High-Road Development: Building Prosperity for Workers and the District

By Brittany Alston

Executive Summary

Over the past twenty years, the District has seen dramatic economic and population growth, including a development boom that has transformed the city's skyline, remade neighborhoods, and changed the city's employment landscape. These changes have led to prosperity for some, but that prosperity has not been shared with DC's low-wage workers. District leaders should seize on DC's growth as an opportunity to encourage "high-road development," pairing development with high-quality jobs in ways that will support workers, residents, and high-quality development projects.

By taking a high-road economic development approach—in which developers partner with unions, invest in workers, and provide quality employment opportunities to residents—the District can ensure that the city's ongoing growth provides benefits to DC residents and workers. Unfortunately, District leaders have missed many opportunities to practice high-road development. In projects such as the Wharf and Union Market, the city has sweetened development deals with large subsidy packages, without setting job quality standards for District workers – subsidizing low-wage, low-quality employment that makes it hard for workers to make ends meet in a city where the cost of living keeps going up.

High-road development is associated with higher wages and benefits, reduced incidents of wage theft, and boosts to the local economy when workers spend their additional earnings. High-road development also helps ensure that projects are completed in a timely way and with high quality.

Looking to other jurisdictions that have taken a high-road approach can equip the District with tools to adopt high-road development. By enforcing existing labor laws, attaching job creation and quality standards to all economic development policies, and penalizing subsidy recipients if they fail to meet job quality requirements, policymakers can ensure that the District is taking the high road when it comes to economic development.

The District's Real Estate Industry is Booming

The District of Columbia has experienced intense growth over the past twenty years. Once housing more than 800,000 residents, the city saw steep declines in population through the latter half of the 20th century, hitting around 565,000 residents in the late 1990s[1]—the lowest point since before World War II.[2] After significant increases in the first decade of this century, DC's population growth has accelerated remarkably in recent years. DC's population is now back to 694,000[3], with approximately 90,000 new residents since 2010[i].[4] DC's population growth now outpaces growth in nearby counties. In fact, in 2016, more people moved from the suburbs into DC than the reverse.[5] By the year 2045, it is expected that the city will reach one million people.[6]

The city has continued to experience both population growth and a boom in the DC

[i] This is based on the 2010 American Community Survey 1 Year Estimate. DC population figure was 604,453

economy. Over the past decade, as much of the country struggled to reach pre-recession job levels, the District saw growth. Private sector employment, or non-government employment, grew 9.7 percent (44, 700 jobs) over the period of the Great Recession.[ii]And private sector investment accounted for approximately 93 percent of DC's total increase in employment in the last decade.[7] Nationally, sectors such as retail, construction and accommodation declined, but these industries grew in the District.[iii] In 2016, 782,200 people were employed in the District, an increase of about 13,000 from the year before.[8]

As the economy has boomed and the population has grown, real estate development has become a major economic force, attracting billions in domestic and foreign capital[iv] into the District's boundaries.[9] Market pressures in the District are also intensified by development restrictions on building heights and the presence of large swaths of federally occupied land.[10] At the same time, generous incentive packages[11] and the availability of low interest capital have shaped the District's real estate landscape.[12] The real estate industry's share of the District's gross domestic product has increased every year since 2010, growing from 7.8 to 9.7 percent. Since the early 2000s, the city attracted $49.7 billion[13] in capital for over 1,200 new development projects. While many neighborhoods that were previously untouched by development are seeing new projects, most of the development is in Wards 5 and 6.[14] Cranes fill the DC skyline, with promises of more trophy office buildings to come.

The real estate industry continues to reshape the city, both physically and socioeconomically. The growing population and demand for office space, retail space, hotels and residences, has driven land values sky high, making the District's land some of the most valuable land in the country. Nearly half (48 percent) of America's total urban land value is packed into five high-value areas: New York, Los Angeles, San Francisco, Chicago, and the District, with land in and around the central business district being the most valuable.[15] In the last ten years alone, the property values in DC, grew by 89 percent (*Figure 1*).[16] This has meant incredible increases in wealth for a small number of DC landowners, but this prosperity has not been shared with DC's workers, especially its lower-income residents of color.

The Washington Economic Partnership's 2017 DC Development Report provides an overview of the robust real estate landscape in the District:[17]

FIGURE 1.

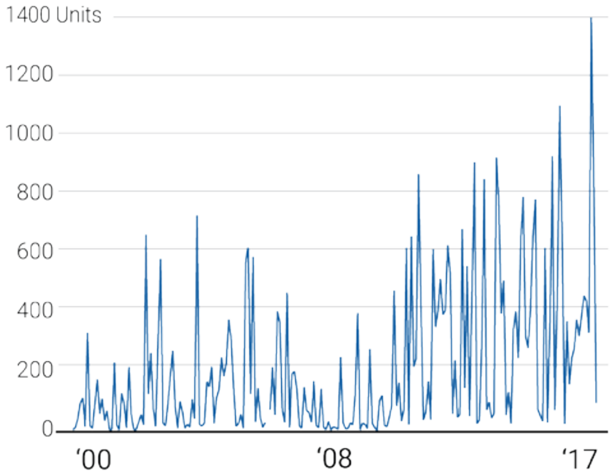
ii When referring to the period of the Great Recession, the research focuses on years 2008-2014

iii DC private sector jobs fared better than in the US because (1) DC started with a larger share of its private jobs in the six sectors that grew in both DC and country overall, and (2) those sectors, when combined, outpaced growth in other places.

iv A 2017 CBRE survey of foreign investors showed that Washington, D.C. had the largest increase in interest among foreign investors, ranking 4th of top target cities for foreign investment in United States real estate. "Global Investor Intentions Survey 2017."

FIGURE 2.

