


## 11/1 Study Session - Cost of Residential Development in San José

Huascar Castro <[REDACTED]>

Fri 10/28/2022 4:58 PM

To: District1 <district1@sanjoseca.gov>; Jimenez, Sergio <sergio.jimenez@sanjoseca.gov>; Perez, Raul <Raul.Perez@sanjoseca.gov>; Cohen, David <David.Cohen@sanjoseca.gov>; Carrasco, Magdalena <Magdalena.Carrasco@sanjoseca.gov>; District 6 <district6@sanjoseca.gov>; Esparza, Maya <Maya.Esparza@sanjoseca.gov>; Arenas, Sylvia <sylvia.arenas@sanjoseca.gov>; Foley, Pam <Pam.Foley@sanjoseca.gov>; District 10 <District10@sanjoseca.gov>; The Office of Mayor Sam Liccardo <TheOfficeofMayorSamLiccardo@sanjoseca.gov>

Cc: City Clerk <city.clerk@sanjoseca.gov>; Louise Auerhahn <[REDACTED]>

 1 attachments (125 KB)

11.1 Cost of Development Study Session Letter.pdf;

[External Email]

Good Afternoon Mayor and Council,

Please see Working Partnerships USA's letter in regards to the Cost of Residential Development study session slated for November 1st attached to this email. Thank you for the opportunity to provide comment on this matter.

Sincerely,

Huascar Castro  
Associate Director of Housing and Transportation Policy  
Working Partnerships USA  
Email: [REDACTED]  
Cell: [REDACTED]

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# WORKING PARTNERSHIPS USA

October 28, 2022

San Jose City Council  
200 E. Santa Clara Street  
San Jose, CA 95113

Dear Mayor Liccardo, Vice Mayor Jones, and Councilmembers Jimenez, Esparza, Cohen, Davis, Foley, Peralez, Carrasco, Mahan, and Arenas,

## **Re: 11/1 Study Session: Report on the Cost of Development**

This latest report on the Cost of Development in San Jose applies trends and assumptions primarily from pandemic-era development in our city. While there have been and continue to be major challenges to producing adequate housing affordable to all income levels in our City, Working Partnerships has serious concerns in both the methodology of this current analysis, and proposed recommendations from this report, which could lock in expanded development subsidies and inclusionary housing exemptions for the next 10 years. Due to the fact that there are several uncertainties and missing pieces of analysis in this latest report, we would recommend that further analysis and more time be given to this process, so Council may be fully equipped with a comprehensive set of solid data alongside a breadth of effective solutions that move past providing further subsidies to developers.

There is consensus that we are in a housing crisis and that numerous challenges exist in combating that crisis. One of those very real challenges is cost. However, we must also recognize the reality that current fee waivers and subsidies in place have failed to produce adequate affordable housing and have perpetuated low-road job models and wage theft. Any more extension or expansion of waivers and subsidies, especially without an analysis that incorporates future trends, new State laws and tools, and looks for multiple ways that the City can help facilitate needed housing development, would also compromise San Jose's commitment to both funding essential city services as well as production of affordable housing in line with city and statewide goals.

The consultants' report does not appear to analyze any options for City Council to promote housing development other than expanding subsidies and reducing or eliminating affordable housing contributions. The initial draft recommendations propose that these subsidies and exemptions be locked in for ten years, without any analysis of how new State laws and tools might influence development in that timeframe, and also without any proposals for other actions Council could consider taking. Equipping Council with a more comprehensive set of recommended solutions along with tighter analysis on the future of development in San Jose would be ideal in effectively addressing this matter.

Additionally, we must take staff capacity into account based on ongoing items such as the Housing Element, which has hard deadlines coming down from the State level. Prioritizing

completion of the Housing Element before putting more work into developer subsidies seems prudent, to afford staff the time to delve into critical work items.

Working Partnerships USA and our partners in the Building Trades would welcome the opportunity to provide further insight and input on this matter in order to craft solutions with equitable outcomes. We look forward to the opportunity to collaborate and tackle challenges related to development and housing collectively.

Sincerely,

Louise Auerhaun

Director of Economic and Workforce Policy

## Comment on Study Session on Cost of Residential Development

Kevin Ma <[REDACTED]>

Mon 10/31/2022 11:20 AM

To: The Office of Mayor Sam Liccardo <TheOfficeofMayorSamLiccardo@sanjoseca.gov>; District1 <district1@sanjoseca.gov>; District2 <District2@sanjoseca.gov>; District3 <district3@sanjoseca.gov>; District4 <District4@sanjoseca.gov>; District5 <District5@sanjoseca.gov>; District 6 <district6@sanjoseca.gov>; District7 <District7@sanjoseca.gov>; District8 <district8@sanjoseca.gov>; District9 <district9@sanjoseca.gov>; District 10 <District10@sanjoseca.gov>

Cc: City Clerk <city.clerk@sanjoseca.gov>

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[External Email]

Dear San Jose City Council,

As you review the cost of residential development in the City and discuss ways to address it, I would like to bring attention to a [paper just published by the Turner Center at UC Berkeley](#). They analyzed the effectiveness of various strategies to encourage housing in their development model of Los Angeles. Lowering development fees do encourage the production of housing, though at a reduced effectiveness than strategies such as broad upzoning (25% more density) and allowing greater utilization of land (more height and FAR, less setbacks).

Such analysis seems to be somewhat absent from the Century Urban reports in the staff memorandum, which treats land use regulations as static except for the encouragement of alternative building structures (modular, mass timber).

The outcomes of the discussions in this Study Session should be incorporated into the Housing Element, which was meant to direct local jurisdictions to address housing production holistically.

Sincerely,  
Kevin Ma

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## Cost of Construction Study Session

David Bini [REDACTED]

Mon 10/31/2022 4:58 PM

To: City Clerk <city.clerk@sanjoseca.gov>

Cc: The Office of Mayor Sam Liccardo <TheOfficeofMayorSamLiccardo@sanjoseca.gov>; District2 <District2@sanjoseca.gov>; District1 <district1@sanjoseca.gov>; District3 <district3@sanjoseca.gov>; District5 <District5@sanjoseca.gov>; District4 <District4@sanjoseca.gov>; District 6 <district6@sanjoseca.gov>; District7 <District7@sanjoseca.gov>; District8 <district8@sanjoseca.gov>; District9 <district9@sanjoseca.gov>; District 10 <District10@sanjoseca.gov>

 2 attachments (2 MB)

11-1-22 Cost of construction hearing San Jose.pdf; ConstructionInSanJose.pdf;

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Dear Mayor and Councilmembers,

Please see attached letter and a study for the study session on the Cost of Construction.

Regards,

**David Bini**

Executive Director

**Santa Clara & San Benito Counties**

**Building & Construction Trades Council**

[REDACTED]

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SANTA CLARA & SAN BENITO COUNTIES  
**Building Trades**  
 The outstanding workforce

# Santa Clara & San Benito Counties Building & Construction Trades Council

2102 Almaden Road Suite 101 San Jose, CA 95125-2190 · Phone 408.265.7643 · info@scbtc.org

October 31<sup>st</sup>, 2022

David Bini  
 Executive Director  
 Brett Davis  
 President

Re: 11/1 Study Session: Cost of Residential Construction

Dear Mayor and City Council,

Representing thousands of San Jose families, the Santa Clara and San Benito Counties Building and Construction Trades Council and its affiliates are acutely aware of the housing crisis and its impacts on our community. We are supportive of the staff's intent and efforts to use public policy to help address this crisis, however we question the method of the study and the policy conclusions being suggested as a result.

Numerous state bills were signed this year to support rapid escalation of residential construction, and this new legislation should be allowed to play out before we provide tax breaks for the wealthy investors who finance these projects. The idea of continuing or expanding waivers of fees and taxes should be reevaluated.

San Jose is not unique in the cost of construction compared to other communities in the Bay Area where residential construction continues to be built. The hard cost of construction may in fact be higher in those communities. In some jurisdictions, a developer's pro forma must account for even higher labor costs because local political will places stronger protections against the exploitation of a largely immigrant construction workforce that is the norm in San Jose.

The Cost of Residential Construction report could be construed as validation the low-road construction model. We have attached the study done on the impacts of the low-road construction model as a reminder how racial inequity is perpetuated by the dominant business model developers have been allowed to exercise here.

Other communities continue to apply in-lieu fees yet have had numerous applications submitted in the last eighteen months to build thousands of new residential units.

The report misses an opportunity to look at alternative strategies to encourage residential construction other than what has been promoted by the developers themselves- a waiver in fees and taxes. The Council should request a more comprehensive study to see what other communities are doing who have planning policy that has resulted in significant residential construction and new applications for development. We need a broader perspective so that you may choose what makes sense for our city without jeopardizing much needed affordable housing fees.

Sincerely,



David Bini

Boilermakers 549  
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 Carpenters 405  
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 Electricians 332  
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 Glaziers 1621  
 Heat & Frost Insulators 16  
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 Laborers 67  
 Laborers 270  
 Lathers 9144  
 Millwrights 102  
 Operating Engineers 3  
 Painters District Council 16  
 Painters & Tapers 507  
 Pile Drivers 34  
 Plasterers 300  
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 Roofers 95  
 Sheet Metal Workers 104  
 Sign, Display 510  
 Sprinkler Fitters 483  
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 AFL-CIO  
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 South Bay AFL-CIO  
 Labor Council



# Construction in San Jose: Crisis and Opportunity

Growing Our Local Middle-Class  
Construction Workforce

**WORKING  
PARTNERSHIPS**  
USA

**MARCH 2018**



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## Executive Summary

Silicon Valley is facing a crisis of inequality. Even in a roaring economy, many of the region's major companies are not creating jobs that pay enough to live on. Two out of every five households are in economic distress.<sup>1</sup>

If our region continues along this path, employment projections show that middle-wage, family-supporting jobs will continue to shrink. In Santa Clara County, the majority of job openings over the next 10 years are projected to pay either less than \$40,000 per year, or more than \$100,000 – with less than one-third in middle-wage, family-supporting jobs.

Construction is one of the highest-growth industries with potential to produce good jobs for working-class San Jose residents– if both the private and public sectors make the choice to invest in the local workforce. Over the next decade, construction jobs in Silicon Valley are projected to increase by 23.7%; almost twice as fast as total employment, which is projected to grow by only 13.5%.<sup>2</sup>

However, a critical driver of greater economic inequity in our region is the massive infusion of development capital and the high expectation investors have on the return of their investment. Some large developers, particularly in the residential market, are basing their financial projections on the use of a low wage workforce to help meet expected returns for their investors. Thousands of low wage workers are now building homes none of them can afford to live in.

Construction has become a bifurcated industry, split into two business models: the “high-road” model in which companies compete on productivity, efficiency, timeliness and quality of work, and the “low-road” model in which companies compete primarily by paying their workforce as little as possible. This dichotomy means that whether or not employment growth produces family-supporting careers depends on which road we, as a region, decide to take.

As a result of the two-tier character of Silicon Valley's construction industry:

- Over half (54%) of blue-collar construction workers employed in Santa Clara County earn less than \$40,000 per year.
- 42% live in housing that is not affordable at their level of income.
- 41% either depend on public health coverage or are uninsured.
- And 12% receive food stamps.<sup>3</sup>

This disparity tends to impact workers of color the hardest, especially in the nonunion sector, which makes up approximately 70% of construction employment in the Bay Area.<sup>4</sup> Among construction workers employed in Santa Clara County:

- Latino workers are paid, on average, 38% less than white workers.
- Asians are paid 52% less than white workers.
- African-Americans are paid 38% less than white workers.<sup>5</sup>

The Latino community is particularly affected by this pay gap because Latino workers are hugely over-represented in the construction workforce. In Santa Clara County, 16% of all working Latino men are employed in construction. Yet Latinos are routinely under-paid for their work. Closing the pay gap would increase income for Latino construction workers and their families by \$387 million annually.<sup>6</sup>

Another consequence of the low-road model is an unusually high dependence on importing temporary workers from outside the region, often from areas where blue-collar construction wages are significantly lower. In Santa Clara County's construction industry:

- Non-local workers are hired for 37% of all positions.<sup>7</sup>
- Out of the region's 78 major industries, construction ranks #1 in commute time.<sup>8</sup>

Economic data show that over the long term, the low-road approach not only shortchanges workers, but harms the health of the regional construction industry and supporting businesses. The "race to the bottom" approach has, over time, produced both an under-supply of local, skilled labor and a reduction in labor productivity. This decline in productivity is closely associated with a 25% decline in wages for California's blue-collar construction workers over the same period.<sup>9</sup>

With over 13,000 construction job openings projected over the next decade,<sup>10</sup> Silicon Valley faces a choice: invest in hiring and training locally, to create career pathway jobs that lift up the middle class; or pursue the race to the bottom, pushing further towards poverty-level, insecure jobs that expand the inequality gap.

