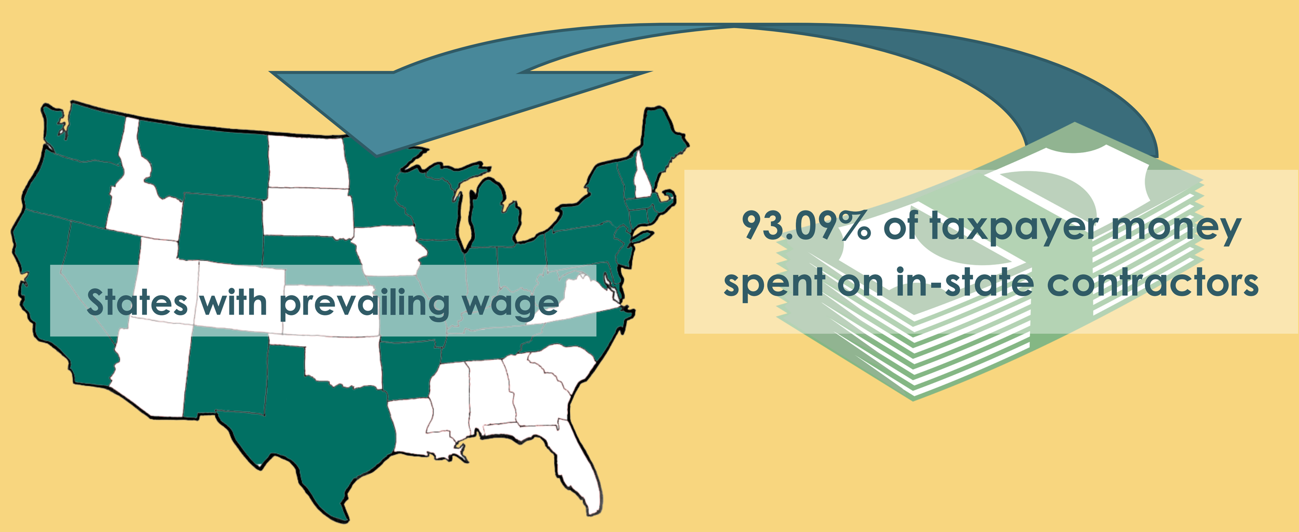
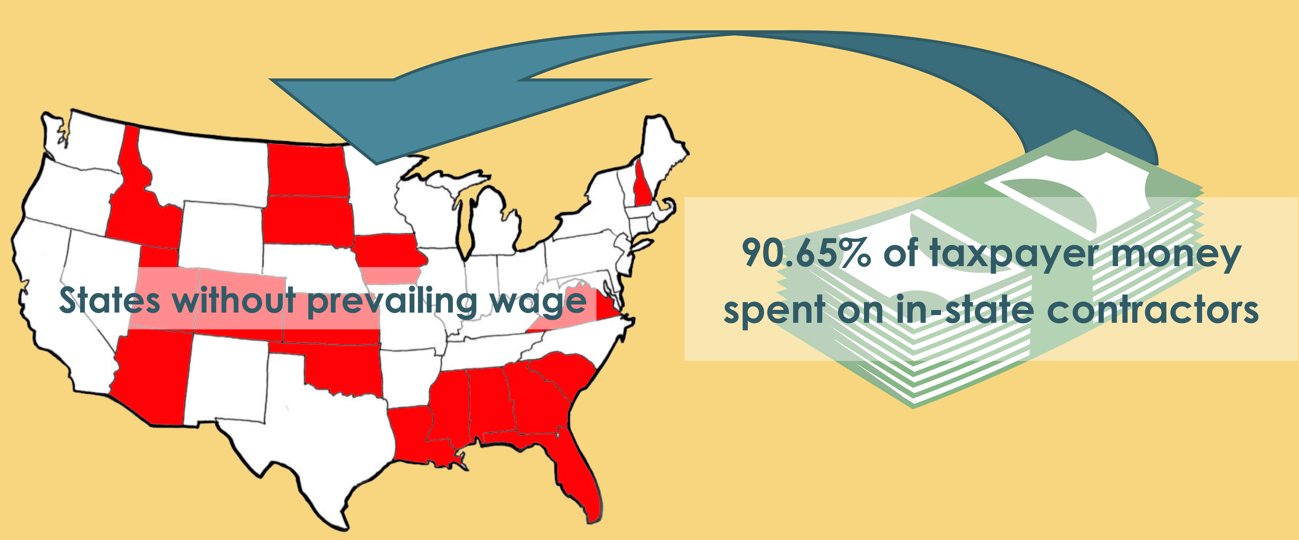
An Analysis of the Impact of Prevailing Wage Thresholds On Public Construction

