FEDERAL-AID SWAP PROGRAM WOULD COST SCOTT COUNTY $3.5 MILLION

A Higher Road for a Better Tomorrow
MIDWEST ECONOMIC POLICY INSTITUTE

BY: MIDWEST ECONOMIC POLICY INSTITUTE JANUARY 2019

Key Findings

Local metropolitan planning organizations across Iowa should opt out of the "Federal-Aid Swap" program.

- Local contractors account for 10% higher market share when Davis-Bacon prevailing wage standards are included on taxpayer-funded projects.
- There are currently more than 1,100 skilled local workers who are ready, willing, and able to build $27 million in upcoming projects efficiently and safely in Scott County, Iowa.
- If the local MPO does not opt out of the "Federal-Aid Swap" program, $2.7 million in upcoming public projects would go to out-of-town contractors, shrinking local economic activity by $3.5 million.

Introduction

In 2017, the Iowa General Assembly passed legislation that authorized the Iowa Department of Transportation to create a "Federal-Aid Swap" program (Iowa DOT, 2018). This legislation essentially eliminated federal requirements on public infrastructure projects, including the historically bipartisan Federal Davis-Bacon Act which creates a level playing field for all federal construction contractors by ensuring that public expenditures maintain and reflect local area standards for wages and benefits. Under Iowa's "Federal-Aid Swap" program, federal dollars that were designated for local construction projects are now retained through the state and fail to include Davis-Bacon Act standards. Local metro planning organizations in Iowa should opt out of participating in the program.

The main purpose of the Davis-Bacon Act is to support middle-class American families by protecting local standards for compensation and craftsmanship in the competitive public bidding process. Federal construction bidding is not like the private sector. Government procurement agents are required to select the lowest bidder. In the low-bid model used on federally-funded construction projects, contractors aim to lower their bid however possible, including by lowering wages and by reducing apprenticeship training. The Davis-Bacon Act levels the playing field, allowing local contractors and local workers a fair shot at these government projects and incentivizing competition based on core competencies in construction (Duncan et al., 2017).

Economic Research on Removing Davis-Bacon Prevailing Wage Standards

Without the Davis-Bacon Act, nonlocal and cut-rate contractors with less-trained workers come in, undermine the local market rate, and take taxpayer dollars back with them to their home communities upon project completion. A case study from southern Indiana illustrates how the weakening and eventual repeal of Indiana's little Davis-Bacon Act negatively impacted local contractors. Public works construction employment in the 13 southernmost Indiana counties decreased by over 800 jobs (-21%) after the wage policy was weakened. Over the same period, public works construction employment grew by nearly 800 jobs (24%) in 14 border counties across the river in Kentucky. Average construction wages were about 24% lower in Kentucky, suggesting that weakening the wage policy resulted in greater demand for low-wage, out-of-state workers (Manzo, 2016). Similarly, recent research on Minnesota finds that local contractors account for 10% higher market share when prevailing wages are paid on school construction projects (Manzo & Duncan, 2018). Davis-Bacon supports work for local contractors and local workers.

The Davis-Bacon Act is a great value for taxpayers. The vast majority (72%) of peer-reviewed studies conclude that little Davis-Bacon Acts, also called prevailing wage laws, have no significant impact on total project costs. Construction wages represent a historically small and declining fraction of total public works costs at 25%-30% of total construction costs (Duncan & Manzo, 2017; Mahalia, 2008). However, the *absence* of little Davis-Bacon Acts increases taxpayer burdens by increasing the likelihood that construction workers will earn incomes below the poverty level, become more dependent on public assistance, and not have health insurance or retirement security. Furthermore, the Davis-Bacon Act performs an important economic development function by reducing the leakage of construction funds, jobs, income, and spending from the local economy. Opting out of Davis-Bacon requirements does not reduce construction costs, but research shows that it does increase poverty and shrink economic activity.

The Davis-Bacon Act prevents skilled trade workforce shortages by boosting investment in apprenticeship training. Economic research has found that the law promotes the hiring, development, and retention of high-skilled construction workers (Duncan & Ormiston, 2017). On average, apprenticeship enrollments are 6%-8% higher in states with little Davis-Bacon Acts and apprentices complete their on-the-job and classroom training at a faster rate in states with little Davis-Bacon Acts (Bilginsoy, 2003). In contrast, states that have repealed little Davis-Bacon Acts have seen training drop by 40% (Philips, 2014).

