

**Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2017 Regular Session**

Part I: Measure Information

Bill Request #: 1128

Bill #: HB 240

Bill Subject/Title: AN ACT relating to public construction

Sponsor: Representative Al Gentry

Unit of Government: x City x County x Urban-County
 x Unified Local
 x Charter County Consolidated Local Government

Office(s) Impacted: Planning and zoning offices

Requirement: x Mandatory Optional

Effect on
Powers & Duties: x Modifies Existing Adds New Eliminates Existing

Part II: Purpose and Mechanics

The expressed purpose of HB 240 is to support Executive Branch initiatives to generate and expand apprenticeship programs in Kentucky.

Section 1 (1) of the bill would create a new section of KRS Chapter 343 establishing a requirement that all contractors and subcontractors for public works projects estimated to cost more than \$1,000,000 participate in apprenticeship programs. The requirement would be made part of construction contracts and other documents related to public works, and would also be part of the contractors’ bonds. **Section 1 (2)** would prohibit a member of a public authority that contracts for such public works voting to award a contract for public works construction unless the authority has determined that the required apprenticeship program participation is part of the project proposal specifications and contract.

Section 2 of the bill would amend KRS 343.010 to include definitions in KRS Chapter 343 for “public authority” and “public works.” The definition of “public authority” would provide expressly that the term includes any private provider that contracts to build an adult correctional facility; the definition of “public works” would provide expressly that the term includes adult correctional facilities.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

HB 240 would have a minimal to moderate negative fiscal impact on cities in the short term, and no to minimal negative fiscal impact in the long term.

The Kentucky League of Cities reports that in FY 2015, 30 Kentucky cities reported construction expenditures of \$1,000,000 or more within one expenditure category (such as parks and recreation or streets and roads). This information assumes that each project was just one project (rather than several different, smaller, otherwise unrelated projects that, added together, cost more than \$1 million) and that construction projects fit into only one expenditure category (rather than one project that might address different categories such as housing/community development and public welfare). These million-plus projects totaled \$433.5 million in expenditures for Kentucky cities in FY 2015.

According to the U.S. Department of Labor, Kentucky had 3,310 active apprentices in 154 programs in FY 2016. According to the Kentucky Labor Cabinet, 76 Kentucky counties do not have any registered apprenticeship programs at all, and 99 counties have no construction apprenticeship programs. Those counties without apprenticeship programs are generally in eastern, southern, and western Kentucky. Mandating apprenticeship programs for large public construction projects will likely have one or both of the following results: (1) increase labor costs associated with these projects by requiring construction contractors and subcontractors to hire and train personnel to fulfill the requirement, and/or (2) limit the supply of eligible contractors and subcontractors, thereby pushing up costs.

The specific impact is indeterminable, but the legislation would likely have a minimal to moderate negative financial impact on cities in the short-term, and likely no or minimal negative impact in the long-run. Since apprenticeship wages start relatively low (usually around \$15/hour or so), the overall labor costs associated with a major construction project would not see dramatic increases due to the extra costs associated with apprenticeships. Those costs, even if minimal, would be passed on to the public entity paying for the project. However, if the supply of eligible contractors and subcontractors does not meet demand, competition will decrease and prices will go up. This could result in cities paying more for a project and/or delaying a project due to limited availability of eligible contractors or subcontractors. These market forces could cause a moderate or significant increase in the overall cost of these projects, particularly in eastern, southern, and western Kentucky.

Data has shown that employees who start in apprenticeship jobs earn more over the course of their lifetime, which means cities with a payroll tax would see a very slight increase in overall tax revenues as a result of these earnings. That would only occur in the jurisdictions that have the tax and when the construction worker works in that jurisdiction. This revenue increase likely would not make up for the entirety of increased costs associated with the major construction project(s).

Data Sources: Kentucky League of Cities; LRC Staff

Preparer: Mary Stephens **Reviewer:** _____ **Date:** _____