

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2015 REGULAR SESSION**

MEASURE

2015 BR NUMBER **0811**

SENATE BILL NUMBER **9**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to prevailing wage.**

SPONSOR **Senator Schroder**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: **Education**

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2014-2015	2015-2016	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			
EXPENDITURES	(Indeterminable)	(Indeterminable)	(Indeterminable)
NET EFFECT	Indeterminable	Indeterminable	Indeterminable

() indicates a decrease/negative

MEASURE’S PURPOSE: To exclude the construction of any education buildings and facilities such as dormitories, sports facilities, parking facilities, or support and adjunct facilities from the definition of “public works” from KRS 337.505 to 337.550. This has the effect of exempting education building construction from prevailing wage laws.

PROVISIONS/MECHANICS: The Act adds language to KRS 337.010 clarifying that public works does not include the construction of any education buildings or facilities.

FISCAL EXPLANATION: Based upon LRC research conducted by the Economists Office, exempting education construction from prevailing wage laws would decrease construction costs of elementary and secondary education projects by roughly 7.6% (the study did not have a large enough sampling to estimate the effect on postsecondary construction). There are several factors preventing an accurate estimate of the savings to the state over the next biennium. Several projects have already been bid and would not see any savings, projects may need highly trained

workers where high-level wages would need to be paid even in the absence of prevailing wage laws, some projects would not be labor intensive and would not see the savings expected from a decrease in labor costs, etc. For these reasons we have determined that the impact would be on average 7.6% of construction costs, but at this point it is difficult to produce an estimate without a more exhaustive investigation.

The most recent study (2014) indicated that wages paid to construction workers on prevailing wage projects were 33.8% higher than on non-prevailing wage projects (the 2001 study indicated they were 17.6% higher). This could be due to changes in the labor market or sampling differences. Also, wages are only a part of the costs of construction, estimated to be between 38% by the School Facilities Construction Commission (SFCC) and 21% from the 2007 Economic Census. Using the figures above the Economists Office estimated the impact under varying assumptions and then averaged their estimates, arriving at 7.6% overall savings on construction costs for education construction.

There are several caveats for this study. For example, one assumption was that fringe benefits would be reduced by a similar amount to wages. Also, this is an average, so for any particular project, the savings could vary drastically. Finally, as mentioned above, the study had too few data points to make any meaningful conclusions about postsecondary education construction.

DATA SOURCE(S): LRC Economists Office

PREPARER: Justin Perry NOTE NUMBER: 9 REVIEW: GMR DATE: 2/4/2015