

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4122-01
Bill No.: HB 1271
Subject: Department of Labor and Industrial Relations; Labor and Management;
 Department of Elementary and Secondary Education
Type: Original
Date: January 3, 2018

Bill Summary: This proposal establishes the School Construction Act, which exempts construction and maintenance work done for certain school districts from the prevailing wage requirement upon the school board's approval.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	Unknown	Unknown	Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education** assume passage of this proposal would require zero increase in state cost and has the added benefit of reducing public school district facility construction costs significantly. DESE cannot estimate the amount of this potential savings.

Officials at the **Department of Labor and Industrial Relations** assume there is no fiscal impact from this proposal.

Officials from the **Macon County R-IV School District** assumed the dollar value of savings is undetermined due to the variables included in projects. However, it is estimated that prevailing wages roughly double project costs on our last construction project (50' x 30' agriculture building with metal siding and concrete floor constructed for \$160,000). A worker normally making \$12/hour was paid from \$29/hour up to \$60/hour, depending on what specific tasks were being done.

Officials from the **Kirkville R-III School District** assume the proposal will have a positive fiscal impact on their organization.

Officials from the **Green Ridge R-8 School District** assume the proposal would impact their school budget in a significantly positive way during construction projects.

Officials from the **Shell Knob #78 School District** assume a significant savings for the district.

Officials from the **Northeast Nodaway R-5 School District** assume this proposal could save the school district thousands of dollars depending on the size of the project.

Officials from the **Summersville R2 School District** assume this proposal could potentially benefit the school district financially, depending on the size, scope, and timing of future construction projects.

Officials from the **West Plains School District** assume this proposal would result in savings on capital improvements at about a rate of 15%. Annual savings is \$100,000 - \$150,000 up to \$3,000,000 on major projects.

ASSUMPTION (continued)

Oversight notes this proposal would allow a school district, with school board approval, to exempt itself from the prevailing wage laws. Schools in counties with a charter form of government, including Jackson County, St. Charles County, St. Louis County and Jefferson County would not be allowed to opt out of the prevailing wage requirements.

Oversight compared wage data from the Department of Labor and Industrial Relations' (DOLIR) Annual Wage Order No. 24 and wage data from the Occupational Employment and Wage survey conducted by the Missouri Economic Research and Information Center (MERIC).

Table I. Wage Comparison

Location	Occupation	Prevailing Wage (DOLIR)	Mean Wage (MERIC)
Adair County	Carpenter	\$25.34	\$21.35
Macon County	Plumber	\$38.00	\$28.57
Barry County	Sheet Metal Worker	\$28.94	\$27.51
Nodaway County	Construction Labor	\$25.15	\$16.38
Texas County	Electrician	\$30.30	\$20.73
Howell County	Electrician	\$25.65	\$20.73
Pettis County	Operating Engineer	\$32.08	\$24.77

Due to the limited responses received, **Oversight** estimated the annual capital outlays for school districts in Missouri. The estimated annual elementary-secondary capital outlay expenditures are based on a three year average of the total capital outlays from FY 2015, FY 2014, and FY 2013 (the most recent available) derived from U.S. Census Bureau's Educational Finance Branch's Public Education Finances Report.

Table II. Capital Outlay per Enrolled Student

	FY 2013	FY 2014	FY 2015
Total Capital Outlay Expenditure	\$833 Million	\$920 Million	\$869 Million
Total Enrollment	885,684	885,575	884,731
Expenditure per Enrolled Student	\$981	\$1,038	\$942

ASSUMPTION (continued)

The average capital outlay expenditure per student is estimated at \$987 $\{(\$981 + \$1,038 + \$942)/3 = \$987\}$.

Total enrollment for Missouri in 2016 was 883,405 students per the Department of Elementary and Secondary Education’s School Finance Report database. The total enrollment of ineligible districts totaled approximately 330,820. Total enrollment for districts which would be eligible for the prevailing wage exemption is estimated at 552,582 $(883,402 - 330,820 = 552,582)$.

Based on the total enrollment of the districts eligible for the prevailing wage exemption and the average capital expenditure per student, the capital outlays for the eligible districts is estimated at \$545 million $(552,582 \times \$987 = \$545 \text{ million})$.

Table III: Estimated Capital Outlays

Estimated Capital Outlays for School Districts	\$545 Million
Estimated Labor Costs (assumed 25% of total)	\$136 Million

Table IV: Estimated Savings

Prevailing Wage Premium (Assumed possibilities)	Estimated Savings
5% of Estimated Labor Costs	\$6.8 Million
10% of Estimated Labor Costs	\$13.6 Million
20% of Estimated Labor Costs	\$27.2 Million
30% of Estimated Labor Costs	\$40.8 Million

The estimated range of savings is based on the participation of all eligible schools districts; however, **Oversight** notes that the number of school districts that would participate depends upon the majority vote of the school board which cannot be estimated.

Oversight notes any alternations in the assumptions or data used, may alter the estimated savings. Oversight notes the following limitations:

The estimate of capital expenditures is based on a historical three year average and is not based on actual anticipated expenditures. Oversight notes the excluded schools district may represent a disproportionate total of the capital expenditures.

ASSUMPTION (continued)

The estimate of total labor costs is based on a proportion of labor costs to total costs and is not based on actual labor costs.

The wage comparison indicated higher prevailing wages than the regional mean wage; however, not all counties nor occupations were included in Oversight's analysis.

Based on a review of the academic literature, the increase in labor costs may not translate in to an increase in total costs. Any increase in labor costs may be offset by other factors; however, these factors would be considered an indirect or induced effect and are not included in this analysis.

Due to the limitations listed above and the uncertainty regarding the number of eligible school districts that would participate, **Oversight** will show the estimate of savings as an unknown amount.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL SCHOOL DISTRICTS FUNDS			
<u>Savings - School Districts exemption from prevailing wage</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

FISCAL IMPACT - Small Business

This proposal could impact small businesses that are contracted to do maintenance, renovations or construction projects at school districts.

FISCAL DESCRIPTION

This bill establishes the School Construction Act which exempts construction and maintenance work done for certain school districts from the prevailing wage requirement upon majority vote of the district's school board. The school district must notify the Division of Labor Standards within the Department of Labor and Industrial Relations of the exemption. This provision does not apply to school districts in Jackson, St. Charles, St. Louis, or Jefferson counties.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development - Missouri Economic and Research Information Center
Missouri Occupational Employment and Wage Survey (2016)
Department of Elementary and Secondary Education
School Finance Reports
Department of Labor and Industrial Relations
Annual Wage Order No. 24 (2016)
Green Ridge R-8 School District
Kirksville R-III School District
Macon County R-IV School District
Northeast Nodaway R-5 School District
Shell Knob #78 School District
Summersville R2 School District
U.S. Census Bureau
Educational Finance Branch - Public Education Finance Reports
West Plains School District

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