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ECONOMICS

# Economic Impact of the Hotel and Event Center Minimum Wage, Worker Retention, and Hotel Worker Safety and Workload Initiative

City of Anaheim, CA

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Prepared for Swing Strategies

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# 1 Key Findings

# Key Findings

Oxford Economics prepared a quantitative analysis of the expected economic impact of the Hotel and Event Center Minimum Wage, Worker Retention, and Hotel Worker Safety and Workload Initiative in the City of Anaheim, California (“Initiative”) on behalf of Swing Strategies.

*With a proposed minimum wage of \$25 an hour and square footage cleaning limitations (for hotels), hotels and event centers will respond by raising hotel room rates (prices).*

*The resulting loss in room demand will cause less visitor spending and construction spending that will result in a loss of \$955 million of business sales annually, resulting in 5,128 lost jobs in the broader City of Anaheim economy, and \$67 million of lost annual state and local tax revenue.*

*This includes losses such as fewer construction jobs, fewer restaurant, retail and arts and entertainment jobs, as well as fewer supply chain jobs, such as maintenance roles.*

## Annual Run-Rate of Losses



Note: Estimates measure total impact of lost visitor spending and hotel construction with an increase of the minimum wage for hotel and event center workers to \$25 an hour and square footage cleaning limitations for hotels, relative to a baseline scenario without the Initiative.  
Source: Oxford Economics





# 2 Initiative Summary

# Initiative Summary

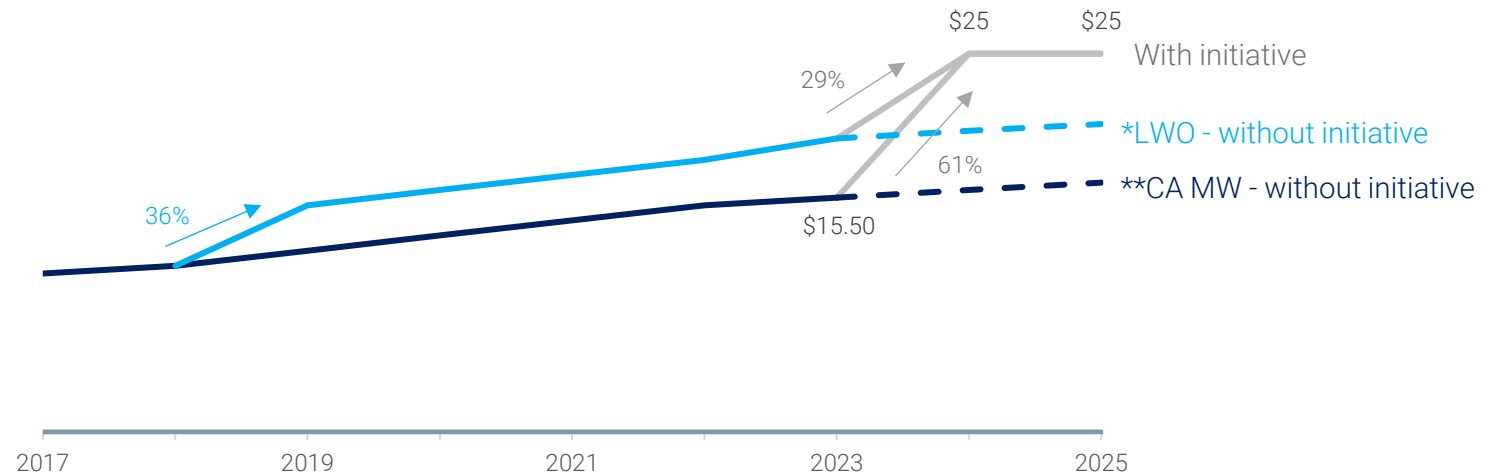
## Minimum Wage Increase

The Initiative would raise the minimum wage for hotel and event center workers in the City of Anaheim to \$25 an hour.

- This is a 61% increase in the minimum wage for all event center workers as well as hotels not currently under the Living Wage Ordinance (currently \$15.50 an hour).
- This is a 29% increase in the minimum wage for hotels under the Living Wage Ordinance (currently \$19.40 an hour).

### Minimum Wage

within the City of Anaheim, CA



\* - Living Wage Ordinance applies to all hotels in Anaheim that have received city subsidies within the resort district (with more than 25 employees)

\*\* - CA Minimum Wage applies to all event centers and remaining hotels not subject to LWO (wage shown is for employers with more than 25 employees)

Sources: City of Anaheim, State of California

# Initiative Summary

## Square Footage Cleaning Limitations (For Hotels Only)

The Initiative would also double the hourly wage rate applicable for every day a hotel worker cleans more than their allotted square footage. The square footage limit can be reduced further by additional factors such as room designations, floors/buildings worked during shift, etc. The limitations are based on hotel size; however, small hotels are not excluded from these limitations as seen in other ordinances in nearby cities (Los Angeles for example excludes all hotels with fewer than 45 rooms).

- If a minimum wage hotel worker at a small hotel (30 rooms) cleans 4,001 square feet on a given day, they would then be required to receive pay of \$50 an hour for the entire day.

