



OFFICE OF ECONOMIC AND WORKFORCE DEVELOPMENT
WORKFORCE DEVELOPMENT DIVISION
MEMORANDUM

TO: SAN FRANCISCO BOARD OF SUPERVISORS

FROM: RHONDA SIMMONS, DIRECTOR OF WORKFORCE DEVELOPMENT, OEWD
TED EGAN, CHIEF ECONOMIST, SAN FRANCISCO CONTROLLER'S OFFICE

SUBJECT: OEWD/CONTROLLER PERIODIC REVIEW OF SAN FRANCISCO LOCAL HIRING POLICY FOR CONSTRUCTION

DATE: 12/16/2013

CC: ANGELA CALVILLO, CLERK OF THE BOARD OF SUPERVISORS
STEVE KAWA, CHIEF OF STAFF, MAYOR'S OFFICE
NAOMI KELLY, CITY ADMINISTRATOR, CITY AND COUNTY OF SAN FRANCISCO
RON FLYNN, DEPUTY CITY ATTORNEY, CITY AND COUNTY OF SAN FRANCISCO

I. Executive Summary

The San Francisco Local Hiring Policy for Construction, Chapter 6.22(G) of the San Francisco Administrative Code, requires contractors performing City public works to meet mandatory levels of San Francisco resident participation. The Policy directs the Office of Economic and Workforce Development (OEWD), in coordination with the Controller's Office, to evaluate the impact of the Policy's mandatory participation levels during the third year of its implementation. This review must:

- (i) Determine whether there is a sufficient supply of qualified unemployed resident workers to meet the escalation rate set forth in the Policy;
- (ii) Assess the length of time required for each trade to develop a pool of qualified resident workers sufficient to support a 50% mandatory participation rate; and
- (iii) Make relevant findings in support of the above determinations, and, if necessary, propose amendments to the mandatory participation level by trade.

Following a comprehensive review process that included an updated construction industry labor market analysis and working sessions with the Mayor's Construction Workforce Advisory Committee, comprised of contractors, building trades representatives, community advocates, and City enterprise department directors, OEWD and the Controller's Office present the following determinations:

1. It is unclear whether there is a sufficient supply of qualified unemployed resident workers to meet the Policy's escalation rate.
2. Significant time will be required for each trade to develop a pool of qualified resident workers sufficient to support a 50% mandatory participation target.

Based upon these determinations, OEWD and the Controller's Office recommend:

1. An extension of the Policy review period for an additional twelve (12) months, from March 25, 2014 to March 24, 2015, to complete further analysis of OEWD participation and workforce projection data, thereby holding the participation rate at its current level of 30%. This extension will allow for a more robust assessment of the availability of resident workers to meet the escalation rate set forth in the Policy.
2. Development and implementation of multiple strategies, including implementing construction trade curriculum within San Francisco Unified School District, to augment the existing pipeline of resident workers into the skilled trades.

II. Review and Findings Supporting Determinations

Review

The review undertaken by OEWD and the Controller's Office was greatly supported by:

1. An updated *Labor Market Analysis of San Francisco Construction Industry 2010-2012* (LMA) completed by L. Luster & Associates. This report offers information regarding the changing economic backdrop of the local industry, provides an updated view of the characteristics of the San Francisco construction workforce, and examines data emerging from the Policy's first and second years of implementation.
2. Input obtained from a series of meetings with the Mayor's Construction Workforce Advisory Committee. In September 2012, Mayor Lee assembled the Committee comprised of representatives from labor affiliates, larger general contractors, smaller Local Business Enterprise (LBE) contractors, community advocacy organizations, and City department directors, to provide industry perspective and advice on the City's construction workforce policies, training initiatives and education programs. The Mayor also asked the Committee for a comprehensive recommendation in anticipation of the review process for the San Francisco Local Hiring Policy for Construction. Throughout 2013, Committee members reviewed data on local hiring and had extended discussions regarding current construction labor needs. The Committee's recommendations to the Mayor are enclosed with this memo.
3. OEWD's two Annual Reports on the Local Hiring Policy that summarized the data from projects covered by the Policy during its first two years of implementation, as well as data collected through the City's Project Reporting System on an ongoing basis.

