

To: Deborah Moreno, Finance Director/City Treasurer  
City of Anaheim

From: Andrew Belknap, Managing Director  
Sam Lieberman, Senior Manager

Subject: Anaheim Hotel and Event Center Initiative Impacts on the Anaheim Convention Center

Date: June 8, 2023

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## Executive Summary

This memo presents an analysis of the likely economic and operational impacts of an initiative that proposes raising the minimum wage to \$25 per hour for hotel and event center employees in Anaheim and could be presented to voters for consideration. If approved, the provisions would only apply in the City of Anaheim. The analysis focuses on the Anaheim Convention Center (ACC) and considers other city-owned event centers. The findings indicate significant labor cost increases and potential negative impacts on the ACC's finances and, by extension, to the City's General Fund, which backstops the ACC enterprise.

The estimated impacts on total labor cost expenditures range from \$4.8 million to \$6.1 million in the first year, increasing by the greater of 3% or the consumer price index (CPI) annually. When certain revenue factors, stemming from a decline in net revenue sharing with a major contractor, are factored in, we estimate a negative impact on ACC operations ranging from \$7.3 to \$8.6 million per year. The ACC and other event centers may struggle to raise prices and increase revenues to cover these cost increases, especially in the near and medium term, because convention contracts are typically signed years in advance of an event and are based on the overall market for convention hosting services, which is highly price competitive. The City's General Fund is expected to face a negative impact of approximately \$8.6 million for the initial fiscal year, with costs increasing annually. Further analysis is needed to assess the specific impacts on other city-owned facilities and the impact on the City's overall economy.

## Scope of this Analysis

On May 15, 2023, Baker Tilly, LLC US was engaged by the City of Anaheim to conduct a comprehensive analysis of the Hotel and Event Center Worker Protection, Retention, And Minimum Wage Initiative Measure (referred to as the "Initiative") and its potential implications for the Anaheim Convention Center.

If adopted by Council or approved by the voters, the Initiative would introduce a new chapter to the Anaheim Municipal Code, imposing certain obligations on Anaheim hotels and event centers, including the ACC. The key provisions of the Initiative include:

1. A minimum wage of \$25 per hour for workers, along with providing any service charge revenues to event center workers.
2. Mandatory retention of workers for a minimum of 90 days following a change in ownership.
3. Provide electronic security devices to eligible workers.
4. Paid overtime wages when hotel workers exceed workload limits.
5. Prohibition on mandatory overtime.

Given the urgency of this analysis, it should be noted that we have focused primarily on evaluating the anticipated economic impacts on the ACC and, consequently, on the City of Anaheim. While the City has interests in other event venues, like Angel Stadium, the Honda Center and City National Grove, conducting a detailed analysis within the given timeframe was not feasible, due to the operational arrangements with private third-party vendors at these facilities. Nonetheless, it is expected that the ACC's economic consequences will likely be similar for these venues, contingent upon their ability to adjust prices to accommodate the increased labor costs resulting from the Initiative. As a result, it is probable that the City's revenue-sharing agreements may be negatively affected.

This analysis does not extend to assessing the individual benefits that ACC workers may derive from higher wages, nor does it explore any associated impacts on the City. Furthermore, the potential effects on employment opportunities stemming from ACC operations, whether positive or negative, in the event of the Initiative's enactment into law, are not within the purview of this analysis.

## Description of the Initiative

The Initiative was developed by Unite Here Local 11, a labor union representing approximately 32,000 workers employed in various sectors, such as hotels, restaurants, airports, sports arenas, and convention centers, in Southern California and Arizona. Through successful signature collection efforts, the Union has qualified the measure for consideration by voters at an election in 2024, provided the City Council does not adopt the measure directly.

The primary focus of the Initiative is on enhancing compensation for covered workers, through an increased minimum wage and regulations pertaining to overtime and workload standards. The Initiative's proponents have coined it the "Hospitality Workers Bill of Rights" to highlight its objectives.

