



Memorandum

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To: Mary Earnhardt
From: Douglas Wulf
Date: April 23, 2007
Re: Fiscal Impact of HF 810 (Prevailing Wage)

Description

House File 810 requires a contractor to pay workers the same hourly wage plus fringe benefits for a public improvement costing more than \$25,000 as the contractor would pay workers for a private construction or improvement project. The Bill allows the per-hour wage rate to be based on what is normally paid in the area by contractors for similar projects, and to be adjusted on a yearly basis by the Iowa Department of Workforce Development (IWD). Contractors are required to not pay less than the established prevailing wage, but may pay more, and may not include deductions for food, sleeping quarters, use of tools, or safety equipment.

The Iowa Labor Commissioner determines the wage rates for specific geographical areas and for specific crafts, classifications, and types of workers. This information must be posted on the IWD's web site. In determining what the wage rate for a worker is, the Commissioner may consult collective bargaining agreements, wage rate determinations for federal projects in the same area, and other information the department may receive from contractors who participate in an apprenticeship program approved by the Federal Bureau of Apprenticeship and Training.

The Bill establishes an administrative process for appeal of the IWD established prevailing wage. The wage rate must be included in all bids on public projects, and the bid must include the wage rate to be paid for each craft, classification, and type of worker.

The Bill also requires the public entity in charge of the project to monitor contractors and subcontractors to ensure the prevailing wage rate is being paid.

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Assumptions

1. The IWD estimates a need for 10.0 to 11.0 FTE positions to carryout the requirements of the prevailing wage law. The Department estimates \$999,000 in FY 2008 and \$889,000 in FY 2009. This analysis assumes that not all staff for the program will be hired the first day of the program and reduces personnel costs for FY 2008 by 25.0% due to a lag in hiring.
2. There would be minimal appeals of the IWD determined prevailing wage for a project. Surrounding states have had only one or two per year.
3. All government bodies involved with a public improvement project will monitor the project to ensure that the prevailing wage is being paid, and that contractors and subcontractors are meeting all the requirements of the Bill.
4. Construction wages for projects, especially in rural areas, will likely increase due to the Bill. Impacts of prevailing wage in other states indicate the increase can vary considerably. Studies indicate that urban areas experience smaller impacts than rural areas.
5. Wage increases will also result in an increase in income tax and sales tax.
6. The annual number of vertical infrastructure projects is approximately 1,000 and the number of civil road, building, and utility projects is estimated to be approximately 2,000.
7. Contractor and subcontractor costs will increase due to the amount of reporting and maintenance of records required under the Bill.

Fiscal Impact

The administrative expenses for operating the Prevailing Wage Program at IWD will result in estimated increased costs to the General Fund of \$818,000 positions in FY 2008 and \$889,000 in FY 2009. There will be a need for 10.0 to 11.0 FTE positions for IWD to staff the Program.

The Board of Regents indicates increased administrative expenses of \$540,000 in FY 2008 and \$556,000 in FY 2009, for 6.0 FTE positions.

All public entities with a public improvement project will have related costs of monitoring contractor and subcontractor wage payments and other required activities. Some may be able to absorb these with current staff, however if multiple projects are being under taken by a public body additional staff may be required.

Construction cost estimates by the Board of Regents, Iowa State Association of Counties, and the Iowa Association of School Boards all indicate an approximate 10.0% to 12.0% increase in project costs due to a prevailing wage increase. The LSA does not have copies of the contracts and therefore cannot identify the wage rates paid on the various contracts, so no analysis has been conducted to determine the likely actual cost increases.

Master Builders of Iowa estimates that for each public contract the administrative costs to the contractors and subcontractors would be approximately \$17,000. This may result in a need for additional staff for some contractors.

The increase to income tax and sales tax receipts due to increased wages cannot be estimated.

Correctional Impact

The Bill creates a new serious misdemeanor. However, criminal prosecution of businesses is rare, especially when there are other remedies available. Therefore, it is anticipated that this

Bill will not have a correctional impact. The average State costs for one serious misdemeanor conviction ranges from \$110 (court costs) to \$3,300 (court costs, jury trial, indigent defense, and prison). The Judicial Branch also indicated any costs would be minimal.

Sources

Iowa Department of Workforce Development

Department of Administrative Services

Criminal and Juvenile Justice Division, Department of Human Rights

Department of Inspections and Appeals

Board of Regents

Department of Transportation

Iowa State Association of Counties

Iowa League of Cities

Iowa Association of School Boards

Judicial Branch

Master Builders of Iowa