



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: June 18, 2013

IBA Report Number: 13-26

Rules and Economic Development Committee Meeting Date: June 19, 2013

Item Number: 1

Review of Proposal to Require Compliance with the State's Prevailing Wage Laws on all City Public Works Projects

OVERVIEW

On May 15, 2013, the Rules Committee was asked to consider a memorandum from the Mayor requesting the City Council adopt an ordinance applying the State's prevailing wage laws to all City projects that are "public works" within the meaning of the State prevailing wage law. The City currently requires compliance with federal labor wage laws for projects receiving federal funds and State prevailing wage laws for projects receiving State funds. Additionally, the City requires compliance with the State's prevailing wage laws on all water and/or sewer fund projects whose estimated construction costs exceed \$10 million.

In response to a request from Chair Lightner, the Assistant Chief Operating Officer agreed to develop a staff report to address related policy considerations raised by the IBA and Committee members for discussion on June 19th. This report was issued on June 5th. The Office of the City Attorney was also asked to update previous legal opinions, prepare a draft ordinance and provide legal analysis to the Committee regarding Senate Bill 7.

As requested by the Committee, the IBA has reviewed the staff report issued by the Assistant Chief Operating Officer. Although the report did not address potential project cost implications associated with requiring prevailing wages on all City public works projects, we have reviewed numerous studies on project cost implications associated with prevailing wage requirements. We have also discussed the proposed policy change with knowledgeable staff and representatives from outside organizations. Potential project cost implications are particularly important in light of the infrastructure challenges the City is facing, including an \$898 million backlog in deferred capital for buildings/facilities, streets, and storm drains.

Based on our research, this report endeavors to discuss: prevailing wages law in California; arguments in favor of and against prevailing wage laws; challenges in assessing the impact of prevailing wages on total project costs; potential impacts to City infrastructure programs; and

other relevant considerations related to the proposed policy change. We conclude with recommendations the Committee and City Council may wish to consider in making their policy decision.

FISCAL/POLICY DISCUSSION

Information on Prevailing Wages in California

In government contracting, prevailing wage is defined as the hourly wage, usual benefits and overtime, paid to a majority of workers, laborers, and mechanics within a particular area.

California law requires payment of locally prevailing wages (including employer payments for employee benefits) on state government contracts in excess of \$1,000 for public works projects. The definition of "public works" projects is found in the California Labor Code (sections 1720 and 1771). The California Labor Code defines the following to be public works projects:

- Construction (includes work performed during the design and preconstruction phases of construction including but not limited to, inspection and land surveying work)
- Alteration
- Demolition
- Installation
- Repair work
- Maintenance work.

Under California law, a "Prevailing Rate" is comprised of three components: (1) the basic hourly rate paid on public works projects to a majority of workers engaged in a particular craft, classification or type of work within the locality and in the nearest labor market area; (2) the rate for holiday or overtime work, as specified in an applicable collective bargaining agreement, or otherwise included with the prevailing basic hourly rate; and, (3) the prevailing rate of employer payments for any or all programs or benefits for employees, their families and dependents, and retirees, as enumerated in prevailing wage regulations issued by the California Department of Industrial Relations (DIR).

Prevailing wage rates are derived from the hourly rate paid on public works projects to the majority of a particular craft's workforce who are located within the locality or nearest labor market area. If there is no single rate paid to a majority, then the single or modal rate being paid to the greater number of workers prevails. DIR wage rate determinations are issued twice a year in February and August. Wage determinations become effective 10 days after they are issued.

It is the responsibility of public works project contractors to pay wages that are at least equal to the applicable prevailing wage rates published by the DIR. Contractors (and their subcontractors on covered projects) must also comply with additional requirements, such as providing workers' compensation coverage, maintaining certified payroll records and making such records available for inspection, and complying with apprenticeship obligations.