Outlined below are provisions of the Initiative relating to event centers:

- Effective 30 days after the Initiative takes effect, a minimum wage of \$25 per hour is mandated for all event center workers, excluding managerial, supervisory, or confidential employees. Starting from January 1, 2026, this minimum wage amount would annually increase by the greater of 3% or the consumer price index change.
- All service charges, defined as separately designated amounts such as "table charges," must be paid and distributed directly to the event center workers providing services, excluding managerial or supervisory employees. The Initiative provides detailed guidelines on the distribution of service charge revenues to front-line event center workers. It's important to note that service charges do not include tips.
- In the event of a change in ownership at an event center, existing non-managerial employees with at least one month of service must be offered employment for a minimum of 90 days. During this worker retention period, the Initiative imposes additional regulations regarding any planned downsizing of employment capacity and requires performance evaluations for all retained workers along with consideration for continued employment.
- A limited waiver provision exists for the economic provisions of the Initiative if an event center can demonstrate to the City Manager that compliance would lead to bankruptcy, shutdown, a workforce reduction of 20%, or a reduction in hours by more than 30%. A waiver is valid for one year and can be appealed to the City Council.
- Retaliatory actions against event center workers seeking to enforce the provisions of the Initiative are strictly prohibited.
- The City of Anaheim bears the responsibility for enforcing all provisions of the Initiative.

## Similarities and Differences Relative to Similar Initiatives in California

The Initiative measure proposed in the City of Anaheim has distinct features compared to other initiatives supported by Unite Here Local 11 in various cities across California. While there are some similarities, the Anaheim Initiative stands out due to its economic provisions concerning the minimum wage and service charges, particularly in relation to event centers.

For instance, the City of Irvine recently passed an ordinance, endorsed by Unite Here, which shares similarities with the Anaheim Initiative but is limited to specific aspects. The Irvine ordinance, enacted in December 2022, focuses on requirements for personal electronic security devices, the establishment of workload standards, and the implementation of a wage premium for workloads exceeding the standard. Notably, it does not establish a new minimum wage or apply to event centers.

Proponents reference regulations developed in cities such as Los Angeles, Long Beach, Santa Monica, Glendale, and West Hollywood as being akin to the Anaheim Initiative. While there are resemblances, these regulations primarily emphasize providing a wage premium, typically double time, for workloads surpassing a workload standard. They also address the provision of personal electronic security devices for housekeepers working alone in guest rooms. However, these regulations do not introduce a new minimum wage requirement.

It is worth noting that several California cities have implemented minimum wage provisions specifically for hotel workers, although most local governments leave the determination of the minimum wage to the state. Currently, 41 cities and counties in California have established a minimum wage that exceeds the state-mandated rate of \$15.50 per hour.

Among these cities, four have designated a special minimum wage specifically applicable to hotel workers, as listed below:

- Long Beach: \$16.73 for hotels with 100 or more rooms
- Los Angeles: \$18.17 for hotels with 150 or more rooms
- Santa Monica: \$18.17
- West Hollywood: \$18.35

The Anaheim Initiative appears to be the first endeavor to mandate a minimum wage and other provisions exclusively for event center workers. Furthermore, if enacted, it would establish the highest observed minimum wage in the state thus far.

## Definition of Event Center and Event Center Worker

In order to grasp the implications of the Initiative, it is essential to comprehend the definition of an event center as outlined in the terms of the Initiative. Similarly, understanding the definition of an event center worker is crucial to grasp the scope of the Initiative.

1. Definition of an Event Center:

According to the Initiative, an event center refers to a structure, whether publicly or privately owned, that exceeds 20,000 square feet and is utilized for public performances, sporting events, business meetings, or similar gatherings. Event centers encompass various venues such as concert halls, stadiums, sports arenas, racetracks, coliseums, and convention centers.

Aside from the Anaheim Convention Center, which is clearly an event center under the Initiative, the City owns at least three other facilities that seemingly meet the criteria, including Angel Stadium, the Honda

Center, and City National Grove. It is highly likely that the City possesses additional qualifying facilities, such as community centers and recreation centers.

