



## THE CITY OF SAN DIEGO

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### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** June 18, 2025

**IBA Report Number:** 25-21

**Select Committee on Addressing Cost of Living Date:** June 25, 2025

**Item Number:** 1

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# Potential Economic Impacts of Implementing a Hospitality Minimum Wage Ordinance

## OVERVIEW

At the Select Committee on Addressing the Cost of Living meeting on February 27, 2025, Chair Elo-Rivera requested our Office work with Council District 9, the City Attorney's Office, City staff, and impacted workers and businesses to draft an ordinance that establishes a minimum wage for hotel, event center, and janitorial service workers in the tourism sector. In response to that request, this report provides an assessment of potential economic impacts to inform the Committee's and any subsequent City Council discussion on the proposed Hospitality Minimum Wage Ordinance (HMWO). The analysis contained in this report pertains to the drafted HMWO available to our Office at the time of this writing, which is subject to change through the legislative process; therefore, the applicability of any given analysis in this report is likewise subject to change.

Our Office reviewed economic literature on minimum wage policies, met with several economists, conducted benchmarking with other California cities, and met with various labor and industry stakeholders. Based on our review of the academic research, we found no clear consensus on either the benefits or risks of implementing an industry-specific minimum wage. While mandated higher wages can increase earnings, improve employee retention, and increase consumer spending, they can also result in higher labor costs, potential job losses, and challenges for businesses to remain competitive.

Through stakeholder outreach, our Office found that instituting a \$25/hour minimum wage for hospitality workers will increase wages and overall labor costs for covered entities. The level of impact will depend on the size of the increase over current wages, the speed of implementation, and how affected employers choose to address associated cost increases, such as through eliminating positions, reducing less profitable services, or increasing prices. The ultimate impact

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of the HMWO on the City's local economy will depend on the aggregate effects of circumstances and decision-making at the employer level.

Our benchmarking of other California cities' available economic analyses echoed mixed impacts associated with a higher minimum wage for hotel workers. We also note the current volatile economic environment impacting the City's tourism industry, resulting in softening Transient Occupancy Tax (TOT) revenue projections.

Our report concludes with policy and implementation considerations, including a phase-in schedule, consideration for small hotels, tipped employees, enforcement, learner wages, hardship exemptions, cash wages, and generally an industry-specific minimum wage. For reference, Appendix A provides a visual yes-no flow-chart of the locations and properties subject to the HMWO, and Appendix B includes a summary table of our benchmarking of other California cities with hospitality minimum wage ordinances.

## DESCRIPTION OF DRAFT PROPOSAL

This section summarizes the draft City of San Diego Hospitality Minimum Wage Ordinance (HMWO) available to our Office. Notably, the HMWO is subject to change as the proposal moves through the legislative process. The currently proposed HMWO would require employers to pay hospitality employees a minimum wage of \$25.00/hour starting January 1, 2026, and annually adjusted thereafter based on the Consumer Price Index (Urban Wage Earners and Clerical Workers, U.S. City Average for All Items). The proposal defines locations and properties within the City subject to HMWO as follows (a visual yes-no guide of those subject to the proposed HMWO is provided Appendix A):

- **Amusement parks:** Any location that hosts concessions, fixed amusement rides, and entertainment operated by the same private business entity.
  - Size requirement: At least 75 contiguous acres
- **Event centers:** Includes the following facilities: Petco Park, Pechanga Arena, San Diego Convention Center, City Concourse, and Civic Theater. It also includes Snapdragon Stadium and Viejas Arena when contracted by a private party for a non-governmental purpose.
- **Hotels:** Any privately-owned building used for transient lodging (up to 30 days), including any contracted, leased, or sublet premises, and services to carry out operations of the hotel.
  - Size requirement: At least 150 guest rooms or suites
- **Zoos:** Any location that maintains or houses a collection of wild animals for public exhibit
  - Size requirement: At least 75 acres

Hospitality employer is defined as any person who owns, operates or manages a hotel, event center, amusement park, or zoo, including contracted, leased or sublet premises on the grounds. It also includes those providing certain services at the covered facilities for at least 30 days in a calendar year. It does not include any governmental entity.

The proposed HMWO also includes noticing and record-keeping requirements for employers, as well as a prohibition against retaliation for employees who report alleged violations. Regarding enforcement, the HMWO allows any aggrieved individual to file a civil claim against an employer

allegedly in violation of the HMWO. The City's Compliance Department is tasked with implementing and enforcing, including investigating alleged violations and complaints, providing public education about the HMWO, and carrying out the specified process if a violation is substantiated and not corrected by the employer.<sup>1</sup>

Other considerations are included for collective bargaining agreements (CBAs), which may explicitly waive HMWO requirements if all parties agree, and meal or lodging credits, which may count towards the minimum wage requirement. Consistent with [State law](#), gratuities and the like are not counted towards the minimum wage.

## BACKGROUND

### **The City's Minimum Wage and Living Wage Ordinances**

A "minimum wage" is the lowest hourly wage permitted by law. The City of San Diego currently has both a citywide Minimum Wage Ordinance and a Living Wage Ordinance, each codified in the San Diego Municipal Code (SDMC). Both ordinances are monitored and enforced by the City's Compliance Department under the Office of Labor Standards and Enforcement (OLSE) with support from the Office of the City Attorney.

The City's Minimum Wage Ordinance (SDMC [Ch. 3 Art. 9 Div. 1](#)) was first adopted in 2016 with the following purpose and intent:

[T]hat employees who work in the *City* receive a livable minimum wage and the right to take earned, paid sick leave to ensure a decent and healthy life for themselves and their families. By enabling more employees to support and care for their families through their own efforts and with less need for financial assistance from the government, and by protecting the rights of employees to care for their health and the health of their family members, the City can safeguard the general welfare, health, safety and prosperity of all San Diegans.

Additionally, the City has a Living Wage Ordinance (SDMC [Ch. 2 Art. 2 Div. 42](#)) which prescribes a higher hourly wage for specified employers. Specifically, the living wage applies to service contracts awarded by the City; certain financial assistance agreements with the City; and any City facility agreement, including subleases, subcontracts, or concession agreements. For instance, workers at Petco Park, Pechanga Arena, San Diego City Concourse, Civic Theater, and the Convention Center, including concessionaires, are subject to the Living Wage Ordinance.<sup>2</sup>

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<sup>1</sup> To provide education, outreach and enforcement for the new HMWO, the Compliance Department estimates it would require 1.00 Program Coordinator (\$206,000), 1.00 Associate Compliance Officer (\$150,000), and \$30,000 in ongoing non-personnel expenditures for education and outreach. These additional resources are not included in the FY 2026 budget and estimates for salary and fringe were provided by the Department of Finance. Enforcement is discussed in more detail under the *Policy and Implementation Considerations* section of this report.

<sup>2</sup> The Living Wage Ordinance provides exemptions, including if the employer is a firm that employees 12 or fewer employees, a 501(c)(3) nonprofit where the highest salary is less than eight times the hourly rate of the lowest salary, or has a collective bargaining agreement that explicitly states the agreement superseded the Ordinance.

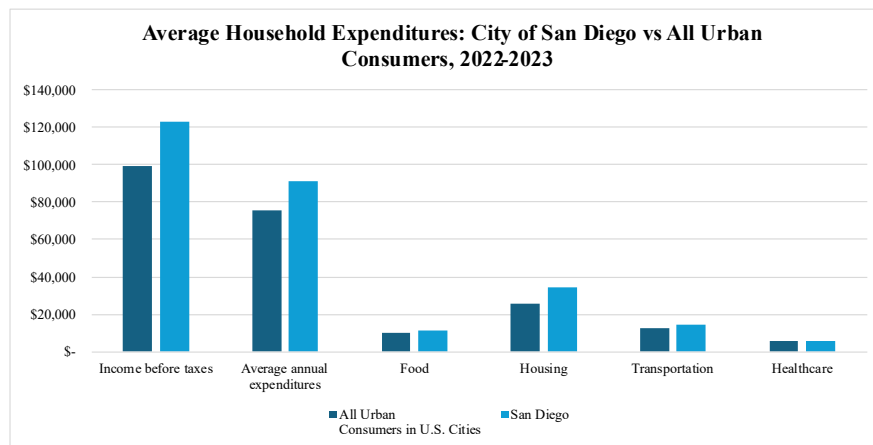
Ordinance	Adopted	Current Rate	Annual Inflator
<a href="#">Citywide Living Wage</a>	2005	\$17.13/hour (plus \$3.29 in health benefits) on July 1, 2024	CPI-U (San Diego-Carlsbad region)
<a href="#">Citywide Minimum Wage</a>	2016	\$17.25/hour on January 1, 2025	CPI-W (U.S. City Average for All Items)
<a href="#">Statewide Minimum Wage</a>	1913	\$16.50/hour on January 1, 2025	CPI-W, capped at 3.5%
<a href="#">State Fast Food Worker Minimum Wage ("Fast Act")</a>	2023	\$20.00/hour on April 1, 2025	Lesser of 3.5% or CPI-W, as approved by Fast Food Council
<a href="#">State Health Care Worker Minimum Wage</a>	2024	Varies from \$18.00 to \$23.00/hour on October 16, 2024 (dependent on facility type and size)	Varies by specified schedule, thereafter lesser of 3.5% or CPI-W

CPI-W: Consumer Price Index (Urban Wage Earners and Clerical Workers); CPI-U: Consumer Price Index (All Urban Consumers)

The table above shows the current rates for the citywide Living Wage and Minimum Wage Ordinances, as well as the State minimum wage. The State recently enacted two industry-specific minimum wages higher than the statewide minimum wage for fast food and health care workers, which are also shown in the table.

### **High Cost of Living in San Diego**

The City of San Diego consistently tops nationwide assessments of the most expensive cities in the U.S.<sup>3</sup> The figure below compares average household income before taxes to average annual household and other expenditures. Across expenditures categories, San Diego residents consistently pay between 14% to 34% more relative to other urban households. The largest difference is in housing costs, where San Diegans pay an average of \$35,000 annually compared to \$26,000 across all urban areas, representing \$9,000 or 34.4% in higher housing costs. Notably, average income before taxes at \$122,000 per household in San Diego is also higher relative to the \$99,000 average across all urban areas.



Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Surveys, 2022-2023.

Another metric to gauge cost of living is to estimate how much an individual or household living in a particular area would need to make to meet minimum basic needs for self-sufficiency, also

<sup>3</sup> San Diego was found to be the most expensive U.S. city based on housing and rent costs by U.S. News and World Report's list in [2023-2024](#), the second most expensive U.S. city in 2025 according to [Redfin](#).

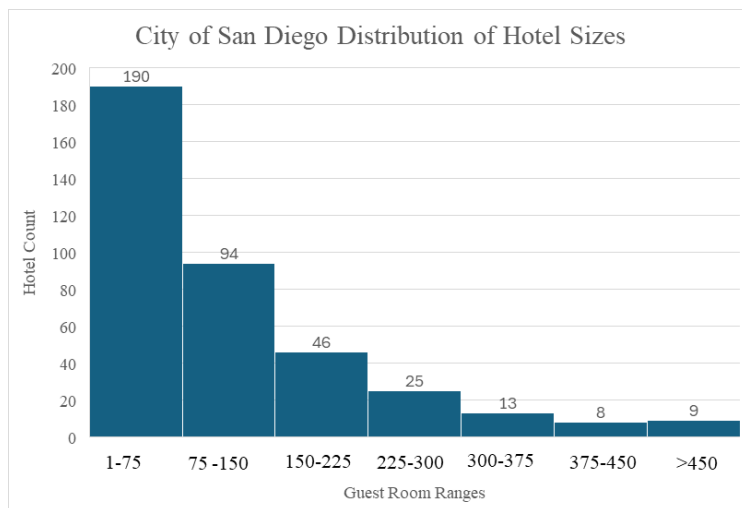
considered a “living wage.” According to one estimate,<sup>4</sup> an individual without any children living in the San Diego region would need to earn \$30.71/hour for a living wage, and households with two working adults and two children would need to earn \$35.72/hour. According to these estimates, the living wage needed to live in the San Diego region is higher than the current statewide minimum wage (\$16.50/hour) and the citywide minimum wage (\$17.25/hour).

### **The City’s Hospitality Industry**

Data from March 28, 2025, provided to our Office by the Office of the City Treasurer and retrieved from the County Assessor’s Office for the purpose of collecting hotel taxes (also known as TOT) show:

- There are 385 hotels, motels, or bed-and-breakfasts in the City of San Diego.
- There are over 47,000 units.
- The average number of units per hotel/motel/bed-and-breakfast is 122 and the median number of units is 79.

As seen in the chart below, of the 385 travel accommodation options, 190 accommodations or nearly half (49.4%) have 75 or fewer guest rooms, 94 hotels (24.4%) have between 75 and 150 guest rooms, 71 hotels (18.4%) have between 151 and 300 guest rooms, and the remaining 30 hotels (7.8%) have more than 300 guest rooms.



In addition to heterogeneity in the size of travel accommodations, there is also heterogeneity in management and organizational structures across the hospitality industry, detailed in the *Stakeholder Input* section later in this report. For instance, there are several types of hotel ownership models which could impact the decision-making process for any given hotel, including how higher operational costs would be managed.

Regarding local employment in the accommodation industry, estimates provided by SANDAG suggest that out of 521,500 employed residents in the City, around 4,200 City residents work in travel accommodation, equal to 0.8% of all employed City residents. The City was estimated to have around 19,040 jobs in accommodation, with between 10,200 and 16,290 of these jobs filled

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<sup>4</sup> Amy K. Glasmeier, “Living Wage Calculator,” Massachusetts Institute of Technology, 2025. <https://livingwage.mit.edu/metros/41740>

by a worker who does not live within the City. Due to a lack of granularity in the available data used, estimates suggest that at the low end 53% of jobs in the City are filled by workers who live outside of the City.<sup>5</sup> In 2025, the [San Diego Tourism Authority](#) estimates that visitor activity either directly or indirectly supports 1 in 8 jobs in San Diego County, including in lodging, food service, attractions, and transportation. The table below provides the average (arithmetic mean) hourly wages, along with the hourly wages at the 10<sup>th</sup> and 90<sup>th</sup> percentiles for jobs potentially in the accommodation and entertainment industry in the San Diego region, as of May 2024.<sup>6</sup>

Job Title	Hourly Wages		
	Average (Mean)	10th percentile	90th percentile
Maids and Housekeeping Cleaners	\$ 20.83	\$ 16.91	\$ 27.78
Hotel, Motel, and Resort Desk Clerks	20.00	17.38	23.60
Janitors and Cleaners, Except Maids and Housekeeping Cleaners	19.51	16.80	23.84
Food Servers, Nonrestaurant	19.22	16.70	23.13
Entertainment Attendants and Related Workers, All Other	18.17	17.55	18.19

## FISCAL AND POLICY DISCUSSION

To assess potential economic impacts of the proposed HMWO, our Office reviewed available economic studies, spoke with various stakeholders representing a range of workers and employers, and conducted a benchmarking study – the findings of which are detailed in this section.

### **Impacts Identified in Economic Studies**

Here we discuss the potential economic benefits and risks of implementing a minimum wage for the hospitality industry. Our Office reviewed a significant body of economic research and met with several labor economists to understand the complexities and potential economic impacts of the proposed HMWO. We note that the University of California San Diego (UCSD) Labor Center has initiated a study focusing on impacts to workers, the results of which are anticipated to be available in August 2025.

Based on our review of the literature on minimum wage policies, we found that academic research presents a mixed picture, with both potential benefits and challenges. There is no clear consensus on either the positive or negative impacts of implementing a minimum wage, but rather contrasting views. Impacts are likely to vary depending on specific circumstances and aspects of the economy studied. For example, basic economic theory suggests that increasing the price of labor (i.e., wages) should lead to a decrease in the quantity of labor demanded by employers. This means that some low-wage workers may lose their jobs or have their working hours reduced. Christopher Thornberg, in a study published by Beacon Economics and Pepperdine University’s School of Public Policy, found the Fast Act in California led to significant job losses in the fast-food industry, with a 3.2% decline in employment over 12 months.<sup>7</sup> Jeffrey Clemens of UCSD’s Department of Economics conducted a review of empirical studies on minimum wage and found some find

<sup>5</sup> Estimates were provided through email and based on the American Community Survey (2023, 1-year estimate), Quarterly Census of Employment and Wages data, and OnTheMap Inflow/Outflow Analysis (2022).

<sup>6</sup> Occupational Employment and Wage Statistics (May 2024 estimates). Note, jobs in the accommodation or entertainment industry are a *subset* of each job included in this table, except for hotel, motel, and resort desk clerks.

<sup>7</sup> Thornberg, “[Jumping the Gun on the Fast Act](#),” Pepperdine School of Public Policy and Beacon Economics, March 2025.

negligible employment impacts, while others show significant job losses, particularly among younger workers.<sup>8</sup> In contrast, in a study published by the National Bureau of Economic Research, Ekaterina Jardim, then of the University of Washington's Evans School of Public Policy & Governance, found no significant reduction in employment probability among those employed before a minimum wage increase in Seattle and noted a significant reduction in job turnover rates.<sup>9</sup> Further, Michael Reich of UC Berkeley's Institute for Research on Labor and Employment found the \$20/hour sectoral fast food wage policy in California significantly increased wages without adversely affecting employment.<sup>10</sup>

While there are contrasting views on economic impacts, instituting a \$25/hour minimum wage for hospitality workers will increase wages and overall labor costs of covered entities – hotels, event centers, amusement parks, and zoos. Labor costs constitute a large proportion of total costs for the hospitality industry, ranging from 24-50% for hotels to as much as 85% for event centers. The level of economic impact will depend on the size of the increase above current wages of covered workers, which in some cases is as high as an increase of 45% (\$7.75/hour) for workers currently making the City's minimum wage of \$17.25/hour. The level of impact will also depend on how affected employers choose to address the cost increases, such as through eliminating positions, reducing services, increasing prices, decreasing profit-margins, or reducing reinvestment in capital expenditures such as renovations. We note the volatility in the current broader economic environment due to uncertainty over tariffs and other federal administration policies, as well as persistent inflation, also impacts the City's hospitality industry.

Based on our review of academic research, key economic *benefits* and *risks and challenges* to consider are discussed below.

### ***Key Benefits***

Economic benefits of instituting a minimum wage identified in several studies are summarized below.

- ***Wage Increases and Employment Effects*** – Minimum wage increases lead to significant wage gains for low-wage workers without adversely affecting employment, which can have spillover effects or compression as wages of workers earning slightly above the minimum wage also increase to maintain existing pay differentials.
- ***Increased Consumer Spending*** – Higher wages can lead to increased consumer spending, as workers have more disposable income. Similarly, higher wages for hospitality workers in San Diego could boost local spending and stimulate the local economy.<sup>11</sup>
- ***Improvement in Living Standards*** – Minimum wage increases can improve the living standards of low-wage workers by providing them higher incomes, leading to overall improved quality of life.

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<sup>8</sup> Clemens, "[Making Sense of the Minimum Wage: A Roadmap for Navigating Recent Research](#)," Cato Institute, May 2019. For example, studies by Card and Krueger (1994) found no negative employment effects, while others like Neumark and Wascher (2000) found significant job losses.

<sup>9</sup> Jardim, et al, "[Minimum Wage Increases and Individual Employment Trajectories](#)," National Bureau of Economic Research, October 2018.

<sup>10</sup> Reich and Sosinskiy, "[Sectoral Wage Setting in California](#)," UC Berkeley Institute for Research and Labor Employment, September 2024.

<sup>11</sup> As many hospitality workers may not live within City limits due to the high cost of housing, utilities, food and other needs, in this case the increased spending might occur regionally.



- ***Reduction in Wage/Income Inequality*** – The minimum wage positively affects the reduction of income inequality, with many studies concluding significant improvements such as reducing wage hierarchies and wage discrimination.
- ***Improved Job Quality and Worker Retention*** – Higher minimum wages can lead to a reduction in worker turnover, improving the relative quality of the lowest-paying jobs, increasing retention, and producing a more stable workforce.

