CITY OF LONG BEACH

Memorandum

Date: November 1, 2024

To: Thomas B. Modica, City Manager

From: Bo Martinez, Director, Economic Development
Cynthia Guidry, Director, Long Beach Airport

For: Mayor and Members of the City Council

Subject: **Follow-Up Regarding Market Pay Adjustment for Airport and Convention Center Workers Item**

On July 16, 2024, the Long Beach City Council requested the City Manager to evaluate options for modernizing existing wage rates for the Long Beach Airport and the Long Beach Convention and Entertainment Center workers, and requested the City Attorney to prepare an ordinance amending the Long Beach Airport and Convention Center Worker Wage Ordinance (LBMC Chapter 16.60) to authorize a market pay adjustment that ensures fair and competitive wages for concession workers at those City-owned facilities. This memorandum represents the initial part of that request to propose and evaluate options for modernizing existing wage rates. Current labor agreements at both facilities are consistent with existing wage requirements.

At the Long Beach Convention and Entertainment Center (Convention Center), staff concession workers fall under a labor agreement with UNITE HERE! Local 11. Additionally, due to the nature of event-based labor needs, the Convention Center augments staffing needs with irregular temporary workers through staffing agencies. As is customary, staffing agencies charge the Convention Center a markup for these workers. A portion of the collected service fees is used to offset the additional labor costs, although a majority of that fee is distributed to tipped staff. The Convention Center's current collective bargaining agreement (CBA) expired on September 30, 2024. ASM Global and UNITE HERE! Local 11 are in active negotiations for a new agreement.

At the Convention Center, ASM Global manages and operates the facilities on the City's behalf. As customary, ASM Global operates under a management agreement subject to an agreed-upon management fee. ASM Global hires staff to operate and maintain the facilities. City is responsible for costs associated with maintaining and improving Convention Center facilities.

At Long Beach Airport (Airport or LGB), concession facilities in the commercial passenger concourse are managed by a "Master Concessionaire", Paradies Lagadere (Paradies). Airport's Concession Program has five locations in its post-security passenger concourse: two retail and three food and beverage (Retail and F&B) operations. Paradies was awarded the exclusive rights to operate the Concessions Program in 2012 through a competitive Request for Proposals (RFP) process. Their agreements with the City for both Retail and F&B expire November 30, 2027. Under the agreements, Paradies pays the Airport commissions on gross revenues with a Minimum Annual Guarantee (MAG).

At the Airport, concession spaces are initially constructed to a “core & shell” state. Concessionaires are responsible for the initial buildout and any subsequent modifications subject to agreed-upon products and concepts. Concessionaires are independent business operators “leasing” space at the Airport, hiring and managing their own employees.

Paradies must also comply with the federal Airport Concession Disadvantaged Business Enterprise Program, regulated by the Department of Transportation and the Federal Aviation Administration to promote inclusion—an additional cost to operating at an airport. Hiring staff at the Airport is also subject to a Transportation Security Administration (TSA) mandated background and security clearance and requires additional time to hire and onboard.

At the Airport, Paradies and UNITE HERE! Local 11 negotiated a CBA that modernizes their wage rates effective April 2, 2022, through June 30, 2027. The CBA also includes a benefits package that includes health insurance, paid leave, a 401k plan, and other miscellaneous benefits.

Past Wage Actions

Recently, the City Council has considered other wage-related items. On August 16, 2022, the City Council approved adoption of the “Healthcare Workers Minimum Wage Ordinance” to increase the minimum wage for private healthcare workers to $25 per hour with annual CPI increases. A subsequent referendum petition was filed with the City. Pursuant to State law, this ordinance was suspended and is pending review. State Senate Bill 525 increases healthcare workers minimum wage to $25 per hour and will go into effect on either October 15, 2024, or January 1, 2025, depending on State revenue targets.

On September 19, 2023, the City Council requested City Attorney to prepare a ballot measure amending the Long Beach Hotel Worker Wage Ordinance (LBMC Chapter 5.48) to increase the minimum wage for workers in hotels with 100 or more guest rooms to $23 per hour on July 1, 2024, $25 on July 1, 2025, and increasing annually up to $29.50 per hour on July 1, 2028. This ballot measure was placed on the March 5, 2024, ballot and was approved by voters.

Minimum Wage Theory and Evidence

For both previously considered minimum wage items, the City Council was provided with a report prepared by the Los Angeles County Economic Development Corporation (LAEDC). While the report was initially prepared in response to the healthcare workers’ item, the conceptual analysis was broad and applicable to general minimum wage discussions. Staff have included the relevant section titled “The Minimum Wage: Theory and Evidence” as Attachment A.

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

General Benefits and Risks

Benefits

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

Risks

- Short-run employment losses, particularly for low-wage workers.
- Potential long-run business exits, employment losses and reduced future employment growth and business entry for covered occupations.
- Potential non-labor adjustments such as decreased business profits and quality/access reductions to pay for increased labor costs.
- Potential decrease to TOT due to reduction in guest visits from increased costs of stay that may lead to less visitor spending impacting the local economy.

Labor Perspective

Staff also met with representatives from the Los Angeles Alliance for a New Economy (LAANE) to better understand the workers’ perspective on a proposed minimum wage increase. LAANE is a non-profit organization that is described as advocates for public policy and union organization in support of better wages and benefits for low-wage workers. LAANE has a history of partnership with UNITE HERE! Local 11. In addition to the aforementioned benefits, LAANE highlighted housing unaffordability, the high cost of living, and stagnant wages as further evidence of the need for an increased minimum wage for these concession workers.

LAANE provided additional research in support of an increased minimum wage, including a study titled “Estimating the Impacts of the Proposed Tourism Workers Living Wage

Ordinances for the City of Long Beach" (Attachment B). This study was prepared by T. William Lester, Professor and Chair, Department of Urban and Regional Planning, San Jose State University. The report states that it looked at the impacts of proposed wage increases on the rebounding tourism economy in Long Beach, providing the general conclusion:

> "The proposed changes to the wage ordinances will help increase the wages of tourism workers in Long Beach to keep pace with the rising costs of living, including the rapid escalation of housing and health care costs. In reducing the rent and healthcare burden on these workers, the proposed wage ordinance amendments will help more families weather unforeseen financial shocks and could help tourism workers save for home ownership and build inter-generational wealth. The immediate boost in wages and health care coverage will ensure that these workers will sustain our region's vibrant tourism industry as it continues to rebound from the pandemic."

Required Contract Provision

LBMC Section 16.60.050 requires that every contract with a concessionaire subject to the Airport and Convention Center wage ordinance shall contain provisions requiring it to comply with the provisions of the ordinance "as they exist on the date when the Concessionaire entered the contract with the City or when such contract is amended."

ASM Global and City entered into a Management Agreement in 2022, which expires in 2029, but is subject to an additional three-year extension period at the City's sole discretion. Paradies and City entered into a Concession Agreement in 2012, which was subsequently amended in 2015, and expires in 2027. Accordingly, ASM Global and Paradies are subject to the terms of the Airport and Convention Center wage ordinance as they currently exist. Accordingly, any revisions to the ordinance that increases the minimum compensation for Airport and Convention Center workers could not take effect until after expiration or amendment to the current agreements. The required contract provision of LBMC Section 16.60.050 is unique to the ordinance applying to Airport and Convention Center concession contracts. No such provision exists for the previously contemplated healthcare or hotel worker wage ordinances.

