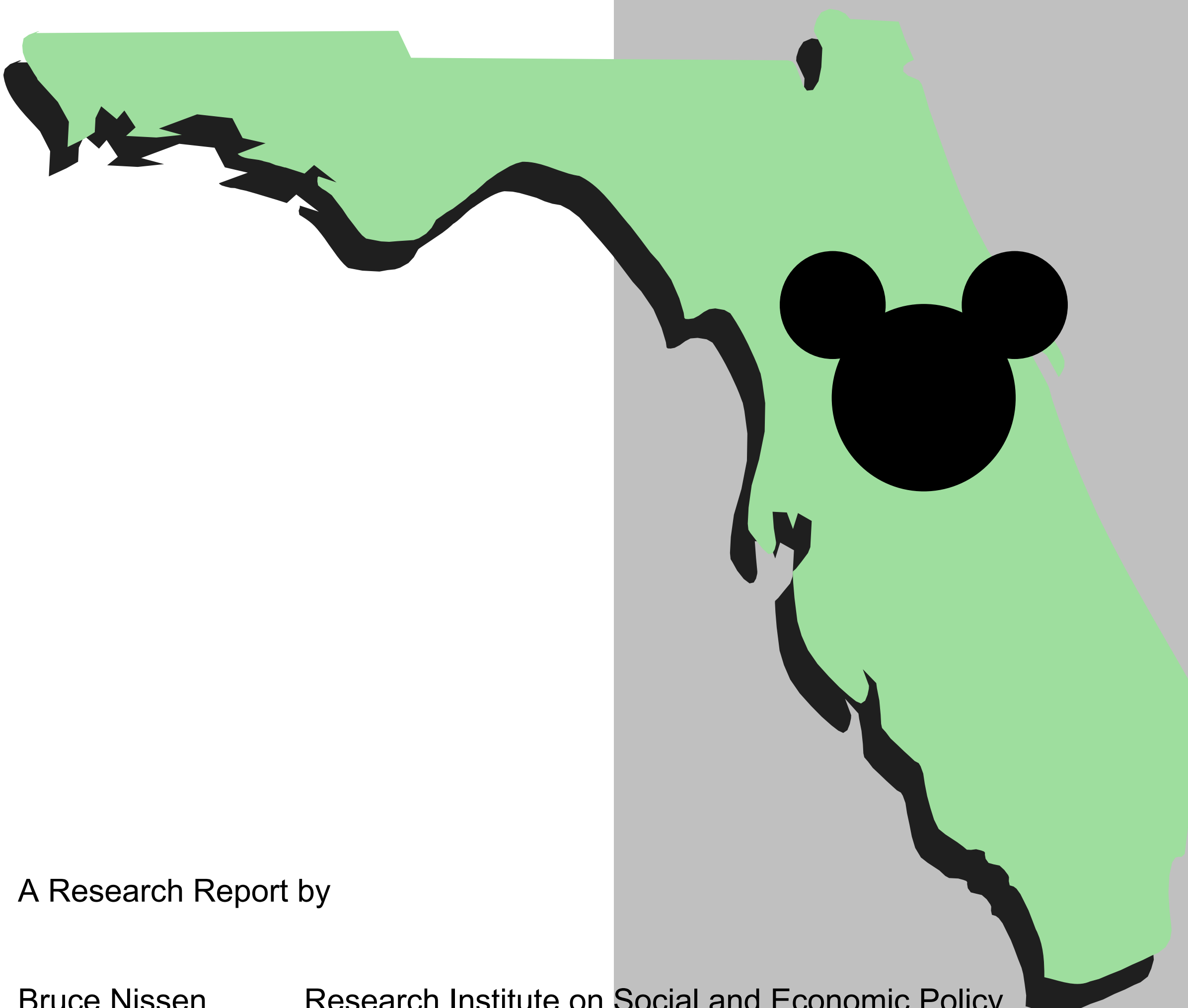
Walt Disney World's Hidden Costs: The Impact of Disney's Wage Structure on the Greater Orlando Area



A Research Report by

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Executive Summary

This report examines the impact of changes in the pay practices of Walt Disney World in the years from 1998 to 2006. One major change was the institution of a two-tier wage system that lowered the pay increases of new entrants to its labor force hired after December 12, 1998 compared to those hired on or before that date. This progressive lowering of wages has created a major "hit" to the greater Orlando economy:

- By 2006, the **Walt Disney annual payroll was $19.39 million lower** than it otherwise would have been;
- **Pay levels were 12.2% lower** for the more recently-hired workers;
- As a consequence, **Orange and Osceola counties lost $23.4 million in goods and services production in 2006**;
- **178 jobs were also lost** to Orange and Osceola counties due to this wage reduction.
- The 178 jobs lost meant **an additional loss in payroll of $5.24 million** in 2006.
- These losses will continue to grow in future years, as "old timers" retire or leave the company and new hires receive the lower pay increases.
- The impact of Disney's payroll cut on the larger Central Florida region as a whole must be considerably greater than that on Orange and Osceola counties alone, perhaps twice as great or more.

