

Agenda Report

TO: CITY COUNCIL **DATE:** July 17, 2001

THROUGH: LEGISLATIVE COMMITTEE

FROM: CITY MANAGER

SUBJECT: OPPOSE SENATE BILL 975 (ALARCON),
CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT
BANK - PREVAILING WAGES

RECOMMENDATION:

It is recommended that the City Council:

1. Join with the League of California Cities and the California State Association of Counties to oppose Senate Bill 975 (Alarcon), California Infrastructure and Economic Development Bank – Prevailing Wages.
2. Authorize the Mayor to send letters to the appropriate authorities stating Pasadena's position.

BACKGROUND:

Beginning in September 2000, the State Department of Industrial Relations (DIR) has issued seven coverage determinations regarding redevelopment projects, all of which applied the prevailing wage requirement to these projects including their private components. Pursuant to the California Labor Code, public agencies are required to pay "prevailing wages" on all "public works" projects. Prevailing wage rates are established by the California Department of Industrial Relations (DIR) and typically exceed the cost of labor that would otherwise be available in the marketplace. For example, the basic hourly prevailing wage rate for a Laborer classification performing general cleanup work is \$18.82.

SB 975 attempts to both codify and substantially expand upon the recent DIR determinations for the apparent purpose of precluding a successful court challenge to the DIR. As drafted, SB 975 obscures the line between a "public work" and a "nonpublic work." Current law defines a "public work" to include construction, alteration, demolition or repair work done under contract and paid for in whole or in part out of public funds.

SB 975 provides that:

Paid for in whole or in part out of public funds includes the payment of money or the equivalent of money by a public agency directly to or on behalf of the public works contractor or developer, performance of work in execution of the project, transfer of an asset of value for less than fair market price, or payment or waiver of fees, costs, rents or other obligations that would normally be required in the execution of a contract.

By way of example, SB 975 attempts to transform private construction contracts into public works under the following circumstances:

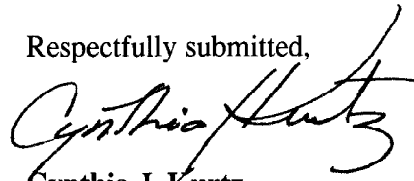
1. If a redevelopment agency (or city) enters into a contract and pays for a public works project e.g. a street that is required as part of a development project such as a subdivision, all of the work on the construction of homes pursuant to a contract between a developer and a contractor that is privately financed and paid for will be subject to the state prevailing wage requirement.
2. If a redevelopment agency (or city) pays for or waives certain city fees, such as a building permit fee or construction tax, the entire project for which the fee is paid or waived becomes subject to prevailing wages even though the project is privately financed.
3. The payment of prevailing wages will be required for a construction project that is funded privately but that is taking place in land that is sold by a redevelopment agency to a developer.

SB 975 is sponsored by the California Building Trades Council and supported by several building trade unions. Opposing SB 975 are the League of California Cities, California State Association of Counties (CSAC), California Building Industry Association, California Redevelopment Association and other property and construction associations.

FISCAL IMPACT:

If SB 975 is enacted, Pasadena's housing/redevelopment programs will bear increased costs for private construction contracts. The requirement to pay prevailing wages for both the public and private components of projects will increase from 10% to 30% the construction costs for the typical residential or commercial project (as estimated by the California Redevelopment Association). The increased project construction costs associated with SB 975 will clearly have a detrimental effect upon Pasadena's goal of providing a larger inventory of affordable housing options for the community. This factor takes on particular importance when one considers its impact on projects that may also soon be subject to inclusionary housing requirements. Our ability to shape and implement superior commercial projects, such as Paseo Colorado, will also be severely hindered.

Respectfully submitted,




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