Given the broad definition of an event center, the impact resulting from the passage of the Initiative could be considerable. There are likely dozens of private facilities, many of which that have spaces exceeding 20,000 square feet that can be configured for sports or meetings, which may also qualify as event centers and be impacted by the Initiative. In addition to libraries and non-profit establishments like YMCAs, schools, and religious institutions, the City provided a partial list of private facilities in the City that may be impacted. They include:

- American Sport Center
- Anaheim Hills Golf Course Clubhouse
- Camelot
- Center Street
- Downtown Community Center
- Gardenwalk Movie Theater
- Glover Stadium
- Hobby City - White House
- House of Blues
- K2 Racing
- Linbrook Bowl
- M3 Live
- Packing House
- Person Park Amphitheater
- River Arena
- Sky Zone Trampoline Park
- The Ranch

2. Definition of Event Center Worker:

Similar to the expansive definition of an event center, the Initiative's definition of an event center worker is also extensive. An event center worker includes any employee hired by an employer who owns, controls, or operates an event center (including individuals or contractors) and is engaged in providing services at an event center. It is important to note that event center workers do not include managerial, supervisory, or confidential employees.

Pursuant to the terms of the Initiative, the higher minimum wage and any service fees must be directly paid to event center workers. When these definitions are considered together, it becomes apparent that numerous facilities and thousands of employees will be affected by the provisions of the Initiative.

## General Economic Impacts to Event Centers and Event Center Workers

The Initiative mandates that event center workers earning less than \$25 per hour receive a compensation adjustment to reach \$25 per hour within 30 days of the Initiative's effective date. Many part-time employees and some full-time employees at the ACC currently earn less than this threshold and would be entitled to a compensation adjustment.

The ACC employs over 400 part-time workers annually, with average wages ranging from approximately \$21 to \$25 per hour. Out of the 24 part-time job classifications, 16 have maximum and/or starting hourly wages below \$25 per hour.

There are approximately 85 full-time employees at the Anaheim Convention Center, and most earn more than \$25 per hour. However, a few full-time positions currently begin at a wage below this threshold, specifically the full-time Service Lead Worker role, which includes 11 positions.

A complicating factor arises when certain positions transition to the new minimum wage, as they would then receive wages somewhat equal to or very close to their immediate supervisors. This phenomenon, known as wage compaction, necessitates adjustments to the compensation of certain positions that currently earn slightly more than the new minimum wage, ensuring an adequate wage differential between supervisors and subordinates. Failure to address wage compaction would make it difficult or even impossible to fill supervisory positions. Accounting for wage compaction resulting from the new minimum wage will affect multiple job classifications in both part-time and full-time positions. We have provided estimates of these impacts, which are discussed in further detail in subsequent sections of this report.

The provision for annual upward adjustments to the minimum wage is a significant element of the Initiative that should be included in this general discussion of economic impacts. The Initiative stipulates that the minimum wage will be annually adjusted on January 1st, based on the higher of either 3% or the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for the Los Angeles metro area. Consequently, the minimum wage will experience significant growth over time.

Table 1 illustrates how this process would unfold based on actual data from 2019 to 2023. To include a data point for 2023, the January annual change was utilized instead of September, as specified in the Initiative.

*Table 1. Year to Year CPI Change and Hypothetical Change to Event Center Minimum Wage*

Year	Year to Year CPI Change	Use CPI or 3%?	Minimum Wage
2019	3.2	CPI	\$25.80
2020	3.1	CPI	\$26.60
2021	0.9	3%	\$27.40
2022	7.5	CPI	\$29.45
2023	5.8	CPI	\$30.51

In addition to the impact on workers directly employed by the City of Anaheim, the Initiative will affect workers employed by contractors hired by the City to provide services for conventions. Generally, employees of these vendors can also be classified as event center workers.

The City has three primary contracts through which convention services are provided. These contracts, along with the approximate net revenues they generate for the Anaheim Convention Center, are shown in Table 2.

Table 2. Approximate Annual Net Revenue from Major ACC Vendors

Vendor	Approximate ACC Annual Revenue
Aramark Sports and Entertainment Services: Food and beverage services.	\$5,000,000
Smart City: Technology services	\$3,000,000
Encore: Audio visual services	\$1,300,000

Additionally, the Anaheim Convention Center earns significant revenues from commercial electrical services provided to conventions and parking revenues from vendors located off the convention center premises. While it is challenging to generalize the impact on most of these contract revenue streams within the given time frame for analysis, it can be generally assumed that ACC revenues are derived from a share of net revenues. Therefore, to the extent that the Initiative's requirements affect vendor operating expenses, net revenues are likely to be negatively impacted, subsequently affecting ACC revenues.

