



# The Campaign for Responsible Development

A coalition of community, union, and conservation partners staffed by the  
Front Range Economic Strategy Center

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## APPLYING DENVER'S PREVAILING WAGE TO TIF PROJECTS

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### Background and Purpose of Prevailing Wage

For over 50 years, Denver has had a law requiring "Prevailing Wages" for construction and other site maintenance work done by private contractors on projects that are publicly owned or "financed in whole *or in part by the city.*" The "Prevailing Wage" for a job category is determined by a survey of the most common wages and benefits paid to local, private sector workers.

Prevailing Wage policies ensure that government does not push wages in a region below those prevailing in the private market by encouraging bids that pay poor wages without benefits. This is important, because as one of the largest purchasers of construction services, government has the potential to erode wages in a whole region. In addition to the importance of decent wages and fringe benefits like health care to workers and their families, the wages earned and spent by construction workers help drive our local economy as they stimulate demand for other goods and services.

### The Problem

- **Denver isn't applying the Prevailing Wage consistently.** Denver spends tens of millions of dollars on capital construction—an estimated \$125 million annually according to the Office of Economic Development. All of these projects require Prevailing Wages. Denver also approves Metropolitan Taxing Districts to fund infrastructure on private development, and construction funded by those special taxes must pay Prevailing Wages. When Denver spends federal funds on construction, such as its Community Development Block Grant, it must ensure that federal Prevailing Wage law is followed. But Denver also diverts tens of millions of dollars every year—a half billion dollars over the last decade or so—through Tax-Increment Financing (TIF) to fund redevelopment construction projects. Denver isn't consistently requiring TIF projects to pay Prevailing Wage.
- **Denver is undermining the intent of our Prevailing Wage law and our own long-term interests.** By failing to apply the Prevailing Wage to TIF, Denver taxpayers are subsidizing millions of dollars in construction jobs that pay substandard wages and/or provide no health care.

### The Solution

- Denver should apply the same job quality standards to *all* publicly supported projects.
- Our tax dollars should only be spent on projects willing to pay fair wages with health care, or a wage differential to cover health care.
- Denver City Council should pass an Ordinance ensuring payment of Prevailing Wages on any project approved by the City Council to receive TIF.

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## The Public Policy Case for Applying Prevailing Wage to TIF Projects

Applying Prevailing Wage to TIF projects is good policy. Comprehensive research comparing areas with Prevailing Wage to those without demonstrates that application of Prevailing Wage already brings Denver substantial benefits, benefits that will only be enhanced by applying the law to TIF projects:

**Prevailing Wages Improve Productivity and Project Quality**

**Prevailing Wages Expand Training Opportunities for New Workers**

**Prevailing Wages Result in Expanded Health Care Coverage & Greater Worker Safety**

**Prevailing Wages are a Cost-Effective Investment**

### **Prevailing Wages Improve Productivity and Project Quality**

Cutting costs by cutting wages and benefits may enable a lower bid, but it does not ensure long term value in construction projects. Lower wages often translate into fewer highly skilled workers and lower productivity, both of which negatively impact the timeline and quality of a project.

- Prevailing Wages ensure a more highly skilled workforce than a low-road environment.<sup>1</sup>
- Research demonstrates that Prevailing Wages result in higher productivity, offsetting any costs associated with higher wages.<sup>2</sup>

### **Prevailing Wages Expand Training Opportunities for New Workers**

Prevailing Wage projects create demand for certified apprentices. This leads to expanded construction training programs which train more Denver workers for construction careers. If we fail to stimulate greater demand for construction apprenticeship training in Denver *now*, we will see a shortage of skilled workers *in the future* - just when construction of FasTracks is at its peak. Without an adequately trained local workforce, FasTracks contractors will have to rely upon workers from out-of-town or even out-of-state to meet their needs, and Denver will have missed a significant employment opportunity. Therefore, we should take every opportunity to implement policies that will increase the demand for construction apprentices.

