

In the Public Interest

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Distinguished Members of the House Committee on Government Operations:

In the Public Interest is a national nonprofit research and policy center focused on government outsourcing and responsible contracting. We are committed to equipping citizens, public officials, advocacy groups, and researchers with the information, ideas, and other resources they need to ensure that public contracts with private entities are transparent, fair, well-managed, and effectively monitored, and that those contracts meet the long-term needs of communities.

We submit this letter in support of S. 111. This bill requires that contractors doing business with the state pay their employees a wage and provide health insurance benefits that are comparable to public sector comparators. Furthermore, the bill requires that any company that contracts with the state have a record of compliance with important laws and continues to comply with those important laws.

In 2014, In the Public Interest published a report titled, "Race to the Bottom: How Outsourcing Public Services Rewards Corporations and Punishes the Middle Class." In this report, we detailed the very destructive dynamic that this bill seeks to curtail. We found that without proper protections, low-road government contracting can set off a downward spiral in which reduced worker wages and benefits can hurt the local economy and overall stability of middle and working class communities.

Recent research by Daphne Greenwood, an economist at the University of Colorado, shows how declines in workers' wages mean less money to spend in their communities and directly affect local businesses.¹ Lower wages mean that workers spend less in local retail, restaurants, and other establishments. Lower wages also mean that local and state governments collect less in sales, income, property, and other types of taxes. In short, less money flows into the local economy and more money is routed to for-profit corporations.

Low wages paid by contractors can also result in hidden costs to the government. When government contractors pay low wages, taxpayers often end up subsidizing these companies by filling in income gaps through public assistance programs, for which low-income Americans qualify, to make ends meet. These hidden costs are rarely factored in to a government's cost analysis of a proposed contract.

Governments should ensure that cost savings promised by contractors are derived from increased efficiencies, not from a decrease in employee compensation. By using low-road contractors, local governments essentially subsidize these companies by supplementing low-wage jobs with public

¹ Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

supports and other resources. Instead, when governments do business with high-road contractors, contractors compete on whether they can offer quality services through increased efficiency, instead of undercutting each other by slashing workers' wages and benefits. By ensuring that contractors' promises of cost savings do not come from wage reductions, states and localities can preserve decent family-supporting jobs, which is good for workers, communities, and the state economy.

S. 111 further ensures that it does business with high-road contractors by ensuring that contractors that receive state contracts do not have records of breaking labor, employment discrimination, health and safety, environmental, and other important types of laws. Research shows that governments that require prospective bidders to provide information about their company track record, and use this information to identify "responsible" bidders, report that contracts result in better outcomes – higher quality, more reliable services, reduced cost overruns and project delays, and reduced compliance and litigation costs.²

S. 111 ensures that public funds in Vermont are used to pay people to perform public work that result in solid family-supporting jobs, instead of engaging in a race to the bottom. In the Public Interest is happy to provide support to the Committee as the State makes policy decisions regarding its contracting practices. Thank you for your time and consideration.

² David Madland, Karla Walter, Paul Sonn, Tsedeye Gebreselassie, "Contracting that Works: A Toolkit for State and Local Governments," Center for American Progress Action Fund and National Employment Law Project, 2010.