Convention and Entertainment Center Potential Impacts

ASM Global operates the Long Beach Convention and Entertainment Center for the City of Long Beach under Management Agreement #36386. The current term for this agreement terminates on September 30, 2029. Under the Required Contract Provision noted in LBMC Section 16.60.050, any revised minimum wage requirements would not need to be implemented at the Center until after that date. There are several potential likely impacts from a significant wage increase proposal.

- **Labor Costs:** *Currently, labor costs constitute the highest single expense at the Convention Center, accounting for 40 percent of total costs.* Before the pandemic, Net Income/Loss was almost at a breakeven point. With the reopening and gradual resumption of conventions, meetings, and entertainment bookings, there has been a significant rise in labor and other costs. Hiring qualified employees has been a challenge, often necessitating the reliance on irregular temporary staffing to supplement the Convention Center's regular workforce.

- **Industry Standards***: The convention and meeting industry typically sees an annual rental rate increase of about 3 percent.* Given that the Convention Center books events up to 8 years in advance, these increased costs may be challenging to absorb, potentially disrupting the Convention Center's competitive market pricing. A substantial increase in costs on existing booked business could lead to exacerbated net losses at the Convention Center, a burden that would ultimately fall upon the City. The necessitated increase to rental rates will also likely affect our overall competitiveness in the market.

- **Employee Wage Disparities:** The current collective bargaining agreement covers 113 employees, over 95 per cent of whom are part-time due to the nature of event bookings. Unlike the hotel business, convention business levels fluctuate greatly depending upon the group or event booked. The Convention Center also supplements workforce needs with irregular temporary staffing for larger events.

  While there are significant disparities between "tipped" and "non-tipped" positions in their total income, both ASM Global and the UNITE HERE! Local 11 are attempting to decrease those disparities in their ongoing negotiations. The current proposals from both parties include significant wage increases for non-tipped staff over the term of the collective bargaining agreement. Non-tipped positions would receive minimum wage increases, supplemented by the Admin Fee that is distributed to tipped positions. In addition, ASM Global also has proposed a Tip Pooling Policy for those areas where guests leave a voluntary tip (at concession stands), such that employees who are usually considered non-tipped, including cashiers, runners, and cooks in the line of service, will follow a mandatory tip pooling program, resulting in a more equitable distribution of those tips and supplements to their earnings.

- **Direct Financial Impact:** If implemented immediately, even without any retroactive consideration, the proposed minimum wage increase and Admin Fee distribution, could have an additional net negative financial impact to the Convention Center of approximately $250,000 in FY25. Currently, without consideration for these proposed changes, the Convention Center is anticipated to operate at a deficit of approximately $1.8 million in FY25. The proposed minimum wage increase will likely increase the Center's deficit to over $2 million and any additional negative impacts are the responsibility of the City. While cities do not typically operate convention centers at a profit, as they are meant create broader economic impact, it should be understood that any operational losses at the Convention Center are required to be absorbed by the City.

- **Capital Investment Impacts:** As part of their most recent Management Agreement, ASM Global contributed $7 million in capital improvements to the Convention Center to ensure the venue's ability to remain competitive in the market and to continue to provide employment opportunities and economic impacts that benefit Long Beach. Significant negative financial impacts to Convention Center operations are likely to influence ASM Global's ability to fund future capital investment at the Convention Center under existing contract terms and provisions.

- **Other Potential Impacts:** While it is not possible to precisely calculate the broader ramifications, the impacts to the Convention Center pricing will necessitate rate increases that could make the Convention Center less competitive in the marketplace. As an economic driver for Long Beach hotels, restaurants and attractions, reduction in bookings at the Convention Center will likely negatively impact those related businesses as well as reduce the associated sales and transient occupancy tax. A summary of these potential impacts includes:

  - Increased Rates & Competitiveness: As labor costs rise, the Convention Center may need to increase its pricing to maintain profitability. This could make the Convention Center less competitive when compared to other venues, possibly driving business to locations where costs are lower, and pricing is more competitive.

  - Reduction in Bookings: Higher costs passed on to clients may lead to fewer bookings at the Convention Center. With fewer events, the surrounding businesses that rely on convention related business—such as hotels, restaurants, and local attractions—would experience a decline in customer volume and spending. This could result in a reduction in revenue for those businesses.

  - Tax Revenue Impact: A decrease in Convention Center activity could negatively affect tax revenues for the City, particularly sales tax and transient occupancy tax (TOT) collected from hotel stays. Since the Convention Center often brings in large groups who contribute to the local economy, a drop in events could lead to lower TOT collections, reducing funds available for City services and infrastructure improvements.

  - Ripple Effect on Local Employment: Businesses that rely on the foot traffic from conventions might also feel pressure to reduce staff or cut back on hours, further impacting the local workforce and contributing to a slowdown in overall economic activity.

- The Rise of Remote Work: Downtowns have seen significant impacts due to remote work resulting in decline in foot traffic and office occupancy. This reduction affects businesses like cafes, restaurants, gyms, and retail stores that served daytime office workers for much of their revenue. Reduction of Convention Center-related activities would further reduce demand on office and retail space downtown.

- Ongoing labor negotiations could further impact the Convention Center's deficit position. Current labor demands in excess of the increased minimum wage standard, including free meals, an enhanced uniform program, and the inclusion of additional job classifications among others, could increase the facility's operating deficit to over $3.5 million annually. As noted previously, this deficit is the responsibility of the City.

- **Commitment from ASM Global:** Despite having the ability to forgo any required minimum wage increases until after September 30, 2029, ASM Global is committed to strong labor relations. ASM Global is currently working with labor on a proposal that would provide a minimum wage for non-tipped workers of $23 per hour by October 1, 2024, $25 in 2025, and culminate in $30.00 (or more) in 2028.

  Additionally, ASM Global is negotiating with labor to extend this minimum wage consideration above and beyond the concession workers covered by the ordinance. ASM Global is working with UNITE HERE! Local 11 to include housekeeping, conversion (setup) and ground staff classifications at the Center to be covered by the proposed minimum wage standards. This could result in over 36 additional staff being covered by an updated CBA.

  ASM Global has expressed their commitment to ensuring stability of operations in the interest of event organizers, event attendees, Convention Center workers, and the City of Long Beach as owners of the facility. ASM Global is also working with staff to consider strategies to offset these additional costs and address the current deficit. These strategies might include contract extensions and other new revenue opportunities at the Convention Center.

Long Beach Airport Potential Impacts

As noted previously, Paradies is the existing Master Concessionaire for managing Retail and F&B in Airport's commercial passenger concourse and pays Airport approximately $4 million a year in commissions which helps cover Airport operating expenses.

- **Current Paradies & UNITE HERE! Local 11 Agreement**: Paradies has a negotiated CBA that includes wage standards that approximates or exceeds the minimum wage levels proposed by LAANE. Paradies conducted negotiations with UNITE HERE! Local 11 without the foreknowledge that the City would seek to modify LBMC Chapter 16.60. Paradies' operation includes approximately 120 employees, 105 of which are full-time, covering both Retail and F&B. The CBA includes scheduled hourly wage-range increases that commenced in July 2023.

    - Effective July 1, 2024, the minimum wage-range increases were $22.83 to $23.70.