### ***Key Risks and Challenges***

Several studies identified economic risks and challenges associated with a minimum wage, as summarized below.

- ***Employment Effects and Job Losses*** – Increased wages for workers could result in job losses as employers reduce positions to offset increased labor costs or reduce hours worked, offsetting wage gains for some workers.
- ***Reduction in Hiring*** – To address increased labor costs, businesses may reduce low-wage employment, primarily through reduced hiring or freezes, or may consolidate positions.
- ***Higher Operational Costs and Price Increases*** – Businesses may pass on increased labor costs to consumers through higher prices, which may lead consumers to seek more affordable alternatives.
- ***Challenges for Small Businesses*** – Small businesses may be more vulnerable to financial impacts as they have fewer resources or options to absorb increased costs.
- ***Non-Labor Adjustments*** – Increased use of automation or reduction of services provided may impact or decrease the quality of the customer experience and ultimately competitiveness of the business.

Additional potential risks, including possibly forgone long-term Transient Occupancy Tax (TOT) revenue, are discussed in the *Impact on Tourism and Transient Occupancy Tax Revenue* section of this report.

### **Stakeholder Input**

In the following subsections, we discuss potential economic benefits to covered employees, including those in labor organizations who represent impacted workers, as well as potential risks and challenges for employers of workers in hotels and event centers.

#### ***Hospitality Workers***

A diverse group of hospitality workers at hotels, event centers, and other affected locations would benefit from the proposed HMWO. These include hotel housekeepers, room attendants, cooks, dishwashers, restaurant and banquet servers, janitors, security officers, ticketing sales/takers, groundskeepers, zookeepers, and audio-visual (AV) technicians, among other workers. Based on our discussions with labor organizations representing hospitality workers, workers face a high cost of living in San Diego, including housing, transportation, utilities, healthcare, and food, as discussed in the *Background* section of this report. Even with benefits from subsidized housing and government assistance, many hospitality workers making minimum wage cannot afford to live in the City of San Diego. For this reason, many members opt to live in neighboring less expensive cities, or even across the US-Mexico border in Tijuana.



According to proponents of the proposed HMWO, the minimum wage increase could provide financial security, increased quality of life, and economic stability by helping hospitality workers support themselves without needing multiple jobs, reducing reliance on welfare benefits and subsidized housing. As an example, Petco Park would be subject to HMWO, and many of its workers are retired seasonal workers. These workers previously used earnings from Petco Park as supplemental income along with pensions and social security, but many workers now rely on this income as essential given the high cost of living in the City. Higher wages would also improve worker retention and could reduce worker stress and increase productivity.

Proponents noted that hotels and event centers are a significant job generator in the region, but despite significant profit in the hospitality industry, this profit does not directly benefit the local community. They believe that employers can use their profit margins to absorb increased labor costs associated with the HMWO. An example was shared in the AV field, where workers provide essential technical support for conferences, meetings, and events. An AV provider company can charge a client hosting an event \$165.00/hour per AV technician for services, but the wage paid to the assigned technician might be closer to \$17.35/hour. According to proponents, higher wages could uplift the entire hospitality industry and local community, with the potential to also drive-up wages in other industries that compete for the same low-wage labor pool such as restaurants, retail, and warehousing.

### ***Hotels***

To better understand the complexities and potential impacts of instituting a minimum wage of \$25/hour on hotels in the City, we met with hospitality industry representatives, as well as several hotel owners and managers representing various sizes of hotels, types of services provided, and geographic locations. Standard industry hotel classifications are shown in the box to the right, and key takeaways are discussed in the following subsections.

#### Degree of Impacts Depends on Attributes of Hotel

The degree of impacts from a \$25/hour minimum wage varies significantly depending on the unique attributes of a hotel, such as the number of rooms, services being provided, location within the City, and financial health of a hotel. We note that hotels with fewer than 150 rooms are *not* covered by the draft ordinance; these boutique and small hotels make up 284, or 73.8%, of the 385 total hotels in the City. If they had been included, it was noted that smaller hotels with fewer rooms and limited services would have fewer options to absorb the increase in labor costs.

The draft ordinance *does* cover 101 medium, large, and conference/convention hotels (26.2% of the total). Larger 300+ room full-service hotels will experience increases in

#### **Standard Hotel Industry Classifications**

##### **Hotel Size Categories**

1. Boutique 1-70
2. Small 70-150
3. Medium 150-300
4. Large 300+
5. Conference/Convention Hotels 1,000+

##### **Hotel Classifications**

1. Budget/Economy: Basic accommodation and minimal services
2. Limited-Service/Select-Service: Limited F&B and amenities
3. Full-Service: Restaurants, meeting rooms, room service
4. Luxury: Personalized service, premium amenities

##### **SDTA Subregions**

1. Mission Bay
2. Mission Valley
3. La Jolla
4. Shelter Island/Point Loma/Airport
5. UTC/I-5 Corridor (adjacent to Del Mar)
6. I-15 Corridor

labor costs, but generally have more resources to implement contingency plans, such as reducing employee hours, reducing services such as valet, increasing ancillary costs such as food and beverage or parking, and increasing automation. Conference and convention hotels with over 1,000 rooms, which often have collective bargaining agreements (CBAs), face both direct and indirect impacts due to wage compression and the need to maintain equitable and competitive wages for all staff. These larger hotels may have more flexibility in adjusting their operations and leveraging economies of scale to mitigate impacts.

Location in the City also matters; according to hotel industry representatives, hotels in the Downtown and Mission Bay area generally drive rates in the City and already pay employees close to \$25/hour, whereas hotels in La Jolla, Mission Valley, Shelter Island, and near the airport pay less (an average of \$21.00/hour across unionized hotels), which would result in larger labor cost increases under the HMWO.

#### Response to Impacts Varies Based on the Type of Ownership Model

Ownership models include *owner-operator*, where the property is owned and operated by the same entity or individual; *managed hotels* where a hotel management company is responsible for daily hotel operations and contracted by the property owner, which may be an individual or an investor group; and *franchise hotels*, which enter into a franchise agreement with a larger hotel chain or brand with the hotel owner paying annual fees and some share of operating revenue to the brand corporation in exchange for brand recognition, marketing, and reservation support from the corporation. Additionally, hotel workers may be directly employed by a hotel, but some hotels opt to use contracted staffing services where workers are direct employees of a subcontractor or staffing agency.

Different hotel ownership models might experience different potential impacts from a minimum wage. For example, hotels owned by an investor group and operated by a management company often have annual profit targets aimed at attracting more investors and capital investment. These investors expect consistent returns and may prioritize profit margins, so when operational labor costs rise, such as through the proposed HMWO, they are less likely to absorb the costs through reduced profit margins, and could instead direct the management company to reduce low-margin services (like food and beverage services) and associated staff, or to raise prices to meet annual investor profit targets.

In contrast, owner-operator hotels may have more flexibility. Those hotels may be better able to choose how to respond to increased labor costs, potentially using a mix of staff reductions, increased automation, or accepting slower short-term profit growth to sustain operations.

#### Hotels with Collective Bargaining Agreements (CBAs) May Have Fewer Impacts

The draft Ordinance provides an exemption for hotels with CBAs if jointly agreed upon. Hotels with CBAs, such as the conference/convention hotels in Downtown San Diego, may experience fewer impacts from the wage increase. These agreements often already include higher wages and structured wage increases, which can mitigate immediate potential financial burdens. For example, one Downtown hotel with a CBA covering the majority of its staff already pays room attendants \$27/hour, which is set to increase to \$34/hour over three years. The structured nature of CBAs can provide a more predictable cost structure for hotels, allowing them to plan and budget more

effectively. We note that employers and labor organizations could potentially negotiate a lower wage rate that includes increased benefits.

#### Direct and Indirect Impacts

Overall, the increase in labor costs due to the proposed \$25/hour minimum wage could be substantial for hotels in San Diego, given that labor costs constitute a significant percentage of total expenses, ranging from 24-50% for the hotels we interviewed. Many hotels, both with and without CBAs, indicated they pay higher wages (ranging from \$17.25 per hour to \$30.00 per hour, with some salaried managerial positions earning \$40,000/year plus benefits) than the City's minimum wage for workers who do not receive tips, such as housekeepers, room attendants, front desk clerks, maintenance workers, laundry staff, and janitors. Hoteliers report there is a competitive regional labor market for a limited supply of workers, and higher wages are already needed to attract and retain staff. While hotels with 150 or fewer rooms are exempt from the minimum wage, they compete for workers in the same market and may face corresponding pressure to increase wages to attract and retain staff. Overall, the number of staff at any given hotel directly impacted by the proposed wage increase varies depending on the size and type of hotel, ranging from as few as 13-14 employees in smaller boutique hotels to as many as 181 employees in larger hotels.

Wage increases for these staff will also create upward pressure on wages for supervisors and higher-earning staff (i.e., workers with more experience or longevity) to preserve wage equity and maintain pay differentials (known as wage compression). For example, a large Conference Hotel estimated that 300 employees across difference roles would be indirectly impacted, at an estimated total cost of \$5-6 million.

Tipped workers (who receive gratuities or a percentage of service charges) will also be directly impacted by the wage increase to \$25/hour, as they are often receiving the current minimum wage of \$17.25/hour. This includes restaurant servers, bartenders, banquet staff, bellmen, and shuttle drivers. Hoteliers we met with raised concerns about including tipped workers in the minimum wage ordinance, as these workers often already earn substantial incomes through gratuities ranging from \$30-60/hour or more when tips are included. For example, a large hotel in Mission Valley noted it employs 181 tipped workers at the minimum wage, but that its banquet servers often earn \$50/hour with tips; a medium-sized hotel in the I-15 Corridor noted restaurant servers and bartenders often make up to \$60/hour when tips are included. Concerns with tipped workers being covered by the hospitality minimum wage are discussed in more detail in the *Policy and Implementation Considerations* section later in this report.

#### Options to Absorb Costs

Hotels are likely to consider various levers to absorb increased labor costs before raising room rates. These include cutting positions, slowing hiring, reducing employee hours, or implementing shorter shifts. Some hotels might reduce housekeeping services, similar to practices during the pandemic. Some hotels indicated cost saving options could include eliminating or reducing hours for nonessential services and amenities, such food and beverage or shuttle services. Other strategies include increasing the use of technology that would require fewer staff, such as kiosks, delivery robots, and automated vacuuming. Hotels also generally invest a percentage of annual revenue in capital expenditures for renovations, but several hotels indicated these would be reduced to focus only on essential renovations, such as keeping elevators in working order.

