NorthStar POLICY ACTION

No Exemptions for Exploitation:
Protecting the People who Build Saint Paul

Building with Renter and Worker Protections

Saint Paul's proposed exemptions to rent control, coupled with additional tenant protections, strike a thoughtful compromise in helping renters and increasing the city's housing supply. But one crucial stakeholder remains unprotected: the workers who build the housing who are too often exploited.

The Problem: Wage Theft

Wage Theft occurs when workers are either:

1. Misclassified as independent contractors rather than employees.
2. Paid "off-the-books" in cash

Who is hurt by wage theft?

Saint Paul Workers: Miss out on crucial benefits and worker protections, such as overtime pay and paid sick leave.

Law-abiding employers: Placed at a competitive disadvantage by those using wage theft to undercut them.

The Social Safety Net: Loses revenue due to wage theft, leading to less money for programs like Unemployment Insurance.

Saint Paul Taxpayers: Cover the cost of lost tax revenue, meaning they pay more into these programs to make up for wage theft.

The scale of wage theft in MN

$6.2 billion lost for 316,000 workers.

162 times
greater loss to victims than auto theft

23% of MN Construction Workers Experience Wage Theft

$1.3 billion lost in tax revenue

13 times
greater loss in tax revenue than shop lifting

The Solution: Prevailing Wage

Prevailing wage requirements establish minimum pay and benefit standards based on what local workers typically earn for similar work.

How does it work?

Prevailing wage requires **certified payroll records**, creating clarity on who is working on a project and what they are paid. Falsifying these records to commit wage theft is more easily detected and documented. This was recently shown in Minnesota's first successful wage theft prosecution on a prevailing wage project.

Won't that drive up costs? Nope.

18 of 24 peer reviewed studies conducted between 2000 and 2022 found that prevailing wage laws have no effect on the cost of public construction projects. **How is that possible?** Prevailing wage laws avoid costly mistakes and drive up construction efficiency by increasing apprenticeship training, boosting worker productivity, and reducing injury rates.

Saint Paul's opportunity

During the recent spike in auto theft, Saint Paul became a national leader by investing in preventative resources to stop auto theft before it happened. The message was simple: Saint Paul will not allow its residents to be victimized by theft. **The city can do the same thing with wage theft.**

Saint Paul already requires prevailing wage on publicly-funded projects, recognizing that **public benefits should only go to projects where workers are treated with dignity.**

By exempting new larger multi-family construction projects from rent control, Saint Paul is providing a substantial financial benefit to developers. It is entirely reasonable, and morally necessary, that this benefit come with a guarantee that workers will be protected from wage theft.

Scan QR code for full report

Questions? Contact Research Director Aaron Rosenthal at aaron@northstarpolicy.org

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ABOUT NORTH STAR POLICY ACTION

North Star Policy Action is an independent research and communications institute that is dedicated to improving the lives of everyday Minnesotans by advancing bold ideas that change the conversation and bring communities together. We develop and promote data-driven solutions to persistent problems that allow working people to thrive, no matter who they are or where they live

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INTRODUCTION

In 2021, Alvaro Chavez was hard at work building a new apartment complex on University Avenue in Saint Paul, the city he calls home. Although Alvaro should have been recognized as an employee on the project, he was illegally classified as an independent contractor. As a result, he was denied overtime pay despite grueling 10- and 11-hour workdays. After suffering back injuries on the job, Alvaro found himself without Workers' Compensation or medical benefits due to his illegal misclassification. Adding insult to injury, he also had $3,500 in wages stolen, forcing him to navigate a complex network of contractors and subcontractors for nearly a year before recovering the money he had rightfully earned.

Alvaro Chavez outside the Midline Apartments in St. Paul, Minnesota
Photo credit: Nicole Neri, Capital & Main

Alvaro's story is tragically common. In testimony to state officials, he described witnessing similar abuses happen to his father, demonstrating that the exploitation of construction workers is an ongoing, generational issue affecting numerous Saint Paul families.

Now, as Saint Paul considers exempting new multi-family housing from its rent control ordinance to encourage development, it has an opportunity—and a moral imperative—to ensure such exploitation does not continue to occur to its residents and workers. To seize this opportunity, the most effective tool at the city's disposal is requiring a prevailing wage on larger, new multi-family housing projects that are exempt from rent control.

