Growing Profits at Workers’ Expense:

Working conditions of hotel workers in Minnesota’s major metropolitan areas.

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# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Findings</td>
<td>4</td>
</tr>
<tr>
<td>Recommendations</td>
<td>5</td>
</tr>
<tr>
<td>Immediate Steps</td>
<td></td>
</tr>
<tr>
<td>Intermediate Steps</td>
<td></td>
</tr>
<tr>
<td>Forward Looking Solutions</td>
<td></td>
</tr>
<tr>
<td>Profits and Profitability come at Worker Expense</td>
<td>8</td>
</tr>
<tr>
<td>Profits Up as Workloads Increase for Hotel Employees</td>
<td>10</td>
</tr>
<tr>
<td>Hotel Labor Practices and Injury Rates</td>
<td>15</td>
</tr>
<tr>
<td>A Disproportionate Impact of Industry Hardships on People of Color and Women</td>
<td>18</td>
</tr>
<tr>
<td>Increased Profitability at Taxpayer Expense</td>
<td>20</td>
</tr>
<tr>
<td>Conclusion</td>
<td>22</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The Twin Cities, Duluth and Rochester metropolitan areas are all showing strong signs of recovery from the Great Recession, but not everyone is benefiting from the gains.

Minnesota has one of the lowest unemployment rates in the U.S. at 4.6%. The housing market and commercial development sectors in the state are both showing strong signs of recovery. The hotel industry has had a robust recovery and is on track for another year of high earnings.

Despite these areas of optimism the recovery has not benefited everyone equally. The recovery has been particularly unequal in the Twin Cities region. A 2013 report published by the Metropolitan Council, “The Twin Cities in 2012: An Uneven Recovery”, uncovered the struggle low-wage workers in the region continue to face. In particular, hotel workers have seen little improvement in their working conditions. Increased profits have not led to improvements for low-wage workers in the industry.

The financial pressures of the recession led many hotels to cut back dramatically on staffing levels. Despite recovering profits, however, there has been little new hiring. In a push for increased labor productivity the industry has increased the workloads for their employees. These pressures have led to greater injury rates throughout the industry, especially among housekeepers. These trends hold in other metropolitan regions throughout the state, as workers in both Rochester and Duluth face similar pressure.

The purpose of this report is to shed light on the hidden costs to workers that undermine the value of the industry for the greater Twin Cities, Duluth and Rochester metropolitan area economies. These are three critical economic hubs in our state. The findings draw attention to the relationship between hotel profits, worker pain and injury and the public subsidies that help maintain the industry.

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1 A full list of unemployment rates can be found here: http://www.bls.gov/web/laus/laumstrk.htm (Accessed June 23, 2014).
FINDINGS

✓ Increases in revenue per available room (REVpar), occupancy rates and overall revenue in the Twin Cities, Rochester and Duluth all indicate that the hotel industry has made a strong recovery from the Great Recession.

✓ Dramatic cuts in staffing levels have increased hotel profits, but they have led to a larger burden on hotel workers. In Minneapolis, for example, between 2008 and 2011 total revenue increased by 9%, yet total employment in the industry declined by 14%.

✓ Earnings for hotel workers in the Twin Cities, Duluth and Rochester are at the bottom of the wage scale relative to a range of occupations that do not require a high school degree.

✓ The hotel industry reflects the dynamics of rising inequality throughout the American economy. This is reflected in the substantial discrepancy between the average hotel CEO’s pay and that of the average hotel worker.

✓ Injury rates within the accommodation industry are higher than the construction and rail transportation industries.3

✓ Reports of occupational injuries are especially high among housekeepers.

✓ The hardship faced by workers in the accommodation industry, especially in hotels, is disproportionately borne by women and people of color.

✓ Low wages and relatively low medical insurance coverage rates for hotel workers means that these workers rely heavily on public subsidies, such as the supplemental nutritional aid program (SNAP) to get by.