Communities, workers and businesses across the United States face a similar choice; in response, they have developed tools designed to increase equity, ensure safety and quality of work, promote high-road career opportunities, and expand the training pipeline for a skilled construction workforce. This toolbox includes:

- Prevailing wage standards
- State-registered apprenticeship training programs
- Apprentice hiring requirements
- Local and targeted hiring of under-represented communities
- Pre-apprenticeship recruitment pipelines.

The scale of demand in Silicon Valley's construction industry represents a tremendous opportunity to transform thousands of jobs into middle-wage careers – and transform thousands of lives by expanding pathways into those careers. By applying these tools to ensure workers are paid fairly, create a level playing field for contractors, and expand career pathways, our region can take advantage of this construction boom to invest long-term in training the workforce and expanding opportunities.

## **INTRODUCTION:**

### **The need for middle-class opportunity in San Jose**

# The Missing Middle

As the center of Silicon Valley, Santa Clara County boasts one of the highest median incomes in the nation. The unemployment rate is at a 16-year low of 3%.<sup>11</sup> Yet four out of ten households are in economic distress.<sup>12</sup>

Why are the benefits of economic growth failing to reach nearly 40% of families?

This seeming contradiction is driven by the continuing trend towards an “hourglass economy”: characterized by growth in high-wage and low-wage jobs, increasing wage and income inequality, and a “missing middle”.

According to a recent analysis by BW Research, between 2006 and 2017, the number of high-wage jobs in Santa Clara County grew by 26%; low-wage jobs grew by 23%; but middle-wage jobs grew by only 10%.<sup>13</sup>

Examining the region’s major occupations further highlights the challenge of the “missing middle.”

Figure 1 lists the top ten occupations in Silicon Valley, as ranked by number of workers. The top ten occupations are overwhelmingly either high-wage jobs requiring advanced education, or low-wage, service sector jobs. Of the top ten jobs, only one – office clerk –is in the middle-wage range.

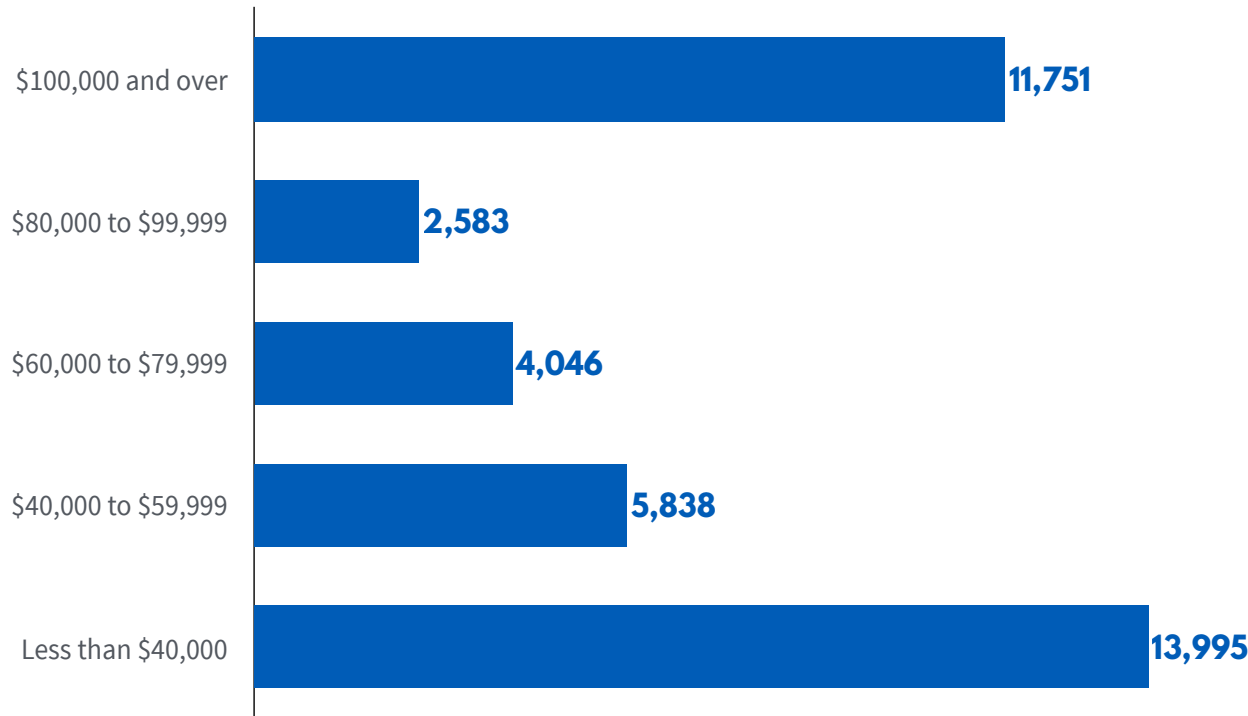
These ten occupations alone account for 207,000 jobs: over 20% of total employment, nearly all in either low-wage or high-wage fields.

Top Ten Occupations in Silicon Valley by Median Wage (2016)		
Low wage Less than \$18/hr	Middle wage \$18 to \$40/hr	High wage \$40/hr and up
Retail Salesperson	Office Clerk	Computer Software Engineer, Applications
Cashier		Computer Software Engineer, Systems Software
Food Prep or Serving		
Janitor		General or Operations Manager
Waiter / Waitress		Computer Systems Analyst

**Figure 1.** Source: Occupational Employment data (June 2016). California Employment Development Dept., Labor Market Information Division.

Rather than correcting this imbalance, forecasts show the Silicon Valley continuing to move in the direction of greater inequality and fewer middle-class opportunities. If the region continues along its business as usual pathway, official economic projections show middle-wage jobs continuing to shrink. As shown in Figure 2, the majority of job openings over the next 10 years are projected to pay either less than \$40,000 per year, or more than \$100,000.

**Projected job openings in Santa Clara County  
by median annual wage:**



**Figure 2.** Source: California Employment Development Dept., Labor Market Information Division, 2014-2024 Occupational Employment Projections. Published Dec. 2016.

# The Human Impacts

The drive by many of the region’s largest corporations to push down labor costs is stealing away the chance at economic opportunity for a generation of workers in Silicon Valley.

Among the workforce at large, working people trying to earn a fair day’s wage for their work are instead trapped in near-poverty, in jobs that do not pay enough to afford even the most basic standard of living.

As of 2015, 18.2 percent of workers in Santa Clara County are low-income (family/household income below 250 percent of the federal poverty level). That means that close to one out of five working people in Santa Clara County is among the “working poor.”<sup>14</sup>



*“Apprenticeships are a proven method for training a strong workforce, through which one generation of skilled workers pass essential skills to another. California’s community colleges ... support tens of thousands of students every year through apprenticeships that put them on a fast track to well-paying, lifelong careers.”*

– Van Ton-Quinlivan  
Vice Chancellor for  
Workforce and Economic  
Development, California  
Community Colleges, Nov.  
2016

Even though economic growth has resulted in reduced unemployment, the benefits of that growth have not gone to the workers who made it happen. The percent of workers who are “working poor” has barely budged during the recovery; today’s level of 18.2% represents only a small improvement from the depth of the recession in 2010, when the portion of working poor stood at 20.1%.<sup>15</sup>

For young workers, the challenges are greater still. San Jose is home to 92,424 young adults aged 18 to 24. 17% of those young adults live below the Federal Poverty Level – meaning their household incomes are grossly inadequate to meet the high cost of living in San Jose.

Among all young adults, an estimated 28,000 are not enrolled in college and do not have a 2-year or 4-year college degree. Among those who are in the labor force, 8,375 young adults (age 16-24) in San Jose are unemployed – an unemployment rate of 13% (unemployment data include only those who are actively looking for work).<sup>16</sup>

## Construction Careers: Part of the Solution?

Bending the curve away from its current trajectory back towards inclusive growth and opportunity will require sustained efforts on multiple fronts. One of the highest-growth industries with potential to produce good jobs for working-class San Jose residents is construction.

With both public and private development on a long-term growth trajectory in Silicon Valley, the high-road construction industry offers one of the best opportunities to work hard, earn a family-supporting income, and move up to the middle class. But in order to realize this opportunity, the regional construction industry – driven by developers and project owners – will need to greatly expand the pipeline to train the next generation of skilled local construction workers.

In the construction trades, this pipeline is known as **registered apprenticeship** – a formal, structured on-the-job training model whereby individuals with no prior training or experience can start at the bottom, earn while they learn, and over the course of the three to

# Apprenticeship 101

Apprenticeship is both a full-time job and an intensive educational program. California registered apprenticeship programs are a form of post-secondary education that combines classroom instruction with paid on-the-job training.

Apprenticeship programs require an intensive long-term commitment from the student; the training period is three to five years and typically requires successful completion of a curriculum of 400 to 800 classroom hours (free of charge) combined with 3,000 to 8,000 hours of paid on-the-job training, where apprentices work side by side with experienced workers to learn all the skills required for a trade.

The State of California Department of Apprenticeship Standards has oversight authority over all registered apprenticeship programs in the state, including the standards and processes by which they admit new apprentices.

five year apprenticeship, grow into the skilled, experienced workforce that the industry needs.

However, there is a gap in this pipeline. Rather than make long-term investments in hiring and training locally, in today's high-pressure development environment many companies are choosing the more expeditious route of bringing in temporary workers, often from elsewhere in the state.

Because each apprentice needs a minimum number of work hours per year, the opportunity to expand the pipeline into construction careers is dependent on employer participation – which in turn depends on a level playing field that allows contractors to invest in their workforce.

While construction contractors are usually the direct employers of blue-collar construction workers, it is the developer or owner who plans the project, hires the contractors, and calls the shots.

The next section of this paper explores the potential scale of construction sector employment opportunities and the challenges brought about by rapid growth.

*“Formal state-registered apprenticeship programs have been an integral part of California’s efforts to promote a highly trained workforce... [and] the nation’s ability to build a strong middle class.”*

– CA Gov. Jerry Brown  
Nov. 2015



*“In the apprenticeship program, you are learning and developing your own craft.”*

## **FACES OF CONSTRUCTION: Building skills to provide for family**

Anthony grew up in a single parent household and did not have the opportunity to attend college. He started working in facilities management, but once he started his own family, he began “struggling to face this difficult life question — how will I provide for my family?”

“I was in a catch 22 situation where I needed to work, but I needed skills development,” says Anthony. “The learning and working model with the apprenticeship program was a God sent opportunity.”

Now, after six years, he and his family have a better quality of life. “We aren’t rich, but have a stable enough income and amazing benefits,” says Anthony.

He especially appreciates the opportunity to build lasting skills; unlike his previous jobs, he says, “in the apprenticeship program, you are learning and developing your own craft.”

Anthony has also begun volunteering with the IBEW Minority Caucus and other community organizations like the Silicon Valley NAACP. “I believe we have a responsibility to do right for our local community.”

# **THE SAN JOSE CONSTRUCTION INDUSTRY:**

## **Challenges and potential for job creation**

## A Fast-Growing Sector

Construction is one of 11 major employment sectors in the San Jose metropolitan area. As of 2016, approximately 32,000 construction sector employees were working in San Jose – meaning that 1 out of every 13 workers was employed in construction.<sup>17</sup>

Looking to the future, out of the top 30 fastest growing occupations projected over the next decade, nine of them – almost a third of all fast-growing occupations – are in construction. (See Figure 3).

