Memo re: The Prevailing Wage Issue in the Capital Bill **March 11, 2015**
Rep. Cynthia Browning, House Room 33, Seat 67

DESCRIPTION.

This language in Section 20 of the Governor's Capital Bill would require wages for construction workers on all State construction projects authorized or funded in whole or in part by a capital construction act to be paid at the prevailing wage level as determined by the federal Davis-Bacon Act. The Davis Bacon wages can tend to be higher as they incorporate the value of some benefits. The Vermont Prevailing Wage currently used as the standard does not.

The reasoning behind this appears to be that if companies were required to pay higher total compensation, including benefits as Davis Bacon does, this would benefit Vermont companies who pay such higher compensation in the bidding for projects.

DISCUSSION.

It is not clear to me that such higher levels of compensation would ultimately mean that Vermont companies get more bids – they could just as easily go to NY and MA companies that already pay D/B or have higher compensation levels for other reasons.

In addition, given that it is possible for workers to obtain insurance coverage through VHC, in many cases with a subsidy, it is not clear how crucial the benefit of health insurance in particular is at this time.

It is my understanding that the Davis Bacon wages are done based on counties. The Vermont prevailing wage is done by region, so there are only three. That may be a more valid approach in this small state with variations in costs across regions that do not go by county lines.

It is my understanding from BGS information in another context that in general 80% of BGS contracts go to Vermont companies. This is true whether contracts are measured in terms of numbers of contracts or in terms of the dollar value of contracts. It appears to me likely that this provision might merely alter the mix of which companies get the contracts, and the new winning bidders may have workers getting paid more due to unionization or other factors. However, in cases where a project comes in with fewer work hours than planned it is possible that the contractor will get some of the extra money, not workers. And as noted above, it is possible that non-Vermont companies with non-Vermont workers will benefit instead of Vermont firms.

JFO did two Fiscal Notes about the impact of this provision on the cost of Capital Bill projects for the same proposal last year. The first, dated in March 2014 found an annual cost of $2 million to $7 million based on data and assumptions provided by BGS and DOL. The second, dated in April 2015 and based on different assumptions from BGS, found an annual cost impact of $1.92 million to $3.36 million. JFO explicitly denied all responsibility for the validity of the data and assumptions provided to it in doing the estimates.

So let us suppose that the DB wages are implemented and BGS Capital construction projects cost $3 million more every year for the next ten years. This would be lost purchasing power of $30 million. According to the Treasurer's office the cost of repayment for each $1 million in bonded dollars can be estimated at $300,000 each year across ten years. So $30 million in bonded dollars can be seen as really costing $39 million. (The repayment costs of $39 million are in the General Fund.)

The potential increase in costs from DB wages means that the Capital Bill funding will not go as far, that less will be accomplished with the bonded dollars. So, looking ahead across 10 years, which $30 million in projects to serve Vermonters should the Committee not do or push off further into the future? If one looks back 10 years, which $30 million of projects would we want to give up? At a time of tight budgets when the Capital Bill is already being asked to do more rather than less, this does not seem wise.

If the Committee were to decide to borrow $30 million more across then years to be able to cover the extra costs from DB wages and still do the same level of projects, that will mean additional costs in the General Fund since the GF bears the cost of bond repayment. Which $39 million in General Fund spending items is the Committee willing to forego in order to do this?

Given that it is not clear to me that we can be sure that the extra $3 million in costs goes to Vermont workers, are the extra costs and the delay in funding needed projects to serve Vermonters worth it? Even if all of the extra cost of D/B actually DID go to Vermont workers, would it be worth the permanent cost of perhaps $ 3 million a year in purchasing power indefinitely for all other Vermonters? And the costs of repaying those bonds in the GF?

Some supporters of this provision have argued that there would be little extra cost to requiring D/B wages since firms that pay well like this will have more highly skilled and efficient workers and be able to complete projects at the same cost as now. If that is the case, they do not need this legislation in order to compete successfully for projects, and this provision is not needed. So if someone argues that the cost of using DB wages would be very low, that weakens the case for putting the provision in place at all – it is not needed.

RESULTS BASED ACCOUNTING.

Some supporters of this provision have argued that it will mean that more money goes into the pockets of Vermonters who need it, they can have better lives, and they will spend most of the extra money, which stimulates the economy. But the money may not go to Vermonters, or it might have gone to different Vermonters and into the economy anyway. Where is the measure of "but for"? What good things can we be SURE would not happen "but for" this provision? The only certain "but for" that I see is that Vermonters in general get less capital construction for the spending of bonded dollars.

Given that the best cost estimate that we have is that this provision will increase BGS capital construction project costs, if DB wages are required we should have in place some kind of performance based criteria to track whether it works as intended. We need to have some kind of baseline average of the number and wage structure of the companies winning BGS contracts over the past several years, and whether the companies or the workers were Vermonters. Then we need to have a way to track whether the number of Vermont companies and workers who get BGS contracts after D/B is put in place, and what their wage structure is.

If we do not have some kind of Results Based Accounting format in place to track the costs and benefits of this provision across time to see if the goals are accomplished given the potential costs of $2 m to $3 m a year then we should not put the provision in place.

However, given the potential opportunity cost in lost Capital Construction projects and the uncertainty about who will benefit, I don't see that the provision is worth doing in any case.