better understand the real-world impact of that job loss. Ongoing research from Professor Seth J. Hill from the University of California, San Diego, expanded in this report, concludes that those most likely to be at risk of losing their jobs to a minimum wage increase are often those already at risk of homelessness. A sudden loss of wages would more than likely tip these individuals into homelessness, exacerbating an already out-of-control humanitarian crisis on the streets of Los Angeles and elsewhere.

Drastic increases to a city's minimum wage should be considered holistically, not from a single economic indicator. This report seeks to demonstrate the complex nature of such action, including exacerbating the very issues it seeks to address. Increasing the economic burden on working families and increasing those at risk of homelessness are the unintended but real impacts of such an ordinance.



## KEY FINDINGS

As stated above, this report assesses the economic and fiscal impacts of a motion by the Los Angeles City Council to revise minimum wage ordinances. The motion proposes increasing the minimum wage to \$25 per hour in 2023 and \$30 per hour in 2028, applicable only to workers in hotels with more than 60 rooms and specific workers at LAX.

- **Not everyone will benefit from the wage increase:** The income effects of the proposed wage increase would differ based on factors like family composition, tax filing status, number of children, eligibility for income assistance programs, and whether workers retain their jobs and hours.
- **Income losses are felt greatest by single parents:** The lowest wage gains, or losses in total income, would be in families with children due to the effect on tax credits and income assistance eligibility. In particular, single-parent families show a small income loss or near break-even under this analysis.
- **Extending a similar minimum wage to City of Los Angeles employees and L.A. Unified School District employees would cost hundreds of millions of dollars:** Government workers are not affected by the ordinance. About 25 percent of City of L.A. and L.A Unified School District employees work in job classifications with beginning salaries below the ordinance's levels. Providing these workers with an equitable \$30 minimum wage would cost \$130 million and \$382 million respectively.
- **Payroll costs will lead to increased unemployment:** The report estimates that the ordinance could result in a considerable number of job losses, especially in the tourism industry, due to the increased payroll costs and resulting effect on tourism and travel as the affected employers are forced to increase their prices. The travel and tourism industry has yet to recover from the pandemic recession, and further uncertainty created by the minimum wage ordinance will disproportionately impact smaller hotels and small businesses.
- **Unemployment will affect those already on the cusp of homelessness:** The report expands on ongoing research being conducted by Professor Seth J. Hill at UC San Diego related to the impacts of minimum wage increases on homelessness. The city's high cost-of-living has reduced economic security, especially for those in this wage band, preventing them from being able to accrue savings and could absorb even a short-term wage loss.

Additional research conducted by Oxford Economics demonstrates how the ordinance also hurts the city's homelessness response by reducing much-needed revenue to the city, including revenue from the tourism-specific transient occupancy tax. This reduced revenue will ultimately lead to reduced services and funding available to address the city's homelessness and housing crises.



As outlined in our recent report, [Special Report: Taylor Swift's Impact on the Economy in Los Angeles County](#), travel and tourism provides significant and critical revenue to the entire region. In the case of the Eras Tour, nearly a third of a billion dollars in revenue and local economic activity is expected to be generated.

- **Only a small percentage of the City's workforce is affected:** The higher wages would only apply to about 3% of the current private sector workers within the wage band affected, and only half of them reside in the city, with the rest commuting from other parts of Los Angeles County.
- **Increasing the minimum wage will do little to address the city's housing crisis:** The proposed measure does not address the underlying housing supply shortage in Los Angeles, which would limit its impact on housing affordability. For some workers, the ordinance will make the problem worse by reducing their total income and limiting the money available to pay for rent, utilities, and other housing costs.

## CONCLUSION

The report concludes that the net impacts of the proposed resolution are likely to be negative, with potential job losses, ability to increase homelessness as vulnerable workers are priced out of the labor market, and increased costs for working families and businesses when the full range of affected workers is considered. It also raises concerns about the reputation of Los Angeles as a tourist destination and its ability to compete with other regions for trade and big-name arts and entertainment activity.

The report highlights it will cost the City of L.A. hundreds of millions of dollars if they were to provide their own employees an equitable minimum wage that they are mandating for travel and airport workers.

Additionally, the report points out that jobs in the affected industries have not fully recovered from the pandemic's impact, making it challenging for businesses to absorb major new costs. Overall, the report suggests that the proposed resolution may not be an effective solution to address the cost-of-living crisis and housing affordability in Los Angeles.

## ABOUT THE CENTER FOR JOBS AND THE ECONOMY

The Center for Jobs and the Economy provides an objective and definitive source of information pertaining to job creation and economic trends in the United States. The Center is a 501(c)(3) public benefit corporation with governance consisting of a board of directors, board of governors and a research advisory council. Learn more at [www.centerforjobs.org](http://www.centerforjobs.org).

## Table of Contents

<b>Introduction &amp; Summary</b> .....	<b>2</b>
<b>Background</b> .....	<b>9</b>
<i>Proposed Resolution</i> .....	9
<i>Existing Minimum Wage Ordinances</i> .....	9
<i>Purpose of the Study</i> .....	10
<b>Previous Research</b> .....	<b>11</b>
<i>Economic Effects of Minimum Wage Increases</i> .....	11
<i>Lester Study</i> .....	13
<i>Oxford Economics Study</i> .....	15
<b>Profile of Lower &amp; Mid-Wage Workers</b> .....	<b>17</b>
<i>Economic &amp; Demographic Factors</i> .....	17
Minimum Wage Workers as a Share of All Workers.....	18
Minimum Wage Workers by Industry.....	18
Minimum Wage Workers by Family Income .....	19
Minimum Wage Workers by Sex .....	20
Minimum Wage Workers by Age.....	20
Minimum Wage Workers by Education .....	20
Minimum Wage Workers by Nativity .....	21
Minimum Wage Workers by Race & Ethnicity .....	22
<i>Profile Tables</i> .....	23
<i>Methodology</i> .....	30
<b>Los Angeles Economy</b> .....	<b>33</b>
<i>Jobs by Industry</i> .....	33
<i>Labor Force</i> .....	34
<i>Jobs by Wage: Private Jobs</i> .....	36
<i>Jobs by Wage: Local Government Jobs</i> .....	39
<i>Jobs by Wage: Wage Compaction</i> .....	40
<i>Jobs by Worker Residence</i> .....	41
<i>Methodology</i> .....	43

<b>Effect on Incomes .....</b>	<b>48</b>
<i>Disposable Incomes: The General Case.....</i>	<i>48</i>
<i>Income Assistance Losses: The General Case .....</i>	<i>49</i>
<i>Insurance Coverage .....</i>	<i>52</i>
<i>Methodology.....</i>	<i>53</i>
<b>Effect on Housing .....</b>	<b>56</b>
<i>City of Los Angeles Housing .....</i>	<i>56</i>
<i>Housing Development Costs.....</i>	<i>58</i>
<i>Cost of Housing.....</i>	<i>60</i>
<i>Homelessness &amp; Minimum Wage .....</i>	<i>64</i>
<i>Affordability Estimates.....</i>	<i>65</i>
<i>Methodology.....</i>	<i>66</i>
<b>Economic Effects .....</b>	<b>68</b>
<i>Cost Impact Summary.....</i>	<i>68</i>
<i>Economic Impacts.....</i>	<i>70</i>
<i>Fiscal Impacts.....</i>	<i>72</i>
<i>Methodology.....</i>	<i>72</i>
<b>Other Economic Impacts.....</b>	<b>76</b>
<i>60 Room Exemption .....</i>	<i>76</i>
<i>Other Hotels in the Region .....</i>	<i>76</i>
<i>Other Businesses in the Region.....</i>	<i>77</i>
<i>LAX as a Trade Gateway.....</i>	<i>77</i>
<i>Reputational Risk.....</i>	<i>79</i>
<i>Methodology.....</i>	<i>81</i>

# Introduction & Summary

The following report assesses the likely economic and fiscal impacts of the April 12, 2023 motion by the Los Angeles City Council to revise current City minimum wage ordinances to require a \$25 an hour wage in 2023 and \$30 in 2028. The higher wages would only apply to a small portion of the City's workforce, limited to workers in hotels of more than 60 rooms and specified workers at LAX.

While the analysis includes aggregate impacts similar to those in other studies already done on the proposed measure, the focus of this report is to unpack those estimates to the extent possible and provide further information on where those impacts will occur and who will be affected, both positive and negative.

Los Angeles along with much of the rest of California is experiencing a cost-of-living crisis, driven heavily by rising housing costs due to persistent shortages along with other factors such as state energy policies that have driven prices to the highest or near highest among the contiguous states. Compared to other parts of the country, Los Angeles (MSA) was the 14<sup>th</sup> most costly urban area in 2019, and rose to 6<sup>th</sup> highest in the most recent data for 2021.

In response, proponents for the proposed increases base much of their arguments on the contention that these wage levels are needed to combat rising living costs and improve housing affordability. Higher wage income may assist in this way for workers able to retain their jobs and hours as employers shift their service offerings and labor cost structures in response to substantially higher payroll costs. As an effective way to deal with these issues, however, the proposed measure is severely lacking:

- **The measure applies only to about 3% of current private sector workers within the wage band that would be affected by the higher wages.** And of these, only about half reside within the City, while the remainder resides in other parts of Los Angeles County and the region, and commutes to the affected jobs in the City.
- **The proposed wage increases entail substantial increases to existing minimum wage levels.** For hotel workers, the increase in 2023 is 27%, and the proposed \$30 level is 31% over the projected wage in 2028. Increases to the LWO for Airport workers would be 33% in 2023, and 38% over the projected 2028 level. Increases under the LWO for Airport contractors would be 49% in 2023, and 54% over the projected 2028 level.
- **For workers who retain their jobs and hours, the income effects will differ based on family composition and tax filing status, number of children, and**

**current eligibility for current income assistance programs.** Using a general case analysis, after-tax family income will vary from 19% to 30% higher under the \$25 level, and 22% to 34% under \$30.

Accounting for all money and non-money income assistance except for public health care subsidies, changes in total family income would vary from a loss of 5% to a gain of 30% under \$25, and a loss of 2% to a gain of 34% under \$30. Incorporating health care programs, the income effect ranges from a loss of 7% to a gain of 30% under \$25, and from a loss of 5% to a gain of 33% under \$30.

The lowest gains/losses would be in families with children due to the effect on tax credits and income assistance eligibility. In particular, single-parent families show a small income loss or near break-even under this analysis.

The measure also does nothing to improve overall housing conditions. Housing supply additions remain well behind local needs, ensuring housing costs will remain high and continue rising in the future:

- **Additions to housing supply in the City in recent years have been larger than in the rest of the County, but still are somewhat lower compared to the rest of the region when looking at total numbers.** These gains, however, fall well short of the targets in the City's Regional Housing Needs Allocation, meeting only 18.5% of the annual target in the most recent year. The number of low-income and below units proposed but not necessarily built in 2021 and 2022 only averaged 24% of the Regional Housing Needs level.
- **In spite of substantial assistance funds flowing to this type of housing in recent years, the homelessness problem in the City continues to rise.** While the rate of increase slowed in 2022, the homeless count was up 12.0% in the City in the most recent release for 2023, and up 13.7% for the County. Affordable housing is being built, but due to extremely high construction and transaction costs, at nowhere near the rate required to stem the problems.
- **In the most recent data from 2022, the average cost of building affordable housing in the City was \$580,800 per unit.** The reasons for these high costs have been repeatedly documented in City Controller audits of the Prop HHH bond program.
- **Other housing costs are rising as well.** Local electricity costs are 48.6% higher than the average in states other than California. Natural gas costs are 38.8% higher. Insurance costs are 27% higher than the California average. Higher local property tax rates result in an additional \$100 a month based on the current average cost for building a unit of affordable housing.



From this perspective, the proposed resolution is likely to have more of a minor inflationary effect rather than significant changes in local housing affordability. By increasing the wages of only a small portion of workers residing in the City without doing more to generate additional supply, the more direct effect is likely to crowd out other lower and mid-wage private and government workers in competition for the available supply. The resolution proposes raising wages so the affected workers can spend more on housing. Solutions that instead resolve the source of these rising costs more broadly would allow all workers to spend more of their wage income on other daily needs.

Individual workers will benefit from more disposable income that can be used for housing, but the effect again will vary depending on household circumstances:

- Housing costs are high for the affected workers but still somewhat below the level that defines housing cost burdened households (defined as a household spending 30% or more of their income on total housing costs including rent/mortgage, utilities, property tax, and association dues). Private sector wage and salary workers in the affected wage band on average spent 25.7% of household income on these housing costs in 2019, rising to 26.3% in 2021.
- Using a general case analysis, the proposed wages would lower housing costs to 23.4% of household income compared to the 2019 factors, and 24.3% using the 2021 factors.
- These gains could be quickly outpaced by continued housing cost increases, a 10.2% rise based on the 2019 factors and 8.5% based on 2021 would eliminate the wage gains. While workers remaining in their current housing likely would be able to remain ahead of the cost curve, workers seeking new housing for any number of reasons including being closer to work could see the affordability gains reduced or eliminated.

These improvements to housing affordability would also apply only in cases where the affected workers retained their jobs and hours. Even in cases where there is no noticeable effect on aggregate employment levels, there will still be distributional effects among the workers especially the lower skilled and those with less experience as employers seek to upgrade overall skill sets to match the higher wages. Such workers losing their jobs or having their hours reduced will see significant impacts to their ability to afford housing including increasing their risk of becoming homeless:

- In one of the most comprehensive studies of its kind to date, a recent report by UCSF's Benioff Homelessness and Housing Initiative found that the leading cause of homelessness—at 21%—among those previously having a signed rental agreement or mortgage was loss of income.

- The effects of sudden income loss are also quantified in a recent paper out of UCSD. Assessing the relationship between rising minimum wage and homelessness, this study estimates that among cities with a continuous rise in minimum wage, a 10% rise in minimum wage increases relative homeless counts by 3-4%.
- The potential effects of sudden income loss from the proposed resolution are estimated in the general case analysis. For private sector wage and salary workers in the affected wage band, a 50% cut in their hours would raise their affordability ratios into cost burdened territory, at 31.8% using the 2019 factors and 32.0% using 2021.
- Losing a job and instead relying on unemployment insurance benefits, the ratios increase further, to 36.0% using the 2019 factors and 35.9% using 2021. These ratios would rise further as the UI benefits run out after 26 weeks.

Over and beyond the debates on whether minimum wage in itself leads to employment loss, the estimates in this study show a 10,670 job loss under \$25 and 12,630 under \$30. The primary cause of these reductions are declines in travel and tourism spending as the result of higher prices pushed by the payroll cost increase. And among these losses, an estimated 65%-68% would be in the industries affected by the proposed resolution. While some workers would see their wage income rise and their ability to afford housing rise under the resolution, these other workers in the same affected industries would see affordability plummet and drop to the point where their risk of homelessness instead rises as well.

Because the resolution is targeted to only 3% of private wage and salary workers within this wage band, the resolution also raises a number of potential equity issues including the following:

- Government workers are not affected. Of the two local governments analyzed, an estimated quarter of the City of Los Angeles employees in 2022 worked in job classifications where at least the beginning salaries fell below the proposed levels. The share at the Department of Airports was much higher, accounting for 39% of City employees in job classifications below the \$25 in 2023 level, and 43% below the \$30 in 2030 level. Adjusted to 2023, total estimated costs to equalize City salaries—including the steps within each classification—would be \$103 million to reach \$25 and \$130 million to reach the equivalent of the \$30 in 2028 level.
- About a quarter of LAUSD employees in 2021 worked in job classifications where at least the beginning salaries fell below the 2022 equivalents of the resolution proposed levels, although the share working in classifications below the \$30 equivalent was slightly higher at 29%. The costs of salary equalization are higher

due to the number of positions with a wider gap from the proposed wage levels. Escalating to 2023 dollars, total estimated costs to equalize LAUSD salaries—including the steps within each classification—are \$326 million for \$25 in 2023 level and \$382 million for \$30.

- Of the primary private wage and salary workers subject to the resolution, only 43% of Hotel workers in the affected wage band in 2021 were in occupations requiring some college or a post-secondary degree. In contrast, 60% of all County workers in this wage band were in occupations requiring this higher level of skills. The Direct Airport workers were in between at 57%. These workers now earn a pay differential based on their skills development. By affecting only 3% of the workers in this wage band, the resolution will erase this difference.

In other arguments, proponents also maintain that the provisions will also expand insurance coverage among low wage workers. However, insurance coverage rates among most of the affected workers are already substantially higher than the overall County average within the affected wage band. The rates are at levels that suggest most workers without coverage are just as likely to be workers in transition waiting to vest for these benefits.

- In 2019, Hotel workers in the affected wage band had a 96% coverage rate, with 78% of those covered under plans provided by an employer or union. The County average in 2019 for all private wage and salary employees in the affected wage band was 85% coverage, and 59% from an employer/union plan.

This rate dropped in 2021, but only due to a steep drop in hotel employees at this wage level from the state-ordered job closures during the pandemic.

- The affected Airport workers show comparative rates, at 90% coverage in 2019 for Air Transportation rising to 95% in 2021, with a somewhat higher share of the coverage coming from employers/unions. Air Transportation Support workers show rates closer to the County average.
- Food Services & Drinking Places workers in this wage band fall somewhat below the County averages, and Retail Trade workers essentially match the averages. However, these two components represent only about 7% of the total affected workers, or 0.2% of all private wage and salary workers within this wage band. While improvements to coverage will benefit these workers individually, the aggregate results would do little to move the overall coverage rates in the City and the County.

The potential benefits of the resolution have to be balanced against its likely costs, and based on the factors discussed in this report, the net impacts are estimated to be negative. While the 3% of workers within the affected wage band subject to this

proposal will see significant increases in their cash wages, others will experience losses as the significant price rises required to accommodate the new wages leads to a reduction in travel and tourism.

Combining both these positive and negative effects, total net employment losses (direct, indirect, and induced effects) are estimated at 10,670 under the \$25 wage, and 12,630 under \$30. Government tax and fee revenues would be affected as well, with City revenues dropping \$52 million from the \$25 level and \$67 million from the \$30 level. All numbers are discounted to 2023. The amounts are the levels that would be associated with increased wage costs in each year.

In addition to these quantitative estimates, the report also addresses additional likely effects in qualitative terms:

- Small Hotels. Given the current labor shortage conditions affecting in particular lower and higher wage industries, other employers especially those within the same industries are likely to come under increased wage pressure as well. While the resolution retains the current 60-room and above standard for hotels, this likely is an exemption without a distinction. Smaller hotels will face comparable wage pressures but will lack cost adjustments options comparable to the larger hotels. The result is likely to be increased closures of these small businesses.
- Hotels in Other Cities. The tourism industry is not limited to the City of Los Angeles, but provides a large employment base throughout the region. Four other cities have hotel minimum wages comparable to Los Angeles, with two of them currently tied to the Los Angeles provisions. To the extent these four follow the resolution's proposals, the impacts estimated for the hotel component and loss of travel and tourism will rise accordingly.

Hotels in other locations especially those closer to the City are likely to face some of the same wage pressure as discussed above for the smaller hotels. The overall reach of this effect will diminish as the affected lower- and mid-wage workers continue to balance the prospects of higher wage compared to their costs of housing and commuting.

- Other Businesses & Consumer Prices. There will be at least some level of cost pressure on other businesses employing workers at this wage level. While some of the affected occupations require specialized training or skills, more involve workers able to transfer easily between industries. Given the relatively small number of workers potentially benefiting from the resolution, this effect is likely to be small but will still exist as long as the current labor shortage conditions continue.

- LAX as a Trade Gateway. The previous impact studies focus on LAX as a key component in the tourism industry infrastructure in Los Angeles. LAX also plays another critical role in the trade infrastructure supporting hundreds of thousands of trade-related jobs in Southern California. By value, LAX handles about 26% of exports moving through the County, and about 19% of imports, generally around the same amount as through the Port of Long Beach.

California's previous lead in trade is now under pressure. Rising costs due to increased regulations affecting the marine ports combined with lasting uncertainty related to the port worker negotiations have seen trade activity gradually shift to other parts of the nation. At the beginning of 2004, the Census Bureau's trade data shows California ports handled 20.6% (12 month moving average) of the nation's import and export trade by value. In the most recent results from May, that share was down to 15.5% as Texas now leads with 20.1%. Rising freight costs due to the resolution will add to these rising cost disadvantages.

- Reputational Risk. The good parts of Los Angeles will be on display during the upcoming Olympics as will be the bad ones, and policies that will spike tourism costs just prior to the events will add to the latter group. Given the spotlight during this period in both traditional and social media, the additional effects on tourism trends and future tourism jobs could be significant.

Jobs within the affected industries are still far from recovery to their prior levels. Applying the County growth rates to the City employment numbers obtained from EDD, Hotel jobs in the City are still an estimated 15% below their pre-pandemic peak. Direct Airport jobs have fared better but are still 2% short. Looking just at hotels, the income effect from this continuing jobs shortfall reverses three-quarters of the benefits coming from the proposed wage increase, but has far more significant affordability effects to those workers who could otherwise be employed.

The ability of City Hotels to accelerate jobs creation, moreover, is hindered by operating conditions that already are more costly than for their competitors elsewhere in the County. In accommodating previous provisions placed on their industry, labor costs measured as a share of revenues are nearly 18% higher for City Hotels. Profitability as measured by EBITDA is nearly half the ratio for hotels elsewhere in the County. The need to remain competitive with other Hotels in the region already has reduced the capacity of those in the City to absorb major new costs.

# Background

## Proposed Resolution

The following report assesses the economic and fiscal impacts of a proposed increase in the minimum wage for certain tourism workers in the City of Los Angeles (City). As contained in a motion on April 12, 2023,<sup>1</sup> this action would amend the current Living Wage Ordinance (LWO)<sup>2</sup> and Hotel Worker Minimum Wage Ordinance (HWMO)<sup>3</sup>:

- Increase minimum wage for hotel (city-wide) and airport (direct employment and contractors) workers to \$25 an hour in 2023, and by \$1 an hour each year after to reach \$30 an hour in 2028. Presumably under current provisions in the two ordinances, the rate would then continue increasing in accordance with the Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers (CPI-W) for the Los Angeles MSA.
- Revise health care provisions by raising the health care credit to meet the average cost of health care coverage, add minimum health benefit requirements including family coverage, and require transparency in health care payments.
- Add a Public Housekeeping Training requirement to the HWMO comparable to the ordinances in Santa Monica and West Hollywood.

