



City of Long Beach

Working Together to Serve

Memorandum

Date: October 11, 2018

To: Patrick H. West, City Manager *T.M.*

From: John Keisler, Director of Economic Development *JK*

For: Mayor and Members of the City Council

Subject: Long Beach Hotel Ordinance Impacts Analysis

At its August 7, 2018 meeting, the City Council requested staff to prepare an economic study of the impacts to the City related to the implementation and administration of the Hotel Workplace Requirements and Restrictions Initiative Ordinance (Hotel Ordinance). The measure, which will appear on the November 6, 2018 ballot, includes multiple provisions with the stated purpose of protecting the safety, and improving the working conditions, of local hotel employees.

City staff engaged BAE Urban Economics (BAE) to interview key stakeholders, review Ordinances in other cities, and evaluate the operational and economic impacts of the Hotel Ordinance. Their findings are listed in the attached report. BAE was engaged previously (2017) to prepare a Hotel Incentive Program Study, including a Hotel Market Study and Demand Analysis for the City.

Please contact Sergio M. Ramirez, Deputy Director of Economic Development, at (562) 570-6129 or Sergio.Ramirez@longbeach.gov with any questions.

ATTACHMENT

CC: CHARLES PARKIN, CITY ATTORNEY
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JOHN GROSS, DIRECTOR OF FINANCIAL MANAGEMENT
MONIQUE DE LA GARZA, CITY CLERK (REF. FILE #18-0668)
DEPARTMENT HEADS

Memorandum

To: Sergio Ramirez

From: BAE Urban Economics

Date: October 9, 2018

Re: Long Beach Hotel Ordinance Impacts Analysis

This report presents the findings of an analysis by BAE Urban Economics (BAE), in association with Maurice Robinson and Associates (MRA), of operational and economic impacts of the Hotel Workplace Requirements and Restrictions Initiative Ordinance (Ordinance). The measure, which will appear on the November 6, 2018 ballot for the voters of the City of Long Beach, includes multiple provisions with the stated purpose of protecting the safety and improving the working conditions of local hotel employees.

On August 7, 2018, Council requested that staff prepare an economic study of the impacts to the City related to administration of the Ordinance, revenue generation impact to the City's budget, and the City's cost of ensuring compliance with the Ordinance. Please refer to the video recording of the City Council meeting to capture the final motion, clarification by the City Manager and City attorney and final direction to staff to return with a report by a date certain. City Council Video, August 7, 2018, 1:02:56.

Currently, the City of Long Beach is home to 58 hotel and motel properties comprising 6,206 rooms. This inventory of hospitality properties is a key aspect of Long Beach's tourism economy, which also includes the Long Beach Convention and Entertainment Center, Long Beach Airport, attractions including the Queen Mary and the Aquarium of the Pacific, and annual events that attract visitors from a national audience. Hospitality properties in Long Beach range from small, independently operated businesses with as few as 15 or 20 rooms, to larger properties containing hundreds of rooms, the majority of which are affiliated with national branded chains. As summarized in Table 1, the inventory of rooms is distributed across properties of various sizes: 27 percent of rooms are in small properties under 100 rooms, 34 percent of rooms are in medium-sized properties with between 100 and 299 rooms, and 39 percent of hotel rooms (2,425 rooms) in Long Beach are in large properties with 300+ rooms.

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Los Angeles

448 South Hill St., Suite 701
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New York City

215 Park Ave. S, 6th Floor
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Table 1: Summary of Long Beach Hotel Inventory, 2018

Type of Property	Properties (#)	Rooms (#)	Rooms (%)
Small (Up to 100 rooms)	40	1680	27%
Medium (Between 100 and 300 rooms)	12	2101	34%
Large (301 or more rooms)	6	2425	39%
TOTAL	58	6206	100%

Source: STR; BAE and MRA, 2018.

While most hotels operate with a non-unionized work force, five properties, including two medium-sized and three large properties, totaling 1,680 rooms, operate under a Collective Bargaining Agreement between management and a unionized workforce.

Methodology

BAE conducted a wide-ranging series of interviews with local and nationwide hotel operators, as well as hospitality industry stakeholders, to understand the potential impacts of the various Ordinance provisions in the City of Long Beach.

BAE first sought to document existing standards and practices within the local hotel market to assess the extent to which ballot mandates would depart from current operations. Next, BAE reviewed the key highlights of each provision with hotel operators to determine whether that provision would present an additional “cost” for compliance. To the extent possible, cost estimates were requested for each provision when available. All information relayed by hotel operators was kept strictly confidential, and will not be individually identifiable within this report.

After conducting the interviews and gathering the data, BAE sought to understand ways in which the potential impacts might differ across hotel type. Particular emphasis was placed on whether larger hotels, many of which are franchises affiliated with a national brand, would face a similar burden as smaller properties that are often independently operated. For the purposes of this analysis, “small” hotel properties are defined as having up to 100 rooms; “medium” hotels as having between 101 and 299 rooms; and “large” hotels comprising more than 300 rooms.