Charter cities may exempt themselves from the State's prevailing wage laws when they use their own funds (general funds, special funds or enterprise funds) for public works construction projects. Alternatively, charter cities can adopt a percentage of the State prevailing wage as their own prevailing wage, or even conduct their own survey of contractors to determine a prevailing wage. As noted in the staff report, most of the State's charter cities (and all of the larger cities) require prevailing wage specifications without exemption. Several cities, including San Diego, require State prevailing wages but have defined partial exemptions.

Different than the City's Living Wage Ordinance

The City adopted a Living Wage Ordinance (LWO) in June of 2005 that became effective July 1, 2006. The LWO applies to City service contracts and subcontracts with an annual value greater than \$25,000. The LWO may also apply to City facility agreements (Petco Park, Qualcomm Stadium, Sports Arena, Convention Center, City Concourse and Civic Theatre) and certain financial assistance agreements. Private sector service contractors subject to the LWO currently must pay their employees a minimum cash wage of \$13.77/hour (or a cash wage of \$11.47 plus \$2.30/hour in health benefits). The LWO provides a limited number of exemptions that are either categorically exempt or may be applied for.

While the LWO and the proposed prevailing ordinance share the policy objectives of improving economic conditions for workers and potentially improving the quality of work the City receives, their wage requirements and applicability differ. The living wage is determined by the City, applies primarily to service contracts, and contractor compliance is administered by the City's Administration Department. The proposed prevailing wage would be determined by the DIR, applies primarily to construction contracts, and contractor compliance will likely be managed by the Equal Opportunity Contracting (EOC) Program in the City's Purchasing & Contracting Department.

Arguments in Favor and Against Requiring Prevailing Wage Laws

There is much controversy and debate over laws requiring the payment of prevailing wages. In conducting our research, we identified numerous arguments for and against prevailing wage laws. We believe there are significant and valid points on both sides of this issue. Many cities and states currently require prevailing wages while 18 states do not have these requirements, including ten states that have repealed these laws. The Maryland legislature recently voted to create a task force to study the applicability of prevailing wage laws. In an effort to assist the City Council in making their policy decision, we have provided several of the major arguments in favor of and against prevailing wage laws:

Arguments in Favor of Requiring Prevailing Wage Laws:

- Government, as a major buyer in the construction sector, should not have policies which act to drive down wages. Instead, government should adopt policies (i.e., prevailing wage requirements) and use its buying power to enhance the welfare of workers and their families.
- By taking labor costs out of the equation, prevailing wages organize competition around quality, productivity, and efficiency without touching off a “race to the bottom” as contractors underbid one another by lowering the rate of pay earned by their workers. The goal is that, with everyone playing on a level field, contractors seek to maximize their workers' output and their own ability to manage work better than their competition.
- Public works projects covered by a prevailing wage policy employ a higher proportion of local contractors and local workers. Prevailing wage laws therefore help reduce the leakage of local taxpayer dollars by directing public construction expenditures into the local economy.
- Prevailing wages result in greater worker productivity, construction efficiency and better construction work attributable to the use of more skilled workers. These benefits will offset increases in labor costs so that increases in total project costs are negligible.

Proponents also note that increases in labor costs can be absorbed by reasonably reducing the contractor's profit margin.

- Prevailing wage requirements provide for employment of apprentices on public works projects. Apprenticeship programs train and prepare workers for skilled careers in construction. More skilled construction workers benefit the construction industry and its customers.
- Prevailing wage requirements help workers earn enough to support their families with little or no public assistance.

Arguments Against Requiring Prevailing Wage Laws:

- Prevailing wage requirements increase labor and administrative costs which are passed through to the government in higher total project costs. As a result, governments are able to conduct fewer public works projects. Most notably, studies on 1) the impact of prevailing wage requirements on affordable housing construction projects and 2) states that have repealed their prevailing wage laws suggest there can be a significant impact on total project costs - anywhere from 3% to 37%.
- Prevailing wage laws impose significant regulatory burdens and paperwork requirements for contractors. Contractors must create and file statements of compliance and payroll reports and make sure their subcontractors comply with prevailing wage requirements. The cost of the additional administrative work can be significant and may keep some contractors from bidding on projects that are subject to prevailing wage requirements. For example, smaller firms may not have sufficient staff or the necessary experience to handle the administrative requirements. The effect could be to raise administrative costs for contractors and potentially discourage bidders. Fewer bids often result in increased project costs.
- Requiring prevailing wages results in additional labor compliance monitoring responsibility and administrative costs for government. For the City, these responsibilities include, but are not limited to, reviewing certified payroll reports, interviewing employees at jobsites to verify actual wages paid, identifying miscalculations and violations, requesting corrections and interacting with the DIR, etc. (See Labor Compliance Program discussion below).
- Prevailing wage is a misnomer since prevailing wages are generally higher than market wages. Critics question how government (i.e., DIR) can actually determine a "prevailing wage" - including health benefits, pension benefits, vacation, travel costs, training costs and fees for other union programs (incorrectly regarded as compensation) - for every construction trade in every geographical region in the State? Although the DIR in part relies on worker surveys, critics argue the State's prevailing wage determinations most often reflect the rates contained in collective bargaining agreements with unions.
- Prevailing wage laws do not necessarily result in better construction work. If prevailing wage policies are required to assure quality in construction, one would have to believe that privately constructed projects or facilities (where prevailing wage requirements are not imposed) are of inferior quality over public buildings and projects. As most of the City's construction projects to date have been completed without prevailing wage

requirements, one could alternatively assess those projects to ascertain whether they represent inferior work. It is important to note that contractors working on City public works projects are subject to the same certifications and inspections whether paying prevailing or non-prevailing wages, and the contractor bears any additional financial costs if a project does not pass inspection.

- Prevailing wage laws force employers to pay more than workers are willing to accept thereby adversely impacting market supply and demand for workers.

Challenges in Assessing the Impact of Prevailing Wages on Total Project Costs

As noted above, the impact of prevailing wage requirements on total construction project costs is the subject of much debate. Both sides agree that labor costs will increase; however, the degree to which labor cost increases impact the total cost of a project depends on a number of factors, often varies and is difficult to accurately estimate. Proponents of the prevailing wage requirement believe the impact is small or negligible while some researchers have found that prevailing wages can increase total project costs by as much as 37%, thereby significantly reducing the number of projects that could be implemented.

The studies we reviewed use different approaches (some employing rigorous statistical methodologies) to estimate project cost increases attributable to prevailing wage requirements. For example, some attempted to assess differences between prevailing wages and market wages. Others looked at the project cost experience of states that had repealed prevailing wage laws. Given our time constraints and limited data for prevailing wage and non-prevailing wage contracts, our office used a more simplistic approach to evaluate the impact of potential project cost increases to the City's infrastructure programs (discussed in the next section of this report).

There are a number of other factors that make it difficult to accurately predict the impact of prevailing wages on total project costs. These factors include but are not limited to:

- Economic cycles can significantly expand or shrink the differences between prevailing wages and unregulated wages. When the demand for construction work is high, the wage differential can shrink and vice-versa. Additionally, in a depressed economy a contractors profit margin is lower and increased labor costs could be passed on to the City.
- The type of public works project makes a difference. Projects that require highly skilled trades may narrow the wage differential and projects that require less skilled trades (i.e., laborers) may increase the wage differential.
- Where labor is sourced may largely depend on where laborers can best afford to live. That may or may not be in the City. When laborers come from neighboring cities or other regions, it can affect both the wage rate differential and local economic benefits attributable to prevailing wages.

Potential Impacts to City Infrastructure Programs

Particularly given the current infrastructure issues facing the City (most notably the \$898 million backlog of deferred capital for buildings/facilities, streets, and storm drains), the IBA believes it is important to estimate and understand the potential impact of prevailing wage requirements on the City's ability to fund needed construction projects. To assess potential financial impacts, our office reviewed numerous studies, discussed the subject with experienced City staff, and met

with proponents and opponents of prevailing wage requirements. Based on our research, the IBA believes prevailing wage requirements will increase project labor costs and, to a lesser extent, total costs for public works projects. Although some economic benefits may potentially be realized, such as increased local taxes attributable to a higher proportion of local contractors and local workers, it is unlikely that these benefits will significantly offset increased total project costs.

