

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3379-01
Bill No.: SB 620
Subject: Employees-Employers, Employment Security, Labor and Industrial Relations
 Department
Type: Original
Date: January 24, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	Unknown	Unknown	Unknown
Total Estimated Net Effect on General Revenue Fund	Unknown	Unknown	Unknown

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Prevailing Wage Enforcement and Education Fund	Less than \$679,625	Less than \$815,550	Less than \$815,550
Total Estimated Net Effect on <u>Other</u> State Funds	Less than \$679,625	Less than \$815,550	Less than \$815,550

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various Funds	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>All</u> Federal Funds	Unknown	Unknown	Unknown

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	Unknown	Unknown	Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Prosecution Services** assume the proposal would not have a significant direct fiscal impact on county prosecutors although it may lead to an increase in prosecutions/caseloads.

Officials from the **Department of Elementary and Secondary Education** assume this proposal could result in an increased record keeping burden on local school districts, and estimates the cost at less than \$100,000 per year.

Officials from the **City of Springfield** assume this proposal could result in seasonal park workers being treated as employees subject to the prevailing wage law. City officials estimated this provision could have a negative fiscal impact on the city in the tens of thousands of dollars.

Officials from the **City of West Plains** stated that they could not determine the cost to the city but that it could be significant. City officials also noted that the proposal could reduce city costs on smaller projects.

ASSUMPTION (continued)

Officials from **Lincoln University** assumed this proposal could result in additional construction and record keeping costs for their organization, but they did not provide an estimate of the additional costs.

Officials from **Missouri State University, Truman State University, the University of Missouri, Metropolitan Community College**, and the **St. Louis Community College** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Moberly Area Community College** stated the impact on their organization was unknown.

Officials from the **City of Kansas City** assume this proposal would result in additional revenue from the increased statutory penalties, dependent upon the number of violations committed by contractors. The higher penalties may result in increased compliance by contractors and subcontractors. The City does not believe it will be a significant revenue source.

The City assumes the proposal would require the it to review all contractor and subcontractor payrolls on a monthly basis for prevailing wage compliance on applicable projects. The city would be required to retain these payroll records for a period of two years. Currently, the City has 182 projects under construction that require prevailing wage compliance, with another 450 projects in the pipeline. Under the proposed legislation, the City would need approximately 18 full-time staff assigned to monthly payroll reviews, record retention, reporting, and penalty collections as required by the proposal.

The City also assumes that contractors and subcontractors would experience additional costs for including a copy of the wage order with each worker's first paycheck. This would be passed onto the City in higher project costs.

The City stated the proposal would expand the current definition of major repairs to require the City to pay prevailing wage for work that is currently classified as maintenance, which will increase project costs. In addition, the City would be required to notify the State when a project is complete. This would impose an additional administrative burden and cost on the City.

The City assumes that excluding apprenticeship wages from prevailing wage calculations could increase the prevailing wage rate, and the proposal's five year statute of limitations would potentially increase project costs due to increased surety bond rates.

ASSUMPTION (continued)

The City provided an estimate of annual staff costs of \$1 million, and stated that additional project costs and additional contractor costs would be unknown but substantial.

Officials from **Jasper County** assumed that increased record keeping and contractor costs could range in the thousands of dollars.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the proposal would create some additional enforcement duties for the Department, but those duties would not have any fiscal impact. DOLIR noted the proposal would create a dedicated fund and require dedicated penalties be paid into the fund.

DOLIR stated that in FY 2005, the department assessed and collected \$68,180 in penalties that went to the contracting public body. This is based on the current \$10 per day penalty. Dividing the penalty amount by \$10 provides for 6,818 days for penalty assessment, and multiplying 6,818 days by the proposed penalty of \$50 provides for an estimated penalties amount of \$340,900. In addition, the department had FY 2005 penalties assessed but not yet collected penalties in the amount of \$94,930. Using the same formula as above, additional estimated penalties of \$474,650 would be due. Total FY 2005 estimated penalties under the proposal would have been \$815,550. Prorated penalties for 10 months would be \$679,625. ($\$815,550 \times 10/12 = \$679,625$).