There are additional provisions in the Initiative, but the minimum wage increase to \$25 an hour for hotels and event centers and the cleaning limitations for hotels are the focus when considering an impact to the local economy. Based on our experience, our understanding of hotel and event center operations, and our discussions with hotel operators in Anaheim and other markets, we expect hotels and event centers will increase prices and reduce service offerings in response to a situation with substantially higher payroll costs.

### Square Footage Cleaning Limitations

City of Anaheim Hotels

	Sq. Footage
Hotels with less than 60 rooms	4,000
Hotels with 60 or more rooms	3,500

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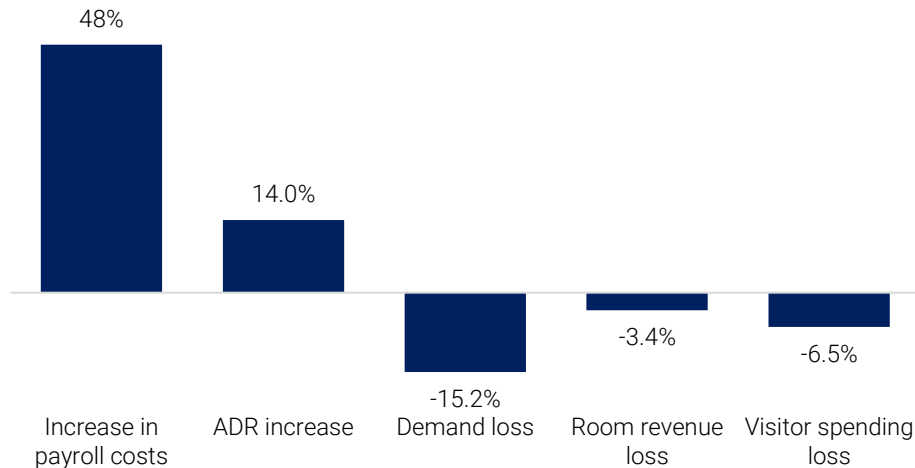
# 2 Economic Impact Analysis



# Economic Impact Analysis

## Initiative Impact to Tourism

City of Anaheim, % compared to scenario without Initiative

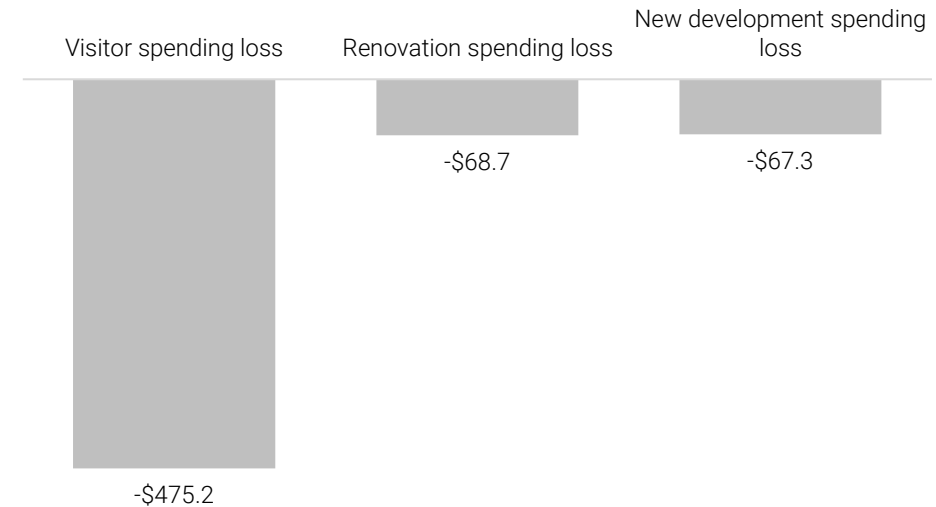


Source: STR, Oxford Economics

We expect a 14.0% increase in average daily rate (ADR, representing the average price of a hotel room) as hotels attempt to cover additional costs from the Initiative. We expect a 15.2% loss in room demand due to the ADR increase as well as the event center increase in rates to cover additional costs.

## Initiative Impact to Spending

City of Anaheim, in millions



Source: STR, Oxford Economics

We expect a 6.5% loss (\$475.2 million) in visitor spending in the City of Anaheim. Hotels will not be able cover all additional costs with increased room rates, resulting in reduced capability and incentive to fund property renovations, and substantially reducing any incentive for new hotel development.