In order to evaluate the potential impacts to the City's infrastructure programs, we believe it is reasonable to estimate that prevailing wage requirements will increase total project costs by 5%. This estimate simplistically assumes that: 1) labor costs comprise approximately 25% of a public works project; 2) prevailing wage requirements will on average increase labor costs by 20% on City public works projects; and 3) all other potential fiscal impacts like tax multiplier benefits, potentially reduced contractor profit margins or increased administrative costs are not considered. As this estimate may be considered to be conservative, we also show the potential impact of a 10% increase on total project costs.

In the paragraphs below, we look at the potential impacts on construction contracts anticipated to be awarded in the FY 2014 Capital Improvement Program (CIP) Budget, the Five-Year Deferred Capital Funding Plan, and street resurfacing (asphalt overlay) planned contracts from FY 2014 through FY 2018. It is important to note that numerous other programs could potentially be impacted, such as maintenance & repair contracts and/or affordable housing projects, which are not included in our analysis.

Construction Contracts Anticipated to Be Awarded in FY 2014

Currently, the City is required to pay prevailing wages when a project is funded with even \$1 of State or federal funds, or for sewer or water projects over \$10 million. As shown in the tables below, the CIP Budget includes 190 construction contracts totaling \$331 million anticipated to be awarded in FY 2014. About 21% or 16 of these contracts, totaling about \$70 million, require payment of prevailing wages since they are funded with State or federal monies. If prevailing wages are required to be paid on the remaining \$261 million construction contracts, a 5% or 10% increase would increase total costs by \$13 million or \$26 million respectively. Given tight financial constraints and competing budget priorities, this would likely reduce the number of capital projects that the city can implement.

CONSTRUCTION CONTRACTS TO BE AWARDED IN FY 2014 CIP BUDGET			
	Number	Dollar	Percentage
Total Estimated Contracts	190	\$ 331,013,500	100%
Minus Contracts Paying Prevailing Wage	16	\$ 69,781,000	21%
Total that will be impacted	174	\$ 261,232,500	79%

TOTAL PROJECT COST INCREASE			
Increase of 5%	\$	13,061,625	
Increase of 10%	\$	26,123,250	

Five-Year Deferred Capital Funding Plan

The Five-Year Deferred Capital Funding Plan (FY 2012-2017) includes about \$431 million in anticipated bond funding to address the deferred capital backlog for buildings/facilities, streets,

and storm drains.¹ Although this plan does not provide the level of funding desired by the Council or necessary to stop deterioration, it is practical in the short term given tight financial constraints in the City. The plan is intended to reduce the deterioration of these assets to 5-10% over the five-year period. If requirements to pay prevailing wages resulted in a 5% or 10% increase beginning in FY 2014, additional project costs would be approximately \$17 million or \$34 million over the applicable four years, as shown below. This would reduce the number of capital projects the City can address with its planned borrowing.

\$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Deferred Capital Funding Plan (Based on FY 2014 Approved Budget)							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 410.2
Portion of \$35 million CIP Bonds for Deferred Capital	-	\$ 20.5	\$ -	\$ -	\$ -	\$ -	\$ 20.5
TOTAL	\$ 75.0	\$ 20.5	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 430.7
5% Increase			\$ 4.0	\$ 4.1	\$ 4.5	\$ 4.2	\$ 16.8
10% Increase			\$ 8.0	\$ 8.1	\$ 9.0	\$ 8.4	\$ 33.5

Deferred Capital Bonds are used to fund street resurfacing (asphalt overlay) projects, among other things.² Staff indicated that, in the past three years, only two asphalt overlay projects were bid as prevailing wage and in both cases the bids were 13% higher than non-prevailing wage rate bids. The potential higher costs related to paying prevailing wages could potentially reduce the miles of streets paved. The City is anticipating spending a total of about \$220 million to overlay about 440 miles of streets from FY 2014 thought FY 2018.³ As shown in the table below, a 5% increase would raise project costs by about \$11 million which could reduce the total miles overlaid by 22 miles. A 10% increase would raise project costs by about \$22 million and could reduce the total miles overlaid by 44 miles.

