DOCUMENT RESUME

06663 - [B2207224]

[Review of Projects Funded under the Local Public Works Program]. CED-78-140; B-126652. August 4, 1978. Released August 7, 1978. 14 pp.

Report to Rep. James C. Cleveland, Ranking Minority Member, House Committee on Public Works and Transportation: Investigations and Review Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Domestic Housing and Community Development: Economic Development in Rural Areas (2103); Federally Sponsored or Assisted Employment and Training Programs (3200).
Contact: Community and Economic Development Div.
Budget Function: Community and Regional Development: Community Development (451).
Organization Concerned: Department of Commerce; Economic Development Administration.
Congressional Relevance: House Committee on Public Works and Transportation; House Committee on Public Works and Transportation: Investigations and Review Subcommittee; Senate Committee on Environment and Public Works. Rep. James C. Cleveland.
Authority: Local Public Works Capital Development and Investment Act of 1976, title I (P.L. 94-369). Public Works Employment Act of 1976 (P.L. 94-369). Public Works Employment Act of 1977, title I (P.L. 95-28).

To determine how quickly and extensively labor was used on public works projects funded under the Local Public Works Capital Development and Investment Act of 1976, 146 of these projects in Florida and Pennsylvania were reviewed. The act authorized the Secretary of Commerce, acting through the Economic Development Administration (EDA), to make grants to State and local governments for the total cost of projects to provide employment opportunities through construction or renovation of useful public facilities and to provide a stimulus to the economy. The act did not create instant labor opportunities. Even though EDA implemented the act's provisions with speed, it took about 5 to 7 months to develop program rules and regulations and to receive, process, and approve grant applications. An additional 1 to 3 months passed before onsite work began on approved projects. The use of onsite labor was relatively slow on most projects for the first 6 months; only about 17% of the total estimated onsite labor costs were incurred during the first 6 months for the projects studied. This was partly because low labor-intensive work was done during the initial stages of construction and partly because construction delays extended the time during which much of the labor was required. Although onsite labor was used relatively slowly, the projects had a more rapid impact on generating offsite labor needs because many contractors ordered a relatively high percentage of required materials from suppliers during the first 6 months. EDA estimated that for every person-year of employment generated onsite, about 60% of 1 person-year was generated at major supply industries. (RRS)

7224

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

Release date
8-7-78

B-126652

AUGUST 4, 1978

The Honorable James C. Cleveland
Ranking Minority Member
Subcommittee on Investigations
and Review
Committee on Public Works and
Transportation
House of Representatives

Dear Mr. Cleveland:

In response to your request of March 28, 1978, here are the results of our study of how quickly and extensively labor was used on public works projects funded under the Local Public Works Capital Development and Investment Act of 1976 (title I, Public Law 94-369). This act authorized the Secretary of Commerce, acting through the Economic Development Administration, to make grants to State and local governments for the total cost of projects to provide (1) employment opportunities in areas of high unemployment through construction or renovation of useful public facilities and (2) a stimulus to the national economy.

Your request was prompted by the possibility that similar programs might be proposed in the future to help combat unemployment, and you wanted to know whether such programs can expeditiously provide additional opportunities to help reduce high unemployment. You also desired information on the status of workers immediately before they were employed under the program --how many were (1) unemployed, (2) below the poverty level, (3) underemployed, and (4) the head of a family.

RESULTS OF OUR REVIEW

The 1976 act did not create instant labor opportunities. Even though the Economic Development Administration implemented the act's provisions with commendable speed, it took about 5 to 7 months to develop program rules and regulations and to receive, process, and approve grant applications. It was an additional 1 to 3 months before onsite work began on approved projects.

CED-78-140
(06906)

Also, use of onsite labor was relatively slow on most projects during the first 6 months after onsite work started. Although the estimated average duration of projects funded under the 1976 act was 12.6 months, only about 17 percent of the total estimated onsite labor costs were incurred during the first 6 months for the 146 Florida and Pennsylvania projects in our study. This was partly because low labor-intensive work was done during the initial stages of construction and construction delays extended the time during which much labor was required. The rate of labor utilization during the first 6 months was exceptionally low on most projects with total estimated onsite labor costs over $1 million.

