The Potential Economic Impact of a Hotel Workers Strike on the District of Columbia

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Introduction

The Hotel and Restaurant Employees Union, Local 25, has been working without a contract since September 2004. While negotiations with the Hotel Association of Washington are proceeding, the threat of a strike and subsequent lock out has gained new urgency as the January 20th Presidential Inauguration approaches. As the hospitality industry is one of the District's principal core industries a strike and lock out could have a significant impact on the local economy as well as negatively affect the City's fiscal condition. The analysis in the following pages is designed to define the nature, magnitude and significance of these potential effects.

The potential magnitude of economic and fiscal impacts that could result from a hotel workers strike and subsequent lock out will be determined by factors relating to the workers and hotels involved in the strike and lock out, the timing and duration of the work stoppage, the effect of the work stoppage on visitation to the City (number of visitors and length of stay), and the strategies employed to mitigate the disruption of visitor services by the effected hotels. The timing and duration of the stoppage is particularly important as the number of visitors potentially affected by a hotel workers strike and lock out changes by a factor of 2 between the winter months and the peak visitor season (e.g., January vs. March). The duration of a work stoppage may also be important to the magnitude of economic impact as visitors have more time to alter their travel plans the longer a strike persists; media coverage of the stoppage may also have a cumulative effect deepening its negative and disruptive images. This may have a greater effect on the leisure traveler than on the business traveler over the long run and could also impact decisions regarding site selection for business meetings and conventions. Over time the negative images may magnify the impacts in the minds of visitors more so than the actuality of the events.

Some of these effects can be quantified while others can only be described qualitatively. In other instances, experiences from similar cases may provide some order of magnitude for these impacts. The most recent hotel workers stoppage occurred in San Francisco between September 29 and November 20, 2004. While there is disagreement as to the economic consequences of this strike, there are some numbers that suggest the magnitude of impacts that could occur in the District of Columbia under similar circumstances.

The Potential Dimensions of the Work Stoppage

The key initial variables in calculating the direct economic impact of the threatened hotel workers strike and subsequent lock out are the number of workers affected and their wage rates and the number and size of hotel properties involved. Other important variations that will qualify the economic impacts of a strike are: the duration of a lock out, the labor management strategies employed by the effected hotel properties, the reaction to the labor dispute by convention, business, and leisure visitors, and strike-related incidents and scope of media coverage.

What is known?

Local 25 identified 3,478 workers that could be affected by a lock out by the Hotel Association. These workers are 52 percent female and 48 percent male and reside as follows: 1,158 (33.3%) in the District of Columbia, 1,547 (44.5%) in Maryland, and 773 (22.2%) in Virginia. These workers earn on average $11.83 per hour and with benefits (health, pension and other—vacation, sick leave, duty meals, disability, life insurance, premium pay) the total per worker hourly average cost (benefit) is calculated at $18.51.

Fourteen hotel properties would be potentially affected by a strike or lock out. These properties (listed in the Appendix) represent a total of 7,332 rooms or 28 percent of the total 26,225 hotel rooms located in the District of Columbia and include many of the largest hotels that also offer on-site meeting and banquet facilities.

Hotel workers who become unemployed because of a strike do not qualify for unemployment benefits from the DC Department of Employment Services. However, hotel workers unemployed due to a lock out by the Hotel Association would qualify for unemployment benefits for a period up to 26 weeks. These benefits range from $50 per week up to a maximum of $309 per week and are based on 50 percent of the weekly wages of the unemployed worker up to $618.00 per week. There are no dependent allowances and no compensation for the workers' non-wage income. Based on the average hourly wage of the hotel workers employed at the 14 hotel properties involved in contract negotiations, weekly unemployment benefits would average $236.60 for workers working a 40-hour week.

The potential for lost business during a strike or lock out will be determined by the potential number of visitors exposed to the dispute and their subsequent travel decisions (to carry out their planned visit or not). Normal visitation patterns to District hotels reflect a seasonal pattern as follows: January, 50.7 percent occupancy in non-Inauguration years and 52.3 percent for the previous three Inaugurations (56.8% in 2001 was the highest occupancy rate for any January over the past 12 years). The average occupancy rate of February is 64.1 percent while the average occupancy rate of March is 77.9 percent but can be 3 to 5 percentage points higher when Easter is in March as it will be in 2005.

