

## Reforming First Source:

# Strengthening the Link Between Economic Development and Jobs

### Executive Summary

The District's First Source law is designed to leverage the city's spending on contracts and projects to create more jobs for residents, but evidence shows it has been largely ineffective. A recent report by the DC Auditor concluded DC's First Source program has been hampered by a lack of compliance and oversight, resulting in the estimated loss of hundreds of jobs and millions in revenue for the city.<sup>1</sup> District leaders should take immediate steps to enforce the current law. However, a review of similar programs in other cities reveals that the most successful have taken a more comprehensive approach to matching residents with employment by providing training and other skills that employers say are necessary for work. This brief offers recommendations on how the District can improve First Source by creating a broker that coordinates First Source workforce development so that jobs created by public investment are more likely to be filled by city residents trained to take them.

Washington, DC, is the center of one of the largest regional economies in the United States, but on the whole District residents do not benefit from

it as much as their regional counterparts. Approximately three-fifths of the 720,000 jobs in the District are held by non-residents.<sup>2</sup> Even though there are many more jobs than DC residents, the District historically has the highest rate of unemployment in the region. At the beginning of 2010, unemployment hit a record 12 percent in the District, and joblessness was estimated to be at least twice that rate in communities east of the Anacostia River.<sup>3</sup> This is despite the fact that the District added 20,000 jobs in the last year.<sup>4</sup> It is clear there is a skills mismatch between DC residents seeking work and jobs available.

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Most jobs in DC are created by the federal government and private sector, but some are the result of District government spending on economic development and other contracts. The District's First Source law was put in place to require contractors receiving a financial benefit from the District to give hiring preference to DC residents seeking work.<sup>5</sup> The law has had limited

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benefits, and both employers and residents claim that First Source does not meet their needs. The DC Auditor's review found that not all government-assisted projects and contracts had First Source hiring agreements in place, and that the registry of unemployed

and underemployed DC residents seeking First Source jobs was not an effective tool.

The District needs to make changes to make First Source more effective. An initial step must be to strengthen compliance and monitoring of First Source agreements. But this will not be enough. The District's high jobless rate and growing number of long-term unemployed point to a skills mismatch in the local economy that cannot be solved by better regulation alone. Connecting unemployed and underemployed DC residents to employers shouldn't be the first and final part of the process. **First Source should be a workforce development continuum that anticipates hiring needs and helps train workers for the jobs created through the city's public investments.** A successful model used in other cities is to create a workforce development broker, sometimes called an "intermediary." In these cities, the intermediary coordinates between employers, job trainers, and those looking for work so that job seekers have the training and skills necessary for the jobs that will be available.

### **First Source: Current Law and Implementation**

Adopted in 1984, DC's First Source law requires contractors receiving financial assistance from the District to make a "good faith effort" to hire DC residents for at least 51 percent of new jobs created.<sup>6</sup> The program that administers First Source is housed within the District's Department of Employment Services (DOES). The law requires eligible contractors to sign a First Source employment agreement, which stipulates that job seekers

registered with DOES shall be the "first source" for new hires. Contractors are also required to submit to DOES an employment plan that lists the positions that will be created by the project or contract, along with projected salaries for such positions and anticipated hiring dates.<sup>7</sup> DOES is required to use that information to recruit and refer qualified job candidates.

If the First Source job registry fails to supply enough qualified applicants, contractors must still demonstrate a good faith effort to hire DC residents for 51 percent of the new jobs created by the project.<sup>8</sup> However, the First Source law allows DC government to waive the hiring requirement if contractors demonstrate that they made a good faith effort to hire DC residents, a standard that has not been clearly defined or enforced.<sup>9</sup>

### **First Source: Shortcomings of the Existing Program**

#### **First Source Lacks Compliance Enforcement, Adequate Monitoring, and Oversight**

A recent DC Auditor review found several deficiencies with First Source, including insufficient monitoring, inadequate procedures, and a lack of internal controls.<sup>10</sup> Although DOES reports that they have corrected the deficiencies identified by the DC Auditor, the agency failed to provide copies of current monitoring reports and non-compliance notices per the DC Auditor's request.