ASPHALT OVERLAY	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Non-Prevailing Wage \$	\$ 43,511,000	\$ 42,000,000	\$ 47,000,000	\$ 43,690,000	\$ 43,690,000	\$ 219,891,000
Miles	87.0	84.0	94.0	87.4	87.4	439.8
5% Increase \$	\$ 2,175,550	\$ 2,100,000	\$ 2,350,000	\$ 2,184,500	\$ 2,184,500	\$ 10,994,550
Fewer Miles	4.4	4.2	4.7	4.4	4.4	22.0
10% Increase \$	\$ 4,351,100	\$ 4,200,000	\$ 4,700,000	\$ 4,369,000	\$ 4,369,000	\$ 21,989,100
Fewer Miles	8.7	8.4	9.4	8.7	8.7	44.0

Other Relevant Prevailing Wage Policy Considerations

Which City Projects will be subject to the Proposed Prevailing Wage Requirements?

The proposed prevailing wage ordinance would apply the State's prevailing wage laws to all City projects that are "public works" within the meaning of the State prevailing wage law. The definition of "public works" projects is found in California Labor Code sections 1720 and 1771. These sections of the California Labor Code define the following to be public works projects:

¹ Note that this amount is based on the Mayor's six to nine month delay of an \$80 million planned bond issuance in FY 2014 as well as the delay of each subsequent bond.

² Note that slurry seal projects are funded with Prop 42 Replacement monies, so already require payment of State prevailing wage.

³ Miles are projections based on the rule of thumb of \$500,000 per mile of asphalt overlay and are used for planning purposes.

construction; alteration; demolition; installation; repair work; and maintenance work. However, these California Labor Code sections also detail numerous exemptions and clarifications that are not perfectly clear to our Office.

For example, we have not determined if the State's prevailing wage laws would apply to maintenance work performed by any of the City's numerous special assessment districts (i.e., self-managed or City-managed Maintenance Assessment Districts) on City property. There appear to be certain exemptions for affordable housing activities, but it is uncertain if all affordable housing projects/activities are exempted. There may also be certain service contracts (tree trimming, carpet installation, etc.) for work on City property that could be subject to the State's prevailing wage laws.

In order to clarify which City projects would be subject to the proposed prevailing wage ordinance, the IBA recommends the Assistant Chief Operating Officer work with the Office of the City Attorney to clarify the applicability of the State's current prevailing wage laws. If desired, the City may be able to use its charter city authority to create targeted exemptions so as not to interfere with other policy objectives and priorities.

Potential Implications for SLBE and Smaller Community Projects

The City currently sizes some public works projects to be under \$500,000 in order to attract and provide contracting opportunities to Small Local Business Enterprises (SLBEs). Additionally, there are SLBE bid incentives for contracts under \$1 million. Prevailing wage requirements and administrative costs may create a disincentive for SLBEs that lack resources or administrative staff familiar with prevailing wage law.

Increased labor costs attributable to prevailing wage requirements could also create fiscal challenges for small cost-sensitive community projects (landscaping projects, tot lots, community signs, etc.) that tend to be labor intensive. In an effort to avoid these unintended consequences, the IBA recommends the Council consider specified exemptions or a project cost threshold beneath which prevailing wage requirements, if adopted, would not apply.

Impact on Public Facilities Financing Plans and Developer Fees

The City has 42 Public Facilities Financing Plans (PFFP) which include the infrastructure and public facilities needed to serve the community as identified in the related community plan. The PFFP also identifies priorities and funding sources; generally the plans are funded through Development Impact Fees (DIF) or Facilities Benefits Assessments (FBA) which are fees assessed on developers to mitigate the impact of new development.