Regarding the Aramark contract, it is evident that a substantial portion of the labor force employed by Aramark does not earn \$25 or more per hour, thus indicating a negative impact. Limited information is available regarding the labor costs for other contracted vendors. According to Aramark, they anticipate an approximate \$2.5 million impact if the Initiative is passed. It is reasonable to expect that this impact would ultimately affect ACC revenues, at least in the near term.

## Likely Economic and Operational Impacts to Anaheim Convention Center

Baker Tilly analyzed line-item budget detail from the ACC to determine likely impacts from passage of the Initiative. Most of the impacts identified so far are due to impacts from labor cost increases.

The ACC employs 701 individuals across various roles, including administration, security, facilities maintenance, warehouse and procurement, event management, parking, and other functions. These employees represent a total of 292 full-time equivalent positions. The current hourly minimum pay for employees ranges from \$16.00 to \$73.99, while the maximum pay per hour varies from \$16.50 to \$122.80. Based on our projections for the fiscal year 2023-24, we have identified 17 part-time and full-time classifications at the ACC where compensation can currently be less than \$25.00 per hour. It is difficult to say with certainty how many employees are contained in these classifications, due to the use of part-time employees, but we estimate the number is approximately 189.

Baker Tilly has conducted an analysis of the salary data to assess the potential impact of the initiative on personnel costs. Our findings are summarized in Table 3, which illustrates the projected effects on personnel costs if all salary ranges below \$25.00 per hour were increased to meet this threshold. Additionally, we have adjusted the maximum salary for each range to maintain proportional differentials.

According to our analysis, the current salary costs range from \$13.7 million to \$16.1 million. We estimated the corresponding benefit costs related to salaries, excluding fixed benefit expenses unaffected by a salary increase, using an average cost equivalent to 54% of salary. Presently, these benefit costs range from \$4.3 million to \$4.7 million. If the initiative is implemented, the impact on salary costs would range from \$3.1 million to \$3.3 million, while the impact on benefits would vary from \$1.7 million to \$1.8 million. Consequently, the total potential impact on the Anaheim Convention Center, considering all salary ranges adjusted to \$25.00 per hour would be between \$4.8 million and \$5.1 million.



*Table 3. Impacts on ACC Salary and Benefits Increasing Minimum Wage to \$25*

Current Salary Costs	Current Benefits Cost	Salary Cost Impact	Benefit Cost Impact	Total Impact
\$13,691,800 to \$16,108,670	\$4,325,803 to \$4,705,526	\$3,107,748 to \$3,328,714	\$1,678,184 to \$1,797,505	<b>\$4,785,932 to \$5,126,219</b>

In addition to the direct labor cost analysis, Baker Tilly also assessed the salary data to address the issue of compaction. As mentioned previously, compaction occurs when salary differences between positions that should logically have distinct pay scales are minimized, resulting in a compressed salary structure with minimal compensation differentiation.

Increasing the minimum wage to \$25.00 per hour for all salary ranges can often eliminate pay differentials between supervisors and their direct reports. This compaction within the organization's salary structure can have implications by diminishing employee motivation and morale and thus reducing the organization's ability to retain supervisory employees. Limited differentiation in compensation based on responsibilities, skills, or experience can create a sense of unfairness and demotivation among employees.

To mitigate compaction, Baker Tilly made certain assumptions when updating the salary ranges to address the matter:

- The lowest paid classification served as the base for increasing salaries beyond \$25.00 per hour.
- Supervisors would earn the lower of 15% or the current proportional pay differential above their direct reports in the event of pay increases for those direct reports.
- If the lowest classification already earned \$25.00 or more indicating no need for a pay increase, no classification in the organizational structure received a raise.
- Benchmark differentials tied to agreements with bargaining units were maintained.

