



MEMORANDUM

LEGISLATIVE REFERENCE BUREAU

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To: Ald. Milele A. Coggs
From: Dana J. Zelazny, Legislative Reference Bureau
Date: September 19, 2018
Subject: SOCIALLY-RESPONSIBLE PROCUREMENT PROGRAMS IN OTHER CITIES

This memo is in response to your request of August 19, 2016, regarding procurement programs in other cities that incentivize socially-responsible hiring by city contractors and vendors.

Government and large institutions have used procurement programs to incentivize “social responsibility” for many years now. Past efforts have included awarding contracts to women- and minority-owned businesses and to businesses that practice environmental sustainability. This memo will focus on municipal procurement programs that incentivize contractors to hire disadvantaged individuals, including the long-term unemployed, ex-offenders and residents of economically-disadvantaged areas.

Boston, MA (pop. 645,000)

Boston adopted a “Boston Jobs and Living Wage” ordinance designed to maximize access for low- and moderate-income Bostonians to the jobs that are created, maintained or subsidized through service contracts with the City of Boston.

The ordinance initially applied to all service contracts of at least \$50,000, but the threshold was reduced to \$25,000 in 2002. All contractors must sign a “first source” hiring agreement with a certified local referral agency that has a record of conducting outreach in low- and moderate-income Boston neighborhoods. Any job advertisement for work under the service contract must be provided to the certified agency five days before being publicized. Contractors are also required to provide a written narrative of past efforts and future goals for hiring low- and moderate-income Boston residents, employee training programs, the potential for advancement and raises, and the net change in the number of jobs that will result from receiving the service contract.

The same requirements also apply to some beneficiaries of assistance from the City of Boston, including businesses that receive at least \$100,000 in grants, loans, tax incentives, bond financing or subsidies.

Chicago, IL (pop. 2,719,000)

Chicago recently increased bid incentives available for city contractors that hire women and minority workers for locally-funded construction projects with a minimum value of \$100,000. When submitting a bid, a contractor may commit to certain percentages of project labor hours to be worked by minority and female apprentices, laborers and journeymen. Based on those commitment percentages, the city calculates an award figure which is subtracted from the contractor’s base bid, reducing the contractor’s bid for the purposes of consideration and

acceptance by the city. Greater consideration is given to labor hours worked by journeymen and apprentices than laborers. The new law increases the maximum percentage commitment that the city will consider for the bid incentive to 70% for minority workers and 15% for female workers (i.e., committing to 75% of labor hours to be worked by minority apprentices does not increase the bid incentive beyond that awarded for committing to 70%).

A city contractor also receives a 150% credit toward the contractor's commitment under this program for each labor hour worked by a minority or woman apprentice, laborer or journeyman if that person resides in a socio-economically disadvantaged area. Chicago neighborhoods qualify for this designation based on a number of factors, including median income and unemployment rate.

Chicago's mayor introduced legislation in July, 2016, that encourages city contractors to hire ex-offenders for locally-funded construction projects with a minimum value of \$100,000. Under the proposed plan, a city contractor that employs ex-offender apprentices is awarded a bid incentive for a future construction project based on the total labor hours performed by such workers. If a contractor's ex-offender employees perform 5-10% of the total labor hours on the current project, the contractor will receive a bid reduction, 0.5% of the current contract bid, to be used on a future project. If the number of hours worked by ex-offender employees increases to 11-15% of the total labor hours, the future bid incentive increases to one percent, and so on. This legislation is currently being considered by the Chicago City Council.

Jacksonville, FL (pop. 842,000)

Since 2008, Jacksonville has required all city contractors on projects of at least \$200,000 to provide consideration and opportunities to ex-offenders. While city contractors neither receive incentives nor face hiring quotas, all businesses contracting with the City of Jacksonville are required to identify potential job opportunities for ex-offenders, maintain records as to how many ex-offenders perform work for the contractor and why any ex-offenders were refused employment, and comply with Jacksonville's procurement rules regarding ex-offenders. Jacksonville service contracts also require a city contractor to agree that the city may withhold payments due under the contract until the contractor complies with Jacksonville's procurement rules regarding ex-offenders.

Newark, NJ (pop. 278,000)

Since 2011, Newark has required all city contractors to reserve 40% of project labor hours or positions for Newark residents. Newark also requires that a contractor receiving financial assistance from the city take affirmative steps to the greatest extent feasible to ensure that at least 50% of work hours on any residential project are performed by graduates of a city-approved training program. City-approved training programs recruit applicants from low-income neighborhoods, with a preference given to those that live near the location of a residential project.

