



Executive Administration & Labor Public Roundtable

on the District's First Source Program and Alternative Workforce Plans

Chairperson Anita Bonds

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Alternative Workforce Plans can help grow local talent, especially in construction where workers are lacking

The District's First Source laws have been on the books for over 35 years and since then have been criticized widely for not achieving their stated goal of creating long-term employment for District's disadvantaged residents. Contractors, especially those who receive government support for construction projects, are often not able to meet First Source requirements. This is because there are too few construction workers in D.C. and no way to systematically incentivize companies to invest in programs that can attract D.C. residents into the construction industry.

The most recent data on First Source performance is from 2020. Between January - June 2020, 562 first source employment agreements were executed, creating a total of 1,471 new jobs (500 in construction, 921 in other industries), 51.4% of which were filled by D.C. residents.¹ In contrast, as of mid 2020 there were 55,094 D.C. residents on the D.C. First Source Register, an increase due to the Covid-19 pandemic.

There are too few construction workers in D.C. to satisfy First Source agreements.

Construction is a major source of D.C. government spending and a potential source of employment through First Source agreements. We estimate that in 2022 the District spent approximately \$284 million in construction contracts across 34 projects subject to First Source agreements for projects related to economic development.²

¹ The last First Source Semi Annual Report is from 2020.

First Source Semi Annual Report January 2020 – June 2020. Found at https://does.dc.gov/sites/default/files/dc/sites/does/publication/attachments/First%20Source%20Semi%20Annual%20Report_Jan-June%202020_Final.pdf

² The source of this data is the 2022 Unified Economic Development Report issued by the Office of the Chief Financial Officer. In the category of expenditures on contracts, we identified construction companies, largely working on DC public libraries and D.C. public schools and totaled the value of the incentive. We excluded contracts under \$300,000.

District of Columbia Unified Economic Development Budget Report: Fiscal Year 2022 Year-End. Office of Finance and Treasury, Office of the Chief Financial Officer. March 2023. Found at https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Unified%20Report%20FY22%20with%20Appendices%20I-V_rev.pdf

Without access to First Source agreements (which are not publicly available as far as we can tell), we can use industry standards to develop some estimates. Assuming companies spend 35 percent of the money received from government contracts on labor, an estimated \$100 million of these contracts would go towards worker salaries.³ Given that the median wage in the construction industry in the District is \$29.84 per hour, this spending would be the equivalent of 1,601 full time construction workers. And if these projects all hire new labor, they must hire 817 construction workers who are D.C. residents to meet First Source requirements.

Unfortunately, there are not enough workers in D.C. to fill these jobs. In 2022, there were 15,200 construction workers working in D.C.⁴ That year, only 9 percent of D.C. construction workers (approximately 1,350) lived in the District, compared to 67 percent who lived in Maryland, and 24 percent who lived in Virginia.⁵ This means that these construction projects would have to hire 61 percent of all construction workers who live and work in D.C. to meet First Source requirements.

Alternative Workforce Plans can help create a local talent pipeline.

Given the need to fulfill First Source requirements and the dearth of construction workers who live in the District, Alternative Workforce Plans could ensure that contractors can finish projects and plans can be used to build a pipeline of workers. Currently, companies can acquire exemptions from First Source if they make a reasonable effort to hire D.C. residents. Alternative Workforce Plans can also be developed, but are negotiated on a case by case basis.

One policy consideration for the District is standardizing Alternative Workforce Plans to create additional resources for job training and job placement. Standardized investments

³ Typically, labor costs account for somewhere between 20 to 30 percent of construction project costs. Given D.C. is a relatively high-cost region, we used 35 percent in our example. Mahalia, Nooshin (2008). Prevailing wages and government contract costs: a review of research. Economic Policy Institute. Available at <https://www.epi.org/publication/bp215/>

⁴ Bureau of Labor Statistics, State and Local Employment Data.

⁵ American Community Survey 2022 1-year estimates

in a construction worker pipeline would focus on training programs for District residents, such as contributions to programs serving high school students focused on construction trades, or companies paying for candidate training in industry-approved programs designed and offered by trade organizations.

First Source would benefit from better job placement.

Current outreach and recruitment efforts of D.C. residents are fragmented and often fail to connect residents with employment opportunities. The District spends millions of dollars each year on training, in addition to training provided by an array of community organizations. However, construction hiring is often conducted by word of mouth and headquarters for developers are often outside of the District itself. As such, District residents are excluded from construction jobs due to a lack of informal networks and would benefit from a direct referral or placement system.