The analysis in this report focuses on the expected impacts from the first provision, with the second addressed as information is available.

## Existing Minimum Wage Ordinances

The HWMO sets a separate city-wide minimum wage for hotel workers. The ordinance was substantially amended last year by the Hotel Worker Protection Ordinance (HWPO)<sup>4</sup> that went into effect last August. Among other provisions, the HWPO increased the number of hotels subject to this minimum wage from those with 150 or more rooms to those with 60 or more. When first introduced, this measure previously applied to hotels with 300 or more rooms and any hotel within the Gateway to LA PBID. The HWPO also includes provisions requiring housekeepers to be paid double their hourly rates if they exceed specified daily square footage cleaning rates.

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<sup>1</sup> [https://clkrep.lacity.org/onlinedocs/2014/14-1371-s13\\_misc\\_4-12-23.pdf](https://clkrep.lacity.org/onlinedocs/2014/14-1371-s13_misc_4-12-23.pdf).

<sup>2</sup> <https://bca.lacity.org/Uploads/lwo/Ordinance%2010.15.2018%20Version.pdf>.

<sup>3</sup> <https://wagesla.lacity.org/sites/g/files/wph1941/files/2023-05/Amended%20Citywide%20Hotel%20Worker%20Minimum%20Wage%20Ordinance.pdf>.

<sup>4</sup> [https://hotelassociationla.com/wp-content/uploads/2022/07/Final-LA-WPO\\_22-1100-S3\\_ord\\_7-7-22.pdf](https://hotelassociationla.com/wp-content/uploads/2022/07/Final-LA-WPO_22-1100-S3_ord_7-7-22.pdf).

The LWO sets a separate minimum wage for airport workers (broadly applied) and includes a separate component to cover health benefits if the employer does not provide health coverage.

The City also sets its own general minimum wage under the Minimum Wage Ordinance.<sup>5</sup> Another Healthcare Worker Minimum Wage ordinance passed in 2022 is currently on hold pending a referendum.

The current and related rates effective July 1, 2023:

California minimum wage:	\$15.50
Los Angeles County, unincorporated areas:	\$16.90
City of Los Angeles, LWO for City contractors:	\$16.78 plus \$1.25 health benefit
City of Los Angeles, LWO for airport workers:	\$18.78 plus \$5.95 health benefit
City of Los Angeles, HWMO:	\$19.73

In addition, other cities within Los Angeles County set their own minimum wage levels separately, affecting workers who live in the City but who work at jobs in these locations. Four cities also set their own Hotel minimum wages: Glendale, Santa Monica, Long Beach, and West Hollywood. The first two are tied to the City of Los Angeles rate. The 2023 rate for Long Beach is \$17.55, and West Hollywood at \$19.08.

## **Purpose of the Study**

Two other impact studies have already been conducted of the proposed resolution. While this report builds on their assumptions and results to the extent possible, the purpose is not to just prepare just another set of numbers. Rather, this report instead attempts to put those estimates more into context, and provide additional information on the incidence of the likely impacts rather than the total or economy-wide type of conclusions typically found in this type of study. The intent is not just to estimate the impacts, but provide more information on where they will occur and who they will affect.

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<sup>5</sup> <https://wagesla.lacity.org/sites/g/files/wph1941/files/2021-08/Los%20Angeles%20Minimum%20Wage%20Ordinance%20184320.pdf>.

# Previous Research

## Economic Effects of Minimum Wage Increases

There are a substantial number of economic studies assessing the effects of minimum wage increases, focused largely on broader-based national or state proposals prior to the 1990s and after that period, on local or industry-based proposals as campaigns for higher minimum wages shifted their focus. Not surprisingly, the sheer volume of these studies has produced sometimes conflicting conclusions, with both sides on an issue pointing to individual assessments that conclude there are no employment effects, negative employment effects, or even positive outcomes. For instance, the recent Lester study discussed below restricts its literature review to a sampling of the studies showing no effects even though none have addressed an increase of the magnitude and selectivity as that being considered in the Los Angeles resolution.

Rather than doing yet another literature review as part of this report, a recent study by Neumark and Shirley<sup>6</sup> conducted a comprehensive analysis of all published minimum wage studies, including those cited in the Lester study, since 1992. As with the more generalized conclusions often prefacing minimum wage impact studies, this paper similarly found a range of individual study outcomes from negative to no significant change to positive. But the Neumark and Shirley paper goes beyond the generalizations and instead quantifies these differences. Rather than supporting a conclusion that “. . . recent studies have convincingly shown that minimum wage increases do not lead to significant disemployment effects,” as stated in the Lester report, the results instead show that on balance published papers have been far more likely to report a negative employment effect, both overall and more specifically on the types of workers that would be subject to the proposed increase.

The basic conclusions of the Neumark and Shirley paper:

- 79.2% of the employment elasticities estimated in the published literature since 1992 are negative; 53.8% are significant at the 10% level or better, and 46.2% are significant at the 5% level or better. The median employment elasticity in the literature is -0.115.<sup>7</sup>

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<sup>6</sup> David Neumark and Peter Shirley, *Myth or Measurement: What Does the New Minimum Wage Research Say About Minimum Wages and Job Loss in the United States?*, National Bureau of Economic Research, Working Paper 28388, Revised March 2022.

<sup>7</sup> Employment elasticity means that, in this case, for every 1% increase in the minimum wage, there is a 0.115% decrease in employment.



- At the other end, 20.8% are positive; but only 5.4% are significant at the 10% level or better, and 3.8% are significant at the 5% level or better.
- The literature also identifies strong negative employment effects for specific types of workers: 80.0% of estimated employment elasticities in studies of teens are negative (57.8% at 10% significance or better), 82.5% for young adults (57.1% at 10% significance or better), 78.6% for less educated workers (50.0% at 10% significance or better), and 75.0% for studies of workers directly affected by the wage increases (75.0% at 10% significance or better). The median employment elasticities are -0.122 for teens, -0.160 for young adults, -0.177 for less educated workers, and -0.130 from studies looking at directly affected workers.
- The literature is more mixed on studies focused on low-wage industries, with 64.5% of estimated employment elasticities negative (32.3% at 10% significance or better) and 35.5% positive (16.1% at 10% significance or better). The median employment elasticity is -0.023

While the final bullet indicates less of a preponderant effect from studies of low-wage industries, this outcome is not inconsistent with the previous ones. In addition to the typical employer responses to a minimum wage increase discussed in the Lester and Oxford Economics studies summarized below, the Neumark and Shirley paper also assesses the likely importance of labor-labor substitution to these results. Most impact analyses assess the effects of a minimum wage increase from four general components: (1) reduced labor as automation is substituted to increase productivity in line with the higher compensation costs, (2) reduced labor as operational changes are applied such as moving from full service to self-service, (3) price changes, both through direct increases or indirectly such as through smaller portions or reduced range/frequency of services, and (4) changes in income for those workers receiving a higher wage either directly or as the result of wage compaction.

Labor-labor substitution is an additional response under which employers substitute the lowest-skilled workers by shifting production more to workers with a higher or broader skills set. The lower-wage industry studies may show less of a net effect, but significant effects can still take place for lower skilled teens, young adults, and less educated workers as the worker composition shifts.

The overall conclusions of the Neumark-Shirley paper are also reflected in studies of significant minimum wage increases on the scale of what is being proposed in the resolution. For example, a study by the nonpartisan Congressional Budget Office<sup>8</sup> of a proposal to raise the federal minimum wage to \$15 an hour concluded that in their mean estimates, the higher wage would reduce employment by 0.9%, with half of the workers

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<sup>8</sup> Congressional Budget Office, The Budgetary Effect of the Raise the Minimum Wage Act of 2021, February 2021.

losing their job still unemployed in the full implementation year. Young and less educated workers would make up a “disproportionate share” of the total employment losses.

The point of these conclusions is not that the effects of minimum wage increases are necessarily negative. Instead, there are well documented costs of these policy changes that must be considered in a full analysis of individual proposals, balancing the negative effects such as job losses especially for specific sets of workers and increased prices against the benefits accruing to those still employed under the high wage.

Applying the results from the Neumark-Shirley paper, employment of Hotel workers would be expected to drop by 0.8% (\$25) to 0.9% (\$35) if the median low-wage elasticity is used. The drop would be higher at 4.1% to 4.6% if the overall median elasticity is used instead.

## **Lester Study**

The Lester study<sup>9</sup> is one of two studies completed to date assessing the potential effects from the proposed resolution. In order to build on these studies to the extent possible, both were reviewed to incorporate consistent assumptions and data sources where possible in this report.

The Lester study in general focuses on an estimate of potential benefits from the resolution. In spite of wage increases of up to 54%, no effects on employment are assumed, and any resulting cost increases will either be absorbed or produce price increases that are irrelevant since they will be paid largely by persons outside of Los Angeles. The study also assumes there will be no changes in tourism or other hotel and airport use as the result of these substantial price changes. Compensating reductions included in the analysis cover only the reduction in business income due to the cost absorption component along with an estimate of how much of the higher prices will be paid by local residents.

The core conclusions:

- Total wages will increase \$542.6 million affecting 36,435 workers in 2023, and by \$890.2 million affecting 40,036 workers in 2028.
- Spending this additional income will generate an additional 1,464 jobs and \$288 million in economic output in Los Angeles County.
- The total increases will generate an additional \$40 million in tax revenues.

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<sup>9</sup> T. William Lester, Estimating the Impacts of the Proposed Tourism Workers Living Wage Ordinances for the City of Los Angeles, May 3, 2023.

## Key assumptions:

- Considers direct wage changes for both the hotel and LAX components, but does not appear to include the additional health insurance costs under the resolution, total compensation cost increases (payroll taxes and benefits), or results from wage compaction—the additional wage increases that will be required to keep appropriate wage bands in place as newly hired employees and workers in lower skilled occupations begin earning at rates close to those of other current workers and occupations in the affected businesses.
- The study considers the potential costs in isolation, one of the factors in its conclusion that cost impacts will have few job impacts or at worst impacts that are largely absorbable. Does not consider the existing cost impacts already impacting the affected businesses from previous actions, in particular the Hotel Worker Protection Ordinance (HWPO) that went into effect only last August.
- Affected number of hotel workers was calculated in two components. Total number of workers was estimated using US Census Bureau, County Business Patterns and related data, adjusted to estimate the City’s portion and projected to 2023 and 2030, resulting in a location-based estimate. The number of workers likely to be eligible for a wage increase instead was estimated using residence data, calculated for the City of Los Angeles using the 5-year American Community Survey variables for reported income and hours worked to estimate current hourly rates. Note that this approach adds some uncertainty to the numbers due to the fact that it covers hotel workers who live in the City of Los Angeles and may work anywhere in the region at wages below the City’s various requirements, while at the same time many employed in the City’s hotels live elsewhere.
- This study in general refers to “tourism workers” without detailing the portion that would be affected by the resolution’s provisions. The estimates consequently incorporate both workers currently earning the City minimums with residents working elsewhere under different wage standards. Although unclear, the study may also be mixing large numbers of lower wage workers in related tourism industries with Hotel and Airport workers already subject to a higher wage scale, particularly in its analysis of issues such as insurance coverage and housing affordability.
- The estimates of affected LAX workers are location based, using Census Bureau, Local Origin-Destination Employment Statistics (LODES) to estimate the total number of workers in the relevant census blocks. This number was disaggregated into industry estimates and then wage estimates using the Employment Development Department occupational data and other sources.

- Total economic impacts and fiscal impacts were estimated using the IMPLAN model.

## **Oxford Economics Study**

The Oxford Economics study<sup>10</sup> considers the effects of the resolution from a broader set of factors, including both the potential benefits and various offsetting costs from this action. In addition to the resolution, this study also assesses potential impacts from the Responsible Hotel Ordinance set for the ballot in 2024.

The core conclusions:

- Annually, the \$25 wage in 2023 would reduce business sales in the City by \$1.9 billion, visitor spending by \$846 million, and construction spending for new hotels and renovations by \$321 million. These reductions would result in 12,187 lost jobs and \$115 million in lower state and local tax revenue.
- The \$30 wage by 2030 would increase business sale losses to \$2.3 billion annually, visitor spending losses to \$1.1 billion, and construction spending losses to \$342 million. Job losses would increase to 14,870 and tax revenue losses to \$142 million.

Key assumptions:

- Considers impact on total labor costs along with health care provisions (assumed to be 30% of payroll on average) and wage compaction costs. Likely cost responses determined through interviews with affected local employers. Effects are analyzed from a base that covers existing cost increases occurring from the wage and operating provisions effective beginning last August under the HWPO.
- Hotel costs are estimated using operating data from STR/Costar. After adjusting for cost reduction actions including reducing hours, staffing, and services, total hotel payroll is estimated to increase \$339 million in 2023 and \$421 million in 2030. After adjusting for room demand lost due to higher rates, net room revenues are estimated to increase only \$21.5 million in 2023 and \$26.7 million in 2030.
- Capital spending is expected to drop as hotels continue to delay renovation spending that began after the HWPO became effective last August. Spending on renovations is estimated to drop \$90.2 million and new construction by \$230.9

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<sup>10</sup> Oxford Economics, Economic Impact of City Council Motion Economic Impact of City Council Motion (April 12, 2023) to Amend LWO and LA HWMO, May 2023.

million annually in 2023, increasing to \$93.5 million and \$248.7 million, respectively, by 2030.

- The LAX analysis considers only airlines and service providers. Los Angeles World Airports staff costs and airport concessionaires are not included. As passengers decline by an estimated 1.3 million in 2023 and 2.0 million in 2030 due to price increases, net labor costs (wage increases less staff reductions) for airlines and service providers are estimated at \$250.4 million and \$369.6 million, respectively.
- Combining the effects of lower wages and benefits due to reduced visitor spending and hotel capital spending balanced against the increases for hotels, the included LAX costs, and resulting induced effect from household spending, net wages and benefits would increase \$8.5 million annually in 2023 and \$104.9 million by 2030.

# Profile of Lower & Mid-Wage Workers

Much of the debates over minimum wage revolves around its effects on poverty and, as is the case of the current resolution, on its potential to assist lower income households with rising costs of living. Particularly coming from proponents of these proposals, the working assumption often appears to be that minimum wage jobs are terminal points in a lifetime jobs path, and consequently the only means of addressing poverty and cost of living challenges is to raise the wage of those jobs.

The actual situation is more complex. There are workers who remain in these jobs for long periods of time, but they also provide employment in a wide range of different conditions. Youth workers historically have relied on these as entry-level jobs to begin early acquisition of workplace skills, a critical factor in lifetime wage and earnings potential. Immigrants have used them as gateway jobs providing the first step in becoming part of the state and national economy. Students rely on them for part-time income required to help make higher skills development more affordable. These jobs have also been an important source for secondary household income, temporary household income to meet an upcoming expenditure, and supplemental income in particular for retirees.

Because of these factors, a Congressional Budget Office (CBO) analysis<sup>11</sup> of proposals to raise the federal minimum wage from \$7.50 an hour to \$15.00 concluded that about 40% of the potentially affected workers were in families earning more than three times poverty income. Wage policies that result in the loss of these jobs either more generally or to specific groups of workers also consequently carry other effects on income beyond the immediate changes in paychecks, particularly such as in the case of Youth and Young Adults where wages rise to the point they exceed productivity levels for the lower skilled and unskilled.

## Economic & Demographic Factors

Using American Community Survey (1-year) data, this section provides a demographic profile of lower and mid-wage workers based on where they reside, covering both City of Los Angeles and Los Angeles County. As discussed in the following section, well over 80% of lower wage workers at jobs located in the City reside within the County while only about half reside in the City. The County data consequently provides a more complete profile for the City's workforce and is used later in the various estimates.

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<sup>11</sup> Congressional Budget Office, "The Effects on Employment and Family Income of Increasing the Federal Minimum Wage," July 2019.

Data is shown for both 2019 to reflect pre-pandemic conditions and the most recent data for 2021. The 2021 data while providing the most current reflects the recovery conditions that year. The state-ordered job closures were not lifted until July 2021. Lower wage jobs were affected by those closures to a far greater extent than other wage levels who were more likely to continue through telework. The 2019 results while reflecting a “normal” that may not necessarily become normal again thereby provides a more complete profile of the workers likely to be affected by the resolution. To simplify the text, all tables referenced in the discussion are presented in a separate section below.

### **Minimum Wage Workers as a Share of All Workers**

Looking at all workers, the share with hourly earnings at or less than the City’s minimum wage has changed little, at 23% of workers in 2019 for both the City and County and 24% for both in 2021. Those working at or below the City’s Hotel Minimum Wage showed more variation due to the effect of state pandemic policies on lower wage jobs. Employment at or below that level accounted for 36% in 2019 (both City and County), dropping to 31% in 2021. The differences by area are not substantial.

For the component parts of the industries subject to the proposed wages in the resolution:

- The share of workers with primary jobs in Hotels and earning less than the City’s Hotel Minimum Wage is higher, at 41% in 2019. This share jumps to 47% in 2021, reflecting the increase in the City Minimum Wage but also indicating the extent to which residents of the City work at hotel job locations not subject to the City’s ordinances. The differences by area are not substantial.
- The direct Airport (NAICS 491 and 488) employees earning at or below the City’s Hotel Minimum Wage reflect the generally higher wage structure in these industries, accounting for 31% of direct Airport employees in 2019. Most differences by area and year are not substantial except that the comparable City share for direct Airport drops to 25% in 2021. Due to their much larger size overall and much smaller presence in the total number of jobs likely to be affected by the resolution, Retail Trade and Food Services are shown separately. Both have a significantly larger share of workers below both the City Minimum Wage and Hotel Minimum Wage, but conversely due to the relatively small numbers likely to be affected, will have the lowest benefits of the Airport components coming from the resolution.

### **Minimum Wage Workers by Industry**

By industry, lower wage residents (City Minimum Wage and below) were most likely to have their primary job in Food Services & Drinking Places, Retail Trade, or Government.

This ranking is the same for both the City and County. Combined, these three industries encompassed 42% of workers at this wage level in the City and 41% in the County. While somewhat lower, the results for 2021 are not substantially different. Hotel (NAICS 7211) and direct Airport (NAICS 491 and 488) employees accounted for 2% of all workers, whether measured as those earning at or below the City’s Minimum Wage or Hotel Minimum Wage.

**Minimum Wage Workers by Family Income**

Workers by Family Income are shown based on the applicable State Income Limits in each year from the California Department of Housing & Community Development for a family of 4 in Los Angeles County. The resulting income bands are: up to Extremely Low Income (which includes Acutely Low), Extremely Low to Very Low Income, Very Low to Area Median Income (AMI), AMI to Moderate Income (which includes Low Income), and Above Moderate Income. The income breakpoints in each year are:

	2019	2021	2022	2023
Extremely Low Income	\$31,300	\$35,450	\$35,750	\$37,850
Very Low Income	\$52,200	\$59,100	\$59,550	\$63,050
Area Median Income	\$64,800	\$80,000	\$91,100	\$98,200
Moderate Income	\$77,750	\$96,000	\$109,300	\$117,850
Above Moderate	\$77,750+	\$96,000+	\$109,300+	\$117,850+

As expected, workers earning the City Minimum Wage or less predominantly come from lower income families, but a substantial share are in higher income families as well. Reflecting the earlier CBO analyses, 33% of workers residing in the City and 38% in the County in 2019 were in families earning more than AMI. These shares moderated only slightly in 2021 and are not substantially different from the 2019 results.

Using the County numbers, 51% of Hotel (NAICS 7211) workers in 2019 earning between the Hotel Minimum Wage and the \$25 equivalent were in families with incomes below AMI. The remaining 49% were in families already earning incomes above AMI. This distribution was not substantially different in 2021. For the increment between \$25 and the \$30 equivalent, the potential beneficiaries were split 44% below AMI and 56% above in 2019. In 2021, 100% of this increment was below AMI, reflecting the hollowing out of hotel employment from the state-ordered job closures.

The direct Airport (NAICS 491 & 488) numbers are similar for the increment between Hotel Minimum Wage and \$25 equivalent, at 50% below and 50% above in 2019, but shifting to 61% below and 38% above in 2021. The \$25 to \$30 increment is more skewed, with 85% above AMI in 2019 and 79% above in 2021.



### **Minimum Wage Workers by Sex**

Compared to the total (48%), women are only slightly more likely (50%) to earn at or below the City Minimum Wage. The differences by year and area are not substantial.

For the industries directly affected by the resolution, women make up a larger share of both total employment and lower wage workers in Hotels, and smaller shares among direct Airport employees. For those earning at or below the Hotel Minimum Wage, 56% of employees with primary jobs in Hotels were women in 2019 compared to their overall 48% of all Hotel employees, rising to 64% in 2021 compared to a 52% share of all Hotel employees. For direct Airport (NAICS 491 & 488) employees, 46% at this wage level were women in 2019 compared to a 36% of all direct Airport employees, dropping to 24% in 2021, or close to the 28% share of all direct Airport employees.

### **Minimum Wage Workers by Age**

Employees below the City Minimum Wage tend to be younger than employees overall. Youth employment is low in all wage categories, illustrating one of the key impacts of increasing minimum on this age level and the likelihood of early development of the workplace skills critical to future wage and income potential. However, Young Adults (age 19-25) are much more prevalent at this wage level, accounting for 23% of the total in 2019, compared to only 13% of all wage earners. This distribution reflects the importance of minimum wage jobs as entry-level jobs especially for younger workers just beginning to develop marketable skills. Differences by area and year are not substantial.

For those earning at or below the Hotel Minimum wage, employees with a primary job in Hotels also tend to be younger than workers overall, but at shares that are somewhat lower (18% for Young Adults). The share for Young Adults increases slightly to 21% in 2021. Youth employment is absent in all cases.