Construction trades occupations overall are projected to increase employment by 23.7%.<sup>18</sup> This is considerably faster than most other occupations; over the same time period, total employment is projected to increase by only 13.5%. Of major occupational categories, only Computer and Mathematical Occupations are projected to grow faster than construction.<sup>19</sup>

2014-2024 Occupational Employment Projections Santa Clara & San Benito Counties	
Occupational Title	Projected Net Employment Change 2014-2024
Electricians	35.3%
Plumbers, Pipefitters, and Steamfitters	31.6%
Cabinetmakers and Bench Carpenters	30.0%
Heating, Air Conditioning, and Refrigeration Mechanics and Installers	29.6%
Tile and Marble Setters	28.8%
Painters, Construction and Maintenance	26.9%
Tapers	26.2%
Drywall and Ceiling Tile Installers	25.2%
Carpenters	24.1%

**Figure 3.** Source: California Employment Development Department, Labor Market Information Division, Dec. 2016

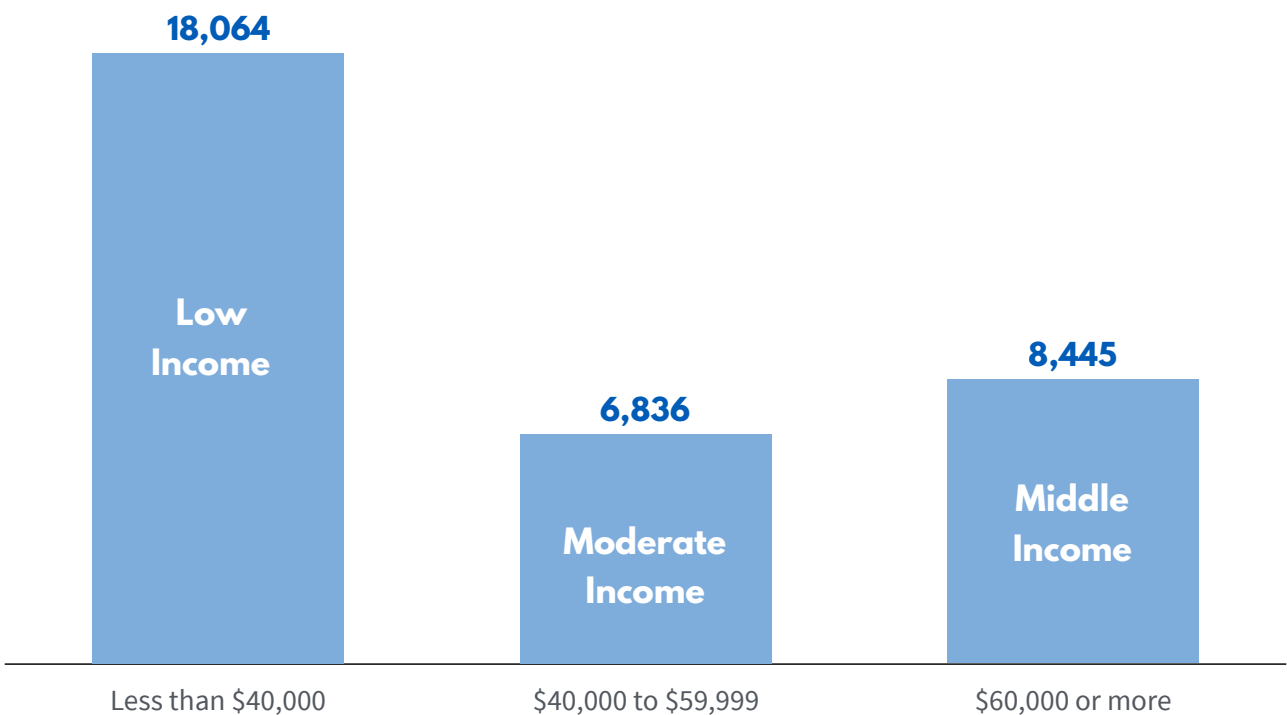


# The Two Faces of Construction

On the surface, construction in San Jose seems to be a solidly middle-wage industry. According to state employer surveys, the median hourly wage for most blue-collar construction occupations is between \$20 an hour (for construction laborers) and \$40 an hour (for sheet metal workers).<sup>20</sup>

Yet a deeper look reveals a more complex picture. Construction is increasingly bifurcated into two very different models of employment: one set of well-paying jobs that offer benefits, training and career advancement, and another set of low-paying jobs that are typically much less secure, where working people do not earn enough to support their families.

## Annual earnings for blue-collar construction workers employed in Santa Clara County:



**Figure 4.** Source: 2014-2016 American Community Survey (Workplace Geography), U.S. Census Bureau. Accessed via DataFERRET.

This split does not simply reflect different trades or experience levels, but is true even within occupations. An experienced carpenter (for example) may be paid anywhere from \$17 to \$45 per hour, depending on whether the developer has factored in a low-road or high-road business model for the project. Furthermore, the nature of construction work means that most blue-collar construction workers are employed on a project-by-project basis, and may spend weeks or months without pay in between projects.

As a result of this two-tier industry, even though median hourly wages appear high, over half (54%) of blue-collar construction workers employed in Santa Clara County earn less than \$40,000 per year (see Figure 4).<sup>21</sup> The median annual wage for blue-collar construction workers living in Santa Clara County is just \$31,235.<sup>22</sup>

This disparity persists because the construction industry is split into two business models: the “high-road” model in which companies compete on productivity, efficiency, timeliness and quality of work, and the “low-road” model in which companies compete primarily by seeking to offer the lowest labor costs.



## **FACES OF CONSTRUCTION: Blood, Sweat, and Stolen Wages**

Robert is an electrician who spent 8 years working for a series of low-road contractors. One refused to supply the necessary tools, requiring workers to spend their own money to purchase them, and did not pay overtime. After five years, Robert had accumulated over 2,000 hours of unpaid work.

He moved to another contractor but found conditions and pay were not much better. Finally, after working for them for four years, he was injured on the job, and they refused to give him any light duty assignments. “I gave my blood, sweat, and tears,” he says, “and it meant nothing to them.”

When he was fired following his injury, recalls Robert, “I was scared. Unsure of how I was going to provide for my family.” He was unemployed for six months and almost lost his house. Finally, he found the opportunity to begin working as a union electrician.

He had to begin as an apprentice, since his previous employers had never provided him the proper training. But even so, the difference in safety, respect, and receiving a fair day’s pay for a day’s work made a huge impact. Says Robert, “It’s a different lifestyle, and you reap the benefits from the work. I can take care of my kids and my wife.” Robert is now entering his 4th year in the apprenticeship program.

“I chose to stand up for myself. If we can’t secure our futures, who else is going to do it?”

# Long-Term Consequences for the Residential Construction Sector

The low-road model is especially prevalent in residential construction. While workforce data do not differentiate between the residential, commercial, and public construction sectors, industry experts in California report that major commercial construction projects tend to be built using the high-road workforce model, while residential projects are more likely to utilize the low-road workforce model.

In California's residential construction sector, on an average multi-family project, investment in wages and benefits for the workers building the project makes up only 15% of total project costs. Contractor gross earnings and developer fees combines make up 18% of project costs – meaning that more money is going to developers and business owners than to the entire blue collar workforce.<sup>23</sup>

## Average construction costs for multi-family residential projects in CA:



**Figure 5.** Source: Lantsberg, Alex. *The Value of Linking Good Construction Jobs to California's Housing Reforms*. Smart Cities Prevail. March 2017. <http://www.smartcitiesprevail.org/affordable-housing/>

A recent analysis of demographic data from the Current Population Survey estimated that a high-road workforce approach in California's multifamily construction sector would increase worker income by more than \$1 billion statewide. Because residential construction workers are disproportionately in low-income households, raising standards in residential construction to approach those in the rest of the industry would also improve housing affordability for the workforce.<sup>24</sup>

Economic data show that over the long term, the low-road approach not only shortchanges workers, but harms the health of the regional construction industry. The "race to the bottom" approach that now prevails in much of the residential construction sector, while it may enable contractors to provide a lower-cost bid in the short term, has over time produced both an under-supply of local, skilled labor and a reduction in labor productivity.

A recent analysis of housing construction costs and workforce in California noted that according to the US. Bureau of Economic Analysis, labor productivity in the state's residential building industry has declined by 13% in the past 20 years, meaning that it takes more workers to complete the same amount of work. This decline in productivity is closely associated with a 25% decline in wages for California's blue-collar construction workers over the same period.<sup>25</sup>

The California data mirrors a larger national issue: the United States construction sector is falling behind other nations in labor productivity growth. A recent McKinsey Global Institute study found that between 1995 and 2015, construction labor productivity in the United States declined by roughly 1 percent annually. Out of the 35 nations studied, only two (Brazil and Mexico) had lower construction sector productivity growth than the United States.<sup>26</sup>

## FACES OF CONSTRUCTION:

### Breaking the Cycle

Norm grew up seeing his dad working hard and long hours just to make ends meet for their family. "The only time I saw my dad was when he dropped me off at school," he remembers.

When Norm grew up, he found his life going down a similar path, doing construction work for low pay and in an environment that, he says, "was not there to teach or grow workers."

He was often paid late, had no retirement, benefits, and saw medical benefits cut over time. The contractors never provided drinking water, and, Norm says, "You were lucky if you got a pair of gloves. Safety glasses were required only after someone got something dangerous in their eye."

*"You were lucky if you got a pair of gloves."*

Norm's lifestyle took a turn for the worse; along with a friend who worked on the same jobs, he says, "We were doing hard drugs, meth."

When his father was diagnosed with a brain tumor, Norm made a decision to turn his life around. He took a math class at Mission College and then became a union electrician.

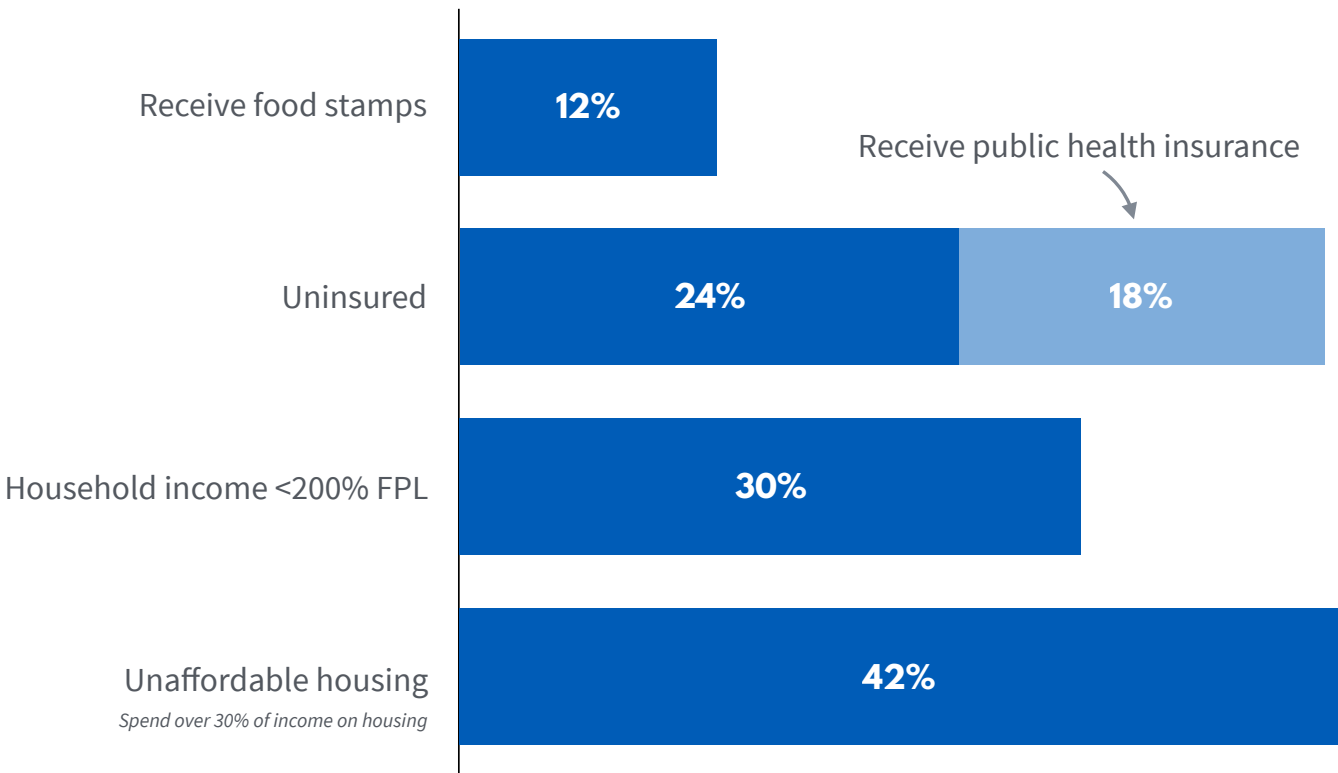
Now, Norm is a foreman, doing work that enables him to support his mother and his four-year-old son. He says, "I'm trying to break the cycle. I want to be with my son to take him to his sport events, school activities, the first day of kindergarten. I want to live to live, not live to work."

# Income and Poverty under the Low-Road Workforce Model

While the high-road model generates career pathways leading to family-supporting employment, the low-road model is less likely to produce middle wage jobs than to produce working poverty.

