January 7, 2011

The Honorable Darrell Issa
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Issa:

On behalf of Associated Builders and Contractors (ABC), a national association with 75 chapters representing 23,000 merit shop construction and construction–related firms with 2 million employees, I appreciate the opportunity to respond to your letter, dated December 8, 2010. ABC is pleased to provide you with information regarding existing and proposed regulations—as well as sub-regulatory actions—that have or will have negative impacts on job growth in the construction industry. In addition, this letter offers suggestions on reforming the federal rulemaking process.

I. Federal Regulations and the Impact on Job Growth

ABC members are responsible for building our country’s communities and infrastructure, including schools, power plants and office buildings. Accordingly, they demand the highest level of quality work from themselves and from their subcontractors. Our members understand the value of standards and regulations when they are based on solid evidence and sound science, with appropriate consideration paid to implementation costs and input from the regulated community.

Unfortunately, some of the regulations for our industry impose heavy costs with no clear, or very limited benefit. In many cases, these regulations are based on conjecture and speculation, lacking a foundation in sound scientific analysis. In a few egregious cases, these regulations even circumvent will of Congress and conflict with underlying statutory requirements. Regulations of this kind impose unnecessary and unjustified costs, which, in turn, hinder economic recovery and job growth.

For the construction industry, the negative impact of excessive federal rulemakings exacerbates an already dire situation. Overregulation translates into higher costs, which must be passed on to the consumer in order for firms to remain viable. Higher consumer costs lead to fewer projects, which ultimately impact whether a firm is able to hire additional workers or must make unwanted layoffs.

ABC members and construction workers cannot afford this burden right now. ABC’s Construction Backlog Indicator (CBI) reported in November that “construction contract activity declined 3.3
percent in September to 6.7 months after falling more than 5 percent in August to 6.9 months.\textsuperscript{4} At the same time, the construction unemployment rate began to rise again this fall, approaching an abysmal 21 percent in December.\textsuperscript{2}

To promote economic growth, we must free industry from those regulations that create unnecessary and costly bureaucratic layers and institute reforms that will help avert future missteps in the regulatory process. Per your request, please find below an outline of ABC’s most pressing concerns in this area.

**Government-Mandated Project Labor Agreements**

ABC has serious concerns regarding Executive Order (EO) 13502, signed by President Obama in February 2009, and the subsequent Federal Acquisition Regulatory (FAR) Council rulemaking implementing it. The EO and rulemaking strongly encourage federal agencies to require project labor agreements (PLAs) on federal construction projects exceeding $25 million.\textsuperscript{3}

Typically, a PLA is a contract awarded only to contractors and subcontractors that agree to recognize unions as the representatives of their employees on that job; use the union hiring hall to obtain workers; obtain apprentices exclusively through union apprenticeship programs; pay fringe benefits into union-managed benefit and pension programs; and obey unions’ restrictive and inefficient work rules, job classifications and arbitration procedures.

PLAs are anti-competitive, and serve as a barrier to job growth for more than 85 percent of the construction workforce—the percentage that has decided not to join a labor union.\textsuperscript{4} Furthermore, several studies have found that PLAs increase the cost of construction by as much as 18 percent.\textsuperscript{5}

ABC applauds your December 13 letter, signed by House Oversight and Government Reform Committee Republicans and additional House Republicans, to the General Services Administration (GSA) regarding the agency’s recent policy change to favor the use of PLAs in the bidding process for federal construction projects exceeding $25 million.