Without this step, the city is accepting that the construction of new housing will literally happen on the backs of exploited workers who will be left without the ability to afford the homes they themselves build.

WAGE THEFT- A PROBLEM FOR WORKERS, TAXPAYERS, AND HONEST BUSINESSES

Wage theft, such as that experienced by Alvaro Chavez, goes by many names. It is often referred to as payroll fraud or misclassification fraud. Across these labels, the defining feature is that workers are either illegally misclassified as independent contractors instead of employees or are paid "off-the-books" in cash.

When wage theft happens, workers are left with tax burdens that should be carried by their employer, while being denied compensation they have rightfully earned, such as overtime pay and insurance. These costs add up. According to a recent analysis, approximately 316,000 working Minnesotans— or 9.4% of the state's private-sector workforce—experience wage theft each year, collectively losing between $2.9 and $6.2 billion in total compensation.

Total Workers Experiencing Wage Theft in MN in 2019:

316,000

9.4% of all private-sector workers

Taxpayers suffer as well. Wage theft allows unscrupulous employers to avoid paying into crucial programs like Unemployment Insurance and Workers' Compensation. All told, wage theft costs the state of Minnesota between $506 million and $1.3 billion in annual tax revenue.

Wage theft cost MN workers

$2.9 – $6.2 Billion

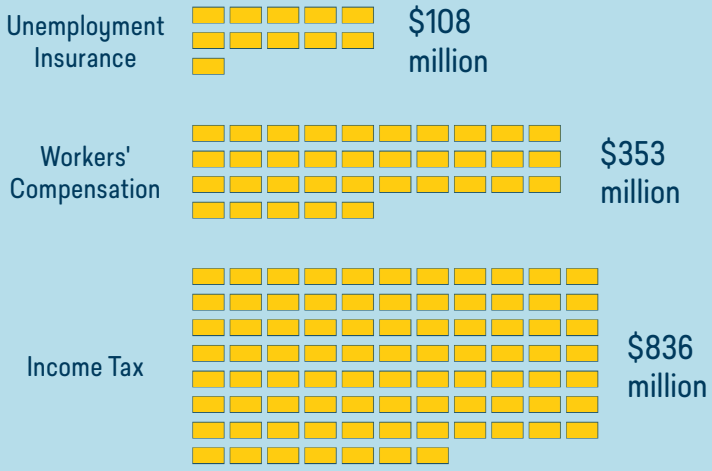
through lost benefits, including overtime pay and health insurance.

Ultimately, Saint Paul taxpayers shoulder the additional burden to keep these programs afloat, subsidizing dishonest employers who exploit workers.

A final victim of wage theft is honest business owners who are often unable to compete with the contractors that illegally slash labor costs through wage theft. The resulting "race to the bottom" dynamic leaves businesses in an impossible situation: either lose out on contracts or engage in their own worker exploitation to remain competitive. Only government intervention can prevent this dilemma.

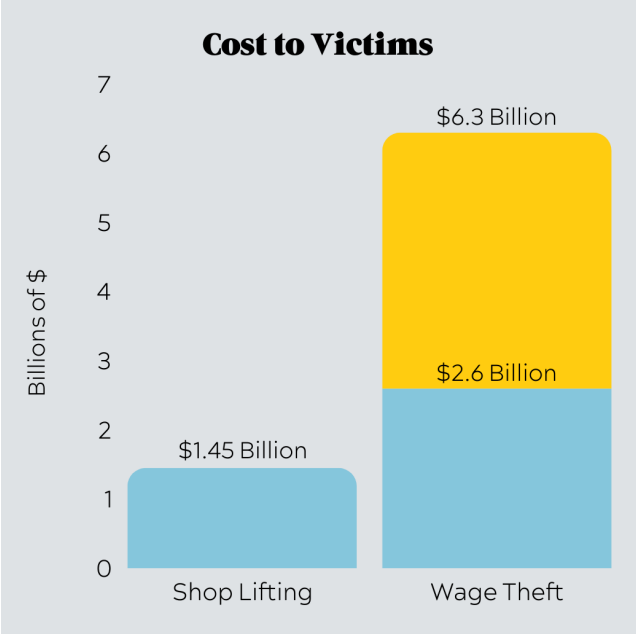
Minnesota Revenue Lost Due to Wage Theft in 2019:

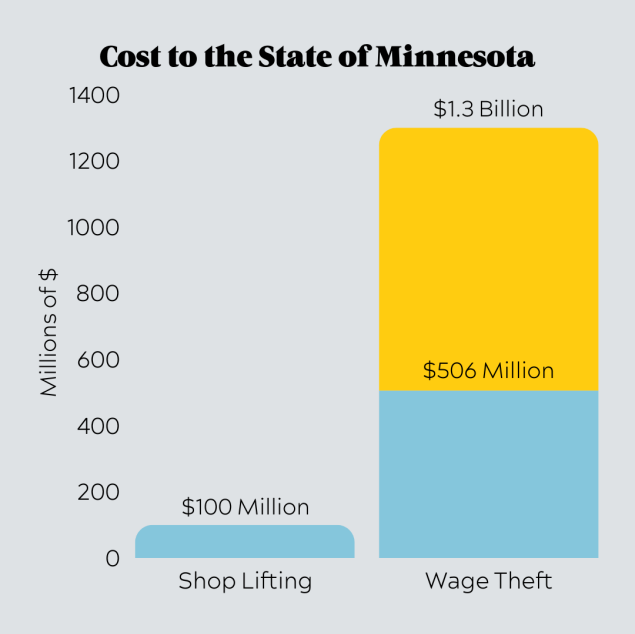
$1.3 Billion



WAGE THEFT IS THEFT—PERIOD

To grasp the scope of wage theft, consider it alongside other types of theft. In Minnesota, retailers lost approximately $1.45 billion to shoplifting in 2022, resulting in roughly $100 million in lost sales taxes. While these dollar amounts rightfully garnered substantial media and political attention, it's actual cost is far surpassed by wage theft. Workers experiencing wage theft lost roughly two to four times more than the businesses victimized by shoplifting, while the state was deprived of five to ten times more in lost revenue due to wage theft. Similar analyses have found that wage theft far outpaces other forms of theft, such as robbery.





Making this comparison is not designed to downplay the seriousness of shoplifting or robbery, but rather to suggest that wage theft should be seen alongside these issues that receive more attention and greater resources to prevent.

CONSTRUCTION IS GROUND ZERO

While wage theft plagues multiple industries, it is particularly prevalent in construction. Contractors in construction often rely on an immigrant workforce vulnerable to threats of deportation and other forms of retaliation, allowing them to use these threats to force exploited workers into silence.

An analysis of Minnesota's industry found that 23% of the state's construction workers face wage theft, receiving 36% less in compensation than their lawfully employed peers. The state loses approximately $136 million in annual tax revenue due to wage theft in construction alone.

Wage Theft in Minnesota Construction

23% of Minnesota Construction Workers Experience Wage Theft

PREVAILING WAGE: A PROVEN SOLUTION

Fortunately, Saint Paul has a powerful policy tool available to fight back against wage theft: prevailing wage laws. With origins dating back nearly 100 years, prevailing wage requirements establish minimum pay and benefit standards based on what local workers typically earn for similar work. Beyond fair compensation, prevailing wage policies demand certified payroll records, fostering transparency around who works on a project and how much they are paid.

While contractors could theoretically falsify these payroll records, prevailing wage laws greatly simplify the detection and prosecution of such fraud. This benefit of prevailing wage was clearly demonstrated by Minnesota's first wage theft conviction in April 2025. When a painting contractor on a multi-family housing project in Minneapolis that was under prevailing wage attempted to submit false records, he was ultimately caught and convicted of $35,000 in wage theft.

SAINT PAUL'S UNIQUE OPPORTUNITY

Like many cities in Minnesota, Saint Paul already insists on prevailing wages for publicly funded projects, recognizing that public money should be used to support projects that treat workers with dignity.

Yet wage theft continues to happen on projects that receive public aid. One recent analysis found that contractors with histories of exploitation still received approximately $84 million in public money through the Low-Income Housing Tax Credit (LIHTC) and Tax Increment Financing (TIF).

