

Local Government Conference White Paper on Prevailing Wage

Who we are: The Local Government Conference is made up of the County Commissioners Association of Pennsylvania, the Pennsylvania State Association of Boroughs, the Pennsylvania School Boards Association, the Pennsylvania State Association of Township Commissioners, the Pennsylvania Municipal Authorities Association, the Pennsylvania Municipal League, and the Pennsylvania State Association of Township Supervisors. Collectively, we represent all of Pennsylvania's local officials and their communities.

What we want: We are asking lawmakers to provide local governments with comprehensive, meaningful relief from the Prevailing Wage Act, which artificially inflates the labor costs for public works projects.

What is the prevailing wage? The Prevailing Wage Law is more than 50 years old and requires local governments to pay prevailing wage rates on any public works construction project over \$25,000, which today includes nearly all construction projects. These prevailing wage rates are not reflective of the actual wage rates in the local community and inflate the cost of construction projects, from a new school to a road paving project.

In fact, numerous studies have shown that prevailing wage rates increase the cost of construction projects by 10 to 17 percent on average¹. This means that Pennsylvania's taxpayers are consistently overpaying for their public infrastructure by millions of dollars each year.

Because of the inflated costs, many local governments are deferring expensive maintenance and repair projects and forgoing new construction projects that would benefit our residents and taxpayers and our economy.

¹ *Journal of Education Finance (2001), Ohio's Legislative Service Commission (2002), Mackinac Center for Public Policy (2007).*

What would meaningful, comprehensive prevailing wage relief look like?

The Local Government Conference strongly supports the following changes to the Prevailing Wage Act, which would provide real, meaningful relief to local governments and allow us to stretch limited taxpayer dollars further while continuing to provide a high quality final product.

We support **raising the threshold for prevailing wage compliance** from \$25,000 to account for inflation since the 1960s and provide for future automatic adjustment of the threshold based on the consumer price index. At a minimum, this would restore the buying power of local governments and exempt smaller projects from the act's requirements.

Restructure the method used by the Secretary of Labor and Industry to determine prevailing wage rates to ensure the use of comparable local wages in the area, such as the federal occupational classifications or other more balanced method. Currently, prevailing wage rates are based primarily on wages and benefit information compiled from collective bargaining agreements. In fact, these pay rates generally approximate wages for a metropolitan area and oftentimes include no data from the municipality or school district where the project is taking place and may not even include any wages from the county where the project is located. This methodology must be revised to make the prevailing wage more accurately reflect actual wages paid in a particular community.

Eliminate the costly requirement that maintenance projects comply with this act to enable local governments to better leverage limited taxpayer dollars. This reform would include projects such as road resurfacing and repair; bridge cleaning, resurfacing, and painting; in-kind replacement of guide rails and curbs; and line painting and add these treatments to the definition of "maintenance" in the act and exempt them from the act's requirements. In fact, these practices were exempt until 2008, when the Pennsylvania Supreme Court mandated in *Borough of*

Youngwood v. Prevailing Wage Appeals Board that road resurfacing and similar maintenance projects are subject to the prevailing wage. We estimate that revising the definition of maintenance could free up \$300 million for badly needed transportation funding.

We believe that a reform package including the above elements would bring significant relief to local governments. This is supported by the SR 323 Report on Unfunded Mandates, which in October 2012 identified the prevailing wage as one of the most burdensome mandates for municipalities and recommended the reforms listed above.

In addition, **our organizations support making this onerous law optional** for local governments and allow those communities that choose to participate to do so.

We stand united on this critical issue and urge the legislature to act this spring to bring relief to our communities from the Prevailing Wage Law.