New Private Housing Units Authorized by Building Permits in DC



Source: Federal Reserve Bank of St. Louis via U.S Bureau of the Census

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Residential

Developers continue to take advantage of the city's population growth with new construction for residential units *(Figure 2)*. Construction for over 4,000 residential units began during the first three quarters of 2017, a 6 percent increase when compared to 2016 and well above the five-year averages[v] of about 3,200 unit starts per year. DC rents are projected to increase 3.5 percent annually, on average, over the next 36 months. Although rent growth slowed down when compared to previous years, rents in Class A and B spaces increased 3.1 percent over the course of 2017 with average rents standing at $2,393 per unit per month.[18]

Rapidly rising housing costs have led to a substantial loss of low-cost rental housing in the District over the last decade. And with little growth in wages for many residents, rent is becoming a financial burden for households.[19]

FIGURE 3.

DC Hotel Occupancy Has Increased Since FY 2009

Percent change in hotel room occupancy rate since fiscal year 2007.

Source: Economic & Revenue Trends Reports, DC Chief Financial Officer.

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Office Space

Office development in the District is dominated by trophy and Class A Space—the most expensive spaces on a per square foot basis. Steady demand for high-end office space has encouraged new development projects, with over 4.5 million square feet currently under construction and an additional 1.3 million square feet being renovated.[20] Thirty percent of DC office real estate developments reached $600 per square foot in 2016, as compared to the $143 per square foot average in U.S. urban markets.[21]

Retail Space

High-end retailers have also flocked to the city in search of high-income patrons. Since 2001, there have been 374 retail developments, accounting for approximately 7.8 million retail square feet. There are currently 69 projects under construction and 212 in the near to long term development pipeline.

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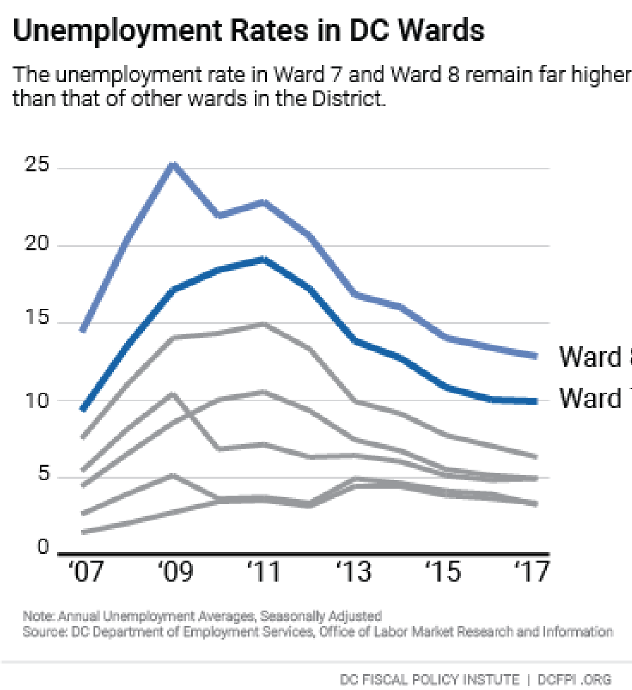
[v] Averages are between the years of 2012-2016

FIGURE 4.



Developers have prioritized retail and restaurant space to meet the industries' growing demand.[22] The District's taxable retail sales increased by $983 million from 2015 to 2016—an 11.7 percent increase. This compares to a 3 percent increase from 2014 to 2015.[vi] DC developers plan to build nearly six million square feet of retail and restaurant space via mixed-use projects.

Hospitality

As DC remains a tourist destination for many, occupancy in hotels exceeded historical records in 2016 with an occupancy rate of 78.4 percent, the fourth consecutive year that the average hotel in DC attained a record. The hotel market in the DC metropolitan area was the sixth fastest growing in the country, with more than 3,000 added rooms in DC alone. Currently, there are more than 4,000 rooms in the District's supply pipeline, from those in the planning stage to those that are under construction (*Figure 3*, pg. 3).

The real estate industry's success in the city is one of many markers of the District's strong economy. A strong economy serves as an incentive for prospective firms to locate in DC and retains the businesses already in the city. Urban centers, such as DC, continue to sell themselves as an attractive location for firms through business-oriented economic development policies. One-sided economic development policies, however, fuel growing inequality.

While Development Booms, Many DC Residents Are Left Behind

The District has shown its dynamism as a regional economic engine, but the financial gains of DC's boom economy have not been distributed equally. The District faces growing income inequality and skyrocketing housing costs that are pricing many families out of the city. The District's "Gini coefficient," a measure of inequality, reflects these disparities. A coefficient of 0 indicates perfect equality, with all income being distributed equally amongst households, while a coefficient of 1 indicates perfect inequality, where one household has all the income. At 0.542 in 2016, DC had the highest Gini coefficient when compared with the 50 states (See *Appendix, Table 1),* and a level of inequality similar to that of Puerto Rico.[23] In 2016, the average income of the middle, second-highest, and top fifth of DC households had each risen above pre-recession levels (after adjusting for inflation). Yet the average incomes of the lowest and second-lowest fifths have not experienced sustained growth (after adjusting for inflation). The average annual income of the top fifth of DC households is $320,000, compared to $9,000 for the bottom fifth.[24]

Poverty rates have remained persistently high, fluctuating no more than two percentage points since 2010, despite a 12 percent gain in real per capita personal income.[25] In 2016, some 120,000

[vi] While there are several contributing factors such as significant growth in population, workforce, and tourists, one noteworthy cause can be attributed to the DC government starting to collect sales tax for online purchases in 2016

DC residents, or 18.6 percent of the population, lived in poverty.[26] Of the 450,000 residents in DC of working age (ages 16-64), 16.8 percent earn less than 100 percent of the poverty level. For a family of three, this means living on less than $20,780 annually.[27]

Black residents are bearing the brunt of the city's persistent poverty. Some 28 percent of the city's Black population lived in poverty in 2016. And nearly three-quarters of all District residents who live in poverty are Black. The median household income for Black residents in 2016, $38,000, was just 30 percent of the median household income for white residents, $126,000.