#### **First Source Enforcement Alone Will Not Translate To More Jobs for DC Residents**

The serious administrative deficiencies of DC's First Source program are alarming and should be addressed immediately. At the same time, it is

important to recognize that even if contractors fully comply with the First Source law, they may not end up hiring more DC residents.<sup>11</sup>

Specifically, the power of First Source is limited by the fact that the program in its current form does not provide DC residents with sufficient access to and training for jobs. Connecting employers with a list of available candidates is often the last step in creating an effective workforce development pipeline. Candidate recruitment, skills assessment, and training for those who lack necessary skills must all take place first. To our knowledge, DC's First Source program does not include these functions.<sup>12</sup>

Both employers and workers seeking jobs have expressed that First Source does not meet their needs. Employers often state that many of the city's job seekers on the First Source registry do not have the training and skills needed for the jobs they are creating. Certainly there are some DC residents qualified to take First Source jobs. But there are also unemployed and underemployed DC residents who would like to take advantage of First Source job opportunities yet lack the education and skills necessary to qualify as candidates for those jobs. **Employers, training providers, community organizations, and residents alike have repeatedly indicated that the District must do a better job matching the efforts of education and training programs with the needs of employers in order to ensure that DC residents get First Source jobs.**

First Source also needs a more robust assessment and placement component. Right now, even qualified DC workers may have a difficult time accessing First Source jobs. For example, workers in

the construction industry often access new jobs through professional and social networks, i.e., a foreman will inform workers from previous construction crews about job openings on a new project. These informal referral networks put workers who do not have access to them, such as newly-trained workers with little job experience, at a disadvantage. Programs like First Source are supposed to level the playing field by providing the opportunity for workers from disadvantaged communities to access jobs that they otherwise may not learn about. However, if DOES does not proactively and effectively recruit, promote, and place candidates, even those DC residents who are qualified may have a difficult time accessing First Source jobs.

## Recommendations for Reforming First Source

### ■ Improve First Source Administration

DC government must do a better job ensuring that First Source Agreements are signed, and contractors' efforts to meet them are properly monitored and documented. Mayor-elect Vincent Gray's commitment to sign an Executive Order on his first day in office directing the Deputy Mayor for Planning and Economic Development (DMPED) to actively oversee First Source compliance is a step in the right direction. However, other cities have found strong First Source administration in and of itself is inadequate for meeting hiring goals.

### ■ Create a Program that More Actively Assesses, Trains, and Matches DC Residents with First Source Jobs

Other cities with a First Source requirement have taken a more proactive approach in recruiting,

## INNOVATIVE FIRST SOURCE STRATEGIES

### SAN FRANCISCO'S CITY BUILD PROGRAM<sup>15</sup>

San Francisco found it failed to meet its First Source goal of improving job access for low-income residents by relying only on monitoring and enforcement processes. Job seekers claimed they were unable to access construction jobs created by major public works projects, and city contractors claimed they wanted to hire local residents but couldn't find qualified candidates. In 2006, San Francisco made two fundamental changes to address these issues. The city created a job placement and training program called "City Build," which would serve as a pipeline to city contractors. Administration of the program was placed within the Mayor's Office for Workforce and Economic Development, creating a stronger link between employers and job seekers.



**HOW THE PROGRAM WORKS:** City Build staff meet with contractors at the time of contract negotiation with the city to outline a detailed employment plan, including the number of new jobs and timeline to fill them. The City Build Academy provides job readiness skills and pre-apprenticeship training in partnership with a community college and community-based organizations. City Build's annual budget, including its First Source compliance unit, is \$2 million. The CityBuild Academy cost \$750,000 plus in-kind support from trade unions.

#### OUTCOMES:

- 85% graduate rate
- 90% placement rate
- 70% of placed residents still are in jobs within 1 year of placement

### MINNEAPOLIS'S NEIGHBORHOOD EMPLOYMENT NETWORK<sup>16</sup>

In 1981, Minneapolis created an intermediary known as the Neighborhood Employment Network to help link employers receiving public subsidies with low-income residents seeking employment help with community groups. City leaders decided that businesses receiving financial assistance from the city should enter into agreements with neighborhood-based workforce development providers. These agreements establish five-year job hiring and retention goals for the business, which include the hiring of Minneapolis residents and payment of the living wage.



**HOW THE PROGRAM WORKS:** In 2004, Minneapolis launched a job linkage program as part of the Midtown Exchange project, a mixed-use development that received public financing and grants worth \$23 million. The jobs linkage program established that the developer would engage in a pilot pre-apprenticeship training program with the Minneapolis Employment and Training Program and the Minneapolis Building Trades Council, targeting 5 percent or 45,000 of on-site construction hours for pre-apprentices. The developer also agreed that 30 residents of four nearby zip codes would have first priority for regular construction work.