**Wage Rates under the Davis-Bacon Act**

The Davis-Bacon Act is a Depression-era wage subsidy law responsible for mandating so-called “prevailing” wage rates on federal construction projects. Unfortunately, the methodology used by the U.S. Department of Labor’s (DOL) Wage and Hour Division (WHD) to determine these wage rates is unscientific, relying on voluntary wage surveys instead of statistical samples. As a result,

\footnotesize
\textsuperscript{1} ABC’s *Construction Backlog Indicator* (CBI) is a forward-looking economic indicator that measures the amount of construction work under contract to be completed in the future. For more information, see \url{http://www.abc.org/cbi}.
\textsuperscript{4} *Union Members Summary*, Bureau of Labor Statistics, January 22, 2010. See \url{http://www.bls.gov/news.release/union2.nr0.htm}.
\textsuperscript{5} For more information, see \url{http://www.abc.org/plastudies}.
Davis-Bacon wage rates are not reflective of actual local wages, and are often inflated. The problems associated with Davis-Bacon wage calculations have been well documented by the Government Accountability Office (GAO) and DOL’s own Office of Inspector General (OIG). Studies have shown that the flawed wage methodology and other problems with Davis-Bacon can raise the cost of public construction by 22 percent.

Using inflated Davis-Bacon wage rates makes it almost impossible for smaller businesses to absorb costs, and can result in some small businesses closing their doors. Furthermore, as previously mentioned, the construction industry will be at an even greater disadvantage due to the traditionally low net margins on which its firms operate. ABC has recommended that DOL follow the findings of the 2004 OIG study and explore using alternative data to determining wage rates, including data collected by the Bureau of Labor Statistics (BLS).

Lack of Transparency under the Davis-Bacon Act
Under Davis-Bacon, the job duties that apply to a particular job classification are determined by local practice. For example, a carpenter may hang sheet rock in one area, whereas that work may only be performed by sheet rock hangers in another jurisdiction. Where DOL determines that the prevailing wage rate for a classification is based on a union collective bargaining agreement, the job duties for that classification will also most likely be governed by the union’s work rules in that agreement. Generally, union work rules require that only a certain job classification perform certain work. For example, the work rules may require that only an

---

6 The impact of inflated Davis-Bacon wage rates and related red tape can be significant when applied to new programs, including the U.S. Department of Energy’s (DOE) Weatherization Assistance Program. The program received $5 billion under the American Recovery and Reinvestment Act (ARRA), and was intended to help low-income families with energy efficient upgrades to their homes. Unfortunately, DOE and GAO reported that far fewer homes would be weatherized in 2010 than anticipated, due to the high costs associated with the mandated use of Davis-Bacon Act prevailing wages that came attached to the funds. See DOE’s Progress in Implementing the Department of Energy’s Weatherization Assistance Program Under the American Recovery and Reinvestment Act, February 2010, at http://www.ig.energy.gov/documents/OAS-RA-10-04.pdf. See also, GAO’s Recovery Act: Views Vary on Impacts of Davis-Bacon Act Prevailing Wage Provision, February 2010, at http://www.gao.gov/new.items/d10421.pdf. GAO is also in the process of conducting a study on Davis-Bacon as it applies to all federal construction work.

7 U.S. Department of Labor, Office of the Inspector General, Concerns Persist with the Integrity of Davis-Bacon Prevailing Wage Determinations, Audit Report No. 04-04-003-04-420, 2004, at http://www.oig.dol.gov/public/reports/oa/2004/04-04-003-04-420.pdf. To find evidence of the flaws in Davis-Bacon prevailing wage calculation methodology, one need look no further than the disproportionate amount of jurisdictions across the country in which DOL has found a union wage rate to prevail. Given that unions make up only 15 percent of the workforce nationally, it would suggest there should only be a small fraction of jurisdictions in which union rates prevail.


9 Construction firms often operate on extremely low net margins. According to the 2009 Construction Industry Annual Financial Survey, published by the Construction Financial Management Association (CFMA), an average construction firm’s operating margin was only 3.4 percent, with many firms operating at even lower margins.
electrician is permitted to install alarm systems, even though such work is performed by technicians in other jurisdictions.