Table 4 presents the results of this analysis, illustrating the impact on salary costs when addressing compaction. These impacts range from \$3.6 million to \$4.0 million, while the impact on benefits ranges from \$1.9 million to \$2.1 million. Consequently, the total potential impact on the Anaheim Convention Center, considering the limitation of compaction, would be between \$5.6 million and \$6.1 million.

*Table 4. Impacts on ACC Salary and Benefits Increasing Minimum Wage to \$25 and Mitigating Compaction*

Current Salary Costs	Current Benefits Cost	Salary Cost Impact	Benefit Cost Impact	Total Impact
\$13,691,800 to \$16,108,670	\$4,325,803 to \$4,705,526	\$3,640,385 to \$3,953,538	\$1,965,808 to \$2,134,910	<b>\$5,606,193 to \$6,088,448</b>

This estimate of the compaction issue by design takes a fairly narrow scope based on supervisor and subordinate relationships. Organizations also design compensation systems to provide appropriate differentials based on the skills necessary to accomplish the work of classification, recruiting needs, and other factors. We have not tried to address such factors throughout the ACC organization. Such issues will, however, need to be addressed if the Initiative is successful with the voters. Therefore, the estimates

given above should be considered minimum labor cost impacts. It is likely that, as the City fully evaluates and addresses salary differentials, other upward adjustments will be made.

In addition to the estimate of a \$4.8 to \$6.1 million direct labor cost impact, it would be reasonable to estimate that the Aramark contract revenues will be reduced by approximately \$2.5 million annually. There will likely be other negative economic impacts on other revenue streams and expenditures as discussed in the paragraph above, but we believe it is speculative to make an estimate at this time based on the time available for this analysis.

Therefore, we would conclude that the ACC will see a negative annual economic impact of at least \$7.3 to \$8.6 million from passage of the Initiative.

## Impacts to the City of Anaheim

The ACC operates as a quasi-enterprise within the City government. Traditionally, the City has expected the convention operations to cover costs while the City has been responsible for capital-related debt service expenditures. For the coming fiscal year, the City has anticipated providing the ACC with \$13.7 million and all but \$500,000 of that is dedicated to debt service (the remaining \$0.5M is for the ACC's obligation to the Anaheim Resort Maintenance District which has always been funded by the General Fund). Not including the possible impacts of the Initiative, the overall ACC operational and total budget is expected to essentially break-even.

If the Initiative passes, it is anticipated that there will likely be negative impacts on the City in the near term. The ACC faces challenges in adjusting its revenues for the following reasons:

1. **Convention Contracts:** Convention contracts are typically executed several years in advance of the actual event. As a result, the ACC is locked into existing signed contracts for the next few years limiting its ability to adjust revenues.
2. **Market Limitations:** Realistically, the ACC has likely already structured its pricing to be competitive within the convention sector. Due to market competition, there is little room to raise revenues even for unsigned conventions.

Discussions with Visit Anaheim staff, and a review of various "affordability" comparisons by meeting planner organizations, support the notion that Anaheim is not currently considered a particularly affordable convention location. While it remains an attractive destination for family-oriented conventions because of Disneyland and a range of hotel accommodations, it is no longer regarded as inexpensive as it once was.

The Convention Cities Index prepared by the Northstar Meeting Group provides insights in this regard. The 2022 rankings shown in Figure 1 indicate that Anaheim has the highest travel time to the airport and the fourth-highest average room rate, both of which significantly influence affordability (though Anaheim received the best public safety score).