Alternative Workforce Plans can also be helpful in job placement. When qualified workers cannot be hired in D.C., contractors could identify candidates, pay for their basic training in pre-approved programs, and hire them in projects. Candidates would be paid for their participation, gain valuable construction skills, and gain contacts in the industry, and eventually get jobs. Allowing First Source Alternative Workforce Plans to substitute training for quotas would ultimately broaden the workforce and hopefully create more skilled labor.

Additionally, Alternative Workforce Plans could allow promotion from a lower position to a higher one to count toward First Source requirements. Currently, First Source requirements only pertain toward new hires, or percentage of work hours for large projects. By allowing promotions to count towards new hire quotas, First Source could help advance careers of D.C. residents.

Longer-term planning to meet First Source requirements can help identify other barriers.

Currently there is no long-term strategy for the number of jobs that construction companies will be hiring for, or the skills required for those jobs. Due to high costs of living, lack of training programs, and differing skillsets, there is a lack of construction workers living in the District.

D.C. agency heads should work with contractors to develop long-term hiring goals and match training curriculums to the needs of the local economy. Once future needs are known, it would be possible to recruit, train, and match residents with jobs. The District could also decide whether they would like to target specific populations for recruitment (people of color, women, returning citizens, etc.) Currently, First Source agreements are made on a project by project basis in the District, but could benefit from long-term plans.

Appendix – History of First Source

What is First Source?

First Source is a District local law that commits companies receiving government resources to hiring District residents first for open positions. First Source agreements are tied to government contracts, subsidies, or grants, and apply to both temporary positions such as those needed for public construction projects, and permanent positions, such as employment in a company receiving tax abatements.

Local hiring requirements such as First Source attempt to combat local unemployment and increase economic opportunity for residents. For marginalized groups in urban areas, First Source requirements are seen as a means of increasing “the likelihood that the benefits of publicly funded or publicly subsidized job creation activities will accrue to economically disadvantaged individuals and groups within the labor market.”⁶ Cities sometimes adopt First Source laws to offset the negative consequences of economic development such as rising housing costs and displacement by providing job training and access to jobs that pay a living wage.⁷

The first policy of this kind was enacted in Portland in 1978 and was adopted by many other cities over subsequent decades. Early first source hiring programs in Portland, OR, Berkeley, CA, and Minneapolis, MN reported employing between 8 and 14 percent of the city’s unemployed residents. However, historical analyses of these programs showed little long-term impact due to push back from trade unions, insufficient political commitment, and lack of enforcement mechanisms.⁸

⁶ Schrock, G. (2015). Remains of the Progressive City? First Source Hiring in Portland and Chicago. *Urban Affairs Review*, 51(5), 649–675. <https://doi.org/10.1177/1078087414537607>

⁷ Levy, D. K., Comey, J., & Padilla, S. (2006). In the face of Gentrification: Case Studies of Local Efforts to Mitigate Displacement. <https://www.urban.org/sites/default/files/publication/50791/411294-In-the-Face-of-Gentrification.PDF>

⁸ Douthat, Thomas H., and Nancey Green Leigh. “First Source Hiring: An Essential Tool for Linking the Poor to Employment or a ‘Dead Letter’ Progressive Policy?” *Urban Affairs Review* 53, no. 6 (November 2017): 1025–63. <https://doi.org/10.1177/1078087416659939>.

District’s own First Source laws were signed into effect by Marion Barry in 1984, as District residents were facing rising unemployment.⁹ The original law required contractors receiving District government financial assistance make a “good faith effort” to hire District residents for over 50 percent of jobs created: a requirement that was not clearly defined or enforced. It created a registry with the Department of Employment Services (DOES) which was intended to be the “first source” of new hires for contractors, but if the registry did not meet company needs, the law required that contractors still try to hire District residents above other candidates. Additionally, contractors were—and to this day still are—required to submit employment plans that list the positions that will be created under the contract with projected salaries – information that DOES is required to use to recruit and refer qualified job candidates.¹⁰ Without clear definitions and enforcement, the program had little success, and was criticized by businesses, advocates of first source hiring and even by the government itself.

What are the current First Source requirements in D.C.?

