GRAND CANYON INSTITUTE

Economic Analysis

Oct. 10, 2024

Glendale Prop. 499: A Boost to Workers, Modest Challenges for Employers

Voters in Glendale are voting on Prop. 499 this November. It would increase the minimum wage to $20 an hour for Hotel and Event Center workers within the city's limits. It requires particular workplace protections for housekeepers that mirror what has been adopted in Los Angeles to prevent employers from compensating for higher wages by increasing room quotas. It also creates a Dept. of Labor Standards within the City of Glendale to enforce its wage and workplace provisions.[1]

This economic analysis estimates the impact of the targeted $20 minimum wage on these specific sectors, which will become $20.60 due to a projected 3% increase on Jan. 1, 2025 to keep pace with inflation. In addition, the Grand Canyon Institute's (GCI) analysis demonstrates the immensely exaggerated negative impact estimates of the Common Sense Institute (CSI) which are inconsistent with past research on the impacts of minimum wage increases. GCI also finds that another analysis done for the City of Glendale by Applied Economics significantly overstates cost impacts on hotels due to flaws in its methodology that leads to estimates of lost hotel occupancy being off by more than a factor of four.

Findings

- While some modest negative employment impacts in the Hotel and Event Center sectors may occur, Prop. 499 will boost impacted worker pay by an estimated 22% overall.
- Impacted workers who live or spend time in Glendale, will have more disposable income to benefit the city's economy.
- Upward pressure on prices at concessions at major Event Centers like Desert Diamond Arena and State Farm Stadium will likely be about 6%.
- Hotels will experience a slightly higher cost increase of an estimated 9%, which if passed on to consumers as a higher room rate may lead to declines in occupancy of almost 4%.
- The impact on future hotel development is likely more tied to how successful amusement parks like Mattel Adventure Park are than Prop. 499.
- Overall, sales tax revenues increase modestly under Prop. 499, though expenses increase by $1 million to cover the Dept. of Labor Standards agency required by Prop. 499.

[1] Prop. 499 is a citizen's ballot initiative that was organized by WorkerPower. GCI has in the past been contracted by WorkerPower to evaluate results of worker surveys and to interview workers. WorkerPower had no involvement and did not pay for this analysis; GCI conducted this analysis independently of WorkerPower because of significant flaws found in other studies analyzing Prop.499.

Employment Impacts

Event Centers

This analysis focuses on large Event Centers, such as State Farm Stadium and Desert Diamond Arena, though the city of Glendale lists multiple other smaller venues such as Midwestern University Auditorium, Deer Valley High School Auditorium, Paseo Racquet Center, Top Golf, and high school football stadiums. The initiative will require a minimum wage of $20 per hour for Event Center Workers if approved by voters in November and will increase to $20.60 beginning in 2025.[2] It does not appear to apply to volunteers that staff some high school football events, for example. Many, if not most, of these major Event Center Workers are independent contractors. GCI estimates that Event Center Workers currently earn $16.70 an hour based on median wages from the Bureau of Labor Statistics from May 2023 adjusted at an annual growth rate of 3.3% based on the growth of wages in the Phoenix metropolitan area.[3] Due to the use of independent contractors, GCI does not expect wide increases in wages above the new Event Center Worker minimum wage. That means average wages for impacted workers will increase 23% if Prop. 499 passes.[4]

Tickets for concerts and sporting events are expensive with ticket providers typically charging significant surcharges on top of them. In that context, increasing pay for employees or contracted vendors will have a very modest impact on overall costs. Arenas and stadiums typically contract out concessions, so even if there may be different "storefronts," everyone is working for the same employer. For State Farm Stadium, Craft Culinary Concepts holds the contract. These contracts enable premium rents that take the form of commission percentages on sales, and also undergird premium food and beverage prices, as the various concession options are not really competing with each other on price to lure customers. With such high commissions, labor is likely no more than the 25% of total costs that is typical for a fast food restaurant. Consequently, if labor costs rise 23%, the likely impact on overall costs is up to 6%. Given how critical it is to get food to customers quickly and avoid waits or lines, it's unlikely that Prop. 499 will have a significant employment effect on Event Centers and, to the degree it does, it's likely to be quite modest. Based on 27 minimum wage studies in the United States that focused on retail and/or restaurant workers, a 22% increase in average wages for impacted employees is likely to generate only a 3.5% decrease in employment. This means on balance workers do well under Prop. 499. Due to slightly higher prices, sales taxes would also increase marginally.

---

[2] While the initiative raises the minimum wage to $20, a 3% increase will occur on January 1, 2025 shortly after the initiative takes effect based on the required annual cost of living adjustments in the initiative.

[3] For June 2024 the 12 month percent change in wages and salaries for private sector workers in the Phoenix metropolitan area was 3.3% according to the U.S. Bureau of Labor Statistics.