Figure 1. Northstar Meeting Group 2022 Convention Cities Index

DOMESTIC CCI						
CITY	EXHIBIT SPACE	HOTEL ROOMS	AVERAGE ROOM RATE	MINUTES TO AIRPORT	GEOSURE RISK SCORE	FINAL SCORE
Las Vegas*	4,078,631	35,541	\$173.11	6.33	37	91.73
Orlando	2,053,820	6,810	\$171.00	14	46	81.74
Atlanta	1,500,000	7,152	\$178.10	14	56	78.53
San Antonio	514,000	8,394	\$158.70	10	41	73.48
Indianapolis	749,000	7,130	\$167.30	12	42	72.81
San Diego	615,701	7,600	\$191.38	9	40	72.09
New Orleans	1,100,000	7,487	\$188.77	18	52	71.92
Houston*	1,847,730	5,254	\$182.55	31	41	70.91
Rosemont, Ill.	840,000	4,404	\$136.77	3	46	70.41
Philadelphia	679,000	8,835	\$209.30	12	47	69.15
Anaheim, Calif.	1,150,000	6,817	\$217.52	40	32	66.86
Denver	584,000	8,679	\$208.34	26	39	64.94
Dallas	1,000,000	5,819	\$190.68	20	50	64.82
Salt Lake City	515,000	5,274	\$153.54	7	49	63.64
Chicago	2,600,000	2,940	\$253.24	14	46	63.08
Miami Beach	500,000	6,338	\$193.98	14	50	60.28
Reno, Nev.	600,000	960	\$109.60	5	39	59.6
Phoenix	584,500	4,030	\$172.86	6	52	58.66
San Francisco	504,000	13,797	\$362.33	14	34	58.03
Louisville, Ky.	680,700	1,437	\$163.13	5	41	57.42
St. Louis	502,000	5,435	\$173.40	14	56	56.91
Washington, D.C.	703,000	8,790	\$272.68	35	44	56.28

As a result, it is expected that the ACC will face challenges in significantly increasing revenues, even as convention opportunities arise. Being near the top of the market in terms of overall affordability, attempting to raise pricing further could potentially drive business to other locations.

Considering these factors, the upstream impacts on the City's General Fund are anticipated. Our estimate suggests that the overall results for FY 23-24 would shift from essentially breaking even to a loss of approximately \$8.6 million. Table 5 illustrates this estimate.

Table 5. Proposed FY 2023-24 ACC Revenues and Expenditures with and without Initiative Impacts

	Proposed FY 2023-24 <u>Without Initiative</u> Impacts	Proposed FY 2023-24 <u>With Initiative</u> Impacts
<b>Operating Revenues</b>		
Facility Rental	\$15,611,140	\$15,611,140
Food & Beverage Revenues	\$5,000,000	\$2,500,000
Other Operating Revenues	\$23,251,555	\$23,251,555
<b>Total Operating Revenues</b>	<b>\$43,862,695</b>	<b>\$41,362,695</b>
<b>Operating Expenditures</b>		
Total Labor	\$27,546,675	\$33,646,675
Other Operating Expenditures	\$16,430,078	\$16,430,078
<b>Total Operating Expenditures</b>	<b>\$43,976,752</b>	<b>\$50,076,753</b>
Net Recovery Income (Loss)	<b>-\$114,057</b>	<b>-\$8,714,058</b>
Total Non-Operating Revenue	\$15,846,122	\$15,846,122
Total Non-Operating Expenditures	\$15,698,504	\$15,698,504
<b>Total Revenues</b>	<b>\$59,708,817</b>	<b>\$57,208,817</b>
<b>Total Expenditures</b>	<b>\$59,675,255</b>	<b>\$65,775,257</b>
<b>Total Net Income (Loss)</b>	<b>\$33,562</b>	<b>-\$8,566,440</b>

In addition to these pressures on the ACC, the City will also need to determine the broader implications of wage compaction across all City classifications. While the City is likely already compensating staff at a market rate, wage compaction can lead to a sense of unfairness and demotivation among the employee base. To address these potential issues, it is crucial to carefully assess the broader impact of wage compaction on citywide classifications and compensation. This may involve considering strategies to maintain appropriate differentiation in pay scales, such as implementing merit-based pay increases and conducting regular salary reviews to ensure equitable compensation across positions. Baker Tilly did not conduct an analysis on the financial implications of salary adjustments citywide to address potential wage compaction issues caused by the Initiative.

## Likely Economic and Operational Impacts to Other City Event Centers

The City has ownership interests in several other facilities that will be classified as event centers and will be subject to the provisions of the Initiative. Assessing the impact on these facilities and the overall economic impact on the City is challenging within the limited timeframe available for this analysis and due to the complexity of the agreements governing these facilities.