Over the last ten years, the predominately Black wards east of the river have not seen unemployment rates drop below 10 percent. In 2016, the unemployment rate was 10.6 percent in Ward 7 and 13 percent in Ward 8, as compared to the unemployment rates in Ward 2 (4.2 percent) and Ward 3 (3.9 percent), which are predominately white (*Figure 4,* pg. 5). In the same year, the overall unemployment rate for white residents in the city was 1.8 percent, as compared to 12.6 percent for Black residents and 3.5 percent for Latinx residents.

In a strong economy, these widening disparities show the need to break down the barriers to economic opportunity.

> "The District has shown its dynamism as a regional economic engine, but the financial gains of DC's boom economy have not been distributed equally."

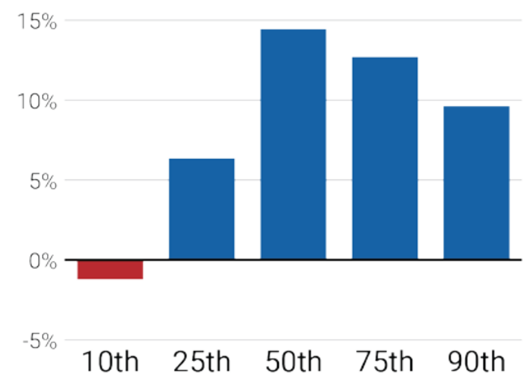
Working in the District

One driver of inequality in DC is the stratification of wages in the District's economy. The number of private-sector jobs in the city rose by nearly

FIGURE 5.

DC's Lowest Earners Saw Wage Loss Over the Past Decade

Percent change in hourly wage by wage percentile, 2006 to 2016.



Note: The DC minimum wage increase took effect July 2014. Percent change calculated from figures adjusted for inflation
Source: Occupational Employment Statistics, US Bureau of Labor Statistics.

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130,000 between 2000 and 2016, a 27 percent increase,[28] but this rapid pace of job creation has not translated into wage growth for all workers. Instead, wages earned by the lowest-wage DC workers have barely changed in the last decade (*Figure 5*).

The District's economy requires workers at every skill level, but for lower-skilled workers, it is becoming more and more challenging to make ends meet in DC. The MIT Living Wage Calculator requires a worker with two children to make $32.50 per hour or $68,000 annually, to adequately provide for her family. Most low-wage workers in the District are women of color. Because women of color are more likely to support children on their own, low salaries disproportionately limit their economic well-being.[29]

In the most recent DC State Integrated Workforce Plan,[30] the city highlights some high-growth sectors, which are projected to grow through 2020: government, professional and business services, education and health services, leisure and hospitality, and other services that include religious, civic and professional organizations. Many of DC's new jobs, such as those in professional and business services, require advanced education and skills, and carry with them very high wages. But other industries also experiencing growth are characterized by low wages and poor conditions, and there is significant wage inequality within industries.

Recent research conducted by economists from the University of Maine and Federal Reserve Bank of New York found that the majority of low-wage workers will remain in low-wage occupations over the course of a year, if they remain in the workforce at all. While education is a strong indicator of upward mobility for workers, education matters most when a worker receives a four-year degree. But, only 5 percent of low-wage workers climb the economic ladder and transition into higher quality jobs in any given year and upwards of 70 percent of workers will remain in their original low-wage occupations. Others may find work in another low-wage job, become unemployed, or exit the labor force all together. [31] Low-wage workers exit the labor force at a rate nearly three times the rate of high-wage workers. These researchers conclude that there is a need to turn low-wage work into high-quality employment.[32]

The stark divide between intra-industry wages in the workforce can be seen in the following industries:

- The health care industry is growing significantly, with large wage gains for physicians and other highly-compensated professionals. Health care practitioners experienced an increase in wages in the last decade. Currently, the median annual wage for practitioners is a little over $75,000. Overall, health care support occupations have seen decreases in wages during this time. Home health aides, who are also essential to the growing industry, make only $27,730 annually, on average.[33]
- As the leisure and hospitality industry continues to grow, wages remain low for food service workers. Of the 160,300 workers in the District making less than $15 an hour (on average), 35 percent work in the food preparation and service industry. Workers in the food service industry take home $31,000 annually, on average.[34]
- Along with real estate development comes growth in the construction industry. Total employment in the construction industry has grown by 20 percent in the last ten years. Wages in the industry, however, have not expanded along with demand. In 2016, construction and extraction occupations such

"If I left, I could never afford to come back" – Maritza, *A Local 25 Union Member*

I moved to Washington from El-Salvador in 1983. I've been working in the hospitality industry since then. My first job was at the Renaissance, but I started my first union job at the Capitol Hilton in 1994. Two years later, in 1996, I bought a home on 11th Street in Columbia Heights. The wages and compensation I received as a union member made the dream of becoming a homeowner in DC a reality for me. Before I was in a union, I lived in constant fear of being fired for no reason, something I saw happen to many of my co-workers. I thought every day of work could be my last. It's impossible to raise children and live in this city with that kind of fear hanging over your head. But that wasn't the only major difference. Making union wages and receiving health insurance and a pension are the difference between being able to live in this city and having to leave.