Although onsite labor was used relatively slowly on most projects, the projects had a more rapid impact on generating offsite labor needs. This was because many contractors ordered a relatively high percentage of required materials from suppliers during the first 6 months after onsite work began. The Economic Development Administration estimates that for every person-year of employment generated onsite, about 60 percent of one person-year of employment is generated at major supply industries.

The Department of Commerce is making several evaluations of the program and its impact, including:

--An analysis of the procedures the Economic Development Administration used in implementing the program (scheduled to be completed by September 1978).

--An evaluation of the macroeconomic or national impact of the program (scheduled to be completed in Septemper 1978).

--An evaluation of the microeconomic or local impact of the program (scheduled for completion after most of the program's projects have been completed during 1980; several interim reports will be issued over the next 2 years).

The economic evaluations will, among other things, examine the program's effectiveness as a countercyclical device and its impact on the construction and construction materials industries.

Information will also be collected on the status of workers employed under the program--whether the program successfully provided employment for long-term unemployed or underemployed workers, workers below the poverty level, heads of families, etc.

Information on the status of workers should be available in early 1979, when the Economic Development Administration expects to issue an interim report on its microeconomic evaluation. Accordingly, as discussed with your office, we did not include this matter in the scope of our work.

The following sections present our study results and observations in detail.

SCOPE OF REVIEW

We reviewed pertinent documents to determine the time required to develop program rules and regulations and to accept, process, and approve grant applications. We also reviewed 146 projects funded under the 1976 act in Florida and Pennsylvania. These States were selected because their contrasting climates might have caused differences in their ability to promptly initiate onsite work and commit labor to projects, and because they were among the top five States in the number of projects approved. We limited our study to projects in these States because data needed to analyze all projects nationally was not readily available and would have required an inordinate amount of time to collect.

For each of the projects, information was obtained on grant approval, onsite work starting dates, estimated project costs, and payroll costs, as well as data which project contractors and subcontractors were required to report. The grants reviewed--constituting about 77 percent of the 190 projects approved in the two States--were all the projects in these States for which the Economic Development Administration gathered payroll data. The Economic Development Administration required the payroll data in order to make various program evaluations. We discussed with Agency officials their efforts to gather information on the status of workers employed under the program which is part of one of these evaluations.

For 21 of the projects, we interviewed the grantees, their architects/engineers, and/or contractors. We obtained information on (1) contractor and subcontractor payroll costs, (2) the status of projects and any problems which significantly delayed either the start of onsite work or project completion, (3) the types of work initially done on projects after onsite work began, and (4) the percentage of total required construction or renovation materials ordered during the first 6 months of onsite work.

BACKGROUND

The Public Works Employment Act of 1976 (Public Law 94-369), enacted on July 22, 1976, authorized a local public works development and investment program to establish an anti-recession program. The act was vetoed by the President on July 6, 1976, but the veto was overridden by the Senate and House respectively on July 21-22, 1976. Title I of the act is entitled the Local Public Works Capital Development and Investment Act of 1976. An appropriation of $2 billion was approved on October 1, 1976, to carry out the title I provisions; about 2,000 projects were funded from this appropriation. The Economic Development Administration estimates that the average length of these projects will be about 12.6 months and the average total cost per project will be about $1,052,000.

Title I of the act was amended on May 13, 1977, by the Public Works Employment Act of 1977 (title I, Public Law 95-28). The 1977 act authorized an additional appropriation of $4 billion and made a number of program changes. About 8,550 projects were funded from this appropriation. The Economic Development Administration estimates that the average length of these projects will be about 10.4 months and the average total cost per project will be about $591,000.

We reviewed the selection process used for funding projects under title I of the 1976 act. Interim and final reports concerning this review were issued to the Chairmen, Senate Committee on Public Works and House Committee on Public Works and Transportation, on February 23, 1977 (CED-77-48), and March 20, 1978 (CED-78-36).

Arguments for and against legislation

Both the Congress and the President agreed that unemployment was too high and that more jobs were needed. The major area of disagreement concerned how best to create them.

The Senate Committee on Public Works, in its March 24, 1976, report on the proposed legislation, stated that it was a "jobs bill" that could provide jobs quickly. The Committee viewed the legislation as designed to reduce unemployment especially in the construction industries, and emphasized the need for speed in selecting and processing projects for funding so that onsite labor could begin within 90 days after approval. The Committee felt that the prolonged period of economic depression warranted enacting legislation to provide immediate employment-generating assistance.