For direct Airport (NAICS 491 & 488), workers at or below the Hotel Minimum Wage are more concentrated in the prime working age group (26-54). Young Adults are still more prevalent than their share in the overall total, at 13% in 2019 and rising to 21% in 2021.

### **Minimum Wage Workers by Education**

The table on Education shows the distribution of employees by the highest level of education as of the year of each survey. As a result, it includes employees that have no plans to go beyond those educational levels as well as employees in the middle of securing the next credential level. For example, those shown earning below minimum wage with some college but less than a college degree includes students working at this pay level.

Looking at All Industries, those earning at or below the City Minimum Wage includes a much higher share of employees with a High School diploma or less, at 56% of employees residing in the City earning at this wage level compared to 33% share for this educational level of all employees living in the City. Differences by area and year are not substantial.

For wages at or below the Hotel Minimum Wage, the share of Hotel employees with a high school diploma or less earning at or below this wage level is similar at 52% in 2019, but this number is not substantially different from the share of this educational level among all Hotel employees which comes in at 50%. In 2021, the share below this wage level rises to 58%, while the share of this educational level among all Hotel employees dips to 48%.

The shift for direct Airport (NAICS 491 & 488) employees is more substantial. In 2019, the share of direct Airport employees with a high school diploma or less was 52% of those earning Hotel Minimum Wage or less, compared to a 36% share of all direct Airport employees. In 2021, the shares rose to 68% earning at this wage level, compared to a 43% share of all direct Airport employees.

### **Minimum Wage Workers by Nativity**

As discussed previously, minimum wage jobs also provide gateway jobs for immigrants, particularly for those who are lower skilled or unskilled. In the table, US denotes workers who are citizens based on birth either in the US or in other countries from parents who are US citizens. Immigrant covers both naturalized citizens and non-citizens. Due to the nature of surveys and the specific data, this last component is likely underestimated.

Immigrants are more likely to be earning at or below the City Minimum Wage, at 50% for City residents in 2019 compared to their 40% share of all workers. Differences by area and year are not substantial except that the share of immigrants earning less than City Minimum Wage drops to 43% in the County data for 2021.

For wages at or below the Hotel Minimum Wage, immigrants make up two-thirds of workers in Hotels at this wage level in 2019, dropping to 48% in 2021 and indicating that access to this type of gateway job was cut back substantially as the tourism industry sustained major job losses during the state-ordered closures.

For direct Airport (NAICS 491 & 488), immigrants again are at a somewhat higher share of 48% at this wage level in 2019, dropping to 40% in 2021.

### **Minimum Wage Workers by Race & Ethnicity**

Latinos are more likely to be earning at or below the City Minimum Wage, with 65% of employees residing in the City at this wage level compared to a 46% share of all employees. Black employees at this wage level basically reflect their share of all employees. White and Asian/Pacific Islanders are below their total shares. The differences by area and year are not substantial.

At Hotel Minimum Wage or less, Latinos are 75% of employees at this wage level for Hotels in 2019 compared to a 63% share of all Hotel employees. The Asian/Pacific Islander share is only slightly below their total share, while the Black share at this wage level is half their share of all employees. The Latino share at this wage level dropped to 63% in 2021 to only slightly above their share of total Hotel employees. The Asian/Pacific Islander share was essentially constant, and Blacks rose from 3% to 12%.

For direct Airport (NAICS 491 & 488), Latinos are 54% of employees at this wage level in 2019 compared to their 44% share of all employees, with Blacks and Asian/Pacific Islanders represented at shares substantially equal to their share of all direct Airport employees. The differences in 2021 are not substantial except for Latinos who rise to 58% of employees at this wage level compared to a 49% share of all direct Airport employees.

# Profile Tables

## Lower to Mid-Wage Employees by Industry, 2019

Source: Analysis of American Community Survey microdata

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>City of Los Angeles</b>						
Agriculture, Forestry, Fishing, & Hunting	0%	1%	0%	0%	0%	0%
Mining, Quarrying, & Oil & Gas Extraction	0%	0%	0%	0%	0%	0%
Construction	5%	5%	6%	6%	4%	5%
Manufacturing	10%	9%	8%	9%	7%	8%
Wholesale Trade	2%	3%	4%	3%	3%	3%
Retail Trade	15%	15%	11%	8%	6%	10%
Transportation & Warehousing	5%	6%	5%	7%	3%	4%
Utilities	0%	0%	0%	0%	0%	0%
Information	2%	3%	5%	4%	10%	6%
Finance & Insurance	1%	3%	3%	5%	6%	4%
Real Estate & Rental & Leasing	2%	2%	2%	2%	2%	2%
Professional, Scientific, & Technical Svcs	3%	4%	6%	6%	14%	9%
Management Of Companies & Enterprises	0%	0%	0%	0%	0%	0%
Admin & Support & Waste Mgmt	7%	6%	5%	6%	3%	5%
Educational Services	3%	4%	4%	5%	4%	4%
Health Care & Social Assistance	7%	7%	10%	17%	10%	9%
Arts, Entertainment, & Recreation	2%	4%	3%	3%	3%	3%
Accommodations	1%	1%	2%	2%	1%	1%
Food Services & Drinking Places	16%	12%	7%	3%	3%	8%
Other Services	6%	6%	5%	3%	3%	5%
Government	11%	9%	10%	10%	15%	13%
Total	100%	100%	100%	100%	100%	100%
<b>County of Los Angeles</b>						
Agriculture, Forestry, Fishing, & Hunting	1%	1%	0%	0%	0%	0%
Mining, Quarrying, & Oil & Gas Extraction	0%	0%	0%	0%	0%	0%
Construction	5%	5%	6%	7%	5%	5%
Manufacturing	10%	10%	10%	12%	9%	10%
Wholesale Trade	4%	4%	4%	4%	3%	3%
Retail Trade	15%	14%	11%	9%	6%	10%
Transportation & Warehousing	6%	7%	6%	6%	4%	5%
Utilities	0%	0%	0%	0%	1%	0%
Information	2%	2%	3%	4%	7%	5%
Finance & Insurance	1%	3%	4%	4%	6%	4%
Real Estate & Rental & Leasing	1%	1%	2%	2%	2%	2%
Professional, Scientific, & Technical Svcs	3%	4%	5%	5%	12%	8%
Management Of Companies & Enterprises	0%	0%	0%	1%	0%	0%
Admin & Support & Waste Mgmt	7%	5%	5%	5%	3%	5%
Educational Services	3%	4%	4%	3%	4%	4%
Health Care & Social Assistance	7%	9%	10%	14%	11%	10%
Arts, Entertainment, & Recreation	3%	4%	3%	2%	3%	3%
Accommodations	1%	1%	2%	1%	1%	1%
Food Services & Drinking Places	15%	10%	7%	4%	3%	7%
Other Services	6%	6%	5%	5%	3%	4%
Government	11%	10%	12%	12%	18%	14%
Total	100%	100%	100%	100%	100%	100%

## Lower to Mid-Wage Employees by Industry, 2021

Source: Analysis of American Community Survey microdata

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>City of Los Angeles</b>						
Agriculture, Forestry, Fishing, & Hunting	1%	0%	1%	1%	0%	0%
Mining, Quarrying, & Oil & Gas Extraction	0%	0%	0%	0%	0%	0%
Construction	5%	8%	6%	9%	5%	5%
Manufacturing	9%	7%	8%	15%	7%	8%
Wholesale Trade	3%	4%	2%	1%	2%	3%
Retail Trade	15%	13%	13%	13%	7%	10%
Transportation & Warehousing	6%	5%	5%	4%	4%	4%
Utilities	0%	0%	0%	0%	0%	0%
Information	2%	3%	6%	5%	10%	7%
Finance & Insurance	2%	3%	3%	3%	5%	4%
Real Estate & Rental & Leasing	2%	2%	3%	2%	2%	2%
Professional, Scientific, & Technical Svcs	3%	3%	6%	6%	14%	9%
Management Of Companies & Enterprises	0%	0%	0%	0%	0%	0%
Admin & Support & Waste Mgmt	8%	7%	6%	3%	3%	5%
Educational Services	3%	4%	4%	6%	5%	4%
Health Care & Social Assistance	7%	11%	11%	15%	10%	10%
Arts, Entertainment, & Recreation	2%	2%	2%	1%	3%	3%
Accommodations	1%	1%	1%	0%	1%	1%
Food Services & Drinking Places	13%	12%	7%	2%	3%	7%
Other Services	7%	5%	5%	4%	3%	4%
Government	10%	10%	12%	9%	15%	13%
Total	100%	100%	100%	100%	100%	100%
<b>County of Los Angeles</b>						
Agriculture, Forestry, Fishing, & Hunting	1%	1%	0%	1%	0%	0%
Mining, Quarrying, & Oil & Gas Extraction	0%	0%	0%	0%	0%	0%
Construction	5%	6%	6%	6%	5%	5%
Manufacturing	10%	9%	10%	11%	9%	9%
Wholesale Trade	4%	4%	4%	3%	3%	3%
Retail Trade	16%	16%	12%	14%	7%	11%
Transportation & Warehousing	7%	7%	6%	7%	4%	5%
Utilities	0%	0%	0%	1%	0%	0%
Information	2%	2%	3%	3%	7%	5%
Finance & Insurance	2%	3%	3%	2%	5%	4%
Real Estate & Rental & Leasing	1%	2%	2%	2%	2%	2%
Professional, Scientific, & Technical Svcs	3%	3%	5%	6%	12%	8%
Management Of Companies & Enterprises	0%	0%	0%	0%	0%	0%
Admin & Support & Waste Mgmt	7%	6%	5%	4%	3%	4%
Educational Services	3%	4%	4%	5%	4%	4%
Health Care & Social Assistance	8%	11%	11%	11%	11%	10%
Arts, Entertainment, & Recreation	2%	2%	2%	1%	3%	2%
Accommodations	1%	1%	1%	1%	1%	1%
Food Services & Drinking Places	13%	10%	7%	4%	3%	6%
Other Services	6%	4%	5%	3%	3%	4%
Government	11%	10%	13%	15%	18%	15%
Total	100%	100%	100%	100%	100%	100%

## Lower to Mid-Wage Employment by Wage Level

Source: Analysis of American Community Survey microdata

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>City of Los Angeles, 2019</b>						
All Employment	23%	13%	14%	2%	47%	100%
Hotel (NAICS 7211)	26%	13%	32%	3%	25%	100%
Airport (NAICS 491& 488)	18%	13%	16%	2%	51%	100%
Retail Trade (NAICS 44-45)	34%	19%	16%	2%	30%	100%
Food Services & Drinking Places (NAICS 722)	46%	20%	13%	1%	19%	100%
<b>County of Los Angeles, 2019</b>						
All Employment	23%	13%	14%	3%	48%	100%
Hotel (NAICS 7211)	29%	13%	27%	3%	29%	100%
Airport (NAICS 491& 488)	17%	14%	15%	3%	51%	100%
Retail Trade (NAICS 44-45)	35%	18%	16%	2%	29%	100%
Food Services & Drinking Places (NAICS 722)	48%	18%	14%	1%	19%	100%
<b>City of Los Angeles, 2021</b>						
All Employment	24%	9%	12%	1%	54%	100%
Hotel (NAICS 7211)	35%	13%	16%	0%	36%	100%
Airport (NAICS 491& 488)	14%	11%	11%	2%	62%	100%
Retail Trade (NAICS 44-45)	34%	12%	15%	1%	37%	100%
Food Services & Drinking Places (NAICS 722)	45%	15%	13%	0%	26%	100%
<b>County of Los Angeles, 2021</b>						
All Employment	24%	9%	13%	1%	54%	100%
Hotel (NAICS 7211)	36%	11%	13%	1%	39%	100%
Airport (NAICS 491& 488)	21%	10%	15%	2%	52%	100%
Retail Trade (NAICS 44-45)	35%	13%	14%	1%	36%	100%
Food Services & Drinking Places (NAICS 722)	48%	14%	13%	1%	25%	100%

## Low & Mid-Wage Employment by Family Income Level

Source: Analysis of American Community Survey microdata

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
	<b>All Industries: City of Los Angeles, 2019</b>						<b>All Industries: City of Los Angeles, 2021</b>					
Extremely Low & Below	34%	26%	11%	3%	5%	15%	40%	29%	14%	18%	8%	17%
Extremely to Very Low	19%	21%	30%	30%	8%	16%	18%	22%	30%	28%	10%	31%
Very Low to AMI	13%	15%	15%	19%	14%	14%	12%	13%	14%	15%	14%	12%
AMI to Moderate	7%	8%	8%	8%	8%	8%	6%	7%	9%	9%	9%	7%
Above Moderate	26%	30%	36%	40%	65%	47%	24%	29%	33%	30%	60%	34%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	<b>All Industries: County of Los Angeles, 2019</b>						<b>All Industries: County of Los Angeles, 2021</b>					
Extremely Low & Below	30%	21%	8%	3%	4%	13%	33%	24%	12%	12%	6%	13%
Extremely to Very Low	18%	20%	27%	25%	7%	15%	18%	20%	27%	25%	9%	24%
Very Low to AMI	14%	15%	15%	14%	12%	14%	13%	14%	14%	16%	13%	15%
AMI to Moderate	8%	9%	9%	11%	8%	8%	7%	9%	8%	10%	8%	7%
Above Moderate	30%	34%	40%	47%	69%	51%	29%	33%	38%	37%	64%	41%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	<b>Hotel (NAICS 7211): City of Los Angeles, 2019</b>						<b>Hotel (NAICS 7211): City of Los Angeles, 2021</b>					
Extremely Low & Below	33%	22%	6%	0%	14%	17%	50%	7%	11%	0%	9%	14%
Extremely to Very Low	26%	25%	45%	47%	17%	31%	15%	36%	17%	100%	16%	16%
Very Low to AMI	6%	35%	10%	19%	6%	12%	22%	19%	18%	0%	12%	11%
AMI to Moderate	0%	8%	8%	0%	14%	7%	2%	0%	22%	0%	11%	8%
Above Moderate	35%	11%	31%	34%	49%	34%	11%	39%	31%	0%	53%	51%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	<b>Hotel (NAICS 7211): County of Los Angeles, 2019</b>						<b>Hotel (NAICS 7211): County of Los Angeles, 2021</b>					
Extremely Low & Below	24%	17%	5%	0%	9%	13%	41%	6%	7%	0%	12%	12%
Extremely to Very Low	25%	21%	32%	34%	15%	24%	21%	30%	16%	100%	16%	12%
Very Low to AMI	18%	23%	14%	10%	11%	15%	17%	25%	26%	0%	12%	15%
AMI to Moderate	7%	7%	8%	5%	6%	7%	7%	2%	13%	0%	7%	8%
Above Moderate	27%	32%	41%	51%	59%	41%	14%	37%	38%	0%	53%	53%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2019</b>						<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2021</b>					
Extremely Low & Below	44%	23%	3%	0%	6%	14%	49%	43%	15%	72%	6%	23%
Extremely to Very Low	19%	11%	42%	13%	8%	16%	13%	22%	21%	28%	12%	19%
Very Low to AMI	11%	13%	2%	0%	14%	11%	6%	11%	21%	0%	29%	17%
AMI to Moderate	11%	19%	2%	0%	6%	8%	4%	4%	10%	0%	2%	8%
Above Moderate	15%	33%	52%	87%	66%	51%	28%	20%	33%	0%	51%	33%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2019</b>						<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2021</b>					
Extremely Low & Below	36%	20%	3%	0%	5%	12%	31%	32%	15%	15%	5%	21%
Extremely to Very Low	10%	20%	27%	5%	7%	12%	20%	23%	29%	6%	8%	20%
Very Low to AMI	18%	15%	20%	10%	13%	15%	14%	16%	17%	0%	23%	17%
AMI to Moderate	11%	13%	4%	0%	7%	8%	6%	8%	14%	34%	3%	7%
Above Moderate	25%	32%	46%	85%	67%	53%	28%	21%	24%	45%	60%	35%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## Lower to Mid-Wage Employees by Sex

Source: Analysis of American Community Survey microdata, University of Minnesota, IPUMS

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>All Industries: City of Los Angeles, 2019</b>							<b>All Industries: City of Los Angeles, 2021</b>					
Male	50%	54%	53%	51%	54%	52%	49%	50%	52%	50%	54%	52%
Female	50%	46%	47%	49%	46%	48%	51%	50%	48%	50%	46%	48%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>All Industries: County of Los Angeles, 2019</b>							<b>All Industries: County of Los Angeles, 2021</b>					
Male	49%	52%	52%	53%	55%	53%	49%	51%	52%	53%	54%	52%
Female	51%	48%	48%	47%	45%	47%	51%	49%	48%	47%	46%	48%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): City of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): City of Los Angeles, 2021</b>					
Male	41%	58%	58%	79%	64%	56%	42%	53%	53%	0%	67%	54%
Female	59%	42%	42%	21%	36%	44%	58%	47%	47%	100%	33%	46%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): County of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): County of Los Angeles, 2021</b>					
Male	39%	55%	52%	64%	61%	52%	32%	49%	58%	0%	58%	48%
Female	61%	45%	48%	36%	39%	48%	68%	51%	42%	100%	42%	52%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2021</b>					
Male	57%	51%	76%	78%	62%	62%	69%	78%	69%	72%	78%	75%
Female	43%	49%	24%	22%	38%	38%	31%	22%	31%	28%	22%	25%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2021</b>					
Male	54%	55%	74%	58%	67%	64%	77%	73%	68%	47%	72%	72%
Female	46%	45%	26%	42%	33%	36%	23%	27%	32%	53%	28%	28%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## Lower to Mid-Wage Employees by Nativity

Source: Analysis of American Community Survey microdata, University of Minnesota, IPUMS

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>All Industries: City of Los Angeles, 2019</b>							<b>All Industries: City of Los Angeles, 2021</b>					
US	50%	56%	56%	55%	67%	60%	54%	51%	58%	63%	67%	61%
Immigrant	50%	44%	44%	45%	33%	40%	46%	49%	42%	37%	33%	39%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>All Industries: County of Los Angeles, 2019</b>							<b>All Industries: County of Los Angeles, 2021</b>					
US	54%	60%	60%	60%	67%	62%	57%	57%	61%	70%	68%	63%
Immigrant	46%	40%	40%	40%	33%	38%	43%	43%	39%	30%	32%	37%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): City of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): City of Los Angeles, 2021</b>					
US	27%	46%	32%	17%	80%	44%	46%	57%	45%	100%	60%	52%
Immigrant	73%	54%	68%	83%	20%	56%	54%	43%	55%	0%	40%	48%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): County of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): County of Los Angeles, 2021</b>					
US	27%	47%	39%	26%	66%	44%	49%	61%	47%	100%	63%	56%
Immigrant	73%	53%	61%	74%	34%	56%	51%	39%	53%	0%	37%	44%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2021</b>					
US	40%	35%	68%	31%	64%	56%	33%	42%	61%	0%	68%	58%
Immigrant	60%	65%	32%	69%	36%	44%	67%	58%	39%	100%	32%	42%



Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2019</b>						<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2021</b>					
US	56%	46%	57%	41%	66%	59%	58%	62%	50%	72%	67%	62%
Immigrant	44%	54%	43%	59%	34%	41%	42%	38%	50%	28%	33%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## Lower to Mid-Wage Employees by Age

Source: Analysis of American Community Survey microdata, University of Minnesota, IPUMS

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>All Industries: City of Los Angeles, 2019</b>						<b>All Industries: City of Los Angeles, 2021</b>						
16-18	2%	2%	1%	0%	1%	1%	2%	2%	1%	0%	0%	1%
19-25	25%	22%	17%	11%	6%	14%	24%	17%	14%	8%	7%	13%
26-54	59%	61%	66%	70%	74%	67%	57%	65%	67%	71%	72%	67%
55-64	10%	12%	12%	15%	14%	13%	12%	13%	13%	13%	15%	14%
65-*	4%	3%	4%	4%	6%	5%	4%	4%	5%	7%	6%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>All Industries: County of Los Angeles, 2019</b>						<b>All Industries: County of Los Angeles, 2021</b>						
16-18	3%	1%	1%	0%	1%	1%	3%	2%	1%	0%	1%	1%
19-25	24%	20%	14%	9%	5%	13%	24%	17%	13%	11%	6%	12%
26-54	57%	63%	66%	73%	72%	66%	56%	64%	68%	69%	71%	66%
55-64	12%	12%	14%	15%	17%	15%	13%	14%	13%	13%	17%	15%
65-*	5%	4%	4%	4%	6%	5%	4%	4%	4%	7%	6%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): City of Los Angeles, 2019</b>						<b>Hotel (NAICS 7211): City of Los Angeles, 2021</b>						
16-18	0%	0%	0%	0%	4%	1%	0%	0%	0%	0%	0%	0%
19-25	26%	15%	3%	0%	13%	13%	19%	19%	10%	0%	20%	18%
26-54	55%	54%	62%	77%	68%	61%	67%	61%	67%	100%	50%	60%
55-64	19%	19%	28%	13%	13%	20%	8%	9%	16%	0%	23%	15%
65-*	0%	13%	7%	9%	2%	5%	6%	11%	6%	0%	7%	7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): County of Los Angeles, 2019</b>						<b>Hotel (NAICS 7211): County of Los Angeles, 2021</b>						
16-18	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%
19-25	18%	19%	7%	2%	5%	11%	22%	15%	7%	0%	9%	14%
26-54	62%	65%	62%	60%	72%	65%	59%	68%	74%	100%	58%	62%
55-64	15%	10%	25%	32%	15%	18%	12%	9%	11%	0%	26%	17%
65-*	5%	7%	7%	5%	6%	6%	6%	8%	8%	0%	7%	7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2019</b>						<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2021</b>						
16-18	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%
19-25	13%	11%	9%	0%	3%	7%	5%	13%	0%	0%	5%	5%
26-54	67%	72%	84%	65%	69%	71%	77%	70%	81%	28%	76%	75%
55-64	18%	14%	6%	35%	23%	18%	15%	14%	9%	72%	15%	15%
65-*	3%	2%	0%	0%	3%	2%	3%	3%	9%	0%	5%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2019</b>						<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2021</b>						
16-18	1%	0%	2%	0%	1%	1%	3%	0%	0%	0%	0%	1%
19-25	26%	13%	7%	7%	3%	9%	11%	19%	4%	0%	5%	7%
26-54	60%	65%	71%	70%	65%	65%	72%	61%	69%	85%	72%	70%
55-64	12%	18%	15%	24%	26%	20%	13%	16%	24%	15%	19%	18%
65-*	2%	5%	5%	0%	6%	5%	1%	4%	3%	0%	4%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## Lower & Mid-Wage Employment by Education