Additionally, BAE consulted with hotel operators, labor representatives (Unite Here), and City staff in other jurisdictions with similar ordinances to provide context and experiences with implementation.

Baseline information regarding the existing hotel inventory was procured from Smith Travel Research (STR), a world-wide aggregator of hotel data and a reliable third-party source for

information on the hospitality market. Information regarding planned and proposed hotels was prepared with assistance from City staff.

Key Findings

Key findings from the interviews are presented below, and will be elaborated later in the report.

- Currently, many of the provisions contained in the November 2018 Ordinance are already in place: at least 11 Long Beach hotels comprising more than 3,200 rooms, for example, already require their housekeepers to wear panic buttons, representing over 52 percent of hotel rooms in the City.
- The financial impact of the Ordinance’s “humane workload” standards will add significant operational costs to affected hotels. These standards are significantly more restrictive in the Long Beach ordinance than in Seattle, the closest comparable policy.
- Based on past trends and local market conditions, it is likely that hotel operators may have very limited ability to raise room rates to cover additional operational costs imposed by the Ordinance, resulting in reduced annual Net Operating Income (NOI).
- Smaller properties (e.g., fewer than 100 rooms) will face more financial difficulty complying with the Ordinance provisions than larger properties.
- Because of the potential reduction in NOI for affected properties, future hotel sales may see a reduction in price due to lower capitalized value. This could result in lower property taxes that would otherwise be generated for local taxing entities.
- If hotels ARE able to raise their room rates to mitigate the increased costs of operating, higher Citywide Average Daily Rates (ADRs) may impact the Long Beach Convention Center’s effectiveness in competing for convention and conference bookings.
- Higher-than-expected costs to operate a new hotel could make currently planned and proposed projects less feasible. If this occurs, it would result in a loss of Transient Occupancy Tax (TOT) revenue that would otherwise be generated.
- Of the hotel operators consulted for this report, only one suggested that it may consider the merits of entering into a Collective Bargaining Agreement to take advantage of the Ordinance’s provision to potentially waive some of the more costly Ordinance requirements.

- The City is not granted any enforcement authorities in the Ordinance that would have ongoing cost implications. However, based on the experience in Seattle, staff resources will be required in the near-term to develop rules and regulations that clarify how the Ordinance language will be implemented.

Summary of Ordinances in Other Cities

Long Beach is not the first city in the country to introduce a measure intended to enhance hotel worker safety. Similar legislation and ballot initiatives have surfaced around the country, most notably in Seattle and Chicago, as well as in Sacramento County and Miami Beach. These more recent efforts were preceded by earlier efforts in New York City, where, in 2012, hotels agreed to give employees panic buttons in the wake of a high-profile sexual assault of a housekeeper.

As shown in Figure 1, each of the recent hotel worker safety ordinances require housekeepers to be provided panic buttons, and most include some form of sexual harassment prevention and investigation provisions. Only the Seattle ordinance, however, imposes reporting, workload, and recordkeeping requirements similar to those proposed in Long Beach.

Though the Seattle ordinance offers by far the nearest parallel to the proposed Long Beach Ordinance, it does have some notable differences. For instance, Seattle's ordinance includes several additional provisions, including requiring additional wages for worker healthcare costs, which are not proposed in Long Beach. Additionally, Seattle's humane workload requirements are less demanding than those proposed in Long Beach. The Seattle ordinance sets the humane workload cap at 5,000 square feet of cleaning, compared to 4,000 square feet under the Long Beach ordinance.

Figure 1: Comparison of Hotel Worker Safety Ordinances

Jurisdiction and Year of Adoption	Long Beach 2018 (proposed)	Seattle 2016	Chicago 2017	Sacramento County 2018	Miami Beach 2018
Affected Properties	50+ room hotels	60+ room hotels; 100+ room hotels for certain requirements, as noted	All hotels	25+ room hotels	All hotels
Panic Buttons	Requires employers to provide panic button to all hotel workers assigned to work in a guest room without another employee present. Panic button defined as: "Electronic contact device carried by a hotel employee by which the hotel employee may summon immediate on-scene assistance from a security guard or other person employed by the hotel."	Provision effectively identical to that of Long Beach; City guidance clarifies that panic buttons cannot require continued activation by the employee to sustain the alert, making simple whistles and walkie-talkies insufficient.	Provision effectively identical to that of Long Beach.	Provision effectively identical to that of Long Beach.	Provision effectively identical to that of Long Beach; ordinance additionally recognizes that different types of devices may be appropriate for different types of hotel sizes and layouts.
Posted Notice in Rooms	Hotels must post notice in each guest room reading "The Law Protects Hotel Housekeepers and Hotel Employees from Threatening Behavior," with citation to municipal code and notice of panic buttons in at least 18-point font.	Provision effectively identical to that of Long Beach.	Not Applicable	Not Applicable	Provision effectively identical to that of Long Beach, though with a minimum 14-point font.
Reassignment Rights	Hotel employee with reasonable fear shall be reassigned to a different floor or, if none is available, a different work area;	Provision effectively identical to that of Long Beach.	Provision effectively identical to that of Long Beach.	Employers are required to develop and disseminate a "sexual harassment policy," though no specific requirements of the policy are elaborated.	Not Applicable
Right to Report and Consultation	Hotel shall allow affected employee sufficient paid time to contact the police, provide police statement, and consult counselor or advisor of employee's choosing; employee need not report to police.	Provision effectively identical to that of Long Beach; city guidance clarifies that paid time must be sufficient for employee to develop a "plan of action" with counselor and shall not cover ongoing treatment.	Provision allows paid time to contact police and file police statement; does not provide paid time for counseling.		Not Applicable
Hotel Cooperation	Hotel shall cooperate with any investigation and with attorney for complaining employee.	Provision effectively identical to that of Long Beach	Provision effectively identical to that of Long Beach		Not Applicable
<i>Continued on following page.</i>					
Sources: City of Long Beach, 2018; City of Seattle, 2016-18; City of Chicago, 2017; County of Sacramento, 2018; City of Miami Beach, 2018; BAE, 2018.					