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3 Throughout this report, accommodation industry-level data is used. The North American Industry Classification System (NAICS) for the accommodation industry is NAICS 721. A large percentage of the workers within this industry are hotel workers. “Hospitality Industry” is a more general descriptive phrase used to describe arts, entertainment, recreation, accommodation and food service workers. Occasionally, this term will be used to describe this large subset of service sector workers.
RECOMMENDATIONS

Minnesota 2020 advances the following recommendations to promote a tourism and accommodation industry that is good for all Minnesotans.

We call on both the private and public sector to set tourism and hospitality on a path to contribute to the prosperity and sustainability of our state. Through a commitment to higher standards and workers’ rights hotel owners and operators in the Twin Cities, Rochester and Duluth can become responsible to a public bottom line as well as their own. The public sector can play a vital role in transforming the industry into a living wage segment of our economy and end the drain on public budgets. These goals can be accomplished through public policy and political leadership.4

Immediate Steps

✓ Hotel employers should reduce excessive workloads (especially for housekeepers) and minimize cost-cutting practices that put workers at excessive risk for injury.

✓ More detailed research should be conducted to fully understand the extent of workplace injuries. The appropriate public agency, such as The Center for Occupational Health and Safety, needs to commit resources to uncovering the sources and the extent of occupational injuries in the accommodation industry. Such research would help local officials develop safety standards to better protect hotel workers.

✓ Hotel employers should provide high quality health insurance for families at an affordable price. Providing good, affordable health insurance would improve the living standards of metro area workers and help reduce the current burden on taxpayers.

✓ Public and private sector actors should provide protections for the right to organize. When workers can collectively bargain for wages and benefits, the hotel industry becomes less of a burden on our communities and public budgets.

4 A special thank you to Puget Sound Sage for insights about the hospitality industry and for their work on developing a set of high road policy recommendations to improve the industry in and around Seattle, Washington.
Intermediate Steps

✓ As the region continues to invest in the tourism and hospitality industry, public officials should seek to promote improvements to the working conditions of hospitality workers.

- As community leaders push to expand the Minneapolis convention center, the Mayo Clinic, and a range of other projects, they should be leaders in realizing the opportunity to ensure safe working conditions and quality jobs at the hotels benefiting from these new facilities.

- Officials throughout the state need to recognize their opportunity to promote an industry that is good for all Minnesotans.

✓ The State Legislature should continue to advance goals set forth in the Women’s Economic Security Act (passed this year - 2014). The accommodation industry has a majority female workforce. The Women’s Economic Security Act made great strides in improving the working conditions of women. The act increases the unpaid leave for a pregnancy from six weeks to 12 weeks to provide mothers more flexibility in caring for their children and not forcing them to quit their jobs if they need more time. It also expands the allowable use of sick time to include caring for grandchildren or receiving assistance because of sexual assault, or domestic abuse. These are important first steps. The Legislature needs to do more, however, to close the pay gap and to improve the access and affordability of childcare.

✓ Minnesota OSHA should seek to increase their scrutiny of the industry to guarantee enforcement of labor laws. Stepped up scrutiny and enforcement will be particularly important with the increased pressure on employees from major tourism events such as the MLB All Star Game, the 2018 Super Bowl, future political conventions and possibly hosting the NCAA Final Four.

Forward Looking Solutions

✓ Accommodation employers can play a central role in improving the working conditions and upward mobility of industry workers. They should invest in training programs that provide workers with the opportunity to develop their skills. They should seek to invest in labor-management training programs such as the Culinary Training Academy in Las Vegas, which continues to successfully train thousands of workers each year. Funding for the academy is provided by modest employer contributions. Such a model can improve the access to accommodation jobs and provide mobility within the industry.
City and State officials need to continue their targeted efforts to eliminate the substantial racial employment disparities across Minnesota’s economy. These disparities are particularly pronounced in the hotel industry. As this report documents people of color and women disproportionately bear the burden of pain and injury in the hotel industry. By improving wages and working conditions of workers in the industry and by providing opportunities for upward mobility, through supporting the development of a Culinary Training Academy for example, we can make great strides in closing the racial gap in employment disparities.

Public officials should seek to continue to expand and improve public transit options for low-wage workers in the region. Most hotel workers rely on public transit to get to their jobs. Improved bus and light rail service to North Minneapolis and other neighborhoods where affordable housing is concentrated are especially important for workers in this industry.