# Economic Impact Analysis

## Visitor Spending Economic Impact

in millions (except jobs)

Total	<u>Annual Loss</u>
Output	-\$738.9
GDP	-\$432.3
Wages and salaries	-\$214.6
Jobs	-3,952
Taxes	-\$112.9
Federal	-\$56.6
State and local	-\$56.3
Taxes on lodging	-\$8.7
<b>Direct</b>	
Output	-\$475.2
GDP	-\$270.7
Wages and salaries	-\$148.0
Jobs	-2,741
Taxes	-\$77.6
Federal	-\$36.8
State and local	-\$40.7
Taxes on lodging	-\$8.7

Source: Oxford Economics

## Construction Economic Impact

in millions (except jobs)

Total	<u>Annual Loss</u>
Output	-\$215.7
GDP	-\$113.8
Wages and salaries	-\$85.7
Jobs	-1,176
Taxes	-\$27.4
Federal	-\$16.5
State and local	-\$10.9
Taxes on lodging	\$0.0
<b>Direct</b>	
Output	-\$136.0
GDP	-\$65.7
Wages and salaries	-\$58.9
Jobs	-784
Taxes	-\$16.2
Federal	-\$10.7
State and local	-\$5.5
Taxes on lodging	\$0.0

Source: Oxford Economics

## Total Economic Impact

in millions (except jobs)

Total	<u>Annual Loss</u>
Output	-\$954.6
GDP	-\$546.1
Wages and salaries	-\$300.4
Jobs	-5,128
Taxes	-\$140.3
Federal	-\$73.1
State and local	-\$67.2
Taxes on lodging	-\$8.7
<b>Direct</b>	
Output	-\$611.2
GDP	-\$336.4
Wages and salaries	-\$207.0
Jobs	-3,525
Taxes	-\$93.8
Federal	-\$47.5
State and local	-\$46.2
Taxes on lodging	-\$8.7

Source: Oxford Economics

# Methods and Data Sources

This research is based on data we gathered, our discussions with local hotel operators in Anaheim, our understanding of the hotel / event center sector, and our customized economic impact models.

As part of our research, we:

- obtained hotel operating statistics from STR/Costar, the leading provider of hotel statistics;
- researched minimum wage research by academic researchers and think tank organizations;
- prepared economic models to help quantify changes in hotel and event center operations;
- conducted telephone interviews with hotel operators to gain an understanding of how operators would respond to wage increases and some of the factors involved;
- considered previous research we have done in California for similar initiatives;

- considered previous research on visitor spending and visitor behavior in response to price changes;
- reviewed previous studies related to the Initiative prepared by Beacon Economics and Baker Tilly; and,
- prepared a customized IMPLAN input-output model to quantify changes in visitor spending and hotel construction. This model incorporates industry data on employment, wages, and sales from the U.S. Census, the Bureau of Economic Analysis, and the Bureau of Labor Statistics.

In preparing our estimates of impacts in the alternative scenario with implementation of the Initiative, we focused on annualized impacts relative to the baseline scenario. These are estimates of impacts that may take several years to reach stabilization, allowing time for operators to institute changes and for visitor behavior to respond.



# 4 Minimum Wage Tipping Point

# Minimum Wage Tipping Point

- In many situations, researchers examining the impact of minimum wage increases are looking at situations with either small changes to a minimum wage, or a large change that still results in a wage that is low relative to other wages.
- That such studies do not generally find strong indication of large negative employment effects does provide good guidance for a situation in which the wage increase is large, and results in a wage that is at a level well above more typical entry-level wages.
- In the economic literature, there has been evidence that large hikes that cross a tipping point threshold from low minimum wage-to-median earnings to high minimum wage-to-median earnings cause significant declines in employment among low-income workers.
- **Thus, while the employment impact of minimum wage increases is debated, there is a foundation of evidence to suggest that large increases in the minimum wage, particularly above a certain threshold value, can lead to notable declines in employment among the most vulnerable workers.**

## Research examples

- The 1966 amendment to the Fair Labor Standards Act, which raised the national minimum wage 28% to \$13.54 per hour in 2022 dollars and extended coverage to an additional 9.1 million workers, was found to significantly lower employment rates in certain subgroups, such as African-American men, who experienced a sharp and significant decline in employment during the year and annual hours worked.
- During the 41% Federal minimum wage hike between July 23, 2007 and July 24, 2009 from \$5.15 to \$7.25, employment among low-wage workers fell. In addition, this increase led to a reduction in upward mobility among low-skilled workers by limiting their access to opportunities for accumulating work experience.
- France has been plagued by high unemployment, and high youth unemployment in particular, a feature often attributed to the relatively high minimum wage. In France, the minimum wage is relatively high – 11.52 euros per hour as of May 1, 2023 or about \$12.63 per hour. The 2019 French minimum wage increase in 2019 directly affected 13.4% of workers. Comparatively, in the U.S. approximately 1.1% of workers were at or below the Federal minimum wage in 2019.

# Minimum Wage Tipping Point (continued)

- In Denmark, when workers turn 18, they become eligible for the adult rate – approximately a 40% increase to a level comparable to a \$15 minimum wage. This rise in the wage requirement has been found to cause a 33% drop in the employment rate and a 45% fall in hours worked for those impacted.
- Significant increases in minimum wages have also been found to impact growth in the number of business establishments. Following Hungary's minimum wage increase in 2001 from 35% of median earnings to 50%, an estimated 30,000 minimum wage workers lost their jobs (10.3% of total minimum wage workers) as firms substituted labor with capital. Not only did contemporaneous employment decline as a result of this minimum wage hike, but employment growth at the firms most affected by the minimum wage hike declined in future periods.

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