While each DOL wage determination lists several different classifications of workers (painters, carpenters, laborers, etc.), limited information is available on the actual job duties or union work rules that apply to the classifications. Although the published wage determinations may identify the relevant local union for each of the listed job classifications, where the rate is based on the union’s collective bargaining agreement, DOL does not provide detailed information as to whether there are any work rule restrictions attached to those wage rates and, if so, what those restrictions are. DOL’s failure to provide such information makes it difficult to determine the appropriate wage rate for many construction related jobs.ABC has repeatedly requested that DOL provide information about job duties that correspond to each wage rate.

“High Road” Government Contracting Policy
According to the White House Middle Class Task Force’s February 26, 2010, annual report, the Obama administration is crafting a contracting policy referred to as “High Road,” which is believed to be designed to require government procurement officers to determine whether a contractor’s record is deemed “satisfactory” in a number of labor relations categories, using criteria subjectively determined by the Obama administration. Such a policy could needlessly cut competition, increase costs, stifle job creation, and delay the delivery of goods and services to the government and the general public. The administration has not set a date for the final version of the proposal to be released; it is possible that the policy could be issued as an executive order in the coming year.

Numerous regulatory and statutory protections already ensure that responsible contractors deliver to the federal government the best possible product at the best possible price. In addition, the federal government has a well-established process to prequalify contractors and screen out bad companies.

Regulations and Policies under “Plan, Prevent, Protect” and “We Can Help” Programs
DOL has launched several rulemakings and policy initiatives being carried out under DOL’s “Plan, Prevent, Protect” and “We Can Help” campaigns. Both programs are components of the Obama administration’s goal of increased federal control of the private workplace.

- **Injury and Illness Prevention Program:** Referred to as “I2P2” by the Occupational Safety and Health Administration (OSHA), this “pre-rule” stage rulemaking will require all employers, regardless of size, to “find and fix” workplace hazards. Aside from the obvious impact such a requirement could have on small businesses, all employers could find themselves in a never-ending compliance loop as a result of OSHA’s rule. Furthermore, if full compliance can never truly be attained, the costs associated with compliance become even greater. OSHA has not announced a projected publication date for this proposal; however, the agency has indicated publicly that I2P2 is its highest regulatory priority.

- **“Right to Know” under the Fair Labor Standards Act:** WHD plans to require that employers provide workers with information about their employment status, including

---

11 DOL has refused to publish a memorandum, drafted by the previous administration, in which this issue was raised (see attached memorandum).
exactly how their pay is calculated. In addition, the proposal will likely require that workers classified as independent contractors must receive a “classification analysis” from their respective employer. DOL’s fall 2010 regulatory agenda indicates that this proposal will be published in April 2011.\textsuperscript{12}

Such records will surely be discoverable during private litigation, which causes a great deal of concern for our members. WHD’s proposal comes after several non-regulatory policies implemented by WHD over the past year that emphasize litigation over traditional statutory enforcement, including “Bridge to Justice,” an agency-sponsored attorney referral program intended to help facilitate lawsuits involving the Fair Labor Standards Act (FLSA) and the Family and Medical Leave Act (FMLA). Interestingly, no such referral program or support infrastructure exists within DOL for small businesses targeted with frivolous claims involving statutes over which DOL has authority, despite the fact that often, such cases are found to be without merit.\textsuperscript{13}

**Rules Governing “Persuader” Activity**

DOL’s Office of Labor Management Standards (OLMS) has been working on multiple proposals to redefine what constitutes “persuader” activity under Section 203(c) of the Labor-Management Reporting and Disclosure Act (LMRDA). According to DOL’s fall 2010 regulatory agenda, both rulemakings will be proposed this summer.\textsuperscript{14}

ABC and others believe that DOL’s proposal will have a significant impact on an employer’s rights before and during union organizing campaigns. Much like the provisions of the Employee Free Choice Act (H.R. 1409 and S.560, 111\textsuperscript{th} Congress. Also known as “card check”), the proposal seeks to neutralize employers’ voices in their own workplaces during organizing campaigns. These upcoming rulemakings discourage (or prevent entirely) speaking to employees about unions during organizing campaigns, and make it extremely difficult for those same employees to obtain a balanced perspective on the advantages and disadvantages of the union in question—or unionization generally—prior to casting their votes.