Reducing staff or cutting services to absorb increased labor costs could negatively impact service quality, customer satisfaction, and ultimately hotel competitiveness. Additionally, the use of technology to replace staff, such as delivery robots and kiosks, may not provide the personalized service some guests expect. Hoteliers reported a need to balance cost saving measures with maintaining service quality and competitiveness.

#### Challenges with Increasing Room Rates to Absorb Increased Labor Costs

Beyond those cost-absorbing levers, hotels can also raise room rates to generate additional revenue. However, hotel representatives underscored that raising room rates to offset increases in labor costs is generally seen as a last resort, as higher rates can reduce both competitiveness and occupancy. Daily rates are primarily based on market demand, occupancy rates, and competitor pricing, and several hotels use computer-based modelling to assess these inputs. Hoteliers consider the impact higher room rates have on their ability to attract guests, without losing business to competitors in other less expensive cities or regions.

Many San Diego hotels compete for guests with other beach towns in southern California, including Orange County, Oceanside, Carlsbad, and Del Mar. Large and Conference/Convention hotels are also competing with the new Gaylord hotel and conference center in Chula Vista. Hotels outside the City may have lower minimum wage requirements; the proposed HMWO could give San Diego hotels a competitive disadvantage in increased labor costs, but a potentially offsetting advantage in attracting and retaining staff.

San Diego hotels and conference centers also compete for business on a national level with cities like Orlando, Phoenix, and Las Vegas, which are generally lower cost areas. The dynamic nature of the hospitality market will require careful pricing and planning strategies to maintain competitiveness given higher labor costs.

#### Industry and Hotelier Ideas to Soften Negative HMWO Impacts

Hotel representatives suggested several measures to moderate impacts of the proposed HMWO. These include phasing in the wage increase over several years rather than implementing a significantly higher day-one minimum wage, exempting certain hotels or workers, and indexing the minimum wage to inflation. A phased approach, if desired, could be similar to Long Beach's model, where minimum wages are set to increase \$1.50-2.00/hour each year until they reach a target of \$29.50/hour in 2028; this could allow hotels to better plan and absorb costs. Exempting tipped workers, who already earn significantly more than the minimum wage through tips, was another common suggestion. These measures could be considered to balance the desire for fair wages with the financial sustainability of the hospitality industry; they are discussed in more detail in the *Policy and Implementation Considerations* section later in this report.

#### ***Event Centers, Amusement Parks, and Zoos***

Our Office was not able to identify another city in the State that included event centers in an industry-specific minimum wage requirement.

The following describes major themes regarding the anticipated impacts of the proposal on select event centers and other entities we met with that would be subject to the proposed HMWO.<sup>12</sup> Event

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<sup>12</sup> The full list of events centers covered by the proposed ordinance is included in the *Description of Proposed Ordinance* section earlier in this report.

centers include the San Diego Convention Center, Petco Park, and two of San Diego State University's (SDSU's) venues: Snapdragon Stadium and Viejas Arena.<sup>13</sup> To our knowledge the only amusement park covered by the HMWO is SeaWorld and the only zoo is the San Diego Zoo Wildlife Alliance (SDZWA) which includes both the San Diego Zoo and the Safari Park. For context, many employees at these venues and entities are part-time or seasonal, and are covered by collective bargaining agreements to varying degrees. Notably, the proposal provides an exemption for CBAs if employers and employees *jointly* waive minimum wage requirements, as specified.

#### Financial Implications<sup>14</sup>

Labor costs make up a large portion of event centers' and their partners' operating costs. They are estimated to range from 25% or more for SDSU's food and beverage provider, to 62% for the Convention Center, to 85% for Snapdragon Stadium. According to the Convention Center, the proposal would impact about half of its employees and have an estimated cost of \$3.8 million to \$4.0 million per year when including wage increases for staff both directly and indirectly affected; this totals about 12% of the Convention Center's personnel budget. Additionally, its partners may seek to renegotiate commissions paid to the Convention Center to address higher labor costs, which could result in less revenue to the Convention Center.

The Padres estimated that implementation of the HMWO at Petco Park<sup>15</sup> would have an annual impact in the low tens-of-millions of dollars when including both wage compression and increased costs passed through by vendors (e.g. concessions, parking, security, janitor, landscaping, etc.) under contract terms.

SDSU indicated that event expenses at Snapdragon Stadium would increase by at least 25%, and that those increases would be billed to clients such as San Diego Football Club and San Diego Wave. Additional costs could also be borne by the SDSU athletics budget for various teams such as basketball, football, and soccer when they play at SDSU venues. Additionally, Viejas Arena is run by a student-led, nonprofit organization as well as another nonprofit that runs merchandise and food and beverage services.<sup>16</sup> Both nonprofits cited the need to also increase wages for other services, such as on-campus food and beverages, bookstores, and SDSU Children's Center, to maintain wage parity with event staff. These costs could pass through to students and tuition for families to attend the SDSU Children's Center.

SeaWorld declined to comment on the fiscal impacts of the HMWO, noting that it is part of United Parks & Resorts, a publicly traded company governed by the U.S. Securities and Exchange Commission. SeaWorld did however note anticipated impacts to youth and entry-level workers as

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<sup>13</sup> The City provides the following investments to event centers discussed in this section: Petco Park - \$10.4 million in FY 2026 out of the Transient Occupancy Tax Fund for required expenses per the Joint Use Management Agreement. Convention Center - \$15.8 million in FY 2026 for marketing, debt payment, and dewatering to remove unwanted groundwater. (In FY 2026, the Convention Center projects it will generate \$38.0 million in sales tax and TOT revenue for the City by hosting conventions and trade shows).

<sup>14</sup> Fiscal estimates described here were reported by the entities covered in this section. They generally represent rough estimates that have not been closely vetted given limited time available to assess impacts of the proposal.

<sup>15</sup> Both Petco Park and the Convention Center are currently subject to the Living Wage Ordinance. When the current Living Wage Ordinance increases on July 1<sup>st</sup>, the Padres noted it will become the highest minimum wage required in Major League Baseball.

<sup>16</sup> SDSU's CalCoast Credit Union Open Air Theater has a similar operating arrangement as Viejas Arena in that it is run by the same student-led organization with the use of the same nonprofit for merchandise and food and beverages, but it does fall under the proposed ordinance as written.

the higher wage would provide an incentive to hire more experienced employees, along with potential compression and wage differential issues that could potentially lead to reduced promotions and special skills pay.

SDZWA roughly estimated costs ranging from \$12 million to \$24 million to bring current workers (e.g. entry level, part-time, summer help) that are making \$19 per hour to \$25 per hour, and to address associated wage compression. SDZWA states that labor costs make up 70% of its operating expenses in FY 2025 and noted it recently renegotiated a CBA which included wage increases plus comprehensive benefits.

#### Options to Address Higher Labor Costs

Convention Center staff indicated there are limited short-term options to address higher labor costs since events are booked at least five years in advance and labor rates for event services are published biannually. Most immediately, the incentive pay structure included in CBAs may have to be reconsidered, which could have a negative impact on employee motivation and performance. Alternatively, positions could be reduced, or the Convention Center could request an increased City subsidy to help address any budget gap.

The Padres indicated they would increase ticket prices, concessions, and parking costs to address increased labor costs. Notably, the Padres indicated that reducing multi-million dollar baseball player contracts is not considered an option, as (1) these costs are fixed for multiple years due to binding contracts, and (2) they reflect market rates necessary to remain competitive in Major League Baseball.

Teams and events that use Snapdragon Stadium and Viejas Arena would likely increase prices for tickets, parking, and concessions, potentially making the venues less competitive and at risk of losing concerts and events to neighboring cities with lower prices. Additionally, SDSU anticipates that the HMWO could price out a newly established women's professional volleyball team playing out of the Viejas Arena.

SeaWorld indicated prices would be anticipated to increase for park visitors, potentially for items such as admissions, parking, concessions, souvenirs etc.

SDZWA indicated it would review its operations comprehensively but would likely consider reducing expenditures such as positions, capital improvements, unfunded maintenance, and nonessential programs, as well as increasing revenues through limited price increases.

#### Competitiveness for Securing Events Could be Impacted

Over the long term, the Convention Center's ability to increase building rental rates and remain competitive is constrained given that it is already among the highest priced convention centers nationally. The aging condition of the facility is currently impacting future bookings, and if unaddressed will also contribute to decreased competitiveness. Sales tax and TOT revenue could be negatively impacted if this deters future event bookings.

Our Office does not anticipate fans would be significantly deterred from attending Padres games if increased costs were passed on at baseball games. However, as the City has a cost-sharing agreement with the Padres for *non-baseball* events (30% of net incremental revenues<sup>17</sup> goes to the City and 70% to the Padres), the City's share of non-baseball revenue could be impacted if event

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<sup>17</sup> Net incremental revenues include admission ticket proceeds, concession commissions (except Padres related merchandise), and net parking revenue.

organizers choose less expensive venues for booking special events. The effect of higher labor costs at Petco Park on non-baseball events is unclear, but it is likely that some events would be more impacted or price-sensitive than others. Similar to the Convention Center, a scenario where non-baseball events choose facilities outside the City in lieu of Petco Park would also lead to forgone City revenue from consumer spending and lodging associated with fewer events held in the City.

At the two impacted SDSU venues, higher prices could lead to fewer events and reduced revenue for SDSU to reinvest into its venues and to pay bond obligations related to the construction of Snapdragon Stadium.

### Policy Considerations

#### *Non-SDSU Event Requirement*

Although the definition of “event center” requires the HMWO to apply to non-SDSU events only, it may not be practical for the operators of these SDSU venues to pay different wages for the same work at non-SDSU events. Therefore, the HMWO could end up applying to all events at these venues. SDSU noted that all revenue generated by their venues is either reinvested back into the venues themselves or goes to benefit the university and students.