Source: Analysis of American Community Survey microdata

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>All Industries: City of Los Angeles, 2019</b>							<b>All Industries: City of Los Angeles, 2021</b>					
Less than High School	30%	21%	18%	11%	6%	15%	26%	26%	17%	12%	7%	15%
High School Diploma or Equiv.	26%	26%	22%	19%	11%	18%	27%	24%	22%	20%	12%	18%
Some College, No Degree	23%	26%	24%	26%	16%	21%	24%	23%	22%	23%	16%	19%
AA	6%	7%	8%	9%	6%	7%	6%	7%	8%	7%	7%	7%
BA or Higher	16%	20%	29%	35%	61%	40%	17%	20%	31%	38%	59%	42%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>All Industries: County of Los Angeles, 2019</b>							<b>All Industries: County of Los Angeles, 2021</b>					
Less than High School	27%	20%	16%	12%	6%	14%	25%	21%	15%	11%	7%	13%
High School Diploma or Equiv.	28%	27%	25%	26%	13%	20%	29%	28%	25%	22%	13%	20%
Some College, No Degree	25%	26%	25%	25%	18%	22%	24%	25%	24%	25%	17%	20%
AA	6%	7%	8%	8%	7%	7%	7%	7%	8%	10%	7%	7%
BA or Higher	14%	20%	26%	29%	56%	37%	15%	19%	28%	32%	56%	39%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): City of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): City of Los Angeles, 2021</b>					
Less than High School	49%	18%	29%	23%	20%	30%	27%	19%	31%	0%	23%	25%
High School Diploma or Equiv.	12%	32%	37%	7%	26%	26%	33%	35%	30%	0%	17%	27%
Some College, No Degree	22%	35%	13%	0%	13%	18%	15%	31%	24%	0%	18%	19%
AA	2%	2%	1%	10%	3%	2%	7%	5%	0%	0%	12%	7%
BA or Higher	14%	13%	20%	61%	38%	24%	18%	9%	16%	100%	29%	21%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): County of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): County of Los Angeles, 2021</b>					
Less than High School	44%	21%	29%	22%	16%	28%	33%	16%	31%	0%	18%	24%
High School Diploma or Equiv.	16%	24%	34%	4%	19%	22%	28%	33%	25%	0%	19%	24%
Some College, No Degree	19%	38%	18%	0%	21%	21%	21%	29%	28%	62%	23%	24%
AA	10%	5%	4%	5%	6%	6%	5%	11%	1%	0%	11%	8%
BA or Higher	11%	13%	14%	69%	38%	22%	13%	12%	14%	38%	29%	20%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2021</b>					
Less than High School	23%	14%	9%	35%	8%	12%	27%	29%	32%	0%	9%	17%
High School Diploma or Equiv.	31%	45%	17%	13%	23%	26%	43%	18%	8%	0%	27%	25%
Some College, No Degree	25%	28%	49%	0%	19%	25%	14%	23%	25%	0%	35%	29%
AA	4%	2%	8%	0%	13%	9%	5%	22%	3%	100%	10%	11%
BA or Higher	17%	10%	18%	52%	38%	28%	10%	8%	33%	0%	19%	18%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2021</b>					
Less than High School	14%	17%	11%	18%	7%	11%	26%	20%	32%	25%	6%	16%
High School Diploma or Equiv.	44%	28%	19%	32%	20%	25%	43%	41%	14%	11%	23%	27%
Some College, No Degree	21%	28%	33%	20%	28%	27%	19%	15%	21%	37%	34%	27%
AA	5%	4%	11%	5%	12%	9%	2%	11%	6%	20%	10%	8%
BA or Higher	17%	23%	25%	26%	34%	28%	10%	13%	26%	6%	27%	21%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## Lower & Mid-Wage Employment by Race & Ethnicity

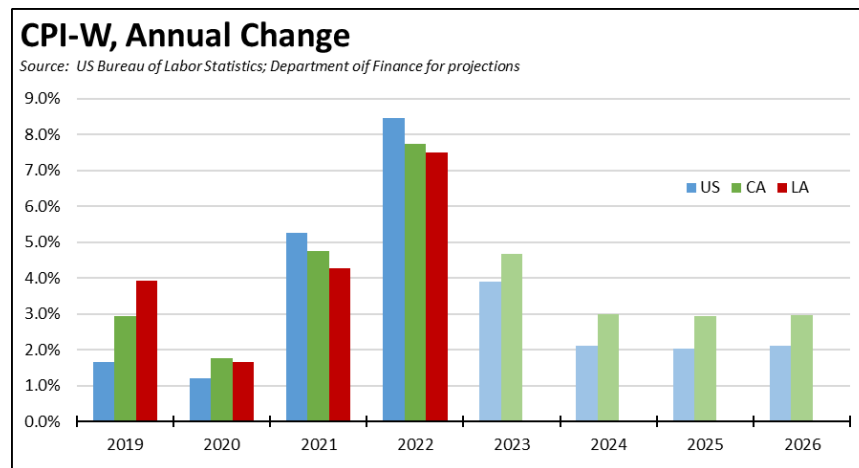
Source: Analysis of American Community Survey microdata

	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total	City MW & Below	City to Hotel MW	Hotel to \$25 Equiv.	\$25 to \$30 Equiv.	Above \$30	Total
<b>All Industries: City of Los Angeles, 2019</b>							<b>All Industries: City of Los Angeles, 2021</b>					
Latino	65%	62%	53%	45%	29%	46%	66%	64%	60%	45%	32%	47%
White	15%	17%	24%	27%	43%	30%	15%	17%	19%	29%	39%	29%
Asian/PI	9%	10%	12%	15%	15%	13%	8%	12%	10%	11%	16%	13%
Black	7%	8%	9%	11%	9%	8%	7%	5%	7%	12%	8%	7%
Other	3%	2%	2%	2%	4%	3%	3%	2%	4%	3%	5%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>All Industries: County of Los Angeles, 2019</b>							<b>All Industries: County of Los Angeles, 2021</b>					
Latino	65%	61%	55%	52%	32%	46%	66%	64%	60%	47%	35%	49%
White	15%	16%	20%	24%	38%	30%	14%	16%	17%	26%	34%	25%
Asian/PI	11%	13%	14%	14%	19%	13%	11%	12%	13%	11%	19%	15%
Black	7%	8%	8%	9%	8%	8%	7%	5%	7%	12%	7%	7%
Other	2%	2%	2%	2%	4%	3%	3%	3%	3%	3%	4%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): City of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): City of Los Angeles, 2021</b>					
Latino	87%	59%	64%	76%	45%	65%	68%	44%	74%	0%	48%	59%
White	4%	8%	13%	10%	23%	13%	3%	4%	19%	0%	29%	15%
Asian/PI	9%	29%	16%	14%	7%	14%	4%	19%	6%	0%	10%	9%
Black	0%	4%	7%	0%	20%	8%	11%	25%	0%	100%	5%	9%
Other	0%	0%	0%	0%	4%	1%	13%	8%	0%	0%	8%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Hotel (NAICS 7211): County of Los Angeles, 2019</b>							<b>Hotel (NAICS 7211): County of Los Angeles, 2021</b>					
Latino	83%	57%	65%	51%	43%	63%	67%	51%	81%	0%	49%	59%
White	3%	18%	13%	14%	28%	15%	6%	7%	11%	0%	25%	14%
Asian/PI	9%	20%	16%	35%	15%	14%	8%	18%	6%	0%	13%	11%
Black	4%	3%	5%	0%	12%	6%	10%	19%	0%	38%	9%	9%
Other	2%	2%	0%	0%	2%	1%	9%	5%	1%	62%	5%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): City of Los Angeles, 2021</b>					
Latino	53%	51%	47%	69%	38%	45%	56%	34%	68%	0%	45%	47%
White	15%	19%	16%	31%	35%	26%	17%	47%	29%	72%	27%	28%
Asian/PI	20%	21%	3%	0%	16%	15%	11%	20%	4%	28%	7%	9%
Black	9%	8%	34%	0%	7%	12%	16%	0%	0%	0%	15%	12%
Other	3%	1%	0%	0%	4%	3%	0%	0%	0%	0%	6%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2019</b>							<b>Airport (NAICS 491 &amp; 488): County of Los Angeles, 2021</b>					
Latino	58%	50%	51%	66%	35%	44%	63%	47%	60%	24%	42%	49%
White	13%	16%	14%	8%	33%	24%	6%	26%	13%	36%	24%	19%
Asian/PI	16%	22%	16%	10%	21%	19%	15%	20%	21%	13%	15%	16%
Black	11%	12%	17%	16%	6%	10%	14%	3%	5%	28%	12%	11%
Other	2%	1%	3%	0%	4%	3%	3%	4%	0%	0%	8%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

## Methodology

**Dollar Base:** As used in this section and throughout the report, all dollar numbers are adjusted using the CPI-W for Los Angeles as reported by the US Bureau of Labor Statistics. In general, all dollar figures are converted into base year 2022 for the various

calculations. Inflation through 2030 is assumed to follow the recent projections from the California Department of Finance<sup>12</sup> for the California CPI-W. As indicated in the chart below, the Los Angeles number has tracked closely with the state number, which is expected given that Los Angeles comprises 52% of the formula used by Finance to calculate the California number. The analysis consequently uses a 4.7% increase for 2023, and 3.0% annually in the period after to reflect continuing cost of living pressures coming in particular from state energy policies and persistent housing supply gaps.



**Demographic Profiles:** All data is taken from the 1-year American Community Survey microdata accessed through University of Minnesota, IPUMS USA.<sup>13</sup>

All indicators were analyzed by hourly wage level developed by combining the survey variables for total wage and salary income, weeks worked in the past year, and usual number of hours worked per week. Use of the 1-year results allows more detailed coding than the 5-year, which reports the weeks worked variable only in intervals. The data is further constrained by class of worker, with profit and nonprofit wage and salary workers used in the estimates for private industries including the Hotel and Direct Airport numbers, while profit, nonprofit, and government workers are used in the totals. The results do not include self-employed and unpaid family workers.

While the tables do not show margins of error, the overall sample sizes for both the City and County are larger than many states. The statistical validity of the individual estimates in general, however, will vary depending on the number of categories being analyzed and the size of each one. For instance, in the industry estimates, the numbers for Food Services & Drink Places with a large number of employees will be more statistically valid than those for Mining or Management of Companies. All numbers in these estimates consequently are expressed as percentages rather than point estimates.

<sup>12</sup> California Department of Finance, Economic Forecasts, U.S. and California, April 2023.

<sup>13</sup> Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. IPUMS USA: Version 12.0 [dataset]. Minneapolis, MN: IPUMS, 2022. <https://doi.org/10.18128/D010.V12.0>.

Data is categorized by wage level using the yearly equivalents by deflating the applicable wage levels using the Los Angeles CPI-W. The resulting six bands are as follows, with the first two combined to form the share of workers earning the City Minimum Wage or Below and the first four to form the share of workers earning the City Hotel Minimum Wage or Below:

- Federal minimum wage to applicable State minimum wage
- State minimum wage to applicable City Minimum Wage
- City Minimum Wage to applicable Hotel wage (which covers Airport and contractor wage levels as well)
- Hotel wage to equivalent of \$25 in 2023
- \$25 equivalent to equivalent of \$30 in 2028
- More than \$30 equivalent

The hourly wage calculation is used to screen those employees potentially subject to the resolution's wage increases. Some sources of uncertainty come into the data due to its nature. Employees are generally categorized by industry based on their primary source of employment. Individuals, however, may work at more than one job or even shift industries during the year covered by the survey responses. Reported income consequently could be a mix of higher and lower hourly rates, but still be incorporated into the results based on the overall average. This approach also mixes part-time workers and full-time with no adjustments for this factor. The results, however, are to identify the likely workers of interest but with no guarantee that the results do not contain some variation due to these factors.

The data from each year is based on monthly surveys asking respondents to report on results from a rolling previous 12-month period. The 2021 results consequently mix experiences fully under the state's job closures with those of up to 6 months of reopened businesses. The 2019 results are shown as well to provide a comparison based on "normal" pre-pandemic conditions.

In the Industry table, the results shown do not reflect the wage structure within each industry. Instead, they show the share of workers with primary jobs in those industries (within the applicable geography or elsewhere in the region) during the subject year grouped by wage level. Wage level by industry instead is estimated in the next section.

As a control comparison, the results from this analysis in general are comparable to a similar analysis by Legislative Analyst's Office of the 2016 data for California and the counties.<sup>14</sup>

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<sup>14</sup> California Legislative Analyst's Office, California's New Minimum Wage: Who are California's Low-Wage Workers?, December 6, 2016.

# Los Angeles Economy

## Jobs by Industry

To develop a more detailed look at jobs within the City of Los Angeles and to provide the base for subsequent calculations, we obtained a special data run of the Quarterly Census of Employment & Wages (QCEW) from the California Employment Development Department (EDD). This data is location based, providing information on businesses operating within the City. In contrast, the American Community Survey data used elsewhere in this report and in the prior impact studies is residence based, providing information on employees who live in the City but who may or may not work at jobs within the City and consequently may or may not see an effect from the proposed resolution.

### Employment in Businesses within City of Los Angeles

Source: *Employment Development Department, Quarterly Census of Employment & Wages, special data run*

NAICS	Industry	2019 Q3			2022 Q3		
		Establishments	Employment	Avg Annual Wage	Establishments	Employment	Avg Annual Wage
44-45	Retail Trade	11,255	137,205	\$40,338	11,560	137,203	\$50,598
481	Air Transportation	111	32,951	\$107,214	115	27,928	\$124,416
4881	Support Activities for Air Transportation	96	14,891	\$56,028	103	12,185	\$63,582
71	Arts, Entertainment, & Recreation	9,819	41,390	\$98,046	12,260	39,863	\$115,631
7211	Traveler Accommodation	435	19,144	\$43,509	473	16,258	\$53,167
722	Food Services & Drinking Places	8,490	152,119	\$27,533	8,705	149,960	\$35,320
	TOTAL	222,737	2,011,005	\$66,512	239,631	1,987,697	\$79,882

In the table above, data is shown for two periods using the 3<sup>rd</sup> quarter results to provide a representative look for the year as well as to show jobs during a prime tourism period. Comparing 2022 to the pre-pandemic 2019:

- Wage and salary jobs at businesses within the City were 23,000 lower (-1.2%) in 2022, although both the number of establishments and average annual wages were higher.
- Hotel jobs were 2,890 lower (-15.1%).
- Private jobs directly related to airport activity (Air Transportation and Support Activities for Air Transportation) were 7,730 lower (16.2%).
- Private jobs within other key tourism components were lower as well but more narrowly. Arts, Entertainment & Recreation was 1,530 lower (-3.7%). Food Services & Drinking Places was down 2,160 (-1.4%).

Further recovery progress in total City jobs since 2022 Q3 likely has been slow as well. Using the separate monthly survey data series (Current Employment Survey (CES)) also from Employment Development Department for Los Angeles County, between August 2022 and the most recent results for May 2023, totally wage and salary jobs (not seasonally adjusted) have grown another 2.6% and are just marginally (0.6%) above the pre-pandemic peak in February 2020. Applying this factor to the City of Los Angeles total from the table above would set current employer totals at 2,039,400, or just 28,400 above the 2019 Q3 level. Using somewhat broader categories due to the nature of the monthly survey data, Accommodations, Air Transportation, and Support Activities for Transportation are all up slightly (2% to 3%) from August 2022, while Arts, Entertainment & Recreation is nearly 11% higher. Even with this growth, however, Accommodations (-15.4%) and Air Transportation (-7.5%) are still well below the pre-pandemic peaks, indicating the extent to which tourism has yet to recover from the pandemic period.

## Labor Force

Similar to the state conditions, recovery has been more restrained in the local labor force numbers. In the City estimates, total labor force is still 130,000 smaller than the pre-pandemic peak even with stronger wage growth in the pandemic period especially for lower wage occupations that otherwise would have drawn workers into the labor force. This recovery gap reflects the situation where jobs recovery has been slow both within the City and Los Angeles County. Viewed from the opposite perspective, these numbers also indicate the extent to which jobs recovery both broadly and within specific industries has been held back by labor shortages.

### Labor Force: City of Los Angeles and Adjacent Areas

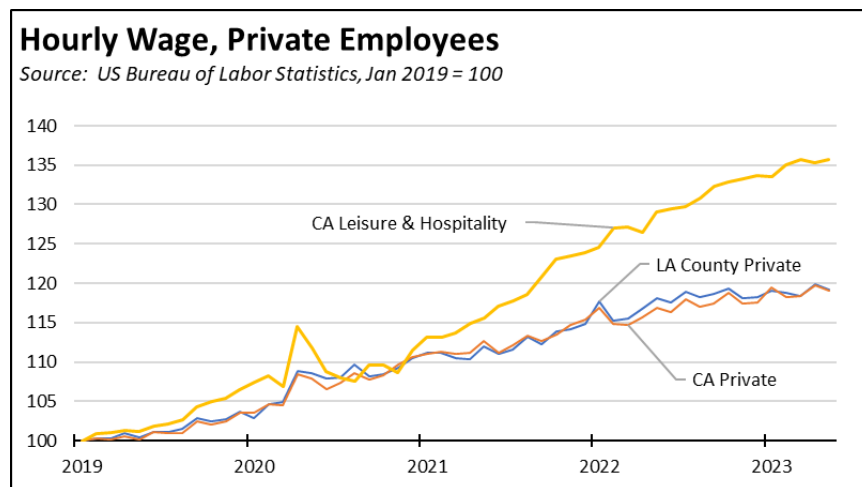
Source: Employment Development Department, not seasonally adjusted

	City of Los Angeles	Rest of LA County	Rest of Southern CA
<b>August 2019</b>			
Labor Force	2,089,300	3,032,700	4,090,000
Employment	1,987,600	2,885,600	3,934,700
Unemployment	101,700	147,100	155,200
Unemployment Rate	4.9%	4.9%	3.8%
<b>February 2020</b>			
Labor Force	2,175,500	3,120,500	4,186,200
Employment	2,069,600	2,968,000	4,042,600
Unemployment	105,900	152,500	143,500
Unemployment Rate	4.9%	4.9%	3.4%
<b>August 2022</b>			
Labor Force	2,026,300	2,901,600	4,150,400
Employment	1,929,700	2,767,500	3,992,400
Unemployment	96,600	134,100	158,100
Unemployment Rate	4.8%	4.6%	3.8%

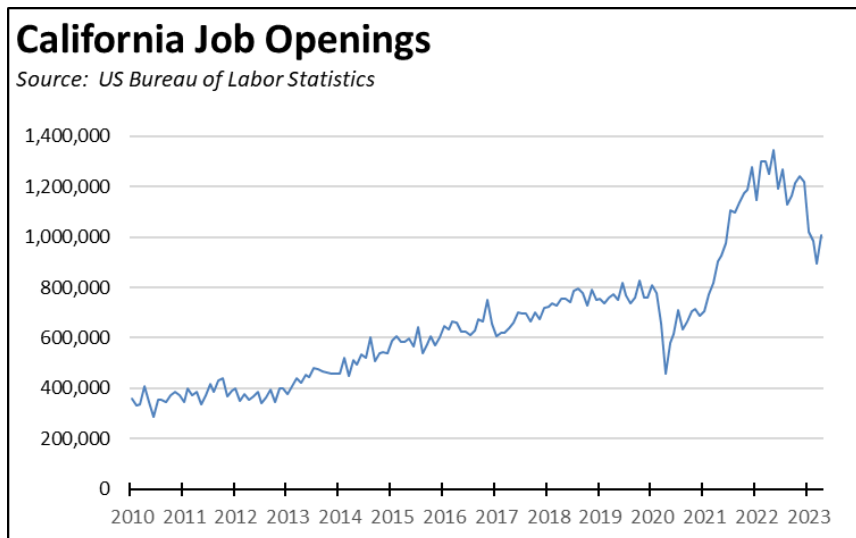
<b>May 2023</b>			
Labor Force	2,045,600	2,923,800	4,151,800
Employment	1,942,600	2,785,900	3,991,700
Unemployment	103,000	137,900	160,200
Unemployment Rate	5.0%	4.7%	3.9%
<b>Change from Pre-Pandemic (Feb)</b>			
Labor Force	-129,900	-196,700	-34,400
Employment	-127,000	-182,100	-50,900
Unemployment	-2,900	-14,600	16,700

Labor force conditions in the rest of Los Angeles County are similar to those in the City. The rest of Southern California (Orange, Riverside, San Bernardino, and Ventura Counties) was closer to but still somewhat short of recovery conditions in the May 2023 data.

As indicated, labor shortages during the pandemic period contributed to stronger wage growth. Since 2019, hourly wage for all private workers grew marginally higher in Los Angeles County (19.2% through May 2023) than for the state as a whole (19.0%), and matched inflation growth (19.2%) as measured by the Los Angeles CPI-W. Hourly wage growth for Leisure & Hospitality workers (which includes Accommodations and Food Services; available for the state only) was nearly twice as high at 35.7%.







The extent of current labor shortages affecting the pace of jobs creation is reflected in the monthly number of unfilled job openings from US Bureau of Labor Statistics, Job Openings & Labor Turnover Survey (JOLTS). In California, the number of unfilled job openings is down since the peak last fall as the tech industry has increased layoffs and as other employers in the state have pulled back on hiring plans in response to growing concerns over another economic downturn. The overall numbers, however, remain high in historic terms, again reflecting the delayed recovery in the labor force numbers.