    - In June 2026, the final minimum wage increases for the CBA term will be from $25.83 to $26.70 per hour, in line with the proposed amendment to LBMC Chapter 16.60.

    - The CBA also includes a benefits package valued at $5,000 per year, per employee including health and dental insurance, paid leave, a 401k plan, and other miscellaneous benefits. Paradies benefits do not include payroll taxes, overhead and other administrative costs in their, whereas the City's loaded costs discussed later does include these items. The CBA expires on June 30, 2027.

- **Labor Costs:** Since July 2023, Paradies has increased average wages by 33 percent. According to Paradies, their CBA further stipulates a "minimum scale increase" (MSI) if the legal minimum wage (local, state or federal) applicable to Paradies is equal to or greater than the negotiated CBA. If LBMC Chapter 16.60 is amended to increase the annual minimum wages at Airport and Convention Center, Paradies employees will be entitled to the greater of LBMC Chapter 16.60 or their CBA. If LBMC Chapter 16.60 is greater, Paradies employees are entitled to an additional increase (the MSI) ranging by classification from $0.20 to $1.50 per hour. This escalation stipulation further increases the cost of doing business at Airport. This provision would result in Paradies being required to pay wages exceeding the proposed minimum wage standard.

Long Beach Airport is supported by City staff who provide operational, administrative, and maintenance services at the facility. For comparison purposes, a City classified Maintenance Assistant I at Step 1 earns an hourly rate of $16.65. A City classified Maintenance Assistant III at Step 7 earns an hourly rate of $26.94. They receive additional fringe benefits valued at $16.13 per hour including health, dental, and life insurance along with PERS retirement benefit and other obligations. This results in City Maintenance Assistants having a loaded salary ranging from $32.78 to $43.07 per hour.

The Airport recently completed an RFP solicitation for a new pre-security concession "core & shell" space adjacent to the baggage claim facility and for vending operations within the newly restored Historic Terminal. Paradies submitted a creative proposal that included 5-year extensions (2027-2032) on their existing commercial passenger concourse agreements along with the two new RFP opportunities for a concurrent term through 2032. Paradies was the only bidder on the vending operations and was the strongest bidder on the pre-security concession space. In consideration of the proposed extensions in contract term, Paradies shall invest $5.3 million in capital improvements across all their venues, including post-security, with significant upgrades in the commercial passenger concourse and the addition of an expanded outdoor dining area. These investment efforts by Paradies align with Airport's vision to refresh the commercial passenger concourse in preparation for the 2028 Olympic and Paralympic Games.

- **Impacts on Recent Proposal**: Paradies' recent proposal was based on their current CBA wage standards. An increase in labor costs beyond what was negotiated in their CBA would significantly impact the financial assumptions of the Paradies proposal. In order for Paradies to meet the commitments of its RFP proposal and retain an acceptable return on its investment, Paradies may request renegotiation of the terms and commission structures of their proposal.

Potential Options for a Modernized Wage Ordinance

In consideration of both the Healthcare Workers Minimum Wage proposal, as well as the Hotel and Restaurant Workers Minimum Wage proposal, staff have previously provided a research summary prepared by LAEDC. We have included this research along with information provided by LAANE, as labor representatives, and from staff and operators at Airport and Convention Center. With the information from LAEDC, staff developed three scenarios at varying potential impact levels to those facilities.

The Status Quo Scenario, while not mandating new minimum wage standards at these two specific facilities, does allow the operators and their labor partners to negotiate strong CBAs. At the Airport, the current CBA approximates or exceeds the minimum wage standards proposed here. At the Convention Center, indications are these wage standards will be met along with an expansion of covered classifications. This scenario would have minimal unanticipated negative fiscal effects at the facilities as both the Convention Center and Airport are anticipated to have entered into CBAs that meet or exceed the proposed wage standards through a substantially similar term. This scenario would also allow the City to continue to consider the proposal from Paradies to invest $5.3 million into Airport concessions.

The Moderate Impact Scenario provides for the same minimum wage standards proposed in the High Impact Scenario while providing the operators with a tool to more equitably disperse service charges and limits the application of the wage standard to regular full and part-time concession workers at the Convention Center. At Airport, the current Paradies CBA is honored through the end of its current term in 2027. This scenario would have limited unanticipated negative fiscal effects at the facilities as both the Convention

Center and Airport are anticipated to have entered into CBAs that meet or exceed the proposed wage standards through a substantially similar term. This scenario could result in an additional $300,000 in additional expenses at the Convention Center due to some differences between the proposed wage increase schedule and the anticipated terms of the Convention Center CBA. This scenario would, though, allow the City to continue to consider the proposal from Paradies to invest $5.3 million into Airport concessions.

The High Impact Scenario correlates most closely to the terms and provisions advocated by LAANE. This scenario would have some likely negative fiscal impacts at both the Convention Center and Airport. At the Convention Center, the proposed provisions could increase the current operating deficit by $500,000 in year-one alone, which would be the responsibility of the City. At the Airport, year-one additional expenses could be approximately $900,000 for the operator and would likely impact their proposal to invest $5.3 million into Airport concessions.

Option 1 – Status Quo Scenario

- Allow the Convention Center operator, ASM Global, to continue to negotiate in good faith to come to agreeable terms for their pending CBA and allow Airport concession operator, Paradies, to continue to honor the terms of their recently ratified CBA.

- This allows CBAs to be developed specifically for their respective facilities and their unique labor needs. Both facilities and their operators have a history of fair and equitable agreements.

- Market forces from recent and pending local and statewide minimum wage provisions benefit worker and labor positions in current negotiations.

- All existing conditions under LBMC Chapter 16.60 would remain the same, including the condition that all provisions of the Chapter, or any part thereof, may be waived in a bona fide collective bargaining agreement.

Option 2 – Moderate Impact Scenario

The concessions operations and staff make-up are different at the Convention Center and the Airport. The labor agreement with the Convention Center's concessionaire, ASM Global, expired September 30, 2024, while the labor agreement with Airport's concessionaire, Paradies, expires June 30, 2027.

The Moderate Impact Option recognizes this situational difference, respects the collective bargaining process and accomplishes the goal of ensuring modern, fair and competitive wages. If Option 2 is exercised, it could not take effect until after expiration of City's current agreements with ASM Global and Paradies or after amendment to the agreements entered into subsequent to the new ordinance taking effect.

Long Beach Convention Center

- Raise the wage for concession workers at the Convention Center to $23 upon adoption of amended ordinance, with escalators to $29.50 by 2028.
    - Upon adoption, twenty-three dollars ($23.00) per hour.
    - On July 1, 2025, twenty-five dollars ($25.00) per hour.
    - On July 1, 2026, twenty-six dollars and fifty cents ($26.50) per hour.
    - On July 1, 2027, twenty-eight dollars ($28.00) per hour.
    - On July 1, 2028, twenty-nine dollars and fifty cents ($29.50) per hour.
- Starting on July 1, 2029, the rate shall be adjusted by the amount of increases in the federal minimum wage over the amount in effect on December 31, 2028, or, if greater, by the cumulative increase in the cost of living. Annually thereafter, the cost-of-living increase shall be measured by the percentage increase as of December 31 in any year over the level as of December 31, 2028, of the Consumer Price Index (All Urban Consumers, Los Angeles-Riverside-Orange County).
- Ensure that the wage requirements go into effect according to the above schedule for new and existing contractors.
- Preventing Loopholes in Service Charges: Strengthening the existing law by improving the language and definition of service charges to ensure that workers performing the service are paid fairly and equitably. This will also prevent loopholes and ensure that service charges are not retained by an employer, but the entirety goes to workers performing services for the customers from whom the service charges are collected.
- Would apply to all regular full and part-time concession workers, but not to irregular temporary staff acquired through staffing agencies whose wages are set by those staffing agencies.
- All other existing conditions under LBMC Chapter 16.60 would remain the same, including the condition that all provisions of the chapter, or any part thereof, may be waived in a bona fide collective bargaining agreement.