[4] GCI queried the U.S. Bureau of Labor Statistics Occupational Employment and Wage Statistics for May 2023 for the Phoenix metropolitan area for Fast Food Cooks, Food Preparation Workers, Janitors, Ushers, Lobby Attendants and Ticket Takers, as well as Amusement and Recreational attendants. The Usher and Amusement attendant categories were combined and averaged with the rest to yield a $15.91 average wage for May 2023 that is estimated at $16.70 presently.

Hotels

For Hotel Workers, GCI estimates average wages as $17.75 for impacted workers, earning less than $20.60 an hour. This estimate uses the existing distribution of workers from five union hotels in the Phoenix metropolitan area based on median wages from the Bureau of Labor Statistics from May 2023, again adjusted at an annual growth rate of 3.3%. An increase in wages to $20.60 under Prop. 499 would represent a 16% increase. However, some employees close to or just above that amount currently are likely to see their wages increase higher than that, so GCI presumes the average wage increases to $21.60, a 22% increase.

Hotels are in a more complex competitive position as will be noted below, in which case efforts to economize labor may be stronger, pulling from five studies that clustered in the higher impact half of the 27 minimum wage studies mentioned above. As a result, the employment loss impact may be as high as 5.5%. Because this is still significantly lower than the 22% gain in average hourly wages, workers make out well.

Common Sense Institute way off

The Common Sense Institute released a report last month that indicated that 5,000 workers would be impacted by Prop. 499 and on the low-end that 1,700 of them would lose their jobs if the measure passed (34% as compared to GCI's estimates of 3.5% to 5.5%). Of the 27 minimum wage studies, only one returned an estimate consistent with their low-end results. The Common Sense Institute's high-end estimate that 32,000 jobs essentially disappear is nonsensical.

Hotel Economics

Applied Economics significantly overstates costs

Applied Economics, did an analysis for the City of Glendale. It suggested that Prop. 499 would raise operating costs by 21%, not simply wages. That estimate was premised on the work of Oxford Economics' analysis. Their "custom sample" of hotels for labor costs appeared to be slightly higher than industry norms; 56% instead of 53% for labor as a portion of total expenses. CoStar, the market leader in hotel statistics with its STR data system , reports 53% for all of 2023 and 53% is also the average for available months in 2024.[5] GCI finds that 56% is a likely result if Prop. 499 goes into effect since labor costs would increase faster than other factors.

Applied Economics' primary error was to assume that Prop. 499 increases hotel labor costs by 37.5% by applying the wage increase for the lowest paid worker $15 to $20.60 an hour and assuming that is representative of the increases the entire hotel workforce would receive, even the highest paid. It is not. While labor costs average 53% (56% used by Applied Economics) of operating expenses (before Gross Operating Profits), not all labor costs will be impacted.

[5] GCI calculates the portion of labor costs as LPAR/(TRevPAR-GOPAR) where LPAR is Labor Per Available Room, TRevPAR is Total Revenue Per Available Room and GOPAR is Gross Operating Profit Per Available Room. For 2023 the figures were $71.56, $211,49, and $89.68, respectively.

Management represents about 20% of hotel labor costs and GCI estimates about 75% of non-management hotel workers will be directly impacted and some additional ones beyond that who earn slightly above $21.60 presently to a lesser degree. The result is wage compression due to diminishing wage differentials.

In addition, Applied Economics assumes a somewhat price-sensitive market in that a 10% increase in average daily rates in the City of Glendale leads to an 8% loss in occupancy. GCI considers this a high-end assumption based on numerous economic studies. See below and the Technical Appendix.

The cost error combined with assuming too much price-sensitivity lead to estimated lost occupancy being off by more than a factor of four.

Impact of Housekeeping Rules

To prevent employers from increasing quotas on housekeepers to compensate for higher wages, the initiative creates a room cleaning threshold of 3,500 to 4,000 sq. ft that is reduced if the room has not been cleaned the prior day or it has multiple bedrooms or is on another floor. If employees exceed the threshold, their pay doubles, which is a powerful disincentive. Seven months of data from a similar housekeeping restriction in Los Angeles provides the best evidence of how hotel labor costs in the City of Glendale might be impacted. According to Oxford Economics' "custom sample," the Rooms Department payroll per occupied room increased by 34% from August 2022 to March 2023 when the housekeeping restriction went into effect. . Improved staffing after COVID also contributed to this increase. The Rooms Department includes housekeeping, front desk, guest relations, and reservations. Total payroll, including the Rooms Department, per occupied room rose 31%. Removing the Rooms Department from total payroll yields growth of 27%, implying that the housekeeping restrictions increased costs among the Rooms Department by 7%. Oxford Economics places the rooms department as 45% (almost half) of total payroll, rounding that up suggests that total labor costs are increased by 3.5%. If total labor costs are estimated to be 53% of total expenses, then operating costs rise 1.9%

