

To: **Mayor and City Council**
From: **Ryan Schroeder, City Manager**
Date: **March 23, 2020**

Proposed Revision of Prevailing Wage Policy

BACKGROUND INFORMATION:

On March 9, 2020, staff provided data and a response to an earlier Council request of information related to enforcement of a 2007 adopted ordinance regarding prevailing wage. The 2007 ordinance is the first and only such ordinance in Dakota County directing that private sector developments receiving City assistance pay prevailing wages. On March 9, the general (but not unanimous) consensus was to propose a change from the private sector requirement to a public sector requirement. Therefore, included herein is a recommended ordinance rescinding the 2007 ordinance. Also enclosed is a policy resolution implementing a public sector prevailing wage requirement similar to that, which has been adopted by Dakota County. As presented to Council on March 9, the City of Hastings is the only other City within the Dakota County with adopted prevailing wage policy. The Hastings resolution also generally aligns with the Dakota County policy.

Enclosed is a compendium of current Prevailing Wage hourly wage and fringe benefit requirements. Also included is employment data of WSP residents and of jobs located within the community.

The Prevailing Wage ordinance applies to compensation paid on labor rates within the construction industry. However, the actual impacts on WSP residents appears to be slight. For instance, according to the Metropolitan Council total 2018 employment is WSP was 8,252 with 2% of that employment in construction. According to the same data set, 21% of WSP employment was in retail, another 21% in health care and social assistance, and 14% in accommodation and food service.

The Metropolitan Council also provides data for where WSP residents actually work. That data follows:

- Other (various communities outside of WSP): 2,582
- St. Paul: 2,192
- Minneapolis: 1,097
- West St. Paul: 703
- Eagan: 534
- Bloomington: 405
- Mendota Heights: 335
- Inver Grove Heights: 218
- Roseville: 216
- South St. Paul: 206
- Eden Prairie: 181

Rudimentary math would suggest that if only 703 WSP residents actually work within the community (8% of total employed residents) and only 2% of jobs in WSP are in the construction industry the actual number of WSP residents that would realize a wage impact of the Prevailing Wage ordinance might be as low as a dozen.

The Metropolitan Council estimates WSP 2020 population at 20,800 within 9,200 households. An estimated 15.69% of the population is 65 years or older. Median household income is estimated at \$54,300.

A portion of recent deliberation has been on the impacts of a private sector Prevailing Wage requirement upon

- Individual project costs
- Competitiveness of WSP compared to non WSP development sites
- Property Tax impacts of development
- Housing market impacts
- Construction and Development quality

Staff has requested a response from two developers and one construction company regarding individual project costs of a Prevailing Wage requirement. Alleged project cost impacts have been suggested at 3-5%, 20%, and 25%. However, we have not attempted to verify the accuracy of those estimates and the literature on the topic asserts both large impacts and di-minimis impacts. If it is accurate that there would be project cost impacts then the ability of WSP sites in comparison to those of alternative sites should be a matter of concern.

With redevelopment projects, it is often the case that projects would not proceed but for assistance provided by the public sector. To the extent that any particular policy or requirement within WSP causes cost impacts, it should be anticipated that subsidy requests would grow. To the extent that these requests are granted, there would be a resulting impact upon the taxpayer who would not receive the property tax revenue from the development that might otherwise accrue.

Positive revenue impacts of development vary. Following is an estimate of revenue impacts of three different projects each with a taxable market value of \$1 million.

<u>Project Type</u>	<u>Total Local Tax Paid</u>	<u>WSP Share of Tax</u>
• Commercial/Industrial Project	\$24,450	\$13,450
• 4d Multi Family	\$ 3,900	\$ 2,150
• Market Multi Family	\$15,900	\$ 8,750

When the 2007 was initially adopted part of the rationale was the positive impact upon the housing market and the ability of persons benefitted by prevailing wage to afford quality housing. Given the above data, it would appear this impact would be di-minimis.

It is common within Prevailing Wage discussions to hear assertions that Prevailing Wage affects the quality of construction. To the extent that an ordinance provides an opportunity for union shops to better compete with non-union shops perhaps an argument could be made. Beyond that, however, the ordinance does not have a construction quality requirement and instead it just dictates that the trades person be paid at a certain rate which may or may not vary from the rate they were paid on their last job or the next one.

Enclosed and proposed are two actions. One is an ordinance rescinding the 2007 Prevailing Wage Ordinance for which we would request a first reading be held. The second is a resolution creating a policy of Prevailing Wage for City owned projects. Had this policy been in effect prior to the start of the recent City Hall remodels there would have been an impact to how that project had been bid. We are requesting that this resolution be adopted after the second reading of the proposed ordinance.

FISCAL IMPACT:

		Amount
Fund:		
Department:		
Account:		

STAFF RECOMMENDATION:

Staff recommends that Council review the attached ordinance amendment and resolution, and approve the first reading of An Ordinance Repealing Section 33.03 of the West St. Paul City Code Regarding Prevailing Wage.