#### *Tipped Workers Impacted*

Similar to hotels, event centers have many concession, restaurant, and caterer workers that earn tips in addition to minimum wage, and when tips are included these employees may currently be paid above the proposed minimum wage. Currently, wages including tips for these venues range between \$28 per hour to \$80 per hour. At Petco Park, tipped earnings reach up to \$150 per hour in premier spaces.

#### *Impacts to San Diego Residents*

Given that this proposal is aimed towards the tourism industry, it should be noted that roughly 70% of people that visit Petco Park live in San Diego County. Similarly, SDSU venues are typically more heavily visited by San Diego residents than nonresidents, and if an increase in labor costs is passed through into ticket and concession prices, implementation of the HMWO at event centers would result in higher costs for residents to attend sporting, concerts, and other special events in the City. Finally, local residents also drive a significant portion of SeaWorld’s attendance with thousands of annual pass holders, and SDZWA noted that between 55% and 65% of its visitors are from the San Diego region.

### **Benchmarking with Other California Cities**

To help inform the potential economic impacts of the proposed HMWO, our Office conducted a benchmarking study that reviewed similar ordinances in other California cities. The benchmarking identified six California cities that currently require a higher minimum wage for hotel workers: Long Beach, Los Angeles, Santa Monica, Oakland, West Hollywood, and Glendale. Our benchmarking did not identify any cities that currently have a higher minimum wage specific to event center workers.<sup>18</sup> This section describes the context around the adoption of those minimum

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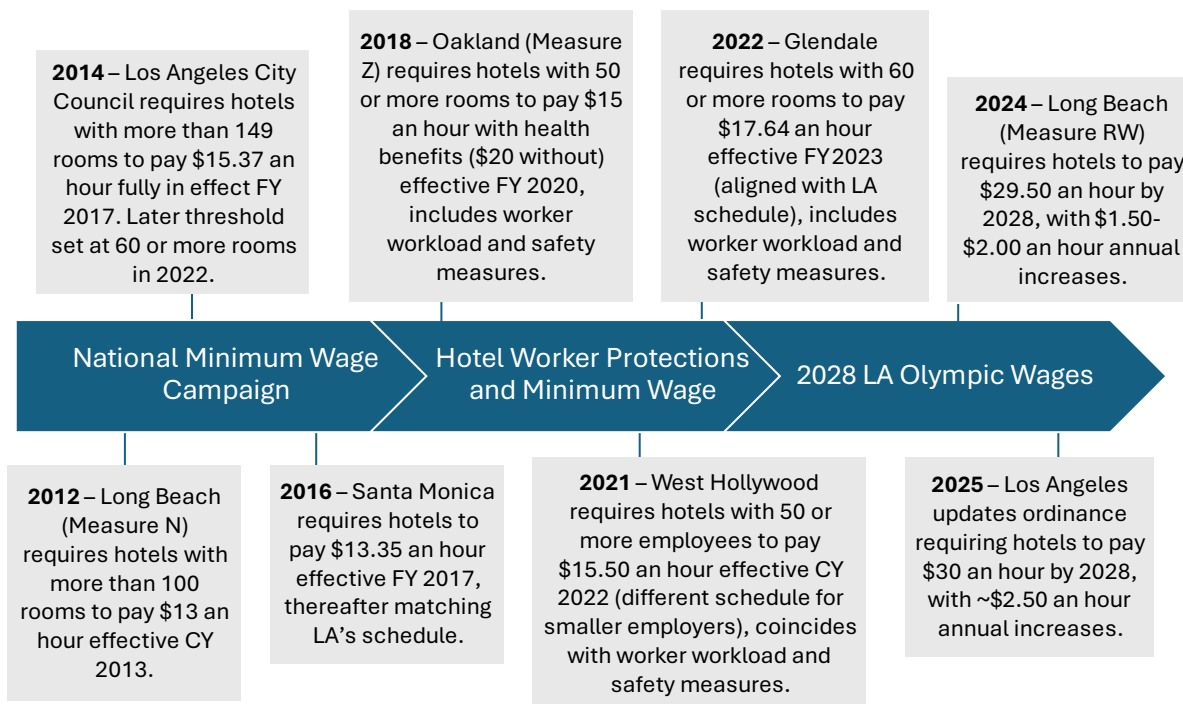
<sup>18</sup> In October 2023, voters in the City of Anaheim rejected Measure A, which proposed to raise the minimum wage for hotel and event center workers to \$25.00/hour following passage. Because Anaheim does not have a citywide hotel and event center worker minimum wage, the City was not included for benchmarking purposes. We note in 2018 the City of Anaheim approved Measure L, requiring resorts *receiving tax rebates from the City* to pay a higher minimum wage.



wage increases and highlights relevant economic impact analyses. Additional details about each city’s hotel worker minimum wage provisions can be found in Appendix B.

### ***Context for Hotel Worker Minimum Wage Increases***

Broadly, the timing of citywide hotel worker minimum wage adoptions appeared to fall in three waves, as shown in the figure below:



First, around the mid-2010s, three California cities – Long Beach, Los Angeles, and Santa Monica – adopted a hotel worker minimum wage, which coincided with rising national momentum to increase wages for low paid workers. In the second wave through the early 2020s, three additional California cities – Oakland, West Hollywood, and Glendale – adopted ordinances to increase the minimum wage for hotel workers along with specified worker safety and workload protection requirements such as hotel worker panic buttons and workload limitations. Most recently, cities in the Los Angeles region amended hotel worker minimum wages to reflect a roughly \$30.00/hour minimum by 2028, also known as the “Olympic Wage,” in anticipation of Los Angeles hosting the 2028 Summer Olympic Games. On March 5, 2024, voters in Long Beach approved Measure RW, which increases the hotel worker minimum wage gradually to \$29.50/hour on July 1, 2028, with annual increases between \$1.50 to \$2.00/hour in the intervening years. In May 2025, Los Angeles approved an update to its Citywide Hotel Worker Minimum Wage Ordinance (Los Angeles CHWMWO) to increase the hotel worker minimum wage to \$30.00/hour on July 1, 2028, with roughly \$2.50/hour increases annually in intervening years.

### ***Economic Analysis from Benchmarking Cities***

Our Office reached out to each benchmarking city, and found most have not conducted a robust economic analysis attempting to isolate the impacts of their higher hotel worker minimum wages on their local economies, though those cities did make use of economic analyses to inform their initial decisions at the time of passage or during subsequent economic assessments. Additional

third-party studies have been released on the impact of the hotel worker minimum wage in Los Angeles, including from [advocacy](#) and industry-oriented [research groups](#), though they have widely ranging conclusions.<sup>19</sup>

We could find only one city that retrospectively reported on the economic impacts of such an ordinance. The City of Santa Monica released a [2018 report](#) on its minimum wage ordinance's impact on the local economy and concluded, "[t]here does not appear to be any substantive impact of the wage ordinance on the City's economy. There are many other factors, such as consumer demand and costs of materials and goods, transportation, and real estate, that contribute to changes in these indicators. Since the adoption of the minimum wage ordinance, the local economy has generally grown."

Most of the available economic research for hotel worker minimum wage proposals focuses on Los Angeles. Below we include summaries of key reports commissioned by the City of Los Angeles that informed the initial 2014 adoption of the Los Angeles CHWMWO and its subsequent 2025 update, as well as a report commissioned by the City of Anaheim (on an ultimately unsuccessful 2023 ballot initiative to increase hotel and event center minimum wages) that referenced economic impacts from Los Angeles's ordinance.

[2014 Los Angeles CHWMWO Consultant Study](#): This study examined the potential impacts of the Los Angeles CHWMWO and reported inherent trade-offs between higher wages for some workers and potential job losses for others, as well as reduced profitability of hotels. Specifically, hotel workers earning below the proposed minimum wage would see a significant increase in their wages, and some of these additional earnings would likely be spent in the City, benefiting local businesses and their workers. However, employers could also reduce staffing levels or hours worked to offset increased labor costs, realize lower hotel profits potentially resulting in financial restructuring or the sale of hotel properties, and other effects, such as potential increases in room rates, spending reductions by hotels (e.g., delaying facility upgrades or scheduled maintenance), depressed development of new hotels due to diminishing profitability, and hiring the most experienced and productive workers at the new wage rather than lower skilled workers. The report recommended (1) a phase-in policy to allow employers to gradually adjust to higher wage rates and minimize any disruptive or adverse impacts and (2) an exemption for tipped workers, many of whom already earned in excess of the proposed minimum wage. As hotel restaurants face competition from local restaurants not subject to the hotel worker minimum wage and many tipped employees work in food service, it was found the Los Angeles CHWMWO would have a disproportionate impact on hotel restaurants and the workers at those restaurants.

[2023 Hotel Worker Minimum Wage Ballot Initiative Fiscal Impact Analysis \(Anaheim\)](#): This study by Beacon Economics references the higher minimum wage for hotel workers in the City of Los Angeles to glean potential economic impacts. The study found that the 2014 Los Angeles CHWMWO did not significantly change Average Daily Rates or hotel occupancy rates in the short-term – suggesting that hotels frequently absorb most of the operational cost increases – but to the detriment of the overall financial health of the City's hotel industry. The study noted the value of new hotel investments had not rebounded to previous peaks, and that Los Angeles continues to struggle with new hotel development, especially in its downtown area. The study

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<sup>19</sup> Studies focusing on the Los Angeles hotel worker minimum wage linked to above were prepared by the Los Angeles Alliance for a New Economy (LAANE), a labor advocacy group, and Oxford Economics, on behalf of the hotel industry.

suggested that the Los Angeles CHWMWO reduced hotel investment and lowered occupancy rates in the long-term, ultimately lowering the growth trajectory of Los Angeles's TOT revenue.