Job openings by industry are only available on the national level, but the relative numbers can be used to represent the likely situation in California and Los Angeles as well. Accommodation & Food Services comprise 12% of the national unfilled job openings in the latest data for April 2023, ranking third behind Health Care and Professional & Business Services. Measured as a share of employment within each industry, Accommodation & Food Services also comes in third at a shortage of 8.2%, behind another tourism industry—Arts, Entertainment & Recreation—at 10.1% and Health Care & Social Services at 9.0%. The average for all nonfarm jobs nationally is 6.4%.

### Jobs by Wage: Private Jobs

In 2022, just above half (53%) of the estimated private sector jobs within the City paid less than the hourly equivalent of \$25 in 2023 (55% paid less than the hourly equivalent of \$30 in 2028). As a measure of compaction potential just within the directly affected jobs, about three-fourths of estimated private sector jobs were in occupations with at least an entry-level wage below the \$25 equivalent, and nearly four-fifths were below the \$30 equivalent.

The proposed resolution addresses wages only for a very small portion of these jobs. As estimated from the 2022 data, the increased wages would affect only 3% of these lower to mid-wage private sector jobs within the City.

**Estimated Share of Private Jobs Affected by Proposed Wage in 2022, City of Los Angeles**

*Source: see text for calculations and data sources*

	<b>\$25 Equivalent</b>	<b>\$30 Equivalent</b>
<b>All Private Jobs</b>		
In Occupations with Entry Level Wage Less Than	74%	78%
Earning Less Than Proposed	53%	55%
<b>Hotel Jobs (NAICS 7211)</b>		
In Occupations with Entry Level Wage Less Than	80%	80%
Earning Less Than Proposed	55%	58%
<b>Airport Jobs (NAICS 481, 4881, 722)</b>		
In Occupations with Entry Level Wage Less Than	55%	64%
Earning Less Than Proposed	42%	43%
<b>Share of All Private Jobs Covered by Resolution</b>		
In Occupations with Entry Level Wage Less Than	3%	3%
Earning Less Than Proposed	3%	3%

As discussed elsewhere, current labor conditions in the region likely would lead to additional wage pressures on other similar businesses in particular the smaller hotels that are nominally exempted from the proposed resolution. The table, however, is based on workers that would be directly affected by the proposals.

Looking at all private sector jobs within the City, just over an estimated half earned at or below the 2022 equivalents of the proposed wage increases. This outcome is not surprising. In 2022, a household with two wage earners working full time at the \$25 equivalent would have earned 10% more than the median household income (i.e., the half-way point) in Los Angeles County.<sup>15</sup> Those working full time at the \$30 equivalent would have earned 14% more.

Wage increases at this scale would also result in substantial wage compaction, which in the table is measured by jobs within occupations with at least a starting wage above the resolution levels. Increasing the bottom would place pressures on subsequent wage bands in order to preserve wage differentials based on seniority and on-the-job skill attainment. The potential universe from this perspective within the City covers about three-quarters (74%) of jobs at the \$25 equivalent level and nearly four-fifths (78%) at the \$30 equivalent. Indirect wage compaction pressures would also come from other

<sup>15</sup> From California Department of Housing & Community Development, Section 6932. 2022 Income Limits.

occupations with starting wages above these levels increasing demands to restore previous wage differentials.

The resolution would affect a far greater share of Hotel jobs within the City. Nearly three-fifths of jobs pay less than the resolution levels. Four-fifths are in occupations with at least a starting wage below the resolution levels and subject both to direct wage increases and wage compaction.

**Typical Entry Level Education Requirement, 2022, \$30 equivalent**

Source: see text for calculations and data sources

	All Jobs	Hotel Jobs	Airport Jobs
<b>In Occupations with Entry Level Wage Less Than</b>			
No formal educational credential	27%	46%	22%
High school diploma or equivalent	45%	49%	59%
Postsecondary nondegree award	8%	1%	14%
Some college, no degree	3%	1%	1%
Associate degree	3%	*	2%
Bachelor's degree	13%	3%	2%
Master's degree	1%	0%	0%
Doctoral or professional degree	*	0%	0%
Total	100%	100%	100%
<b>Earning Less Than Proposed</b>			
No formal educational credential	39%	53%	32%
High school diploma or equivalent	44%	44%	63%
Postsecondary nondegree award	8%	0%	3%
Some college, no degree	2%	1%	0%
Associate degree	2%	*	0%
Bachelor's degree	4%	1%	1%
Master's degree	1%	0%	0%
Doctoral or professional degree	*	0%	0%
Total	100%	100%	100%

\*less than 0.1%

The share of affected Airport jobs is somewhat lower. Only about two-fifths (42% of \$25 equivalent and 43% of \$30 equivalent) earn below the resolution levels. The share subject to both direct wage increases and wage compaction is 55% at the \$25 equivalent and 64% at the \$30 equivalent.

The resolution applies wage increases by industry rather than by training and skills development. Within the affected Hotel jobs subject to direct wage increases and wage compaction, 46% of the occupations have no typical educational requirements, while 49% typically require a high school diploma. Only 5% are in occupations requiring a training certificate (postsecondary nondegree award) or some level of college education. The affected Airport jobs have somewhat higher skills requirements, with only 22% with no educational requirement, 59% requiring a high school degree, and 19% a training certificate or college education. In contrast, 28% of total comparable

private jobs in the City require a training certificate or college education, yet these higher-skilled jobs would be earning less than under the proposed resolution.

The total number of estimated Hotel and Airport jobs earning less than the resolution levels in 2022 was 27,200 at the \$25 equivalent and 28,100 at the \$30 equivalent. The total for jobs combining those directly subject to wage increases and to wage compaction was 36,800 at the \$25 equivalent and 40,500 at the \$30 equivalent.

At these levels, the resolution consequently will benefit only 3% of the comparable lower and mid-wage private jobs within the City.

Looking at the absolute totals, the 2022 affected job numbers indicated above are somewhat lower but still generally comparable to the estimate of 36,435 jobs in 2023 from the Lester study. The same comparison with the Oxford Economics study is not possible as it only provides the results of its model runs rather than this type of input number.

The differences to the Lester study, however, likely arise due to three factors. First, as indicated above, the Airport numbers in this report are likely underestimated to some degree. Second, overestimation in the Lester study numbers likely arises from its use of residence-based data and residence-based data that combines 3 years of pre-pandemic results with 2 years during the pandemic period. And third, as indicated above, the Lester numbers are extrapolated in isolation, including without consideration to the employment structural changes that have begun to take place at hotels within the City due to the Hotel Worker Protection Ordinance (HWPO) that went into effect last August.

### **Jobs by Wage: Local Government Jobs**

Using an approach similar to that used for private sector jobs, the following section looks at the share of local government jobs that fall below the proposed resolution wage levels yet would not receive comparable raises as those proposed for Hotel and Airport workers. The analysis concentrates on two agencies. City of Los Angeles and Los Angeles Unified School District (LAUSD).

As indicated in the table, an estimated quarter of the City of Los Angeles employees in 2022 worked in job classifications where at least the beginning salaries fell below the 2022 equivalents of the resolution proposed levels. The share at the Department of Airports was much higher, accounting for 39% of employees in job classifications below the \$25 in 2023 level, and 43% below the \$30 in 2030 level. Escalating the table numbers to 2023 dollars, total estimated costs to equalize City salaries—including the steps within each classification—are \$103 million to reach the \$25 in 2023 level and \$130 million to reach the equivalent of the \$30 in 2028 level.

The Department of Airports with only 5% of the total City employees would account for 20% (\$25 and \$30 equivalent) of the total equalization costs. For example, the data shows 398 Custodian-Airport (Class Code 3156-A) workers in 2022. The current salary range (MOU 15) is \$40,089 to \$55,519, compared to a salary of \$52,000 at \$25 an hour, and \$53,800 at the equivalent of \$30 an hour in 2028.

### Estimated Share of Employees Earning Below Resolution Wage Levels

Source: see text for calculations and data sources

	Share of Employees		Cost to Equalize (\$2023)	
	\$25 in 2023	\$30 in 2028	\$25 in 2023	\$30 in 2028
<b>City of Los Angeles</b>				
Total	23%	25%	\$98,000,000	\$124,000,000
Department of Airports	39%	43%	\$20,000,000	\$25,000,000
<b>Los Angeles Unified School District</b>				
	24%	29%	\$311,000,000	\$365,000,000

LAUSD contains a wage structure comparable to the City. About a quarter of employees in 2021 worked in job classifications where at least the beginning salaries fell below the 2022 equivalents of the resolution proposed levels, although the share working in classifications below the \$30 equivalent was slightly higher at 29%. The costs of salary equalization are higher due to the number of positions with a wider gap from the proposed wage levels. Escalating to 2023 dollars, total estimated costs to equalize LAUSD salaries—including the steps within each classification—are \$326 million to reach the \$25 in 2023 level and \$382 million to reach the equivalent of the \$30 in 2028 level.

### Jobs by Wage: Wage Compaction

There are two concepts applied to the previous calculations. Directly affected workers are those currently earning less than the proposed wages in the resolution, and who as a consequence potentially would benefit from those wage increases. Workers in occupations with entry wages less than the proposed is one measure of the potential for wage compaction.

Wage compaction within a private sector occupation or government job classification is likely to result if the lower ranges are raised through minimum wage actions. Increases are applied to the lower wage levels, but then pressures arise to adjust the upper bands as well to retain pay differentials based on seniority and on-the-job skills attainment, more rigorously so in the case of public agencies due to union agreements and in order to maintain percentages within the different step increases.

The other kind of compaction can occur between occupations. The affected jobs may include various levels of managers or more skilled occupations requiring training or

some college suddenly at the same level as or below jobs with no training or educational requirements. At moderate increases in minimum wage, these compaction effects are likely to be less significant. They will still occur, but affect a smaller number of adjustments beyond the initial tranche of workers. At the substantial scale proposed in the resolutions, wage compaction will be far more significant and have effects well above those previously studied.

There is little guidance in the literature about the potential range of the compaction effects, particularly at the scale of wage increases being considered in the resolution. For instance, a 2022 memo from US General Services Administration<sup>16</sup> acknowledges there will be a need to adjust federal contracts to account for likely substantial cost increases due to wage compaction coming from Executive Order 14026 (2021) increasing the minimum wage for federal contractors to \$15 an hour. The memo provides no guidance on what would be an acceptable level of cost increase due to this factor, and instead indicates each request will have to be judged on an individual basis.

This report considers the first type of wage compaction, the effects within the affected occupations, and applies the same data as used in estimating the number of workers affected by wage.

## **Jobs by Worker Residence**

Applying the available commute data, only about half of the workers likely to benefit from higher wages under the resolution live within the City. Looked at from the opposite perspective, the number of lower wage workers who live in the City but who work at jobs not subject to the City's increasing collection of minimum wage ordinances is slightly lower but still around half.

This incidence of benefits is important given that the resolution is promoted heavily as a necessary measure to counter the City's growing costs of living, in particular housing. Yet, as a housing affordability tool, the resolution applies only to 3% of jobs within the City, and from the worker location perspective, an even smaller share of those workers dealing with the costs of living and housing within the City.

Looking first at jobs at establishments in the City of Los Angeles, only 52% of the lower wage (combining the lower two earnings categories) jobs are held by residents of the City. The remainder is largely staffed by workers commuting from other portions of Los Angeles County, with a smaller portion coming from the rest of the Southern California region (Orange, Riverside, San Bernardino, and Ventura Counties).

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<sup>16</sup> Memo from J. Roses, Adjusting Wages to Address Wage Compression Caused by the Federal Minimum Wage Increase, March 7, 2022.

### Residence of Los Angeles Workers by Monthly Earnings, 2019

Source: Analysis of US Census Bureau LODES, by primary private jobs

	\$1,250 or less	\$1,251 - \$3,333	\$3,334 or more
Los Angeles City	52.0%	52.0%	44.5%
Other Los Angeles County	29.1%	30.9%	35.1%
Other Southern California	12.5%	11.6%	14.1%
Other California	6.4%	5.5%	6.4%
Total	100.0%	100.0%	100.0%

By industry, a slightly lower share of the workers lives in the City, but still comes in at about half of the City's workforce in these establishments.

### Residence of Los Angeles Workers by Industry, 2019

Source: Analysis of US Census Bureau LODES, by primary private jobs

	All Other Services	Goods Producing	Trade, Transportation & Utilities
Los Angeles City	50.4%	47.3%	40.7%
Other Los Angeles	31.8%	33.5%	35.6%
Other Southern	12.0%	13.6%	16.3%
Other California	5.8%	5.5%	7.4%
Total	100.0%	100.0%	100.0%

Looking at the opposite side of the issue—the locations where workers in Los Angeles work—similar results come from the data. By income, just under half of the two lower income bands work at jobs in the City.

### Workplace of Los Angeles Residents by Monthly Earnings, 2019

Source: Analysis of US Census Bureau LODES, by primary private jobs

	\$1,250 or less	\$1,251 - \$3,333	\$3,334 or more
Los Angeles City	48.4%	50.6%	48.6%
Other Los Angeles County	38.2%	35.0%	37.0%
Other Southern California	8.9%	9.8%	8.8%
Other California	4.5%	4.6%	5.6%
Total	100.0%	100.0%	100.0%

By industry, a slightly higher share but still around half of workers in All Other Services work in the same City where they live.

### **Workplace of Los Angeles Residents by Industry, 2019**

*Source: Analysis of US Census Bureau LODES, by primary private jobs*

	<b>All Other Services</b>	<b>Goods Producing</b>	<b>Trade, Transportation &amp; Utilities</b>
Los Angeles City	51.9%	40.2%	44.7%
Other Los Angeles County	35.9%	38.0%	37.7%
Other Southern California	7.7%	13.2%	12.5%
Other California	4.5%	8.7%	5.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The data in the tables above are all based on primary jobs in the private sector. Looking instead at all private jobs (primary and second jobs), the results are similar with only insignificant differences.

## **Methodology**

Jobs by Industry within the City is from Quarterly Census of Employment & Wages (QCEW) data obtained through a special data run from California Employment Development Department (EDD). Within that data:

- All data is from a count of actual jobs using employment tax filings. This data differs in this respect from the survey-based estimates (Current Employment Survey data) that are released on a monthly basis. The QCEW data is available in general on a 9-month lag.
- Establishments count the number of discrete workplaces. A business may operate one or multiple establishments at the same or different locations.
- Employment is the average number of wage and salary jobs for the quarter.
- Average annual wage is the annual equivalent of all wages paid in the quarter. Consequently, the numbers combine both hourly wages and number of hours worked and do not provide a comparison that can be used in assessing changes in the hourly component alone.

Labor Force data unless otherwise indicated is from EDD's standard databases. The numbers for City of Los Angeles are estimated by EDD from the monthly County survey data using labor force factors from the American Community Survey 5-year results. These estimates consequently are derived from a more current information base than the previous City estimate method used by EDD.



Jobs by Wage: Private Jobs within the City of Los Angeles were estimated through the following steps:

- Industry occupational profiles were developed using the 2022 Research Estimates by State and Industry from US Bureau of Labor Statistics.
- The number of jobs by occupation was estimated by applying the profiles to industry employment levels for businesses within the City, bottom coded with the applicable minimum wage.
- Typical entry level education requirements and work experience requirements were identified for each occupation from EDD's 2020-2030 Occupational Employment Projections for Los Angeles County.
- Hotel jobs were estimated using the previous data for NAICS 7211 (Traveler Accommodations), adjusted using the estimated share of employment in businesses with less than 60 rooms.
- Airport jobs were estimated using the City employment numbers from the EDD special data run for NAICS 481 (Air Transportation), 4881 (Support Activities for Air Transportation), and establishment numbers for airport concessionaires using the directory from the FlyLAX website.<sup>17</sup> While not all air transportation and support activities establishments connected to LAX are located within the City, many that are also do business with other airports in the region. Overall based on the QCEW data for Los Angeles County, 87% of Air Transportation (NAICS 481) and 95% of Support Activities for Air Transportation (NAICS 4881) were located at establishments within the City. The shares are slightly higher in the numbers for the 3<sup>rd</sup> quarter of 2019. The City numbers consequently provide at least a measure of the likely jobs that would be affected, covering both jobs that would see direct increases along with those working at other airports but that would receive comparable increases as businesses located within the City would have to equalize wages.

The concessionaire numbers are limited to those identified in the LAX directory, and job estimates are made using the establishment averages for the relevant NAICS codes. Other types of contractors beyond those in NAICS 4881 are not covered such as car rentals, shuttle services, janitorial contractors, construction contractors, equipment leasing, and others. These factors provide another source of underestimation in the Airport numbers. All Airport estimates in this report consequently should be considered in "at least" terms, while the other estimates provide more complete coverage.

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<sup>17</sup> <https://www.flylax.com/lax-dining-and-shopping>.

- Wage levels were sorted based on the 10<sup>th</sup> percentile hourly wage as a representative entry-level wage from the 2022 wage data for Los Angeles County. The number of workers by wage level was then estimated based on those with an hourly wage less than the 2022 equivalent of \$25 an hour in 2023 and \$30 an hour in 2028. The estimates cover both the number of workers falling below the \$25/\$30 equivalent levels and total number of workers within the affected occupations.
- Where necessary, the county data was supplemented with state or national results.

The adjustment factor for hotels of less than 60 rooms was developed through a different estimation process, but produces a comparable result to that used in the Lester study. The Lester study estimates the share of hotels with more than 60 rooms using a factor of 0.53 workers per room, applied to the firm size data from the Census Bureau County Business Patterns for Los Angeles County. The 0.53 factor, however, comes from 2008 data in the midst of a trend of declining labor use per room. That factor also is calculated from occupied rooms rather than total rooms in the first year of high unemployment during the Great Recession.

For this report, the share of hotel employment subject to the proposed wage increases is estimated from the following sources:

- As reported by Discover Los Angeles,<sup>18</sup> there are 98,600 hotel rooms in Los Angeles County.
- The number of accommodation businesses (NAICS 7211) rather than establishments by employment size are taken from EDD's Major Employers information for Los Angeles County, broken out by city as of 2021.
- Total county employment in NAICS 7211 in 2021 varied significantly due to the Covid closures, which were not removed until June 15 that year. The average employment for the third and fourth quarters is used to better reflect when the EDD Major Employer information was obtained, and is applied to the 98,600 room number. The result is somewhat lower, at 0.36 employees per room.
- Comparing use of this factor to actual room counts from other sources shows a good fit especially for smaller and mid-size hotels. The numbers are somewhat underestimated for higher-end hotels, which should have a higher ratio in line with the broader range of services provided. Adjustments are made within each

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<sup>18</sup> Discover Los Angeles, Facts About LA, accessed June 28, 2023.

employment size category based on actual vs. estimated room numbers where the information is available, and adjusted again to conform with the overall total.

From these procedures, an estimated 20% of rooms and 16% of employment in the City hotels fall below the 60-room limit. Note that these numbers, however, are still subject to uncertainty coming from overall low travel activity and businesses reopening at different paces in 2021.

Jobs by Wage: Local Government Jobs: The City of Los Angeles and Los Angeles Unified School District (LAUSD) were estimated through the following steps:

- The analysis is based on actual payroll for both agencies. The City analysis covers 2022 payroll data from the City Controller. LAUSD is taken from the 2021 payroll available from the State Controller, Government Compensation in California data series.
- Current job classification wage levels were reviewed to identify those falling below a starting salary of \$25 in 2023 and the 2023 equivalent of \$30 in 2028.
- The summary data is employee-based. The percentages shown are the share of employees working during the applicable year in the identified job classifications rather than the number of jobs as in the previous section.
- The costs to equalize each agency's pay schedules to the resolution proposed wages were determined by: (1) calculating the percentage increase required to raise the starting salary in each job classification to the equivalent wage levels of the proposed resolution; (2) applying this factor to the sum of actual wages, overtime, and employer pension contributions; and (3) including the increased employer cost for payroll taxes related to the wage and overtime components. This approach is based on the assumption that wage compaction in the case of public salaries is even more binding given the necessity to maintain percentage changes between the various salary steps that essentially provide a set salary increase schedule for each classification.
- These calculations did not include All Other Pay and, in the case of LAUSD, Lump Sum Payments into the calculations but instead focus on the official pay scales. The calculations also assume other benefits do not vary significantly by wage level. The calculations cover both part-time and full-time employees working during the year, but do not include some workers such as retirees, commission members paid per meeting, others paid by session, student workers, and transitional workers.
- The costs stemming from wage compaction coming from managerial and other job classifications above these wage levels are not included in the estimates.

Given the scale of the wage increases that would result if the resolution wage levels were applied to each agency's own workforce, these costs likely would be significant.

Jobs by Worker Residence: Relies on data from the US Census Bureau, Longitudinal Employer-Household Dynamics, Origin-Destination Employment Statistics (LODES) series that uses employment tax records to identify commute patterns between residences and place of work. While the most current data is available for 2020, the 2019 data is used instead to provide more representative, pre-pandemic results.

The public data is available only by certain broad categories for earnings and industry. By extrapolating, the data consequently can be used to provide a general estimate of how many workers subject to the proposed resolution are likely to live within the City and the share that likely commutes from other locations in the region. Organized by census block—comparing the census blocks where a worker lives and where they work—the data covers only workers commuting within California and does not include those coming in from other states, a consideration that is likely irrelevant in the case of the workers being considered.

The income data covers three broad bands based on earnings per month rather than hourly rates: \$1,250 a month or less which is roughly equivalent to the federal minimum wage for a full-time worker and roughly the Los Angeles minimum wage in 2019 for a half-time worker; \$1,251 to \$3,333 which at the top of the range is equivalent to about \$19 an hour working full time; and over \$3,333. The industry data is broken out as well by three categories: Goods Producing businesses; Trade, Transportation and Utilities; and All Other Services, which includes lower wage jobs such as in accommodation and food services but also covers higher wage ones such as in Professional and Business Services and in Information.