$84 million

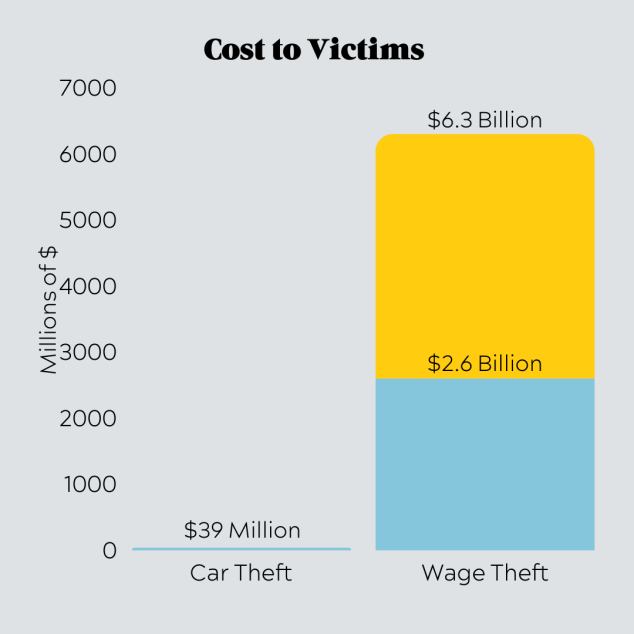
in tax subsidies for contractors associated with worker exploitation to build affordable housing in Minnesota

In response, the state of Minnesota passed a new law in 2024 that requires all LIHTC projects to provide prevailing wages, taking another important step towards ensuring that projects receiving public support do not abuse workers.

Saint Paul is now positioned to further advance this goal. By exempting new multi-family construction from rent control, Saint Paul is providing a substantial financial benefit to developers. It is entirely reasonable—and morally necessary—that this benefit comes with a guarantee that workers will be protected through prevailing wage provisions.

FOLLOWING A FAMILIAR PREVENTATIVE PLAYBOOK

During the recent spike in auto theft, Saint Paul proactively addressed the crisis and became a national model. The message was clear: the city would not sit idly by and let Saint Paul residents be victimized by theft. The degree of city intervention is notable here, considering that Minnesota auto theft amounted to roughly 10,000 stolen cars in 2018 with an economic impact of $39 million in unrecovered goods. Again, the point here is not that auto theft is trivial, but it is worth considering it next to the 316,000 workers who suffered wage theft at a cost of up to $6.2 billion in 2019.



Saint Paul has an opportunity to lead again and set another national model in theft prevention- this time for the city's workers. Prevailing wage provisions for rent-control-exempt construction provides a concrete, achievable step to prevent widespread worker exploitation in the city.

CONCLUSION: A BALANCED AND ETHICAL APPROACH

We understand Saint Paul's need to balance protections for renters and the necessity of increasing the city's housing supply. The proposed exemptions to rent control, coupled with additional tenant protections, strike a thoughtful compromise—but one crucial stakeholder remains unprotected: the workers who build the housing.

Prevailing wage offers a win-win solution. Contrary to arguments about increased labor costs, empirical evidence consistently demonstrates that prevailing wage laws do not significantly raise overall construction costs. Of 24 peer-reviewed studies published between 2000 and 2022, 18 found no cost increase for public construction projects due to prevailing wage requirements. A Minnesota-specific study from 2018 similarly found prevailing wage bids were no more expensive than others.

How can this be true? Prevailing wage laws promote hiring skilled, trained workers, leading to fewer costly mistakes and improved construction efficiency. In short, prevailing wage protections pay for themselves.

If Saint Paul does want to see housing built faster, there are other solutions. The city should consider streamlining zoning and permitting regulations to accelerate construction. Moreover, the city could look to develop its own housing stock, similar to what's already being done in Montgomery County, Maryland. Federal proposals to pursue this option have also gained steam, backed by Representative Alexandria Ocasio-Cortez and Minnesota's own Senator Tina Smith.

These solutions could work alongside a prevailing wage policy to ensure an adequate housing supply is built ethically and efficiently, while government revenues are protected, and construction workers are able to afford the homes they build—creating a virtuous cycle benefiting all of Saint Paul.

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