In the same time period, **Disney's lowest entry level wage deteriorated compared to its competitors (Universal Studios and Sea World)**. In 1998 its entry level hourly wage was 5-8% higher than its competitors; by 2006 it was between 3-4% lower.

This deterioration in the wages of Walt Disney World workers has negative consequences for the entire economy in the Orlando area. If Disney continues with its two-tier pay structure and lower starting wages than its competitors, the damage to the greater Orlando economy will continue to grow.

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Section I: Introduction

Walt Disney World has an enormous economic impact on the greater Orlando area. Tourism is the area's most important industry, and Disney is the most important player in that industry locally. The practices of such a large local enterprise are of great concern to decision-makers and residents in the Orlando area, simply because its actions have a singular impact on the socio-economic, political, and cultural life of the city and its surrounding areas.

The overall impact of Walt Disney World on the Orlando area has been subject to debate in the past. Boosters argue that it has provided a huge payroll, major investment, massive purchases from local businesses, philanthropic giving in the local community, and net tax savings for other Orlando area taxpayers. Critics charge that Disney has created additional costs and demands for social services not factored in to the above claims. They also fault the company for providing mostly low-wage employment that drags down average living standards, creating traffic gridlock and obstructing creation of a rational mass transit system, being stingy with its philanthropy, and creating extra government burdens that more than nullify any tax savings to local taxpayers.[1]

It is not the intent of this study to enter into all of these controversies, or to arrive at a judgment about the overall impact of Disney on Orlando and its surrounding areas. Instead, **this report focuses on the pay practices of the company in the last eight years, to determine if changes Disney has undertaken in this time period have had any impact, positive or negative, on the Orlando area economy.**

Disney's pay practices are worthy of study because it is **the largest employer in the region, employing almost 57,000 workers** according to the website of the Metro Orlando Economic Development Commission. A 2004 study indicated that **Disney provides 17 percent of Orange County's employment and 15.4 percent of Osceola county's employment**. That same study

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[1] For news coverage of these competing claims, see "Study: Disney still drives C. Fla. economy," "Impact on workers: Hourly pay scale holds down region's average," "Impact on transportation: A reputation for stalling mass-transit plans," Impact on philanthropy: How much is enough?," and "Impact on local taxes: a bonus, or a burden?" In addition, see Richard Foglesong, *Married to the Mouse: Walt Disney World and Orlando*. (Full citation for all these sources contained in the "references" section at the end of this report.)

concluded that Walt Disney World is the largest single-site employer in the United States, and that it employs 12.1 percent of the work force in the Orlando Metropolitan Statistical Area ("Study: Disney still drives C. Fla. Economy," 2004).

The pay practices of such a large employer are of great importance to the communities adjacent to it. As the largest employer in the most important industry in the area generally, it "sets the standard" that others are expected to (or will have to) follow. Further, its direct payroll provides much of the purchasing power that provides demand for the products and services of other businesses in the area. Therefore, all citizens in the area and local governments have an important stake in how Walt Disney World compensates its employees, and how those policies change over time.

Section II of this report examines the way Disney has changed its pay practices since 1998. Section III calculates the impact of changing pay practices on the economies of Orange and Osceola Counties. Section IV looks at Disney's likely use of the extra revenue it has garnered as a result of changing pay levels to determine what, if any, of this extra revenue is likely to be used to enhance Orlando and its environs. Section V briefly examines changes in entry-level wages at Disney compared to its competitors in the Orlando area. Finally, Section VI concludes with a summary of the implications of changes in Disney pay practices for the economy and the residents of the greater Orlando area.

Section II: Disney's change in pay practices in 1998: a "two-tier" wage scale and its effects

