

**COST IMPACT ANALYSIS OF THE  
VANCOUVER ISLAND HIGHWAY  
COLLECTIVE AGREEMENT**

**Report Date: 16 June 1994**

**BDO**  
DUNWOODY  
WARD MALLETT

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SCHEDULE

APPENDIX

26-9316

16 June 1994

The Vancouver Board of Trade  
400 - 999 Canada Place  
Vancouver, BC  
V6C 3C1

Attention: John Hansen,  
Chief Economist

Dear Sirs:

**RE: Cost Impact Analysis of the Vancouver Island Highway Collective Agreement**

**ASSIGNMENT**

1. You have requested our assistance in performing certain calculations and financial analysis with respect to the collective labour agreement, dated 18 March 1994, between Highway Contractors Ltd. ("HCL") and the British Columbia Highway and Related Construction Council (the "building trade unions"). In this report we refer to this collective agreement as the "HCL Agreement". The objective of our analysis was to determine the incremental cost impact of the HCL Agreement on the labour costs associated with the Vancouver Island Highway Project (the "Project").

**CONCLUSION**

2. Based on the scope of our review, the explanations provided to us, and subject to the assumptions noted in this report, we estimate that Project labour costs under the HCL Agreement will be approximately 37.6% higher than if the work were going to be performed by contractors operating under the terms of traditional, non-affiliated union collective agreements. Labour costs under the HCL Agreement will be 29.9% higher than if the work were going to be performed under the terms of the Fair Wage Policy.

Total Project labour costs under the above noted scenarios (based on projected total work hours of 6.8 million) are as follows:

- |                            |               |
|----------------------------|---------------|
| (a) Non-affiliated unions: | \$193,700,000 |
| (b) Fair Wage Policy:      | \$205,300,000 |
| (c) HCL Agreement:         | \$266,600,000 |

A summary of our methodology and findings leading to our conclusions is set out in the balance of this report.

#### SCOPE OF REVIEW

3. In preparing this report, we reviewed and relied on the following documents and information:
  - (a) HCL Agreement;
  - (b) sample contract between HCL and the Project contractors for the provision of labour services;
  - (c) report dated 7 March 1994 pertaining to the Project prepared for the BC Ministry of Employment and Investment by Lloyd Little Broder & Burley, Chartered Accountants ("Lloyd Little");
  - (d) representative collective agreements between a number of large BC road building contractors and the following unions:
    - (i) Construction and Allied Workers' Union of the Christian Labour Association of Canada;
    - (ii) Canadian Iron, Steel and Industrial Workers' Union; and
    - (iii) General Workers' Union of Canada;

- (e) apprenticeship statistics compiled by the BC Ministry of Skills, Training and Labour;
  - (f) BC Ministry of Labour and Consumer Services Fair Wage Policy (the "Fair Wage Policy") dated 20 August 1993; and
  - (g) numerous newspaper and magazine clippings pertaining to the Project.
4. In addition, we had several discussions with representatives of a number of large road building companies in order to gain a better understanding of the BC road building industry and the impact that the HCL Agreement will likely have on that industry.

#### BACKGROUND INFORMATION

##### General

5. During October 1993, the Government of British Columbia announced the Vancouver Island Highway Project. This Project will involve the upgrading and reconstruction of the Vancouver Island Highway from Victoria to Campbell River at an estimated total cost of \$1.066 billion. The Project is expected to generate 6.8 million hours of work to the year 2000.
6. The costs of the Vancouver Island Highway Project will be funded by the BC Transportation Financing Authority ("BCTFA") which has the power to borrow the necessary funds. HCL, which is a subsidiary of BCTFA, was established as a central hiring agency for all of the labour employed on the Project. Although bidding for individual contracts is open to both union and non-union contractors, the Project labour costs have already been established by agreement between HCL and the building trade unions.