My neighborhood has changed significantly since I bought a home there. It used to be extremely diverse but many of the long-term residents have now left. I am now constantly harassed by developers asking whether I want to sell my house – something I know happened to many of my neighbors as well. I could never sell this house because I know that if I left, I could never afford to come back.

as electricians and plumbers made about $54,870 a year, roughly a 2 percent increase over the last ten years, after adjusting for inflation.[vii] Currently, construction laborers, or construction workers who primarily assist craft workers, make $41,000 annually, well under the $68,000 needed to live for a family of three. [viii] [35]

According to EPI's analysis in *Few Rewards, An Agenda to Give America's Working Poor a Raise*, nearly half of America's workers are making below $15 per hour. Nationally, about 58 million workers earn under $15 an hour. In the District, 24.7 percent of all workers earn less than $15 per hour, 19 percentage points less than the national average, partly because the District's minimum wage (as of July 2018) of $13.25 is higher than the federal minimum of $7.25. While the District Minimum Wage Act provides a gradual increase to $15 per hour by 2020, this still falls short of what is truly needed to provide for a family, and many workers are struggling to make ends meet in the District.[36]

The District prides itself on being a world-class city that attracts highly-skilled talent, but has made little progress in ensuring that all workers have access to high-quality living-wage jobs. Recognizing that the majority of low-wage workers remain in these occupations, the District must find ways to upgrade bad jobs into high-quality jobs. DC's development policies have a role to play in changing that.

DC Heavily Subsidizes Private Development, But Asks Little in Return

DC's strong and growing economy has not stopped policymakers from continuing to hand out large taxpayer-funded subsidies to private businesses. State and local subsidies to attract business activity are common across the U.S., even though research on state and local economic development incentives has not shown these programs to be effective at improving the economic prospects of residents.[37] The District has provided billions of dollars in tools such as Payment in Lieu of Taxes, TIFs, and free or reduced-price land leases and purchases, among other tools, to subsidize development. [38] [39]

Many of these projects are advertised to taxpayers as having important economic benefits for the DC community: jobs for residents and increased tax revenue that encourages spending in the economy. But promises about job creation and economic impacts do not always translate into realized economic activity, and the city does little to track outcomes, let alone hold subsidized developers accountable. Without transparency and effective tracking measures, the city and the public are unable to see whether the original economic development goals were realized.[40]

> "The District's economy requires workers at every skill level, but for lower-skilled workers, it is becoming more and more challenging to make ends meet in DC."

[vii] Note: The construction and extraction occupations include the following 2016 annual averages: $36,530 electricians and $38,950 Plumbers, Pipe layers, Steamfitter and the following 2010 averages: $31,160 electricians and $42586, Plumbers, Pipe layers, Steamfitters.

[viii] OES receives wage rate data for the federal government, the U.S. Postal Service, and most state governments. For the remaining establishments, the OES survey data are placed into 12 intervals. The intervals are defined both as hourly rates and the corresponding annual rates, where the annual rate for an occupation is calculated by multiplying the hourly wage rate by a typical work year of 2,080 hours. The responding establishments are instructed to report the hourly rate for part-time workers, and to report annual rates for occupations that are typically paid at an annual rate but do not work 2,080 hours per year, such as teachers, pilots, and flight attendants. Other workers, such as some entertainment workers, are paid hourly rates, but generally do not work 40 hours per week, year round. For these workers, only an hourly wage is reported.

A Missed Opportunity at the Wharf

The redevelopment of DC's Southwest Waterfront, marketed as the Wharf, is one of the largest real estate development projects in DC's history. It has received $300 million in subsidies from the District government. Unfortunately, neither the developer nor the city stakeholders took meaningful steps to ensure that the Wharf resulted in good-quality jobs or other benefits for DC residents. Some $198 million was pledged to issue bonds to finance the project. Because the project used Tax Increment Financing (TIF), a baseline amount of $945,000 in taxes will go into the general revenue each year, but taxes above the baseline are diverted into a project fund. This means that the subsidy diverts tax revenue that otherwise would be available to support schools, health care, public safety or other city functions.

In addition to nearly $200 million in direct cash subsidies, the District government offered the Wharf developers a free 99-year lease of city-owned land that was valued at $95 million at the time of disposition. Also, between 2010 and 2012, the Office of the Deputy Mayor for Planning and Economic Development spent nearly $4.5 million on "expenditures on contracts" related to the Wharf project. [41]

The Wharf did not include any agreements to work with local unions. The deal included no enforceable standards for the number or quality of jobs at the site. If unionized, construction trades workers' annual pay would have been an estimated $11,100 higher, annually. For hotel workers and office cleaners, average pay would have been between $6,400 and $7,600 higher per year.[42]

A Missed Opportunity at Union Market

In 2017, the DC council approved more than $82 million in TIF subsidies for Union Market. Developers requested the TIF to build about 8 million square feet of mixed-use space and create hundreds of parking spots. The Office of the Chief Financial Officer (OCFO) determined that the TIF subsidy was not necessary for the redevelopment of the site to move forward. The office also raised concerns that the District was committing to a TIF amount greater than what was needed because the project was not fully approved by the Zoning Commission at the time. But, proponents of the project promised to create 20,000 new jobs and generate $140 million per year in estimated tax revenue.[43] Lax job creation reporting standards make this promise hard to track.

The developers of Union Market also went through a Planned Unit Development (PUD) process and the PUD was approved by the Zoning Commission. Developers also signed a First Source and Certified Business Enterprise (CBE) agreement for local, small business hiring. CBEs require individuals and business entities seeking to develop or purchase District

"Without the union, there's nothing" -Edward, *A Local 400 Member*

My name is Edward and I lived in the District for 25 years. I work at a local grocery store in a union job. I started working in the grocery store as a cook in the deli department. I decided that I wanted to transfer to the produce department. I heard that they were hiring someone, and I had seniority, so I told the manager that I wanted the position. The manager told me that he didn't give a damn about my request and that he wasn't going to transfer me. After that, I called my shop steward and she came down and interviewed me. Two days later, I was working in the produce department. When I saw the difference that the union makes, I was inspired to become a shop steward myself.