The cost estimates for projects in the PFFPs are based on non-prevailing wage. If the cost of public works projects increases, as is likely the case, the plans will not accurately reflect project costs and, importantly, the City will not be collecting sufficient fees to cover these costs. This would have a more significant impact on the 12 FBA-based plans, since fees are collected to cover up to 100% of the cost for public facilities for communities that are relatively early in their development. These plans include significant CIP expenses, for example the Pacific Highlands Ranch plan, which includes \$226 million in planned expenses through FY 2035. Based on current staffing levels, it would take a minimum of two years to update the FBA-based plans.

It is important to note that many of the PFFPs were not updated under the previous administration. As costs have increased over time, many of the plans are significantly underfunded. Now that Facilities Financing staff are updating the plans, the associated FBAs

and DIFs may need to be significantly increased to address the underfunding and estimated prevailing wage impacts. A significant increase in developer fees could have an adverse impact on development activity. Additionally, there may be a need to evaluate how project cost increases tied to new prevailing wage requirements would be handled in existing developer reimbursement agreements.

Labor Compliance Program: Staffing and Costs

In presenting the request for the proposed prevailing wage ordinance to the Committee on May 15th, the Assistant Chief Operating Officer stated that "a law unenforced is pointless" signifying the administration's commitment to properly enforce the requested ordinance. Enforcement of prevailing wage laws is typically accomplished with a Labor Compliance Program (LCP). The staff report indicates the City's LCP was established in 2009 and is currently comprised of 2.00 staff. LCP staff are part of the Equal Opportunity Contracting Program in the Purchasing & Contracting Department.

Adopting prevailing wage requirements for all public works projects will significantly grow the City's labor compliance monitoring responsibilities and associated administrative costs. These responsibilities include, but are not limited to, reviewing certified payroll reports, interviewing employees at jobsites to verify actual wages paid, identifying miscalculations and violations, requesting corrections and interacting with the DIR, etc.

In FY 2013, the City had 20 contracts with a value of approximately \$48 million subject to prevailing wage requirements. If the requested prevailing wage ordinance were to become effective in FY 2014, the CIP Budget includes 190 construction contracts totaling \$331 million. If measured by the number of contracts administered, the workload for LCP staff would grow by 950%. If measured by the dollar amount of these contracts, the workload for LCP staff would grow by almost 700%.

Other than the general descriptive information included in the staff report, the IBA was unable to obtain detailed information on the activities and results of EOC's LCP enforcement of prevailing wage project compliance since 2009. It is unclear if the existing LCP is adequate or if it needs to be enhanced to properly monitor and enforce prevailing wage laws. Given the significant increase in the number of contracts potentially subject to prevailing wage requirements going forward, it appears likely that the LCP will need to add staff to handle the increased workload.

Unless qualified staff can be internally reorganized to perform this work, there will be additional annual LCP administrative costs for the City related to a prevailing wage ordinance. If, for example, the LCP needs to add 1.00 Supervising Management Analyst and 5.00 Associate Management Analysts to perform the additional work, the annual cost would be approximately \$714,000.

If a prevailing wage ordinance is adopted, the IBA recommends the Purchasing & Contracting Department develop and present an annual report discussing the activities and results of the LCP (similar to the annual report that has been developed and presented for the LWO).

CONCLUSION

This report briefly describes California's prevailing wage laws, presents arguments in favor of and against prevailing wage laws, discusses challenges in assessing the impact of prevailing wages on total project costs, and endeavors to quantify the potential fiscal impact of prevailing wage requirements on City infrastructure programs. We conclude by discussing other relevant considerations related to the proposed policy change.

The impact of prevailing wage requirements on total construction project costs is the subject of much debate. Both sides agree that labor costs will increase; however, the degree to which labor cost increases impact the total cost of a project depends on a number of factors, often varies and is difficult to accurately estimate. Proponents of the prevailing wage requirement believe the impact is small or negligible while some researchers have found that prevailing wages can increase total project costs by as much as 37%, thereby significantly reducing the number of projects that can be implemented.