#### **OUTCOMES:**

- As of March 2006, 45 residents of the five targeted zip codes had been hired into construction jobs
- The Sheraton Hotel, which opened in December 2005 at the site, worked with NET affiliate Goodwill/Easter Seals and hired 42 people, 26 of whom lived in Minneapolis and all were hired at or above the living wage of \$10.23/hour at the time.

training, and placing residents for jobs in order to meet the needs of both residents and employers. Examples include San Francisco, Minneapolis, and Boston.

In order to ensure that residents can successfully fill First Source jobs, other cities have set up entities that serve as a broker between employers and training providers. These brokers provide employers with a pool of qualified, work-ready job candidates to satisfy First Source hiring requirements by taking the following steps:

1. **Workforce broker meets with contractors before city disburses funds** to develop an in-depth employment plan that defines the number and type of jobs that will be created and associated hiring schedules, job descriptions, and standard hard and soft skills requirements, including industry-recognized certifications, well in advance in the actual hiring date.

2. **Workforce broker coordinates job training with providers and community-based organizations** to recruit job seekers and ensure that they receive job training, case management, and job placement assistance aligned with the needs and timelines outlined by the employer in the employment plan. Training programs typically provide “hard skills” particular to the given occupation while case management services typically include “soft skills” training, and help residents arrange for transportation and child care. DC’s First Source broker could work with the many training providers in the city, as well as the newly-established Community College of

the District of Columbia (CCDC). Some providers may be able to provide training and services immediately, while others may need to adapt their programs or build their capacity. In fact, an important function of the broker is to help training providers update or expand their curriculum to match employer expectations.

**3. Workforce brokers screen candidates through in-person meetings and refer work-ready, qualified candidates to employers.** Job candidates typically include residents who already have the necessary skills set and just need help accessing the labor market (for example, a construction worker who has been laid off might need assistance), as well as new graduates of job training programs.

These brokers are formally referred to in other cities as “workforce intermediaries.” Workforce intermediaries in these cities provide a human resources service to employers by recruiting, screening, and referring qualified, work-ready residents. They also provide an employment service to residents by placing them in high-quality training that leads to a job. The most successful workforce intermediaries are actually seen as a resource by employers rather than another regulatory burden. In fact, many cities have workforce intermediaries that help connect residents to jobs with employers outside of any First Source framework—these cities include Seattle, Austin, and Baltimore, among others.

The concept of establishing a workforce broker of this type to strengthen DC hiring mandates is not new. Many workforce development advocates, service providers, and employers who found First Source ineffective in

## INNOVATIVE FIRST SOURCE STRATEGIES

### BOSTON'S NEIGHBORHOOD JOBS TRUST<sup>17</sup>

Since 1987, Boston's Neighborhood Jobs Trust has strengthened the link between the city's economic development projects and jobs for unemployed and underemployed residents by directly funding job training through a real estate development fee. The fee applies to all new commercial real estate developments exceeding 100,000 square feet that require zoning relief—including expansion and rehabilitation projects. A \$1.57 per square foot fee is assessed for every square foot of office space beyond 100,000 square feet, and the fee is directed into a dedicated job training fund administered by the Neighborhood Jobs Trust.



**HOW THE PROGRAM WORKS:** All individuals enrolled in Trust-supported programs must be Boston residents of low or moderate income. The trust is administered by the Boston Redevelopment Authority's Office of Jobs and Community Services (JCS). The trust receives input from JCS staff on training needs, and then directs dollars to specific programs through a competitive bid process. In some cases, employers who have paid into the Trust have helped fund programs that directly benefit their workers. For example, developers of the new Fenway Park contributed to the Walk to Work program, an initiative of the Fenway Community Development Corporation, which placed 240 Fenway area residents in jobs at local institutions. Between fiscal years 1988 and 2003, the NJT committed \$13.6 million to job training.