In the past, I worked in a nonunion job. Without the union there's nothing, there's no recourse. Management could fire anyone on the spot for any reason. The conditions were worse, we had fewer protections, seniority was not respected, and there was no one to share our grievances with. With my union job, I make more money with set wage increases and I can better provide for my children. I also have more time and energy to spend quality time with my family.

government-funded or assisted property or land to enter into an agreement with the city to become partners in providing business opportunities to local firms certified through the Department of Small and Local Business Development (DSLBD).[44]

The District, however, did not mandate the developers at Union Market provide high-quality jobs with good wages and benefits. Just as First Source creates more aggressive requirements for local hiring,[45] there is a need for legislation that requires high-quality jobs for District residents. The impact of the District allowing projects such as the Wharf and Union Market to take a low-road approach is substantial. Many jobs at nonunion construction sites pay less than $15 an hour, or less than $30,000 a year for full-time work. Wages this low make it hard for workers to afford housing and provide a stable and supportive environment for their families.

A "High-Road" Approach Could Make DC Development Work for Workers and Residents

High-road economic development seeks to create an environment where both public and private entities value a diverse and skilled workforce, seeing the workforce as a profitable asset that must be sustained and invested in over time. High-road economic development ensures that public dollars result in public benefits and economic growth—this includes a high quality of life for residents and effective and transparent governance.[46]

Developers play a crucial role in shaping the District and the lives of residents. With many developers paying low wages, low-income residents remain poor or sink deeper into poverty. Low-road approaches are often justified through cost benefit analyses. But the analysis is often limited to fiscal analyses that undervalue the benefits associated with high-road development. During the decision-making process, developers can factor these benefits into a robust impact analysis to see the benefits of hiring union workers and paying living wages. For example, The AFL-CIO Building Investment Trust, a bank collective trust and trustee of PNC bank, invests in commercial real estate using union pension funds and relies solely on organized labor when building. Their investments created a portfolio with approximately $5 billion in net assets and 78 million hours in union construction work and created thousands of unionized operation jobs, with properties in the District and nationwide. For the AFL- CIO Building Investment Trust, high-road development remains a profitable financial proposition, as they continue to invest in union projects.

High-road development is associated with higher wages and benefits, reduced incidents of wage theft and boosts to the local economy when workers spend their additional earnings. Research shows that high-road development is good not only for workers, but for employers, too, because it helps ensure that projects are completed in a timely way and with high quality.

Unionization is a Crucial Component to High-Road Development

An essential component of high-road development is collaboration with labor unions. Many high-road developments start with project labor agreements—agreements between the building trades and project developers that govern the conditions of employment for the project and create project management efficiencies—during the project's construction phase. Once the construction is complete, employees of the businesses located at the development site may want union representation as well.

Labor peace agreements are agreements by project developers that allow unions to engage with workers at a given worksite who may want to organize a union. Labor unions provide necessary protection and representation for workers in all phases of development.

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When more workers are unionized, income inequality tends to be reduced. Unfortunately, in the last few decades unionization has declined, both in the United States and internationally. A recent paper from the International Monetary Fund (IMF) finds that the decline of unionization since the 1980s has led to increased income inequality in nearly every advanced economy around the world. Lack of unionization is associated with higher income inequality because when fewer workers are unionized, workers have less ability to bargain for their fair share of profits. Lower union density weakens workers’ ability to demand things such as a livable wage and quality benefits. Unions allow workers to collectively bargain for and enforce their rights, preventing wage theft and other violations of labor standards. Consequently, workers in unions are half as likely to be victims of minimum wage violations.[49]

Unionized workers make, on average, 13.2 percent more in wages than their nonunion counterparts of similar education, occupation, and experience, and in some cases much more.[50] One of DC’s growing sectors, the food service sector, is often described as low-wage work. However, unionized food service workers make approximately 35 percent more than their

Contract Agreements with Labor Unions

What is a Project Labor Agreement?
Project labor agreements (PLAs), which pertain to construction projects, are single-site collective bargaining agreements between building trade unions and project contractors that govern the conditions of employment for all craft labor on the project. Developers often enter PLAs with unions because they promote quality, safety, timely delivery and cost efficiency. These agreements provide access to a reliable local supply of highly trained, skilled construction craft labor; include dispute resolution provisions to prevent labor disputes and related delays; and establish uniform rules that translate into lower administrative costs.

PLAs help to ensure that construction workers receive good wages and benefits. They also tend to provide additional benefits for local communities. Because PLAs rely on local union referral systems, workers hired generally are residents. When residents have access to quality wages and benefits, it boosts the local economy. In addition, these workers have access to high-quality skills training and education through union apprenticeships and other training programs. Government entities that engage in a construction project frequently require developers or contractors to enter PLAs in order to reduce the government’s exposure to risk from project delays.[47]

What is a Labor Peace Agreement?
Labor peace agreements pertain to ongoing employment in establishments at the development site, for example, hotel workers, retail workers, office cleaners and security personnel. First and foremost, such agreements include an agreement by a union not to strike or picket a business establishment. In exchange, the developer typically agrees to require their business operators to allow a fair process for employees to organize a union at their workplace. Government entities often will require a labor peace agreement to reduce risk to their financial interest in a project in which they are engaged as a market participant (for example, through a land-lease or tax increment financing scheme).

Governments generally can require developers to enter into labor agreements when the government has a “proprietary interest” in a project. Examples of proprietary interests include capital budget expenditures to help finance construction, special revenues such as gaming revenue generated by a casino or the investment of public resources such as loan guarantees and property tax abatements. Ordinary government interests in economic development—such as property tax revenue or job creation—are not proprietary interests.[48]

nonunion counterparts, on average. A unionized food service worker takes home approximately $21.20 per hour, compared to a nonunion worker making $13.70 per hour *(Appendix, Table 2)*. The wage increase is the difference between a living wage and non-living wage job.