Elected officials in the region should seek to attract high road employers and develop strong labor standards, particularly when public investment is involved in new hotel projects, to make sure new hospitality jobs are not poverty wage jobs. Workers should be earning wages sufficient to provide a decent living in the Twin Cities metro region.

Public officials also need to continue to expand affordable housing options. The recent growth in the Twin Cities population has pushed rent levels to unprecedented levels. The revival of our urban cores is exciting, but we need to make sure that low-wage workers are not displaced. Through a combined commitment to increasing wages (the minimum wage increase is an excellent first step), an expansion of our public transit network, and a commitment to affordable housing, we can minimize the probability of the large-scale displacement of hotel workers from the Twin Cities.

These recommendations provide a set of mechanisms to improve the lives of hospitality workers and to cultivate the conditions for an accommodation industry that benefits all Minnesotans.
Nationally, the hotel industry quickly returned to profitability after the Great Recession. According to a report by Smith Travel Research (STR), “The U.S. hotel industry achieved a net income of approximately $33 billion, or 21.4% of total revenues, during 2011—a healthy increase of 15.7% over 2010 levels.”

On many industry indicators, the Twin Cities metropolitan region has outpaced the national average both in terms of REVpar and occupancy rates.

The Minneapolis/St. Paul Business Journal documents how, “Minneapolis’ hotel occupancy rate was 72 percent at the end of 2013, the highest mark since 2005. The local hotel market has rebounded strongly since falling to a low of 59 percent occupancy at the height of the Great Recession in 2009.”

Occupancy last topped 70 percent in 2007 and has only hit 72 percent twice since 1999.

According to City of Minneapolis data, revenue for Minneapolis hotels increased by roughly 20% between 2008 and 2011. Increases in REVpar, occupancy rates and overall revenue all point to a healthy industry.

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7 Ibid.
Although Duluth and Rochester have lagged slightly behind the Twin Cities region in their respective rates of recovery, county level gross sales data for the industry indicate a strong return to profitability in both cities.
In a presentation to investors in 2011, Frits van Paaschen, CEO of Starwood Hotels, noted that his company strongly profited during the Great Recession by “cutting costs, reducing leverage and increasing liquidity. The crisis made us better and faster.” He went on to explain how, “In 2010, it was management’s ability to control labor cost that was the main reason for profitability growth.” This is clearly seen in the data.

From 2008 to 2011, total revenue for hotels in Minneapolis increased by 9%, yet total employment in the industry regionally declined by 14%.

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Hotel Employment
Twin Cities Metro Area

Source: Authors’ analysis of ACS PUMS 2003–2012

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The employment trends in the counties containing Rochester and Duluth have seen similar trends in employment.

**Employment in Accomodations**

*Olmstead County*

![Graph showing employment trends in Olmstead County from 2006 to 2012.](image1)

*Source: Author’s analysis of Census Bureau data of county business patterns.*

**Employment in Accomodations**

*St. Louis County*

![Graph showing employment trends in St. Louis County from 2006 to 2012.](image2)

*Source: Author’s analysis of Census Bureau data of county business patterns.*
Nationally during the Great Recession and its aftermath (i.e., between 2007 and 2012), wages fell for the entire bottom 70 percent of the wage distribution, despite productivity growth of 7.7 percent. The losses tended to be larger further down the wage distribution; wages at the 80th percentile were essentially flat (increasing by 0.2 percent), the median (50th percentile) worker saw a decline of 2.6 percent, and the 20th percentile worker saw a decline of 5.5 percent over this period.9

From 1979 to 2009, hourly wages in the bottom fifth of earners dropped by 10%, after adjusting for inflation.10 Since the official beginning of the recession in 2007, median earnings for all workers in the US have dropped by 4%. Workers in service occupations, such as hotel workers, have been hit even worse, losing 7% in wages over the same time period.11

Compared to workers in other occupations that do not require more than a high school degree, the average hotel worker in the Twin Cities market earns at the bottom end of the wage scale (see below). In May of 2013, a median salary for non-management hotel workers was $22,340 a year compared to $49,300 for construction laborers, $39,530 for mechanics, $28,280 for retail clerks, $26,610 for laundry and dry cleaning services and $51,050 for all occupations.12