Long Beach Airport

- Raise the wage for concession workers at Long Beach Airport when the current CBA between UNITE HERE! Local 11 and Paradies expires on June 30, 2027. Between now and the expiration of the CBA, Airport concession workers will have wage standards that approximate or exceed the minimum wage levels proposed by LAANE.
  - On July 1, 2027, twenty-eight dollars ($28.00) per hour.
  - On July 1, 2028, twenty-nine dollars and fifty cents ($29.50) per hour.
- Starting on July 1, 2029, the rate shall be adjusted by the amount of increases in the federal minimum wage over the amount in effect on December 31, 2028, or, if greater, by the cumulative increase in the cost of living. Annually thereafter, the cost-of-living increase shall be measured by the percentage increase as of December 31 in any year over the level as of December 31, 2028, of the Consumer Price Index (All Urban Consumers, Los Angeles-Riverside-Orange County).
- Ensure that the wage requirements go into effect according to the above schedule for new and existing contractors.
- Preventing Loopholes in Service Charges: Strengthening the existing law by improving the language and definition of service charges to ensure that workers performing the service are paid fairly and equitably. This will also prevent loopholes and ensure that service charges are not retained by an employer, but the entirety goes to workers performing services for the customers from whom the service charges are collected.
- Would apply to all regular full and part-time concession workers, but not to irregular temporary staff acquired through staffing agencies whose wages are set by those staffing agencies.

All other existing conditions under LBMC Chapter 16.60 would remain the same, including the condition that all provisions of the chapter, or any part thereof, may be waived in a bona fide collective bargaining agreement.

Option 3 – High Impact Scenario

If Option 3 is exercised, it could not take effect until after expiration of City's current agreements with ASM Global and Paradies or after amendment to the agreements entered into subsequent to the new ordinance taking effect.

- Raising the Wage for concession workers at Convention Center and Airport to $23 by July 1, 2024, with escalators to $29.50 by 2028.

- On July 1, 2024, twenty-three dollars ($23.00) per hour.
- On July 1, 2025, twenty-five dollars ($25.00) per hour.
- On July 1, 2026, twenty-six dollars and fifty cents ($26.50) per hour.
- On July 1, 2027, twenty-eight dollars ($28.00) per hour.
- On July 1, 2028, twenty-nine dollars and fifty cents ($29.50) per hour.

- At Airport, the Paradies CBA will also prompt a Minimum Scale Increase for Paradies employees.

- Starting on July 1, 2029, the rate shall be adjusted by the amount of increases in the federal minimum wage over the amount in effect on December 31, 2028, or, if greater, by the cumulative increase in the cost of living. Annually thereafter, the cost-of-living increase shall be measured by the percentage increase as of December 31 in any year over the level as of December 31, 2028, of the Consumer Price Index (All Urban Consumers, Los Angeles-Riverside-Orange County).

- Preventing Loopholes in Service Charges: Strengthening the existing law by improving the language and definition of service charges to ensure that workers performing the service are paid fairly and equitably. This will also prevent loopholes and ensure that service charges are not retained by an employer, but the entirety goes to workers performing services for the customers from whom the service charges are collected.

- Ensuring Compliance: Ensuring that the wage goes into effect according to the above schedule for new and existing contractors.

- Would apply to all full-time and part-time concession workers including those working for concessions contractors together with all tenants, lessees, subtenants, sublessees, subcontractors, successors and assigns of such contractors that provide such concession services at the Long Beach Airport or the Long Beach Convention Center.

- Retroactive pay to July 1, 2024.

- All other existing conditions under LBMC Chapter 16.60 would remain the same, including the condition that all provisions of the chapter, or any part thereof, may be waived in a bona fide collective bargaining agreement.

Next Steps

This memorandum provides a broad overview of the potential impacts of a proposed minimum wage increase at Long Beach Airport and Long Beach Convention and Entertainment Center. Staff have provided feedback from both labor and operators perspectives. These City-owned facilities are significant economic engines for the City and region and impact numerous related industries. For this reason, staff have provided options with differing levels of potential impact.

ATTACHMENTS

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ATTACHMENT A

Excerpt From:

A PROPOSED MINIMUM WAGE FOR PRIVATE HEALTHCARE FACILITIES

In the City of Long Beach

An Economic Study

INSTITUTE FOR APPLIED ECONOMICS

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August 2022

This report was commissioned by City of Long Beach.

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

3. THE MINIMUM WAGE: THEORY AND EVIDENCE

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

Economic Theory Supporting Minimum Wage Increases

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

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

Businesses

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

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

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

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

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

[11] Leigh, J. P. 2019. "Arguments For and Against The $15 Minimum Wage For Health Care Workers." American journal of public health, 109(2), 206-207.

[12] Cahuc, P. and Zylberberg, A. 2004. *Labor Economics*. Cambridge: The MIT Press.

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

Workers

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

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

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

Economic Theory Opposing Minimum Wage Increases

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

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

Businesses

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

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

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

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

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

Workers

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

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

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

Concluding Thoughts: Economic Theory and Minimum Wage Increases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[17] Sodsriwiboon, P., and Srour, G. March 2019. "Does a Minimum Wage Help Workers?" International Monetary Fund. https://www.imf.org/Publications/fandd/issues/2019/03/does-a-minimum-wage-help-workers-basics
[18] Sodsriwiboon, P., and Srour, G. March 2019. "Does a Minimum Wage Help Workers?" International Monetary Fund. https://www.imf.org/Publications/fandd/issues/2019/03/does-a-minimum-wage-help-workers-basics
[19] Boudreaux, D. December 9, 2014. "The Detectable and the Undetectable." Café Hayek. https://cafehayek.com/2014/12/the-detectable-and-the-undetectable.html
[20] Leigh JP, Du J. October 4, 2018. "Health Policy Brief: Effects of Minimum Wages On Population Health." Health Affairs. Available at: https://www.healthaffairs.org/do/10.1377/hpb20180622.107025/full.
[21] Himmelstein, K. E., & Venkataramani, A. S. 2019. "Economic Vulnerability Among US Female Health Care Workers: Potential Impact of A $15-Per-Hour Minimum Wage." American Journal of Public Health, 109(2), 198-205.
[22] Leigh, J. P. 2019. "Arguments For and Against The $15 Minimum Wage for Health Care Workers." American Journal of Public Health, 109(2), 206-207.
[23] Leigh, J.P. and Du, J. October 4, 2018. "Effects Of Minimum Wages on Population Health." Health Affairs. https://www.healthaffairs.org/do/10.1377/hpb20180622.107025/full/