Efforts to promote high-wage jobs at the Wharf could have had dramatic impacts on workers there.[51]

- Union labor during construction would have increased workers' earnings by almost $10,000 per year.
- The workers operating the hotels, office buildings and other sites would earn $6,000 to $6,800 more per year if they had been represented by a union.
- Unionized workers at the Wharf would have received employer-paid health insurance and retirement benefits, while the nonunion workers there likely get few or no benefits.

Fringe benefits, such as health insurance, allow workers to take care of themselves and their families. Nationally, unionized workers receive more generous health benefits than nonunionized workers. Ninety four percent of union workers receive employer-sponsored health benefits while only 67 percent of nonunion workers get the same benefit.[52] Employers with unionized workers also pay 77.4 percent more per hour toward their employees' health coverage, meaning their employees receive better benefits compared to those not in unions.[53] Unionized workers have greater access to paid sick days and receive 15 percent more sick days than their nonunionized counterparts.[54]

Because unions are made strong by their collective bargaining power, workers can come together and fight for better treatment, pay and other improvements to workplace policies. Unions also provide space for workers to become politically engaged. Their reach then extends beyond the workplace and into communities so that they can help solve long standing, systematic policy problems. Union members become strong advocates inside workplaces and in communities. Unions also provide a structure through which the District can practice high-road development.

"Because unions are made strong by their collective bargaining power, workers can come together and fight for better treatment, pay and other improvements to workplace policies."

DC Policymakers Can Make High-Road Development A Reality

When DC government invests in private projects, it can require developers and businesses to enter into agreements with unions to ensure quality work and timely delivery. Project labor agreements (PLAs) are used in construction projects to create collective bargaining agreements between building trade unions and project contracts that govern the conditions of employment for all craft labor on the project. Labor peace agreements pertain to ongoing employment in establishments at the development site, for example, hotel workers, retail workers, office cleaners and security personnel. First and foremost, such agreements include an agreement by a union not to strike or picket a business establishment. In exchange, the developer typically agrees to require their business operators to allow a fair process for employees to organize a union at their workplace.

In addition to protecting the government from financial risk, such agreements have as a major side benefit that they often lead to high-road development and high-quality jobs and construction. Many jurisdictions, including the District of Columbia and Prince George's County, Maryland, require the government to consider in certain cases whether it would be appropriate to require project labor or labor peace agreements.

The city subsidized the recent construction of the DC United stadium, the city's professional soccer team.[ix] In 2017, local unions worked closely with the city government to reach a labor peace agreement and create a project labor agreement for The DC United Stadium. The project successfully bid for a Planned Unit Development (PUD) in February of 2017.

According to the final order of the project's PUD case, the developers agreed to honor a project labor agreement in 2013. The commitment to labor was then extended when the developer also entered a labor peace agreement, providing a fair process for hotel and food service workers at the proposed stadium at Buzzard Point to organize a union and negotiate a first contract. Other highlights of the agreement include a commitment from the developer to expend a minimum of 35 percent of its construction and operation contracting expenditure on small business enterprises located in the District or face fees.

Realizing the value of these agreements, in 2016 the DC Council passed the Procurement Integrity, Transparency, and Accountability Amendment Act. It requires that contracts above $75 million must have a project labor agreement. The FIS states it will cost $113,000 (as of FY 2017), and that it can increase construction contract costs in the capital budget by $26.2 million annually, so the act required additional funding before it could become law. That funding was provided in the fiscal year (FY) 2019 budget.[55] Moving forward, the District's capital improvements plan will include funding adequate to implement a project labor agreement in qualifying projects.

Lessons from Jersey City, NJ

Jersey City continues to feel the development pressure of the New York City real estate market.[56] The city has seen extreme growth in the last few years and has taken steps to practice high-road development. Jersey City moved to adopt an ordinance strengthening the relationship between new development and unionized labor in 2017. It requires developers who receive long term tax breaks for projects over $25 million to enter into project labor agreements with labor unions seeking construction jobs on the projects. The ordinance also requires that women or minority workers who are also Jersey City residents make up at least 20 percent of the workforce on these projects. PLAs are also required if the developer seeks other forms of city subsidies, like city-issued bonds.[57]

Recommendations for the District

The District should enforce the Procurement Integrity, Transparency, and Accountability Amendment Act of 2016 and include both job quality and job creation standards in all reporting obligations. DC should also encourage PLAs on projects that don't meet the $75 million threshold for the Act.

DC Should Enforce Its Existing Labor Laws

Over the past decade, the DC Council has passed a series of protective laws for workers—the city has increased the minimum wage, creating a path to $15 per hour in 2020, guaranteed paid sick and safe days for all employees, and put in place protections for workers at risk of having their wages stolen by their employers. Unions and city stakeholders have shown support for these laws, but strategic enforcement of these laws has not occurred. Strategic enforcement is a deliberate approach to changing the practices of wage violation that have become commonplace in certain industries.[58]

[ix] The city awarded the developer more than $150 million in subsidies which, according to the terms of the city-developer agreement, will be given towards the project specifically for land acquisition, utility upgrading, hazardous material removal, and eminent domain with the potential for cost overruns coverage. In addition, the district granted $43 million in property tax breaks to the owners for the life of the lease (30 years).

DC agencies have not targeted industries known to have high incidences of wage theft. The city has also seen very low volumes of complaints on all labor laws. For example, in FY 2016, there were just 167 complaints on the Minimum Wage Act, 40 on the Living Wage Act, and just 22 on the Sick and Safe Leave Act. Many workers in low-wage industries fail to even report a violation. Also, no hearings or investigations have been conducted regarding violations of the Wage Payment, Minimum Wage, Living Wage, and Sick and Safe Leave laws. When the city opts out of high-road development approaches and union contracts, it places workers at risk. With inequality so high, District leaders cannot afford to expose residents to greater risk of receiving low pay and no protection in the workplace. [59] But, many of the adopted economic development practices of the city do just that.