Frank Manzo IV, MPP, Policy Director, Illinois Economic Policy Institute
Robert Bruno, PhD, Director, Labor Education Program

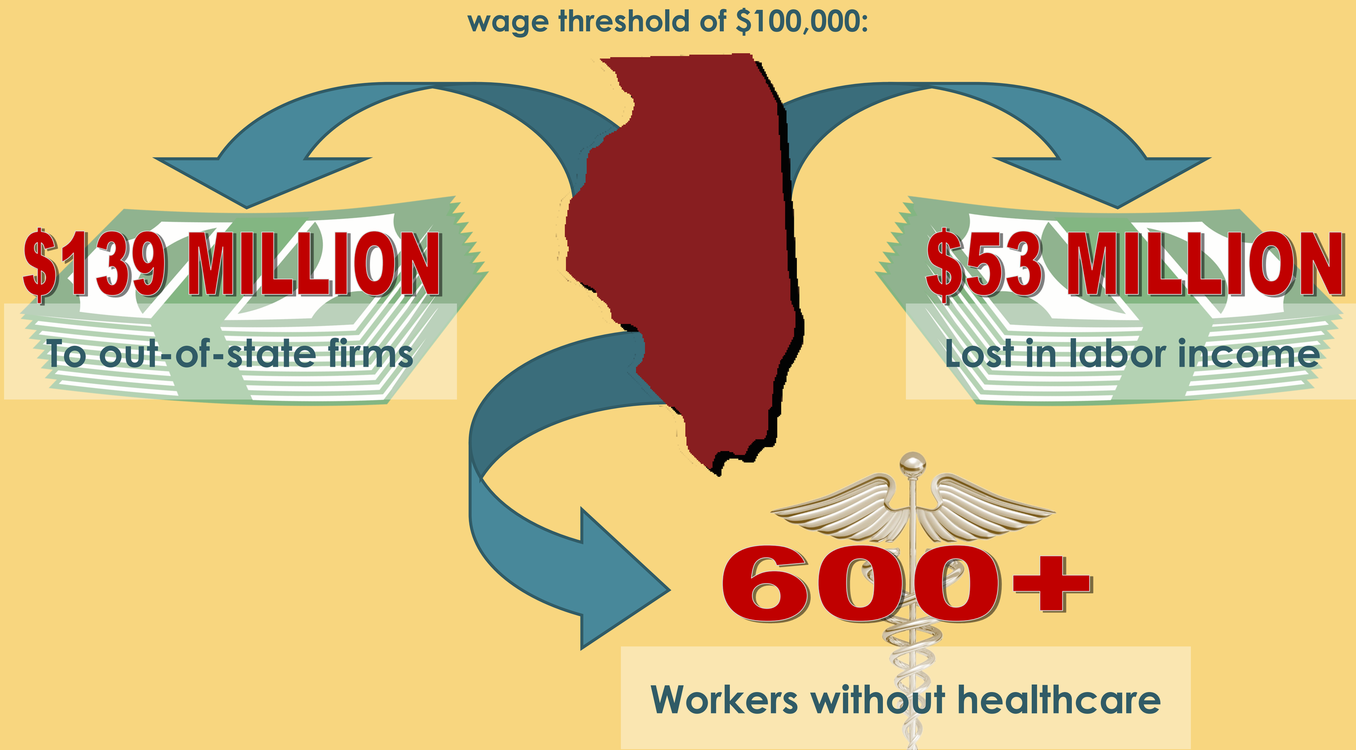
IN-STATE CONTRACTORS TEND TO DO BETTER IN STATES WITH PREVAILING WAGE LAW



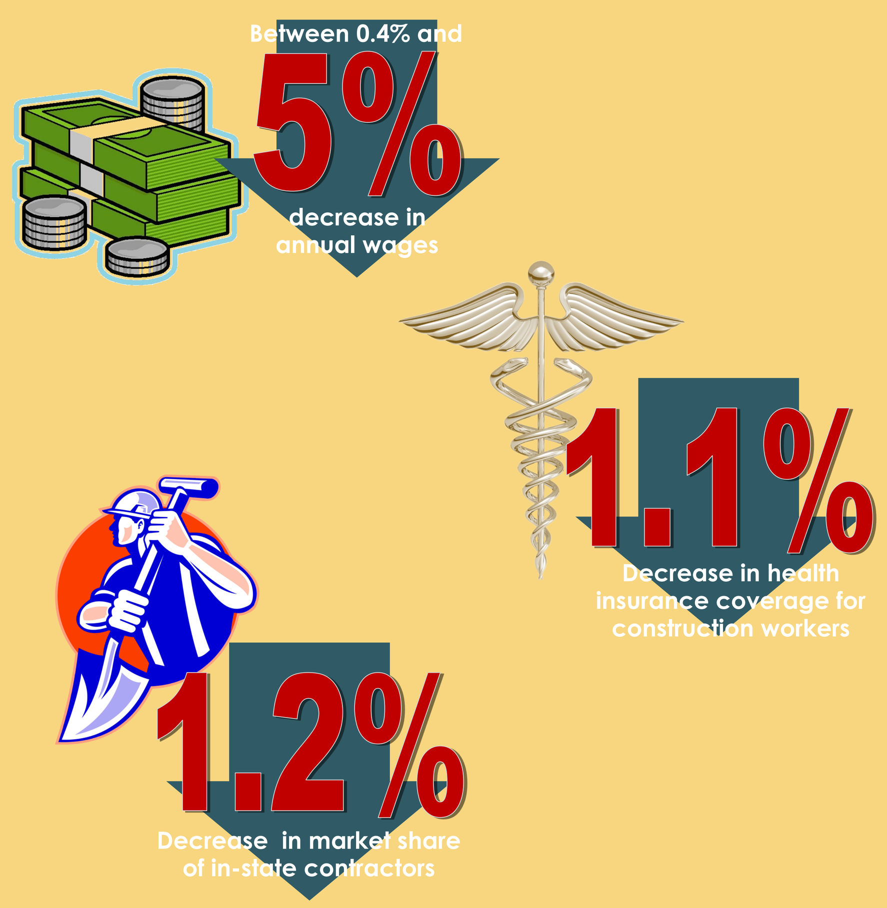


WHAT ALL OF THIS MEANS FOR ILLINOIS:

If Illinois were to establish a prevailing wage threshold of $100,000:



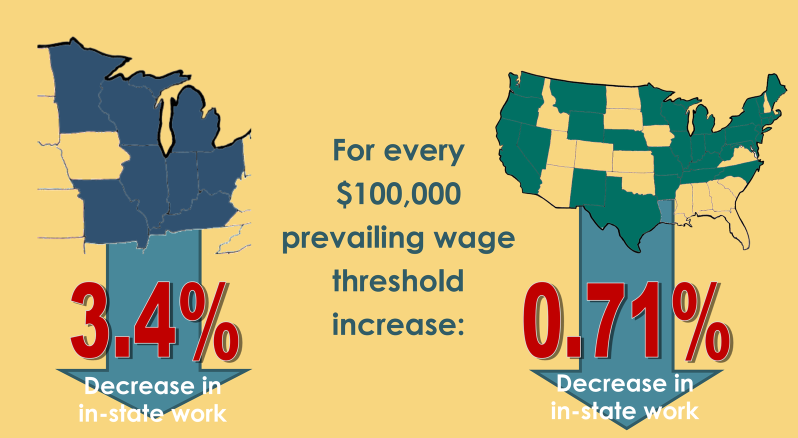
INCREASING THRESHOLDS HAS DEVASTATING EFFECTS ON WORKERS



NO EVIDENCE THAT RAISING THRESHOLD INCREASES BID COMPETITION

Bids on projects from $250k to $350k	Bids on all projects $350k or less
40 in 2012	140 in 2012
35 in 2013	106 in 2013

THRESHOLD HIKES IN THE MIDWEST AFFECT IN-STATE WORK MORE THAN NATIONAL AVERAGE



BACKGROUND

A state prevailing wage law supports construction workers employed on public infrastructure projects. The policy requires that workers employed on projects funded by taxpayer dollars are compensated according to hourly wage and benefits rates normally paid on similar private and public projects in an area. Prevailing wage prevents units of government from undercutting local wage standards on public construction, ensuring that workers can afford to live in the community where they are building a project. Instead of lowering worker wages below their privately-established levels to become the lowest bidder, prevailing wage encourages contractors to compete on a level playing field over other factors, such as the productivity of their workforce, managerial efficiencies, and materials costs. In this way, prevailing wage helps to stabilize state construction markets.

