

Fiscal Estimate Narratives

DOT 5/9/2017

LRB Number	17-0747/1	Introduction Number	AB-0296	Estimate Type	Original
Description elimination of the requirement that laborers, workers, mechanics, and truck drivers employed on the site of a project of public works be paid the prevailing wage					

Assumptions Used in Arriving at Fiscal Estimate

This bill would eliminate the state prevailing wage law, including the provisions under s. 84.062, Wis. Stats., which apply to persons in the employ of a contractor or subcontractor, agent or other person performing work on a contract based on bids, to which the state [i.e., Department of Transportation (DOT)] is a party, for the construction or improvement of a highway.

The bill would not impact any DOT projects funded in whole or in part from federal funds. Federally funded projects are subject to the federal Davis-Bacon Act and require prevailing wages to be paid on public works projects that are federally funded or assisted.

DOT highway projects that are contracted based on bids, i.e., "let", are generally subject to prevailing wage law. Spending related to in-house staff, use of consultants, real estate purchases, and most highway maintenance is not subject to prevailing wage.

This bill would impact only spending on let contracts without federal participation. For FY15 and FY16, on average each year DOT entered into 361 projects contracts totaling \$1.208 billion, all funds (including federal, state segregated, state bond and local funding). Of this total, the average annual cost of let contracts with no federal participation was \$268.7 million, 22% of the all funds annual total. On average, 78% of let contract costs was for projects that would not be impacted by this bill.

DOT assumes there would be some cost savings due to reduced wage requirements, but potential labor cost savings for the let contracts with no federal participation that would be impacted by this bill would be dependent on variables which the department cannot accurately estimate for the following reasons:

*While it is estimated nationally that 20-25% of highway improvement let contract costs are labor related, the department cannot determine the actual percentage of costs represented by labor in its contracts because bids are prepared on a per unit basis. Material, labor, overhead, etc. are presented in the bid as a combined dollar cost per unit.

*To realize cost savings, any potential decrease to labor costs generated from contractors not paying prevailing wages on a project would need to be passed on to the agency through lower bids submitted by contractors for that particular contract.

*The differential between prevailing wage rates under current law and wage rates that would result under this bill is unknown. Davis-Bacon prevailing wages are based on the wage paid to the majority (more than 50 percent) of the laborers or mechanics in the classification on similar projects in the area during the period in question. To the extent highway construction workers are unionized in an area, this is reflected in the Davis-Bacon wage rates and also may mitigate wage rate reductions when prevailing wage is no longer a factor.

ADMINISTRATIVE

The DOT Labor Compliance Section carries out educational, oversight and enforcement activities related to the federal Davis-Bacon prevailing wage provisions and the state's prevailing wage law, as well as laws that require employers to provide equal employment opportunities and not discriminate.

In the short term, DOT estimates that repeal of the state's prevailing wage law would have minimal impact on workload:

- About 40% of staff workload is related to civil rights and equal employment opportunity (EEO) responsibilities, which would remain unchanged.

- About 60% of staff workload is related to the federal and state prevailing wage laws. Davis-Bacon requirements would continue to apply to any projects with federal participation, which averaged 78% of project let contract amounts in FY15 and FY16.

- If this bill were implemented, the complexity of multiple prevailing wage laws applying to projects would require a continuation of staffing at the current level for several years. Contracts where the request for bid was prior to January 1, 2017 fall under the prevailing wage laws in effect prior to the change in the 2015-17 biennial budget. Contracts where the request for bids is after January 1, 2017 through the effective date of Assembly Bill 0296 would be under the current prevailing wage law. After the effective date of Assembly Bill 0296 a different set of requirements would apply. Until all the effected contracts are completed staff workload would not be expected to decline.

Long-Range Fiscal Implications

Long-range the department projects that there would be some reduction in staffing needs for prevailing wage activities. Projects with no federal participation would no longer fall under prevailing wage requirements. The DOT Labor Compliance Section was recently reorganized to cover statewide responsibilities more efficiently. In addition to full time FTE, the program utilizes LTEs and hires consultants to fill in for seasonal and other workload peaks. With the passage of Assembly Bill 0296 there would be a reduction in projects subject to prevailing wage and the program estimates that 1 LTE and consultant resources could be reduced, for a savings of \$121,100 per year.

In the January 2017 Legislative Audit Bureau (LAB) report on the State Highway Program, the LAB examined the number of bids DOT received for the 2,247 construction contracts awarded from January 2006 through December 2015. The average winning bid for construction contracts that received only one bid was 6.7 percent more than the estimated amount that design engineers had determined. LAB states that the winning bids for contracts that received more than one bid were lower, on average, than the estimated amounts. In general, the more bids on a given contract, the lower the average winning bid compared to the estimated amount.

Reduction in compliance costs, associated with the prevailing wage law, will likely increase competition on state-let projects. Given LAB found lower costs on projects with multiple bids, we would anticipate an indeterminate cost savings.

Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description elimination of the requirement that laborers, workers, mechanics, and truck drivers employed on the site of a project of public works be paid the prevailing wage			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$-18,000
	(FTE Position Changes)		(-0.0 FTE)
	State Operations - Other Costs		-103,100
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$-121,100
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		-121,100
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
	NET CHANGE IN COSTS	\$-121,100	\$
	NET CHANGE IN REVENUE	\$	\$
Agency/Prepared By		Authorized Signature	Date
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