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

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

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

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

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

Empirical Evidence Supporting Minimum Wage Increases

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

Businesses

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

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

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

Workers

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

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

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

[27] Arindrajit Dube, T. William Lester, and Michael Reich. Oct. 2014. "Minimum Wage Shocks, Employment Flows and Labor Market Frictions," irle.berkeley.edu.
[28] Paul J. Wolfson and Dale Belman. 2016. "15 Years of Research on U.S. Employment and the Minimum Wage," Tuck School of Business Working Paper no. 2705499.
[29] Ellora Derenoncourt and Claire Montialoux. February 2021. "Minimum Wages and Racial Inequality," Quarterly Journal of Economics 136, no. 1.
[30] Cengiz, D., Dube, A., Lindner, A., & Zipperer, B. 2019. "The Effect of Minimum Wages On Low-Wage Jobs." The Quarterly Journal of Economics, 134(3), 1405-1454.
[31] Harasztosi, P., & Lindner, A. 2019. "Who Pays for the Minimum Wage?" American Economic Review, 109(8), 2693-2727.
[32] Card, D., & Krueger, A. B. 1993. "Minimum Wages and Employment: A Case Study of The Fast Food Industry in New Jersey and Pennsylvania." NBER. https://www.nber.org/papers/w4509
[33] Himmelstein, K. E., & Venkataramani, A. S. 2019. "Economic Vulnerability Among US Female Health Care Workers: Potential Impact of A $15-Per-Hour Minimum Wage." American Journal of Public Health, 109(2), 198-205.

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

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

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

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

Empirical Evidence Opposing Minimum Wage Increases

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

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

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

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

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

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

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

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

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

Businesses

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

1. The change in quantity of labor demanded by employers as a result of a wage change is greater in the long run than in the short run. This is due to the increased time economic actors have to adjust to the new labor market situation.
2. The change in quantity demand for low-skilled labor is more responsive to wage changes than for higher skilled labor.
3. A conservative long run estimate of labor demand response resulting from a change in a market wage finds that raising wages by 4 percent permanently will decrease employment by 1 percent. This response underestimates the employment loss response specific to low skilled labor lending a conservative bias to the estimate. On the other hand, this response would be lower for an industry where consumer demand does not significantly response to the price of goods or services offered such as the healthcare industry.

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

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

Workers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Concluding Thoughts: Empirical Evidence and Minimum Wage Increases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Combining Theory and Evidence on Minimum Wage Increases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Minimum Wage and Non-Labor Adjustments

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

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

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

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

The Minimum Wage and Tradeoffs

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

Benefits:

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

Risks:

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

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Estimating the Impacts of the Proposed Tourism Workers Living Wage Ordinances for the City of Long Beach

June 29th, 2023

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Executive Summary

Long Beach for a Just Economy is proposing updates to living wage ordinances for workers in Long Beach's tourism industry. Currently, the Municipal Code includes two living wage ordinances ("LWO") that were added in 2012 and 2014. Measure N required a living wage and sick days be paid to hotel workers at large hotels. Ordinance No. ORD-14-0002 required a living wage and sick days be paid to concessionaire workers at the Long Beach Airport and the Long Beach Convention Center. The proposed changes would extend the coverage to workers at additional hotels and the Long Beach Arena and the Aquarium of the Pacific. It would raise wages for covered workers in 2023 to $25 per hour and by 2028 to $30 per hour.

This report details the impact of the proposed amendments on the city's tourism economy. Dr. T. William Lester, Professor and Chair of Urban and Regional Planning at San José State University, analyzed the proposed LWO's impacts on the regional economy and finds that the ordinance:

- Will have a positive direct economic impact on the combined set of 2,294 tourism workers. This includes 2,028 hotel workers, 116 airport workers and 150 workers at the convention center, arena and aquarium;
- Will particularly benefit people of color, who make up the largest share of tourism workers;
- Will reduce workers' rent burden during a time when rents have sharply risen, in excess of 20% over the past two years, and as evictions threaten many workers with homelessness;
- Will support an additional $21 million of economic activity due to the multiplier effects of spending by workers affected by the living wage.

Table 1: Estimated Wage Increases

Year	Proposed Wage	Total Affected Workers	Aggregate Wage Increase
2023	$25/hour	2,294	$ 29,230,135
2028	$30/hour	2,470	$ 49,112,038

Introduction

The City of Long Beach has previously enacted several wage ordinances that cover workers in its tourism industry. The Council and voters are aware that while the State of California's minimum wage is one of the highest in the nation, it is still not sufficient to support workers in Long Beach given the high cost of living. The national and regional research reviewed below shows that living wage ordinances have proven effective tools that put a wage floor under workers and help protect their ability to secure stable employment, housing, and health care.

Since the start of the COVID-19 pandemic, tourism workers in the City of Long Beach have experienced an increase in economic risks, from lack of access to housing to the rapidly inflating cost of necessities. As discussed below working families are overwhelmingly burdened with rent and healthcare costs. Workers are vulnerable to economic shocks; this threatens not only workers and their families but also undermines the tourism industry's ability to retain and sustain its workforce.

The existing wage ordinances in the Municipal Code tie annual increases to the increase in the federal minimum wage or the national Consumer Price Index (CPI), whichever is greater. However, these increases have not kept pace with the actual rise in the cost of living for workers.

The Long Beach Alliance for a New Economy asked Dr. T. William Lester, Professor of Urban and Regional Planning at San José State University and a nationally recognized expert on living wage laws, to review the proposed ordinance and assess the impacts.

This report first provides a brief status update of the Long Beach Tourism Industry, background information on existing living wage laws in Long Beach and a review of scholarship on the economic impact of living wage laws. The report then analyzes the proposed ordinance.

The Rebound of the Long Beach Tourism Industry

According to the City's Economic Development Department, the tourism sector includes over 21,000 workers who were hit hard by COVID-19. The Long Beach Recovery Act awarded a portion of the $71.19M in funds[1] received from the federal American Rescue Plan Act (ARPA) and the State of California's "Visit California" program to the Long Beach Convention and Visitors Bureau (CVB) to "restore hotel occupancy, boost room nights, and bring workers back to jobs in a range of hospitality-related occupations."[2] With this significant investment, Long Beach's tourism industry – including hotels, restaurants, and travel services—is making a rapid recovery. According to the Downtown Long Beach Alliance, individual visits in 2022 to Downtown Long Beach – driven by visits to the Convention Center, the Aquarium of the Pacific and other major tourist attractions along Shoreline Park -- were within 5% of 2019 figures and anticipated to surpass them in 2023.[3]

According to CoStar's Hospitality Submarket Report, Long Beach's hotel sector didn't experience as negative an impact as other areas during the pandemic and so its recovery is "a step ahead of the Los

[1] Long Beach Recovery Act (LBRA) Updates, accessed May 2023.
[2] Long Beach Recovery Act Reporting- Report 3. City of Long Beach. October 31, 2022.
[3] Downtown Long Beach Economic Profile 2023. Downtownlongbeach.org.

Angeles market".[4] Hotel occupancy rates and Revenue per Available Room have both returned to pre-pandemic levels and continue to climb. The Average Daily Revenue is forecasted to be 20% higher in 2023 than in 2019. Currently, demand for hotel rooms far exceeds supply given that Long Beach has witnessed the demolition of several older establishments in the past year and does not have any hotels under construction.