Thirty percent of blue-collar construction workers in Santa Clara County have household incomes below 200% of the Federal poverty line: an income so low they may be eligible for multiple forms of public assistance.

## Working poverty among blue-collar construction workers living in Santa Clara County:



**Figure 6.** Source: 2014-2016 American Community Survey, U.S. Census Bureau. Accessed via DataFERRETT.



## FACES OF CONSTRUCTION:

### Low-Road Work Takes a Toll on Family

Eliud is an immigrant who spent years working for low-road contractors. He spent two years at a company that paid him below minimum wage: \$100 cash per day, often for 10 or 12 hour days. There was no overtime pay, no standard rest breaks, and no water or safety gear provided. Recalls Eliud, “The owner calculated our hours and said take it or leave it. If you didn’t agree with the pay, too bad.”

At the time, Eliud was married and had a young son in treatment for leukemia, so he felt he had to keep working, even under those conditions. “I thought this was the work I would do for the rest of my life and it would never get better. I accepted this,” he says.

But the harsh working conditions took a toll. “A lot of stress, I would take this from work site to my home,” Eliud remembers. “I don’t know if this was the reason for my divorce, but I was always exhausted every day after work.”

Finally, he made the decision to seek a better place to work. He joined the Plumbers Local 393 and started working for a union contractor.

Says Eliud, “I’m good now. Being with the union changed my life. I had an accident in 2015. The medical bill was \$37,000. If it were not for the health benefit, I could have died, or been in debt for a long time.”

*“If it were not for the health benefit, I could have died, or been in debt for a long time.”*

# Wage Theft in Construction

Workers employed on low-road construction projects are at high risk for wage theft: the practice of certain unscrupulous employers knowingly violating labor laws in order to push down costs.

Wage theft can take many forms, including paying less than the minimum wage, requiring employees to work off the clock without pay, not paying overtime, refusing to allow breaks, requiring workers to show up at the jobsite and then sending them home without pay, misclassifying employees as independent contractors, or other illegal activities related to wages and hours.

Wage theft is a pervasive issue that impacts working families' ability to earn a living. A 2009 survey of low-wage workers in major U.S. cities found that the average worker loses approximately \$2,634 – or 15 percent of their earnings – each year because of wage theft.<sup>27</sup>

A study by the U.S. Dept. of Labor examining minimum wage violations estimated that workers in California lose a total of \$22.5 million to \$28.7 million each week due to illegal minimum wage violations. This number does not include other types of wage theft. Due to this lost income, the Dept. of Labor estimated a 29% increase in California families eligible for food stamps.<sup>28</sup>

Construction is one of the leading industries suffering from the prevalence of wage theft. In the Bay Area, since 2011:

- There have been 1,755 documented wage theft cases at over 500 construction companies.
- Approximately 7,000 Bay Area construction workers were victims of wage theft.
- The estimated wages stolen from construction workers totaled \$13 million.

These data, which were obtained through public records requests by the Stanford University Center for Integrated Facility Engineering and the Santa Clara County Wage Theft Coalition, include only cases that were documented by the U.S. Department of Labor Wage and Hour Division cases or that resulted in judgements by the California Division of Labor Standards Enforcement. They do not include complaints to other agencies, private lawsuits, or incidents of wage theft that went unreported.

In San Jose, wage theft in construction does not only occur on small scale or informal projects, but has been discovered on some of the largest and most prominent developments. One example is Iron Mechanical, a construction contractor that has been subcontracted to provide workers for at least two prominent high-rise residential towers in downtown San Jose: One South Market and Silvery Towers. Iron Mechanical has been sued twice for wage theft. In 2016, the company paid \$165,000 to settle the first suit, which was filed by employees for unpaid overtime. The second suit is currently in litigation.<sup>29</sup>



*Sean was robbed of overtime pay so often that he's lost count.*

## FACES OF CONSTRUCTION: When Safety is 'Optional'

Sean worked for nine years for low-road construction contractors. He recalls, "I showed up to work, busted my butt, but never got the respect. You take risks to prove yourself. It's unsafe. It mentally wears you out."

Sean was robbed of overtime pay so often that he's lost count of how many times it happened. He remembers one project where they worked ten-hour days for months straight to finish a project, worked through lunch breaks, and never got a cent of overtime pay.

Even worse was the lack of proper safety trainings and protocols. Safety gear, he says, was considered "optional." Once, asked to do an electrical job without the appropriate tools, he was hit by an electric shock strong enough that he couldn't work for the rest of the day.

The last straw was when he saw a scissor lift fall and seriously injure his co-worker. He left that company and began working as a union electrical apprentice.

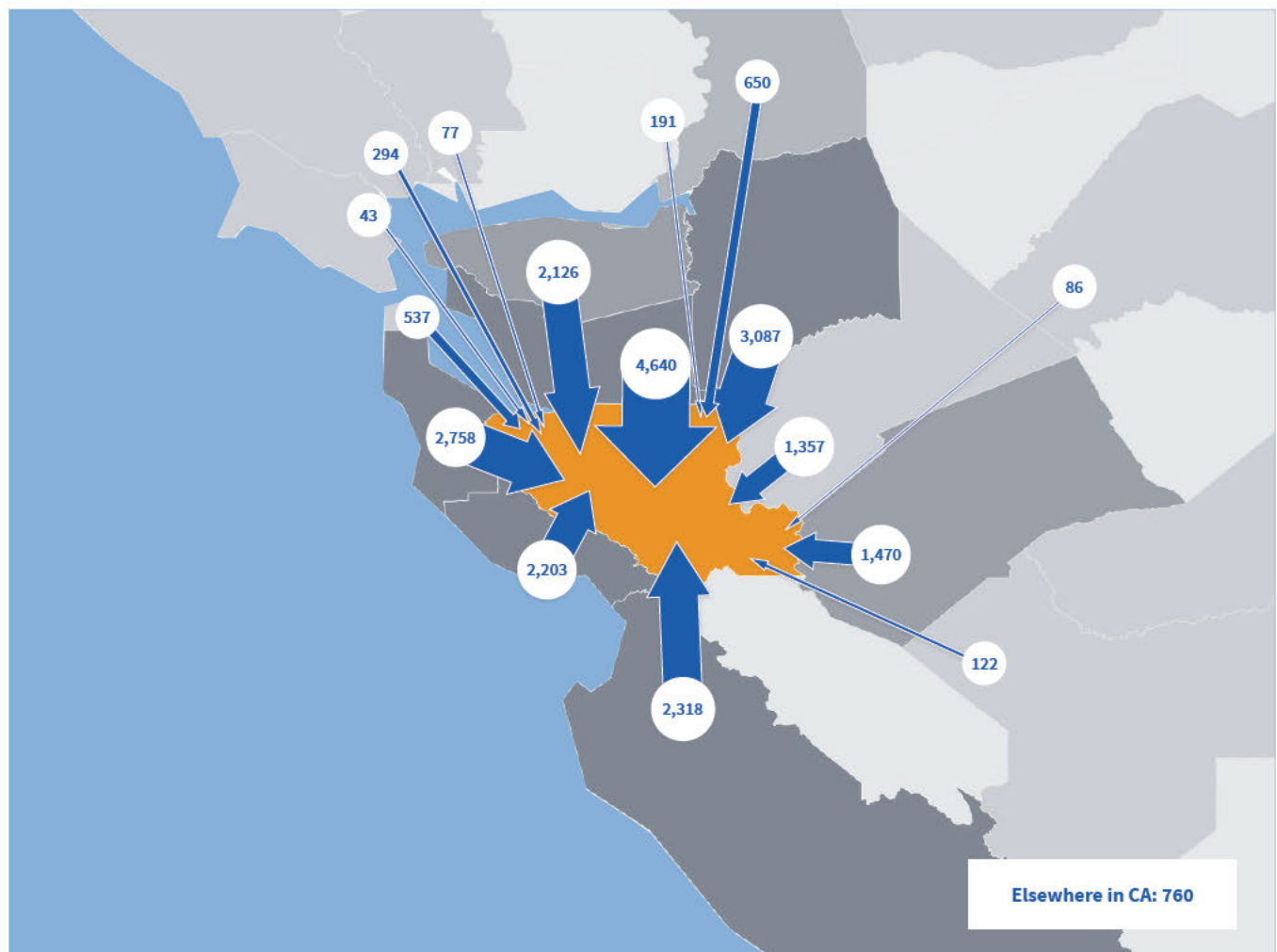
Now, he says, "wages are known, we all have to bring same tools, and there isn't any preferential treatment."

# Geographic Dispersion of the Construction Workforce

Another consequence of the low-road model is an unusually high dependence on workers who live outside of the San Jose metropolitan region.

37% of construction industry jobs in Santa Clara County are held by workers who live elsewhere. This is considerably higher than for the general workforce; on average, 24% of all jobs are held by workers who live elsewhere.<sup>30</sup>

## Workers commuting to construction jobs in Santa Clara County, by home county:



**Figure 7.** Source: 2014-2016 American Community Survey, U.S. Census Bureau. Accessed via DataFERRETT.

Why does the construction workforce have such a low rate of local resident employment? A key element of the low-road model involved paying wages that are as low as possible: typically far lower than the market rate for a given occupation. These low wages make it difficult to attract workers who live in the area, since they would be working for wages that are far below what is needed to afford the cost of living.

This recruitment problem is amplified by another aspect of the low-road model — minimal or no investment in training — which means that contractors are looking for workers who are already experienced, yet are willing to work for much less than the area standard wage. To find such workers, they often must look far outside the local area.

Out-of-area construction workers by place of residence	
Home County	Workers Working in Santa Clara County
Alameda	4,640
San Joaquin	3,087
San Mateo	2,758
Monterey	2,318
Santa Cruz	2,203
Contra Costa	2,126
Merced	1,470
Stanislaus	1,357
Sacramento	650
San Francisco	537
Other	1,573

**Figure 8.** Source: 2014-2016 American Community Survey, U.S. Census Bureau. Accessed via DataFERRETT.





*“Taking the money out of our community, paying workers from outside, leaves local workers without benefits and work and future for our families.”*

## **FACES OF CONSTRUCTION: Giving Back to the Community**

Tomas is an experienced plumber who came to the United States from Mexico so he could provide for his mother, who is blind, diabetic, and dependent on him for her medical and living expenses.

After arriving here as an undocumented immigrant, Tomas got what he thought was a good job in construction, only to find that the contractor that did not provide rest breaks, drinking water, or safety gear for its workers. The foreman filled out his timesheet each week, and Tomas had to sign, whether or not the hours on it were correct. When he suffered an eye injury on the job, instead of receiving medical treatment, he was fired.

Upon joining the union, he found a completely different work environment, one where he could use his skills to work safely and reach his full potential. Now he is able to support his mother.

“I wouldn’t be able to keep her alive if I was in Mexico working there — she would have died,” recalls Tomas. As a union plumber, he says, “I have been able to provide for her medicines, appointments with doctors, all the illnesses she has. Every day she is my inspiration.”

In his free time, Tomas volunteers teaching dance and culture in local schools, and sees the impact on youth. “If they are in gangs we pull them out of that and integrate them into the culture.”

But he worries about the increasing number of projects that are not hiring from within the local community. “Taking the money out of our community, paying workers from outside, leaves local workers without benefits and work and future for our families,” says Tomas. “Owners of companies need to see the future of their company is at risk. We should be lifting the people who are living in the streets and struggling, to give them an opportunity and benefits.”

## Community Impacts of Construction Workforce Commuting

Out of the 78 industries which are major employers in Santa Clara County, the construction sector ranks #1 in commute time: average commute time for construction workers employed in Santa Clara County is higher than for any other industry.<sup>31</sup>

The average commute time for construction workers employed in Santa Clara County is 42 minutes, compared to 31 minutes for all workers.<sup>32</sup> Transportation and housing forecasts for the region suggest that the out-of-area workforce, and hence commuting impact, is likely to grow.

Excessive commute distances generate traffic congestion, impact neighborhood livability and pollute the air. Total traffic congestion in the Bay Area, as measure by vehicle hours of delay, has increased by 84% in the last ten years (2005 to 2015).<sup>33</sup> Nationally, the Bay Area ranks as the 2nd most congested commute shed; only Los Angeles has more congested freeways.<sup>34</sup>



**Figure 9.** Source: 2014-2016 American Community Survey (Workplace Geography), U.S. Census Bureau. Accessed via DataFERRET.

Commute times and traffic congestion have significant impacts on livability and community cohesion. Long commutes limit the amount of time workers have available to spend at home and in their communities, reducing civic participation and straining families. Local residents are affected indirectly as increased highway congestion generated by commuters forces locals to spend more time in traffic.