Determinations

1. It is Unclear Whether There is a Sufficient Supply of Qualified Unemployed Resident Workers

Three factors contribute to the lack of clarity regarding whether there is a sufficient supply of qualified unemployed resident workers to meet the Policy's escalation rate:

1. Current volatility in the local construction sector, characterized by rapid expansion, the starts and stops of several large development projects, proposed bond measures, and the lingering unemployment impacts of the Great Recession (*LMA*, Chart 15, page 29), makes it challenging for OEWD to identify the actual number of workers required to meet the escalation rate. Moreover, this sector expansion is

happening simultaneously to the growth in the number of City sponsored projects covered by the Policy (*LMA*, Chart 30, page 51). OEWD estimates that the number of San Francisco construction hours covered by Local Hire will almost double in 2014 from 2013 levels, and this demand will be sustained through 2020. Additionally, much of the growing privately sponsored construction work is subject to the City's First Source Hiring Policy and is creating additional demand for local workers (*LMA*, Chart 31, page 55). While these are extremely positive trends, the explosiveness of the growth makes generating clear workforce projections difficult.

2. Although census data indicate a 30% unemployment rate for San Francisco resident construction workers in March 2012 (*LMA*, Chart 15, page 29), there is no means of determining whether these workers are qualified to work on City sponsored projects. Census data are based on self-reported information and do not give any indication of skill level or whether previous employment was in residential, commercial, or public works construction. Therefore, while the data indicate there are San Francisco resident construction workers who identified themselves as unemployed in 2012, we cannot determine whether these are skilled workers prepared to take positions on City-sponsored projects.
3. OEWD reports that for the most part contractors working on City sponsored projects have been achieving the initial 20% and 25% participation rates (*Annual Report 2012-2013*, March 2013). However, only a small percentage of City sponsored projects were covered by the Policy during its first two years of implementation. (*LMA*, Chart 30, page 51). As additional projects begin that are covered by the Policy and require the utilization of local workers, the availability of local workers by trade will be evidenced. Therefore, while OEWD data hold the potential for identifying the supply of San Francisco resident workers qualified for work on City sponsored projects, they are insufficient to reveal those trade-by-trade levels at this time. Additional data from First Year, Second Year and Third Year projects are required.

Each of these factors present challenges to determining the sufficiency of the supply of San Francisco residents to meet the escalation rates set forth in the Policy. We are finding that the best indication of both the required number of workers and the availability of local qualified workers appears to be OEWD data. These data are current, cross all trades, and specifically focus on the workforce qualified for work on City sponsored projects. By 2015, OEWD will have gathered three years of data; the demand for and availability of San Francisco resident construction workers across all trades will be more evident.

2. Significant Time Will Be Required for Each Trade to Develop a Pool of Qualified Resident Workers Sufficient to Support a 50% Mandatory Participation Target

Despite the lack of clear availability data, there are two significant dynamics that indicate it will take some time for all trades to develop a pool of qualified San Francisco resident workers to support a 50% mandatory participation target in San Francisco's flourishing construction sector:

1. Following a national trend, younger San Francisco residents are not entering the construction sector in numbers adequate to replace older craft workers (*LMA*, Chart 24, page 38). As of March 2012, fifty percent (50%) of the City's resident construction workforce was over 45 years of age, with 23% 55 years old and older. Therefore, a significant number of local workers will need to be recruited and trained in order to simply replace the existing workforce regardless of public mandates.
2. The pipeline for developing San Francisco resident construction workers is intrinsically linked to access to local Joint Apprenticeship Training Committees (JATC). During the Great Recession, large numbers of San Francisco apprentices left the industry (*LMA*, Chart 34, page 59). Despite growth in the number of San

San Francisco residents entering apprenticeship programs over the last two years, the overall number of San Francisco resident apprentices has remained stagnant since 2009, and has not yet reached pre-Recession levels (*LMA*, Chart 34, page 59). Moreover, at this time San Francisco residents comprise only a modest segment of the active apprentices in JATC programs for trades that are in highest demand on City sponsored projects (*LMA*, Table 8, page 63). Further, the inherently high first year dropout rates and moderate program completion rates exacerbate pipeline constraints (*LMA*, Chart 36 page 61, Chart 37, page 62).

The existing pipeline to develop a pool of qualified San Francisco resident craft workers seems inadequate, generally, to meet the growing needs of the local industry even without considering the mandates of the Policy.

Enclosures

- *Labor Market Analysis of the San Francisco Construction Industry*, October 25, 2013
- *Memorandum to Mayor Edwin Lee from the Mayor's Construction Workforce Advisory Committee*, November 22, 2013
- *San Francisco Local Hiring Policy for Construction*, 2011-2012 Annual Report to the San Francisco Board of Supervisors, March 27, 2012
- *San Francisco Policy for Construction*, 2012-2013 Annual Report to the San Francisco Board of Supervisors, March 2013