**The Vancouver Island Highway Collective Agreement**

7. HCL signed a master collective agreement dated 18 March 1994 with the building trade unions covering the employment of all workers for the duration of the Project. The highlights of the HCL Agreement are as follows.
- (a) HCL will be the employer of all workers on the Project. It will act as a central hiring hall supplying workers to the various contractors.
  - (b) The HCL Agreement contains a no strike (work stoppage) and no lockout clause.
  - (c) All workers on the Project must become members of one of the building trade unions within 30 days of being hired.
  - (d) Contractors are allowed to "name hire" all supervisors who are BC residents and up to five employees who meet certain residential and employment duration qualifications.
  - (e) A hiring process is set out which gives hiring preference to local area residents and members of the building trade unions.
  - (f) Certain employment equity objectives are set out relating to First Nations People, women, the disabled and visible minorities.
  - (g) Basic wage, health and welfare benefit rates and special wage premiums are established for each trade classification.
  - (h) Requirements are set out for the employment of working and non-working crew leaders based on the number of workers on the job site.
  - (i) Employer-funded contributions to special union funds are mandated. These funds include training and upgrading funds, union advancement funds and tool allowance funds. The contractors are also required to contribute to the following funds which are related to the road building industry in British Columbia:

- (i) BC Construction Industry Rehabilitation Fund;
  - (ii) Construction Industry Health and Safety Fund;
  - (iii) BC Construction Industry Skills Improvement Council Skill Plan Fund;
  - (iv) Jurisdictional Assignment Plan Fund;
  - (v) Construction Labour Relations Association of BC Fund; and
  - (vi) British Columbia Highway and Related Construction Council Administration Fund.
- (j) Shift differentials are established for work performed during the afternoon and night shifts and for work performed underground.
- (k) Board and lodging requirements are set out and minimum standards for camps are established. Where accommodation is a motel or hotel, each worker is entitled to his or her own room. Any accommodated employee is entitled to checkout pay when he or she vacates employer-provided accommodation on the weekends or statutory holidays. All workers are also entitled to receive a daily travel allowance of \$6.

#### Highway Construction in British Columbia

8. In our view, the HCL Agreement represents a major shift away from the "open-shop" environment, which has prevailed in the road building industry during the past decade. Highway construction in British Columbia in recent years has been dominated by contractors whose employees, while unionized, are not members of the traditional building trade unions. Open-shop contractors are currently responsible for approximately 75% of all highway construction in the province. Their employees are members of "non-affiliated" unions such as the General Workers' Union of Canada, Canadian Iron, Steel and Industrial Workers' Union and the Construction and Allied Workers' Union of the Christian Labour Association of Canada.
9. While the non-affiliated unions typically negotiate basic wage rates that are comparable to those established by the building trade unions, the overall cost of non-affiliated union labour tends to be lower than that of building trade union labour for the following reasons:

- (a) the costs of employer-funded health and pension benefit programs under the non-affiliated unions are usually significantly lower than those of building trade union-sponsored programs. We understand that, despite their lower costs, the benefits under the non-affiliated union sponsored programs are comparable to those of the building trade union programs;
- (b) non-affiliated union work rules are more flexible and generally lead to fewer workers on the job site than would be required under building trade union work rules; and
- (c) non-affiliated union collective agreements are usually multi-trade agreements covering all of the major trade classifications involved in highway construction. Under these collective agreements, it is possible for workers to move between trade classifications depending on the nature of the work to be performed. This feature also tends to reduce the number of workers required on the site and decreases the risk of work stoppages over jurisdictional disputes between the trades.

#### **Fair Wage Policy**

- 10. In March 1992, the BC Ministry of Labour and Consumer Services introduced the Fair Wage Policy which sets minimum basic hourly wage and benefits rates for all construction projects with an estimated pre-tender value in excess of \$250 thousand undertaken by the Province of British Columbia or its crown corporations or agencies. Work performed on the Vancouver Island Highway Project would likely be subject to the provisions of the Fair Wage Policy. In the absence of the HCL Agreement, open shop contractors would be required to pay their employees at the rates set out in the Fair Wage Policy.
- 11. Pursuant to a separate agreement between HCL and the contractors, the contractors are required to compensate employees at rates not less than those specified in the Fair Wage Policy, or in the HCL Agreement, whichever rates are higher. This provision was recently deleted in an addendum to the tendering documents for one segment of the Project and there is some uncertainty as to whether it will apply to the balance of the



Project. Wage rates established in the HCL Agreement are comparable to the rates set out in the Fair Wage Policy.