- Prevailing Wage environments are also associated with higher minority participation in apprenticeship training and greater economic gains for minority workers.<sup>3</sup>

### **Prevailing Wage Results in Expanded Health Care Coverage & Greater Worker Safety**

Prevailing Wage includes either health care coverage and other benefits, or a higher "fringe" wage to enable the worker to purchase those benefits on their own. Although not a guarantee of health care, Prevailing Wage policies increase health care coverage.

- Prevailing Wage makes it possible for firms that provide health care coverage to bid competitively, thereby increasing the number of workers with health care on Prevailing Wage projects.
- Construction markets with Prevailing Wage laws also have greater overall rates of health care coverage than markets without Prevailing Wage, including among employers and projects where a fringe benefit package is not legally required.<sup>4</sup> Expanding the application of

Prevailing Wage to TIF projects will strengthen the overall rate of health care provision in the Denver construction market, not just on the particular projects covered by the policy.

- A comprehensive study found that Prevailing Wage requirements are associated with lower injury rates, because when Prevailing Wage is absent there is increased worker turnover, a lowering in the worker skill base and decline in worker training.<sup>5</sup>

### Prevailing Wage is a Cost-Effective Investment

In 2004, Mayor Hickenlooper testified in opposition to proposed state legislation that would have limited the power of cities to enact Prevailing Wage. He eloquently expressed support for the principles behind Prevailing Wage laws, testifying that Denver gets “more value through the Prevailing Wage by getting a higher quality of work.” He also stated that when you have the opportunity to pay a higher wage, “you get a better product.” He concluded that “the overall benefits to the taxpayers in the community far outweigh the costs.”

- Mayor Hickenlooper’s conclusions are supported by extensive research showing any additional expense related to payment of Prevailing Wages is offset by gains in efficiency, productivity, and on-time performance - resulting in a greater overall value.
- Prevailing Wage is not the “highest” wage in a market, it is the most common wage found in the private market. And wages only make up an estimated 20% of a typical construction contract (the remainder is materials and other “soft costs” like professional services). The only way Prevailing Wages can be understood to add considerable additional expense to the overall cost of a project is if a bid was based on significantly sub-standard wages without health insurance. Union contractors regularly report, and several major developers have recently confirmed, that total contract bids are typically only 3-5% percentage points different between union contractors paying the Prevailing Wage and non-union contractors who do not, even though union contractors provide higher wages and dramatically better benefits.

### Endorsed by the Prevailing Wage Committee of the Campaign Responsible Development, Including the Following Organizations:

*Denver Area Labor Federation • Front Range Economic Strategy Center • 9to5 National Association of Working Women • ACORN • Colorado Building and Construction Trades Council • Mountain West Regional Council of Carpenters • Plumbers Local #3 • Sheet Metal Workers Local #9 • Laborer’s Local #720 • IBEW Local #68 • Colorado Jobs with Justice*

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<sup>1</sup> A study of 391 public school projects concluded higher wages associated with Prevailing Wage standards ensured use of skilled labor, guarding against the cost of mistakes and future maintenance costs. Peter Philips, Ph.D., *A Comparison of Public School Construction Costs* (University of Utah: February 2001).

<sup>2</sup> Hamid Azari-Rad, Peter Philips, and Mark Prus, “Making Hay When it Rains: The Effect Prevailing Wage Regulations, Scale Economies, Seasonal, Cyclical and Local Business Patterns Have on School Construction Costs,” *Journal of Education Finance*, 27 (Spring 2002) 997-1012.

<sup>3</sup> Peter Philips, Garth Mangum, Norm Waitzman and Ann Yeagle, *Losing Ground: Lessons from the Repeal of Nine Little Davis-Bacon Acts*. (University of Utah: February 1995).

<sup>4</sup> Michael Kelsay, L. Randall Wray, and Kelly Pinkham, *The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri* (University of Missouri: January 2004).

<sup>5</sup> Peter Philips, Garth Mangum, Norm Waitzman and Ann Yeagle, *Losing Ground: Lessons from the Repeal of Nine Little Davis-Bacon Acts*. (University of Utah: February 1995).