The House Committee on Public Works and Transportation, in its April 30, 1976, report on the proposed legislation, stated that during the prior 2-1/2 years the Nation had experienced its most severe recession since the Great Depression of the 1930s and that the construction industry had been a major victim. The Committee added that the Nation spends more on maintaining the unemployed than it is willing to spend on providing meaningful, productive jobs. The Committee believed that the proposed legislation would create such jobs and was, therefore, vital to the Nation's economic recovery because unemployment was projected to remain at unacceptably high levels during the next 2 to 3 years.

The President, in his message vetoing the legislation, stated that the act would be inflationary, and increase spending and the Federal budget deficit. Also, it would create few new jobs in the immediate future and would cost too much.

The President also stated that the legislation would make untimely demands on the economy and on the Government's borrowing needs, since Federal borrowing to support deficit spending would reduce the amount of money available for productive investment at a time when a shortage of private investment capital was expected. He stated that less private investment would mean fewer jobs and less production per worker, and the legislation designed for job creation might, in the long run, have just the opposite effect. The President believed that the most effective way to create new jobs was to pursue balanced economic policies encouraging growth in the private sector without risking more inflation.

ABILITY OF PROGRAM TO EXPEDITIOUSLY GENERATE LABOR REQUIREMENTS

Once legislation is enacted to create labor opportunities, time must be spent to (1) develop regulations for program implementation, (2) allow the public and the Congress to comment on the proposed regulations and incorporate such comments,

(3) accept, process, and approve applications, (4) begin work on approved projects, (5) order required materials, and (6) employ a significant portion of the total required project labor. The time needed to implement all these functions is a measure of the program's ability to quickly stimulate a recessionary economy.

Time required to initiate projects

The 1976 act sets out the following timetable for initiating projects.

1. Program rules, regulations, and procedures--including application forms--were to be prescribed within 30 days after passage of the legislation.

2. A project grant application was to be acted upon within 60 days after receipt or it was automatically approved.

3. Onsite construction or renovation work was to begin within 90 days of a project's grant approval.

Development of regulations and acceptance of applications

Proposed program regulations were published in the Federal Register on August 23, 1976, and in the Congressional Record 5 days later. They were discussed in hearings held by the Subcommittee on State, Justice, Commerce, the Judiciary and Related Agencies of the Senate Committee on Appropriations, and in joint hearings held by the Subcommittees on Economic Development and on Investigations and Review of the House Committee on Public Works and Transportation. Several changes were made, and revised regulations were published in the Federal Register on October 20, 1976.

The Economic Development Administration supplied application forms to the public when its proposed regulations were published. The Agency decided, however, that applications would not be accepted until funds were appropriated and were apportioned to them by the Office of Management and Budget. The appropriation was approved on October 1, 1976, funds were apportioned on October 14, and the Economic Development

Administration began accepting applications on October 26, about 3 months after the legislation had been enacted.

Processing and approving applications

According to the Economic Development Administration, about 25,000 applications were received between October 26 and December 3, the cutoff date for initial project submission; 2,000 applications were selected for final processing, and all other project applications were denied on December 23; and announcement of project approval began December 27 and continued through early February 1977. Most of the applications for the Florida and Pennsylvania projects in our study were approved in January 1977; the latest approval date was February 8.

Initiation of onsite work

According to the Economic Development Administration, onsite work at almost all projects funded under the 1976 act began within 90 days after the grantees received notice of project approval. To document the official start date, the Agency required a certificate from the grantee stating when such work was initiated and/or a copy of a certified payroll from one or more construction contractors. Project sites were not generally visited to confirm construction starts.

Onsite work was initiated within 90 days for all the Florida and Pennsylvania projects in our study, according to information in Agency files or provided by its personnel. For 21 of the projects, we visited the grantees and their architects/engineers to confirm the official start date and to determine the type of work initially done. All official dates indicated by the Agency were reliable. The following list categorizes the work initially performed on the 21 projects. More than one type of work was performed on some projects.