Lessons from California

In California, government officials effectively use strategic enforcement to stop employers from cheating workers out of wages and guaranteed time off. The California Labor Commissioner developed strategic investigation teams to focus on high-violation industries. Each team works on a different high-risk industry to systematically approach the problem, as compared to case-by-case investigations. The teams then prioritize the investigations and quickly investigate any retaliation against workers and enforce judgments.[60]

Recommendations for the District

The District should conduct targeted investigations within industries where evidence shows the greatest labor law violations.

DC Should Leverage Its Planned Unit Development Process to Ensure Job Quality

The District's Planned Unit Development (PUD) process provides flexibility in large site development, such as increased building height and density, provided that a project includes superior public benefits to the community.[61] The PUD process tasks the DC Zoning Commission with evaluating large projects seeking exemptions or variances from the DC Zoning Code. The Zoning Commission must "evaluate the specific public benefits and project amenities of the proposed development" and the consistency of the proposed project with the city's governing land use document, the Comprehensive Plan. Neither the District's zoning regulations nor the Comprehensive Plan, however, specify how public benefits are to be weighed or evaluated.[62] The term public benefit itself is expansive:[63]

- Urban design, architecture, landscaping, or creation or preservation of open spaces
- Site planning, and efficient and economical land utilization
- Effective and safe vehicular and pedestrian and/or public transit access
- Historic preservation
- Employment and training opportunities
- Affordable housing
- Social services or facilities
- Environmental benefits
- Uses of special value to the neighborhood or the District of Columbia as a whole[64]

The lack of uniformity makes it difficult for the benefits to be compared or tracked over time. Even if clearly defined during an application process, it is unclear how agencies track the proffered benefits to ensure accountability. In addition, various public benefits are not consistently valued and weighed against one another, and the Zoning Commission does not aggressively seek to maximize key public benefits like affordable housing or job quality.

From the list above, the only benefit that lightly recognizes the importance of jobs as a part of development outcomes is "employment and training opportunities". This, however, does not serve as a mandate to potential employers, nor does is it include a process to interrogate the quality of employment on a given site.

Discussion around public benefits often enters the PUD process via the Advisory Neighborhood Commissions (ANCs). ANCs have the power to advise government officials on planning or policy issues that affect their designated communities. ANCs can engage in a negotiation process with developers to receive their desired outcomes. Though they issue letters of support or opposition to the Zoning Commission, the Commission can choose whether to follow the advice of the ANC. The Zoning Commission places great weight on the position of the ANCs but is not bound by the ANC recommendation. The positions and objectives of ANCs vary greatly throughout the District, making this process an unreliable vehicle for standardization of community benefits.

Executive agencies also weigh in on PUDs. The Office of Planning, which is within the Deputy Mayor for Planning and Economic Development agency cluster, submits a report to the Zoning Commission analyzing the offered public benefits, comparing the zoning variances sought with what is allowed under matter-of-right development, evaluating the project's consistency with the Comprehensive Plan, and recommending action to the Zoning Commission. Other agencies, such as the District Department of Transportation, also weigh in if the project contains certain elements. While agency recommendations, like those from ANCs, are not binding on the Zoning Commission, they are typically quite influential on the Commission, and thus represent an opportunity for the District to insert high-quality employment into the PUD decision-making process. Because the PUD process allows for a loose definition of public benefit and lacks standardization, however, it is currently ineffective in ensuring developers provide high-quality employment to DC residents.

Lessons from Ithaca, NY

The City of Ithaca also uses the Planned Unit Development process to allow for flexible development. These projects, however, are only approved if they are found to have substantial long-term impact on residents. The PUD application states the following, "A PUD should be used only when long-term community benefits will be achieved through high-quality development."[65]

The city then further asks the following questions of applicants to determine the potential long-term community benefits:

- How many full time equivalent (FTE) jobs will be created as a result of the project? Will the project result in creation of positions that pay at least a living wage?
- Will the project result in job creation of which at least 51 percent will be held by persons earning 80 percent or less of the Area Median Income?
- Will the applicant provide affordable housing at rents that do not exceed Fair Market Rents occupied by households earning no more than 80 percent of the Area Median Income, adjusted for family size (must determine duration)?

With clearly-defined metrics for applicants in the PUD process, evaluators can better assess the public benefit being proffered by developers. The application is limited by the structure of the questions and could be improved by allowing applicants to input projected impacts. The questions, however, do allow the city to capture a more in-depth understanding of who will hold the jobs and how much they will be paid, as compared to an aggregate job creation projection.

Recommendations for the District

Create clearly defined metrics that capture job creation and job quality during the PUD process to ensure that workers receive living wages.

Economic Development Subsidies Should Benefit Workers

Over the past ten years, the District has awarded approximately $2 billion in economic development subsidies.[66] These subsidies include Payment in Lieu of Taxes, TIFs, and free or discounted leases on land for a defined length of time (often 99 years).[67] The District currently has embraced fiscal impact analyses and Unified Economic Development Budgets, which improve the transparency of economic development practices. The fiscal impact statement evaluates the financial implications of legislation being considered by the Council's committees. The Council is required by statute to submit a fiscal impact statement for all bills and public resolutions as a part of the legislative process.[68] In 2011, the Chief Financial Officer released the Unified Economic Development Budget (UEDB), a key reform that allows taxpayers and lawmakers to account for how much subsidies cost taxpayers. The District's UEDB also discloses the names of companies receiving subsidies, the type of subsidy, the ward where the subsidized facility is located, and how much a company received.[69]

The city, however, has failed to set job creation and job quality standards, report project outcomes or enforce existing standards. Through the fiscal impact statements, public officials can make better-informed decisions. But, the statements are limited to the financial impacts on the Treasury. There is no analysis of how projects will impact residents in clearly defined ways.