(Figure 1 continued)

Jurisdictions	Long Beach	Seattle	Chicago	Sacramento County and Miami Beach
Humane Workload	Employer may not require a room cleaner to clean more than 4,000 square feet (reduced by 500 square for each checkout or additional-bed room assigned) per eight hour shift; maximum is reduced pro rata for shifts less than eight hours; If worker agrees to exceed maximum, he or she must be paid double wages for entire workday. Rooms, suites, and meeting rooms are counted toward the maximum.	100+ room hotels may not require a room cleaner to clean more than 5,000 square feet (reduced by 500 square for each checkout or additional-bed room assigned) per eight hour shift; maximum is reduced pro rata for shifts less than eight hours; if worker agrees to exceed maximum, he or she shall be paid time-and-a-half wages for entire workday. Non-guest room square footage is not counted toward the maximum.	Not Applicable	Not Applicable
Voluntary Overtime	Employer may not permit a hotel employee to work more than ten hours a day without employee consent (written and signed or communicated electronically). Hotel must advise employee every 30 days that employee may decline to work more than 10 hours every workday.	Not Applicable	Not Applicable	Not Applicable
Preservation of Records	Employer shall maintain for two years a record of room cleaner name, pay, rooms or total square footage cleaned on each workday, and written consent to overtime. Records must be furnished to employees or their representatives upon request.	60+ room hotels shall maintain for at least three years each employee's rate of pay for each workweek; 100+ room hotels shall maintain for three years each room cleaner's name, pay, rooms or total square footage cleaned, number of strenuous room cleanings, number of hours worked, and gross pay.	Not Applicable	Not Applicable
No Retaliation	Employer shall not exercise any adverse action, including firing, reducing pay, or increasing workload, as a result of employee exercising rights under the ordinance. Employer must provide detailed written statement justifying adverse action taken within a year of employee exercising rights.	Employer shall not exercise any adverse action, including firing, reducing pay, or increasing workload, as a result of employee exercising rights under the ordinance. Employer must provide detailed written statement justifying adverse action taken within 90 days of employee exercising rights.	Employer shall not retaliate against employee for exercising rights under the ordinance; if that occurs, employee may file complaint with Chicago Commission on Human Relations within 120 days of employer violation.	Not Applicable
Waiver via Collective Bargaining	Provisions of the humane workload and voluntary overtime sections may be waived under a collective bargaining agreement.	Provisions of the humane workload and other requirements not included in Long Beach ordinance (additional wages for healthcare and worker retention) may be waived under a CBA.	Not Applicable	Not Applicable

Sources: City of Long Beach, 2018; City of Seattle, 2016-18; City of Chicago, 2017; County of Sacramento, 2018; City of Miami Beach, 2018; BAE, 2018.

Aside from these differences, the Seattle ordinance is functionally nearly identical to the proposed Long Beach Ordinance. It has been fully implemented and supplemented by an administrative rulemaking process that is the product of an extensive engagement process with hotel operators and workers. For those reasons, Seattle offers a useful case study as to what might be expected to occur in Long Beach if its Ordinance is adopted. BAE interviewed several Seattle stakeholders, including hotel operators, union staff, and City staff, to better understand on-the-ground impacts.

All Seattle hotel operators BAE interviewed agreed that, aside from the healthcare requirements, the humane workload provision was the costliest and most logistically burdensome element of the ordinance. They mentioned, and City staff echoed, that the ordinance's ambiguous definition of what constitutes "cleaning" for the purposes of tabulating total square footage caused scheduling confusion until administrative guidance clarified. The operators noted that housekeepers regularly reach the humane workload cap well before the end of a typical eight-hour shift. After the cap is reached, housekeepers are often tasked with other work such as laundry, cleaning common areas, or performing additional cleaning tasks within guest rooms. As a result, scheduling patterns had to be changed significantly.