Finally, miles travelled by passenger vehicles are a major driver of climate change; in fact, they are the single largest CO<sub>2</sub> emitter in California. In addition to accounting for 27% of the state's greenhouse gas emissions, vehicle emissions produce smog and other pollutants that affect residents' health.<sup>35</sup> California's historic Global Warming Solutions Act of 2006 (AB32) committed the state to reduce its total greenhouse gas emissions to 1990 levels by 2020 and to 80% below 1990 levels by 2050 – a goal that can only be reached if vehicle-produced emissions are greatly reduced.

The imperative to reduce Vehicle Miles of Travel is further emphasized by SB 375, passed in 2008, which requires regions throughout the state to take greenhouse gas emissions into account in their land use planning.

In July 2017, the State of California reaffirmed its focus on reducing greenhouse gas emissions by passing Senate Bill 1, which extends the emissions cap program from 2020 until 2030. A bipartisan super-majority of legislators in both the California Assembly and California Senate approved the bill, which includes strong measures to reduce tailpipe emissions.

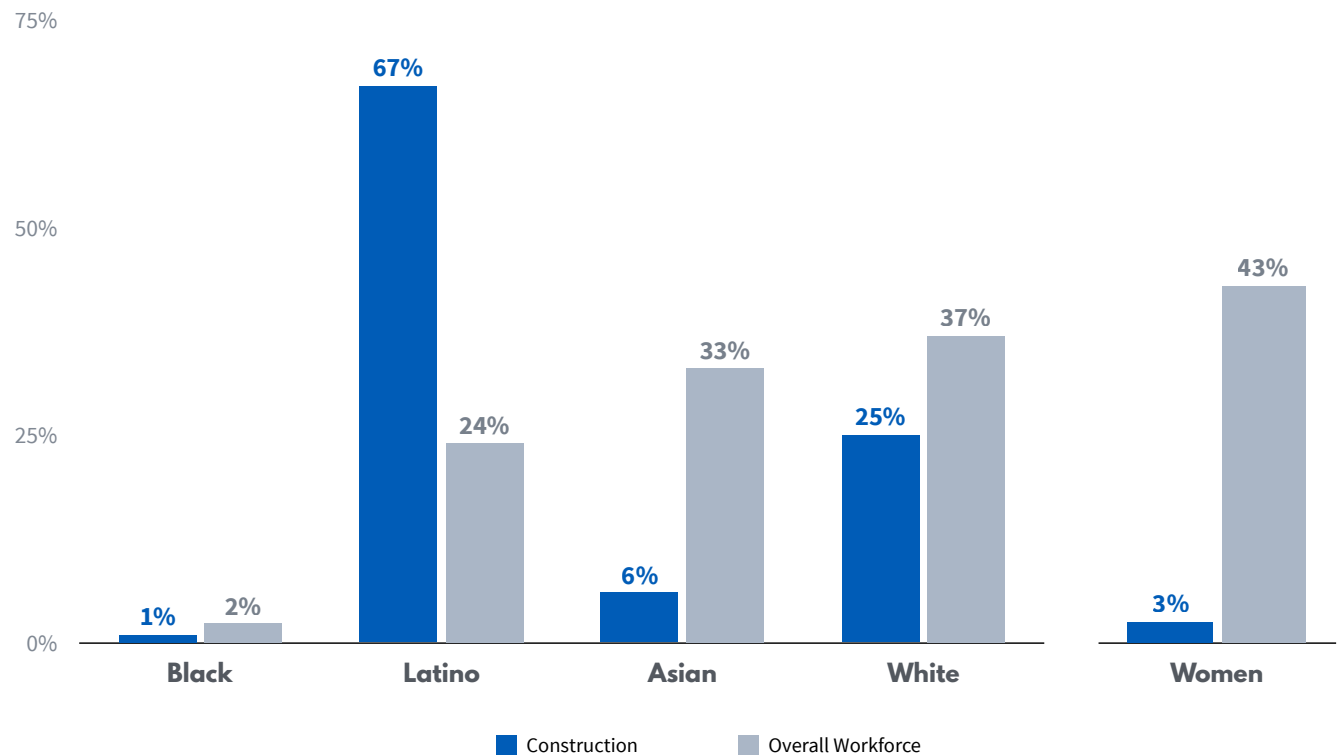
# **Diversity and disparity in construction employment**

# Workforce Demographics

Both African-Americans and Asian Pacific Americans are underrepresented in the Santa Clara County construction industry. African-Americans make up 2.3% of the overall workforce, but only 1% of the construction workforce. Asian/Pacific Islanders make up 33% of the overall workforce, but only 5% of the construction workforce.<sup>36</sup>

The gender disparity is even starker. Only 2.5% of all construction workers in the county are women.<sup>37</sup>

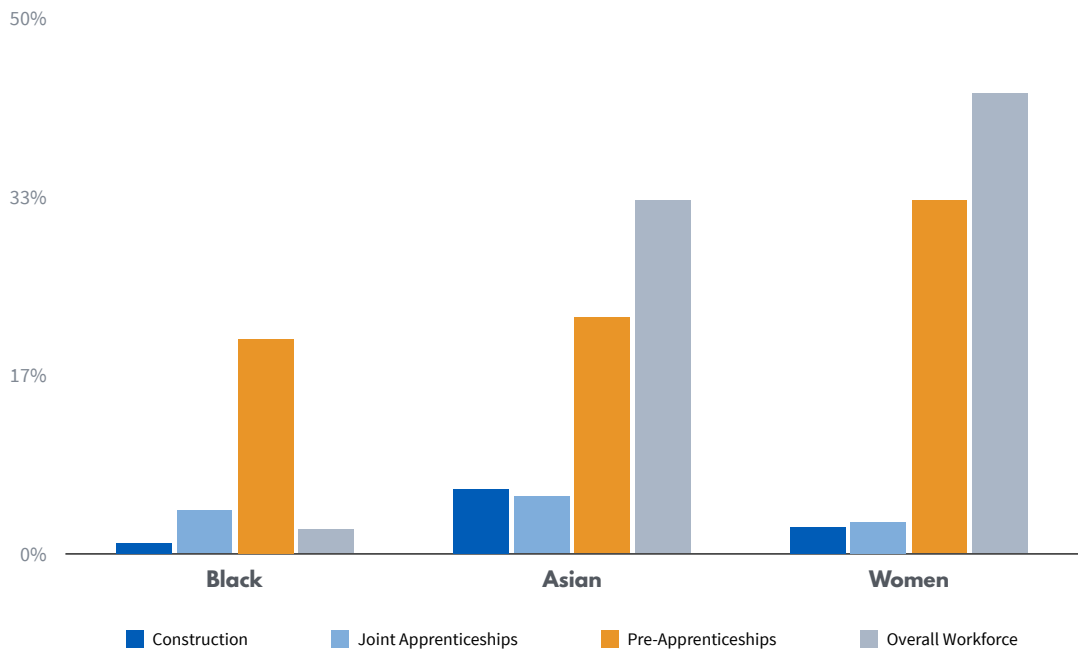
## Ethnicity and gender of blue-collar construction workers vs overall workforce in Santa Clara County:



**Figure 10.** Source: 2011-15 American Community Survey 5-Year Estimates, U.S. Census Bureau. Accessed via DataFERRET

Registered apprenticeship programs are helping to diversify the industry by outreaching to bring more underrepresented groups into the trades. However, the number of apprenticeship slots available each year is limited by the number of companies who are willing to utilize apprentices and the total hours available for apprentices to work. Each apprentice is a full-time worker who is receiving on-the-job training as an employee of a contractor on a jobsite. Increasing the number of apprenticeship slots, together with an intensive recruitment and pre-apprenticeship effort to attract under-represented populations, will enable more women and under-represented minorities to enter the pathway to a long-term family-supporting career in construction.

**Apprenticeship and pre-apprenticeship programs are training a more representative workforce:**

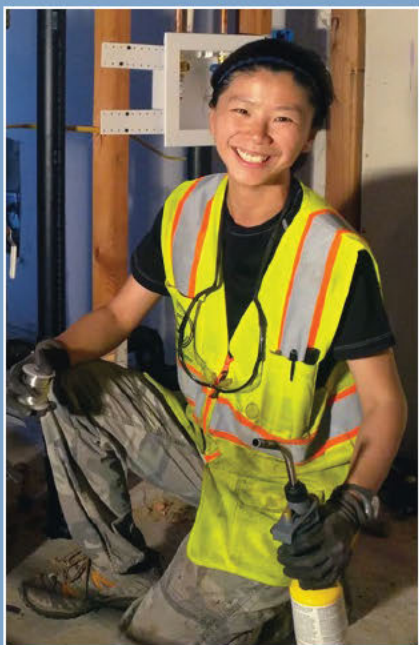


**Figure 11.** Source: Overall & Construction Workforce: 2011-15 American Community Survey 5-Year Estimates, U.S. Census Bureau. Apprenticeships: CA Dept. of Industrial Relations, Division of Apprenticeship Standards. Pre-Apprenticeships: Enrollment and graduation data from the Santa Clara County Trades Orientation Program.

Asian Pacific Americans, on the other hand, are under-represented both in apprenticeship (making up 5.4% of union apprentices)<sup>38</sup> and in the overall construction workforce (making up 6% of the workforce).<sup>39</sup> Additional outreach, education, and recruitment efforts, as well as increased cultural competency in the industry, may be needed in order to increase representation for Asian Pacific Americans in construction careers.

Finally, Latinos are over-represented in the industry, making up about two-thirds of both union apprentices<sup>40</sup> and of the overall construction workforce. However, Latino construction workers are disproportionately victimized by low pay and insecure work. As detailed in the next section, the impacts of the low-road model result in a substantial pay disparity for Latino workers.





*“It was tough because I’m a girl, and there aren’t a lot of girls in the construction industry.”*

## FACES OF CONSTRUCTION: Overcoming Stereotypes to Succeed

Aster worked for a decade as a graphic designer, spending over ten hours a day in front of a computer — until her company downsized. “My company outsourced a lot of labor,” she said. “Finally it was my turn and I got laid off too. I took that as a sign that I had to change my career.”

While looking for a new direction, Aster learned about the Trades Orientation Program, a free course that offered a pathway into a construction apprenticeship.

But while the program was exciting for Aster, she admitted it wasn’t always easy. “For a while, though, it was tough because I’m a girl, and there aren’t a lot of girls in the construction industry,” she said.

As a woman, Aster has had to combat many stereotypes from family and friends, many of whom didn’t understand her decision to pursue a construction trade. She also had to overcome her own perceptions of what it takes to succeed in construction.

“Before I went to training, I didn’t know that hammering was about technique, not strength,” she reflected. “That was very encouraging, because I’m small and I’m short.”

Through TOP, Aster found the confidence to pursue a new career path. She applied to multiple apprenticeship programs and was accepted to several. Ultimately, she decided to become a plumber. She is now working as a Pipe Trades Apprentice and loves the work and all the new skills she is learning.

Aster encourages others like her to pursue a rewarding career through a building trades apprenticeship. “If you have the strength and will to do it, it’s possible,” she says.



*“The union gave me the opportunity to learn a skill and get paid a decent wage and provide for my children.”*

## FACES OF CONSTRUCTION: Nurturing the Next Generation

As a teenager, Lisa struggled with becoming a single mom very young. She needed to support her family, but found many doors were closed to her. “It wasn’t that I wasn’t smart enough to go to college — I couldn’t afford it,” she recalls. “The cost of living was always increasing, so I had to try to find a job that paid well enough.”

When she found out that apprenticeship paid well and provided a free education along with full-time work, she applied and got into the San Jose plumbing apprenticeship. She started out in residential construction, then moved up into commercial.

Twenty-one years later, Lisa says her career “allowed me the freedom and ability to take care of my kids. When they needed things, I didn’t have to go on assistance or worry about medical insurance.” Her youngest daughter recently graduated from college.

But, she says, it was difficult being the only African-American female on most worksites. “It was hard to understand the structure — I didn’t have an ally or mentor. For someone who comes in behind me that is like me, I want it to be easier for them and to have someone to look to for support.”

Lisa is now a leader of outreach and education efforts to encourage others like her to consider a construction trades apprenticeship. “The union gave me the opportunity to learn a skill and get paid a decent wage and provide for my children. If you get in and meet the expectations, high school diploma, keep your math skills up, it will afford you the opportunities to take care of yourself and your family.”