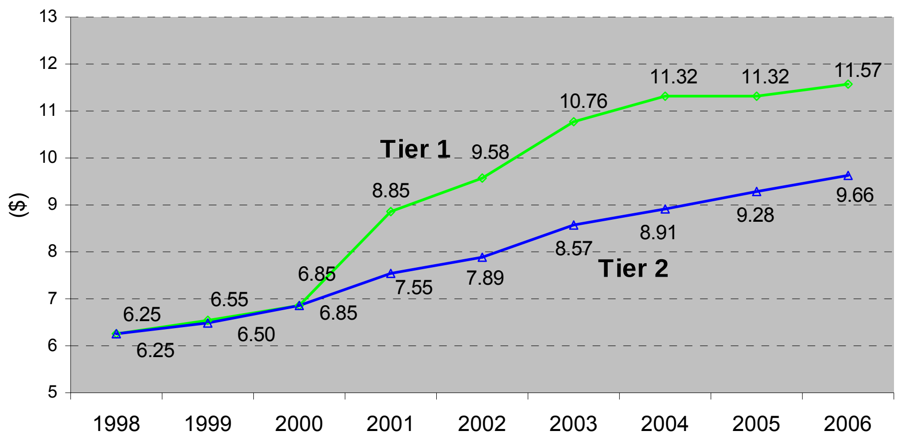
In 1998 Walt Disney World implemented a wage structure that effectively created a two-tier system for its non-tipped service workers. All those hired prior to December 13, 1998 were paid according to a wage scale that provided steady pay increases from a starting wage up to a maximum rate of pay for a particular Labor Grade.[2] (Leaving aside the "tipped" employees, there were 32 Labor Grades at the time. Pay for the lowest earning Labor Grade started at $6.25/hour, while starting rates for the highest earning Labor Grade started at $19.83/hour. Pay rates for the remaining Labor Grades fell between these ranges.) However, **those hired on or after December 13, 1998 received lesser pay increases starting in 2001, preventing them from 'catching up' to their counterparts hired previously. Thus, these workers would be permanently paid at a lower wage rate, and as time went on, the total wage bill would drop relatively as newer hires replace "old timers" who retire or leave the company.**[3]

[2] A Labor Grade is the category by which pay rates are assigned to various job classifications. Thus, workers doing different types of jobs – e.g., custodians and merchandise workers – may be in the same Labor Grade and earn the same starting rates. In this and the following discussion, we refer only to workers covered by a collective bargaining agreement. This includes workers such as housekeepers, custodians, cooks, costumed characters, cashiers, characters, cashiers, merchandise workers, bus drivers, monorail operators, attractions workers, front desk clerks, laundry workers, stage techs, and other non-management service employees.

[3] Information on pay rates obtained from the collective bargaining agreements between the company and its unions. Although the change occurred in late 1998, the effects were not felt until 2001, because that is when the pay levels began to diverge according to schedule.

Workers hired on or before December 12, 1998 would thus fare quite differently in their pay rates in the coming years from workers hired immediately after that date. We will call the former group "**Tier 1 employees**" and the latter "**Tier 2 employees**." Figure 1 illustrates the difference between workers in Disney's lowest pay grade (Labor Grade 3) for full time non-tipped workers whose only distinction is that they were hired within one day of each other – the date that the two tier wage structure began.

Figure 1
Tier 1 & 2 Wage Difference (Labor Grade 3)



This figure shows the hourly wage of Tier 1 and Tier 2 employees hired on December 12 and December 13, 1998 respectively in Labor Grade 3, which consists of over 50% of the service workers in 2006. Over the eight years represented in this chart, those who were hired at Walt Disney World on or before December 12, 1998 would have received an 85% pay raise, while Tier 2 Labor Grade 3 workers, who may have been hired only one day later, would have received a 54% pay raise.[4]

This was bound to save Disney on labor costs, but of course it also lowered the pay levels of its employees, increasingly so over time. Tier 1 employees hired on or before December 12, 1998 did not have their pay levels cut, but Tier 2 employees hired on or after December 13, 1998 earned less as time went on. A critical question is: **how much less have the Tier 2 employees made than they would have if Disney had not implemented this new "tiered" wage system?**

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[4] The following analysis concerns the base wage rates of Walt Disney World workers. It does not reflect wage premiums that some workers receive. Many classifications of workers receive premiums for various work responsibilities, but this does not necessarily apply to all workers within that group. Tracking all the wage premiums would be a monumental task. Fortunately, for our purposes in this report, we do not have to: the existence of wage premiums is irrelevant to our conclusions because premiums are given to both Tier 1 and Tier 2 employees, and thus the "gap" between the two is unaffected by the existence of premiums. Since we are only concerned with the gap between actual and "might have been" if all employees were on the Tier 1 wage scale, we can safely ignore premiums with no effect on the wage differential. (Housekeeping and quick service food workers are two categories that universally receive premiums while other classifications receive them only for certain specified work responsibilities.)

Regression analysis

One standard method used to determine the statistical impact of a change in a particular factor is regression analysis. A statistical regression analysis of the actual 2006 hourly wage-rate data of regular, non-tipped employees of Disney demonstrates that December 13, 1998, marked a singular change in Disney's employment policies. Employees hired on or after that date, Tier-2 employees, began receiving significantly lower hourly wage-rates as of 2001 than they would have received had they been paid on the same scale as employees hired prior to that date, i.e., Tier-1 employees. The regression analysis considered what effect seniority had for each group of employees by finding the relationship between the actual starting wages paid them in 2006 and their length of employment at Disney. This analysis confirmed that each group showed higher pay for longer seniority, but much less so for Tier-2 workers than for Tier-1 workers. And this is true whether we compared all Tier-1 workers with Tier 2 workers, or only compared Tier 1 workers hired in the year immediately before the start of the 2-Tier structure with their Tier 2 counterparts.[5]