In 2004, the Hospitality Industry had its best year since 2000 and possibly for all time with the hotel occupancy rate through November standing at a fraction below 75 percent. Average room rates also were record setting in 2004. Overall, the Industry's performance placed it second to New York among the nation's major destination markets. Forecasts by the George Mason University Center for Regional Analysis show the Hospitality Industry's total sales are expected to increase by 5 percent in 2005, a rate approximately double their growth rate during the 1990's. This growth forecast is based on the Washington area's overall economic health as reflected in its projected 4 percent gain in gross regional product (compared to the US 3.5% gain in GDP) and a projected increase of 83,000 new jobs in 2005. This year's forecast for the hospitality industry also includes the Inauguration and expected increases in Convention Center bookings and reserved room nights.

What was the economic impact of the hotel workers lock out in San Francisco?

Forecasting the future depends on framing the assumptions that will bound the range of effects going forward. Looking back in history can provide valuable guidance in projecting cause and effect relationships. In the case of Washington, there is no relevant history of work stoppages to draw on. There have been previous work stoppages but these were weather related or linked to terrorism. The blizzards of January 1996 and February 2002 shut down the entire hospitality industry (and more) but just for a week and neither were Inauguration years. The September 11, 2001 terrorist attack shut the hospitality industry down immediately and cost it the remainder of the 2001 season. Hotel occupancy in October normally averages 82.5 percent. It registered only 59.7 percent in October 2001. It was as if the "winter season" arrived two months early. It was estimated that the Washington area's hospitality industry lost $1.25 billion as a result of 9/11. Even though 9/11 severely impacted the Industry, it does not provide a sound basis for estimating the effects of a work stoppage. The Washington Sniper episode that lasted for a three-week period spanning September and October 2002 traumatizing the region also does not provide a parallel case for measuring the potential economic impact of a hotel workers stoppage.

The six-week hotel workers strike and lock out in San Francisco from September 29th to November 20th provides some evidence that might be helpful in calibrating the impacts of a similar event in the District of Columbia even though the timing was critically different—the fall peak season in San Francisco vs. the weaker winter season in DC. Additionally, there is disagreement on the "facts" offered by the opposing parties and in the travel data for the effected period. The Union, citing Smith Travel Research, issued a report indicating that the strike resulted in an 11 percent decline in hotel occupancy and a 2 percent decrease in room rates at a time when the City's hospitality industry was projecting accelerating growth. The Union estimated the Industry lost $25 million during the 6-week strike.

Hotel owners disputed the Union's findings. Even the independent travel industry sources offered conflicting reports. Smith Travel Research reported a decline in hotel occupancy in November of 7.4 percent and PKF Consulting of San Francisco reported that occupancy dropped from 83 percent in October to 63 percent in November 2004 compared to last year's November rate of 69.5 percent. The 6.5 percentage point difference between 2003 and 2004 could be indicative of the strike's effect although there could be other extenuating circumstances (convention schedules, weather). Contrary to these reported decreases Torto Wheaton Research in Boston reported an increase in hotel room revenues for the two quarters spanning the strike. While there were individual costs borne by the workers and the hotel properties, it appears as if the San Francisco economy was not significantly impacted by the six-week strike.

It should be noted, that whatever these costs were, they are not likely to be recovered in the following month, quarter or year. The hospitality industry is different from the housing industry or durable goods retail sector in which sales (purchases) that are lost to a market disruption are usually only postponed or deferred and are generally re-captured the following month. That was the experience of the auto and housing industries following 9/11 when September and early October sales were well below normal but were followed by increased sales later in October and into November setting records for the year in spite of the disruption of September 11th.

<u>What is the Industry's position on the potential economic impact of a work stoppage?</u>

The Hotel Association and the Convention and Tourism Corporation do not expect a work stoppage to materially affect the Industry although they acknowledge that the disruptions will have associated costs and that the quality of services would be affected by the use of replacement workers. This position reflects the Industry's capacity to accommodate the City's overnight visitors that might opt to stay at an unaffected hotel; with occupancy rates in January and February well below the seasonal highs there is a large surplus of accommodations offering a wide range of choices in quality, location, and price to City visitors.