**OUTCOMES:**

- In Fiscal Year 2008, NJT invested \$1,141,429 and trained 252 residents in 13 programs
- Average job placement rate of 55 percent job placement rate in 2008. However, most programs met or exceeded the NJT placement goal of 60 percent
- \$12.45 per hour average wage

enabling them to meet hiring goals encouraged the District to establish a workforce intermediary to meet hiring goals associated with the Anacostia Waterfront Initiative. In 2008, the DC Council passed legislation requiring the city to create a workforce intermediary, and the Southwest Waterfront development team agreed to provide \$1 million toward its operation.<sup>13</sup> The workforce intermediary has not yet been established due to a significant slowdown in the waterfront's development. However, this concept, which was embraced by many as a creative way to get DC residents jobs in the Anacostia Waterfront Development Zone, could be applied to all of the District's First Source employment agreements.

The steps needed to establish a First Source-based workforce development broker in the District include:

**1. Convening workforce development stakeholders and establishing buy-in.**

The broker will only be successful with political support from the city's chief executive and his agencies. The mayor and his administration should meet with a variety of communities, including employers, advocates, workforce development providers, and community-based organizations to show that the broker is an important component of his workforce development strategy.

**2. Incubating the program within the Office of the Deputy Mayor for Planning and Economic Development (DMPED).** Training and placing residents in jobs created through our economic development efforts should not be an afterthought, but an integral part of the city's economic development strategy. The workforce

broker must have strong relationships, a solid reputation with employers, and deep knowledge of the employers' industry. As the city's public face to the employer community—particularly those employers with First Source agreements—DMPED markets the District to new employers and negotiates economic development deals. Accordingly, DMPED is the most appropriate agency for a workforce intermediary. Indeed, many successful government-based intermediaries are mayoral initiatives housed in the Mayor or Deputy Mayor's office.

**3. Hiring a Director:** Managing such a workforce development broker is a full-time job. A director would develop the program within DMPED, (including the creation of an organizational and staffing plan), contract with select, high-quality training and case management providers, and coordinate First Source compliance with intermediary functions.

**4. Evaluation of the new program.** If the District establishes a broker, it should evaluate its work to determine its success. If it is successful in placing DC residents in First Source jobs, it could eventually be expanded to help match DC residents to jobs in industries not typically covered by First Source.

Based on budgets of other successful workforce intermediaries in other cities, the establishment and administration of such an entity would likely have a fiscal impact between \$1 and \$2 million. That figure includes 1. new staff; and 2. contracts with training providers and community-based organizations for skills training and case management. Given the larger scope of First Source under such a broker, the District may be able

to redirect workforce development funds from programs with similar missions.

## Conclusion

The District needs to better leverage economic development and publicly-funded contracts by strengthening linkages between employers receiving public assistance and residents seeking jobs.

An immediate step can be to boost compliance and oversight of the city's First Source law. The District should ensure that all eligible contracts and economic development projects receiving assistance from the city have signed First Source employment agreements. The District should also make sure that District residents seeking jobs are listed on the city's First Source job registry.

The District should also adopt an approach that provides a stronger linkage between future jobs and the skill set of the city's workforce. A broker known in other cities as a "workforce intermediary" takes a more active approach. The entities work with employers to anticipate future hiring, and then coordinate with nonprofit trainers and community colleges to make sure that job seekers have the training and skills for the jobs that will be available. A broker focused specifically on aligning the needs of First Source employers with training programs would complement, not replace, the work of the District's existing workforce organizations, including the Workforce Investment Council (WIC).<sup>14</sup> Without a more proactive approach to matching the needs of First Source employers with job training programs, the District will continue to fall short of meeting its hiring goals.

## Endnotes

<sup>1</sup> Office of the District of Columbia Auditor. Auditor's Review of Compliance With the Living Wage Act and First Source Act Requirements Pursuant to the Compliance Unit Establishment Act of 2008 (May 18, 2010).

<sup>2</sup> U.S. Bureau of Labor Statistics. "Civilian Labor Force and Unemployment by State and Selected Area, Seasonally Adjusted."

<sup>3</sup> DC Department of Employment Services, Office of Labor Market Research

<sup>4</sup> U.S. Bureau of Labor Statistics.

<sup>5</sup> See D.C. Code §2-219.03.

<sup>6</sup> See D.C. Code §2-219.03(e). This rule applies to any government-assisted project totaling \$100,000 or more.

<sup>7</sup> D.C. Department of Employment Services. "First Source Employment Agreement Program, Employer Fact Sheet" available at [http://www.does.dc.gov/does/frames.asp?doc=/does/lib/does/first\\_source.pdf](http://www.does.dc.gov/does/frames.asp?doc=/does/lib/does/first_source.pdf).