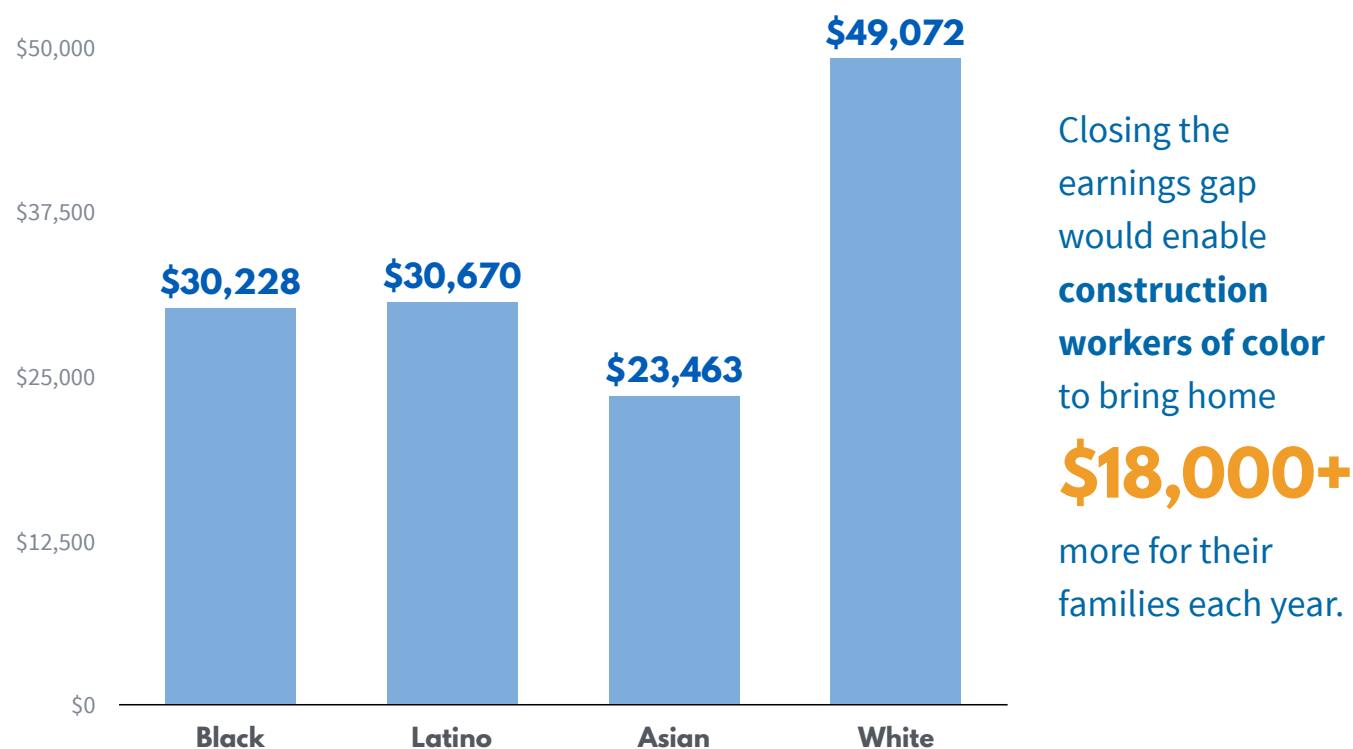
# Pay Equity in Construction

The construction industry as a whole suffers from wide disparities in pay.

While many companies base their business on paying the prevailing wage, emphasizing safety and productivity, and competing based on the quality and efficiency of their work, there is another set of companies who compete primarily on labor costs by paying their workforce as little as possible. This latter strategy tends to impact workers of color the hardest.

For construction workers who are employed in Santa Clara County, Latino workers are paid, at the median, 38% less than white workers. African-Americans are also paid 38% less than whites. (African-Americans were paid slightly less than Latinos, but the difference was not statistically significant.) And Asian-Americans face the biggest pay gap, making only about half the pay of white workers.<sup>41</sup>

## Annual earnings gap among for blue-collar construction workers employed in Santa Clara County:



**Figure 12.** Source: American Community Survey 5-Year Estimates 2012-2016, Workplace Geography

Two factors contribute to this pay gap.

The first is the bifurcated industry structure discussed above, whereby developers force competition for contractors to compete based solely on price pay lower wages for the same work than do contractors who compete based on value, quality productivity.

The second factor contributing to the pay gap is de facto occupational segregation. Like many other industries, people of color and immigrants in construction are often more vulnerable to exploitation by low-road contractors, including both wage theft and payment of legal but sub-standard wages and benefits. Minorities employed by low-road contractors may also face disadvantage due to lack of access to training for advancement, as well as health and safety violations that not only cause illness or injury, but may also reduce workers' earning ability, especially if an unscrupulous employer has excluded them from workers' compensation.

Latinos are particularly affected by this pay gap because Latino workers are hugely over-represented in the construction workforce, yet are routinely under-paid for their work.

In Santa Clara County, 16% of all working Latino men are employed in construction. But as discussed above, Latino construction workers earn 38% less than their non-Hispanic white counterparts.<sup>42</sup>

The wage disparity they face not only harms the workers and their families, but also holds back the broader Latino community's ability to build economic security and wealth. Closing the pay gap for Latino construction workers in Santa Clara County would add a total of \$387 million annually to Latino workers' paychecks.

## **LOCAL SOLUTIONS:**

**Tools for improving equity and  
expanding opportunity**



In this highly mobile industry, where paychecks depend on the weather and workers are employed only for the length of a construction contract, communities have developed a number of tools designed to increase equity, ensure safety and quality of work, promote high-road career opportunities, and expand the training pipeline for a skilled construction workforce.

This toolbox includes public policies such as prevailing wage, apprentice ratios, and local or targeted hiring, as well as workforce development programs including State-registered apprenticeships and pre-apprenticeship pipelines.<sup>43</sup>

The Appendix provides an overview of each of these tools.

## Models in Other Communities

The challenges created by the bifurcation of the construction sector are not unique to San Jose. Communities across the nation are grappling with unscrupulous developers and their impacts on working families.

In Texas, for example, the Workers Defense Project has been working to combat low wages and hazardous conditions in the construction industry, spurred by sobering statistics: in Texas, more than half of construction workers are paid poverty-level wages, 71% receive no benefits, and once every three days, a construction worker dies on the job.<sup>44</sup>

As a result of workers' and advocates' efforts to improve the industry, Texas has passed laws protecting workers from misclassification and wage theft, the city of Austin passed an ordinance requiring workers to be allowed rest breaks, and the federal Occupational Safety and Health Administration (OSHA) strengthened its enforcement of worksite health and safety in five states and launched a nationwide pilot program partnering with city building inspectors to identify workplace safety violations.

Another result has been the “Better Builder” campaign which works with developers and projects owners in Texas to become industry leaders by setting strong workforce standards on their construction sites. Projects as varied as a community college bond, an Apple campus, affordable housing developments, a Trammel Crow treatment plant, an office/retail campus, and a number of public and public/private projects have adopted the Better Builder standards.<sup>45</sup>

The Texas case study is emblematic of efforts being made by communities across the nation. In the Bay Area, a number of cities have adopted policies or plans calling for development to create good, family-supporting jobs.



Some of these include:

- **The City of Richmond's Local Employment Program** established local hiring goals that apply to all projects involving a development agreement and/or a land disposition agreement with the City, as well as relevant RFPs/RFQs.
- **The City of Newark's Dumbarton Specific Plan** suggests that developers and contractors in the Specific Plan area pay area standard wage, hire locally, and meet with the local Building Trades Council.
- **The City of Berkeley's Downtown Area Plan** includes prevailing wage, apprentice hiring and local hire requirements for projects over 75 feet in height seeking streamlined entitlements.
- **The City of South San Francisco's Downtown Station Area Specific Plan** encourages local hiring, local business sourcing, job training, and payment of area standard wage for construction of development projects.
- **The City of Oakland's** plan for redevelopment of the former Oakland Army Base includes prevailing wage, apprentice hiring, and local / targeted hiring on private as well as public construction projects, as well as living wage and local hiring for operations (non-construction) work.

Two models merit special mention because they have been adopted in California cities facing many similar issues to those in San Jose, and because they do not only state aspirational goals, but set specific standards to protect the workforce and expand access. These two models are Los Angeles' Measure JJJ and San Francisco's First Source Ordinance.

## City of Los Angeles: Measure JJJ

In November 2016, the voters of Los Angeles approved Measure JJJ, establishing a set of regulations relating to residential development, construction workforce standards, and provision of affordable housing in the city.

Measure JJJ, among other provisions, established workforce requirements on certain major private residential development projects. Specifically, the developer must ensure that all contractors and subcontractors on the project:

- Possess the appropriate contractor's license, per City and State law.
- Hire only workers who possess the legally required licenses and certifications for the work they are performing.
- Pay at least the Area Standard Wage to their workers.
- Ensure that at least 60% of their workers are either graduates of a joint Registered Apprenticeship or have equivalent hours of on-the-job experience, or are currently registered apprentices.
- Make a good-faith effort to hire at least 30% local residents and 10% Transitional Workers whose primary place of residence is within a 5-mile radius of the covered project.<sup>46</sup>

Measure JJJ was passed with 64.8% of the vote.<sup>47</sup> Following its passage, another ballot initiative, Measure S, was filed which would have overturned many of Measure JJJ's provisions. Measure S was rejected by Los Angeles voters in the March 2017 election, receiving only 29.6% of the vote.<sup>48</sup>

## **City of San Francisco: First Source Ordinance**

San Francisco's First Source Hiring Program is the leading field-tested model of standards on private development. It requires developers to take specific good faith efforts for targeted hiring of economically disadvantaged individuals referred by the San Francisco Workforce Development System. The program has a goal of employing economically disadvantaged workers for 50% of all new hiring opportunities on the covered projects.

The First Source program established requirements for all private construction projects that include 10 or more residential units or 25,000 square feet of commercial space. On these projects, contractors of all tiers must:

- Work with the CityBuild program to employ economically disadvantaged workers in 50% of all new hiring opportunities.
- Submit a Workforce Projection to CityBuild for approval within 30 days of contract award (required of the Prime Contractor only).
- Prior to starting work on a project, attend a CityBuild Workforce Meeting to discuss construction schedule and labor needs.
- Submit a Job Notice to CityBuild at least 3 business days in advance of a new hire start date.
- Submit a First Source Monthly Workforce Summary Report by the 10th of each month reporting on project work for the previous month.

San Francisco also has adopted an ordinance that requires prevailing wages and apprentice hiring on all parcels sold or leased by the City's Housing Department. In addition, San Francisco has a Local hire requirement for public works, which is separate and distinct from the First Source Hiring Program for private projects.

## Community Support in San Jose

From their leadership in passing the 2012 San Jose minimum wage increase to their overwhelming support for the 2016 affordable housing bond, San Jose residents have spoken out in strong support of actions to tackle the inequality gap and ensure that current and future generations of working families are not pushed out of Silicon Valley.

In a poll conducted in spring 2017, likely San Jose voters said they were “overwhelmingly supportive of making sure local construction projects hire local workers and pay them a competitive rate.”<sup>49</sup>

The survey asked San Jose residents for their opinions on construction workforce standards overall, as well as on several specific components of a potential workforce standard. Key findings include:<sup>50</sup>

- Overall support for construction workforce standards on major projects: 76%
- Support for market rate wage standards: 81%
- Support for local hiring standards: 77%
- Support for career pathways for disadvantaged populations: 75%

The poll surveyed 911 randomly selected likely November 2018 voters, and was offered in English, Spanish, and Vietnamese. The margin of error is +/- 3.3 percentage points.

## FACES OF CONSTRUCTION: From Biotech to Plumbing

Sabrina spent years working as a technician in a Stanford genetics lab. She loved the work — researching a specific type of fish — but as a self-educated person, she reached a difficult point in her career where if she was going to continue in her field, she needed to get a degree, which would have left her deeply in debt.

Instead, she decided to pursue a marketable skill. She had done a lot of PVC plumbing, and in her own home loved replacing faucets, fixing toilets, making pipes not leak. So, says Sabrina, “I Googled how to be a plumber and found the website for the Local 393 apprenticeship. When I learned that this is construction work, not fixing toilets, it almost scared me away. But then I met Jamie [a journeyman plumber], and he was living my dream.”

Now she is a working apprentice out in the field, and “I love it — there are so many possibilities opening up for me.”

Sabrina wants to see more women in the trades. She says “women make up more than half of the planet. But there’s a stigma in construction trades. We need to overcome this! Women can turn a wrench or swing a hammer.”