2025 Los Angeles CHWMWO Consultant Study: This study examined proposed amendments to Los Angeles CHWMWO to raise the minimum wage for hotel workers to \$30.00/hour by 2028, and anticipated generally positive impacts. Regarding direct impacts, the study estimated that after four years payroll costs would increase by 32%, prices would increase by 6%, businesses in the City would lose \$227.0 million in revenue, and consumer spending would drop by \$21.0 million due to price increases. However, the study also predicts that the City of Los Angeles will see a net *increase* in local economic activity of \$694.0 million, directly due to increased workers' spending power and indirectly through a "multiplier" effect thought to increase wages and employment by the net creation of 6,319 new local jobs across their communities. The study found that because a significant majority of affected workers live within Los Angeles, Los Angeles would capture two-thirds of the direct and indirect benefits, ultimately offsetting higher wage costs and adverse impacts on demand. Their consultant estimated that TOT revenue would vary by less than \$2 million (or about 1%) as a result of the ordinance and disputed claims that minimum wage increases lead to substantial job losses based on a lack of empirical evidence.

### **Impact on Tourism and Transient Occupancy Tax Revenue**

The City of San Diego's TOT revenue is one of the City's four major General Fund revenue sources and supports core City services like parks, libraries, storm drains, and public safety, as well as expenditures to promote the City as a tourist destination, arts, and cultural programming. In addition to paying hotel taxes, visitors contribute to local sales tax revenue during their stays, and hotels pay property taxes, all of which contribute to the City's General Fund. This section provides a high-level analysis of TOT revenue and minimum wage changes in four relevant California cities, and concludes with a detailed review of the City's current TOT outlook.

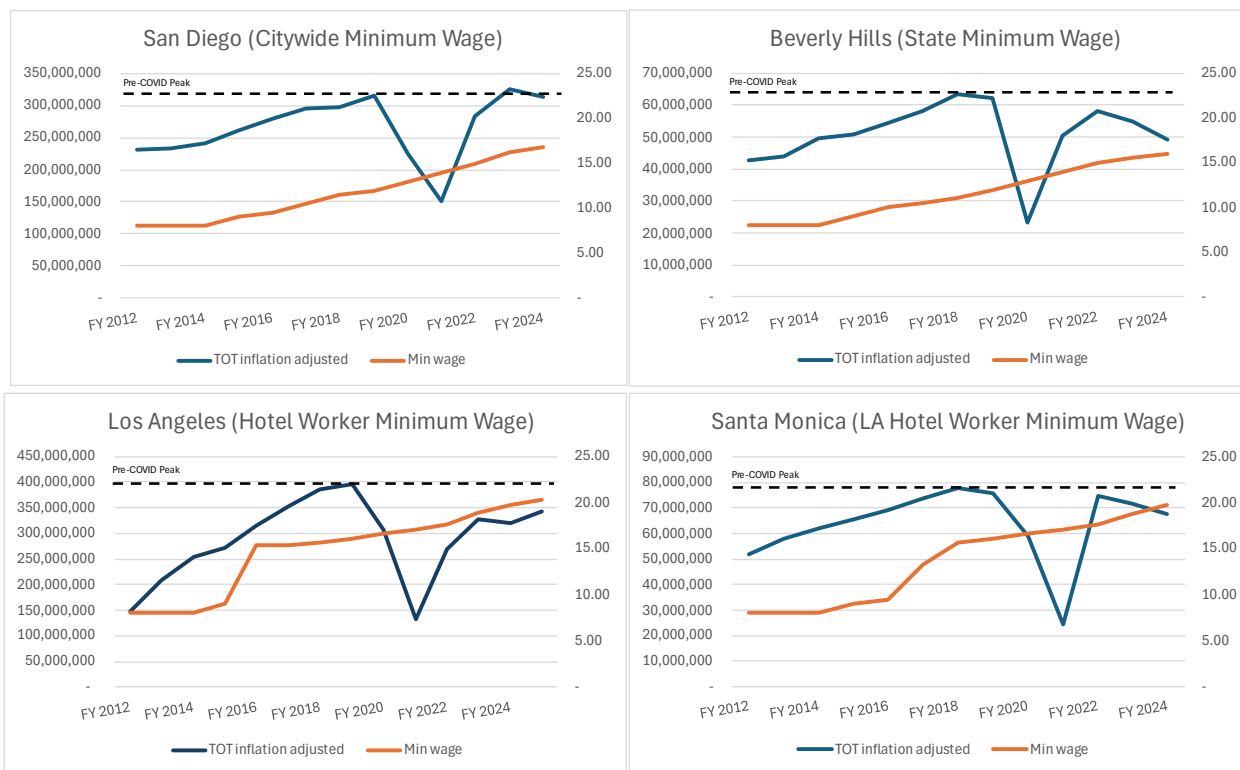
### ***TOT Revenue and Minimum Wage Analysis***

Given limitations of available economic analysis, TOT revenue and minimum wage schedules for hotel workers were compared for four different cities: Los Angeles, Santa Monica, Beverly Hills, and San Diego.<sup>20</sup> Los Angeles and Santa Monica are currently on the same wage schedule, requiring hotel workers be paid at least \$20.32/hour in FY 2025 based on the Los Angeles CHWMWO. Beverly Hills follows the statewide minimum wage for all employees, which is currently set at \$16.50/hour. As previously mentioned, San Diego's citywide minimum wage applicable to all employees is set at \$17.25/hour for FY 2025.

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<sup>20</sup> Although not included in this report, our Office also compared TOT revenue and minimum wage over time for other cities in the state but outside of the immediate Southern California region, namely Santa Barbara, Oakland, and San Francisco. While these cities are not directly comparable to San Diego, our analysis suggested a lack of direct correlation between minimum wage increases and TOT revenues. In contrast, local tourism demand, which has many drivers beyond labor costs and potentially-impacted room-rates, generally appeared to most directly influence TOT revenue.

There is no clear correlation between inflation-adjusted TOT revenue growth (in FY 2025 dollars) and increased operational costs from higher hotel worker minimum wages. The figures below compare TOT revenues since FY 2012 along the left axis (in blue) and the applicable minimum wage for hotel workers on the right axis (in orange), with the straight dotted line (in black) indicating the pre-pandemic peak in revenue.



These figures suggest the following:

*TOT revenues can still grow if minimum wage increases coincide with general economic growth.* TOT revenue trajectories prior to the pandemic are comparable across the four cities, even though hotel worker minimum wages differed. Notably, despite sizeable increases in minimum wage and hotel operational costs in Los Angeles and Santa Monica starting in FY 2016 and FY 2017, both cities experienced continued growth in TOT revenues comparable to revenue growth before the CHWMWO implementation. Both Los Angeles and Santa Monica transitioned to a higher hotel worker minimum wage during a time of general economic expansion, indicating that hotel employers may be better positioned to absorb higher wages when traveler demand remains strong.

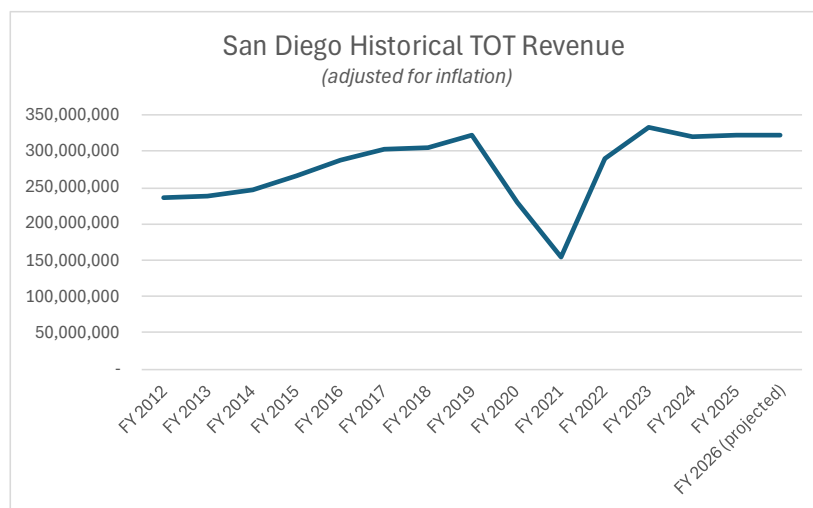
*Post-pandemic recovery does not appear strongly correlated to minimum wage requirements.* Of the four cities, only San Diego has seen a recovery comparable to pre-pandemic levels, attributable to a robust recovery in tourism demand, but similar to Beverly Hills and Santa Monica, FY 2024 ended with declines in TOT revenues. If TOT revenues were mainly driven by higher minimum wage costs, (1) cities without a specific hotel worker minimum wage would likely see a quicker and potentially stronger post-pandemic recovery and (2) cities with similar hotel worker minimum wages should see similar stagnation in TOT revenue growth. However, TOT revenues in both Los Angeles (with a hotel worker minimum wage) and Beverly Hills (without a hotel worker minimum wage) appear to fall well below pre-pandemic highs. Hotels in Beverly Hills, which has a lower

minimum wage, do not *directly* face the upward wage pressure that hotels in Los Angeles and Santa Monica do, but still appear to lag behind in post-pandemic recovery. In contrast, Santa Monica had a stronger recovery relative to Los Angeles and Beverly Hills, even though Santa Monica follows the hotel worker minimum wage established by Los Angeles.

*TOT revenue growth seems to be influenced by a variety of factors beyond hotel worker minimum wage.* As mentioned previously, it is challenging to isolate the economic impact of a minimum wage increase with certainty, and this analysis suggests that many factors impact the overall financial health and growth of a city's hotel industry. These factors may include operational cost increases due to minimum wage, along with general economic trends, business travel/transient traveler demand, inflationary impacts, employment rates, and the availability of discretionary income.

### ***City of San Diego TOT Revenues Outlook***

Specifically examining TOT revenues in the City of San Diego, as seen in the figure below, TOT revenue has rebounded from the global pandemic, with revenue reaching a high of \$333.0 million in FY 2023 after adjusting for inflation. Real revenue has declined and leveled off ever since, however. While revenue is projected to grow by about 2% in FY 2026, this essentially reflects a flat projection when accounting for inflation (in FY 2026 dollars).<sup>21</sup>



In addition to tapering off TOT revenue growth, the underlying context in which this proposal is being considered should reflect increasing economic uncertainty given federal tariff policy changes, international visitors potentially being deterred from traveling to the U.S., and federal budget cuts leading to less travel, which should all be layered on top of an already cooling economy marked by persistent inflation and elevated interest rates. According to the [San Diego Tourism Marketing District FY 2026 Report of Activities](#), smaller federal groups have canceled events, and budget cuts to the National Institute of Health and overall economic uncertainty are beginning to affect booking for both business and leisure travel.