The difference between the two groups of workers was of an extremely high degree of statistical significance (the probability of this difference happening by chance, the "p-values," were, for all practical purposes, zero). Thus, statistically speaking, **there is no doubt that the change in pay scales for Disney employees hired on or after December 13, 1998 constituted a significant reduction in hourly wage-rates for new workers relative to what they would have been paid on the old scale prior to that date.**

Regression analyses are not adequate to the task of determining exactly how much Tier-2 workers' wages fell short of what they would have been paid on the pre-December 13, 1998 scale. That determination required a more detailed comparison of individual Tier-2 employees' wage-rates with those starting wages for Tier-1 employees.

Detailed analysis of Tier-2 wage-rates relative to Tier-1 wage-rates

Again looking only at regular, full-time, non-tipped employees, the hourly wage-rates in 2006 for Tier-1 workers hired in the year prior to the change to a two-tier system (i.e., between December 12, 1997 and December 12, 1998) were compared with the hourly wage rates paid Tier-2 workers with similar length of service. (So Tier 1 three-year workers were compared with Tier 2 three-year workers; Tier 1 four-year workers were compared with Tier 2 four-year workers, etc.) Thus the comparison was of two closely similar groups whose only difference was whether they were on the Tier 1 or Tier 2 pay scale. (For a fuller specification of our methodology, see the appendix at the end of this report.)

[5] Separate regressions were estimated for all tier-1 employees and for only "entry-level" Tier-1 employees (i.e., only those hired between December 12, 1997 and December 12, 1998), and these were compared with a regression estimate for Tier-2 employees (excluding those employed less than 1-year at Disney in 2006). The comparison was actually done by using a single OLS regression with a "dummy variable" distinguishing between Tier-1 and Tier-2 workers. This permitted a statistical test of the hypothesis that the two groups of employees were indeed paid on different scales, and the hypothesis was affirmed quite positively.

We know that for each labor grade, the minimum wage-rate and the wage-rate increases that were to take effect in later years for Tier-1 employees. Thus, for the specific labor grade and length of service of a Tier-2 worker, the wage-rate that person would have received in 2006, had she or he been on the Tier-1 pay scale schedule, can be computed and then compared with the worker's actual wage-rate for 2006. This comparison was done on all Tier-2 employees except those employed less than 1-year at Disney in 2006.

There were 8,021-employees in this group. Looking at all labor grades and all seniority levels together, **the average hourly wage-rate of these Tier-2 employees was $8.35. The average hourly wage they would have been paid had they been on the Tier-1 wage scale was $1.16 more, or $9.51. Thus Tier-2 employees were paid in 2006 on average 12.2% less than they would have been on the Tier-1 wage scale.**

The above findings indicate that **Disney, in effect, put all its employees hired on or after 12/13/1998 on a pay-scale that is 12.2% lower on average than what it had been paying its employees prior to that date.**

The **shortfall in pay** for all of these 8,021 Tier-2 employees taken altogether over a year's time was **$19,385,866.61**. That is, by 2006 Disney spent about $19-million less **that year** on the wages of workers hired after December 12,1998 than it would have had it been subject to the old pre-12/13/1998 Tier-1 wage scales. This is a substantial sum, the impact of which will be considered below. Table 1 summarizes these findings on Tier-2 workers:

Table 1
Losses in wages of "Tier 2" workers due to Disney's wage scale as of 2006

	Actual pay of Tier 2 workers (those hired after 12/12/98)	Would-be pay if they had received pay increases like Tier 1 workers (those hired before 12/12/98)	Shortfall compared to those hired earlier (i.e., compared to Tier 1 workers)
Average hourly	**$8.35**	**$9.51**	**$1.16**
Annually	**$136,296,222.4**	**$155,682,089.01**	**$19,385,866.61**

Source: Analysis of 2006 payroll data of Disney's union-represented service workers.

Section III: Economic impact of Disney's two-tier wage system

A $19-million cut in Disney's total annual payroll in 2006 assuredly had a significant impact on Central Florida's economy. As its employees received $19-million less than they would have on Disney's pre-12/13/1998 pay-scale, their consumer spending in the region was reduced accordingly, thus reducing employment and incomes regionally. To see this impact most clearly, ***suppose that Disney in 2006 had restored the more than $19 million shortfall to its payroll lost because of the two-tier system*****. In that case, the affected Disney employees would have increased their consumer spending, additional jobs would have been created, additional taxes collected, and so on.**

The actual size of the impact of the payroll increase would depend upon how much of the total sum leaves the Central Florida region as spending "leakages", i.e., money spent on things produced outside the region, and how much remains in the region to be re-spent. When the latter part is re-spent, a portion of that then "leaks out" again and the remainder is re-spent again; another portion is leaked out, its remainder again is re-spent... and so on.[6] As long as at each stage of spending and re-spending there is a positive "injection," i.e., as long as not all of the spending leaves the region as leakage, the repeated spending and re-spending within the region means that the overall total expenditure is greater than the original expenditure by Disney employees out of their increased wages: in effect, the original increased expenditure by Disney employees is "multiplied" in the process of repeated re-spending.