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12 All data based on author’s analysis Bureau of Labor Statistics Occupational Employment Statistics for May 2013 from the Bureau of Labor Statistics. The data is for Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates. The estimate for hotel workers is based on an average of hotel desk clerks (code = 43-4081) and hotel maids (37-2012). Other occupational codes used were 47-2061 (construction laborers), 49-3023 (automotive services), 41-2021 (retail clerks) and 51-6011 (laundry & dry cleaning). Data can be found here: http://www.bls.gov/oes/2013/may/oes_33460.htm (Accessed June 23, 2014).
Earnings for hotel workers in Duluth and Rochester are also at the bottom of the wage scale. Estimates put the median annual wages for a hotel worker in the Duluth metropolitan area for May 2013 at $19,765 a year compared to $36,480 for construction laborers, $35,610 for mechanics, $22,250 for retails clerks, $24,390 for laundry and dry cleaning services and $40,700 for all occupations. Estimates for Rochester were $23,425 a year compared to $34,430 for construction laborers, $36,850 for mechanics, $20,780 for retails clerks, $32,260 for laundry and dry cleaning services and $47,560 for all occupations.

13 All occupational codes used are the same as above. Data for Duluth can be found here: http://www.bls.gov/oes/2013/may/oes_20260.htm (Accessed June 23, 2014).

14 All occupational codes used are the same as above. Data for Rochester can be found here: http://www.bls.gov/oes/2013/may/oes_40340.htm (Accessed June 23, 2014).
Within the hotel industry, there is a substantial discrepancy between average employees and hotel executives. CEO pay for major hotel companies have continued to rise to record levels, while compensation for hotel workers has remained below comparable industries as discussed above.
Hotel room cleaning is a backbreaking job, with intense workloads, time pressures and repetitive lifting motions. In a recent study of 1,000 Las Vegas hotel workers, ninety-five percent of housekeepers reported enduring occupational-related injuries.\textsuperscript{15} To determine this statistic, researchers asked them if they had experienced on-the-job pain during the last four weeks. Most of these workers barely make a living wage while their employers are making millions in profits derived from their labor. Women and people of color are disproportionately bearing the brunt of these unsafe working conditions. Housekeeping work is characterized by demanding workloads, intense time pressure and repetitive lifting motions. According to a report by Puget Sound Sage (Sage) on working conditions for hospitality workers in the Seattle area, housekeepers across the nation clean an average of 15 or more rooms per day, at a rate of 30 minutes per room.\textsuperscript{16} Citing research done by Joan Moriarty, the Sage report explains that housekeepers are often required to complete a task lists of 33 items or more within only 30 minutes, followed by reloading supply carts that often weigh more than 300 pounds.\textsuperscript{17}

\begin{center}
\textbf{Housekeepers' Pain vs. the General Population}
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\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{housekeepers_pain.png}
\caption{Percentage of People}
\end{figure}

Source: Krause et. al 2005


\textsuperscript{17} Moriarity, Joan. "Creating Luxury, Enduring Pain: How Hotel Work is Hurting Housekeepers." UNITE HERE (2006).
Based on estimates from the Bureau of Labor Statistics of the U.S. Department of Labor, incidence rates of non-fatals occupational injuries and illnesses in Minnesota are surprisingly high in the accommodation industry relative to a range of other industries. In 2012 there were 5.4 injury reports per 100 workers in the accommodation industry. This is compared to a rate of 5.1 injury reports per 100 workers in the construction industry, 2.6 per 100 workers in the chemical manufacturing industry, 2.2 per 100 workers in the rail transportation industry, and 3.8 across all private industry.\(^{18}\)

Where more research needs to be done, however, is in pinpointing the precise rate of injuries for housekeepers. Based on previous research by Krause et al. (2005)\(^{19}\), Buchanan et al. (2009)\(^{20}\) and others it is clear that pain among housekeepers is much higher than most other workers in the accommodation industry. In other words, it is likely that injury rates among housekeepers in the Twin Cities are much higher than the 5.4 per 100 workers industry wide average in the accommodation industry.