<sup>8</sup> DOES is supposed to monitor the employer's performance through a Contract Compliance Form submitted to DOES on a monthly basis. Willful breach of the agreement, failure to submit compliance reports, and deliberate submission of falsified data may be enforced through monetary fines of 5 percent of the total amount of direct and indirect labor costs of the contract. See D.C. Code §2-219.03(e)(4).

<sup>9</sup> To submit a request for a waiver of compliance with the hiring requirement, contractors must provide material supporting a good faith effort to comply; referrals provided by DOES and other referral sources; and advertisement of job openings listed with DOES and other referral sources. See D.C. Department of Employment Services, First

Source Employment Agreement, available at [http://www.does.dc.gov/does/frames.asp?doc=/does/lib/does/frames/Fillable\\_First\\_Source\\_Employment\\_Agreement\\_6-10.pdf](http://www.does.dc.gov/does/frames.asp?doc=/does/lib/does/frames/Fillable_First_Source_Employment_Agreement_6-10.pdf). The law does not define "good faith effort."

<sup>10</sup> According to the auditor, DOES failed to keep accurate records of required First Source Agreements. DOES only had written agreements with 56 of 104 employers for the seven projects reviewed by the Auditor. DOES also failed to ensure that employers submitted monthly compliance forms, and did not document their own monitoring activities at employer sites. The agency also failed to document efforts to evaluate whether developers who had failed to meet the hiring target made a good faith effort to do so.

<sup>11</sup> The "good faith" clause dilutes the effectiveness of the program. Under First Source, employers may simply go through the motions of seeking to hire qualified residents by posting the required job notices, documenting the applications received, and maintaining written explanations for why they were unable to hire referred residents. It would be difficult, time-intensive, and expensive for the DC government to demonstrate in a court of law that contractors who followed this process did not make a good faith effort to hire DC residents.

<sup>12</sup> In preparation of this brief, several phone calls and e-mail inquiries were made to the agency about First Source. The Public Information Officer for DOES did not supply requested information about the program. DOES representatives reached through the phone number on the First Source Web site had difficulty answering questions about the program, including how a job seeker can get on the First Source job registry.

<sup>13</sup> See the National Capital Revitalization Corporation and Anacostia Waterfront Corporation Reorganization Act of 2008.

<sup>14</sup> D.C. has a Workforce Investment Council (WIC), which was created in accordance with the Workforce Investment Act (WIA). The WIC has a much broader mandate than the First Source broker or workforce intermediary discussed in this paper, which is specifically tied to the administration of WIA. Its mandate includes, but is not limited to, developing a strategic workforce plan for the city, providing guidance and oversight in the administration of WIA funds, programs and services, and certifying the one-stop delivery system operators.

<sup>15</sup> Information about this program obtained through an interview with Guillermo Rodriguez, Director of the San Francisco CityBuild Program on February 11, 2009.

<sup>16</sup> See Laura Wolf-Powers, Jeremy Reiss, and Margaret Stix, "Building in Good Jobs: Linking Workforce Development with Real Estate-Led Economic Development," available at [http://repository.upenn.edu/cgi/viewcontent.cgi?article=1041&context=cplan\\_papers](http://repository.upenn.edu/cgi/viewcontent.cgi?article=1041&context=cplan_papers); Frieda Molina, "Making Connections: A Study of Employment Linkage Programs," available at [http://www.huduser.org/publications/pdf/ccc\\_making.pdf](http://www.huduser.org/publications/pdf/ccc_making.pdf).

<sup>17</sup> See Laura Wolf-Powers, Jeremy Reiss, and Margaret Stix, "Building in Good Jobs: Linking Workforce Development with Real Estate-Led Economic Development," available at [http://repository.upenn.edu/cgi/viewcontent.cgi?article=1041&context=cplan\\_papers](http://repository.upenn.edu/cgi/viewcontent.cgi?article=1041&context=cplan_papers); Mayor's Office of Jobs and Community Services City of Boston, Neighborhood Jobs Trust Report on Fiscal Year 2008 Programs, available at [http://www.cityofboston.gov/Images\\_Documents/NJT%20FY08%20Report%20for%20web\\_tcm3-16535.pdf](http://www.cityofboston.gov/Images_Documents/NJT%20FY08%20Report%20for%20web_tcm3-16535.pdf).