The District adopted a major update to the First Source in 2011, incorporating clearer requirements and simpler implementation.¹¹ Changes to the 1984 law include outlining a strategy for local hiring in the initial employment bid and submissions of past compliance of hiring practices and apprenticeships and changes the percentages of required hours worked for government assisted projects. Government assisted projects costing between \$300,000 and \$5 million are to have 51% of new hires be D.C. residents. Construction projects costing over \$5 million must employ District residents for at least:

- 20% journey worker hours

⁹ The city’s unemployment rate had increased from a low point of 5.8 percent in December of 1979 to 11 percent in 1983. For details, see U.S. Bureau of Labor Statistics, Unemployment Rate in the District of Columbia [DCDIST5URN], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DCDIST5URN>, June 4, 2021.

¹⁰ D.C. Official Code Title 2. Government Administration, Chapter 2. Government Contracts and Business Development, Subchapter X. [First Source Employment](#), § 2–219.03.

¹¹ The Workforce Intermediary Establishment and Reform of First Source Amendment Act of 2011. D.C. Law 19-84, 58 DCR 11170, effective Feb. 24, 2012.

- 60% apprentice hours
- 51% skilled laborer hours
- 70% of common laborer hours.¹²

Additionally, the 2011 update¹³ of the first source law allows contractors to double count hours worked by “hard to employ” residents,¹⁴ allows companies to roll over excess hours worked from previous projects and includes additional repercussions of debarment for companies found in multiple violations over a ten-year period. DOES can reward developers who exceed requirements with a lower franchise tax rate, and developers can write off 50 percent of wages for District residents who were taking public assistance. Requirement waivers can be granted on a discretionary basis if contractors have demonstrated a “good faith” effort to comply.¹⁵ If an employer does not

¹² D.C. Department of Employment Services. (n.d.). First Source Employment Program. Retrieved June 3, 2021, from https://does.dc.gov/sites/default/files/dc/sites/does/page_content/attachments/First%20Source%20Program%20Info.pdf

¹³ First Source Community Accountability Amendment Act of 2019. Council of the District of Columbia. <https://lms.dccouncil.gov/Legislation/B23-0436>

¹⁴ The law defines “Hard to Employ” as District residents who identify as, and are confirmed by a District of Columbia government agency as returning citizens who have returned from prison within the last 10 years, participants of the Temporary Assistance for Needy Families program (TANF), participants of the Supplemental Nutrition Assistance Program (SNAP), residents who are living with a permanent disability, or residents who have been unemployed for 6 or more months in the last 12 month period. It also specified that no more than 15 percent of total hours worked by DC residents could be double-counted hours.

¹⁵ Good faith criteria: (i) whether DOES has certified that there is an insufficient number of residents possessing the skills required for the available positions, (ii) whether the employer posted all job announcements with DOES for at least 10 days, (iii) whether the employer advertised positions for at least 7 days in a local newspaper, (iv) whether the employer substantially complied with reporting requirements, and (v) if required, whether the employer has substantially complied with its resident employment plan. It is the contractor’s burden to demonstrate good faith efforts to comply with the local hiring requirements.

comply and fails to obtain a waiver, monetary fines can be imposed.¹⁶ These changes were intended to increase hiring, monitoring, and compliance.¹⁷

¹⁶ Fines for not meeting criteria equal to 1/8 of 1% of the total labor cost under the contract. In the event of a willful violation, failure to submit required reporting, or deliberate submission of falsified data, monetary fines equal to 5% of total labor cost. If an employer fails to meet minimum hiring requirements or be granted a waiver more than once within a ten-year period, that employer will be prohibited from receiving a contract for up to five years.

¹⁷ In addition to hourly requirements, DC Works' Workforce Investment Council (WIC) manages a pilot program called the Workforce Intermediary Program which was established by the 2011 reforms to meet the workforce needs of hospitality and construction industries. Additionally, WIC created a Career Pathways Task Force to implement a career pathways system in the District in 2014. The Task Force's 2020 Strategic Plan included plans for sector partnership, performance monitoring, and addressing barriers to employment in sector pathways. The Task Force also established the Career Pathways Community of Practice to expand adult education and occupational training. DOES also provides training in plumbing and electrical trades through the Office of Apprenticeship Information and Training.

<https://dcworks.dc.gov/service/career-pathways-task-force>

<https://dcworks.dc.gov/sites/default/files/dc/sites/dcworks/publication/attachments/DC-Career-Pathways-Strategic-Plan-Final.pdf>