**Tax Regulations**

Under the nation’s current tax system, rates are too high and laws are too complex, thus inhibiting the growth of small businesses. ABC supports minimizing the tax burden on American citizens—and the construction industry in particular—to help increase the rate of capital formation, economic growth and job creation.

- **New Form 1099 Requirements:** A provision contained in the Patient Protection and Affordable Care Act (PPACA) will significantly increase the amount of paperwork businesses will have to file with the Internal Revenue Service (IRS). The IRS is expected to


\textsuperscript{13} The Equal Employment Opportunity Commission’s (EEOC) Enforcement and Litigation Statistics provides an illustrative example of the ratio of frivolous claims versus those with merit. See http://www.eeoc.gov/eeoc/statistics/enforcement/litigation.cfm.

release a final rule implementing these provisions in 2012, at which time businesses will have to file a Form 1099 for all vendors to which they pay more than $600 annually for both goods and services.\textsuperscript{15}

An ABC member and vice-president of a family-owned small business has indicated that the expanded Form 1099 reporting requirements may force him to hire an additional full-time employee to work in his company’s accounting department, which already employs two full-time employees. Because the ABC member works with 1,200 vendors, of which only four or five presently issue a Form 1099, the accounting department will be required to spend countless hours on the increased paperwork filing.

Two years ago, the same ABC member employed 136 employees; however due to the current construction market, he was forced to lay off employees, reducing his staff to 66. Instead of investing in equipment or hiring employees to actually perform in the field, he may be faced with a huge overhead expense of hiring a full-time employee to solely work on this new burdensome mandate. Ultimately, the overhead expense resulting from this new paperwork requirement will have a dramatic effect on the ABC member’s bottom line and how he conducts business.

• **Three Percent Withholding:** Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) requires that three percent of payments for goods and services made by federal, state and local governments and their agencies be withheld from government contractors and is scheduled to go into effect January 2012.

The withholding proposed rule (originally issued December 5, 2008, and not yet finalized\textsuperscript{16}) is especially onerous for the construction industry because construction contractors typically average a profit margin of 2.2 percent. In addition to withholding 3 percent, construction contractors face retainage between five percent and 10 percent, putting the contractor at an eight percent to 13 percent cash deficit.

Not only will Section 511 deplete a contractor’s profit, but it also will reduce sorely needed operating capital. Eventually, contractors will be forced to raise their proposal price to account for this new financing burden, and the taxpayers’ cost of construction will increase. Or worse, small businesses will be driven out of the government contracting market.

**Lack of Supporting Data for Rulemaking; Procedurally Deficient Policymaking**

The Obama administration has moved forward with several regulatory and non-regulatory policies without sufficient data to demonstrate their benefit and support their need. In addition, some quasi-regulatory policies are being implemented outside the formal rulemaking process in an effort to circumvent existing checks and balances within the federal regulatory framework.

• **Proposal to Redefine “Feasibility” in Noise Exposure Standard:** Last fall, OSHA announced a proposal to change the definition of “feasible” under its General Industry and


\textsuperscript{16} 74 Fed. Reg. at 74082.
Construction Occupational Noise Exposure standards to mean “capable of being done.” As proposed, OSHA would be able to cite a company for relying on personal protective equipment (e.g., ear plugs) to protect employees rather than implementing administrative or engineering controls for noise hazards unless the company is able to demonstrate that implementing such controls would put it out of business or threaten its viability.