Type of work	Number of projects
Grubbing (digging), site preparation or clearing	12
Surveying	4
Fence construction	3
Road construction	1
Moving equipment to site	1
Interior demolition	1
Laying pipe	1

Use of onsite labor within 6 months

Each grantee was required to submit a budget with its application which included an estimate of the actual labor costs for project construction. The Economic Development Administration gave us the preliminary direct payroll costs reported to it by contractors for the 146 projects in our study. Using this data, we determined for each project the amount of such costs incurred within the first 6 months after the official start of onsite work. To compare the labor costs reported by contractors to the grantees' budgeted labor costs, we applied a 35-percent factor to the contractors' reported labor costs to allow for their overhead costs and profit. Overhead costs and profit were included in the grantees' estimates but not in the costs reported by contractors. The 35-percent factor was based on an Economic Development Administration estimate of overhead costs and profit derived from a cost-estimating handbook. The 6-month period was selected for study because it represented about 50 percent of the average duration of 12.6 months which the Agency had estimated for these projects.

Overall, for the 146 projects, about 17 percent of the total estimated onsite labor costs were incurred during the first 6 months after the official start of onsite work. The following table shows the results of our study of labor costs for projects in each State.

State	Number of projects	Onsite labor costs: Total estimated labor costs	Incurred within 6 months: Amount	Percent of total
		(000 omitted)		
Florida	100	$52,664	$ 7,883	15.0
Pennsylvania	46	24,109	4,914	20.4
Total	146	$76,773	$12,797	16.7

The following table separates the number of projects studied in each State to the percentage range of total estimated onsite labor c... incurred within the first 6 months.

State	Percentage of total estimated labor costs incurred within 6 months: 0-20	21-30	31-50	51-70	Over 70	Total
Florida (number of projects)	47	22	19	8	4	100
Pennsylvania (number of projects)	16	3	17	8	2	46
Total	63	25	36	16	6	146

The above data indicates that, for many projects, a relatively small percentage of the total estimated onsite labor costs were incurred within the first 6 months of onsite work. In addition, most projects with high total estimated labor costs had very low rates of initial labor use. For instance, 22 of the 24 projects in our study whose total estimated onsite labor costs exceeded $1 million each had labor utilization rates of less than 20 percent during the initial 6-month period.

Reasons for low labor costs

For 21 projects, we asked grantees and/or their architects/engineers why our computed labor costs indicated relatively low labor utilization during the initial months of the projects. Their stated reasons are summarized below.

Reasons	Number of projects
Initial construction or renovation work involved labor efforts of low intensity	10
The project was behind schedule	6
All payroll costs may not have been reported to the Economic Development Administration	8
Labor costs were overstated on project applications	9

An example of low labor use occurring because intitial construction work required low labor efforts involves a project for constructing a vocational skills center. Work was begun on the project in April 1977 and was scheduled for completion in January 1979. Six months after onsite work started, only about 2.5 percent of the estimated total onsite labor costs had been incurred. The grantee told us in February 1978 that labor utilization would be extremely low until the roof of the building was completed but would escalate thereafter. The roof was not scheduled for completion until May 1978.

An example of a delay in construction work reducing labor use involves a project for constructing a public safety building which fell behind schedule, according to the grantee, because of weather conditions. Work on the project started in March 1977 and was initially scheduled for completion in February 1978. Six months after the project started, only about 17 percent of the estimated total onsite labor costs had been incurred. In January 1978, work was only about 51 percent complete. In February 1978, the grantee told us that about 25 subcontractors would have been employing workers on the project if it had been on schedule. Due to the delay, only 10 of the subcontractors had workers on the job at that time.

Our review of payroll cost data required to be submitted to the Economic Development Administration by contractors indicates that some was omitted. Several grantees told us they were aware that some of their contractors had not submitted all payroll reports to the Economic Development Administration.

Labor costs overstated on project applications

Economic Development Administration personnel had no published guidelines to determine whether the budgeted labor costs submitted as part of grant applications were reasonable for the type of project proposed. The amount of estimated required labor was a consideration in scoring applications for the selection of projects to be funded, and there are indications that estimated labor costs were overstated in some instances. A grantee told us that the estimated labor costs included in its grant budget were overstated and were given heavy emphasis because of the program's nature. The scoring system was eliminated for projects funded under the 1977 act.

We also identified seven projects completed by the end of 1977 for which the total initially budgeted onsite labor costs were significantly higher than the total costs actually incurred. The following table lists the total initially budgeted and incurred labor costs for each of the seven completed projects and the percentage of budgeted costs incurred.

