# Cost-Benefit Analysis of Chicago's Proposed Stable Jobs, Stable Airports Ordinance

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## Executive Summary

On October 5, 2011, thirty-one Chicago aldermen introduced the Stable Jobs, Stable Airports Ordinance to amend Chapter 2-92 of the Municipal Code of the City of Chicago. The full text of this proposed ordinance is contained in the Appendix. In summary, the ordinance is intended to:

- Ensure airport concessions workers' jobs are not disrupted if the city brings in a new contractor.
- Require companies wanting to do business at Chicago airports to agree to avoid labor disputes, protecting travelers and City revenue.
- Ensure that airport concessions workers are paid at least the Chicago Living Wage ($11.18) that the City requires of other contractors.

This study evaluates the likely benefits and costs of these requirements for airport workers, employers and consumers and for the City of Chicago, which depends on concessions revenues.

***Benefits***

The most direct benefit would accrue to those airport concessions workers who would be covered by the Living Wage Ordinance. We estimate that 1,600 of the 2,400 concessions workers at the two Chicago airports would increase their wages an average of approximately $2 an hour. This would be **an increase in annual income of about $4,000 per full-time worker covered**, from roughly $18,000 to $22,000 a year. While many researchers suggest that these higher incomes would still not meet a minimally adequate standard of living, these increased wages would nevertheless have a substantial positive impact on these workers' lives and their families' well-being.

Whereas the vast majority of these workers live in the City of Chicago, most concessions revenues (roughly 75%) come from customers who live outside the metropolitan area and most concessions profits (also roughly 75%) leave the region. Therefore, the living wage component of the ordinance would have a stronger impact on the local economy than if most customers and companies were local. We estimate that there would be **a net annual increase in local purchasing power of between $3 million and $8 million per year**, using the Congressional Budget Office's estimates of economic multipliers. Our expectation is that **this infusion of economic activity would most likely be at least $6 million per year**.

Most of this additional purchasing power would be spent locally, resulting in substantial increases in sales tax revenues for the city and Cook County as well as substantial increases in income and sales tax revenues for the State of Illinois.

***Cost***

The first two provisions of the Amendment – those designed to ensure employment stability and labor peace – should lead, in combination with the wage increase, to increased productivity and to improvements in the quality of customer service at the airports. Thus, the only cost involved in the ordinance is the coverage of airport concessions workers by the City's Living Wage Ordinance. We estimate that the aggregate cost of covering concessions workers at O'Hare and Midway under the city's Living Wage is **$6.9 million**. This could be paid for in one of three ways:

- If the entire $6.9 million were taken out of company profits, we estimate a reduction of total profits of 14% to 16% at O'Hare and 23% to 27% at Midway. Despite these reductions, concessions companies at both airports would still enjoy above-average profit margins compared to "on the street" counterparts – that is, stores located outside airports.
- If the entire $6.9 million were passed on to customers through price increases, we estimate that each travelling customer would pay an additional **16 cents per trip at O'Hare** and an additional **21 cents per trip at Midway**.
- Decreases in turnover resulting from the ordinance will reduce unit labor costs, thereby reducing some of the pressure on both profits and prices. We estimate that the **reduction in "break in" and training costs will pay for more than $700,000 of the increased aggregate cost** based simply on the likelihood of reduced turnover in the workforce. Other less measurable productivity advantages of retaining experienced workers would increase this offset further.

We conclude that the increased labor costs incurred by covering airport concessions workers under the city's Living Wage policy can easily be accommodated by some combination of small reductions in profits, small increases in prices, and expected improvements in turnover and other productivity benefits.

Conversely, the benefits for these workers and for the airports are unquestionably large, and the benefits for the Chicagoland economy and local government revenues are substantial.

For identification purposes only, Dr. Parks and Dr. Sites are both Associate Professors in the School of Social Service Administration at the University of Chicago; Dr. Metzgar is Professor Emeritus of Humanities at Roosevelt University, and Dr. Baiman is Director of Budget and Policy Analysis at the Center for Tax and Budget Accountability.