The Seattle and Long Beach ordinances also have in common a provision that waives certain requirements if the hotel operator enters into a Collective Bargaining Agreement (CBA). Under the Long Beach ordinance, the humane workload requirements and voluntary overtime provisions may be waived with a CBA. The Seattle ordinance allows a waiver of those requirements plus the provision requiring increased wages for healthcare costs. These waivable provisions are the costliest in the Seattle ordinance, according to Seattle hotel operators. Despite this, union representatives and hotel operators report there has not been any new collective bargaining activity in Seattle since the ordinance was adopted in 2016.

Impacts of Individual Ordinance Provisions on Hotel Operations

This section of the report analyzes the potential impacts on Long Beach hotel operators from the application of individual Ordinance provisions, including a description of current practices and standards and how those would change under the Ordinance, and the resulting expected impacts to hotel operations procedures and costs. This report's findings are drawn from hotel interviews, supplemented as available from experiences with similar provisions adopted in other cities.

Specific provisions include the following major components: Panic Buttons; Posted Notice in Guest Rooms; Hotel Employees' Rights to Reassignment; Paid Time Off for Reporting and Consultation; Humane Workload; Voluntary Overtime; and Preservation of Records.

Panic Buttons

The Ordinance requires that hotel employers assign panic buttons to each employee working in guest rooms, for use when the employee witnesses or experiences threatening behavior.

Current Practices. Each of the larger hotel properties interviewed have provided panic buttons to housekeeping staff for at least the last two years. Presently, the devices used are battery-operated noise-maker devices that sound a loud alarm, and which do not connect via Wi-Fi or GPS to in-house security. No property has reported an incident where the panic buttons have been utilized to date.

Some of the larger branded chains may be moving toward a brand-wide standard for panic button technologies, which is expected to include GPS capabilities and be costlier. Recently, the American Hotel and Lodging Association (AHLA) a national consortium of hotel brands including Hilton, Hyatt, IHG, Marriott, and Wyndham, announced a plan to provide panic buttons to all guest-facing workers, including Wi-Fi or GPS technologies in facilities where such technology is feasible. At least two of the large local hotels have concrete plans to roll out GPS-based panic buttons for housekeepers in Long Beach in the near future.

Some properties have also put other policies in place to help address the safety concerns of housekeepers. One property adopted a policy whereby each room is cleaned in a two-person team, to lessen the likelihood of harassment. Another property's policy specifically precludes housekeepers from entering a room when a guest is present.

Impacts on Operations. Generally, most operators indicated that they were fully supportive of panic buttons if they help make their workforce feel safer and more comfortable.

Cost Impacts. The cost of supplying panic buttons varies based on the type of technology used for the devices. The simpler, personal alarm panic button can be acquired for housekeeping staff ranging from \$10 to \$75 per guest room. More sophisticated panic button devices with GPS capability that is integrated with the hotel security system, such as those currently being planned for some local properties, cost from \$250 to \$275 per guest room. Larger properties consider these investments important and ultimately not a significant impact on operating costs. Smaller operators express a higher level of concern about the cost of implementing a panic button policy. It is costlier per unit to acquire a small number of devices, and costs will be proportionately higher for smaller properties.

Posted Notice in Guest Rooms

The ordinance requires hotels to post notice in each guest room stating that a hotel worker protection policy is in place, and that all hotel workers have panic buttons.

Current Practices. None of the surveyed properties currently post notice regarding a workplace protection policy.

Impacts on Operations. A few respondents expressed mild concern about complying with this provision, questioning whether such signage would be effective in actually preventing harassment, or wondering whether posted notices would cause guests to be unnecessarily concerned about their own safety. Most of the larger properties expressed willingness to comply and indicated that complying with this provision would not be onerous on hotel operations. Per state law, hotels are already required to post several notices within each guest room – this new notice would just be one more among several. One smaller property expressed concern that the cost would be somewhat of a burden.

Cost Impacts. Estimates provided by respondents to post the proper notice in each guest room ranged between \$12 and \$200 dollars per room. Larger properties tended to have lower per-room costs that were considered negligible, while smaller properties had a higher cost estimate.

Hotel Employee Right to Reassignment

Under the Ordinance, a hotel worker with concerns about safety or a guest's behavior may request a reassignment to a different floor or location away from the threatening behavior.

Current Practices. One responding property has a formal policy in place that allows workers to request reassignment. All other properties indicated that they do not have a formal policy for reassignment in place, because they have not in the past had any reported incidents that would necessitate reassignment, but they informally accommodate worker requests. One property has from time to time received and granted requests for reassignment on the basis of "personality issues" among staff, but not for guests.

Impacts on Operations. Each of the responding hotel operators of larger hotels felt that this ordinance provision makes sense and could be formally implemented without any burden on hotel operations. One manager of a smaller hotel indicated that reassignment would be challenging in the smaller facility without multiple floors, and might require additional staffing resources to implement.

Cost Impacts. None of the responding hotels felt that a reassignment policy would have cost impacts for their properties.

Paid Time Off for Reporting and Consultation

If an employee experiences threatening behavior, the hotel is required under the Ordinance to provide sufficient paid time off for the employee to contact police and consult with an advisor or counselor. This must be allowed whether or not the employee reports the incident to law enforcement.