Reducing the ratio of staff to occupied rooms has been a long-term trend in the hotel industry, placing increased performance demands on all workers. As explored above, the same trend is certainly true in the Twin Cities metropolitan area. Statistical estimates based on ACS PUMS Census data show that employment in the hotel industry peaked at 16,423 in 2008 and fell to 14,153 by 2012. These cuts remain despite rising profits and expansion in industry.

\[\text{Rate of Injury Among Accomodations Industry Workers Higher than Most}\]

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\includegraphics[width=\textwidth]{rate_of_injury.png}
\caption{Rate of Injury Among Accomodations Industry Workers Higher than Most}
\end{figure}

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These cuts and increased pressures for efficiency mean housekeepers are pushed to clean more rooms at a faster pace. These workers are already overworked and underpaid and putting more pressure on them will likely contribute to a rise in injury rates as the industry continues to expand in the region.

Bad practices in the industry are disproportionately effecting women and people of color. Nationally a wide range of research has shown that women and people of color are particularly vulnerable to workplace injury (Richardson et al. 2003; Frumkin and Pransky 1999; Stellman 1999). These disparities are particularly pronounced among housekeepers (Buchanan et al. 1999).


A DISPROPORTIONATE IMPACT OF INDUSTRY HARDSHIPS ON PEOPLE OF COLOR AND WOMEN

People of color and women disproportionately bear the burden of pain and injury in the hotel industry. As demonstrated in the previous section, housekeepers are at a particularly high risk of workplace injury. In all urban areas studied in this report women are the overwhelming majority of housekeepers. Housekeepers are 80.8% female in Minneapolis, 76.2% in St. Paul, 82.6% in Duluth, and 83% in Rochester. Overall housekeepers are 74% people of color in Minneapolis, 60% in St. Paul, 23% in Duluth and 30% in Rochester.

Racial Composition of Housekeepers in Minneapolis

Source: Authors’ Analysis ACS PUMS 2006-2010

25 Authors’ analysis of the U.S. Census Bureau’s American Community Survey for 2006-2010 PUMS. For gender and racial composition data, I used ACS occupation code 4230 for housekeepers. Minneapolis, St. Paul, Rochester and Duluth were all selected as the units of analysis. The data can be accessed directly from the US Census website using the American Fact Finder tool. Data can be found here: http://factfinder2.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t (Accessed April 15, 2014).
Racial Composition of Housekeepers in St. Paul

- White: 40%
- Black: 27%
- Latino/a: 19%
- Asian: 7%
- Other: 6%
- American Indian: 1%

Source: Authors' Analysis ACS PUMS 2006-2010

Racial Composition of Housekeepers in Duluth

- White: 77%
- Latino/a: 13%
- Other: 0%
- Asian: 0%
- American Indian: 0%

Source: Authors' Analysis ACS PUMS 2006-2010

Racial Composition of Housekeepers in Rochester

- White: 70%
- Latino/a: 3%
- Black: 9%
- Asian: 16%
- Other: 0%
- American Indian: 2%

Source: Authors' Analysis ACS PUMS 2006-2010
As presented previously, annual earnings for regional workers fall well below the earnings of similar occupations. This leaves many accommodation industry workers at or below the poverty line.

As the figure below demonstrates, median earnings are only a few thousand dollars above the 2014 Federal Poverty Guideline of $19,790 for a family of three. The low median wages of housekeepers and front desk workers in the industry ($22,340 in the Twin Cities, $19,765 in Duluth and $23,425 in Rochester) also means that these workers meet the $25,392 threshold to qualify for the Supplemental Nutrition Assistance Program (SNAP).

Such a wage would also qualify a family of three for the Minnesota School Breakfast and Lunch program at $36,131. Finally, median hotel worker pay provides an income well below what it takes to survive in the Twin Cities, Rochester and Duluth metropolitan regions, sometimes expressed as an “essential family budget” or “self-sufficiency standard.”