	Onsite labor costs		
		Incurred costs	
Project number	Total budgeted labor cost	Total	Percent of budgeted cost
01-51-04588	$116,180	$ 45,734	39.4
01-51-04622	143,110	48,587	34.0
01-51-04687	94,640	30,182	31.9
01-51-04050	288,750	98,397	34.1
04-51-00877	402,300	131,590	32.7
04-51-01169	232,662	65,101	28.0
04-72-02987	194,605	78,706	40.4

Although the payroll costs used in our study were sometimes incomplete and grantees' initial estimates of total required onsite labor costs were sometimes overstated, we believe that the data illustrates trends in how quickly and to what extent onsite labor was used on projects.

Amount of materials ordered within 6 months

Based on the results of its studies and a Rand Corporation analysis of regional cycles and employment effects of public works investment using econometric procedures, the Economic Development Administration estimated that about 60 percent of one person-year of employment is generated at major supply industries for every person-year of onsite construction employment generated by the program. This estimate indicates that orders for construction materials significantly affect employment at offsite locations. The speed with which materials are ordered will affect the speed with which employment is generated at suppliers.

For the 21 projects that we examined in detail, an average of about 47 percent of the total estimated onsite costs were not for labor. The Economic Development Administration estimates that over 90 percent of non-labor costs are for materials. For these projects, we obtained estimates from grantees and/or their architects/engineers on the percentage of total required materials ordered within the first 6 months of onsite work. The estimates ranged from 15 to 100 percent and the median was 50 percent.

OVERALL OBSERVATIONS AND CONCLUSIONS

The enactment of legislation in 1976 to establish a public works program did not create instant onsite labor opportunities. It took many months before a significant amount of employment was generated. Time was required to set up a system for administering the program.

The 1976 act created a public works program, not a job creation program, which is one reason for low labor intensity during the initial months of many projects. Public works programs are designed to construct or renovate useful public facilities and also have the effect of generating skilled and semiskilled labor requirements. A typical public works project uses a relatively high percentage of materials in proportion to labor, and it takes a lot of time before onsite activity becomes intensive.

The primary objective of job creation programs has historically been to provide work for needy unemployed persons, and such programs generally generated semiskilled labor requirements. A typical job creation project uses low proportions of materials in relation to labor, and for this reason, onsite labor activity intensifies more rapidly than for public works projects.

It took the Economic Development Administration from 5 to 7 months after enactment of the 1976 act to approve grants for selected projects, and another 1 to 3 months elapsed before onsite work on projects began. The time required for approval of projects funded under the 1977 act was reduced to 3 to 5 months after enactment. The experience gained in implementing the 1976 act undoubtedly contributed to this reduction--changes were made in both the legislation and the Agency's selection process which streamlined the project approval system. In addition, our study of 146 projects shows that required labor for onsite construction or renovation work was used relatively slowly on many projects during the initial 6 months after onsite work started. However, the Agency estimates that offsite labor at suppliers was generated more rapidly because a relatively large percentage of the total materials required for many projects was ordered during the initial 6-month period.

One reason that projects funded under the 1976 act began within 90 days was that the scheduled starts occurred in the spring of 1977, when weather was favorable for construction. Agency personnel told us, however, that Pennsylvania projects funded under the 1977 act were not always able to start within the required 90 days because the start dates were scheduled in December 1977 and January 1978, when weather was unfavorable. An extension of the required 90-day start date had to be granted for 34 of the 391 Pennsylvania projects. In addition, about 60 percent of the Pennsylvania projects were at a virtual standstill in February 1978 because of adverse weather.

Projects funded under the 1976 act have an estimated average duration of 12.6 months and an average total cost of $1,052,000. Projects funded under the 1977 act last an estimated 10.4 months at an average total cost of $591,000, which means that smaller projects were funded under this act. Funding smaller projects should speed up the use of onsite labor because they tend to use such labor more rapidly than do larger projects. However, adverse weather may extend the initially anticipated completion dates of some second round projects and thereby delay the utilization of labor.

Our findings were discussed with Economic Development Administration officials, and their views were considered in preparing the report. As agreed, this letter will be released to the Agency and the public.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States