Current Practices. One of the larger hotel properties has policies that would allow workers paid time off to speak to law enforcement about incidents that occur in the workplace. That property, which is part of a nationally branded-chain, also provides counseling services to employees. Other properties do not have formal policies allowing paid time off and consultation for workers that experience harassment in the workplace.

Impacts on Operations. Respondents from larger hotel properties felt that they would be able to comply with this Ordinance provision in a way that did not have significant impacts on hotel operations. One smaller property felt that the provision for paid time off for consultation with a professional counselor is duplicative of state workplace compensation laws, and it would be onerous to provide time off outside the normal work shift to report incidents to law enforcement.

Cost Impacts. Most of the responding hotels indicated that compliance would not represent any significant costs to hotel operation. A smaller property had concerns that paid time off outside of the normal workday would impose a material economic impact on operations.

Employer Cooperation with Law Enforcement Investigation

The Ordinance requires hotels to cooperate in any law enforcement investigation about an incident of harassment or threatening behavior.

Current Practices. One property has a formal policy to cooperate with law enforcement for any investigations of workforce harassment. Each of the other responding properties does not have a formal policy in place, although they report that it is their practice to cooperate with law enforcement investigations.

Impacts on Operations. All properties report that they can comply with this Ordinance provision without significant impact on their operations.

Cost Impacts. No responding properties report cost impacts of cooperation with law enforcement investigations.

Humane Workload

The provision states that a housekeeper may not be required to clean rooms exceeding 4,000 square feet (SF) of floorspace within an 8-hour workday. Additionally, for each number of check-out rooms over 6, the total square footage is reduced by 500 SF. If that maximum limit is exceeded, the cleaner will receive double the rate of pay for all hours in that workday. The maximum SF provisions apply equally to both guest rooms and other rooms such as meeting space and ballrooms.

Table 2: Maximum Workload Scenarios by Hotel Room Size

# Checkout rooms	Max Area sf	Maximum Rooms That Can Be Cleaned	
		Hotel A (325 sf avg)	Hotel B (450 sf avg)
5	4,000	12	8
6	4,000	12	8
7	3,500	10	7
8	3,000	9	n/a
9	2,500	n/a	n/a
10	2,000	n/a	n/a

Note: "n/a" signifies that daily cap has been reached, and no rooms will be cleaned per the Ordinance.

Source: BAE, 2018.

Table 2 displays how this provision would play out at two hotels with different average room sizes: Hotel A's average room size is 325 square feet, while Hotel B's average room size is 450 square feet.

If a housekeeper at Hotel A was assigned to clean seven "Check-Out" Rooms, they would still be able to clean three "Stayover" Rooms before reaching their maximum cap for the day (ten rooms total). If the same housekeeper were working at Hotel B, however, they would reach their 3,500 square-foot cap much sooner.

Current Practices. Hotel operators within the City of Long Beach indicate that housekeepers currently clean between 13 and 15 rooms per day on average, depending on room size and whether the room is classified as a "Stayover" or a "Check-Out" room. In general, "Check-Out" rooms take longer to clean than "Stayover" rooms, and hotel operators account for this discrepancy when planning each housekeeper's assignment for that day. To account for variation in room size, some hotel operators also assign room-cleaning duties on a "credit" basis. Under this system, housekeepers cleaning larger rooms (e.g., suites) are awarded more credits than a housekeeper cleaning a standard-sized room. This is also true for housekeepers cleaning a larger share of "Check-Out" rooms than other staff on their shift.

Impacts on Operations. Hotels that would be subject to the Ordinance (e.g., those currently operating without a collective bargaining agreement) have indicated that the Humane Workload provision would present the largest fiscal impact to current operations.

Due to a 4,000 square-foot cap on total room area, housekeepers Citywide would only be able to clean approximately 10 rooms per day on average, a reduction of four hotel rooms per day from current market standards. In addition, scheduling issues are likely to arise on days with a high number of "Check-Out" rooms (typically Fridays and Sundays). For each number of

“Check-Out” rooms over 6, for example, the Ordinance requires that the total square-footage cap be reduced by 500 square feet. Under this scenario, a housekeeper might be limited to cleaning 7 “Check-Out” rooms before finishing their shift, regardless of the amount of time spent cleaning. As seen in Seattle, hotel operators may find additional tasks for housekeepers to perform if the square footage cap is reached before a shift ends. However, because the cap on square footage in the Long Beach Ordinance – unlike the Seattle ordinance – specifically applies to non-guestroom space including meeting rooms and common spaces, managers will have less flexibility to find work to occupy workers through the end of their shift.

Cost Impacts Summary. Due to the significant impact the Humane Workload provision would have on staffing and scheduling, many hotel operators have already made preliminary calculations to assess how the provision would affect their bottom line. BAE reached out to nearly a dozen General Managers at hotels across the City of Long Beach to help gauge the impact that the ordinance would have on their fiscal operations.