Considering that we estimate an approximate 19% increase in labor costs for ACC operations due to the Initiative, it is reasonable to assume a similar increase for other city-owned facilities operated by private third parties that fall under the Initiative's scope. However, it's important to note that the exact impact will vary based on the labor composition utilized in each facility.

To the extent that the City derives revenue from any calculations associated with net revenues, it is likely that a negative economic impact will be incurred. The majority of event center facilities will face difficulty raising prices and, consequently, increasing revenues in a short period to cover the expenditure increases without risking a loss in market share. This could potentially result in even more significant financial losses.

The specific impacts on each facility and the City's overall economic situation may vary, and a comprehensive evaluation would require a more in-depth analysis beyond the scope of this assessment.

## Enforcement

The Initiative provides two methods for enforcing its provisions: filing a complaint with the City or initiating a civil action against a hotel or event center for an alleged violation. If a complaint is filed with the City, it is obligated to investigate the alleged violation and take legal action if a violation is confirmed and not resolved voluntarily. Filing a complaint with the City has the advantage of being the least costly approach from the point of view of a concerned party.

In the case of a civil action, the Initiative specifies that the court shall award reasonable attorneys' fees, costs, and expert witness fees to the prevailing plaintiff.

While the City may establish various mechanisms to generate revenues from violators, such as administrative citations and the aforementioned cost recovery provisions, it is likely that there will be ongoing costs associated with enforcement responsibilities. Given the time frame available for this analysis we are not able to estimate these costs with much certainty, but we estimate that they could range from negligible in the best case to potentially significant in the worst case.

There are likely dozens of private Event Center facilities, as defined by the language in the Initiative, located within the City. Beyond the obvious incentive to follow the law, there are also incentives to “cut corners” with respect to Initiative provisions. Indeed, many Event Center facilities will face market pressures to do so, given that the requirements will significantly increase costs and the fact that they apply only in the City of Anaheim and not in neighboring areas where competition exists.

If the City receives a significant volume of complaints it will face pressure to establish and staff a response unit to deal with the workload. Based on discussions with City staff such a response and enforcement unit would probably include an attorney, an auditor and a code enforcement specialist. The best case scenario is that these costs will be negligible though total costs for such a unit would be \$750,000 per year but could be significantly more in the worst case. Some of the costs may be offset by administrative remedies against violators, but it would be speculative to try to estimate the net costs the City would incur at this stage.

## Conclusion

Our analysis indicates that the passage of the Initiative will have significant economic and operational impacts on the Anaheim Convention Center (ACC) and other city-owned event centers. Similar impacts would also be expected for privately owned event centers in the City. The primary impact identified is the increase in labor costs resulting from the requirement to raise the minimum wage to \$25 per hour. To the extent this creates increased price levels for entertainment centers, users may seek other alternatives in other cities. It could also cause event center closures if prices cannot be raised, and margins become negative. All of this could negatively impact City revenues.

For the ACC alone, the projected impact on salary costs, including benefits, ranges from \$4.8 million to \$5.1 million if all salary ranges below \$25 per hour are adjusted. Mitigating the issue of compaction within the salary structure would increase the total potential impact to between \$5.6 million and \$6.1 million.

Moreover, the ACC's ability to adjust its revenues in response to these cost increases is limited. Existing convention contracts and market competition pose challenges to raising prices and increasing revenues. As a result, the ACC is anticipated to face a negative annual economic impact of at least \$7.3 million to \$8.6 million.

The impacts extend beyond the ACC to other city-owned event centers, although the exact effects will vary based on labor composition. Similar labor cost increases of approximately 19% can be expected for these facilities. The overall economic impact on the City is difficult to determine within the limited timeframe and complexity of the agreements governing these facilities.

Enforcement of the Initiative's provisions involves filing complaints with the City and initiating civil actions against violators. While the City may establish mechanisms to generate revenues from violators, the ongoing costs associated with enforcement responsibilities cannot be estimated at this stage.

It is crucial to conduct a more comprehensive evaluation of the impacts on each facility and the City's overall economic situation. Further analysis is necessary to fully understand the long-term implications and explore potential strategies to mitigate the negative effects of the Initiative if it is passed by the voters.