## INCREMENTAL COST IMPACT

### Approach

12. In our view, in the absence of the HCL Agreement, the Vancouver Island Highway Project would be constructed in a predominately open-shop environment with most of the work carried out by members of non-affiliated unions. We therefore determined the incremental cost impact of the HCL Agreement on the Project by comparing the individual cost components of the HCL Agreement with the cost components of a typical non-affiliated union collective agreement. This comparison is set out on the attached schedule. We also compared the costs of the HCL Agreement with the costs of open-shop contractors with non-affiliated union employees operating under the provisions of the Fair Wage Policy.
13. In order to simplify our analysis, we made these comparisons using a composite of the three most common road building trades, often referred to as the "Tri-pac". The Tri-pac is comprised of labourers, teamsters and operating engineers. We weighted each of these trades equally in our calculation of the composite labour costs. The wage rates and other provisions contained in the non-affiliated union collective agreements that we reviewed are very similar and, based on these similarities, we were able to construct a composite collective agreement which generally reflects the provisions of a typical non-affiliated union collective agreement.

### Base Wage Rates

14. As set out on the attached schedule, the composite base wage rate for non-affiliated union employees is \$1.220 (6%) lower than the composite base rate established by the Fair Wage Policy and the HCL Agreement. The composite base wage rate for employees working under the Fair Wage Policy and the HCL Agreement are identical.

#### Employee Benefits

15. As previously discussed, the cost of benefits for non-affiliated union employees is significantly less than the rates established by the building trade unions and this differential is reflected in our analysis. As set out in the schedule, the cost of benefits under the HCL Agreement is \$2.549 (70%) higher than the cost of benefits provided under the non-affiliated union collective agreements and \$2.191 (55%) higher than the costs of benefits mandated under the Fair Wage Policy.

#### Union and Industry Fund Contributions

16. Neither the non-affiliated union collective agreements nor the Fair Wage Policy requires contributions to union or industry-related funds. As noted on the schedule, these contributions, as required by the HCL Agreement, represent an additional \$0.698 per hour or \$4.75 million based on total projected work hours of 6.8 million.

#### Statutory Employer Payments

17. For the purposes of our analysis, we assumed that the average Workers' Compensation Board rate for all contractors on the project would be 3.7% of gross wages and that Canada Pension Plan contributions would be determined at 2.6% of gross wages. We set Unemployment Insurance contributions at \$0.84 per hour based on the maximum contributions for bi-weekly pay periods.

#### Overtime Premiums

18. The calculation of overtime premiums is based on the assumption that 10% of the work on the Project will be performed at overtime rates of 1.5 times base wage rates.

#### Payroll Fees

19. Contractors will be required to pay to HCL a \$10 payroll processing fee per pay period for each Project employee. As most contractors will continue to maintain their own payroll departments for job-costing purposes, this payroll fee represents an additional cost

to the contractor. Based on an average work week of 44 hours, this fee converts to an hourly cost of \$0.114. We note that this fee must be paid for all employees even if they do not work a full pay period. For the purpose of our calculation, we have assumed a relatively stable labour force. If the contractors experience a high rate of employee turnover, the cost per hour of the payroll fee will be higher than the amount we calculated.

#### Room and Board

20. The non-affiliated union collective agreements generally provide for a flat living-out allowance of approximately \$50 per day for those employees living beyond a certain distance from the job site. The HCL Agreement requires that either a camp be established or that the costs of meals and accommodation in a hotel or motel be provided. Contractors who are familiar with the HCL Agreement estimate that this arrangement will cost approximately \$80 per day for each employee. The HCL Agreement also provides \$13 per day for checkout pay on weekends and statutory holidays. We assumed that 20% of the workers on the Project will require room and board. Based on an average work week of 44 hours, the food and accommodation costs under the non-affiliated union collective agreements equate to an hourly cost of \$1.136, while these costs under the HCL Agreement are \$1.936 per hour.

#### Travel Allowance

21. The non-affiliated union collective agreements generally provide for a travel allowance only in extraordinary situations where the job site is in a remote location. The amount of the travel allowance is negotiated on a project-by-project basis. The contractors that we interviewed indicated that it is unlikely that these travel allowance provisions would be applicable to the Vancouver Island Highway Project. There are no travel allowance provisions in the Fair Wage Policy.
22. The HCL Agreement provides a travel allowance of \$6 per day for every Project employee regardless of the distance from their residences to their job sites. Based on a 44 hour week, this allowance represents an hourly cost of \$.682.