The Convention and Tourism Corporation considers the Convention Center bookings during the first half of 2005 as being secure from the threats of a hotel workers work stoppage, although some smaller events that are scheduled into effected hotels could be threatened. With regard to convention attendees, Convention Center-dependent hotel properties are not among the 14 hotels that would be subject to a strike and subsequent lock out so this large volume of visitors and the biggest source of visitor spending would not be directly affected by this labor stoppage. However, the Union offers a different assessment suggesting that 5 to 6 conventions could be canceled if the dispute is not settled without a lock out.

Still, individual properties affected by the hotel workers strike or participating in the lock out would likely experience increased costs and possibly decreased revenues. Estimates of revenue losses, based on other short-term disruptions, range around 5 percentage points from respective monthly norms. Some downward rate adjustments would be likely, too, although room rates tend to follow the seasonal pattern and therefore are already lower in January and February. Union representatives place this potential for revenue losses at 10 percent.

How a work stoppage might impact the Inaugural Week activities in the District is a question of immediate concern. As a strike would probably be limited to two properties, even if these were the two largest, it would only directly affect a maximum 2,458 rooms or 9 percent of the hotel room inventory. With the use of management and other replacement workers, the effected hotels would expect to minimize their economic consequences. It should be noted here that the workers involved would not be eligible for unemployment benefits while on strike and their loss of income would be substantially more than their base hourly wage rate as tipping and over-time pay represent a major source of earnings during Inaugural Week events.

While the hotel industry does not expect to experience any major losses of revenues and possibly only minor increases in operating costs during the first week of a work stoppage (whether this is Inaugural Week or some other week), there is the recognition that as the stoppage spreads from two properties to fourteen and as time passes, the impact on prospective travelers is likely to increase. These impacts on both visitors sensitive to labor disputes in principle (e.g., sympathetic to labor unions) or in general (e.g., prefer to avoid management-worker conflicts) can be magnified by the actions taken by the workers or their union to gain media attention and by how the disputes are reported by the national media. As a result, the longer the dispute persists, the greater will be the potential impact on the Industry with these impacts accelerating with the seasonal upswing in the Industry in March as increasing numbers of visitors involving school visits during spring vacations and Easter week followed by the Cherry Blossom Festival in April travel to Washington.

There is little concern that the Hospitality Industry in the District would lose significant business to suburban hotels during the Inaugural Week or afterwards. Even though there are more hotel rooms in the suburbs than in the District, with few exceptions (e.g., Ritz Carlton Pentagon City) these are not comparable properties in quality or access to downtown attractions. However, this large reservoir of suburban hotel properties may be a source of already trained replacement workers and could provide alternative housing for those visitors that do not want to cancel their trip to the Nation’s Capital but want to avoid picket lines. In such cases, while the overnight spending of these visitors would be lost to the District economy, some daytime spending would still be captured by District-based businesses.

The Economic Impact of a Potential Hotel Workers Strike or Lock Out

For the workers, the cost of a strike and subsequent lock out would be far greater than the loss of direct wages averaging $11.83 per hour. If all 3,478 union workers at the 14 hotel properties potentially affected by a lock out qualified for unemployment insurance payments, their take-home pay would drop from $473.20 (based on 40 hours) to $236.60, or by 50 percent, in the form of unemployment insurance. The $6.68 in average non-wage hourly benefits would be foregone during the strike or lock out unless some of these benefits were provided by the Union. Additionally, non-wage earnings from tipping as well as over-time earnings would be lost. After the first week of the lock out, the effected hotel workers would face a reduction of income and benefits of up to 70 percent plus an additional amount in the form of non-wage earnings ranging up to more than 100 percent of average wages.

With one-third of the effected hotel workers being District residents, this loss of disposable income could have some localized impacts on retail outlets in the City but the magnitude of these losses are not expected to have consequences extending beyond the hotel workers families; that is, these losses will not be reflected in the District economy that is projected to total $70 billion in Gross City Product in 2005.

For the District of Columbia, the addition of 3,478 workers to its unemployment rolls, assuming that all of these workers qualify for unemployment insurance, would add an estimated $823,000 in unemployment insurance outlays to the Program's weekly disbursements. While a lock out can be expected to be resolved evidentially in some form (in San Francisco, after 6 weeks the parties agreed to a cooling off period ending the lock out), these workers could be eligible for this level of unemployment insurance support for a period extending to 26 weeks. In that extreme case, the cost of these benefits would total as much as $21.4 million. For a six-week lock out, similar to that in San Francisco, the City's unemployment insurance costs could reach $4.9 million.