# Effect on Incomes

The proposed wage increases entail substantial increases to existing minimum wage levels. For hotel workers, the increase in 2023 is 27% over the City's current Hotel Minimum Wage (as of July 1). The proposed \$30 level is 31% over what the Hotel Minimum Wage would otherwise be in 2028 based on the projections in this report.

The Airport components are higher. The increases to the LWO for Airport workers would be 33% over the current 2023 level, and 38% over the projected 2028 level. Increases over the LWO for Airport contractors would be 49% over the 2023 level, and 54% over the projected 2028 level.

The actual effects on family and household incomes, however, will depend on a number of factors. The wage increase will vary depending on where current pay rates for individuals lie between the current minimums and proposed wage levels. Changes in wage income will depend on hours worked and weeks worked and the extent to which these are affected and how they are affected as employers respond to the higher rates through the various strategies discussed in the other sections. Disposable income will change as paychecks become subject to higher payroll taxes, and as incomes become subject to higher tax rates and reduced tax credits. Finally, total incomes may be affected as eligibility for various income assistance programs changes as well.

## Disposable Incomes: The General Case

Taking into account the effects of federal, state, and payroll taxes, after-tax increases over current incomes range from 19% to 30% for the \$25 equivalent, and 22% to 34% under the \$30 equivalent. Contributing to this shift is the state's steeply graduated tax structure, which puts all of the married examples below into the 6% bracket and brings them to just under the 8% bracket.

The following table is used to illustrate the individual tax effects of the proposed resolution. Four basic family types are used assuming all adults work full time in the respective industry component. Average hourly wages, children, and other inputs were developed from the 2021 ACS calculations and inflated to 2022 dollars. Additional assumptions and calculations are described below under the Methodology.

The tax calculations were made using NBER's TAXSIM (version 35) model, which provides results for federal, state, and payroll taxes and also takes into account changes in various credits including EITC, child credits, and renters credit. For example, several of the entries for Single with Children show higher after-tax income over current income due to the effect of these credits. The calculations assume only wage and salary income coming from the respective industry component.

Change in Gross Income indicates the shift in incomes due to the proposed higher rates in 2022 dollars. Change in After-Tax Income calculates the amount remaining for family spending after taxes are applied.

### General Case: Change in Income by Industry Component & Family Structure

Source: see text for sources and calculations; \$2022

Component	Family Unit	Current Wage & Salary	Change in Gross Income		Change in After-Tax Income	
			\$25	\$30	\$25	\$30
<b>Hotels</b>	Single, No Children	\$37,600	\$12,100	\$13,800	\$9,200	\$10,500
	Single, Children	37,600	12,100	13,800	7,500	8,800
	Married, No Children	75,200	24,200	27,600	18,400	21,000
	Married, Children	75,200	24,200	27,600	18,400	21,000
<b>Airport</b>						
Air Transportation	Single, No Children	\$37,300	\$12,400	\$14,100	\$9,400	\$10,700
	Single, Children	37,300	12,400	14,100	7,700	9,000
	Married, No Children	74,600	24,800	28,200	18,800	21,400
	Married, Children	74,600	24,800	28,200	18,800	21,400
Transportation Support	Single, No Children	\$35,700	\$14,000	\$15,700	\$10,600	\$11,900
	Single, Children	35,700	14,000	15,700	8,800	10,100
	Married, No Children	71,400	28,000	31,400	21,300	23,900
	Married, Children	71,400	28,000	31,400	21,300	23,900
Food Services & Drink	Single, No Children	\$35,500	\$14,200	\$15,900	\$10,800	\$12,100
	Single, Children	35,500	14,200	15,900	8,900	10,200
	Married, No Children	71,000	28,400	31,800	21,600	24,200
	Married, Children	71,000	28,400	31,800	21,600	24,200
Retail Trade	Single, No Children	\$38,200	\$11,500	\$13,200	\$8,700	\$10,000
	Single, Children	38,200	11,500	13,200	7,100	8,400
	Married, No Children	76,400	23,000	26,400	17,500	20,100
	Married, Children	76,400	23,000	26,400	17,500	20,100

### Income Assistance Losses: The General Case

As incomes rise, eligibility for non-money income assistance programs will decrease, affecting the total amount of resources available for family expenditures. Again using the General Case family units, these shifts in eligibility reduce total net income gains for some family units. The biggest change would be felt by single parent households with children. The proposed wage levels are sufficient to push net income from all sources (money and non-money) down to a breakeven and in some cases a negative result. Net benefits are also reduced for several of the other assumed family units, in particular those with children. While this outcome can be avoided in practice by workers reducing their hours or shifting a portion of their work week to the cash economy, this result runs counter to the stated purpose of the proposed resolution.

Without taking into account health care, incorporating changes in non-money benefits into the previous after-tax income calculations results in a change to current incomes

ranging from -5% to 30% for the \$25 equivalent, and -2% to 34% under the \$30 equivalent. Including health care, the changes range from -7% to 30% for the \$25 equivalent, and -5% to 33% under the \$30 equivalent.

With the exception of the earned income tax credits (EITCs) that are phased out as earned income rises, most of the income assistance programs entail high de facto marginal tax rates as families exceed the various threshold levels, generally based on the Federal Poverty Level (FPL). Based on our previous research of lower income workers,<sup>19</sup> eligibility for the following key programs would be affected as the affected incomes rise.

- Childcare. Eligibility for subsidized childcare is 85% or below State Median Income (SMI), which varies by family size. The estimates in the table are based on changes in the required Family Fee Rates for part-time care. The actual cost effect likely would be higher. Moving from subsidized to market rate childcare would result in substantially higher costs. Although estimates vary widely by source, childcare in at least one source ranged from \$268 to \$4,220 a month across age groups in Los Angeles, and averaged \$1,430.<sup>20</sup> All cost estimates also assume space is available, which in the case of the subsidized slots is prioritized based on family income.
- CalFresh. Eligibility for food stamps in general applies to families with gross incomes of 200% FPL or less. The entries in the table are based on the average amount received by family size.
- Health Insurance. The effects of income levels on health insurance subsidies are shown as a separate calculation due to the uncertainty over treatment of this benefit in the resolution. Health care coverage in normal years is high especially for the Hotel and Direct Airport workers likely to be affected by the resolution. A high share receives coverage under employer plans, but others likely to be subject to the resolution obtain coverage from other sources. The effects shown above would only apply to workers having to buy insurance on their own including subsidized plans from Covered California—such as through use of the insurance hourly rates as currently mandated under the LWO—rather than receiving it from another source such as their employer, spouse’s employer, VA, and other public sources.

Note that the amounts shown in the table below represent an “up to” amount. Not every family unit will be eligible for or want access to the various programs due to other factors, for example not using childcare because the children are older. Previous Congressional Research Service studies also indicate that most families at best access

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<sup>19</sup> California Center for Jobs & the Economy, Jobs, Poverty & Upward Mobility, California Public Assistance Programs & Economic Mobility, Supported by a Grant from The James Irvine Foundation, 2018.

<sup>20</sup> 2023 Cost Guide for Los Angeles Daycares and Preschools, Brightwheel, December 23, 2022, accessed July 18, 2023.

2-3 of the assistance programs for which they are eligible due to the complexity of applying for these programs and of maintaining eligibility.

These tables also cover the primary, more generally applicable income assistance programs. They do not cover all the programs and assistance for which individuals and families would be eligible based on income combined with specific circumstances, including WIC, SSI/SPP, disability payments, tuition, job training and other benefits provided as services rather than cash assistance, and others.

Also not included is utility payment assistance such as under the Low Income Home Assistance Program (LIHEAP). Program eligibility does not change under the different income levels used in the General Case examples, but this situation may vary depending on individual circumstances. Currently under the program as administered by LADWP, customers enrolled in LIHEAP are eligible for up to \$3,000 in annual benefits including bill assistance, energy conservation retrofitting, and other services.

Housing subsidies including eligibility for affordable housing units are discussed separately in the Housing section below.

### General Case: Change in Money & Non-Money Income by Industry Component & Family Structure

Source: see text for sources and calculations; \$2022

Component	Family Unit	Current Wage & Salary	Change Due to Taxes & Benefit Eligibility, w/o Insurance		Change Due to Taxes & Benefit Eligibility, with Insurance	
			\$25	\$30	\$25	\$30
<b>Hotels</b>	Single, No Children	\$37,600	\$9,200	\$10,500	\$7,300	\$8,400
	Single, Children	37,600	500	-400	-600	-1,700
	Married, No Children	75,200	18,400	21,000	16,700	19,300
	Married, Children	75,200	17,700	20,300	19,000	21,000
<b>Airport</b>						
Air Transportation	Single, No Children	\$37,300	\$9,400	\$10,700	\$7,500	\$8,500
	Single, Children	37,300	-1,200	-200	-2,300	-1,500
	Married, No Children	74,600	18,800	21,400	17,000	19,600
	Married, Children	74,600	18,000	20,600	19,300	21,300
Transportation Support	Single, No Children	35,700	10,600	11,900	8,400	9,500
	Single, Children	35,700	-100	900	-1,300	-500
	Married, No Children	71,400	21,300	23,900	19,100	21,700
	Married, Children	71,400	20,400	23,000	21,200	23,200
Food Services & Drink Places	Single, No Children	35,500	10,800	12,100	8,600	9,600
	Single, Children	35,500	0	1,000	-1,200	-400
	Married, No Children	71,000	21,600	24,200	19,300	21,900
	Married, Children	71,000	20,700	23,300	21,400	23,400
Retail Trade	Single, No Children	38,200	8,700	10,000	6,900	7,900
	Single, Children	38,200	-1,800	-800	-2,800	-2,000
	Married, No Children	76,400	17,500	20,100	15,700	18,300
	Married, Children	76,400	16,800	19,400	18,300	20,400



## Insurance Coverage

While insurance coverage and provider vary by income level, coverage rates in 2019 for Hotel and Direct Airport employees within the wage band that would be affected by the resolution were well above the overall County averages. Hotel workers in particular had a 96% coverage rate, with 78% of those who were covered being under plans provided by employers or unions.

Rates remained high in Air Transportation in 2021, but Hotels in particular saw a drop in overall coverage among the wage band likely to be affected by the resolution. The reason for this shift, however, was not reductions in employer plans but a steep drop in hotel employees at this wage level due to the state-ordered job closures during the pandemic. Coverage rates are likely to return to the 2019 levels as job recovery continues in this industry.

The lowest coverage rates were among Food Services & Drinking Places and Retail Trade, although the latter component still fell slightly above the County average in 2019. These two components, however, comprise the smallest share of employees potentially affected by the proposed resolution and any subsequent provisions related to health care coverage are unlikely to have a significant effect on overall coverage rates.

### Insurance Coverage Among Private Employees Subject to Resolution Wage Bands

Source: see text for data sources and calculations

Year	Industry Component	Covered by Health Insurance	Covered by Employer/Union Health Insurance
2019	Hotels	96%	78%
	Air Transportation	89%	77%
	Transportation Support	90%	62%
	Food Services & Drinking	77%	45%
	Retail Trade	87%	62%
	All Industries	85%	59%
2021	Hotels	80%	49%
	Air Transportation	95%	85%
	Transportation Support	82%	60%
	Food Services & Drinking	78%	38%
	Retail Trade	87%	55%
	All Industries	86%	56%

## Methodology

Disposable Incomes: The General Case: The General Case presented in the text above is developed from the following assumptions:

- All results are presented in 2022 dollars.
- Four family structures are assumed: married with no children, married with children, single with no children, and single with children.
- In each case, the adults are assumed to work in the industry component, at 40 hours a week.
- Current average wage for each industry component and number of children were calculated from the 2021 1-year American Community Survey microdata accessed through University of Minnesota, IPUMS USA.<sup>21</sup> Because it encompasses more of the workforce doing jobs located within the City, averages from the Los Angeles County results are used here and in the other income analyses. As with the prior sections, the data was analyzed for the five affected industry components for averages within wage bands defined by the City Minimum Wage and 2021 equivalents of the \$25 and \$30 wage increases. The resulting estimates were then adjusted to 2022 dollars using the CPI-W for Los Angeles.
- Tax effects are calculated using the NBER TAXSIM program.<sup>22</sup> The results assume no other income sources, each family unit rents, adults are all prime working age, children are under 12, rent is at the County average, and no childcare expenses in order to illustrate the effects of the wage change. Use of TAXSIM enables consideration of changes in the EITC, childcare tax credit, renters credit, payroll taxes, and both state and federal taxes. TAXSIM does not include the state SDI rate levied on employees, and this component is added separately.
- The after-tax effect is the net change in after-tax income comparing current average wage and salary income from the 2021 ACS as adjusted and the resulting incomes by applying the proposed higher wages.
- Social service benefits are assessed using 2022 eligibility standards, applied at both the current average wage and salary income and the resulting incomes coming from the proposed wage increases.

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<sup>21</sup> Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. IPUMS USA: Version 12.0 [dataset]. Minneapolis, MN: IPUMS, 2022. <https://doi.org/10.18128/D010.V12.0>.

<sup>22</sup> Feenberg, Daniel Richard, and Elizabeth Coutts, An Introduction to the TAXSIM Model, *Journal of Policy Analysis and Management* vol 12 no 1, Winter 1993, pages 189-194; National Bureau of Economic Research (NBER), Internet TAXSIM Version 35.

Childcare Assistance: The money value of the assistance is calculated as the difference between the maximum benefit and the required Family Fee Rate in 2022-23, based on California Department of Social Services eligibility calculations. In 2022-23, these rates varied by income from \$0 to \$294 a month for part-time childcare and \$548 full-time. For conservative estimates, the table uses the results for the part-time rates. Eligibility for subsidized childcare is 85% or below State Median Income (SMI), which varies by family size.

CalFresh: In general, eligibility covers families with gross income of 200% FPL or less. Additional qualifications including net income and asset standards also apply. Based on data from California Department of Social Services and US Department of Agriculture, Food and Nutrition Service, the current maximum amount for a family of 3 (the only example family where this program applies) is \$740 a month, and the average received is \$586 a month.

Healthcare Insurance Costs: In general, regular eligibility for Medi-Cal (Medicaid) is 138% of Federal Poverty Level (FPL), which in 2022 was \$38,925 for a family of 4 and \$18,734 for a family of 1. Children are covered by separate standards of up to 266% of FPL (\$36,149 for a family of 1 and \$73,815 for family of 4) and up to 266%-322% of FPL under the Children's Health Insurance Program (CHIP). While CHIP is not broken out separately, the value for Medi-Cal coverage is based on the cost per eligible for Medically Indigent Children from Department of Health Care Services<sup>23</sup> to get a cost estimate applicable to children. Based on this factor, the money value of Medi-Cal coverage for two children is about \$7,000 annually.

In the General Case instances where children are eligible for Medi-Cal coverage, the difference in cost for a Covered California policy (Silver) is about \$100 a month, comparing the cost of covering the entire family to only covering the parent. While this is a significant amount at lower income levels, the tables assume coverage through Covered California in order to simplify the presentation. The cost factors are taken from the general Covered California subsidy estimates for each family group type and income level for Los Angeles, using the same age inputs as for the tax analysis.

Because of the uncertain treatment of health insurance in the resolution, the health care factor is shown in a separate table. These costs would only be incurred where health insurance is not provided from another source including both employer and spouse's employer. In cases where the ordinances provide for insurance under a separate hourly amount where employer insurance is not provided, this amount may or may not be sufficient to compensate for the change in the Covered California subsidy.

Healthcare Insurance Coverage: Estimates for the five industry components and total were calculated from the 2019 and 2021 1-year ACS microdata for Los Angeles County

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<sup>23</sup> California Department of Health Care Services, Medi-Cal May 2023 Local Assistance Estimate for Fiscal Years 2022-23 and 2023-24.

through IPUMS.org as above. The wage band in each year was determined as the relevant City minimum wage level to the equivalent of \$30 and hour in each year. The numbers are private profit and nonprofit workers.

# Effect on Housing

Justifications offered in support of the proposed wage levels are heavily tied to the rising costs of living in the City, in particular the cost of housing. As an effective tool enabling lower income households in the City to cope with these costs, the proposed resolution is limited. As detailed in the previous sections, only an estimated 3% of jobs in the City currently paying below the resolution wage levels would be affected by the proposal, and only about half those jobs are held by workers who are City residents. The wage effect will also only benefit those tourism workers keeping their jobs and their hours as the affected businesses adjust their services, substitute technology, and adopt other changes to cope with a radically changed cost structure. And more critically, the cost of housing and costs coming from overcrowding likely will continue to rise without meaningful policy changes to produce more supply.

In this respect, the proposed resolution is likely to have more of a minor inflationary effect rather than significant changes in local housing affordability. By increasing the wages of only a small portion of workers residing in the City without doing more to generate additional supply, the more direct effect is likely to crowd out other lower and mid-wage public and government workers in competition for the available supply. Still, some workers would benefit under the proposed wage increases. The range of potential effects on affordability are addressed in this section.

In the following analysis, historical data mostly begins with 2017 as the start date, the year California housing prices in general began showing recovery from the previous slump that began in 2008.

## City of Los Angeles Housing

Using the Department of Finance housing estimates,<sup>24</sup> additions to the City's housing supply have grown at a slightly higher rate than the rest of the region. Supply growth has been slower in the rest of the County. More housing has been built in the other Southern California counties in absolute terms, but at a slightly slower rate. Note that the Census results shown for 2020 represent more of a corrective point to the estimates rather than covering an upsurge of construction that year.

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<sup>24</sup> California Department of Finance, E-5 Population and Housing Estimates for Cities, Counties, and the State.

### Change in Housing Supply

Source: Department of Finance estimates, as of January 1 (2010 is April 1)

	City of Los Angeles		Rest of LA County		Other Southern CA	
	units	percentage	units	percentage	units	percentage
2017	16,574	1.1%	6,621	0.3%	19,393	0.7%
2018	13,852	0.9%	5,644	0.3%	20,814	0.7%
2019	16,525	1.1%	5,511	0.3%	21,906	0.7%
2020	-3,769	-0.3%	26,850	1.3%	37,757	1.3%
2021	15,726	1.1%	5,149	0.2%	14,929	0.5%
2022	14,493	1.0%	7,888	0.4%	23,804	0.8%
2023	19,556	1.3%	9,389	0.4%	24,730	0.8%

The City's progress, however, remains substantially below what it should be. As contained in the current Housing Element,<sup>25</sup> the City instead needs to be adding 50,700 units a year in order to meet the targets under its Regional Housing Needs Allocation. By income level, the annual housing need is 20,500 units a year for very low and low income, 8,300 units a year for moderate income, and 21,900 units a year for above moderate income. The prospects of accelerating these development rates have been dampened by the substantial tax disincentive imposed by last year's Measure ULA for moderate-sized and larger private sector developments, likely resulting in a shift of these future investments from within the City to adjoining areas.

### Target Units Under the Regional Housing Needs Allocation

Source: Adapted from Table ES.1, Housing Element of the City General Plan

	2021-29 Target Units
Very Low-Income (0-50% AMI)	115,978
Low-Income (51-80% AMI)	68,743
Moderate-Income (81-120% AMI)	75,091
Above Moderate-Income (Over 120% AMI)	196,831
Total Units:	456,643
Per Year	50,738

The City is notably behind in development of affordable housing units. While the number of proposed units rose somewhat in 2021 and 2022 due to the increase of state and federal funds for this purpose, the number of low-income and below units in 2021 and 2022 only averaged 24% of the Regional Housing Needs level.

<sup>25</sup> 2021-2029 Housing Element of the General Plan, Los Angeles City Planning Department, Adopted November 2021.

### Proposed Affordable Housing Units by Income Level

Source: City of Los Angeles Planning Department, Housing Progress Dashboard

	2015	2016	2017	2018	2019	2020	2021	2022
Extremely Low-Income	150	385	416	533	1,142	900	944	1,033
Very Low-Income	1,055	699	615	898	388	975	1,011	1,100
Low-Income	1,409	904	1,713	1,101	1,281	1,954	3,279	2,612
Sub-total	2,614	1,988	2,744	2,532	2,811	3,829	5,234	4,745
Moderate Income	24	195	29	269	136	267	102	340
Total	4,047	3,087	4,486	3,902	4,228	6,050	8,615	7,697

In spite of substantial assistance funds flowing to this type of housing in recent years, the homelessness problem in the City continues to rise. While the rate of increase slowed in 2022, the homeless count was up 12.0% in the City in the most recent release for 2023, and up 13.7% for the County. Affordable housing is being built, but due to the high construction and transaction costs discussed below, at nowhere near the rate required to stem the problems.

### Homeless Count

Source: Los Angeles Homeless Services Authority, Point-in-Time Surveys

	City	County
2017	33,138	55,048
2018	31,285	52,765
2019	35,550	58,936
2020	41,290	66,436
2021	n/a	n/a
2022	41,980	69,144
2023	46,260	75,518

### Housing Development Costs

A core factor holding back more rapid development of affordable units is the high cost associated with complying with City requirements for this type of housing along with extensive delays in the planning and permit processes. Using the California Tax Allocation Committee data, the average cost of building affordable housing in Los Angeles dipped only slightly in 2022 to \$581,000 a unit. These costs varied by project, with 40% of the units costing an average of above \$600,000, and 15% costing more than \$800,000.