This standard represents the minimum amount of annual income needed to make ends meet without public assistance and with no capacity for saving. Based on the EPI calculation a family of three (two parents and a child) requires an income of $65,435 in the Twin Cities, $60,549 in Duluth, and $62,785 in Rochester to meet a self-sufficiency standard. For both a single income and two-income family with both parents working in the hotel industry they would fall below the EPI essential family budget.

Many accommodation sector workers must also rely on emergency room care for health insurance throughout the major metropolitan areas in our state. This trend is particularly pronounced in the Twin Cities area. As of 2011, 22% of hotel workers in the Twin Cities metropolitan region were uninsured. This is compared to a 92% rate of insurance coverage across all occupations in the region. As the Affordable Care Act (ACA) is fully implemented, more research will be needed to determine its impact on insurance coverage rates among hotel workers in the Twin Cities and throughout the state.

Many workers cannot afford the often high cost insurance plans offered by their employers, which are common nationwide in the industry. Even when plans are semi-affordable, premiums can have high copay costs. From 2008 to 2010, families with insurance from private employers saw premiums rise by 13%, compounding the difficulty in accessing health insurance for many low-income families and individuals in the industry.

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28 Authors' analysis of the U.S. Census Bureau’s American Community Survey for 2011 Public Use Microdata Sample (PUMS) file. For all wage and demographic data describing the hotel workforce in this report, we use an aggregation of non-management hotel worker occupations in industry sector for housekeepers and maids (ACS OCC code 4230), Baggage Porters, Bellhops, and Concierges (ACS OCC code 4530), and Hotel, Motel, and Resort Desk Clerks (ACS OCC code 5300). The Twin-Cities metropolitan region was selected as the region of work. All PUMS data was downloaded from the University of Minnesota’s IPUMS USA project in a dataset that comprises nation wide data at [http://usa.ipums.org/usa/](http://usa.ipums.org/usa/) (Accessed April 10, 2014).

The cost of having no health insurance can be drastic. A lack of medical care discourages preventative care and can put families at greater risk for serious medical emergencies.³⁰ Research has shown that workers are more than twice as likely to forgo or delay needed care relative to those with health insurance.³¹ With delays in necessary care, the possibility of a worse medical emergency and more costly medical care increases.³²

Furthermore, delays in medical care, reliance on government sponsored health insurance, and lack of insurance coverage are all factors increasing morbidity and mortality, including adverse cardiac events.³³

Minnesotans all pay the cost of uninsured workers in the industry. The 22% of workers who do not have health insurance must rely on emergency room care, which contributes to Minnesota’s public health care spending at $2,584 per capita. This is part of a troubling trend of private sector companies offering unaffordable insurance, which has contributed to an 83% increase in state spending on healthcare since 2000.³⁴

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³² Ibid

³³ Gaglia, Michael Angelo Jr, Torguson, Rebecca et al., "Government-Sponsored Health Insurance and Lack of Insurance are Associated with Adverse Cardiac Events.” Journal of the American College of Cardiology, Volume 55, issue 10A (March 9, 2010).

³⁴ Authors analysis of Henry J Kaiser Family Foundation health data. Full data can be accessed here: http://kff.org/other/state-indicator/health-spending-per-capita-by-service/#graph
CONCLUSION

The Twin Cities, Rochester and Duluth metropolitan regions’ hotel industries have survived the Great Recession and are poised for significant expansion. Hotels in these regions are rebounding and likely to see their multi-million dollar profits grow even more. There are also a number of new projects slated for development in all of these regions. This should all be good news.

But when this profit growth depends on industry practices that shift operational costs to workers and consequently the public through public programs such as SNAP and the Minnesota school breakfast and lunch program, we must take a critical look at the impacts of the industry. This report has documented that the benefits of an expanding accommodation industry could be undermined by hidden costs to workers, our communities and taxpayers. More low-wage jobs and falling wages will only increase working poverty in the region.

The good news is that there is a better way that secures good jobs and strengthens the industry. By maximizing investment in workers, including compensation, benefits, training and professionalism the “high road” policies and practices laid out in the recommendations section will help to develop an accommodation industry that is good for workers and for all Minnesotans.
Minnesota 2020 is a progressive, non-partisan think tank, focused on what really matters.

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