



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

October 2, 1980

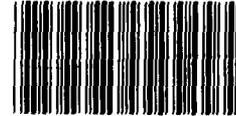
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HUMAN RESOURCES
DIVISION

B-146842



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The Honorable Robert E. Bauman
House of Representatives

Dear Mr. Bauman:

Subject: [Review to Determine Whether the Davis-Bacon Act Has an Inflationary Impact and Increases Costs on METRO Construction](HRD-81-11)

By letter dated April 27, 1980, you and John M. Ashbrook, Ranking Minority Member, House Committee on Education and Labor, asked us to review the effect of using wage rates issued by the Department of Labor under the Davis-Bacon Act (40 U.S.C. 27(a)) on construction of the Washington Regional Rapid Rail Transit System (METRO).

In accordance with Representative Ashbrook's September 18, 1980, request, this interim report discusses our preliminary findings.

We found that setting prevailing wages for METRO construction--as required by the Davis-Bacon Act--may increase the construction costs by about 6.8 percent. We estimate that, as a result of Labor establishing wages at higher rates than those actually prevailing in the area of METRO projects, METRO construction costs could be increased by about \$149 million.

THE DAVIS-BACON ACT

The Davis-Bacon Act requires that each contract over \$2,000 to which the United States is a party--for construction, alteration, or repair of public buildings or public works--state the minimum wages to be paid to various classes of laborers and mechanics. The act provides that the minimum wages be based on wages determined by the Secretary of Labor to be prevailing for the corresponding classes of laborers and mechanics employed on projects of a character similar to the contract work in the city, town, village, or other civil subdivision of the State in which the work is to be performed. The minimum wage determination includes the basic hourly rates of pay and any fringe benefits.

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The wages and benefits are set forth in wage determinations issued by Labor. The Wage and Hour Division in Labor's Employment Standards Administration is responsible for making wage surveys and issuing wage determinations under the Davis-Bacon Act.

Extension of Davis-Bacon Act to METRO

Initially, the Davis-Bacon Act applied only to construction projects procured directly by Federal agencies. Since 1937, however, the Congress has enacted statutes--which involve federally assisted construction projects such as METRO--that require the payment of wages at rates determined by Labor under the Davis-Bacon Act. This requirement was included in the National Capital Transportation Act of 1965 (Sec. 3(b)(4), 79 Stat. 644; 40 U.S.C. 682(b)(4)), 1/ which authorized development of a rapid rail transit system for the Washington metropolitan area.

METRO is being constructed by the Washington Metropolitan Area Transit Authority, which was created on February 20, 1967, by an interstate compact among Maryland, Virginia, and the District of Columbia pursuant to Public Law 89-744, 1/ approved on November 6, 1966. METRO, when completed, will include a 100-mile rapid rail system with an interconnecting feeder bus system to serve the Washington metropolitan area transit zone. The zone includes the District of Columbia; the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington and Fairfax in Virginia; and the counties of Montgomery and Prince George's in Maryland.

The Transit Authority's initial cost estimate for building the full 100-mile rail system was \$2.5 billion in 1969. This estimate was increased to \$5 billion in 1976. The Authority's latest estimate is \$8.2 billion for a completed system by the late 1980s. About 34 miles of the 100-mile system are currently operational.

1/The Davis-Bacon Act requirements were deleted from this act in December 1969; however, they were included in Public Law 89-774, approved on November 6, 1966.

GAO WAGE RATE SURVEY

To determine the effect of using Davis-Bacon wage rates on METRO construction contracts, we made a wage rate survey in Montgomery County. We intended to make a similar wage survey in Virginia; however, Labor is making wage rate surveys in the city of Alexandria and Fairfax County. To avoid duplicating Labor's effort and possibly interfering with its survey or antagonizing contractors with two requests for the same data, we deferred our survey in Virginia. We plan to review the results of Labor's surveys when they are completed.

On current METRO construction contracts, the Transit Authority is required to use Labor's Davis-Bacon rates published in an area decision covering jurisdictions in the metropolitan area transit zone. Labor issues two types of Davis-Bacon wage determinations--project determinations and area wage determinations. 1/ The area decision in effect at the time of our review was DC 80-3040, published in the Federal Register on May 16, 1980, and modifications 1 and 2, published in the Register on May 30 and June 6, 1980, respectively. According to Labor officials, some of the wage rates were based on wage surveys made in the Virginia counties. However, they said Labor has not made a wage survey in Montgomery County in 6 to 10 years.