The costs of a hotel workers strike and subsequent lock out to the City's economy, as noted above, will not undermine its expected 3 percent annual growth rate ($2 billion inflation adjusted gain) projected for 2005. While the hospitality industry is important to the District of Columbia economy, it is not its major source of economic activity (the federal government is the largest core industry followed by the combination of other national capital functions—membership organizations, international institutions and governments with their supporting business activities, technology-based businesses, regulatory and lobbying firms) and, even with an extended work stoppage, the hospitality industry in totality would only experience marginal reductions in revenues..

Convention visitor spending is not expected to be affected by a hotel workers strike or lock out. Similarly, leisure visitation because it has more flexibility regarding lodging arrangements should not be significantly affected by a work stoppage at a limited number of hotels. As a result, for a limited-duration stoppage, the fiscal impacts of a hotel workers lock out should not be significant as measured by a decline of hotel, meals, or retail sales tax revenues. However, an extended work stoppage that becomes punctuated by violence on the picket lines could cost the City some revenue from visitor spending as well as increased public safety costs. Still, the largest cost accruing to the City from this potential work stoppage would be from increased unemployment insurance payouts; these could total $823,000 per week and could continue up to 26 weeks and total as much as $21.4 million.

While a negotiated settlement of this labor dispute would be the least costly outcome to all parties, if a strike occurs followed by a lock out the District's economy is sufficiently strong that it would not be measurably affected and the Hospitality Industry, having fully recovered from the effects of the September 11th terrorist attack in 2001 and the struggling recovery in 2002 and 2003, is positioned for sufficient growth this year that it should be able to absorb the costs of a limited work stoppage confined to fourteen hotel properties. The big losers from a potential work stoppage will be the hotel workers who are locked out (their wage and non-wage earnings and benefits could be reduced by 70 or more percent) and the District of Columbia unemployment insurance fund that could be subject to increased outlays totaling $823,000 for each week that the dispute continues.

Work Strike or Lock Out During the Peak Visitor Season

The variables affecting the economic and fiscal impacts of a potential hotel workers strike and subsequent lock out during the peak visitor season in the District of Columbia—March-August—are the same as affecting any other season. These include: the number of hotel workers effected, the number of hotels and hotel rooms effected, the length of the work stoppage, the labor management strategies employed by the effected properties to mitigate the effects of the strike/lock out, the reaction by convention, business and leisure visitors to the labor dispute, and strike-related incidents and related coverage of the labor dispute by the media. If the potential hotel workers strike and lock-out took place during the peak visitor months, its impacts could be greater than during the winter season due to the increased visitor volume and higher hotel occupancy rates consequently generating a potential for greater financial impacts on the Hospitality Industry and on the District of Columbia's economy.

Which Impact Variables Remain Constant

The constants in the analysis of the economic impact of a potential hotel workers strike are: the number of potential workers effected (3,478), the number of hotel properties (14) and rooms (7,332) affected, the workers' lost earnings ($1,645,790 per week assuming a 40-hour work week and an average hourly rate of $11.83), lost benefits equal to $929,332 per week, and unemployment benefit payments totaling $822,895 per week assuming benefits are 50% of an average weekly salary of $473.20 for 3,478 workers. As unemployment benefits can only replace up to 50 percent of wages and do not account for the value of benefits or non-wage earnings (tips), the losses suffered by the hotel workers could exceed 70 percent of actual earnings.

Which Impact Variables May Fluctuate with Occupancy Rates

Variable impacts---those variables that are potentially a function of visitor volume—include non-wage earnings of hotel workers and hotel occupancy rates. Variation in occupancy rates could translate into changes in hotel revenues and outlays and visitor spending for meals, transportation, entertainment and other retail goods and services.