## Average Cost of Affordable Housing Units in City of Los Angeles

Source: California Treasurer, California Tax Allocation Committee annual reports

	4% Program		9% Program		Total	
	Units	Avg Cost	Units	Avg Cost	Units	Avg Cost
2017	650	\$386,126	476	\$461,571	1,126	\$418,000
2018	1,517	\$424,282	559	\$503,100	2,076	\$445,523
2019	1,944	\$465,745	569	\$519,919	2,513	\$478,015
2020	4,021	\$514,376	592	\$584,191	4,613	\$523,372
2021	485	\$650,812	166	\$563,373	651	\$627,176
2022	907	\$627,392	312	\$442,270	1,219	\$580,782

The sources of these high and growing unit costs were analyzed in a series of audits by the Los Angeles Controller of projects funded through the Prop. HHH bonds. The most recent audit<sup>26</sup> concluded that in spite of steps aimed at improving the City processes:

*... HHH is still unable to meet the demands of the homelessness crisis. The cost of each unit continues to rise and the pace of development remains sluggish. . . per-unit costs in the primary pipeline continue to climb to staggering heights.*

The previous audits cited a number of specific aspects of the City approval process contributing to delays in building this housing and adding to final costs of each unit:

- *Reasons for this include the number and complexity of funding sources required to complete an HHH project, the relatively limited pool of eligible developers, regulatory barriers and permitting challenges, and considerable construction and labor costs. An unusually high 35 to 40 percent of costs are so-called “soft costs” (development fees, consultants, financing, etc.), compared to just 11 percent for actual land costs. (2019 Audit, cover letter)*
- **Los Angeles is an expensive place to build multifamily housing—that challenge is embedded into the cost of developing supportive housing through Proposition HHH.** *It is further complicated by a combination of cost factors including prevailing wage requirements, financing complexity, land use issues, project labor agreements, and building characteristics (e.g., enhanced accessibility standards). (2022 Audit, p. 3, emphasis in original)*
- *... research by the RAND Corporation recently highlighted that project labor agreements—which are required for all HHH projects at least 65 units—can increase construction costs by approximately 15%. (2022 Audit, p. 17)*
- *The high price of development is linked with elongated approval and construction timelines. HHH projects are estimated to take between three to six years to complete —*

<sup>26</sup> Los Angeles City Controller, The Problems and Progress of Prop. HHH, February 23, 2022.

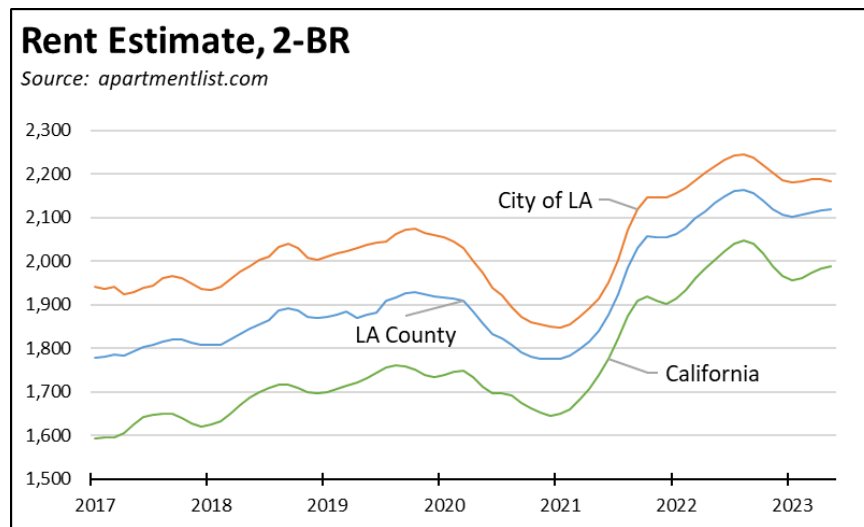


*a schedule plainly out of step with the City's urgent need to bring tens of thousands of people off the streets and into housing. (2019 Audit, cover letter)*

## Cost of Housing

Most data tracking sources indicate that housing prices and rents generally peaked in Los Angeles in mid-2022, and since have leveled out as the overall housing market has softened in line with rising interest rates. Still, costs are up significantly from the pre-pandemic period, discussed below as the change from May 2019 to the most current data for May 2023.

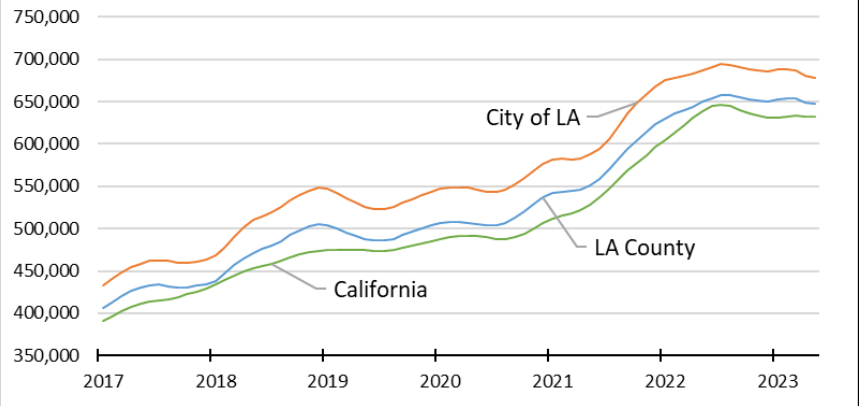
Rents in the City, as measured by Apartment List's rent estimate for 2-bedroom units, rose 7.2% from May 2019. The comparable rise for Los Angeles County was 12.8%, and the average for California higher at 14.8%. Inflation as measured by the Los Angeles CPI-W in this period grew slightly faster at 16.5%. The rate of growth for the City was lower but began at a higher base and largely was in line with trend seen in the pre-pandemic period. Rents for the County as a whole instead saw an initial acceleration in the post-pandemic months.



As shown in the Zillow Home Value Index, Condo/Co-op prices while stabilizing more sharply are up 28.9% in the City, 32.6% in the state, and 33.2% in the state average. As with the rest of the country, this price rise as well as that shown below for single family homes was driven during the pandemic period by the higher-wage occupations who were not as strongly affected by the state-ordered job closures as they sought larger homes to accommodate telework.

### Home Value Index, Condo/Co-op

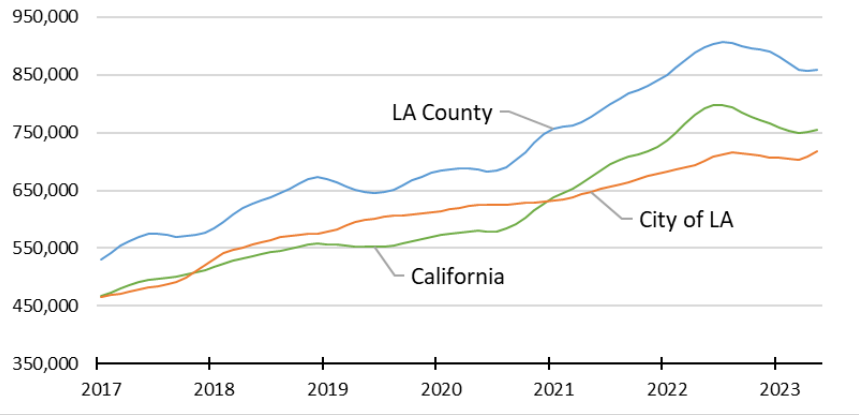
Source: Zillow Research, Housing Data



The Zillow Home Value Index for single family residences showed lower growth in prices within the City at 19.8% as many teleworkers left the coastal cities during the pandemic for larger and relatively more affordable housing of this type further inland. In contrast, prices in the County rose 32.9%, and the state average by 36.6%. Single family prices also showed strong closure in this period with condo/co-op housing in the City, going from a gap of about 80,000 in 2019 to near parity in the first quarter of 2022 and reflecting the extent of the shortage of housing for sale within the City.

### Home Value Index, Single Family Homes

Source: Zillow Research, Housing Data

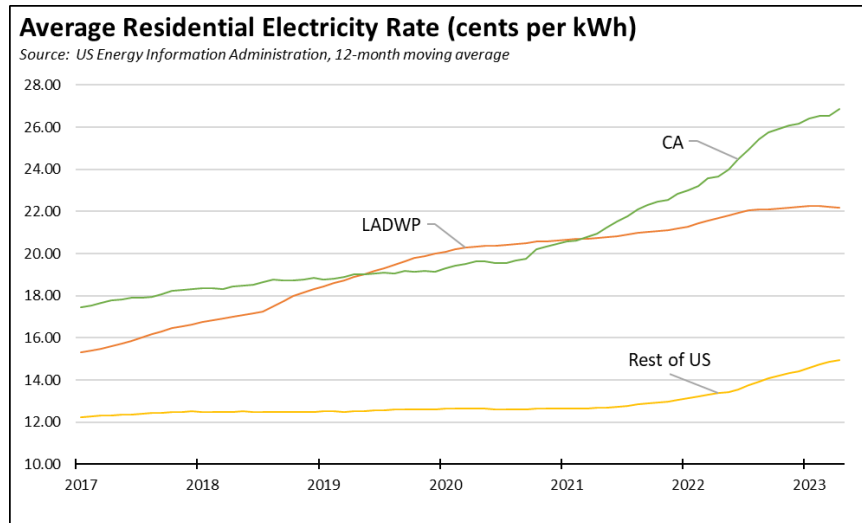


This data, however, shows only one component of overall housing costs. In addition to rent/mortgage payments, housing affordability calculations take into account the full cost of housing, including the cost of utilities (electricity and natural gas, water, sewer), property taxes, insurance, and related costs such as homeowners dues. Working in reverse order:

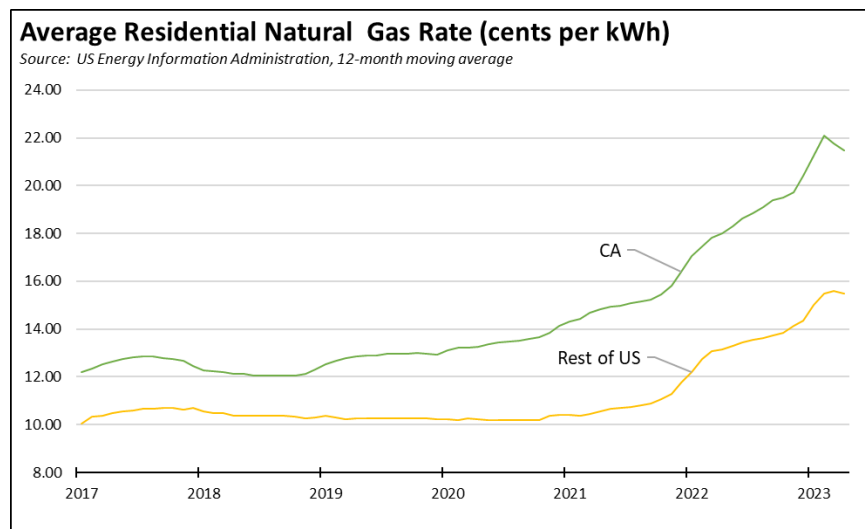
- Most home insurance cost comparisons have limited use as they compare states and zip codes rather than counties and cities and they are based on national home price averages. They consequently report costs that are generally unavailable within the City. One recent analysis by NerdWallet<sup>27</sup>—even though it still comes with the price base caveat—provides data at the state and MSA level. Based on those results, average home insurance costs in Los Angeles are an estimated 27% higher than the state average, but 10% below the US average. Future trends in rates are somewhat uncertain due to the recent announcements by some major companies that they will no longer accept new applications for coverage in California.
- Due to Proposition 13, property taxes are generally the most stable component of total housing costs. Whether embedded in rent costs or paid individually by homeowners, property taxes on existing properties are limited to no more than a 2% rise annually. Taxes can increase when a property is sold. Tax rates also increase to cover debt payments from voter-approved bonds, parcel taxes, and other parcel charges. Based on Board of Equalization and County Assessor data, the average property tax rate in the City in 2021-22 was 1.175%, somewhat above both the County at 1.169% and the state average of 1.156%. Based on an average affordable unit cost of about \$600,000, the difference between the City and state rates equates to about an extra \$100 month, an amount that is small in relative terms but significant to households in this income range.
- Growth trends in energy prices have been far more significant as the result of state policies and regulations pushing these costs higher. Within the City, residential rate increases have been more moderate from Department of Water & Power (LADWP), but they still remain 48.6% above the average rate in all states other than California in the most recent results. Overall, LADWP average residential rates (12-month moving average) rose 17.5% between April 2019 and April 2023 (the most current data). In this period, average rates grew 41.3% in California and 19.2% in the rest of the US, while inflation as measured by the Los Angeles CPI-W rose 16.6%.

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<sup>27</sup> The Average Home Insurance Cost in the U.S. for June 2023, NerdWallet, update June 1, 2023.



- Similar data for natural gas is available only at the state level. California average residential rates (12-month moving average) rose 67.0% between April 2019 and April 2023 (the most current data) and 50.6% in the rest of the US, while inflation as measured by the Los Angeles CPI-W rose 16.6%. The California residential rate was 38.8% higher than the average in the other states in the latest data for April 2023.



The overall rise in rents has moderated for a variety of reasons, including softening of the housing market in response to interest increases, state-wide implementation of rent control under AB 1482 (2019), as well as the City’s own rent control ordinance. Combined, these provide some level of control of housing cost increases for households remaining at existing residences. This situation may not be the case for all workers who would receive the proposed higher wages and who instead would choose to move for a variety of reasons, including a need for larger housing, housing closer to work, or others.

## Homelessness & Minimum Wage

As discussed previously and as analyzed in the next section, minimum wage hikes in particular those at the scale proposed in the resolution will have a mixed effect on employment. Workers retaining their jobs and hours will see increased incomes that can help combat the rising cost of living, although as analyzed previously, this increase will depend on individual family unit types and the extent to which they now depend on the various income assistance programs.

Other workers especially the lower skilled and those with lower seniority may instead face lower hours or even job losses as employers adjust to the new labor cost structure by reducing services and service levels and through the various other strategies previously discussed. Additional job impacts are possible as demand for the products and services drops in instances where prices rise in response to the new costs.

Especially given the tight housing conditions that continue to exist in Los Angeles in the absence of reforms to speed up supply, a potential outcome from the resolution is not improvements in affordability, but instead increased risks of homelessness for this second group of workers.

In one of the most comprehensive studies of its type to date, a recent report by the Benioff Homelessness and Housing Initiative<sup>28</sup> assessed the causes of homelessness in California. The most common reason cited by leaseholders (persons with their name on a lease or mortgage) for losing their last housing was loss of income, accounting for 21% of this group.

Another recent paper<sup>29</sup> attempts to quantify the relationship between rising minimum wage and homelessness rates. Analyzing US cities in the period 2006 to 2019, the paper's conclusions depend on which of the three analytical methods that were used, but its analysis of cities with a continuous rise in minimum wage estimates that a 10% rise in minimum increases relative homeless counts by 3-4%.

The cause of this effect is that even in situations where minimum wage produces little change in aggregate employment, there are still distributional effects among different classes of workers. As wages rise, one particular effect is to shift to higher skilled workers capable of more flexible work tasks. Overall employment may be less affected, but demand in particular for lower skilled workers drops. Those already operating on the edge of their incomes then become at greater risk for homelessness.

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<sup>28</sup> Toward a New Understanding, The California Statewide Study of People Experiencing Homelessness, Benioff Homelessness and Housing Initiative, University of California, San Francisco, June 2023.

<sup>29</sup> Seth J. Hill, "Minimum Wages and Homelessness," OSF Preprints, June 5, 2023, doi:10.31219/osf.io/z2fqj.

This outcome is not necessarily guaranteed. More incremental wage increases especially in the current labor short markets have the potential to improve affordability overall by attracting lower skilled workers into the labor force. But at the levels proposed in the resolution, worker reductions—in hours and in numbers—are far more likely given that the affected employers still must compete with comparable businesses within the region, often just on the other side of the City’s boundaries.

## **Affordability Estimates**

The effect of the proposed wages under the resolution are illustrated by looking at their effect on housing affordability measured by the ratio of housing costs to household income. The general standard for this metric considers any household to be housing cost burdened if they spend 30% or more of household income on total housing costs. Those with a ratio of 50% or more are considered severely cost burdened.

The table measures the affordability ratios for private worker renters by taking the County averages for the wage band (all industries) affected by the resolution’s proposed wages:

- The average affordability ratio is high but still below the 30% level. However, housing affordability worsened for this wage group between 2019 and 2021.
- The effect of the resolution’s proposed wages is to improve the average affordability to some extent, dropping the ratio by 9% in the 2019 data and 8% in 2021. Note that this improvement would apply to workers receiving the increased wages and not to the overall average for the entire wage band.
- Rising housing costs—either through rent or the utility portion of these costs—could quickly erase the gains. In 2021, a housing cost rise of only 8.5% would reverse the wage gains and return the ratio back to 26.3%. Workers remaining in their existing housing—both location and household composition—would likely see incomes remaining ahead of a cost rise due to both City and state-wide rent controls. Workers instead moving to new housing for any number of reasons would more likely be faced with this trade-off.
- To illustrate the discussion in the previous section, job changes have a stronger effect on affordability. Using the applicable Hotel minimum wage, a 50% hours cut as employers adapt to a higher minimum wage would push the average ratio for a worker in this wage band over the 30% level. Job loss and reliance on unemployment insurance benefits pushes the ratio to 36%, and likely higher once the 26-week limit on those benefits expires.

Obviously, the results will differ from the average for every household and their specific situation. But this example illustrates there can be some contribution to housing affordability as wages rise.

**Housing Affordability, Wage Levels Affected by the Resolution**

*Source: see text for calculations and data sources; Renters*

	2019	2021
<b>County Average</b>		
Current Wages	25.7%	26.3%
With Resolution Wages	23.4%	24.3%
<b>Housing Cost Effect</b>		
Cost Increase to Negate	10.2%	8.5%
<b>Job Effect</b>		
50% Cut in Hours	31.8%	32.0%
Job Loss	36.0%	35.9%

The more important question of whether the resolution is an effective way of dealing with this issue relies on other factors. First, only a small portion of workers will be affected, roughly only 3% of the private sector workers in this wage band. The effect is to increase the resources of this segment in bidding against the other 97%. Second, the improvements are small and can easily be overwhelmed by continually rising costs unless the core problem of housing supply and associated costs such as for utilities are tackled. Third, there may be an effect in the aggregate, but the distributional effects will vary widely by worker as employers pursue various strategies to cope with a vastly changed labor cost structure. Workers retaining their jobs will benefit. Lower skilled workers may instead be pushed beyond the breaking point.

Housing cost problems require effective housing supply answers. The resolution as an effective tool is lacking, and merely continues the long-held response of attempting to subsidize the way out of problems created by public policies. As illustrated by the example, subsidies at best can benefit only a small share of those impacted by those policies. Subsidies are at best a temporary fix that delays the need to finally deal with the core causes of the problem.

**Methodology**

The housing affordability analysis relies on the 1-year ACS microdata accessed through IPUMS.org. The averages used in the calculations are drawn from housing income and gross rent (which includes contract rent, utilities, and fuels) for private workers in Los Angeles with average hourly wages within the wage band defined by the lowest applicable City Minimum Wage (generally, LWO contractors) and the applicable equivalent of \$25 in 2023. Resolution Wages are calculated for one worker, using average hours and average weeks worked. The 50% Cut in Salary is based on half the

salary of a Hotel worker being paid at the applicable Hotel Minimum Wage, subtracted from the current salary average. Job Loss is calculated using the same salary calculation and replacing the result with the applicable Unemployment Insurance benefit amount at this salary level.



# Economic Effects

Based on the factors discussed previously, the net impacts from the proposed resolution are estimated to be negative. While the 3% of workers within the affected wage band subject to this proposal will see significant increases in their cash wages, others will experience losses as the significant price rises required to accommodate the new wages lead to a reduction in travel and tourism.

Combining both effects, total net earning losses (direct, indirect, and induced effects) are estimated at \$540 million under the proposed \$25 wage, and rising to \$940 million under the proposed \$30 wage. Net employment losses are estimated at 10,670 under the \$25 wage, and 12,630 under \$30. All numbers are discounted to 2023. The amounts are the levels that would be associated with increased wage costs in each year.

## Cost Impact Summary

For the analysis, estimated payroll increases are calculated based on the previous data. Likely wage increases are from the occupational distributions for each industry component using the 2022 results. These are then compared to total estimates using other data sources, and escalated to 2023 and 2028 using the previous factors related to industry and inflation growth.

### Economic Impact Factors

Source: see text; \$2023 millions

	\$25 in 2023	\$30 in 2028
<b>Net Payroll Costs</b>		
Hotels	\$319	\$443
Airport	386	525
<b>Hotels</b>		
Room Price Increase	19.0%	22.5%
Room Revenues	\$23	\$27
Capital Spending: Renovations	-90	-94
Capital Spending: New Construction	-231	-249
<b>Airports</b>		
Operating Costs Due to Passenger	-\$85	-\$123
Concession Revenue Due to Passenger	-8	-12
Overnight Visitor Spending	-96	-140
<b>Tourism</b>		
Visitor Spending Loss	-\$882	-\$1,077

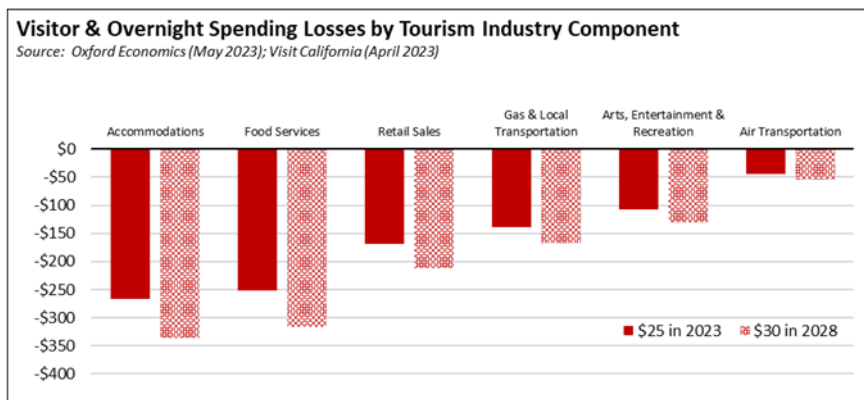
In order to keep the focus on the payroll component, the full impact estimates of the resolution draw on those from the previous two studies. The applicable factors along with the estimated payroll increases are summarized in the following table. While the actual 2023 costs would only apply to a portion of the year should the resolution come into effect, the table displays the equivalent annual costs in each case in 2023 dollars.