Survey procedures

Labor's area decision DC 80-3040 lists wage rates to be paid for about 155 classifications of workers in various types of construction; e.g., building, heavy, highway, and water and sewer line construction. According to a Transit Authority official, 13 craft or worker classifications--listed for building and heavy construction--account for about 90 percent of the labor costs on METRO construction projects. Therefore,

1/Labor issues project determinations for a specific project; they are effective for 120 days from the date issued. Labor issues area determinations, which apply to geographical areas (such as counties or States); these are required to be used on all Federal projects to be constructed in the covered area. They are published in the Federal Register and are in effect until superseded.

during our survey in Montgomery County, we obtained data on wages paid to the corresponding 13 classes of crafts or workers on similar private construction projects in Montgomery County, from July 1, 1979, through June 30, 1980.

In collecting the data and determining rates, we generally used Labor's regulations and procedures. However, we surveyed wage rates paid on private construction only (eliminating Federal projects with Davis-Bacon Act rates) and eliminated duplicate counting of workers where contractors had worked on more than one project during the survey period.

We excluded federally funded projects because the legislative history of the act indicated that the wage rate should be based on wages that prevailed on private construction. This exclusion also eliminated any influence of incorrect rates that may have been issued on earlier Davis-Bacon projects. We considered including the same employees working on different projects--multiple counting--to be a questionable practice which distorts survey results.

Survey statistics

Our universe of construction projects in Montgomery County was identified from Dodge Reports, a publication that lists projects and their contractors by county. We also asked prime contractors to identify their subcontractors and other construction projects in progress. During the wage rate survey, we identified 153 construction projects and 97 prime contractors and 256 subcontractors working on the projects. We were able to contact 80 prime contractors and 211 subcontractors. Of them, we obtained data from 58 prime contractors and 180 subcontractors covering 93 construction projects.

PRELIMINARY FINDINGS

Most of the wage rates prevailing on private construction in Montgomery County for the 13 crafts are substantially lower than those required by Labor.

For 11 of the 13 classifications, the prevailing wage rates prescribed by Labor were higher than those we found to prevail on similar private construction in the county. For example:

- For a laborer, the prevailing rate was \$6.05, while Labor's prescribed rate was \$10.95--\$4.90 higher.
- For a carpenter, the prevailing rate was \$9.24, while Labor's rate was \$13.56--\$4.32 higher.
- For a power equipment operator (bulldozer), the prevailing rate was \$8.99, while Labor's rate was \$13.72--\$4.73 higher.

For the other two crafts, our wage rates and Labor's were the same.

Overall, the higher wage rates established by Labor resulted in significantly higher wage costs--an average of 33.9 percent--for the METRO construction contracts.

Impact on METRO construction

Setting prevailing wages for METRO construction, as required by the Davis-Bacon Act, may increase the construction cost by about 6.8 percent. We estimate that, as a result of wages being established at higher rates than those actually prevailing in the area of METRO projects, METRO construction costs could be increased by about \$149 million.

To illustrate, a Transit Authority official told us that labor accounts for about 22.4 percent of a METRO construction project and that the 13 craft classifications we surveyed accounted for 90 percent of the labor used on a project. A Transit Authority official also estimated that future construction costs for METRO will total about \$2.18 billion. On the basis of the above, the potential impact of Davis-Bacon wage determinations on future METRO construction costs is shown in the following table.

| | <u>Total system</u> |
|---|-------------------------|
| | (millions) |
| Estimated construction cost | \$2,180.0 |
| Percentage of costs for labor | <u>22.4%</u> |
| Total estimated labor costs | \$488.3 |
| Percentage of METRO labor for crafts we surveyed | <u>90.0%</u> |
| Total estimated labor costs for crafts we surveyed | \$439.5 |
| Average percentage labor costs increased because of the Davis-Bacon Act | <u>33.9%</u> |
| Estimated increase in labor costs because of the Davis-Bacon Act | <u>\$149.0</u> |

We recognize that the wage rate difference found in Montgomery County may not be the same (1) in all jurisdictions where METRO is being constructed or (2) for all types of construction; we also recognize that the proportion of labor provided by a particular craft classification may vary. However, we believe that the wage rates within the different counties in the Washington metropolitan area transit zone should be reasonably close to those in Montgomery County, and that our cost estimates are a useful indicator of the potential magnitude of the increased construction costs resulting from the Davis-Bacon wage determinations.

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At the request of your office, we did not follow our normal practice of obtaining agency comments on this report.

A report on our findings is also being sent to Representative Ashbrook. We hope to complete our remaining fieldwork and issue the final report to you in early 1981.

Sincerely yours,

Edward A. Bennett

for Gregory J. Ahart
Director