To open up opportunities for more people to enter construction careers, she says, “We need to keep local workers working. We can’t have a functional community if we aren’t thinking about local workers and a sustainable wage for all workers. Someone has to build the buildings — right now that money is going somewhere else, and that is not right or smart.”

*“Women make up more than half of the planet. But there’s a stigma in construction trades. We need to overcome this! Women can turn a wrench or swing a hammer.”*

# The Opportunity: Community Impacts of a High-Road Model

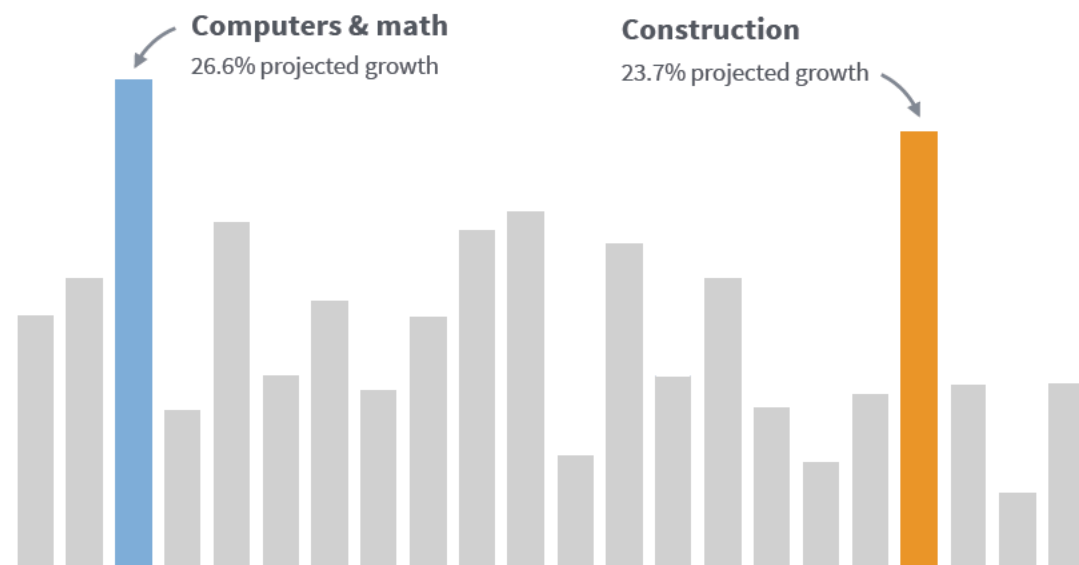
State economic projections for the next decade indicate that 1,333 new construction workers per year will be needed in Santa Clara County, totaling over 13,000 job openings.<sup>51</sup> This includes both new jobs needed to meet demand, as well as replacement jobs to fill the roles of workers who are leaving the workforce - many of whom are likely to be retirees.

The scale of this demand represents a tremendous opportunity to transform thousands of jobs into middle-wage careers – and transform thousands of lives by expanding pathways into those careers.

San Jose can take advantage of this construction boom to invest long-term in training the workforce and lifting up the middle class.

**Construction is the second-fastest growing industry in Silicon Valley.**

**But will these be family-supporting jobs for local workers?**



2014-2024 Occupational Employment Projections, San Jose-Sunnyvale-Santa Clara MSA

**Figure 13.** Source: Occupational Employment data. California Employment Development Dept., Labor Market Information Division.

## **APPENDIX:**

# **Construction policy toolbox: Models and best practices**



## Prevailing Wage

Prevailing wage is a minimum labor standard that is established for a specific occupation and geographic area. While prevailing wages have been applied in other industries such as janitorial, setting these occupation-specific standards is particularly important in the construction industry due to the labor market demands and the unique nature of the employment relationship.

Blue-collar employment in the construction industry is marked by two factors.

First, work is generally fragmentary and project-based. Continuous employment with a single contractor is the exception rather than the norm; typically, a contractor hires its needed workers when project work begins, and lays them off when their role on the project is done.

Second, despite the fragmentary nature of the work, employers' demands for labor are highly specific as to both skills and availability. A general electrician, for example, must have a minimum of 8,000 hours of on-the-job experience, 720 hours of related supplemental instruction, and pass a challenging State certification exam; and every three years must show at least 2,000 hours of work in their field and 32 hours of continuing education in order to renew their certification. Aside from the structured on-the-job training provided in registered apprenticeship, contractors generally expect workers to arrive already fully trained and certified; project schedules rarely allow for time to get workers up to speed, unless it is for a project-specific certification.

Furthermore, when a contractor is hiring its workforce for a project, the demands of the developer and project timeline often mean that hiring must happen on a very short timeline; so in order to get the job, a worker must be available to work on only a few days' notice. Work schedules are generally dictated by the project timeline, and flexible schedules are rarely if ever allowed; workers must be available when the work is scheduled to occur, regardless of childcare or other obligations.

This means that the hourly compensation for a skilled construction worker is paying for more than just an hour's worth of labor. It is implicitly paying for the workforce to obtain and continually update the skills and certifications required for the work; generally, any classroom training or certification has to be obtained on the worker's own time. It is also implicitly paying for the workforce's ability to be available on short notice when needed, which is challenging since the end of craft work on one project rarely coincides neatly with the beginning of another one. As a result, construction workers must budget their wages to cover not just the period when they are working, but also the periods of unemployment between jobs, which are a normal and expected part of blue-collar construction work. In Santa Clara County, between 2011 and 2015, the average blue-collar construction worker worked approximately 1,775 hours annually,<sup>52</sup> as compared to the typical 2,040 hours per year that in most industries is considered full-time employment.

The prevailing wage for a given occupation and region is intended to reflect the typical market rate wage in that area. In California, prevailing wages for construction are determined by wage surveys conducted by the State Department of Industrial Relations (DIR). Based on those surveys, twice per year DIR issues prevailing wage determinations setting forth the wage standards for each occupation and region.

Prevailing wage also is critical for enabling portability of health, retirement, and paid leave benefits. The project-based nature of most construction work makes it extremely challenging for workers to obtain health or retirement benefits, or to accrue sick and vacation leave, with a single employer; even if the employer offers benefits, the worker may not be there long enough to qualify. Prevailing wages generally include a standard contribution for each type of fringe benefits; for contractors that agree to the terms, these contributions can be made to a multi-employer trust fund which provides portable benefits that a worker can accrue across multiple employers, and can access even when temporarily unemployed, so there is no gap in health coverage.

Finally, training contributions and, perhaps more importantly, an established “step” series of wages for apprentices, make prevailing wage standards critical to the effectiveness and sustainability of the apprenticeship system, which is discussed further in the following section. Studies which have examined the relationship between prevailing wage and workforce training show that states with prevailing wage laws have more apprentice training slots, higher rates of apprentice completion, and better training outcomes for ethnic/racial minorities than do states without prevailing wage laws.<sup>53</sup>

Both the state and the federal government utilize prevailing wage policies which apply to taxpayer-funded public works projects receiving state or federal funds. Prevailing wages are required to be paid on most publicly funded construction projects in California, but there is no industry-specific wage floor for private construction.

Many local governments in the state have their own prevailing wage policies covering projects funded by local taxpayers. The City of San Jose’s prevailing wage policy covering City projects was adopted in 1988; its statutory purpose is to ensure equitable and sufficient wages, protect local job opportunities and stimulate the local economy.

## Apprenticeship Training

Apprenticeship is both a full-time job and an intensive educational program. California registered apprenticeship programs are a form of post-secondary education that combines classroom instruction with paid on-the-job training.

Apprenticeship programs require an intensive long-term commitment from the student; the training period is three to five years and typically requires successful completion of a curriculum of 400 to 800 classroom hours (free of charge) combined with 3,000 to 8,000 hours of paid on-the-job training,

where apprentices work side by side with experienced workers to learn all the skills required for a trade.

The State of California Department of Apprenticeship Standards has oversight authority over all registered apprenticeship programs in the state, including the standards and processes by which they admit new apprentices. These State-regulated procedures help ensure that admission into a registered apprenticeship and advancement of apprentices is fair and open to all.

California registered apprenticeships may be organized as either joint apprenticeships, which are governed by a joint committee comprising both employer and union representatives, or unilateral apprenticeships, which are run solely by employers. In the construction sector, although there are numerous unilateral apprenticeships, their enrollment and graduation rates tend to be very low. In Santa Clara County, between 2012 and 2017, 96% of all construction apprentices were trained by a joint apprenticeship program.<sup>54</sup>

No construction experience or prior training is required to enter most joint apprenticeships. Typical entry requirements, as set forth in State-approved standards for each apprenticeship, may include a high school diploma or GED; a valid California driver's license; basic math skills; and ability to meet the physical requirement of the job.

The number of openings available in each apprenticeship is based primarily on the demand for apprentice hiring by the employers participating in that apprenticeship (a typical joint apprenticeship has several dozen participating contractors, with some large apprenticeship programs having more.)

Once an individual applies and is accepted to a registered apprenticeship, they begin their training in the skills of that trade, learning both on the job and in supplemental classroom instruction. Apprentices typically work full-time, 40 hours per week; starting wage varies depending on the trade, but for joint apprenticeships averages roughly \$20 per hour, with full benefits.

If they complete their required on-the-job and classroom hours, joint apprentices receive regularly scheduled pay increases, usually every six months, for the duration of their 3 to 5 year apprenticeship. Once they complete the apprenticeship, they graduate to become a journeyman or journeywoman – an individual fully skilled and able to practice their trade anywhere in the country. To keep current with industry advancements, joint apprenticeship committees generally also offer free skills upgrade trainings for journey-level workers, based on demand from participating employers for specific new skills or certifications.

## Local Hiring

Local hiring policies are generally intended to increase the portion of total payroll hours that are worked by local area residents. The goal may be to help provide equal access to employment opportunities for local residents through direct employment, to improve local economic and fiscal returns from economic activity by keeping money circulating locally, to reduce or mitigate traffic and environmental impacts caused by excessive in-commuting, or some combination of those goals.

A typical local hiring policy sets a goal that local residents be employed for a minimum portion of work hours on a project or a set of projects: for example, a local hiring goal could be that 50% of hours be worked by local residents.

“Local” can be defined in various ways, including residents of a single local jurisdiction or even specific ZIP codes, residents of the greater metropolitan region, or residents living within a specified radius of the project. Determining the most appropriate definition can be challenging in the construction sector due to the nature of the industry, in which both businesses and workers move from job to job rather than remaining in one location.

Because the U.S Constitution limits what restrictions states can place on residents of or commerce with other states, most local hire policies exempt out-of-state workers from their calculations of local workforce. Standard language exists for this exemption and inclusion of that language is considered a best practice for local hiring policies. A recent, high-profile law that included a local hiring policy, Measure JJJ in Los Angeles, is currently the subject of a lawsuit challenging the local hiring portion of the law on the grounds that it did not properly exempt out-of-state workers. While the outcome of this lawsuit has not yet been determined, the suit’s filing is another indicator of the importance of carefully considering both legal and practical considerations in designing any local hiring program.

It is important to note that a local hiring policy, in and of itself, is not a workforce development or career pathway strategy. On any major, complex construction project, the majority of the work must of necessity be performed by journeypersons – skilled construction workers who already have experience in the field. A local hiring policy gives more work opportunities to local workers who are already in the construction field, but does not provide training or increase the number of entry-level job openings. For that reason, local hiring is often employed in combination with the other tools in this sector to open up pathways for new entrants into local construction careers.

## Targeted Hiring

Targeted hiring policies aim to increase hiring opportunities for targeted workers from specific disadvantaged populations. These policies are sometimes also referred to as disadvantaged worker hiring, priority worker, transitional worker, or by other names.

Because a major goal of many targeted hiring policies is to create pathways into the industry for communities who have traditionally been unable to access construction careers, targeted hiring policies often focus on setting goals for hiring these targeted populations as entry-level apprentices. This effectively requires participating employers to create on-the-job training opportunities (via creating or participating in a State-registered apprenticeship), if they have not already done so.

This focus on new entrants differentiates targeted hiring from local hiring, which generally focuses on work hours for local residents who have prior experience and training in a construction trade.

The “targeted” workers identified by targeted hiring policies vary based on local needs and priorities. They commonly include categories such as at-risk youth, graduates of local high schools, emancipated foster youth, unemployed or under-employed adults, veterans, under-represented minority or immigrant community members, public benefits recipients, the formerly incarcerated, and those who are homeless or precariously housed. In some cases, the criteria are based on the demographics of an individual’s neighborhood, rather than on that individual’s own characteristics or barriers; for example, targeted workers might be defined as those residing in Census tracts where average household income is below the Federal poverty line.

