

**Senate Bill 615: Requiring Prevailing Wage for Hospitals and
Healthcare Facility Construction**

August 2013

SDCTA Position:

OPPOSE

Rationale for Position: Expanding the definition of ‘public works’ projects to include projects that are not directly financed with taxpayer dollars is unjustifiable. Increasing the cost to construct hospitals and other healthcare facilities will only exasperate the existing problem of rising healthcare costs and limited access to care. This use of conduit revenue bonds is intended to make the construction of healthcare facilities easier because we need more of them. Adding strings to the use of conduit revenue bonds renders them, at best, less effective.

Title: SB 615 Requiring Prevailing Wage for Hospitals and Healthcare Facility Construction

Jurisdiction: Statewide

Type: Statute

Vote: Simple majority

Status: Assembly Appropriations Committee

Issue: Public Works: prevailing wage.

Description: Requires construction projects to pay prevailing wages for hospitals and healthcare facilities that are funded through conduit revenue bonds.

Fiscal Impact: As much as \$100,000 annually for State Department of Industrial Relations to enforce the new requirement.

Background:

Prevailing Wage

Current law requires “prevailing wage” to be paid by government agencies moving forward with construction projects. Charter Cities are entitled under the law to exempt themselves from this requirement. The intent is ensure that when public funds are used, construction workers are paid fair wages. State projects involving public funds also require compliance with prevailing wage rates. Prevailing wage for each profession is determined through surveys administered by the state Department of Industrial Relations. These surveys are inclusive of both union and nonunion contractors for both public and private projects.

For example, for a residential carpenter hired on a public project in San Diego, the prevailing wage is determined at a total \$38.42/hour, which is comprised of a standard \$25.84/hour with an additional \$12.58/hour for benefits (health and welfare, vacation time, training, etc.).

Conduit Bonds

Conduit bonds allow private entities to tap into low-cost municipal bond financing for projects that serve a public purpose such as medical facilities, and are commonly used by private

hospitals.¹ A type of municipal bond, conduit bonds have investor tax benefits associated with them that result in lower cost financing.

Conventional municipal bonds make interest payments from dedicated streams of revenue such as taxes or fees. In contrast, conduit bonds typically do not have as reliable of revenue sources and are ultimately backed by the physical projects they fund. The servicing of the bonds is paid by the 501(c)(3) nonprofit or other nongovernmental borrower. This is not to imply that conduit bonds are irresponsible or risky. The California Health Facilities Financing Authority is one of the largest state-run issuers and has seen few of their conduit bonds default.²

SDCTA Past Positions

SDCTA has supported cities adopting a charter so that they become exempt from state prevailing wage law. The issue of whether a charter city is exempt from state prevailing wage law was recently decided upon in the California Supreme Court in a lawsuit filed against the City of Vista. The suit was filed by the State Building and Construction Trades Council of California on behalf of the state's construction unions. The California Supreme Court ruling stated, "We conclude that no statewide concern has been presented justifying the state's regulation of the wages that charter cities require their contractors to pay to workers hired to construct locally funded public works projects."

Most recently, SDCTA has supported Proposition P (2012) which adopted a charter in the City of Escondido. SDCTA's rationale included "the proposed Charter will allow the City of Escondido to achieve savings on locally funded projects due to the provision that exempts itself from State public contracting and prevailing wage requirements."

Prior to Proposition P, SDCTA supported Proposition D (2012) in El Cajon using nearly identical rationale, and Proposition K (2010) in the City of Oceanside using similar rationale.

SDCTA prior positions were specific to directly achieving taxpayer savings by allowing government agencies to pay market wages rather than "prevailing wage." These situations differ from the construction of hospitals and other healthcare facilities for private entities which is the subject of Senate Bill (SB) 615.

Proposal:

SB 615 would require that hospitals and healthcare facility construction financed through conduit revenue bonds be subject to prevailing wage requirements. This would be achieved by expanding the definition of "public works" projects, which are already subject to prevailing wage requirements, to include "any construction, alteration, demolition, installation, or repair work done under private contract on a hospital or health care facility project when the project is paid for in whole or in part with the proceeds of conduit revenue bonds..."

Policy Implications:

A recent analysis quantifying the cost of prevailing wage requirements by the City of San Diego Independent Budget Analyst concluded the "average percentage increase for total construction costs to be 12% when prevailing wages were applied."

¹ "['Conduit' muni bond defaults draw scrutiny.](#)" Los Angeles Times. June 14, 2011.

² "['Conduit' muni bond defaults draw scrutiny.](#)" Los Angeles Times. June 14, 2011.

If the cost of constructing new hospitals and other healthcare facilities were to increase by 12 percent, this would put upwards pressure on customers of these facilities. Construction workers would be paid better at the expense of those in need of healthcare services.

Fiscal Impact:

The State Department of Industrial Relations would have to enforce prevailing wage requirements on the increased number of projects deemed to be “public works.” The Senate floor analysis of the bill contemplates that this could cost as much as \$100,000 annually if the increased workload requires an additional position to be filled.

List of Proponents:

- State Building and Construction Trades Council (Sponsor)
- California Labor Federation, AFL-CIO

Proponent Arguments:

- By financing with municipal tax-exempt bonds, nongovernmental organizations are benefiting from lower financing costs. The use of these bonds results in less state and federal tax revenue. Projects financed with conduit municipal bonds are therefore subsidized by taxpayers and should be considered public works projects.
- Higher wages doesn't mean lower value, or even necessarily higher cost. Qualified workers on a project mean fewer injuries, fewer change orders and a quicker completion time.
- Where prevailing wage is used, the local workforce is used, and taxpayer dollars are recycled into the community from which they came. A 2011 study by Colorado State University found that prevailing wage on city projects in San Jose increased countywide economic activity by \$164 million, increased local jobs by 1,510 and increased local tax revenues by close to \$2 million over a five-year period.

List of Opponents:

- California Chamber
- Air Force Village West (Riverside)
- American Baptist Homes of the West (Pleasanton)
- California Hospital Association
- Center for Elders' Independence (Oakland)
- LeadingAge California
- Northern California Presbyterian Homes & Services

Opponent Arguments:

- Requiring higher wages for the construction of some healthcare facilities will put upward pressure on healthcare prices, and decrease the amount of healthcare facilities construction. These effects would be counter to the current goals of all levels of government to lower healthcare prices and increase access to care.