Restaurants in the city have also experienced a healthy recovery, thanks in part to the Long Beach Recovery Plan, the Long Beach Chamber of Commerce and the Long Beach Restaurant Association that secured $5 million in relief grants from the US Small Business Administration in 2021 for bars and restaurants.[5] The city helped sustain its vibrant dining community by rapidly adjusting to pandemic measures with its Open Streets Program launched in May 2020, a popular initiative supported by residents and business owners alike, that allowed outdoor dining spaces in temporary parklets, many of which will now be made permanent.[6]

The Long Beach Airport (LGB), while significantly smaller than other Los Angeles-area commercial airports, is also benefiting from the post-pandemic travel boom. In the first quarter of 2023, nationwide airline passenger travel exceeded the total volume from the first quarter of 2019. LGB continues to expand service; with the addition of five new Southwest Airlines flight slots in February 2023, the airport set a new record for nonstop service, the highest in its 100-year history. This prompted Mayor Rex Richardson to state, "Southwest Airlines continues to connect Long Beach to more places**,** demonstrating our airport's economic value for tourism and business."[7]

Existing Long Beach Living Wage Ordinances

Long Beach has previously enacted living wage laws that apply to certain segments of the tourism industry workforce as detailed below.

Measure N was placed on the ballot in 2012 and passed with 63.22% of the vote[8]. Measure N covers hotel workers at hotels with 100 or more rooms. The hourly mandated wage for those workers was $13. This minimum compensation wage is adjusted annually with the greater of the increase in the federal minimum wage or the cost-of-living increase as determined by the consumer Price Index for Los Angeles-Riverside-Orange County. The hourly wage reached $16.73 in July 2022[9].

In 2014, the City Council amended the Municipal Code with Ordinance ORD-14-0002 (Chapter 16.60) which raised the wage floor for employees of concessionaires at the Long Beach Airport and the Long Beach Convention Center. The Council stated that the purpose of the ordinance was to "facilitate individual self-reliance," intimating that the existing wage structure was undermining employees' ability

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[4] "Hospitality Submarket Report, Long Beach, Los Angeles County, CA," March 2023. CoStar.

[5] "LBRA Meeting May 5th with John Keisler, LB Director of the Economic Development Department," Long Beach Restaurant Association, April 26, 2021.

[6] GoActiveLB, Open Streets Program. Longbeach.gov.

[7] "Long Beach Airport Awards Flight Slots, Announces More Destinations Than Ever Before," Long Beach Airport Press Release, February 02, 2023.

[8] "Measure N: Long Beach hotel wage measure passes," *Long Beach Press Telegram*, Nov. 7, 2012.

[9] https://www.longbeach.gov/finance/business-info/compliance/minimum-wage/

to pay for basic needs and not rely on public assistance.[10] The starting minimum compensation hourly rate was $13.26 in 2014 and set to increase annually in the same manner as stipulated in Measure N. As of July 1, 2022, the hourly wage for concessionaire workers reached $16.55.

An important aspect of these previous wage laws is that although increases are tied to the increases in the federal minimum wage or the Consumer Price Index, they have not kept pace with the actual rise in housing and healthcare costs in Long Beach. Addressing that gap is necessary to accomplish what these original laws were intended to do: create stability for workers across the city's vital tourism industry at hotels and its major tourist destinations.

The cost of the wage increases for these workers will be borne by some of the most profitable businesses in the city with margins that can withstand these wage increases better than workers can weather economic shocks. To the extent that additional labor costs are passed on to consumers through higher prices, most of the cost will then be borne by visitors and not Long Beach residents.

The Economic Impacts of Previous Living Wage laws

We also conducted a review of the existing scholarship on the impacts of living wage laws on workers, employment levels and local economic development. The key takeaway of this review is that the literature shows that **such policies rarely result in negative impacts on employment levels or economic development opportunities for local communities**. Instead, living wage policies reduce poverty and can lead to greater economic activity due to more robust spending in the local economy.

Empirical research on the impacts of raising labor standards has been conducted for decades. This work is divided into two groups:

1- Studies that analyze changes in the minimum wage. These changes affect all workers in a geographic area regardless of industry or sector.

2- Studies of living wage laws. These laws focus on jobs that are supported by public dollars or within segments of the economy. These are comparable to the proposed amendments to the City of Long Beach's existing living wage ordinances.

Forty years ago, empirical assessments of the impact of raising the minimum wage on employment showed a negative impact on employment levels with elasticities that ranged between minus 10 and 20 percent (Brown, Gilroy et al. 1982). However, more recent research utilizes geographically detailed methodologies and sophisticated causal research designs. These recent studies have convincingly shown that minimum wage increases do not lead to significant disemployment effects (Dube, Lester et al. 2010, Dube, Lester et al. 2016, Allegretto, Dube et al. 2017). In other words, these studies have generally found employment effects close to zero.

While some researchers suspect there could be a threshold at which a large and rapid increase in the minimum wage could cause negative employment effects (Manning 2021), studies have not found such effects. Although most state-level minimum wage changes are modest, some municipalities have enacted large minimum wage changes. For example, San Francisco passed a 26 percent increase in the

[10] ORDINANCE NO. ORD-14-0002.

minimum wage. Dube, Naidu, and Reich (2007) examined multiple outcomes for full-service and fast-food restaurants, including employment. They compared employment at affected restaurants in San Francisco and the East Bay and found that **increased wages lowered wage inequality yet did not create employment loss**. More recently, data from Seattle, which was the first major city to raise its minimum wage to $15.00 per hour, show that a large increase did not lead to significant employment losses.

There are fewer empirical studies on living wage laws than on minimum wage laws. In a study of Los Angeles' initial 1997 Living Wage Ordinance, Fairris (2005) examined the impacts on City contractors with large numbers of affected workers. The survey analysis revealed that **affected firms had less worker turnover and absenteeism and that fewer workers used overtime hours**. Workers at establishments with City contracts also received an average wage increase of $1.74 per hour worked and two additional paid days off relative to a control group of establishments. Researchers that have studied other cities' living wage laws, including Boston (Brenner 2005) and San Francisco (Reich, Hall et al. 2005), have found similar effects. The UCLA School of Public Health Assessment of the 2002 health insurance provision of the Los Angeles Living Wage Ordinance found that, although rates of health care coverage for the affected workers stayed stubbornly at 40%, increased income reduced mortality rates by 1.4 deaths per 100,000 people each year (Cole, Shimkhada et al. 2005).

In a subsequent study of the 1997 Los Angeles Living Wage Ordinance, Fairris et al. (2015) compare data on affected workers and firms to a control group of firms in similar industries. They find that the Los Angeles Living Wage Ordinance led to pay increases for 10,000 workers. The LWO most impacted workers at the Los Angeles and Ontario airports and in low-income families. The **rate of job loss was one percent of affected jobs**. Firms implemented cost-recovery measures that included reducing worker training and overtime hours. However, in actuality, **employers' cost savings were attributable to lower rates of labor turnover and unscheduled absenteeism** (Fairris et al., 2015).

As living wage advocates shifted their focus from laws that cover a narrow set of workers, such as those who work for public contractors, to laws that would cover entire industries, researchers began studying the broader effects of living wage laws. Living wage critics claim that living wage ordinances harm the "business climate" in cities that enact them and generate negative impacts on employment and economic development.