In looking at each factor individually:

- Net total payroll costs are estimated to increase by \$705 million under the \$25 in 2023 provision and by \$969 million under \$30 in 2028. These differ somewhat from the other two studies due to the different data—including the use of the EDD special data run for base employment numbers—and the various assumptions. These results are reasonably close to the Oxford Economic results, differing by 6% to 13%. The differences with the Lester study are similarly close under the \$25 scenario, but broader at \$30.

As indicated earlier, the Oxford Economics study only includes airlines and service providers in their estimates, and does not cover direct LAX employees. The estimates in this study are comparable, but LAX employees are considered separately under the analysis of City of Los Angeles wages. The analysis assumes they would not be covered under the resolution and are not included in the impact analysis.

- The additional Hotel components are from the Oxford Economic study. While the calculated numbers would change using the somewhat different payroll estimates in this study, the shifts would be relatively small. The values consequently are used as shown.
- Overall, the Oxford study estimates that demand for hotel rooms in the City will drop 15.0% under the \$25 scenario and 17.2% under \$30 as prices are increased to adjust to the higher costs. Total revenues increase in response to the price rises, but only by a net \$21.5 million and \$26.7 million, respectively, due to the drop in room rentals.
- The same treatment is applied to the additional Airport components.



- The base Visitor Spending Loss and Overnight Spending loss are taken from the Oxford Economics estimates. These are then adjusted further for potential impacts on smaller hotels with less than 60 rooms. As discussed previously, the current labor shortage conditions likely mean this class of hotels will have to raise wages and consequently rates as well in order to be able to compete for staff. The Visitor Spending Loss component is adjusted to account for this factor based on the Oxford Economics estimates, the previous room distribution estimate, and a discount to reflect the likely situation where small hotel wages will rise but not necessarily to the proposed levels. The Visitor Spending Loss and Overnight Spending loss components are further broken down using estimates from a recent Visit California<sup>30</sup> report. The results illustrate the potential direct impact on various other industries in Los Angeles due to the impacts on tourism and travel, as well as providing additional detail for use in the economic and fiscal calculations.

## Economic Impacts

The resulting impact estimates are summarized in the following table. The entries combine the positive effects accruing to workers who remain employed and who benefit from the proposed wage increases, along with the negative effects coming primarily from travel and tourism reductions related to the significant rise in prices. All impacts were assessed using the Bureau of Economic Analysis RIMS-II input-output multipliers for Los Angeles County (2021). The effects shown cover both direct and under the total net changes, indirect effects and induced effects coming from household expenditures of the increase wage income.

### Summary Economic Impacts

Source: see text; \$2023 millions

	\$25 in 2023	\$30 in 2028
<b>Net Change in Output</b>		
Direct	-\$1,310	-\$1,580
Total	-\$1,960	-\$2,300
<b>Net Change in GDP</b>		
Direct	-\$710	-\$860
Total	-\$1,040	-\$1,580
<b>Net Change in Earnings</b>		
Direct	-\$290	-\$330
Total	-\$540	-\$940
<b>Net Change in Jobs</b>		
Direct	-8,480	-10,280
Total	-10,670	-12,630

<sup>30</sup> Visit California, The Economic Impact of Travel, April 2023.

Considered by industry, the greatest estimated losses will be in Accommodations & Food Services and in Transportation. While lower and mid-wage workers in these industries may benefit from the increased wages, others face job loss and increased affordability stress as high prices after the overall level of travel and tourism in the City.

### Net Change in Jobs & Earnings by Industry

Source: see text; \$2023 million; jobs as shown

	\$25 in 2023		\$30 in 2028	
	Jobs	Earnings	Jobs	Earnings
Natural Resources	0	\$0	0	\$0
Construction	-1,440	-\$100	-1,540	-\$110
Manufacturing	-230	-\$20	-260	-\$20
Wholesale Trade	-110	-\$10	-120	-\$10
Retail Trade	-1,020	-\$40	-1,220	-\$50
Transportation, Warehousing & Utilities	-2,250	-\$70	-2,750	-\$90
Information	-80	-\$10	-90	-\$10
Finance & Real Estate	-130	\$0	-70	\$0
Professional & Business Services	-610	-\$50	-700	-\$60
Educational & Healthcare Services	-80	\$0	-20	\$0
Arts, Entertainment & Recreation	-910	-\$30	-1,090	-\$40
Accommodation & Food Services	-3,700	-\$140	-4,650	-\$170
Other Services	-110	-\$10	-110	-\$10

## Fiscal Impacts

Fiscal impacts were estimated from the primary taxes and fees that vary by income or revenues. Estimated net impacts to the City are a loss of \$52 million annually under \$25 in 2023, and \$67 million (\$2023) under \$30. Total fiscal losses are \$206 million and \$232 million, respectively.

### Net Fiscal Impacts: Fees & Taxes

Source: see text; \$2023

	\$25 in 2023	\$30 in 2028
<b>Federal</b>		
Payroll Tax (FICA)	-\$70	-\$81
Personal Income Tax	-24	-13
Corporation Income Tax	-19	-22
Subtotal, Federal	-\$113	-\$117
<b>State</b>		
Sales & Use Tax	-\$16	-\$19
Personal Income Tax	-13	-16
Corporation Income Tax	-8	-9
Payroll Tax (SDI)	-4	-5
Tourism Assessment*	0	-1
Subtotal, State	-\$42	-\$49
<b>City</b>		
Transient Occupancy Tax	-\$35	-\$44
Airport Fees	-10	-15
Tourism Assessment	-5	-6
Sales & Use Tax	-2	-2
Subtotal, City	-\$52	-\$67
<b>Total</b>	<b>-\$206</b>	<b>-\$233</b>

Note: \*less than \$1 million under \$25

## Methodology

Payroll Costs: Total costs of the proposed wage increases are estimated in 2022 dollars through the following steps:

- Wage increases are calculated as the difference between the two wage increases (2022 equivalents) and current wages using the distributions estimated previously by occupation for the industry components. Average hours and weeks worked were estimated using the ACS microdata through IPUMS.org as discussed previously, using the affected wage bands within each industry component. The 2021 results were compared to comparable data from 2019, and adjustments were made accordingly to better reflect more “normal” work schedules prior to the state-ordered job closures that affect the 2021 data.

- Payroll taxes and benefits are based on data for City hotels from STR/Costar, and adjusted by industry based on US Bureau of Economic Analysis wage and compensation data.
- Labor reductions due to rising minimum wages are estimated using the low wage study median elasticity reported in the Neumark & Shirley (2022) paper. Given the substantial wage increases involved, more significant changes to current labor models are likely to occur especially as the affected employers shift the range of services and modes of service, but this assumption provides more of a conservative estimate.
- Compaction wage costs are estimated using the Oxford Economics assumption of maintaining a \$3 to \$5 wage differential.
- Hotel payroll costs estimated through this approach are then trued up to the STI/Costar data for hotels within the City of Los Angeles, by comparing total labor costs estimated using the STI/Costar results to a comparable figure using the occupational approach. Due to data availability, the Airport wage and salary costs instead were trued up to estimates derived from the QCEW data.
- While the 2022 costs are used in the impact modeling to conform more with the model's data sources, the tables in this section escalate the \$25 costs to 2023 based on two adjustments: (1) inflation adjustment using the Los Angeles CPI-W and (2) an employment adjustment using the 2019 CES industry data from EDD to represent a more normal level of jobs within the affected industries. The \$30 results are also shown as estimated costs in 2028 using the inflation projections discussed above combined with employment growth factors calculated as the current annual growth for one more year and half that growth rate in the years after to attain recovery to the 2019 levels in the projection period.

Economic Impacts. Using the previous calculations and assumptions, economic impacts were analyzed using the US Bureau of Economic Analysis RIMS-II input-output multipliers for Los Angeles County using the most available model for 2021.

As with any input-output model of this type, there are both benefits and downsides to its use. The most obvious in this instance is that this type of model assumes no change in the basic industry structure and relationships over the analysis period. As noted elsewhere, 2021 was still a transition period during the pandemic, with businesses not allowed to reopen in California until July of that year. Employment numbers used in the model are consequently likely to be underestimated compared to current conditions, and earnings impacts overestimated due to the higher level of overtime and hiring bonuses in this period. For example, using other BEA data to adjust the 2021 results to a 2022 level results in higher job losses of 12,650 under the \$25 wage, and 15,070 under \$30.

The results shown in the table summarize the net changes under each of the factors, and specify the direct impacts and in the total, adding in the indirect impacts along with induced effects coming from household expenditures of the higher wage income. The job numbers shown are the total number and incorporate both part-time and full-time positions, reflecting the mix in 2021.

The impacts estimated by this type of model will occur over an indeterminate time frame. The level of impacts, however, is associated with each year in which the specified wage levels would be imposed.

From a regional perspective, at least some of the economic activity lost to the City may shift elsewhere. Where this happens, there would be at least a partial counter-balancing regional effect, likely with higher local benefits as travelers are able to spend a greater share of their travel budget on items other than hotels and air travel. However, the focus of this report is on the likely effects coming from the proposed City action, and consequently the analysis maintains this perspective in its calculations.

Fiscal Impacts. Fiscal impacts are estimated for those taxes and fees that vary by income or revenue. All items are calculated against the total net economic impact estimates to incorporate both the positive and negative fiscal effects. The primary components included in this analysis are:

- Los Angeles Transient Occupancy Tax (TOT) is currently 14%.
- Los Angeles Tourism Marketing District assessment was recently raised in 2022 to 2.0% of room rental revenue.
- California Tourism Assessment is 0.195% of travel and tourism revenue.
- The Los Angeles Business Tax is a gross receipts tax levied at different rates depending on the business type. The amount is calculated based on the most common business types.
- The current sales tax in Los Angeles is 9.25%. Of this amount, 3.5% goes to the City, 3.9375% goes to the state general fund, and the remainder is used by the state for local subvention funding.
- The estimated passenger loss in the Oxford Economics study translates into about 1.7% for \$25 in 2023 and 2.5% loss under \$30. These percentages were applied to the variable components of the LAX fee revenues from the current City

Budget.<sup>31</sup> These include signatory flight fees, fuel fees, auto parking, and car rentals. Other revenues are addressed through the concessionary type.

- Payroll taxes consist of FICA, which is charged at a 7.35% rate separately on both the employer and employee. The state SDI rate is 0.9% up to specified income limits and paid by the employee. The state unemployment insurance and training taxes are not expected to vary significantly.
- State and federal income tax is estimated using the TAXSIM program for 2023. Based on ACS (2021) family income data, the affected workers are split into three income groups for the family units within the relevant wage bands as in the previous tax analysis. The calculated average is then applied to the total number of affected workers to estimate average marginal rates. This approach incorporates the effect of the EITC, child, and renter credits.
- The state and federal corporation tax rates are applied to estimated changes in profits, which in turn are estimated using net income margins by industry.<sup>32</sup> While many of the affected businesses are likely taxed at personal income rates, this approach simplifies the overall calculations.

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<sup>31</sup> City of Los Angeles, Adopted Budget, Fiscal Year 2022-23.

<sup>32</sup> Aswath Damodaran, Margins by Sector (US),

[https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/margin.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html), accessed July 12, 2023.



# Other Economic Impacts

In addition to the effects discussed in the previous section, there are likely to be impacts on other employers and jobs in Los Angeles. While not included in the quantitative analyses, these other potential effects are discussed below in qualitative terms.

## 60 Room Exemption

This analysis and the prior two studies on the proposal assume continuation of the 60-room and below exemption that was tightened under the amendments to the HWPO that went into effect last August. This is likely to be an exemption without a distinction.

As discussed earlier, the state and local economies currently operate under labor shortage conditions, particularly shortages affecting lower and upper wage industries. Creating wage differentials as substantial as proposed in the resolution consequently would put the smaller hotels at a significant disadvantage in being able to hire sufficient numbers of workers. Staffing likely would then be met only through comparable wage increases even though they would not be mandated under the resolution.

With fewer opportunities to adjust services and adjust labor use, smaller hotels would also be at a disadvantage in being able to adjust to the higher costs through revising their cost structures rather than raising their prices. And as their prices rise relative to the larger hotels, total revenues are likely to drop. With a smaller revenue base and overall fewer response options, this wage pressure is likely to result in accelerated closures of the smaller hotels.

## Other Hotels in the Region

The tourism industry is not limited to the City of Los Angeles, but provides a large employment base throughout the region. Effects on hotels outside the City are likely to have both positive and negative results:

- Immediate effects will differ by city. Four other cities have hotel minimum wages comparable to Los Angeles, with two of them currently tied to the Los Angeles provisions. To the extent these four follow the resolution's proposals, the impacts estimated for the hotel component will rise accordingly.
- Hotels in other locations especially those closer to the City are likely to face some of the same wage pressure as discussed above for the smaller hotels. The overall reach of this effect will diminish as the affected lower- and mid-wage workers continue to balance the prospects of higher wage compared to their

costs of housing and commuting. This wage pressure is likely to have similar consequences for smaller hotels in the immediate region around the City. Outcomes for other hotels are likely to vary, depending on how far they have to go in matching the City wage levels and the extent to which they benefit from travelers seeking more reasonable room rates.

- Balancing the wage pressures, hotels elsewhere in the region are likely to be at least partial beneficiaries of rising room prices in the City. Tourism is still likely to see reductions as potential visitors are faced with higher rates in their preferred locations. Business travelers and others with few alternatives to being physically present in the region are likely to shift their business to hotels outside the City. For this aspect, the economic effects on the City will continue to be negative, but there will be offsetting benefits to the region that will offset at least a portion of the impacts. Fiscal impacts on the City, however, will continue, with the tax revenues shifted from City purposes to other local governments in the region. Again, this factor is not included in the analysis, which focuses on the results coming from the City's perspective.

Easing these wage pressures by drawing labor into the region is not likely to occur due to housing costs. Short supplies in housing overall combined with prices that are substantially out of line with other regions are likely to result in higher costs of living—if housing at these price levels can be secured at all—for workers who would otherwise contemplate such a move.

While hotels are likely to see these effects the most, there are also likely to be comparable wage and as a consequence price pressures on other airports in the region as well. To the extent these occur, the estimated effects on overall tourism levels will be compounded.

## **Other Businesses in the Region**

Beyond the impacts estimated in the previous section, there will be at least some level of cost pressure on other businesses employing workers at this wage level. While some of the affected occupations require specialized training or skills, more involve workers able to transfer more easily between industries. Given the relatively small number of workers potentially benefiting from the resolution, this effect is likely to be small but will still exist as long as the current labor shortage conditions continue.

## **LAX as a Trade Gateway**

Both the Lester and Oxford Economics studies focus on LAX as a key component in the tourism industry infrastructure in Los Angeles. LAX also plays another critical role in the trade infrastructure supporting hundreds of thousands of trade-related jobs in Southern California.

Within Los Angeles County, the QCEW data from EDD for 2022 shows an average of 121,000 employees in companies engaged in goods movement within Transportation & Warehousing, not including railroads for which the data is subject to nondisclosure provisions. These jobs in turn support many others in associated industries, including both blue- and white-collar occupations.

These jobs differ substantially from the tourism industry jobs that are the focus of the proposed resolution. Like the affected tourism jobs, they are predominantly blue-collar jobs, but unlike tourism, they had an average annual wage of \$80,900 in 2022 in contrast to Food Services & Drinking Places with an average annual wage of only \$31,600. Trade and goods movement consequently plays a critical role in providing better paying, blue-collar middle-class jobs, replacing comparable jobs lost through the decline of manufacturing and other middle-class industries. This industry along with the tech industry also was the only part of the California economy showing significant growth during the pandemic, but providing jobs to a significantly different income segment of the state.

California’s previous lead in trade is now under pressure. Rising costs due to increased regulations affecting the ports combined with lasting uncertainty related to the port worker negotiations have seen trade activity gradually shift to other parts of the nation. At the beginning of 2004, the Census Bureau’s trade data shows California ports handled 20.6% (12 month moving average) of the nation’s import and export trade by value. In the most recent results from May, that share was down to 15.5% as Texas now leads with 20.1%.

The County’s ports are the predominant base for the state’s trade-related economy. And within that base, LAX plays a significant but often unnoticed role. By value, LAX handles about 26% of exports moving through the County, and about 19% of imports, generally around the same amount as through the Port of Long Beach.

**Trade through Los Angeles County Ports**

*Source: US Bureau of the Census, US Trade Online; \$ billion*

	Port of Los Angeles	Port of Long Beach	LAX
<b>Exports</b>			
2019	\$55.0	\$31.1	\$31.9
2020	49.1	29.0	28.5
2021	56.8	26.8	26.9
2022	61.4	29.8	28.5
2023 (thru May)	23.8	12.2	12.4
<b>Imports</b>			
2019	\$245.6	\$61.6	\$63.3
2020	230.8	62.6	69.2
2021	269.0	76.8	82.4
2022	283.1	91.5	91.8
2023 (thru May)	102.4	33.9	29.2

LAX, however, handles higher value products which in turn supports production related to these goods and parts in the California economy.

Air freight already is more costly than ocean freight, the primary reason why it handles higher value goods and goods dependent on more rapid delivery times. Air freight also increases flexibility within the supply chain, as dramatically shown through its role in helping to ease the extreme supply disruptions during the pandemic.

While not explicitly measured in the impact estimates, increasing operating costs will affect this role of LAX as well. The effect likely will be seen in both levels of freight choosing to use LAX and the resulting level of activity within the other trade-related businesses and jobs now reliant on this mode.

## **Reputational Risk**

Some of the debate on the proposal is couched in terms of hotels and the other affected industries being able to afford the higher costs given the expected rise in tourism spending related to the upcoming Olympics. The focus that will be on the City due to these events carries a risk as well.

Los Angeles is already a high-cost area. Measured by the US Bureau of Economic Analysis Regional Price Parities, Los Angeles (MSA) was the 14<sup>th</sup> most costly urban area in the country in 2019, and rose to 6<sup>th</sup> highest in the most recent data for 2021. The good parts of Los Angeles will be on display during the Olympics as will be the bad ones, and policies that will spike tourism costs just prior to the events will add to the latter group. Given the spotlight during this period in both traditional and social media, the effects on tourism trends and future tourism jobs could be significant.

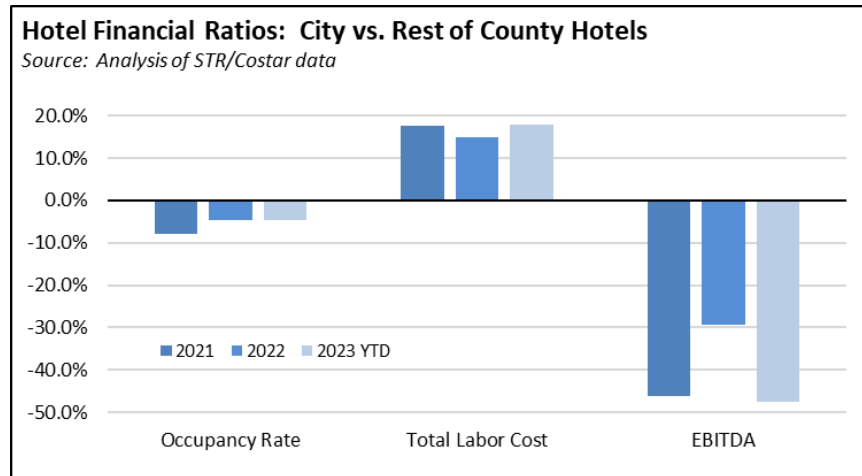
Consumer perceptions of tourism in Los Angeles are also important from a recovery standpoint. Total tourism spending in 2022 recovered to only 91% of the 2019 level in nominal terms,<sup>33</sup> and only 80% if adjusted to constant dollars. Jobs within the affected industries as a result are still far from recovery to their prior levels. Applying the County growth rates to the City employment numbers obtained from EDD, Hotel jobs in the City are still an estimated 15% below their pre-pandemic peak. Direct Airport jobs have fared better but are still 2% short.

These job shortfalls carry their own affordability effects, as workers who otherwise could be earning wages forego potential income due to the lack of jobs. Looking just at Hotels, the income effect from this continuing jobs shortfall reverses three-quarters of

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<sup>33</sup> Los Angeles Tourism Announces Tourism Industry Generated \$34.5 Billion in Total Business Sales in 2022, Impacting More Than 528,200 Tourism-Related Careers and \$3 Billion In Tax Revenues, Discover LA press release, May 9, 2023.

the benefits coming from the proposed wage increase, but has far more significant affordability effects to those workers who could otherwise be employed.



The ability of City Hotels to accelerate jobs creation, however, is hindered by operating conditions that already are more costly than for their competitors elsewhere in the County. In the figure above, results for Hotels in the City are compared to their competitors in the rest of the County except for those located in one of the four other cities with ordinances similar to the City's. By individual measure:

- Occupancy rates have improved since the pandemic lows, but the rate for Hotels in the City is about 5% lower than for those in the rest of the County.
- Labor costs measured as a percent of revenues are much higher for Hotels in the City, primarily as a consequence of the City's Hotel Minimum Wage. This gap closed somewhat in 2022, but has grown again in 2023 as the result of the additional provisions on labor use enacted last summer. Labor costs expressed by this ratio are nearly 18% higher for City Hotels.
- Profitability as measured by earnings before interest, taxes, depreciation, and amortization (EBITDA) shows a much wider gap. Hotels in the City had relatively fewer cost containment strategies during the pandemic, but improved occupancy and revenues helped close the gap in 2022. To date in 2023, the need to remain competitive has seen revenues rising slower than costs, with the profit rate as measured by this metric nearly half the ratio for Hotels elsewhere in the County.

The need to remain competitive with other Hotels in the region already has reduced the capacity of those in the City to absorb major new costs. The expansion of jobs back to pre-pandemic levels already has been held back by the slow recovery in travel and tourism spending. Increasing the unit costs of serving this market has held back that expansion even further.

## **Methodology**

Hotel Cost & Performance: Custom P&L reports were obtained from STR/Costar covering two areas: (1) hotels in the City of Los Angeles and (2) as a comparison, hotels in the rest of the County of Los Angeles. The second group excluded hotels in the cities with wage ordinances similar to or tied to those in the City.