Impact of Higher Minimum Wage

GCI estimates that only 75% of non-management hotel workers are directly impacted with the likelihood that a slightly greater portion are partially impacted because their wages already exceeded $20.60. If these costs rise by 22%, it pushes up operating costs by no more than 6.9%.[6]

Impact on Hotels

Consequently, overall operating expenses are unlikely to rise more than 9%, not 21% as the Applied Economics report suggests. This cost increase could be passed on to customers in the

[6] 6.95% is derived as 53% (portion of labor costs) times 80% (non-management payroll) times 75% (portion of non-management payroll impacted) times 22% wage increase on average..

form of higher room rates, which would lead to a marginal decrease in occupancy rates. The prime hotels in Glendale would still retain a premium location, but there are other hotel options outside the city not impacted by Prop. 499.

GCI's evaluation of the economic literature suggests that generally hotel demand is not too impacted by price increases. The economics literature suggests that hotel demand at the property level is significantly resistant to price changes, so a 10% increase in price is likely to only lower occupancy by 2%. For purposes of this analysis, to include proper caution, GCI assumes it is 4%, so a 9% increase in average daily rates lowers occupancy by 3.6%. See the Technical Appendix below.

Applying this analysis to CoStar's figures for all of 2023 leads to the following estimated impacts, if hotels raise rates by 9% and in turn lose 3.4% on occupancy. TRevPAR is total revenue per available room, GOPAR is gross operating profit per available room, LPAR is labor (costs) per available room and to make the math clearer, GCI has also added operating costs per available room and the resulting percentage of labor costs out of operating costs. As can be seen under this scenario, there is a minute diminishment of gross operating profits as more resources go to those working for the hotel under Prop. 499.

	CoStar 2023	Impact Prop. 499	change
TRevPAR	$211.49	$222.10	5.0%
GOPAR	$75.83	$74.38	-1.9%
LPAR	$71.56	$83.62	16.9%
Operations PAR	$135.66	$147.72	8.9%
Labor as % of Operations	52.7%	56.6%	7.3%

With its small impact on gross profits, the degree to which Prop. 499 would deter future hotel development in Glendale is probably limited. Rather, how the hotel market develops will depend more on other economic developments in Glendale, such as the success of amusement parks like the Mattel Adventure Park that will open soon.

About

Dave Wells holds a Ph.D. in Political Economy and Public Policy and is the Research Director of the Grand Canyon Institute. He can be reached at dwells@azgci.org or (602) 595-1025 ext. 2.

The Grand Canyon Institute (GCI) is a nonpartisan, nonprofit organization dedicated to informing and improving public policy in Arizona through evidence-based, independent, objective, nonpartisan research. GCI makes a good-faith effort to ensure that findings are reliable, *accurate, and based on reputable sources. While publications reflect the view of the institute, they may not reflect the view of individual members of the Board.*

Grand Canyon Institute
P.O. Box 1008[7]
Phoenix, Arizona 85001-1008
GrandCanyonInsitute.org

Technical Appendix

A recent study found that in a hotel cluster (such as Glendale's entertainment district–but not the entire metro Phoenix area) an individual hotel raising rates when similar competitors do not can lead to significant changes in occupancy rates. In this context, the authors found a 10% increase in rates would lead to a loss of occupancy of about 12.5% due to the close proximity of similar hotel options.

However, when looked at by metropolitan region, looking at hotel performance across a year a specific hotel raising rates by 10% leads to about a 2% decrease in occupancy.[8] Canina and Carvell found the impact to be 1.5% overall with a maximum of 3% for economy hotels in their 2005 study using data from 1988 to 2000. Most recently, Singh and Corsun found the impact to be 1%, though the primary purpose of this study was to isolate impacts on hotels related to COVID. Their literature review identifies a number of studies reinforcing how small the occupancy effect is.[9]

---

[7] Tsionas, Mike and A. George Assaf (2021), "Revenue functions for hotels within clusters," International Journal of Hospitality Management, vol. 98, Sept., https://doi.org/10.1016/j.ijhm.2021.103016.
[8] Canina, Linda and Steve Carvell (2005), Lodging Demand for Urban Hotels in Major Metropolitan Markets, Journal of Hospitality & Tourism Research, vol. 29, issue 3, pp. 291-311,
[9] Singh, Amrik and David L. Corsun (2023), "Price elasticity of demand and its impact on hotel revenue performance during the COVID-19 pandemic," Cornell Hospitality Quarterly, vol. 64, issue 4, November, pp. 415-435, https://doi.org/10.1016/j.ijhm.2021.103016.