Lester (2012) evaluated this claim by analyzing trends in employment and business establishment for sectors believed to be most impacted by business-assistance living wage laws (i.e. sectors typically targeted by local economic subsidy programs). This time-series analysis compares 15 cities that enacted business-assistance living wage increases to a control group of 16 equally-sized cities that considered but then failed to pass businesses-assistance provisions. The study found that the **overall long-term employment effects are small and not statistically significant for low-wage sectors as well as for overall employment**. Lester (2011) also compares the employment and business establishment effects in 19 cities in California that passed living wage laws for city contractors to cities that did not. This study finds that **these living wage laws did not have a significantly negative impact on employment or establishments**.

As stated at the beginning of this section, given this established scholarship on the economic impacts of living and minimum wage laws, we do not expect that the proposed amendments to the existing living wage ordinance would cause large disemployment effects in Long Beach.

The Economic Impact of the Proposed Changes

The proposed changes to the Municipal Code that would apply to tourism workers and build upon the existing living wage laws put in place by Measure N in 2012 and Ordinance ORD-14-0002 (Chapter 16.60) in 2014 are outlined below.

1) Raise the wage for Long Beach tourism workers to $25 by July 1, 2023 and $30 by 2028

The current living wage at the Long Beach Airport and Convention Center is $16.55 per hour. The current Long Beach hotel worker minimum wage is $16.73 per hour for hotels with 100 or more rooms. They both increase on July 1 of each year, based on the greater increase of either the federal minimum wage or the Consumer Price Index. The proposed amendment would raise the wage to $25 per hour worked upon passage with an annual escalator to reach $30 per hour by 2028. After 2028, the wage rate would then resume to annual increases as stipulated in Measure N.

2) Expand coverage to workers at the Aquarium of the Pacific and Long Beach Arena.

The proposed changes would expand the living wage to cover employees at the Long Beach Aquarium and the Long Beach Arena (within the Long Beach Convention and Entertainment Center).

3) Expand the hotel worker minimum wage to include hotels with 60 or more rooms.

Measure N currently applies to hotels with 100 or more rooms. The proposed ordinance will lower that threshold to hotels with 60 or more guest rooms and cover more hotels and therefore more workers.

Using the methodology described in the attached Appendix, our analysis has determined that the proposed LWO will result in immediate raises for an estimated **2,294 workers** in Long Beach in 2023. This figure includes 2,028 workers in hotels with at least 60 rooms, 116 workers at LGB airport, and 150 workers at the Long Beach Convention Center and Aquarium. These raises will result in more **than $29 million** in total additional income for working families.[11] These figures would grow each year as the living wage increases until 2028 when it will be at $30/hour. At that time, an estimated **2,470 workers** will be covered and the total additional income for working families will be **more than $49 million**.

- Number of tourism workers affected in 2023 by proposed living wage raise to $25/hour: 2,294
- Number of tourism workers affected in 2028 by proposed living wage raise to $30/hour: 2,470
- 2023 aggregate wage increase for tourism workers: $29,230,135
- 2028 aggregate wage increase for tourism workers: $49,112,038

In the sections below, we detail how these proposed changes will impact various demographic groups, the rent burden on workers and the broader regional impact.

[11] Author's analysis of ACS data. See methodological appendix.

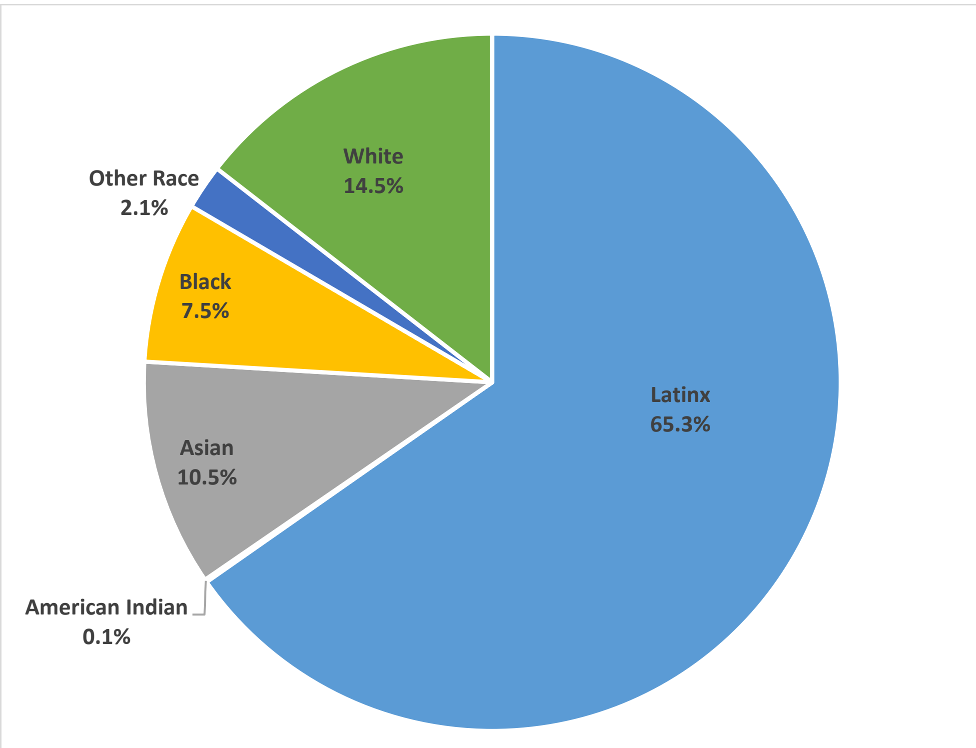
Demographic Profile of Affected Workers

For the workers that will be affected by the proposed amendments, we disaggregated the results by race/ethnicity to understand the different wage impacts of the proposed changes across demographic groups in Long Beach. Where possible, we cross-tabulated by gender.

We found that more than **8 in 10 workers** affected by the proposed LWO **are people of color** (85.6 percent). Specifically, Latinx workers make up more than 65.3 percent of the affected workforce; Asians comprise 10.2 percent; and African Americans are 7.5 percent. Non-Hispanic Whites comprise 14.5 percent of the workforce. The remaining 2.2 percent of affected workers would be other races or of more than one race (from self-reported census data).

Of the combined set of tourism workers that would be impacted by this LWO, approximately **52 percent are female and 48 percent are male**. From this analysis, we find that the proposed living wage changes will positively impact people of color. Given that people of color are overrepresented at lower levels of the income distribution, the changes could help address the City's income inequality and racial wealth gap.

Figure 1: Share of Affected Workers by Racial and Ethnic Group



Source: Author's analysis of US Census Bureau, American Community Survey (ACS) 5 year 2016-2020 data.

Rent Burden Analysis

Since the onset of the COVID-19 pandemic, rents in Long Beach have risen sharply. **The average asking rent for the median-size housing option (a 2-bedroom unit) rose from $1,995 in March 2020 to $2,400 in May 2023. [12] That is an increase of 20.2% in three years.**

Households with tourism workers have more workers contributing to household expenses (2.3 workers) than in other households (2.0), and they also tend to live in households with more people. Tourism workers live in households with a mean of 3.5 people while other households have a mean of 3.3 people. Additionally, **tourism workers are disproportionately rent-burdened**, which is defined as paying more that 30% of monthly household income on rent. Compared to 40% of all Long Beach wage workers, 48% of tourism workers are rent-burdened.[13]

When workers are rent-burdened, their ability to save for purchasing a home is greatly diminished. Long Beach tourism workers have lower homeownership rates than other workers. Specifically, the homeownership rate for Long Beach tourism workers is just 24.4%, compared to 42.1% for other workers in Long Beach. Given the overrepresentation of people of color in the combined set of tourism workers, we can deduce that the lower rate of homeownership contributes to the persistent racial wealth gap and will continue to suppress income mobility for people of color in Long Beach.