Rochester, NY (pop. 210,000)

Rochester pays a city contractor a bonus of 20 cents for every dollar that the contractor pays to any employee on a public works project if that employee resides in a qualifying city zip code. The bonus payments are only allowed if the gross pay to employees residing in qualifying zip codes is at least 10% of the total wages paid to all of the contractor's workers on the project. This program is available on city-funded projects of \$50,000 or more.

San Francisco, CA (pop. 837,000)

In 2011, San Francisco enacted mandatory local hiring requirements for all city public works projects with a value greater than \$400,000. Initially, the local hiring provision required that 20% of all project work hours within each trade be performed by city residents, and that at least 10% of all project work hours within each trade be performed by disadvantaged workers (city residents who reside in census tracts within San Francisco with rates of unemployment in excess of 150% of the city unemployment rate or who have household incomes of less than 80% of the area median income, are homeless, are single custodial parents, receive public assistance, lack a GED or high school diploma, participate in an ESL program or have criminal records).

At the same time as the local hiring requirements went into effect, San Francisco invested in workforce development and training programs. In coordination with the projected expansion of the local skilled workforce, the mandatory local hiring levels were set to increase over the seven years after the effective date of the legislation. Currently, San Francisco requires 30% local hiring and 15% disadvantaged employee hiring on qualifying public works projects.

The local hiring program also requires that at least 50% of the project work hours performed by apprentices within each trade be performed by local residents, and at least 25% of the project work hours performed by apprentices within each trade be performed by disadvantaged workers.

Contractors may receive financial and non-financial incentives for exceeding the local hiring requirements on a public works project.

San Francisco's program is considered a success; the number of hours worked by local residents on city-funded public works projects has increased from an average of 20% in 2011 to 45% as of 2014. It is unclear whether project hours worked by disadvantaged local residents have also made the same gains.

St. Petersburg, FL (pop. 249,000)

In 2013, St. Petersburg enacted an incentive program for city contractors to encourage hiring local residents, disadvantaged workers and apprentices. On city construction projects of \$500,000 or more, the city typically retains 10% of the money owed to a contractor to ensure that the project is completed. If a contractor meets all of the provisions of the incentive program, St. Petersburg will reduce the "retainage" so that the contractor receives all money owed by the city sooner.

To qualify for a retainage reduction, a contractor must hire a required number of unemployed or underemployed county residents according to the following formula: the contract amount multiplied by 0.33 multiplied by 0.30 divided by \$40,000. On a \$2,000,000 project, this works out to 5 required county resident hires. In addition, one out of every three of the required workers hired must be a disadvantaged worker (an individual who has a criminal record and is either a recipient of public benefits or has a personal income below 50% of the area median income). Beyond these requirements, in order to qualify for the retainage reduction incentive, one third of the workers hired on the project must be underemployed or underemployed (but not necessarily county residents) and one third of the workers hired must be new apprentices. The names of

new apprentices, disadvantaged individuals and unemployed and underemployed individuals are maintained on a county-wide database.

In 2015, St. Petersburg enacted mandatory programs for hiring new apprentices and disadvantaged workers for larger construction projects. For major construction projects of \$2,000,000 or more, St. Petersburg requires that at least 10% of labor hours are performed by apprentices and at least 10% of labor hours are performed by disadvantaged workers. Contractors may qualify for a retainage reduction incentive if the number of labor hours performed either by apprentices or disadvantaged workers exceeds 20% of the total labor hours.

OTHER RELEVANT PROGRAMS

Kansas (pop. 2,900,000)

Kansas has a bidder preference program for state-contracting businesses that employ individuals with disabilities. A 10% bid reduction may be awarded to a state-contracting business if at least 10% of the business's employees are Kansas residents with disabilities. In addition, the business must contribute at least 75% of the premium cost for individual health insurance for each employee. Under a second program, vendors may receive a dollar-for-dollar bid reduction for making purchases from qualifying vendors who sell products and services manufactured or processed by persons with visual impairments or other disabilities. The maximum bid reduction permitted is 10% of the original bid. Under a third program, vendors may receive a dollar-for-dollar bid reduction for making purchases from certified businesses that have committed to hiring persons with disabilities. Again, the maximum bid reduction permitted is 10% of the original bid.

Philadelphia, PA (pop. 1,553,000)

While Philadelphia does not provide incentives for socially-responsible hiring through city procurement, the city does grant tax credits to businesses that employ qualified ex-offenders. A qualifying business is eligible to receive up to \$10,000 annually for each qualified ex-offender that the business employs, for up to three years. In order to qualify for the program, among other requirements, an ex-offender must agree to receive life skills and financial management training from the city. In repayment for training provided by the city, an ex-offender must also agree to pay the city 5% of his or her wages for any period during which the ex-offender's employer claims a tax credit under the program. The re-payments, which are interest-free, begin after the ex-offender has been employed for 36 months.

If you have any other question related to this matter, please let me know.

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