It is possible to estimate the size of this "multiplier" effect using "input-output" models for measuring regional economic impacts. Several such models are available. Using the U.S. Department of Commerce Bureau of Economic Analysis Regional Input-Output Modeling System ("RIMS-II"), we determined that **the impact of a $1 total annual payroll increase for Disney workers equals $1.2084 worth of additional goods and services produced in Orange and Osceola Counties.** [7]

Thus the total increase in the output of goods and services in the region in 2006 if Disney were to increase its payroll by $19,385,866.61 would be 1.2084 multiplied by $19,385,866.61, or **$23,425,881.21 worth of additional goods and services produced per year locally** as affected Disney workers spend their increased wages and as repeated re-spending by others occurs.

The direct impact of Disney's cutting Tier-2 workers' incomes relative to the pre-1998 Tier-1 wage scale then is quite clear: a loss of about $23.4-million in 2006 in Orange and Osceola Counties relative to what would otherwise have been produced that year in these two counties.

The loss in output also means a loss in additional jobs and labor earnings. The RIMS-II model also estimates these losses. Table 2 summarizes the losses in all three areas.

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[6] The kinds of leakages that occur include savings, spending on goods and services produced outside the region, and tax collections by government entities outside the region. Money saved in banks in the region ends up being invested virtually all over the world. Given the income levels of the employees affected in this case, the direct savings leakage by the affected Disney employees from their own wage increase would be expected to be close to zero; savings leakages in later rounds of re-spending might be significant, however. Spending on "imported" goods and services is quite significant. For example, an item produced in Pittsburgh and purchased in a Costco store in Orlando "leaks" money to those who produced the item in Pittsburgh. Federal and state collected taxes too are significant leakages, of course.

[7] On the RIMS-II model, see http://bea.gov/bea/regional/rims/. In this study, "Type II - Endogeneous" RIMS-II multipliers were used. Note that the RIMS-II model does not take account of the effects of tax leakages. For an excellent introduction to input-output models in general, see the Coughlin and Mandelbaum reference in the "references" section at the end of this report.

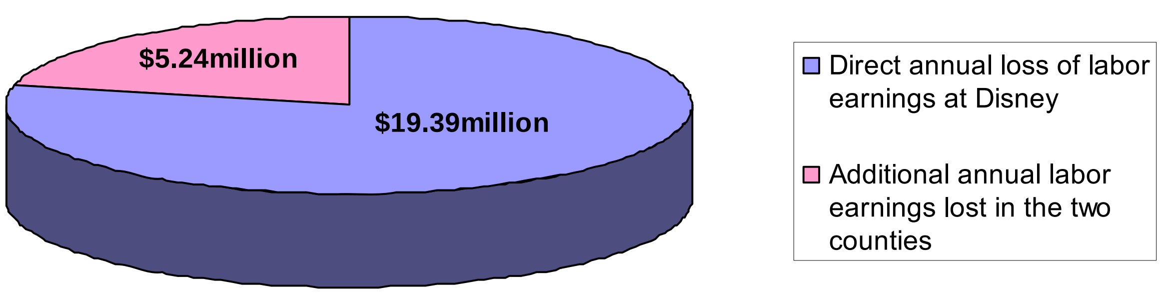
Table 2
Economic impacts of Disney two-tier payroll system on Orange & Osceola Counties, 2006[8]

Annual reduction in goods & services produced in the two counties	Additional annual labor earnings lost in the two counties	Total employment loss in the two counties
$23,425,881.21	**$5,236,122.57**	**177.87 jobs**

Source: Author's application of RIMS II multipliers to wage loss from Disney's two-tier wage system.

Table 2 shows that the counties would have had about 178 additional jobs in 2006 had there been no switch by Disney to a Tier 2 pay scale. These jobs would have been distributed among a range of professions in these two counties, and they would have had a payroll of $5,236,122.57. This represents an "indirect earnings" loss on top of the $19 million "direct earnings" loss at Disney. **This means a total loss in earnings in 2006 in Orange and Osceola Counties of $19,385,866.61 plus $5,236,122.57 or $24,621,989.18**. Figure 2 illustrates the direct and indirect loss in earnings.

