

Communication from Public

Name: Alliance for Economic Fairness
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Council File No: 14-1371-S13
Comments for Public Posting: On behalf of the Alliance for Economic Fairness, please see attached for our coalition's June 5, 2024 letter regarding the Economic Impact Analysis for Council File: 14-1371-S13.



Alliance for
**ECONOMIC
FAIRNESS**

June 5, 2024

Via Email

Sharon Tso
Chief Legislative Analyst, City of Los Angeles
200 N. Spring St., Room 255
Los Angeles, CA 90012

RE: Economic Impact Analysis for Council File: 14-1371-S13: Los Angeles Living Wage Ordinance (LWO) / Los Angeles Hotel Worker Minimum Wage Ordinance (LA HWMO) / Wage Increase / Health Care Credit / Public Housekeeping Training / Amendments

Dear Chief Legislative Analyst Tso,

On behalf of the diverse coalition comprising the Alliance for Economic Fairness, we are writing to discuss the potential impacts of the proposed \$30 Wage Ordinance on the City's budget.

Last year, Council Member Park submitted a letter to the Economic and Community Development Committee, which included a request to examine how the ordinance would affect "the collection of Transient Occupancy Tax revenue." As the City finalizes its fiscal year 2024/25 budget, we are providing information on how the \$30 Wage Ordinance could exacerbate the current budgetary challenges.

Our coalition is deeply concerned that, as proposed, the \$30 Wage Ordinance is not a reasonable increase. It would significantly raise the cost of operating hotels and hospitality businesses. This would likely cause a significant increase in the price of visiting Los Angeles, leading to fewer visitors each year. Fewer visitors would negatively impact Transient Occupancy Tax (TOT) revenue and decrease other revenue sources, like sales taxes.

According to the City Administrative Officer (CAO) Third Financial Status Report, the 2023/24 budget [deficit is estimated at \\$475 million](#), with the upcoming fiscal year projected to be even higher due to increased expenses from new labor agreements and pessimistic revenue estimates. This fiscal reality forced the City to make substantial spending reductions for the upcoming budget year. In light of this, it is critical to understand the budgetary impacts stemming from the \$30 Wage Ordinance.

Alliance for Economic Fairness, a project of the Los Angeles Area Chamber of Commerce

Impact on TOT and Sales Taxes

The City's [proposed 2024/25 budget](#) estimates that TOT revenues will be below the adopted amount for the 2023/24 budget, which is a concerning trend. The adopted budget for 2023/24 assumed \$342 million in TOT revenues, but this proved to be an over-optimistic estimate, with the revised amount coming in at \$324 million—a decline of nearly \$20 million. Even as the City's expenses rise, the proposed budget only projects TOT revenues of \$339 million.

The CAO's [Third Financial Status Report](#) from March cites lower-than-anticipated growth in hotel activity and a lack of recovery from international tourism as reasons why TOT revenues materialized below projections. If the \$30 Wage Ordinance is enacted and the cost of staying in Los Angeles hotels rises, these trends could worsen considerably and further reduce TOT revenues.

The City's sales tax revenues are also down significantly compared to their projections. The proposed 2024/25 budget estimates \$691 million in sales tax revenues—down from the \$724 million projected in the 2023/24 budget. Fewer visitors to the City will impact the local businesses that serve these customers and further reduce sales taxes.

To provide some perspective on how significant the impact could be on the City's budget, an estimate prepared last year from Oxford Economics projects that the \$30 Wage Ordinance would result in a decline of \$55 million in local taxes paid by hotels through TOT and taxes paid by other types of businesses that benefit from visitors, such as restaurants, retailers, and entertainment companies.

Given the downward pressure on TOT and sales tax revenues, these effects should be scrutinized in the CLA's economic impact analysis.

Impact on City's Labor Costs

According to the CAO, [the City's employee compensation increases](#) are anticipated to add \$1 billion in annual higher salary and retirement costs by the 2026/27 fiscal year. As part of recent labor agreements, the City's minimum wage for its employees will rise to \$25 by 2026. In contrast, the \$30 Wage Ordinance immediately requires a \$25 minimum wage for affected workers, rising to \$30 in 2028.

Given that the City employees' minimum wage level would be below the ordinance, this would likely create additional cost pressures on the City's labor expenses as the City must remain competitive in the labor market. The restaurant industry has experienced this factor with the recent \$20 minimum wage state law for fast-food workers. While small restaurants and full-service establishments are not mandated under the law, many have had to increase their wages to match what workers can be paid at fast-food restaurants. The City will experience similar

labor cost pressures if a significant number of workers in the hospitality industry have a minimum wage far above City employees.

To help quantify the potential impact, a study from the [California Center for Jobs and the Economy](#), conducted before the enactment of the City's recent labor MOUs, estimated that about 25 percent of City employees work in job classifications with beginning salaries below the ordinance's levels. The study projected providing these workers a \$30 minimum wage would cost the City \$130 million annually.

As the City experiences declining revenues and rising expenditures due to growing labor costs, this provides further impetus to understand how the \$30 Wage Ordinance will affect the City's budget.

Conclusion

Our coalition remains committed to working with the CLA to understand these complex issues. We remain willing to provide additional information to assist the vital work of the economic impact analysis of the \$30 Wage Ordinance.

Thank you for your attention to this matter.

Sincerely,

Alliance for Economic Fairness

CC: Mayor Karen Bass
Rachel Freeman, Deputy Mayor for Business and Economic Development
Holly Wolcott, City Clerk
Petty Santos, Executive Officer, Office of the City Clerk
Matthew Szabo, Chief Administrative Officer