There was a 4% increase in total penalties assessed in FY 2003 to FY 2004, but there was a 14% decrease in total penalties assessed from FY 2004 to FY 2005. Therefore, actual penalties assessed and revenue received for FY07, FY08, or FY09 will likely fluctuate. Based on this fluctuation, the Department has indicated an "unknown" for General Revenue Fund impact.

In addition, local and state public entities may receive penalty funds if they have contracted for public works construction, a violation is determined on the project, and penalties are assessed and collected. Due to the variables involved, it is unknown what this impact would be.

ASSUMPTION (continued)

Oversight assumes that the additional penalties generated by this proposal would result in unknown revenues to the newly created Prevailing Wage Enforcement and Education Fund, as estimated by DOLIR. Oversight also assumes there would be unknown costs to the newly created fund since some current DOLIR employees involved in prevailing wage education and enforcement activities would be transferred to the new fund. According to DOLIR budget documents, the cost of prevailing wage activities including data collection, determinations, education, and enforcement was approximately \$222,000 in FY 2002, \$216,000 in FY 2003, and \$172,000 in FY 2004.

In addition, Oversight assumes the proposal would result in new revenues from the additional penalties in the same amount as estimated by DOLIR but spread among the contracting public bodies, including the state General Revenue Fund, other state funds, and local governments. Oversight assumes that any additional costs to the state and to local government would be minimal.

Oversight assumes the General Revenue Fund would have new revenues from the additional penalties as well as unknown cost savings resulting from the transfer of prevailing wage education and enforcement activities to the new fund.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<u>Revenue</u> - Additional penalties	Unknown	Unknown	Unknown
<u>Cost reduction</u> - Department of Labor and Industrial Relations			
Personal Service (unknown FTE)	Unknown	Unknown	Unknown
Fringe Benefits	Unknown	Unknown	Unknown
Expense and Equipment	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
OTHER STATE FUNDS			
<u>Revenue</u> - Additional penalties	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
PREVAILING WAGE ENFORCEMENT AND EDUCATION FUND			
<u>Revenues</u> - Department of Labor and Industrial Relations			
Additional penalties	<u>\$679,625</u>	<u>\$815,550</u>	<u>\$815,550</u>
<u>Cost</u> - Department of Labor and Industrial Relations			
Personal Service (Unknown FTE)	(Unknown)	(Unknown)	(Unknown)
Fringe Benefits	(Unknown)	(Unknown)	(Unknown)
Expense and Equipment	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PREVAILING WAGE ENFORCEMENT AND EDUCATION FUND	<u>Less than \$679,625</u>	<u>Less than \$815,550</u>	<u>Less than \$815,550</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
LOCAL GOVERNMENTS			
<u>Revenues</u>			
Additional penalties	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

FISCAL IMPACT - Small Business

This proposal could impact small businesses which contract with public bodies.

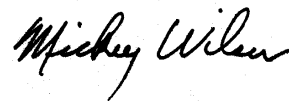
DESCRIPTION

This proposal would make changes to the prevailing wage law for public work projects. The amount due to the contracting public body for penalties per worker per day for underpayment of wages would be increased from \$10 to \$50. An additional penalty per worker per day of the same amount would be implemented and deposited into the newly created Prevailing Wage Enforcement and Education Fund. Subject to appropriation, those revenues could be used by the Department of labor and Industrial Relations for education and enforcement activities related to the prevailing wage law.

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

Office of Prosecution Services
Department of Elementary and Secondary Education
City of Springfield
City of West Plains
Lincoln University
Missouri State University
Truman State University
University of Missouri
Meropolitan Community College
St. Louis Community College
Moberly Area Community college
City of Kansas City
Jasper County
Department of Labor and Industrial Relations



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