Figure 2
Loss in Earnings of Disney Two-tier Payroll System



Note that **the impact of Disney's payroll cut on the larger Central Florida region as a whole** – i.e., the six-county region altogether (Brevard, Lake, Volusia, Seminole, Orange and Osceola) **– must be considerably greater than that on Orange and Osceola Counties alone, perhaps twice as great or more**.[9]

Finally, it should be noted that **this deterioration of earnings, both direct and indirect, will continue to grow in subsequent years, as "old-timers" on the Tier-1 wage scale retire or leave and all new hires are on the Tier-2 pay scale.** Year 2007 losses will be larger than those for 2006; year 2008 losses even larger than those of 2007, and so on. **The negative cumulative impact of the two-tier wage system continues to grow with time.**

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[8] Note that these figures are based on 2004 data, the latest available at this point. Taking account of price inflation since then would affect the figures given, but not by much.

[9] How much more would depend on a number of factors, including how many of Disney's employees come from surrounding counties other than Orange and Osceola, how many purchases with Disney payroll money would be made in those counties, and the like.

Section IV: But is the $19 million a total loss? Is Disney's increased profit a gain for Orlando?

By adopting a two-tier wage system in 1998, Disney was saving for itself about $19 million annually by 2006. Of course, an important question is, what did the Disney Corporation do with these labor-cost savings? Did it spend the extra money available to it in the Central Florida region? There are several possibilities.

First, Disney may have merely passed them on to its stockholders as higher dividends and/or to top-level corporate managers as higher compensation. In this case, since these individuals live all over the world, the vast majority of the labor-cost savings were spent elsewhere than in Central Florida.

Alternatively, the company may have given lower-, middle- and upper-level management pay increases. This would mean that the company simply lowered the pay of its lower-paid workers and raised them for its higher-paid workers. In this case, since a number of higher-paid workers reside in the region, significantly more of the labor cost savings would remain here. However, being better paid than the affected Tier-2 Disney workers, managers save considerably more out of their incomes (a leakage) and also tend to travel (another leakage) more than do lower- and middle-wage employees like those covered in union contracts. Beyond this is the empirical question: has Disney been raising the pay of its Orlando-area managers in the last few years by millions of dollars? While we do not have access to the salaries of these managers, we are highly skeptical that any massive or unusual pay raises have gone to them in the past few years, beyond normal trends in managerial salaries. Assuming that local Orlando-area managerial salary increases by Disney have been simply normal, this second possibility could not have "made up for" the negative impact of its post-1998 payroll cut to the lower-wage workers.

Third, the company may have passed on the labor-cost savings to its customers in lower ticket prices. Visitors to Disney World, being nearly entirely out-of-towners, may have re-spent their Disney ticket-price savings on other recreation attractions in Central Florida (or they may have simply pocketed the savings themselves.) Yet, the facts make this possibility highly unlikely or nearly impossible. It is almost universally acknowledged that Disney has raised its ticket prices "as much as the market will bear." A May 2005 articled noted the following:

> Disney executives acknowledge that for some people, its theme parks had become an unaffordable vacation. The one-day admission price in Orlando has risen twice as fast as the average price of goods and services – 106 percent – from $29 in 1989 to $59.75 today (Jackson, Salamone and Mussenden, 2005).

Since the above article was written, Disney has increased the one-day admission price even more to $67 a day.

Disney has implemented sophisticated strategies to "milk the cash cow" that is Walt Disney World (including making longer stays comparatively cheaper, encouraging group travel there, and the like), but none of these have any apparent connection with its pay practices. Thus, there is no evidence that Disney has passed its savings from the two-tier pay plan on to its customers, and it is highly unlikely that this could have significantly "made up for" the negative impact of Disney's payroll cut.

Lastly, the labor-cost savings may have been used for capital investment within the company, or for financial or other investment. Disney has been investing in businesses and facilities throughout the world, but the proportion of that investment going into Orlando shows no obvious relationship with increased profitability. Recent new attractions at Walt Disney World have largely been imports from other Disney parks, not significant local investments. As a 2005 article noted:

> By recycling existing rides or tweaking time-tested concepts, the company saves big bucks on everything from research and development to construction.
>
> "I think it's a strategy that can work," said Jack Samuels, a professor at Montclair State University in New Jersey, who writes extensively on the amusement and theme-park industry, including Disney.
>
> "If you can continue milking your cow and not have to invest more in grass and milk pumps, you're going to make more money."
>
> Disney slashed capital spending for the theme-park division by half in 2002 and cut it again in 2003. While the number has rebounded slightly, top Disney executives vow to limit spending below the lofty $1 billion level that the division enjoyed in earlier years (Jackson, Salamone and Mussenden, 2005).

In fact, **as Disney has been progressively saving money through its two-tier wage structure, it has continued to keep its expenditures on U.S. domestic theme park production down**. According to the 2006 Disney Annual Report, capital spending on domestic theme parks remained in the $600 million to $700 million plus range from 2002 through 2006, with no apparent connection to increased labor savings. The report adds that, for 2007, "We expect expenditures at our U.S. parks will remain meaningfully below our $1 billion per year target cap for domestic theme park capital spending" (Disney 2006 Annual Report).

