

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION**

MEASURE

2016 BR NUMBER **0881**

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	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				
EXPENDITURES	(Indeterminable)	(Indeterminable)	(Interminable)	
NET EFFECT	Indeterminable	Indeterminable	Indeterminable	

() indicates a decrease/negative

MEASURE’S PURPOSE: To exclude the construction of educational buildings and facilities from the definition of “public works” and from meeting the requirements of the prevailing wage law.

PROVISIONS/MECHANICS: SB 9 adds language to KRS 337.010 clarifying that public works does not include 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 approximately 7.9% (the study did not have a large enough sampling to estimate the effect on postsecondary construction). It should be noted that the effect on any individual project could vary considerably.

This estimate of decreased construction costs is based on research studies conducted by the LRC in 2001 and 2014. Both studies found that the wages paid to construction workers on prevailing wage projects were higher than if the workers were paid the same wages they were paid on non-prevailing wage projects. These results suggest that Kentucky’s prevailing wage

laws increase public construction costs.

The results of the two studies differed on the estimated reduction in costs. The 2001 study suggested that exempting elementary and secondary construction from the prevailing wage requirement would reduce wage costs by 17.6%. The effect for the 2014 study was estimated to be 33.8%. Both studies were based on a sampling of projects so the differences could be due to the projects sampled in each study or could be due to differences in the labor market. Wages account for only a portion of total construction costs. Information provided by the School Facilities Construction Commission (SFCC) indicates that labor costs, which would include wages and benefits, account for about 38% of the total costs for elementary and secondary education projects. This estimate might include wages and benefits for non-construction workers, who would not be affected by the prevailing wage requirement. Data from 2012 Economic Census indicates that wages and benefits for construction workers accounts for 23.4% of construction costs. That estimate does include all construction, not just school construction.

Staff from the LRC Economists Office used the figures discussed above to estimate the impact under various assumptions. Based on this, it is estimated that exempting elementary and secondary education construction projects from prevailing wage laws would reduce construction costs by approximately 7.9%. Note, it assumes that fringe benefits would decrease by a similar percentage as wages.

As previously stated, individual projects could differ considerably so actual reductions in costs could differ from the estimates presented above. Projects that are more labor intensive could experience greater cost reductions than projects that were less labor intensive. Also, estimates in the LRC studies were based on a sample of construction projects. As a result, a margin of error is associated with the estimates.

DATA SOURCE(S): LRC Economists Office

PREPARER: Greg Troutman NOTE NUMBER: 14 REVIEW: JRS DATE: 1/11/2016