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FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/17
LAST UPDATED _____

SPONSOR Rehm **HB** 20

SHORT TITLE Public Works Prevailing Wage & Projects **SB** _____

ANALYST Klunt

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$20-\$22 million)	(\$20-\$22 million)	(\$40-\$44 million)	Recurring	GF,STB, SSTB, Local GOB, SB 9, HB 33 & Other

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		
	Indeterminate, possibly negative	Indeterminate, possibly negative	Recurring	Personal Income Taxes
	Indeterminate	Indeterminate	Recurring	Corporate Income Taxes

Relates to House Bill 213

SOURCES OF INFORMATION

LFC Files

Responses Received From

Workforce Solutions Department (WSD)
 Administrative Office of the Courts (AOC)
 Department of Transportation (DOT)
 Public School Facilities Authority (PSFA)

SUMMARY

House Bill 20 proposes three changes to the Public Works Minimum Wage Act. First, HB 20 exempts projects and contracts for public roads, public highways and educational institutions

from the Public Works Minimum Wage Act. Next, HB 20 replaces the current method of determining prevailing wage and fringe benefit rates. Currently, Section 13-4-11(B) NMSA 1978 provides that these rates be set at the same rates used in collective bargaining agreements between labor organizations and employers. Under HB 20, the Workforce Solutions Department (WSD) would determine these rates based on information obtained through a continuing, statewide field survey of wage and benefit rates, as well as voluntary submissions of information from contractors, labor organizations, public officers and other interested persons. Finally, HB 20 caps prevailing wage and fringe benefit rates at the rates applicable to projects covered by the federal Davis-Bacon Act.

FISCAL IMPLICATIONS

WSD reported the agency does not currently have the Information Technology systems in place to compile prevailing wage and fringe benefit rate information gathered through the survey process required by HB 20. No cost estimate to build the IT system was provided.

PSFA reported the total fiscal impact of this bill on school works projects is not currently known but the agency believes a reduction in labor costs may result. PSFA stated, based upon actual evidence of a similar bill in Ohio, the cost of school projects was a decrease on average between, 5-10 percent. Maryland has determined through comparison of educational projects excluded from prevailing wages a decrease between 11-14 percent. PSFA has estimated similar potential cost reductions.

New Mexico Department of Transportation (NMDOT) estimates that HB 20 will have a direct impact to the cost of highway and related infrastructure construction projects. Current minimum wage rates are on average 30 percent higher than those mandated by Davis-Bacon; removing these projects from the Public Works Minimum Wage Act would therefore decrease average minimum wage rates and labor costs by 30 percent based on average construction project labor costs, i.e., the published wage rates established through the Davis Bacon Act, 40 USC §3142 (2006). As applied to the NMDOT construction program, this results in a 3.25 percent decrease in program costs. Based on the 2017-2018 active construction program, HB 20 will result in a decrease of \$20 to \$22 million to the ongoing cost of highway construction.

Previous analysis of wage effects stated unquantifiable, but possible negative, impacts to personal income taxes (PIT) may result from a reduction in wages levels. Any decline may partially be offset by higher employment levels due to lower wage jobs. However, the effective PIT rate decreases as the income level of person decreases, so the net effect may possibly be a negative PIT revenue impact. For example, one person making \$25 thousand annually will contribute more than double the PIT revenues than two people each making \$12.5 thousand would contribute. In FY16, PIT contributed \$1.3 billion, or 23.2 percent of recurring revenues, to the general fund.

Unquantifiable impacts to corporate income taxes (CIT) may also result due to more capital projects. In FY16, CIT contributed \$118.5 million, or 2.1 percent, to the general fund.

SIGNIFICANT ISSUES

WSD issues wage rate decisions for all projects subject to the Public Works Minimum Wage Act. In FY16, WSD issued wage decisions for 1,775 public works projects covering \$1.8 billion.

In FY15, WSD issued wage decisions for 1,878 public works projects covering \$1.7 billion total costs. WSD reported in FY16, the exemption proposed in HB 20 would have resulted in 874 fewer projects, approximately 49 percent of all New Mexico public works projects, equaling approximately \$724 million which would not have been subject to the prevailing wage. In FY15 944 projects would have been exempted under the terms of HB20, amounting to approximately \$1.1 billion which would not have been subject to the prevailing wage. Thus, in FY15, the exemption would have applied to approximately 48 percent of projects according to WSD.

In 2015, New Mexico's prevailing wage and fringe benefit rates increased over previous years due to a state Supreme Court's ruling that the Legislature had intended Section 13-4-11(B) NMSA 1978 to require that the rates be set at the same rates as those set forth in collective bargaining agreements, to the exclusion of all other information. Previously, it was the practice of WSD's Labor Relations Division (LRD) Director to conduct a field survey that was inclusive of not only information in collective bargaining agreements, but also other voluntary submissions of information such as hours worked and rates paid for particular classifications of workers. WSD believes not being able to consider information other than rates used in collective bargaining agreements means that the actual market for wages and fringe benefit rates is ignored.

The federal Davis-Bacon and Related Acts govern prevailing wage and fringe benefit rates for projects involving federal funds. The provisions of HB 20, if implemented, would not interfere with or undermine the federal Davis-Bacon and Related Acts. Moreover, HB 20 proposes to treat Davis-Bacon rates as the maximum rates on projects subject to New Mexico's Public Works Minimum Wage Act.

ADMINISTRATIVE IMPLICATIONS

PSFA reported a decrease in construction costs could increase the number of awards made by the PSCOC to bring schools to the statewide adequacy standards and assist in the improvement of the overall K12 public school facilities conditions throughout the state.

RELATIONSHIP

This bill relates to House Bill 213 which repeals the public works minimum wage act.

OTHER SUBSTANTIVE ISSUES

The federal Davis-Bacon Act requires that prevailing wages be paid on federally funded public works projects, such as construction, repair or alteration of public buildings, or construction of public roads or bridges. The federal law sets a minimum threshold of \$2,000, meaning if a public works contract is for an amount in excess of \$2,000, then prevailing wages must be paid. States must abide by the Davis-Bacon Act when federal funds are involved in public works projects within the state

WSD reported eighteen states do not have prevailing wage laws. These States are Alabama, Arizona, Colorado, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, New Hampshire, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Utah, and Virginia.