OSHA has been unable to explain publicly why it feels such a costly proposal is necessary. Furthermore, OSHA has classified this proposal as a “non-regulatory” interpretation, allowing the agency to circumvent crucial aspects of the formal regulatory process. Stakeholders were not given advance notice of the proposal in the spring 2010 regulatory agenda, and it does not require formal notice-and-comment or economic analysis. Public comments on the proposal are due March 21, 2011.

- **Musculoskeletal Disorder Recordkeeping:** OSHA also plans to require that employers report “musculoskeletal disorders” (MSDs) in a separate column from other types of workplace injuries and illnesses on OSHA’s Form 300 log books. On the surface, this appears to be a minor clerical revision; however, upon closer inspection, the proposal wrongly groups together a variety of disorders and symptoms that are not necessarily related (even the scientific community has been unable to settle on a reliable definition or cause of most MSDs). The addition of such a difficult-to-define, catch-all category will result in the collection of erroneous data that in turn could justify burdensome workplace controls for injuries and illnesses that may not even be caused by the work environment. In addition, the time and cost estimates associated with OSHA’s proposal have been grossly underestimated in an attempt to bypass requirements of the federal regulatory process that would have brought increased scrutiny and much-needed economic analyses. The Office of Information and Regulatory Affairs (OIRA) is currently reviewing the proposal before its February 2010 publication. In July 2010, ABC shared its concerns directly with OSHA and OIRA officials.

- **Environmental Rules Targeting the Construction Industry:** In addition to the U.S. Environmental Protection Agency’s (EPA) attempts to regulate stormwater runoff from construction sites (which was mentioned in your December 8 letter to ABC), the agency is also attempting to impose additional rules governing lead exposure in the repair and renovation of commercial buildings. As with the stormwater rulemakings, we are concerned that EPA plans to move forward with regulatory action without the requisite data needed to justify such action, and to ensure that any potential rulemaking is not burdensome on impacted industries.

---

17 75 Fed. Reg. at 64216.
18 It appears OSHA has determined that its noise proposal is not a formal rulemaking, and therefore the agency believes it does not fall under the authority of the Administrative Procedure Act (APA); the Regulatory Flexibility and Small Business Regulatory Enforcement Fairness Acts (RFA and SBREFA, respectively); or the Unfunded Mandates Reform Act (UMRA).
19 75 Fed. Reg. at 4728.
On May 6, EPA issued an “advance” notice of proposed rulemaking (ANPRM) announcing its long-term plans to apply lead-safe work practices to renovations in public and commercial buildings.\(^\text{21}\) If the agency does proceed with a rulemaking, EPA plans to issue a proposal by December 2011, and have it finalized by July 2013, with implementation to begin on or before July 2014.

In July 2010, a broad coalition of commercial construction and real estate interests responded to EPA, stressing that the agency consider its limited statutory scope and authority under the Toxic Substances Control Act (TSCA), and complete a congressionally-mandated study of renovation, repair and painting activities in commercial and public buildings, before proceeding with a rulemaking. EPA was also urged to take into account a variety of factors in any lead rulemaking, including varying exposure patterns in different types of buildings, the limited use of lead paint since 1978, and potential impact on other national priorities (such as energy efficiency and job creation). Despite industry’s concerns, EPA appears to be willing to move forward in the rulemaking process without the TSCA-mandated data.

**Lack of Statutory Authority and Congressional Mandate**

The Obama administration has signaled that it will not hesitate to issue administrative alternatives to controversial legislation through the federal regulatory process. Two areas of particular concern listed below.

- **Greenhouse Gas Regulations:** EPA regulations to curb greenhouse gas emissions stand to be highly detrimental to job growth in the construction industry. Although Congress has not taken action on climate change legislation, EPA nevertheless moved forward in 2010, pushing costly and burdensome regulations on business owners. Collectively, these regulations will increase energy and material prices for the construction industry, impeding economic recovery and job creation.

