

To: **Mayor and City Council**
From: **Ryan Schroeder, City Manager**
Date: **March 9, 2020**

Prevailing Wage Ordinance

BACKGROUND INFORMATION:

In December 2019, during deliberations regarding the Dominion affordable housing project proposed on the former Kmart site it was asked if there was a prevailing wage requirement for the project. At that time, the developers responded that they did not include the costs of a prevailing wage requirement within their project pro forma and such a requirement would likely cause the developer to remove their entitlement request due to the project cost increase they asserted would occur.

The question created a review of projects since the 2007 adoption of the local prevailing wage ordinance, whether similar requirements exist elsewhere, impacts, and thoughts about how best to administer the ordinance.

The WSP ordinance is the only ordinance of this type that currently exists within Dakota County. The County itself has a prevailing wage policy, as does the City of Hastings. However, neither of these policies relate to private development projects. No other city within the County has a prevailing wage policy at all.

The City has been involved in a number of projects for which prevailing wage is a component of the project. With any project including State, Federal, or Metropolitan Council grants there is a prevailing wage requirement. Included have been such as Robert Street reconstruction, the County Wentworth reconstruction, and the Marie/Oakdale trail project. The R2R tunnel, for 2020 construction, also has such a requirement. Council should be apprised that the most significant financial tools for some private development projects, which are housing tax credits and availability of housing revenue bonds do not include a prevailing wage provision.

The City Attorney has provided a compendium, enclosed, of private development projects since ordinance adoption. A few of these projects were recipients of either Federal, State, or Metropolitan Council grants and as such, these projects included a prevailing wage requirement because of that funding. Other projects did not meet threshold requirements. Others appear to have met thresholds but if in fact they paid prevailing wage the City did not monitor nor require ordinance compliance within project approvals and development agreements. As stated within the enclosure the City Attorney has opined that a post agreement compliance requirement would not be timely.

The net of the above is straight forward. The larger policy discussion regards future implications and fiscal impact to City project investments going forward. For instance:

- With TIF developments we must provide a finding that “but for” the investment of future increments the project would not go forward. For the project at hand, it has been suggested that the

project would not generate increments sufficient to cause the project to proceed under a prevailing wage requirement.

- If alternatively, there would be increment capacity to overcome purported cost increases, the result is a generalized property taxpayer impact of the increased subsidy that may be beyond the positive economics created for the public of the project in the first place.
- It is well established that in a redevelopment community the need for investment in projects is significantly greater than is the case in greenfield development. The TIF required for the Dominion project has been suggested to be entirely due to the cost of the real estate versus the valuation of that real estate in the project. In other words, the increment reduces the land cost closer to the economic value of the land. This same requirement does not exist within greenfield development parcels with which most WSP projects compete. This land cost write down is required in this case regardless of the construction cost of the project.
- A future development taken on by a private entity “may” be expansion of the Ice Arena. The project proposers have suggested that they believe they will receive, in part, donated labor. However, under the current ordinance it “may” be the case that their project would be subject to the prevailing wage ordinance.

What we are suggesting by the above is that the current ordinance may be too broad in its effect. Staff would recommend the ordinance be amended in order to provide Council with the opportunity to conduct a case-by-case analysis of application of the ordinance to future individual projects.

Enclosed, please find a memo from the City Attorney regarding development projects since just prior to establishment of the prevailing wage ordinance. Also find a 2007 memo from the City Attorney’s office regarding the ordinance proposal and a copy of the ordinance itself.

FISCAL IMPACT:

		Amount
Fund:		
Department:		
Account:		

STAFF RECOMMENDATION:

Provide Direction