Increasing the minimum wage from \$17.25 to \$25 per hour (a 45% increase) beginning on January 1, 2026, will have a significant and sudden impact on hotel, event center, and other covered entity

<sup>21</sup> The State Department of Finance estimated in January 2025 that the Consumer Price Index for All Urban Consumers (CPI-U) for the San Diego area would increase 2.4% between FY 2025 and FY2026.

finances, given they are labor-intensive industries. How this will translate to the City's TOT revenue is more difficult to project due to the many factors at play, and will be dependent on how operators and owners respond. As previously discussed, these entities have several levers that can be pulled before increasing prices. Based on the TOT revenue and minimum wage analysis from other cities, robust economic growth could allow employers to support increased labor costs, but the current economic environment portends more uncertainty and a heightened risk of recession, which could decrease the ability of those operators to support higher labor costs. Ultimately, impacts to TOT revenue will take time to realize; those impacts may be even more difficult to identify if impacts materialize as forgone revenue growth as opposed to revenue declines; and are likely to be significantly complicated by other changing factors in the economy.

According to the San Diego Tourism Authority, there is evidence suggesting heightened price sensitivity among travelers. Prior to the pandemic, higher Average Daily Rates (ADR) corresponded with higher occupancy rates as the lack of supply drove up room prices. However, since the pandemic, higher ADR has resulted in decreased occupancy.<sup>22</sup> From 2019 to 2024 ADR rose from \$166 to \$212 (almost 28%) and occupancy rates decreased from 76.5% to 74.2%, respectively. Revenue per Available Room (RevPar) increased from \$127 to \$158, an increase of 24%.<sup>23</sup> However, inflation grew 24.7% over this time period, suggesting the increase in RevPar was largely driven by inflation as opposed to increased real demand. Adjusting for inflation, the percentage drop in occupancy (-3%) was greater than the real growth in ADR (2.4%), indicating slightly elastic demand. This dynamic may pose a risk to the City's TOT revenue if hotel rates increase further to accommodate a sudden increase in labor costs.

We believe it is reasonable to assume some degree of price inelasticity on average, given that San Diego is a highly desirable travel destination and recent year-over-year observations.<sup>24</sup> Therefore large immediate dips in TOT revenue associated with implementation of the HMWO would be unexpected. However, given the already sustained elevated ADR, generally flat real TOT revenue, and an uncertain economic environment, the City may see slower growth in TOT revenue than it otherwise would without a minimum wage increase. We note that this impact could be delayed as hotels attempt to absorb some labor cost increases in the short term before increasing prices and potentially impacting demand. Significant strain on the hotel industry would be more likely if no phase-in of the HMWO is implemented.

Two studies (an industry-commissioned study by Oxford Economics and the previously-referenced Beacon Economics study prepared for the City of Anaheim) echo the delayed effects of a minimum wage increase on TOT, although with a greater emphasis on increased hotel prices not meaningfully impacting demand in the near term; they even predict slight increases in TOT revenue in initial years. However, over a 10 year period, Oxford Economics projects that San Diego's TOT revenue will be \$3.4 million lower annually than a scenario without the minimum wage increase, driven by reduced hotel inventory from fewer new hotels being constructed and

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<sup>22</sup> San Diego Tourism Authority, *San Diego Price Check: ADR and Occupancy Flip Flop*, February 28, 2024, <https://connect.sandiego.org/2024/02/28/adr-and-occupancy-flip-san-diego-feb-2024/>

<sup>23</sup> Tourism Economics, an Oxford Economics Company, San Diego Lodging Forecast April 2025

<sup>24</sup> [Condé Nast Traveler's](#) annual Reader's Choice Awards ranked San Diego as the #2 Best Big City in the U.S. in October 2021. Additionally, the San Diego Convention Center [was ranked #4](#) of all major convention centers across the U.S. in a 2023 ranking from the Wall Street Journal.



hotel closures and conversions.<sup>25</sup> The study analyzing Anaheim’s Hotel Worker Ballot Initiative by Beacon Economics also anticipated increased TOT revenue initially due to inelasticity of demand but longer term negative impacts related to decreased investment attractiveness from lower profitability leading to suppressed hotel development, pointing to Los Angeles as an example. By the fifth year of implementation, it was predicted that TOT growth would have been 1.5% lower than it would have been otherwise.

### **Policy and Implementation Considerations**

Based on stakeholder interviews, benchmarking, and literature review, the table below summarizes issues for Council consideration that are aimed at minimizing negative impacts to prospective workers, hotels, event centers, amusement parks, and City enforcement staff:

Topic	Summary
<b>Phase-In Schedule</b>	Stakeholders overall supported a gradual phase-in schedule to minimize disruptive impacts from a sharp increase in hourly wages. Benchmarked cities increased minimum wages by \$1.50 to \$2.50/hour each year until reaching a target wage. Given that the HMWO would increase the minimum wage for hospitality workers by \$7.75/hour, or 45%, on January 1, 2026, an alternative phase-in schedule could help avoid potentially significant negative impacts to employers and the local economy. <i><b>Council should discuss if the HMWO should be phased in over time and, if so, what the target minimum wage and timeframe should be.</b></i>
<b>Small Hotel Considerations</b>	Several cities exempt smaller hotels by setting a threshold at which the higher minimum wage begins to apply, ranging from 50 (Oakland) to 100 (Long Beach) or more guest rooms. The proposed HMWO exempts hotels with fewer than 150 guest rooms, or 73.8% of hotels in the City, but there would likely be pressure for small hotels to increase wages to compete for employees. We note that establishing a threshold-based exemption could have unintended impacts for hotels close to the size threshold, and small boutique hotels that charge higher ADRs may not be comparable to small limited-service budget hotels in their ability to absorb increased labor costs. <i><b>Council may wish to discuss the appropriate threshold for exempting small hotels.</b></i>
<b>Tipped Employees</b>	Numerous stakeholders raised concerns about raising the minimum wage for tipped employees, who may already earn over \$25.00/hour when tips are included. Estimates of hourly wages shared by stakeholders for tipped workers ranged on average between \$40.00 to \$50.00 when including tips, with a few stakeholders citing upwards of \$80.00/ hour. Although no benchmarking city exempts tipped employees, in recent consideration of Los Angeles’s CHMWO amendments, an alternative definition of “Hotel Worker” was proposed that focused on “core” functions of the hotel, such as room attendants, front desk staff, security services, and other related staff, being subject to the higher hotel worker minimum wage, while “non-core” staff such as those supporting food and beverage, event hosting, transportation, parking, spa, and other ancillary services would instead be subject to

<sup>25</sup> This would represent a 1% decline in the City’s FY 2025 revenues, though their model reflects compounding impacts in the out-years.



Topic	Summary
<b>Tipped Employees (cont.)</b>	the citywide minimum wage. As previously mentioned, State law prohibits tips and other gratuities from being credited towards the applicable minimum wage. <i>Council may wish to discuss whether increasing the minimum wage for tipped workers is aligned with the intent of HMWO.</i>
<b>Enforcement</b>	<p>The Compliance Department estimates additional ongoing General Fund resources would be needed to support the required additional workload, including an additional 1.00 Program Coordinator (\$206,000), 1.00 Associate Compliance Officer (\$150,000), and a \$30,000 education and outreach budget. These resources are not included in the FY 2026 budget, and salary and fringe for the 2.00 positions are estimates provided by the Department of Finance.</p> <p>The Department also indicated a one-year ramp-up time would be needed to hire positions (once budgeted) and provide outreach and education to stakeholders. The proposed January 1, 2026, implementation may not allow for extensive education and enforcement efforts.</p> <p>Compliance’s Office of Labor Standards and Enforcement currently manages and enforces the City’s minimum wage and living wage ordinances and has experience and lessons learned on how enforcement works based on provisions included in the proposed HMWO. <i>We recommend that Compliance be included in discussions with Council and the City Attorney’s Office to provide input on the HMWO before it is finalized, especially related to the proposed implementation timeline and enforcement provisions.</i></p>
<b>Learner Wages</b>	Two benchmarked cities include a lower minimum wage for employees who are considered “learners” under <a href="#">State regulations</a> of not less than 85% of the minimum wage for the first 160 hours of employment. This could address concerns that a higher minimum wage would disadvantage less experienced workers, as suggested by some research. <i>Council may wish to consider whether an apprentice/learner wage would be appropriate.</i>
<b>Hardship Exemptions</b>	Four benchmarked cities include a one-year hardship exemption for hotels that can demonstrate the minimum wage increase would force a more than 20% reduction in workforce or a 30% reduction in hotel workers’ total hours. <i>Council may wish to consider whether a hardship exemption would be appropriate.</i>
<b>Cash Wages</b>	The Convention Center offers additional pay beyond base pay to reward workers for tenure, specific skills, and shift premiums. Allowing the proposed policy to account for these items through a cash wage set at \$25.00/hour may better reflect actual earnings and allow employers the flexibility to structure pay to incentivize employee productivity and retention. <i>Council may wish to consider whether "cash wages" would better reflect employee pay as opposed to minimum wage, and provide employers more flexibility around pay incentive structures.</i>

Topic	Summary
<b>Industry-Specific Minimum Wage</b>	<p>Although industry-specific minimum wage laws are in effect across the State, such laws have rippling effects on the labor market, beyond the employers directly subject to the higher minimum wage. For instance, under the HMWO, a restaurant in a commercial building would be subject to the citywide minimum wage, whereas a restaurant leasing a hotel space across the street would be subject to the higher HMWO wages; this would result in upward wage pressure on the restaurant in a commercial space. Similar dynamics are likely to impact worker and employer behavior across the City in related and ancillary industries.</p> <p>In recent consideration of Los Angeles' CHWMWO amendments, there were considerations to exempt commercial lessees and separate businesses from the hotel to address this issue. Additionally, as other industries compete with the hospitality industry for low-wage workers, there will likely be indirect pressure to increase wages in these industries, which may have wider economic implications to the region. <i>Council may wish to consider the potential larger implications an industry-specific minimum wage could have on the labor market and local economy.</i></p>

## CONCLUSION

As requested by the Select Committee on Addressing the Cost of Living on February 27, 2025, our Office reviewed available economic literature, assessed other cities' analyses and experiences related to similar minimum wage policies, and engaged with impacted workers and businesses of the draft HMWO. This report is intended to inform Council's discussion of the potential economic impacts of the proposed HMWO, and to offer options to mitigate some of those impacts. Notably, the HMWO is subject to change as the proposal moves through the legislative process.