# SCHEDULE

## VANCOUVER ISLAND HIGHWAY PROJECT

Comparison of Labour Costs Per Hour for  
Composite Tri-Pac Trades

(\$)	Non-affiliated unions	Fair Wage Policy	HCL Agreement
Base rate	20.417	21.637	21.637
Benefits			
Vacation and holiday	2.042		2.705
Health and welfare	1.150		1.463
Pension	0.450		2.023
	3.642	4.000	6.191
Union and industry funds			
Training funds	-	-	0.237
Advancement funds	-	-	0.140
Tool allowance funds	-	-	0.027
Rehabilitation fund	-	-	0.020
Health and safety fund	-	-	0.020
Skill plan fund	-	-	0.020
JAP fund	-	-	0.005
CLRA fund	-	-	0.080
Council administration fund	-	-	0.150
	-	-	0.698
Statutory employer payments			
WCB at 3.7%	0.770	0.816	0.816
CPP at 2.6%	0.531	0.563	0.563
UIC	0.840	0.840	0.840
	2.141	2.218	2.218
	26.199	27.855	30.745
Overtime premiums	1.153	1.193	1.284
Payroll fee	-	-	0.114
Room and board	1.136	1.136	1.936
Travel allowance	-	-	0.682
Shift differentials	-	-	0.881
Total costs before additional staffing	28.488	30.184	35.641
Additional staffing requirements	-	-	3.564
Total cost per hour	28.488	30.184	39.206
Total project labour costs based on a projected work hours of 6.8 million (\$000's)	193,700	205,300	266,600
Labour cost premium over non-affiliated union rates under:			
Fair Wage Policy		6.0%	
HCL Agreement			37.6%
Labour cost premium over Fair Wage Policy rates under:			
HCL Agreement			29.9%

**J. TERRY GORDON  
CURRICULUM VITAE**

**PROFESSIONAL STATUS**

Manager, BDO Dunwoody Ward Mallette, Chartered Accountants and Consultants,  
Vancouver, British Columbia

**EDUCATION AND PROFESSIONAL DESIGNATIONS**

BA, Political Science (University of Florida) 1977  
Diploma of Technology, Financial Management, (British Columbia Institute of  
Technology) 1986  
CA, Institute of Chartered Accountants of British Columbia 1989

**AREAS OF PRACTICE**

Business and securities valuations  
Mergers and acquisitions  
Litigation support  
Financial consulting

**PROFESSIONAL EXPERIENCE**

Five years as Assistant Executive Director with Canadian Mental Health  
Association, BC Division

Three years in BDO Dunwoody Ward Mallette's general practice areas of  
accounting, auditing and taxation.

Four years in BDO Dunwoody Ward Mallette's special practice areas involved  
exclusively in litigation support, business and securities valuations, mergers and  
acquisitions and financial consulting.

Business and securities valuations of private and public companies for:

Income tax matters  
Corporate reorganizations  
Matrimonial settlements  
Employee share purchases  
Estate and retirement matters  
Insolvency related assignments  
Shareholder disputes

**J. TERRY GORDON  
CURRICULUM VITAE**

**PROFESSIONAL EXPERIENCE (Continued)**

**Litigation support assignments include:**

- Contract arbitrations
- Economic loss calculations
- Loss of profit claims
- Construction claims
- Insurance claims
- Accounting investigations
- Insolvency related assignments
- Matrimonial settlements
- Shareholder/partner disputes
- Anti-competition matters

**Financial consulting assignments include:**

- Mergers, acquisitions and divestitures
- Feasibility and investment analysis
- Financial proposals
- Business and strategic planning

**Industry experience includes:**

- A broad range of manufacturing industries
- Service and retail/wholesale trading
- Communications
- Professional practices
- Hotels, restaurants and recreation facilities
- Property ownership, construction and management
- Transportation
- Highway construction and maintenance
- Food processing
- Travel and tourism
- Cattle ranching
- Aquaculture
- Health care
- Mining

**GENERAL**

Mr. Gordon is currently the Treasurer of a number of charitable and non-profit organizations. He has lectured to entry level students at the BDO Dunwoody Ward Mallette National Staff Introduction Course. Mr. Gordon has given evidence in the Supreme Court of British Columbia.