Again, there is no evidence that Disney's savings from its two-tier wage structure is being returned to Orlando in the form of increased investment. Instead, its investment patterns appear to be guided by a calculation of tourist demand and spending patterns, not labor costs.

It appears therefore that the $19 million saved for the company annually by 2006 because of its two-tier wage structure is simply an increase in operating profit that is sent back to the company's headquarters in Burbank, California. An *Orlando Sentinel* analysis in 2005 estimated that Orlando's Walt Disney World "sends more than $700 million a year to the Burbank headquarters in operating profit" (Jackson, Salamone and Mussenden, 2005). Since then, this amount has increased. The company's 2006 filing with the Securities and Exchange Commission (the 10-K report) notes that net income for the company in 2006 was up 33%, due in part to "strong performance of both of our domestic theme parks." That same report notes that operating income from its parks and resorts segment rose more rapidly than operating income for the company as a whole in both the 2004-2005 and 2005-2006 periods (9 percent and 30 percent, respectively, compared to companywide increases of 6 percent and 26 percent).

Given this evidence, it is most likely that the tens of millions of dollars saved per year by Disney from its two-tier pay structure is going to stockholders and top-level corporate executives, as well as profitable investment opportunities that have nothing to do with Orlando or Walt Disney World. Money is being lost to low-wage Orlando-area workers and is being remitted to the company's headquarters to be disbursed to Disney stockholders worldwide and investment opportunities on a global basis. This represents a net loss to Orlando and its surrounding economy.

Section V: Disney's pay practices relative to its local competitors

If Disney has been lowering the pay of its lowest-wage workers, this raises the question of whether this is a general trend within the amusement and theme park segment of the economy. Is Disney lowering its pay levels by itself, or are competitors following suit? We lack access to the payroll data of Orlando's Universal Studios or Sea World, so we are unable to make a full comparison. However, the starting pay rates for entry-level jobs at these three companies are generally public knowledge, so we can make a comparison of starting pay rates at these three facilities. How have Disney workers been faring compared to their counterparts working for competitors in the past few years?

We know the lowest starting pay rate for Disney at all times because of Disney's contract with its unions. For Universal and Sea World, we have to rely on data from articles in the *Orlando Sentinel*. Utilizing a search of that newspaper's articles, we have found information on the three theme parks' respective starting pay rate in the years 1998, 1999, 2002, and 2006. Table 3 shows the comparative starting pay rates for the three.

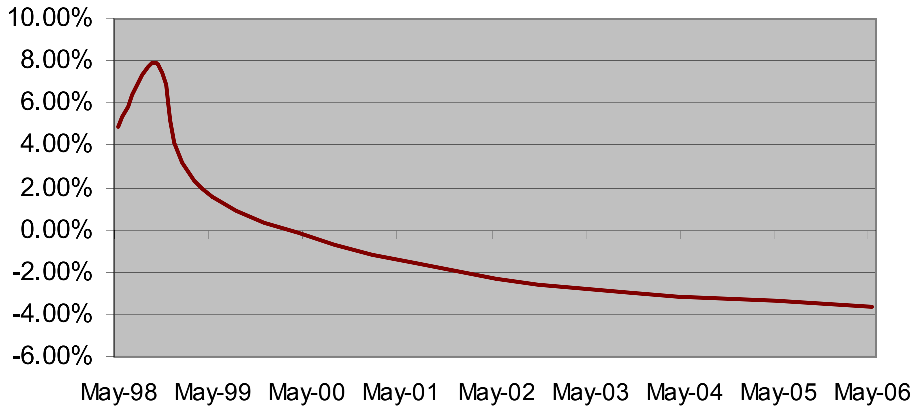
Table 3
Hourly Starting Pay Rates at Disney, Universal, and Sea World, selected dates

Date	5/30/1998*	10/28/1998*	5/03/1999	5/26/2002	5/20/2006
Disney	$5.95	$6.25	$6.25	$6.50	$6.90
Universal	$5.67	$6.15	$6.15	$6.60	$7.25
Sea World	NA	$5.80**	NA	$6.65	$7.00
Disney compared to highest/lowest competitor	**+4.9%**	**+7.8%**	**+1.6%**	**-2.3%**	**-3.6%**

* Two dates are given for 1998 because newspaper articles give us starting pay rates at two different times in this year.
**$6.20 for food service workers; $5.80 for other workers at lowest level.
Source: Union contract for Disney; articles in the *Orlando Sentinel* for Universal and Sea World (see articles by Lancaster, Hinman, and Hale & Jackson in the references section at end of this report).