Below are **examples of the additional cost prevailing wage adds to local projects at taxpayer expense:**

- In 2010, **Snyder County** replaced every window in our Courthouse for a total project cost of \$133,500. In 2011, the county repaired failing masonry parapets on their roof for a total of \$55,411. In 2012, the county we replaced a leaking, outdated flat roof on the courthouse for a total of \$131,950. **The prevailing wage increased the costs of these projects by \$59,000, enough to pay for an entire Courthouse Exterior Painting project in 2013.**
- **Cumberland County's 2010 bridge maintenance contract totaled \$121,430** for work on 17 bridges that included clearing and grubbing, crack sealing, deck flushing/washing, patching, concrete repair and debris removal. In 2008, the county incurred a cost of

\$325,000 for deck rehabilitation of one bridge, which was slightly less than the county's Liquid Fuels allocation for that year. Previous to the Youngwood decision, these projects would have been exempt from the prevailing wage.

- The **City of Lancaster** awarded 21 public works contracts from 2009-2011 that exceeded the current threshold of \$25,000 but would be less than an inflation adjusted threshold. These contracts add up to \$1.79 million. **Without prevailing wage, the city estimates that it could have saved approximately \$447,775 or 25 percent.**
- **Lewisburg Area School District** is having security upgrades done to provide a safer, more secure environment for their students and staff that is costing about \$100,000. **Without prevailing wage, the school district could save approximately \$23,000, or 23 percent,** which could be used for additional upgrades the district wants to implement.
- **Upper Allen Township, Cumberland County** awarded bids for 12 large projects totaling more than \$27 million over the last three years. The township estimates that the increased cost due to prevailing wage for these projects **cost their taxpayers an additional \$5.4 million to \$6.7 million, or 20 to 25 percent.**
- A paving project in **Greene Township, Franklin County** that was bid immediately before the Youngwood ruling in June 2008 had to be rebid in August 2008 due to this court decision. After adjusting for the change in the asphalt index during this period, the **prevailing wage alone increased the cost of this maintenance project by almost \$10,000 per mile,** with no change to the quality or effectiveness of this project
- Just last month, **Elkland Township, Sullivan County** gathered quotes to determine if a salt shed project was feasible. The quotes ranged from \$43,300 to \$49,800. For the lowest

quote of \$43,300, the **total additional cost due to prevailing wage would be \$9,600, or 22 percent of the entire project cost.**

Prevailing Wage Reform Legislation: The following legislation demonstrates the type of proposals that are needed as part of a meaningful, comprehensive prevailing wage reform package.

HB 63 (PN 492) would amend the Prevailing Wage Act to raise the threshold of applicability from the current \$25,000 to \$190,000 and calls for the threshold to be adjusted annually with the consumer price index.

SB 272 (PN 168) would increase the threshold for projects from \$25,000 to \$200,000.

HB 796 (PN 907) would increase the threshold from \$25,000 to \$75,000, without an annual adjustment.

SB 273 (PN 169) would change the way prevailing wage rates are calculated.

HB 665 (PN 753) and **SB 274 (PN 170)** would remove road and bridge maintenance work from the prevailing wage requirement and restore the rules in place prior to *Youngwood Borough v. Pennsylvania Prevailing Wage Appeals Board*.

HB 662 (PN 739) would exempt properties owned or held by historic organizations or land conservancies from prevailing wage requirements.

HB 590 (PN 652) would exempt projects by or on behalf of entities subject to the Health Care Facilities Act and certain sections of the Public Welfare Code (*such as hospitals and nursing homes*).

HB 999 (*PN 1173*) would exempt projects in Keystone Opportunity Zones, Keystone Opportunity Expansion Zones, and Keystone Opportunity Improvement Zones from prevailing wage requirements.

HB 664 (*PN 752*) would exclude counties and other political subdivisions from compliance with the Prevailing Wage Act and authorize local governments to opt into the act by ordinance or resolution.

SB 499 (*PN 468*) would allow a local government to remove itself from prevailing wage requirements by ordinance or resolution.

SB 501 (*PN 469*) would exempt local governments from prevailing wage requirements, but allow them to opt back in to the act by ordinance or resolution.

HB 666 (*PN 754*) would exempt school districts from prevailing wage requirements, but allow them to opt back in to the act by referendum.