By promoting apprenticeship programs, the Davis-Bacon Act ensures that infrastructure is built safely and efficiently. On-the-job fatality rates are 14% lower in states with little Davis-Bacon Acts and worksite productivity is 14%-33% higher in states with little Davis-Bacon Acts (Manzo, 2017; Philips, 2014). Moreover, in the nine states that repealed their little Davis-Bacon Acts from 1979 to 1988, workplace injuries increased by 15 percent post-repeal. The federal Davis-Bacon Act, researchers estimate, is responsible for preventing 76,000 workplace injuries in construction annually and more than 675,000 workdays lost each year (Philips et al., 1995). Simply put, due to the highly trained and skilled workforce, worker productivity and worker safety outcomes are better in areas where Davis-Bacon Act standards are in effect.

Economic Impact of Not Paying Davis-Bacon Prevailing Wages in Scott County, Iowa

This section evaluates the effect of failing to pay Davis-Bacon prevailing wages in Scott County if the Quad Cities Metro Transportation Planning Bi-State Regional Commission, the local Metropolitan Planning Organization (MPO), does not opt out of the Swap program. The study utilizes IMPLAN, an input-output economic modeling software that is considered the "gold standard" in economic impact analysis (Vowels, 2012). IMPLAN uses U.S. Census Bureau data to account for the interrelationship between households and businesses in a market, following a dollar as it cycles throughout the economy (IMPLAN, 2018). The estimates are based on $27 million in estimated project value to be completed in Scott County from 2019 to 2021, including the reconstruction of Brady Street and 53rd Street in Davenport, the reconstruction of Forest Grove Drive in Bettendorf, and improvements at the intersection of First Street and LeClaire Road in Eldridge.

The $27 million in upcoming public projects would be at higher risk of being awarded to out-of-town contractors if the MPO did not opt out of the Swap program. Economic research finds that nonlocal contractors capture 10% more of the local market share when prevailing wage standards are not included on taxpayer-funded projects. As a result, an estimated $2.7 million in taxpayer-funded projects would go to out-of-town firms and their employees. This loss in market share for local contractors would have ripple effects across the Scott County economy. Because the out-of-town workers would take most of their earnings back with them to their home communities rather than spending them at stores and restaurants in Scott County, local economic activity would shrink by $3.5 million (Figure 1).

FIGURE 1: ECONOMIC IMPACT ANALYSIS OF "FEDERAL-AID SWAP" PROGRAM ON SCOTT COUNTY, IOWA

Scott County, Iowa	Impact of "Federal-Aid Swap" Program
Upcoming Projects (Estimated)	$27,000,000
Change in Local Contractors' Market Share	−$2,700,000
Effect on Economic Output	−$3,492,234
Effect on Total Job Growth	−12 jobs

Source(s): IMPLAN (IMPLAN, 2018).

Opting out of the "Federal-Aid Swap" program would support small businesses in the local community. Currently, there are 72 local businesses engaged in the heavy and civil engineering construction sector, which includes the construction of highways, streets, bridges, utility lines, dams, parks, and trails (Figure 2). Scott County is home to 20 of these contractors. In total, there are more than 1,100 skilled local workers– including about 430 in Scott County– who are ready, willing, and able to build the $27 million in upcoming projects efficiently and safely. If the MPO does not opt out of the Swap program, these 1,100 local workers would be in danger of becoming unemployed at the expense of unskilled workers from western Iowa or states like Nebraska or Arkansas.

FIGURE 2: LOCAL CONTRACTORS AND LOCAL WORKERS IN HEAVY AND CIVIL ENGINEERING CONSTRUCTION, 2016

Heavy and Civil Engineering Construction Sector	Establishments	Employees
Scott County	20	428
Muscatine County, Rock Island County, Henry County, and Mercer County	52	701
Total in Local Construction Market	72	1,129

Source(s): 2016 *County Business Patterns* (Census, 2018).

Conclusion

The Davis-Bacon Act boosts local economies and provides great value to taxpayers. The Davis-Bacon Act protects work for local contractors and construction workers, supports training programs, and provides pathways into the middle class for all blue-collar workers– keeping them off government assistance programs. If the local metropolitan planning organization in the Quad Cities does not opt out of the "Federal-Aid Swap" program, $2.7 million in upcoming public projects would go to out-of-town contractors, shrinking local economic activity by $3.5 million. Consequently, local metropolitan planning organizations across Iowa should opt out of participating in the "Federal-Aid Swap" program and instead choose to maintain Davis-Bacon Act standards on taxpayer-funded construction projects.

Sources

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