Due to the range of hotels reporting figures, annual NOI impacts from the Humane Workload provision are presented here on a per-room basis to help avoid identifying information.

- For hotels that did not calculate a range but rather a single NOI estimate, annual impacts were estimated to be anywhere between \$1,002 and \$1,556 per room.
- For hotels that did calculate a range, annual NOI impacts at the low end were estimated to be anywhere between \$535 and \$1,618 per room.
- At the upper end, annual NOI impacts were estimated to range from \$2,005 to \$2,417 per room.

These estimated cost impacts due to the potential implementation of the Humane Workload provisions of the Ordinance seem very reasonable, based on our experience with hotel operations and budgets. Labor is by far the largest expense line item for all hotels, and the effect of this part of the Ordinance would cause hotel operators to employ additional housekeepers, which would certainly drive up their operating costs, without a corresponding increase in room rates to offset these costs.

The estimated impacts represent about 5% of the NOI and value for the larger hotels, and about 10% of NOI and value for the smaller hotels. Since housekeeping costs represent a much larger proportion of total labor costs in the smaller, limited-service hotels—where the vast majority of employees are in the housekeeping department—than they do in the larger, full-service hotels—where there are many food and beverage and other employees—this result seems reasonable, in terms of relative magnitude.

BAE created a pro forma model to analyze the effects on hotel valuation that the hotel-reported NOI impacts might have. Table 3 below displays these results.

Table 3: Ordinance Effect on Hotel Valuations by Product Type (Per Hotel)

	<u>#</u>	<u>Cap Rate</u>	<u>New</u> <u>Capitalized</u> <u>Value</u>	<u>Pre-Ordinance</u> <u>Value</u>	<u>Potential</u> <u>Loss</u>
Select Service	100	7.00%	\$20,462,376	\$22,685,257	(\$2,222,881)
Select Service	200	7.00%	\$41,255,754	\$45,701,516	(\$4,445,762)
Full Service	200	6.50%	\$54,304,651	\$57,389,286	(\$3,084,635)
Full Service	450	6.50%	\$123,103,798	\$130,044,226	(\$6,940,428)

Notes:

NOI impacts per room based on interviews with hotel operators, adjusted for level of service (Full versus Select).

Source: STR HOST Report; BAE, 2018.

Due to the wide diversity of hotels across Long Beach, cost impacts arising from the specific provisions of the Humane Workload would be felt unevenly. In particular, properties with the following characteristics would be disproportionately affected:

- **Select-Service Hotels where Housekeeping Expenses Represent a Higher Ratio than Full-Service Properties**

As shown in the table above, Select-Service hotels are likely to be disproportionately affected by the Humane Workload provision when compared to Full Service hotels of similar size. This is primarily due to the fact that a high percentage of revenue at Select Service properties (over 90 percent) is derived from hotel rooms, which are far more labor-intensive per dollar of revenue than food and beverage operations, leaving less margin for error.

- **Smaller Properties with Fewer Rooms**

To test how financial impacts of the Ordinance would be felt across properties of different sizes, BAE created a model that compared two hypothetical hotels with similar occupancy rates, room sizes, and average length-of-stay (LOS).

For a smaller properties (e.g., 100 rooms or fewer), compliance with the Humane Workload provision would require increasing staffing levels by up to 31 percent. Due to efficiencies arising from economies of scale, meanwhile, a larger property (above 300 rooms) would be required to increase staffing by a smaller relative amount (up to 20 percent).

- **Properties with Large Average Room Sizes**

Hotels with larger-than-average room sizes would incur greater impacts under the Ordinance when compared to hotels with smaller room sizes. For example, housekeepers could clean up to 13 rooms before reaching the daily maximum threshold in hotels with room sizes averaging 300 square feet. For larger hotels (e.g., 450 square feet per room), however, housekeepers would be limited to cleaning a maximum of 8 rooms before having to complete their shift.

- **Properties with High Rates of Turnover and Shorter Length of Stay (LOS)**

Due to the provision that distinguishes between “Stayover” and “Check-Out” rooms, hotels with higher levels of turnover (e.g., more “Check-Out” rooms) would incur greater impacts over

longer-stay hotels under the Humane Workload Ordinance. Generally speaking, LOS is longer in hotels with a suite format that cater to business travelers. Some airport hotels, however, see much lower average LOS due to the presence of guests who may only book for one night prior to connecting a flight.

Voluntary Overtime

Under the Ordinance, a hotel employer cannot require a housekeeper to work more than 10 hours a day without written consent from the employee. There is also a monthly requirement to inform employees that their written consent is necessary to perform overtime work.

Current Practices. All hotel operators within the City of Long Beach report scheduling housekeeping shifts to avoid overtime whenever possible. Housekeeping shifts are generally kept to eight hours each day, not including the State-mandated 30-minute break.

For hotels with regular turnover and a predictable housekeeping schedule, avoiding overtime is not difficult: One large hotel operator reported that overtime accounted for less than one percent of total housekeeping hours.