The IBA believes that any potential project cost implications are particularly important in light of the infrastructure challenges the City is facing, including an \$898 million backlog in deferred capital for buildings/facilities, streets, and storm drains. In an effort to evaluate the potential impacts to the City's infrastructure programs, we believe it is reasonable to **estimate** that prevailing wage requirements will increase total project costs by 5%. As this estimate may be considered to be conservative, we also illustrate the impact of a 10% increase on total project costs. Although the estimated percentage increases are relatively small, the resulting additional costs for construction contracts to be awarded (identified in the FY 2014 CIP budget) range from \$13 million to \$26 million. Additionally, a 5% or 10% increase in project costs beginning in FY 2014 would reduce the number of projects that could be addressed in the planned borrowing for the Deferred Capital Funding Plan by approximately \$17 million or \$34 million.

Despite the potential project cost implications associated with prevailing wage requirements, the IBA acknowledges the worthy social and economic policy objectives advanced by this policy. Some of those objectives include promoting good middle-class jobs and wages for residents, developing paths to construction careers through required apprenticeship opportunities, and endeavoring to provide more work for local contractors/workers who will spend their wages locally creating positive economic multipliers. Additionally, some assert that prevailing wages deliver better work products to the City in a more timely and efficient manner.

While the IBA recognizes the potential socio-economic benefits and understands this is a policy decision for the Mayor and Council, we also believe it is important to understand and consider the likely trade off in the form of higher capital project costs and the resulting impact to infrastructure programs which are a high priority for the City. Our goal in developing this report was to provide balanced information and recommendations for Committee and City Council consideration.

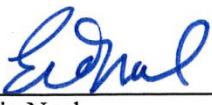
If the City Council elects to adopt the proposed prevailing wage ordinance, the IBA recommends the following seven suggestions be considered:

- 1) Extend the effective date of the ordinance to FY 2015. The staff report suggests six months to phase in prevailing wage provisions; however, a year will allow additional time to prepare and allow for planning in the normal budget cycle.

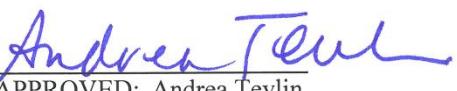
- 2) Establish a \$1 million project cost threshold beneath which prevailing wage requirements would not apply. Such a threshold may assist Small Local Business Enterprises (SLBEs) and maintain the financial feasibility of small cost-sensitive community construction projects.
- 3) Request the Assistant Chief Operating Officer work with the Office of the City Attorney to clarify the applicability of the State's current prevailing wage laws to the City. The City may be able to use its charter city authority to create targeted exemptions so as not to interfere with other policy objectives and priorities (affordable housing, property owner funded Maintenance Assessment Districts, certain service contracts, etc.).
- 4) Ask Development Services Department staff to evaluate the impact of potential project cost increases on 1) the City's 42 Public Facilities Financing Plans (with a focus on FBA funded plans) and 2) existing developer reimbursement agreements.
- 5) Ask Purchasing & Contracting Department to report on their plans for gearing up the Labor Compliance Program (LCP) to properly enforce the prevailing wage ordinance. Request the department develop and present an annual report discussing the activities and results of the LCP (as was done for the Living Wage Ordinance).
- 6) Request that staff return to Council one year after the effective date of the prevailing wage ordinance with a report from the Public Works and Purchasing & Contracting departments on their successes and challenges in administering/monitoring for contractor compliance. Perhaps also solicit feedback from construction contractors doing business with the City or endeavoring to do work for the City.
- 7) Request that staff return to Council one year after the effective date of the prevailing wage ordinance with an analysis of the fiscal impact of requiring prevailing wages on the cost of public works construction contracts. Request that staff acquire and maintain data on an ongoing basis to help facilitate this analysis.



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