Targeted hiring policies are often developed in collaboration with grassroots organizations, local Workforce Development Boards, adult schools, community colleges, and other partners that can provide community education, outreach, and support to disadvantaged community members, as well as with certificated pre-apprenticeships.

## Developers Choose the High Road

On several large commercial projects and a handful of residential projects in Santa Clara County, developers have chosen to apply the high road model of construction: committing to pay prevailing wages, hire apprentices and provide a level playing field for local workers.

A premier example is the recently approved Museum Place project, a privately financed development. The developer, Insight Realty, has committed to build under a Project Labor Agreement that will insure a predominately local workforce, apprenticeship opportunities and family supporting wages.

In cities where communities are actively engaged in the development process and are empowered to set clear expectations for high-road, equitable development, developers build those expectations into their project designs and financing structures. Establishing this baseline creates a level playing field so that contractors can compete on factors of efficiency, productivity and quality rather than on lowering the wages of the construction workforce.

# Endnotes

- 1 This includes 8.3% of households with incomes below the Federal Poverty Level; 21.3% of households with income above poverty, but below the Self-Sufficiency Standard; and another 9.9 % of households in financial insecurity. Source: BW Research Partnership, The Silicon Valley Dichotomy. Work2future: March 2017. [http://www.work2future.biz/images/SiliconValleyDichotomy\\_rel061517.pdf](http://www.work2future.biz/images/SiliconValleyDichotomy_rel061517.pdf)
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- 44 <http://www.betterbuilder.org/the-change-we-see.html>
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# WORKING PARTNERSHIPS USA

Working Partnerships USA is a community organization that drives the movement for a just economy by bringing together public policy innovation and the power of grassroots organizing. We build the capacity of workers, low-income neighborhoods and communities of color to lead and govern. Based in Silicon Valley, we tackle the root causes of inequality and poverty by leading collaborative campaigns for good jobs, healthy communities, equitable and sustainable growth and a democracy that works for all.

2102 Almaden Road, Suite 112  
San Jose, CA 95125

(408) 809-2120

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Produced in collaboration with:

**Santa Clara County Residents for Responsible Development**

IBEW Local 332 | SMART Local 104 | UA Local 483 | UA Local 393



## Letter for 11/1/2022 Council Study Session on Cost of Development

jeanann2 [REDACTED]

Tue 11/1/2022 5:42 AM

To: City Clerk <city.clerk@sanjoseca.gov>

[External Email]

Please find attached my letter for this study session

--Jean Dresden

This message is from outside the City email system. Do not open links or attachments from untrusted sources.

October 31, 2022

Honorable Mayor and Councilmembers:

RE: Cost of Development Study Session November 1, 2022

While the Century / Urban cost of development study documents financing feasibility during the pandemic, it does not address more complex factors as we move out of the pandemic. The staff memo will serve as a historic document for a point in time but returns to failed fee discount policies and ignores post COVID trends, the impact of the looming crisis from the late Housing Element crisis and does not analyze the interplay of recent and pending State Legislation and the State's "Pro housing Designation Program." Staff does not report research and modeling of a more sophisticated program that might actually achieve a significant increase in housing units.

By way of background, I lead San Jose Parks Advocates, serve on the District 6 Leadership Group, and participated in a variety of city working groups best summarized by my 2020 Lifetime Achievement award from the Silicon Valley League of Conservation Voters.

### **Failed fee discount policies**

The staff report hints that fee cuts will be back on the table at a Council meeting later in November—even though prior fee cuts failed to produce significant units. Locking in the cuts for a decade is imprudent given the dynamic nature of the economy, the state legislative environment and the fact fee cuts don't work. Notably, the Council previously discussed and acknowledged the cuts were renamed from "fee discounts" in order to avoid the stigma of a public subsidy and its accompanying requirements for labor, perpetuating wage theft and other abusive practices.

Staff's current report acknowledges on page 9 fee cuts don't change anything:

"Reduction of these taxes and fees to zero dollars would improve feasibility, but **would not fundamentally change the outcome** of the analysis. Importantly, such **elimination would also significantly reduce City resources** necessary to support transportation infrastructure and related grant matching requirements, renovate and create new park infrastructure, and support affordable housing."

This analysis reiterates the results from the 2019 September staff report on the Kayser Marsten study (page 6):

"Extending the [fee or tax reduction] incentives improve the financial picture slightly but is **not sufficient** for the development **to reach feasibility.**"



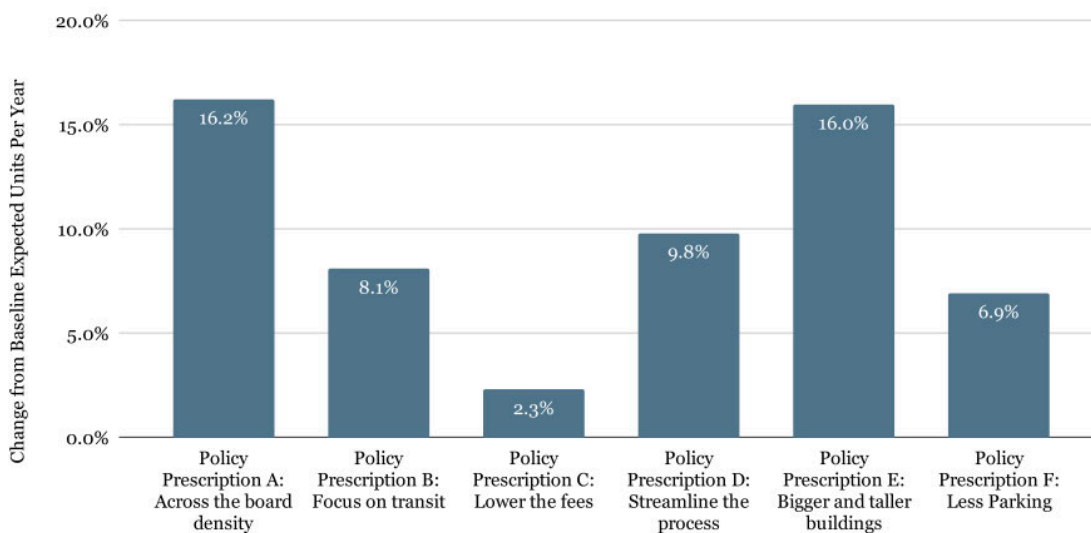
Recently, the Turner Center at UC Berkeley has released their gis based model of multiple housing positive policies using Los Angeles. Their model forecasts, at best, a 2% increase in units from a fee reduction, further evidence fee reductions will not make projects feasible.

The evidence is clear, fee cuts is doing nothing and results in nothing changing—projects are still infeasible and locking in fee cuts harms the public far into the future.

### **California State Pro-Housing Designation Program and Turner Analysis**

The State's Pro Housing Designation Program provides incentives to cities and counties in the form of additional points or other preference in the scoring of competitive housing, community development, and infrastructure programs if the City implements pro housing policies. The Turner Center at UC Berkeley used Los Angeles and a gis based model to evaluate the impact of pro housing policies for multi family housing on every LA parcel. Their dashboard allows policy makers to tweak changes in policies to see impacts. Fee cuts generated only 2% more units above baseline while taller/bigger (FAR) and greater density policies each generated 16% additional units. Their results suggest that a significant increase in units would occur if the City could adequately staff its Planning department and reduce the time lag from application to permit. Not surprisingly, combinations of programs generated more but Turner cautioned:

“each has different impacts on where new units are likely to be located with important implications for equity and environmental sustainability.”



Incremental percent growth over baseline for each strategy.

Where is the City staff's analysis of the interplay of these pro housing policies and other recent state legislation and how they may affect feasibility? Why consider fee cuts that are known to be ineffective until this policy work is done?

## Post-COVID and Downtown Housing

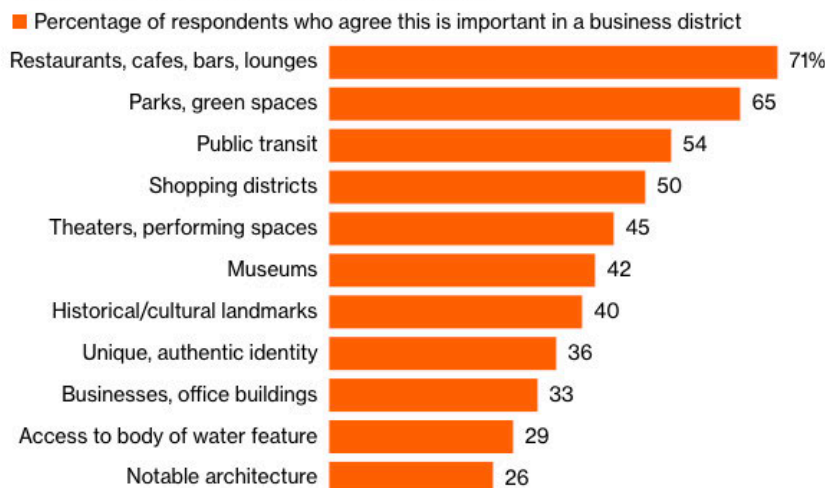
The staff memo touches very lightly on post COVID impacts beyond mentioning increase in costs and delays to their report. What about Downtown and its viability as a market? To what extent are doubts about San Jose's Downtown intruding into the availability of financing? The Century/Urban report highlights a concern—some projects are finding it hard to rent:

“As an example, at the time of this writing, asking rents at one Class A Type I project were among the highest in the market but the project was also offering eight weeks of free rent. As a result, **the project's effective rents are substantially lower than the project's asking rents** and lower than the asking rents of other projects.”

San Jose and San Francisco are among the slowest cities for people to return to the office according to recent published reports. The Gensler City Pulse survey reported in fall 2021,

“work will not be the primary driver in bringing people back to their business districts; people want their business district to be a lifestyle hub.”

### **Social Spaces Are Most Important**



Source: Gensler Research Institute  
Note: By 15-city average. Data is from fall 2021.

San Jose's downtown businesses have been slow to recover. New businesses complain of permit delays. The major parks—Guadalupe River Park, Guadalupe Gardens, and St James remain overrun with homeless. Decades old plans to solve these problems and build out these parks languish. Why would a bank or equity firm finance a project in a Downtown that cannot offer lifestyle amenities?

During the original Envision 2040 General Plan task force meetings, then Futurist Kim Wallech offered that the future of Downtown depended on attracting the knowledge workers who

could live anywhere in the world and who would leave if their needs are not met. Since then the City focused on the towers to house them but has deeply neglected the amenities that will keep them.

“More than a half century ago, a then young urbanist named Jane Jacobs wrote a seminal essay on the sterile skyscraper canyons of the mid 20th century — titled simply “Downtown is for People” — arguing that the future of urban centers lies in their becoming more balanced neighborhoods.”

### **The Housing Element—a ticking time bomb**

Staff has acknowledged that the Housing Element will be late—risking State and Federal money. New analytic requirements are complex and staffing is an issue. Staff has identified parcels that violate significant General Plan policies for which key findings cannot be made. Other jurisdictions have received reviews from the State that suggest San Jose’s recently submitted draft will underwhelm the State. Importantly, going out of compliance will trigger the “Builder’s Remedy” where anything goes. Like the Wild West any sort of housing project can be built anywhere. Santa Monica has received 16 “builder’s remedy” highrise applications and they are suing to stop 15 of them. More importantly, if the city’s Housing Element stays out of compliance long enough, the City will lose access to State and Federal money for housing. Then financing any affordable project will become totally infeasible.

With the Housing Element so understaffed that Planning refused to produce a study session or an outreach calendar, why is council considering any other project requiring Planning or OED policy work?

### **Summary**

This financial analysis provides an interesting point in time. It re affirms that fee cuts don’t work. Complex solutions are needed including the Pro Housing Designation elements and probably some city initiated General Plan amendments from NCC to Mixed Use. The City Council must focus its Planning and Office of Economic Development staff on completing the Housing Element so that public financing does not implode and the fewest number “Builders Remedy” projects are submitted. The City must look at Downtown beyond fee cuts and hopes for more towers; it must provide the staffing needed to help businesses rebuild and fully fund the reinvigoration of its public parks and plazas in order to attract and retain the knowledge workers who will pay full market rent and not contribute to financial infeasibility by demanding and receiving rental concessions that frighten away investors.

Locking in fee reductions for a decade or more in a time of great fluidity and change without thoughtful consideration to the unintended or predictable consequences is reckless.

Sincerely,  
Jean Dresden