When scheduling conflicts do arise, hotel operators generally post a notice in advance for employees who wish to work overtime. Some employees regularly volunteer in such cases to take advantage of the increased wage—which is 1.5 times the regular pay. No hotel operator reported mandating an employee work overtime against their will.

Impacts on Operations. The Voluntary Overtime provision is not estimated to impact operations significantly, according to the majority of hotel operators. This is because overtime is generally not “required” in the first place; but rather volunteered for by sufficient numbers of employers to cover the extra time needed.

Cost Impacts. Negligible.

Preservation of Records

The Ordinance would require employers to keep two years of records of housekeepers’ workload, including pay, rooms cleaned, and written consents for overtime. Upon request, such records are to be made available to employees and their representatives for inspection.

Current Practices. All hotel operators within the City of Long Beach report having an internal policy of employee record retention. At least two hotels reported keeping employee records for at least three years—above and beyond the two years mandated under the Ordinance. Some hotels, however, suggested they would have to review whether the specific metrics tracked under their current system would comply with the new Ordinance.

Impacts on Operations. Most hotel operators indicated the Preservation of Records provision under the Ordinance would not impact their current operations to a significant degree. At least one hotel operator, however, indicated they would have to hire an outside bookkeeper to ensure compliance and avoid any potential legal issues.

Cost Impacts. The cost of an outside bookkeeper for ensuring compliance was not estimated by the individual hotel operator; however, Bookkeeping, Accounting, and Auditing Clerks currently earn an Annual Median Wage of \$46,250 in Greater Los Angeles (Bureau of Labor Statistics, 2017).

Economic and Fiscal Impacts of the Hotel Ordinance

The Ordinance could affect the City of Long Beach's fiscal outlook across a number of revenue categories. These include lower Transient Occupancy Tax (TOT) and Sales Tax receipts, should developers choose to pull out of projects already in the pipeline. In the event of a hotel sale, the City could also receive less Property Tax revenue due to the affected hotel's lower valuation.

Short Term Fiscal Impacts

In general, any potential fiscal impact would not be felt by the City immediately, but rather arise in the form of "foregone" revenue over the long term if the prospect of lower NOIs dampen the appetite for hotel investment in Long Beach. Short term fiscal impacts are minimal.

- ***No Immediate Effect on TOT revenue***

Hotel operators have generally indicated that they are unlikely to raise room rates to recoup the additional cost of complying with the Ordinance, at least initially. This indicates that hotel guests and visitors to Long Beach will otherwise be oblivious to the change in operation, and not adjust their travel plans accordingly.

- ***No Immediate Impact on Property Taxes***

To the extent that the sale prices of future hotel transactions might be lower with the Ordinance's effects on reducing NOI, then the City, County, and other agencies and Districts would receive lower property tax receipts; however, this would not likely occur right away, so in the short term, this would not be expected to any noticeable effect.

Longer Term Fiscal Impacts

Over the longer term, the City of Long Beach could lose more revenue than it would have collected otherwise in the absence of the Ordinance. This is primarily a function of lower Net Operating Income (NOI) for Ordinance-affected hotels, which has a negative impact on the feasibility of hotel investments. As suggested in the analysis above, lower NOIs will depress hotel valuation. This could potentially lead to:

- ***Less New Hotel Development***

For hotels already in the planning stages, the impact of additional operating costs to comply with the Ordinance provisions may dampen the appetite for new hotel development. Currently,

there are a number of new hotels that are planned or proposed for development in Long Beach.

- **Greater Financial Incentives Required to Incentivize New Investment**

As shown in the 2017 *Long Beach Hotel Incentive Program Study*, most of the larger hotel investments planned and proposed in the City are infeasible without public incentives in the form of rebates of transient occupancy, sales, and/or property taxes. Such incentives represent tax revenues that the City could elect to forgo in order to incentivize hotel development to achieve other public goals. Ordinance provisions that increase the cost of operating and lower hotel NOI inevitably make new hotel development projects even less feasible, and would necessitate additional public funding or other incentives. In some cases, planned and proposed projects affected by the Ordinance may not be feasible even if the City elected to maximize incentives and rebate all taxes to support the project.

- **Less Investment in Upgrades**

Future hotel upgrades may be limited to those required by brand standards, resulting in less elective expansion and investment in larger properties.

- **Less TOT and Sales Tax Revenue**

The effect on new hotel investment of the additional operating costs may lead to forgone transient occupancy tax and sales tax, as hotels that are currently planned for development may fail to materialize because they have been rendered infeasible. For example, Table 4 illustrates, for hotels of various size and level of service, the estimated amount of TOT that would be foregone if those hotels are not developed.

Table 4: Potential TOT Revenue from Future Hotels (By Type)

	# Rooms	Hotel Revenue (annual) (a)	Foregone TOT Receipts (annual) (b)
Select Service	100	\$4,920,539	\$590,465
Select Service	200	\$9,841,078	\$1,180,929
Full Service	200	\$11,296,388	\$1,355,567
Full Service	450	\$25,416,873	\$3,050,025

Notes:

(a) Assumes Select-Service Hotels would be Upscale class; using historic occupancy (70%) and inflation-adjusted ADR of \$167 with 115% penetration rate.