Lessons from New York City, NY

The City of New York has adopted a comprehensive reporting system for economic development subsidy recipients. The city releases an annual report on real estate projects to support investment, job creation, job retention, and growth in New York City. The City Charter requires the New York Community Economic Development Council (NYCEDC) to submit an annual report to the New York City Council, the mayor and other public officials, with data on city projects, the amounts of city assistance provided by NYCEDC to the businesses involved in these projects and estimates of the tax revenues generated by these projects.

Job creation standards are collected from the developer or employer for the first seven years after the project first receives assistance from the city. In the job creation section of the project profiles, the city collects the following information:[70]

- Part time and full time permanent job status
- Health benefits offered
- Percent of employees living in New York City
- Construction jobs and total employment
- For employers with over 250 employees, jobs are broken into income brackets

Recommendations for the District

Require developers or employers to complete job creation and job quality profiles for five years after inception, when they are recipients of economic development subsidies greater than $300,000.[x]

Lessons from North Carolina

Most development deals typically include promises of job creation. In addition to stringent reporting requirements for economic development subsidies, there must be measures in place to hold developers accountable for the reported job projections. North Carolina created a subsidy-enforcement program that requires companies to meet targets and mandates penalties or "clawbacks" when companies fail to deliver.

In North Carolina, the state requires a recapturing of subsidy funds when companies breach their

[x] $300,000 also qualifies programs for First Source Hiring

agreement. The following constitute instances allowing clawbacks:

- The creation of fewer jobs than specified in the agreement
- A lower capital investment than specified in the agreement
- A failure to maintain operations at a specified level for a period of time specified in the agreement

Clawbacks allow residents to make sure their investments in development subsidies pay off in the form of real public benefits and allow governments to recoup their money if they do not. In 2009, Dell closed its assembly plant in Winston-Salem and laid off 900 workers, opting to outsource U.S. production to contractors. North Carolina had created a subsidy package of $280 million to attract Dell to build its assembly plant in 2004. The subsidy package was a mix of local and state grants, lump sum grants, and tax credits. North Carolina Governor Bev Perdue was involved to ensure Dell paid back a share of the incentive money it received. Ultimately, Dell repaid $26 million in local subsidies and a $1.5 million state grant.[71]

The clawback penalty only required Dell to repay less than 10 percent of the total subsidy. Because the penalty is such a small percentage, developers and companies may assess that the fine is worth what it would otherwise cost to adhere to job quality standards. A larger penalty could serve as a greater deterrent for non-compliance and encourage employers to comply with and report job quality standards.

Stringent reporting requirements must go hand in hand with clawback provisions. Without tracking specific job creation and quality standards, government officials will not know whether a clawback is warranted. This added level of accountability is an additional incentive for companies to comply with the mandates, in exchange for taxpayer dollars.[72]

Recommendations for the District

Create a recapture provision saying that when a company fails to uphold its agreed upon job creation and quality standards, the city may recapture the entire value or a portion of the awarded economic development subsidy.

High-Road Development Recommendations for The District

- Enforce the Procurement Integrity, Transparency, and Accountability Amendment Act of 2016 and include both job quality and job creation standards in all reporting obligations
- Create clearly defined metrics that capture job creation and job quality during the PUD process to ensure that workers receive living wages
- Require developers or employers to complete job creation and job quality profiles for at least half of the life of the funding or financing, when they are recipients of economic development subsidies greater than $250,000
- Create a recapture provision saying that when a company fails to uphold its agreed-upon job creation and quality standards, the city may recapture the entire value or a portion of the awarded economic development subsidy

Moving Forward in the District

The recommendations above equip the District with tools to encourage high-road development and combat low-road approaches. Conscious decisions made by government officials and developers can change the current landscape of the District's real estate industry and mitigate the negative spillover effects. These spillover effects hinder workers' ability to provide for themselves and their families.

The District cannot afford to continue to settle for low-wage jobs in growing industries. As the DC economy has expanded, income inequality has worsened. Going forward, when developers pursue economic development projects, especially with the assistance of the District government, developers and government should choose high-road development practices so that all workers and the broader economy can see the maximum benefit from these activities.

TABLE 1.

Gini Coefficient- A Measure of Inequality

Year	In the District	In the U.S.
2006	0.54	0.46
2007	0.54	0.47
2008	0.53	0.47
2009	0.53	0.47
2010	0.53	0.47
2011	0.53	0.48
2012	0.53	0.48
2013	0.53	0.48
2014	0.52	0.48
2015	0.54	0.48
2016	0.54	0.48

Source: ACS 2006-16 (1- Year Estimates), Social Explorer; U.S.Census Bureau

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TABLE 2.

Union & Nonunion Hourly Mean Wages by Occupation in DC (2016)

Occupations	Union	Nonunion
Business and Financial Operations Occupations	$31.8	$43.6
Education, Training, and Library Occupations	$37.5	$33.3
Healthcare Practitioners and Technical Occupations	$47.5	$41.5
Protective Service Occupations	$30.0	$22.3
Food Preparation and Serving Related Occupations	$21.2	$13.7
Building and Grounds Cleaning and Maintenance Occupations	$17.9	$14.7
Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$16.0	$13.6
Sales and Related Occupations	$14.2	$23.1
Cashiers	$13.9	$11.9
Office and Administrative Support Occupations	$23.3	$25.0
Customer Service Representatives	$29.1	$21.4
Stock Clerks and Order Fillers	$18.1	$13.3
Office Clerks, General	$21.1	$19.5
Construction and Extraction Occupations	$30.7	$23.9
Installation, Maintenance, and Repair Occupations	$31.6	$24.4
Production Occupations	$32.0	$21.7
Transportation and Material Moving Occupations	$26.3	$16.8

Source: Labor Market Research & Information; BLS Modeled Wage Estimates

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