The potential loss of hotel worker income could be greater during periods of higher hotel occupancy as tipping income for some hotel workers could be affected by the number of visitors staying in the effected hotels. This differential depends on the specific hotels involved, the mix of their clientele and how this mix changes by season, and the actual monthly variation in those hotels' occupancy rates. Using the occupancy rate averages for the District of Columbia as a guide, the occupancy differential between the March–August period and the remainder of the calendar year is 74.8% v. 65.25% although the occupancy rate exceeds 80 percent during the March-June period. This 15 percent difference between seasonal occupancy rates could have some measurable impact of the effected workers' non-wage earnings. For example, if non-wage earnings accounted for one-third of the average annual income of hotel workers across all categories of workers, this occupancy effect would represent a 5 percent change in earnings over the period of a work stoppage. This additional income effect would total $82,300 a week in additional lost earnings for the 3,478 hotel workers who lost their jobs during the lock out if the stoppage fell with in the March-August period. If these non-wage earnings accounted for 50 percent of total average worker income, these added lost earnings would total $123,434 per week during the March-August period. For a six-week stoppage, this additional loss of earnings would range from $493,800 to $740,600 for these two examples.

The greatest potential for increased economic impact resulting from a hotel workers strike and subsequent lock out is its effect on hotel occupancy in the effected hotels as well as on the City's hospitality industry in general. With hotel occupancy rates increasing by 30 percentage points between January and March, April, May and June—from the low 50 percent range to the low 80 percent range—and convention activity at its seasonal peak (the September-October period is similarly strong), the potential for lost visitation is increased in comparison to an off-season stoppage. While there is no agreement on the effect of a labor dispute on hotel occupancy (the San Francisco hotel workers dispute provides conflicting evidence), it is agreed that the longer the dispute lasts the more media attention it will receive and the greater the likelihood it will negatively impact visitor travel decisions, especially for leisure travelers.

As the major hotels serving the Convention Center are not included in the list of hotels directly exposed to a potential work stoppage, the Convention and Tourism Corporation is of the opinion that a strike and lockout would only have a marginal impact of attendance at scheduled conventions. Currently, there are 145 scheduled events in the Convention Center between March 1 and September 1 representing an estimated total attendance of 247,000 delegates. With delegate spending averaging $1,065 per event in 2005 (1.025 inflation adjustment to the $1,039 per delegate spending per event in large markets in 2004), these scheduled conventions represent a total estimated delegate spending of $263 million (event and exhibitors spending would not be effected by a marginal change in attendance). Assuming a loss of 13 percent in visitor revenues (the maximum claimed by the Union in San Francisco reflecting a combination of reduced occupancy and discounted room rates), a hotel workers strike in the District could result in the average loss of $1.315 million in delegate spending per week if a stoppage took place during the March-August period or $7.89 million for a six-week stoppage.

Applying this same magnitude of impact (13 percent of revenues) to the breadth of the District's hospitality industry would result in an estimated average weekly loss of economic activity during the March-August period (direct and indirect effects) totaling $12.5 million; for a 6-week strike this loss of economic activity would total $75.0 million.

While this potential industry-wide loss represents an extreme value (see discussion of San Francisco's hotel strike impacts), it provides a reference point for assessing the maximum impact of a six-week hotel workers strike or lock out on the District's $70 billion economy. Given this maximum industry-wide effect and a six-week strike, the potential economic cost to the City would represent a 1/10 of 1 percent (0.1%) decline in its total estimated 2005 Gross City Product (GCP). Alternatively, this magnitude of loss would equal 3.75 percent of the District's projected $2 billion increase in GCP this year. These orders of magnitude of economic costs to the District's economy remain small but would accumulate over an extended work stoppage. Still, the economic impacts on the effected hotel workers remain the primary negative effect of a potential strike or lock out along with the continuing cost to the City of providing unemployment benefits that could total $21.4 million if the labor dispute extended to the maximum 26-week coverage period.

Appendix

Hotel Properties Potentially Affected by A Hotel Workers Strike or Lock Out

Property	Number of Rooms
Marriott Wardman Park	1,340
Washington Hilton and Towers	1,118
Hyatt Regency – Capitol Hill	866
Omni Shoreham Hotel	838
Renaissance Mayflower Hotel	652
Capitol Hilton	544
Loews L'Enfant Plaza	370
Holiday Inn on the Hill	348
Hotel Washington	344
Holiday Inn Downtown	212
Westin Embassy Row	206
Best Western Capitol Skyline	203
Embassy Row Hilton	193
Jefferson Hotel	100
Totals Rooms	7,332
Percent All Rooms in DC (26,225)	28.0

Sources: Hotel & Restaurant Employees Local 25 and Smith Travel Research