Assumes Full-Service Hotels would be Upper-Upscale class; using historic occupancy (75%) and inflation-adjusted ADR of \$179 with 115% penetration rate.

(b) Assumes 12% Transient-Occupancy Tax; with half dedicated to General Fund.

Source: STR, 2016; BAE, 2018.

Presently, five hotel projects are currently “planned or proposed” within the City of Long Beach, ranging in size between 150 and 450 rooms and representing potential new development of

nearly 1,200 hotel rooms. The total cumulative annual loss of TOT that should result if each of the projects fails to move forward is estimated at \$8.1 million, in 2018 dollars.

In addition, annual Sales Tax revenue that would be forgone if the same four hypothetical hotel projects do not get developed ranges from approximately \$3,000 per year for a 100 room Select Service hotel, to over \$112,000 per year for a Full Service hotel with 450 rooms.

- ***Diminished Property Tax Revenue***

As hotels change ownership in the future, under the Ordinance they could trade at lower values due to lower NOI. The new property taxes that are established upon transfer will be correspondingly lower, resulting in lower property tax proceeds to the City and other taxing entities. The amount of potentially lost property tax revenue is modest, ranging from \$4,800 per year for a 100 room Select Service hotel, to around \$15,000 per year for a Full Service hotel with 450 rooms.

Potential Impact on Hotel Unionization

The Ordinance provides a waiver of the humane workload and voluntary overtime provisions for hotels with a Collective Bargaining Agreement. Given the significant estimated costs that will be incurred by hotels to comply with these provisions, it is possible that some properties may opt to proactively enter into a Collective Bargaining Agreement with their workforce to effectively reduce the costs that would otherwise be imposed by the Ordinance.

Presently, five of the City's 58 hotel properties, totaling 1,680 rooms (27 percent of the City's hotel rooms) operate under a Collective Bargaining Agreement. Of the responding non-union hotel operators, most indicated that they did not expect to consider entering into a Collective Bargaining Agreement if the Ordinance is adopted. Only one property indicated that they might be willing to evaluate whether proactively pursuing a Collective Bargaining Agreement would possibly make sense in light of the Ordinance requirements.

The Cost of Ordinance Implementation and Enforcement

It is possible that the City will incur costs to implement and enforce the Ordinance.

The Ordinance states that the City will have the authority to adopt rules and regulations necessary for implementation. Accordingly, the City will need to devote resources to quickly develop those rules and administrative guidelines in alignment with the Ordinance. Although it is unlikely that such administrative guidelines will be drafted by the Ordinance's effective date – 10 days after Council certification of the vote – the City will want to draft and adopt such rules forthwith.

In Seattle, implementation and oversight of the Hotel Employee Health and Safety Initiative (Initiative 124) is the responsibility of the Office of Labor Standards (OLS). OLS became a stand-alone department in 2017 to implement the city's labor standards including minimum wage, paid sick time, wage theft, fair chance employment, and other labor laws. As of 2018, the OLS has 23 full time equivalent positions, and an annual budget of \$5.7 million. OLS funding primarily comes from revenue generated by the business license tax, with supplemental funding from the General Fund.

After passage of Initiative 124, City staff was tasked with developing the administrative rules for implementation, which largely consisted of a stakeholder engagement process with hotel operators and workers that included 20 stakeholder sessions. City staff performed much of the work of preparing implementation guidelines, and also utilized approximately \$17,500 for consultant assistance, most notably for a trained mediator to act as a third-party facilitator for the stakeholder sessions. City costs related to implementation have been absorbed into the department's general operating budget, and no specific level of funding was provided to implement.

Regarding enforcement of the Long Beach Ordinance, it does not appear that the City has any obligations under the Ordinance that would have cost implications. The Ordinance does not grant any enforcement authorities to the City. Rather, the primary mechanism to enforce is the right of a hotel employee or representative of employees to bring private action in the state Superior Court. Seattle's Initiative 124 had similar provisions related to enforcement, and OLS staff reports that they have not performed any investigations of potential violations.

Conclusion and Recommendations for Further Study

Generally, many of the provisions of the Hotel Workplace Requirements and Restrictions Initiative Ordinance, especially those that focus on worker safety such as panic buttons, posted notice, and reassignment rights, impose modest impacts on hotel operations, and can be absorbed by hotel operators without significant cost. The singular exception is the Humane Workload provisions, which represent a fundamental shift in current housekeeping practices, and which will impose staffing costs that are unlikely to be recouped by higher room rates. Existing hotel properties could accordingly have lower profit levels, which may tend to have a dampening effect on investments to improve properties, and on sales prices as hotels change hands in the future. The most significant impacts flow from the potential for Ordinance provisions to make future hotel projects financially infeasible, resulting in sizable lost employment opportunities and tax revenues.

As an additional recommendation for further study, given the importance of tourism and hospitality in the Long Beach economy, it could be instructive to explore how hotel operators may change staffing levels and patterns in response to the Humane Workload restrictions.