In summary, academic research does not offer a clear consensus on the impacts of minimum wage policies. Although studies differ on overall impacts, a \$25/hour minimum wage for hospitality workers would raise both wages and overall labor costs of affected employees and employers respectively. The level of impact will depend on several factors, including how much the new minimum wage exceeds current wages, the pace at which it is implemented, how affected employers choose to address cost increases, and broader economic conditions. Notably, the current economic environment is particularly uncertain due to federal policy changes layered on top of a softening tourism economy.

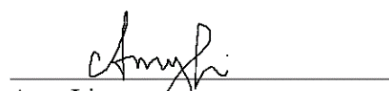
Our benchmarking of other California cities also showed mixed impacts associated with a higher minimum wage for hotel workers. A comparison between TOT revenue and hotel worker minimum wage changes indicated a complex interaction where increased operational costs is only one of many factors impacting a city's TOT revenue. Our Office's assessment does not anticipate major declines in TOT revenue as a result of this measure, but evidence does suggest increased price sensitivity for demand, and consequently there could be slower TOT growth than would otherwise be experienced along with potential longer-term strain on the tourism industry. Risks would be heightened if no phase-in is implemented.

There are benefits to providing higher wages to affected workers, including an increased quality of life amid high costs of living, potential improved employee retention, and increases in consumer spending (which would be particularly beneficial *to* the City to the extent it occurs *in* the City). There are also tradeoffs such as higher labor costs, potential job losses, and challenges for businesses to remain competitive. Council should consider these tradeoffs carefully and consider implementation options that would mitigate potential negative effects, including those reflected in the *Policy and Implementation Considerations* section of this report. **In particular, a gradual phased-in approach would mitigate any immediate disruption from a sharp 45% increase in minimum wages beginning on January 1, 2026.** Our Office continues to be available to assist Council with future next steps.

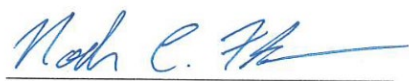
Our Office thanks the various City departments and offices we met with, as well as the several economists and external stakeholders who provided insights and responded to our questions, including representatives from Council District 9, the Compliance Department, the City Attorney's Office, Dr. Jeff Clemens at UCSD, the UCSD Labor Center, Dr. Michael Reich at UC Berkeley, Beacon Economics, Los Angeles's Chief Legislative Analyst's Office, Oxford Economics, San Diego Tourism Authority, SANDAG, Unite Here Local 30, Service Employees International Union (SEIU), the International Alliance of Theatrical Stage Employees (IATSE), the California Hotel and Lodging Association, the California Restaurant Association, SD Lodging, the Padres, San Diego State University, the Convention Center, the San Diego Zoo, and several hotel owners and managers across the City.



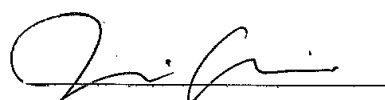
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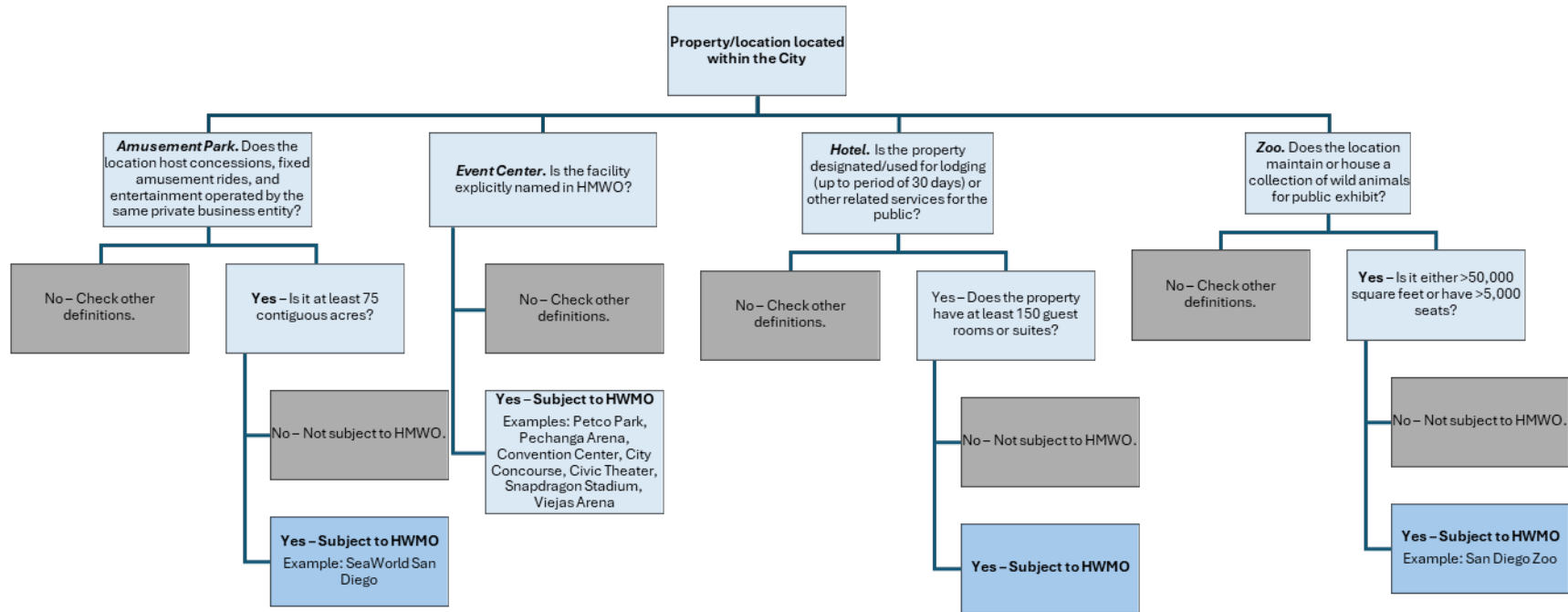


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Appendix A: Flowchart of HMWO Definitions  
Appendix B: Summary Table of Benchmarking Study

## Appendix A: Flowchart of HMWO Definitions

This appendix provides a visual yes-no guide of locations and properties subject to Hospitality Minimum Wage Ordinance, as drafted at the time of this writing. Note, this figure only shows whether a location is subject to the ordinance; whether *employers* are subject is determined under the “hospitality employer” definition.



## Appendix B: Summary Table of Benchmarking Study

City	Passage Date	Impacted Workers Definitions	Salary Schedule	Exemptions	Method of Passage	Citywide Min Wage (Other)	Other Notes/Background
Los Angeles	May 23, 2025 (Update)	Hotel and airport workers	\$20.32/hour through June 30, 2025 \$22.50 on July 1, 2025 \$25.00 on July 1, 2026 \$27.50 on July 1, 2027 \$30.00 on July 1, 2028 Annually adjusted thereafter based on CPI-W for LA	Hotels with fewer than 60 rooms  One-year waiver for financial hardship  CBAs may waive provisions	<a href="#">Ordinance 188610</a>	\$17.87 effective July 1, 2025	Health care benefits (at least \$7.65/hour starting July 1, 2025) and public housekeeping training requirements
Long Beach	March 5, 2024 (Update)	Hotel workers	\$23.00 on July 1, 2024 \$25.00 on July 1, 2025 \$26.50 on July 1, 2026 \$28.00 on July 1, 2027 \$29.50 on July 1, 2028 City Council may amend wages after 5 years	Hotels with fewer than 100 rooms  CBAs may waive provisions	<a href="#">Measure RW</a>	\$16.50 effective January 1, 2025 (State)	Sick day requirements retained in Measure RW; service charge provisions
Oakland	November 6, 2018	Hotel employees	\$18.36 on January 1, 2025 (\$24.48 without benefits) Annually adjusted for inflation based on CPI-W for region	Hotels with fewer than 50 rooms  CBAs may waive provisions	<a href="#">Measure Z</a>	\$16.89 on January 1, 2025	Safety measures for hotel workers; workload provisions; restricts reduction of non-wage compensation to pay for increases, including raising fees charged to employees
Glendale	June 28, 2022	Hotel workers	As required in the City of Los Angeles Municipal Code	One-year hardship exemption for financial hardship  CBAs may waive provisions	<a href="#">Ordinance 5991</a>	\$16.50 effective January 1, 2025 (State)	Safety measures for hotel workers; workload provisions

City	Passage Date	Impacted Workers Definitions	Salary Schedule	Exemptions	Method of Passage	Citywide Min Wage (Other)	Other Notes/Background
West Hollywood	November 15, 2021	Hotel workers	\$20.22 on July 1, 2025 Annually adjusted by CPI-W	One-year waiver for financial hardship  CBAs may waive provisions	<a href="#">Ordinance 21-1168</a>	\$19.65 on January 1, 2025	Learner wage not less than 85% of the minimum wage during their first 160 hours of employment; Service charge distribution; sick leave; compensated time off; adjusted phase-in schedule for smaller hotels (< 50 employees)
Santa Monica	Jan 26, 2016	Hotel workers	As required in the City of Los Angeles Municipal Code	One-year hardship exemption for financial hardship  CBAs may waive provisions	<a href="#">Ordinance 2509CCS</a>	\$17.81 on July 1, 2025	Learner wage not less than 85% of the minimum wage during their first 160 hours of employment (applicable to citywide minimum wage)
Anaheim	<i>Failed:</i> 33.7% - Yes  (on October 3, 2023)	Event center and hotel workers	\$25.00 effective 30 days after initiative passage Annually adjusted by CPI-W or 3%	One-year hardship exemption for financial hardship  CBAs may waive provisions	<a href="#">Measure A (2023)</a>	\$16.50 effective January 1, 2025 (State)	Higher minimum wage for resorts receiving tax rebate via Measure L (2018)  Safety measures for workers; workload requirements; worker retention provisions; service charge distributions; training