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How to Save Billions on Public Construction.

The ways we calculate pay scales for labor on government projects dramatically inflate the costs.

A recent Wall Street Journal op-ed column called for repeal of the Davis-Bacon Act, which sets a floor for wages on federally funded construction projects. Thirty-two states have their own prevailing-wage laws, and while the goal of making sure that those working on public construction projects are fairly compensated is too important for the laws to be repealed, some simple reforms for how prevailing wages are calculated could save state and local taxpayers billions of dollars.

According to a 2008 study by Suffolk University's Beacon Hill Institute, state and local governments spend about \$300 billion annually on public construction. Labor accounts for about half the cost of those projects. How each of the states with prevailing-wage laws calculates the wage, which varies by region within states, is determined by state law.

Some, such as Texas and Connecticut, simply use the amounts determined by the U.S. Department of Labor's Wage and Hour Division (WHD) that are used on federal projects. Five states — Massachusetts, Michigan, New Jersey, New York and Ohio — calculate wages based on the amounts negotiated in local collective-bargaining agreements. The problem is that both approaches dramatically inflate prevailing wages.

WHD determines prevailing wages by surveying construction unions and large employers. But the surveys are so complex and time-consuming that most contractors — especially small ones — don't complete them.

Unions and union contractors, on the other hand, are far more likely to fill out the surveys. Union wages tend to be above market, and these entities want to see the prevailing wage set as high as possible to minimize their competitive disadvantage (disclosure: an association of open-shop construction contractors is among my clients). As a result, the Beacon Hill Institute study found that the WHD approach inflates wages by an average of about 22 percent, which adds about 10 percent to overall project costs.

The cost problem is even worse in the five states that base prevailing wage on collective-bargaining agreements. In recent years, New York State has debated whether to extend the prevailing wage to cover Industrial Development Agencies, the state's public economic-development authorities. A [Center for Governmental Research report](#) estimated that doing so would increase the cost of the agencies' construction projects by 36 percent.

Using collective-bargaining agreements to determine prevailing wage is also unfair because such a small portion of construction workers belong to unions. According to Unionstats.com, membership ranges from 2 percent in Alabama to about 38 percent in Hawaii, and the number is in single digits in about half the states.

A far better approach would be to simply base prevailing wage on Bureau of Labor Statistics data. BLS, which like WHD is within the U.S. Department of Labor, is the gold standard for employment

data. BLS calculates wage data by industry (including construction) in 80 metropolitan and 170 non-metropolitan areas. It is far more transparent about its methodology than WHD and most states are. In addition, its methodology is more sophisticated and its conclusions are based on much larger samples.

And the wage differences are significant. A 2012 Columbia University study found that current New York state prevailing wages ranged from 10 percent to more than 70 percent higher than BLS rates.

Like so much of government, prevailing-wage laws are a balancing act. Done right, they ensure that those who work on public construction projects receive a reasonable wage, and they also are fair to the taxpayers who fund those projects. Using Bureau of Labor Statistics data to determine prevailing wages is the best way to strike that delicate balance.

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