



Setting THE record straight

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Prevailing wage defeats purpose of Keystone Opportunity Zones

State lawmakers are currently debating legislation that would extend the state's Keystone Opportunity Zone program in an effort to continue encouraging economic activity in underserved regions of the Commonwealth. Unfortunately, some of these very same lawmakers are at the same time inexplicably trying to dissuade growth by mandating that projects undertaken within the zones comply with Prevailing Wage and Separations Act requirements.

Pennsylvania's KOZ program was enacted in 1998, with additional zones created in 2001, 2003 and 2004. The zones offer property owners, residents and businesses greatly reduced or no tax burden for a period of 10 years. The first of the zones will expire this year. The PA Chamber is urging lawmakers seeking to expand the KOZ program to do so without adding requirements that defeat the purpose of the initiative.

Inflated labor rates, burdensome paperwork hamstring KOZs

Prevailing wage rates can add up to 30 percent to the cost of school district and municipal capital projects. Similar cost add-ons could be expected for projects undertaken within opportunity zones. Because wages may be higher than what the labor market may dictate, they could lead to higher prices for contracted goods and services or to fewer goods being provided. As a result, prevailing wage laws tend to reduce infrastructure investment.

Within the Separations Act is the requirement to have multiple prime bidders on projects, which results in additional burdens on a business owner to have multiple points of contact from each prime bidder. This could create confusion and lack of communication between the business owner and each bidder, which can easily result in a delay of project completion and a high rate of error on each individual project.

And because of the need for record keeping and accounting of each worker and exactly which job they performed on each project, high administrative costs and burdensome paperwork prevent firms from competing for work and handicap firms bidding on the project.

In essence, these requirements would significantly reduce the tax benefits of locating within a KOZ or developing a currently undesirable site, negating the purpose of using KOZs as an economic development tool to attract and retain jobs through infrastructure investments.

PA Chamber, local chambers of commerce urge enactment of 'clean' KOZ bill

The KOZ program has been a vital tool used by local chambers of commerce in their efforts to grow the economy in the communities they serve, particularly in regions where economic activity is most needed. Passing a clean expansion bill free of new and costly mandates is necessary to allow the program to continue as intended.

"By extending prevailing wage mandates to Keystone Opportunity Zones, the legislature would be adding an obstacle to construction in the KOZ, which defeats the purpose," said Jeffrey Stewart, an Allentown attorney and active member of the Lehigh Valley Chamber of Commerce. *"Extending prevailing wage removes competition from the workplace. It also has the effect of eliminating a number of small, local contractors in favor of companies from outside the local economy."*

"Prevailing wage was designed to mandate how public money is spent," he added. *"By extending prevailing wage to KOZs, the legislature is essentially mandating how private money is spent, which is just wrong."*

Jacob Rouch, vice president of economic development for the Erie Regional Chamber and Growth Partnership, agrees.

“The economic development leaders of Erie County and northwest Pennsylvania oppose the addition of prevailing wage language to Keystone Opportunity Zone legislation because it places additional burdens on properties that already have unique challenges. This would slow or cause the opposite effect of what KOZs are intended to do – to drive investment into critical areas of our region for economic growth.”

Extending the KOZ program is part of the Rendell administration’s “Protecting our Progress” economic development initiative. If this is in fact the intended purpose, then lawmakers need to ensure that full tax benefits of locating in those zones be realized, not hinder development efforts by forcing inflated labor rates on projects.

Lawmakers who are interested in creating successful Keystone Opportunity Zones and fostering business and job growth in parts of the state that are struggling economically should rethink this counterproductive requirement.

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The Pennsylvania Chamber of Business and Industry is the state’s largest broad-based business association, with its membership representing nearly 50 percent of the private workforce. More information is available on the Chamber’s website at www.pachamber.org

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