

IOWA MPOS SHOULD OPT-OUT OF “FEDERAL-AID SWAP” PROGRAM



BY: MIDWEST ECONOMIC POLICY INSTITUTE

DECEMBER 13, 2018

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](#)).

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 states or countries 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.

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. Local metro planning organizations in 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

Bilginsoy, Cihan. (2003). “Registered Apprenticeship Training in the US Construction Industry.” *Education + Training*, 47(4/5): 337-349.

Duncan, Kevin and Russell Ormiston. (2017). *Prevailing Wage Laws: What Do We Know?* Institute for Construction Economics Research.

Duncan, Kevin; Peter Philips; and Frank Manzo IV. (2017). *Building America with Prevailing Wage: The Davis-Bacon Act Delivers Good Middle-Class Jobs, a Stronger Economy, and the Best Value for U.S. Taxpayers*. Colorado State University-Pueblo; University of Utah; Illinois Economic Policy Institute.

Iowa Department of Transportation (DOT). (2018). “Federal-Aid Swap Information.”

Mahalia, Nooshin. (2008). *Prevailing Wages and Government Contracting Costs: A Review of the Research*. Economic Policy Institute.

Manzo IV, Frank and Kevin Duncan. (2018). *An Examination of Minnesota’s Prevailing Wage Law: Effects on Costs, Training, and Economic Development*. Midwest Economic Policy Institute; Colorado State University-Pueblo.

Manzo IV, Frank. (2016). *Weakening Prevailing Wage Hurts Local Contractors and Workers: A Case Study from Southern Indiana*. Midwest Economic Policy Institute.

Manzo, Jill. (2017). *The \$5 Billion Cost of Construction Fatalities in the United States: A 50 State Comparison*. Midwest Economic Policy Institute.

Philips, Peter. (2014). *Kentucky’s Prevailing Wage Law: An Economic Impact Analysis*. University of Utah.

Philips, Peter; Garth Mangum; Norm Waitzman; and Anne Yeagle. (1995). *Losing Ground: Lessons from the Repeal of Nine ‘Little Davis-Bacon’ Acts*. University of Utah.