Regional Economic Impacts of Living Wage Increases

The estimated $29 million in increased wages generated by the proposed LWO would lead to additional household spending power for households with tourism workers. That additional spending power would generate an extra **$21 million in economic output** throughout Los Angeles County. This additional output is essentially an increase in spending on goods and services by affected households, which then stimulates demand in other local industries generating additional economic output. This is referred to as the "multiplier effect" of an economic policy. Using a cautious methodology to account for potential cost increases, we still find a **significant net-positive economic impact for the regional economy**.

$21 million is a conservative estimate of the additional output. The additional household demand could lead to increased prices for accommodation and travel originating in Long Beach. Therefore, we used IMPLAN Pro modeling software and corrected for the reduced income effects for Long Beach-based households who could potentially face increased prices. We assume that the burden of these cost increases would be spread across all household income groups and a significant share of the increased costs would be paid by non-residents (i.e. tourists). This IMPLAN analysis finds the total number of regional jobs that would be created or supported by the increased consumer expenditures as **an additional 107 jobs**.

[12] https://www.zumper.com/rent-research/long-beach-ca

[13] Author's analysis of US Census Bureau, American Community Survey (ACS) 5 year 2016-2020 data.

Contributions to Government Treasuries

The proposed LWO would result in higher incomes for nearly 2,300 workers and therefore lead to a gross increase in income taxes owed. Additionally, the multiplier effects of higher wages also generates economic output (sales) that generates new sales, income taxes, and fees. Assuming a high rate of tax compliance, this additional tax would have a **positive fiscal impact** for the State of California amounting to approximately $918,000. Local governments in LA County, including Long Beach, would receive approximately $544,000 in additional revenues based on the passage of the LWO.[14]

Table 2: Additional Government Revenues Resulting from Proposed Living Wage Ordinance

Federal	$1,397,278
State	$918,814
County	$271,866
Local	$269,223
Local Special Districts	$275,535

Source: IMPLAN Pro.

Conclusion

The proposed changes to the wage ordinances will help increase the wages of tourism workers in Long Beach to keep pace with the rising costs of living, including the rapid escalation of housing and health care costs. In reducing the rent and healthcare burden on these workers, the proposed wage ordinance amendments will help more families weather unforeseen financial shocks and could help tourism workers save for home ownership and build inter-generational wealth. The immediate boost in wages and health care coverage will ensure that these workers will sustain our region's vibrant tourism industry as it continues to rebound from the pandemic.

[14] Note: This fiscal impact analysis includes both the impact of the direct wage increases as well as the multiplier effects described in the section below.

Methodological Appendix

Below we describe our data sources and the assumptions and calculations we used to calculate the LWO impacts.

Data Sources

For this analysis, our primary data source is the 2016-2020 American Community Survey (ACS) published by the U.S. Census Bureau. We also used the US Census Bureau's Local Origin-Destination Employment Statistics (LODES) workplace-based data to find the number of airport workers employed in the census blocks that overlay the LAX airport complex. To refine our employment counts for workers affected by the proposed LWO, we used the US County Business Patterns data, the Census Bureau's North American Industry Classification System (NAICS), and the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) and Standard Occupational Classification (SOC).

Living Wage Difference for Hotel Workers

We used firm size data from the US County Business Patterns to determine the total number of hotels with 60 or more rooms. We used an industry growth rate from the QCEW to scale this number for 2023. We then assumed a rate of 0.53 workers per room (Nichols, 2013). We found that hotels with 60 or more rooms in LA County account for an 85.5% share of total employment. We are assuming the same proportion for City of Long Beach.

To calculate the average hourly wage for every hotel worker in the City of Long Beach, we used the ACS variables of reported income and hours worked. We compared the resulting hourly wages to the proposed $25 living wage to create a wage difference for each worker. We then multiplied this wage difference by the annual reported hours worked to create the total wage increase for Long Beach hotel workers. We then adjusted this figure for the 85.5% share to find for the total share of hotel workers that would earn the proposed adjusted living wage.

Living Wage Difference for Airport and Convention Center Hospitality Workers

The total impact of the proposed LWO for the tourism sector totals is a sum of the combined Long Beach hotel workers and LGB Airport hospitality worker wage differences. We obtained estimates of the number of workers currently covered by the LWO at the LGB airport from UNITE-HERE Local 11 (116 workers).

We used ACS data to estimate the annual wage increases by occupation in a similar manner to that which we used for hotel workers for occupations related to the concession work. We then took a weighted average of wage increases by occupation to estimate the total wage impact on LGB hospitality workers. For workers employed at the Long Beach Convention Center and Arena and Aquarium, we relied upon referrals from LAANE to make the conservative assumption of 150 total workers impacted. We then modified the occupational set used for LGB workers to omit airport related occupations and used weighted average figures from the ACS in a similar manner to estimate the total wage increases.

Economic Impact Analysis

To estimate the impact of additional wage income earned due to the passage of the LWO, we used the IMPLAN Pro regional economic modeling software package to conduct the multiplier and fiscal impact analysis. The basis of the impact modeling was the estimated $29 million in wage gains in 2023 from the initial increase to $25 per hour. Although much of the wage increases will likely be ultimately paid by non-local residents, our analysis did make several conservative assumptions that discounted these wage gains based on the share of tourism and travel spending that may be paid by Los Angeles County residents (i.e. Long Beach residents). For Hotel spending we assumed that 90 percent would be paid by non-LA residents. For LGB and Convention Center/Arena related expenses, we assumed a rate of 60 percent. This is due to the fact that Long Beach residents use LGB for their departure airport and represent a significant share of consumers at LGB. While no exact data could be found, we used a rate of 60 percent. This left a figure of $25.2 million in wage increases, which were entered into IMPLAN as increases in household spending spread evenly across four income categories ($30-40k through $70-100k). The increased costs paid by LA County residents (the 10 and 40 percent, respectively) were entered as negative impacts that were spread across all income groups (except those in the lowest category). On net, this left positive impacts for lower and middle income households and negative impacts for upper-income households who would see effectively reduced income effects due to higher prices. However, the full costs of the living wage laws paid by local consumers was discounted by 20 percent to account for the fact that not all of the increased costs would be passed through in the form of price increases. Specifically, research indicates that increases in minimum and living wage laws increases productivity and that these productivity enhancements amount to approximately 20 percent of the total effect. Lastly, we assumed that 10 percent of the higher costs would come from reduced profit among vendors/employers. Thus we included a negative impact of $399,000 in reduced proprietor income.

IMPLAN Pro uses a proprietary input-output modeling software, based on a variety of data sources including the U.S. Census Bureaus, Economic Census, to calculate the multiplier effects of the net positive household income effects. IMPLAN Pro also has estimates of state and local tax rates and uses them to produce the fiscal impacts noted above.

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