- **NLRB Rulemakings and Decisions:** In recent days, the National Labor Relations Board (NLRB), now staffed with a pro-labor majority, has started to issue formal regulatory proposals—an unusual move for an agency that has historically acted largely as an appellate judicial body. It is relevant to subject matter of this letter as the Board’s proposed rules could potentially have a negative impact on job growth in the construction industry.

On December 22, the NLRB issued regulatory proposal to require employers to post a notice in their workplaces dealing with the National Labor Relations Act (NLRA). In the words of dissenting Board Member Brian Hayes, the proposal “lacks the statutory authority to promulgate or enforce.”\(^\text{22}\) In addition to its current proposal, the Board is believed to be considering other regulatory action, including shortened time for representation elections, allowing employees to vote electronically (possibly from a remote location), and enabling union organizers (or employees who support a union) to use company email for organizing purposes without regard to discrimination rules.

\(^{21}\) 75 Fed. Reg. at 24848.

\(^{22}\) 75 Fed. Reg. at 80415.
Having failed to enact EFCA last Congress, the Obama administration and its allies appear poised to push onto the workforce card check and other job-killing policies through NLRB enforcement and adjudication.

Combined, these items represent an effort to use the federal regulatory process (in lieu of Congressional mandate) to achieve partisan policy aims that ABC believes will be detrimental to the success of our members’ businesses.

II. Reforming the Federal Rulemaking Process
With available work dwindling, and unemployment rising once again, the construction industry cannot create jobs when an ever-growing body of unnecessary regulations impose excessive and, at times, crippling costs. Federal rulemakings often carry substantial financial and non-monetary compliance costs that impede businesses’ ability to compete. This is especially true for small businesses. Research from a 2010 U.S. Small Business Administration’s (SBA) Office of Advocacy study revealed that small businesses are disproportionately affected by federal regulations.\(^23\) The study found that, on average, small businesses face a cost of $10,585 per employee annually to comply with federal regulations. Adding large and mid-size businesses to the equation still totals $8,000 per employee, per year.\(^24\)

ABC strongly supports comprehensive regulatory reform, including across-the-board requirements for agencies (including so-called “independent” agencies) to evaluate the risks, weigh the costs, and assess the benefits of regulations. New rulemakings should contain reasonable sunset clauses, and existing regulations should also be reviewed periodically to ensure that they are necessary, current, and cost-effective. Furthermore, federal agencies must be held accountable for full compliance with existing rulemaking statutes and requirements when promulgating regulations.

**REINS Act**
In the 111\(^{th}\) Congress, ABC supported the Regulations from the Executive In Need of Scrutiny (REINS) Act (H.R. 3765), which you cosponsored. The REINS Act requires Congress to pass a joint resolution of approval before any new major rule (defined as having an impact of $100 million or more) takes effect. ABC believes that H.R. 3765 would have brought greater transparency and accountability to the federal rulemaking process.

As the Obama administration continues to promulgate complex, costly and burdensome regulations, the REINS Act would ensure that Congress is held accountable for the impact that finalized rules have on the business community and the American people. ABC looks forward to the bill’s reintroduction in the 112\(^{th}\) Congress, and urges you and the members of your committee to support the bill at that time.

**Other Reforms**
In addition to the REINS Act, other potential solutions for dealing with regulatory burden have emerged recently. For example, in December, Sen. Mark Warner (D-Va) wrote in the *Washington


\(^{24}\) *Id.*
Post that relief from excessive regulatory burdens is the key to job growth and economic recovery. Sen. Warner’s suggestion to create a regulatory “pay as you go” system—requiring federal agencies to eliminate older regulations in order to introduce new ones—would be a positive and favorable step. ABC looks forward to seeing this and other regulatory reform solutions introduced in the 112th Congress.

###

Thank you for your consideration, and for the opportunity to comment on these important matters. If you or your staff have questions, or require any additional information, please do not hesitate to contact me.

Sincerely,

Sean Thurman
Senior Manager, Regulatory Affairs
Associated Builders and Contractors

---