Figure 3 shows the trends in starting pay rates at these three employers over the period from 1998 to 2006. (In this figure, when Disney's wages are highest, we compare with the lowest-wage competitor; when they are the lowest, we compare with the highest-wage competitor.)

Figure 3
Disney compared to highest/lowest competitor



It is apparent from Table 3 and Figure 3 that **Disney has moved from being the "pace-setter" offering the highest starting wage in 1998 to offering the lowest by 2006.**[10] **Since Disney is by far the largest of these three employers (well over four times the employment of Universal and over ten times the employment of Sea World), its massive size means that it is now pulling down wages in this industry sector in the Orlando area whereas before it was leading the local industry as a whole.**[11]

Section VI: Conclusion

This report has examined the impact of the institution of a two-tier wage system at Walt Disney World in the period since 1998. It finds that since December 13, 1998 Disney has lowered the pay of new entrants to its labor force, compared to those hired before that date. This progressive lowering of wages has created a major "hit" to the greater Orlando economy:

- By 2006, the Walt Disney payroll was $19.39 million lower than it otherwise would have been;
- Pay levels were 12.2% lower for the more recently-hired workers;

[10] As of October 1, 2006. Disney did raise starting pay to $7 per hour, but this is still well below Universal.

[11] Further concern about the wage levels of workers at Disney is raised by its practice of outsourcing, or contracting-out, of work previously done by its direct employees. According to the *Orlando Sentinel*, in 2006 Disney outsourced nearly 600 jobs to private contractors (Powers, 2006). Frequently a motivation for doing so is to reduce costs because outside contractors pay lower wages and benefits.

The jobs being outsourced are primarily custodial positions and baggage handlers in hotels. A few have been stagehand jobs. We lack information on the pay and benefit practices of the private contractors to whom this work has been outsourced, so we are unable to state for certain whether compensation practices have deteriorated. But it is well known that a primary motivation for outsourcing is reduced employee compensation costs, so any continuation of this practice should be scrutinized closely by others in the Orlando area, because lowered compensation hurts the entire community.

- Orange and Osceola counties lost an additional $5.24 million in wages, beyond the direct payroll reduction of $19.39 million;
- The two counties lost $23.4 million on goods and services production in 2006;
- 178 jobs were also lost to Orange and Osceola counties due to this wage reduction.
- The impact of Disney's payroll cut on the larger Central Florida region as a whole must be considerably greater than that on Orange and Osceola counties alone, perhaps twice as great or more.

In the same time period, Disney's lowest starting wage deteriorated compared to its competitors (Universal Studios and Sea World). In 1998 its starting hourly wage was 5 to 8% higher than its competitors; by 2006 it was between 3 to 4% lower.

Disney is also outsourcing jobs, raising the possibility that even more wage reductions are taking place, although we lack access to the wage levels of the private contractors doing work previously done in-house, so we cannot say for certain if this practice creates additional losses to the Orlando-area economy.

This deterioration in the wages of Walt Disney World workers has negative consequences for the entire economy in the Orlando area, as we have shown. If Disney continues with its two-tier pay structure, the damage to the greater Orlando economy will continue to grow.

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Appendix: Methodology

In order to find out the difference between the actual pay in 2006 of Tier 2 full-time non-tipped workers and their pay had they been hired as Tier 1 workers, it was necessary to get the following data:

A. Minimum hourly wage rate of full-time non-tipped Tier 1 workers who were hired just before 12/12/1998
B. The hourly rate for each year from 1999-2006 of full-time non-tipped Tier 1 workers who were hired just before 12/12/1998
C. The minimum rate for each year from 1998-2006 of full-time non-tipped Tier 2 workers who were hired after 12/12/1998
D. The most recent actual rate of full-time non-tipped Tier 2 workers, as shown in data provided by the Service Trades Council Union
E. The number of full-time non-tipped Tier 2 workers by different labor grades and hire dates

Data A, B and C are available directly from the *Agreement Between Walt Disney World Co. and The Service Trades Council Union*. Data D and E are available from the Union.

If a full-time worker works 40 hours per week, 52 weeks per year, then the total hours worked in a year is 2080 hours. The formula for the sum of the yearly wage difference between Tier 2 workers' actual and would-be wages (as Tier 1 workers) is as follows:

$$\Sigma \left(\frac{B}{A} * C - D \right) * 2080 * E$$

For each labor grade and hiring period, B/A is the Tier 1 increase rate for a certain number of years of working experience. (B/A)*C is the rate that Tier 2 workers would have been paid after the same number of years of working experience if they were paid under the Tier 1 system. The difference of Tier 2 workers' actual rate and the would-be rate muliplied by 2080 and the total number of workers in that labor grade and hiring period is the amount of shortfall in pay to the workers in that labor grade and hiring period. The total amount of those shortfalls in pay is what Disney saved in 2006 with the Tier 2 system, which is $19,385,866.61.