As of January 2016, a total of 31 states have a prevailing wage law. However, state prevailing wage laws can differ by the breadth of work included or excluded, the method for determining prevailing wage rates, and the contract threshold for a project to be covered under the policy. Stark differences have led economic researchers to distinguish between states that have a "strong" prevailing wage law, an "average" prevailing wage law, a "weak" prevailing wage law, and no law. First outlined by Thieblot (1995), these state-level ratings were intended to study states with similar statutes.

Contract thresholds are an important determinant of the strength of a state's prevailing wage law. A contract threshold is the minimum cost of a public project at which point workers must be paid prevailing wage rates. Public projects below the threshold are exempt from the law, while those above the minimum dollar amount are covered by the law. For example, the federal Davis-Bacon Act establishes a minimum threshold of $2,000. Any public works project directly contracted with federal tax dollars or for which appropriation includes a Davis-Bacon provision that exceeds $2,000 is therefore covered by the policy.

Contract thresholds vary across states (Figure 1). Nine prevailing wage states– including Illinois– have no minimum threshold. In these states, the prevailing wage law covers all publicly-funded projects regardless of size. Other states have thresholds at or near the federal Davis-Bacon level of $2,000. However, the range of coverage thresholds extends to minimum amounts of $400,000 for new construction in Connecticut and $500,000 for all construction in Maryland. Additionally, thresholds can vary within a state over time. For example, four states– Alaska, Indiana, Ohio, and Wisconsin– raised their minimum thresholds by between $23,000 and $121,742 from 2012 to 2013 (Figure 1).

FIGURE 1: THRESHOLD AMOUNTS FOR CONTRACT COVERAGE UNDER PREVAILING WAGE LAWS, 2007-2013

State	2007	...	2012	2013	Change from 2007 to 2012	Change from 2012 to 2013
Alaska	$2,000	...	$2,000	$25,000	$0	$23,000
Arkansas	$75,000	...	$75,000	$75,000	$0	$0
California	$1,000	...	$1,000	$1,000	$0	$0
Connecticut*	$400,000	...	$400,000	$400,000	$0	$0
Delaware*	$100,000	...	$100,000	$100,000	$0	$0
Hawaii	$2,000	...	$2,000	$2,000	$0	$0
Illinois	$0	...	$0	$0	$0	$0
Indiana[1]	$150,000	...	$250,000	$350,000	$100,000	$100,000
Kentucky	$250,000	...	$250,000	$250,000	$0	$0
Maine	$50,000	...	$50,000	$50,000	$0	$0
Maryland	$500,000	...	$500,000	$500,000	$0	$0
Massachusetts	$0	...	$0	$0	$0	$0
Michigan	$0	...	$0	$0	$0	$0
Minnesota†	$25,000	...	$25,000	$25,000	$0	$0
Missouri	$0	...	$0	$0	$0	$0
Montana	$25,000	...	$25,000	$25,000	$0	$0
Nebraska	$0	...	$0	$0	$0	$0
Nevada	$100,000	...	$100,000	$100,000	$0	$0
New Jersey	$2,000	...	$2,000	$2,000	$0	$0
New Mexico	$60,000	...	$60,000	$60,000	$0	$0
New York	$0	...	$0	$0	$0	$0
Ohio*	$67,853	...	$78,258	$200,000	$10,405	$121,742
Oregon	$25,000	...	$50,000	$50,000	$25,000	$0
Pennsylvania	$25,000	...	$25,000	$25,000	$0	$0
Rhode Island	$1,000	...	$1,000	$1,000	$0	$0
Tennessee	$50,000	...	$50,000	$50,000	$0	$0
Texas	$0	...	$0	$0	$0	$0
Vermont	$100,000	...	$100,000	$100,000	$0	$0
Washington	$0	...	$0	$0	$0	$0
West Virginia	$0	...	$0	$0	$0	$0
Wisconsin‡	$44,000	...	$25,000	$100,000	-$19,000	$75,000
Wyoming	$25,000	...	$25,000	$25,000	$0	$0

*Source(s): WHD, 2016. [1]Indiana repealed its prevailing wage law– called Common Construction Wage– in early 2015. *Thresholds for Connecticut, Delaware, and Ohio are for new construction projects only. †Minnesota threshold shown is for projects where more than one trade is involved. Where a single trade is involved, the threshold is $2,500. Neither has changed since 2007. ‡Wisconsin's law changed in 2010. In 2007, the coverage threshold was $44,000 on projects where one trade is involved. By 2012, the threshold was $25,000 for all projects.*

This report, conducted by researchers at the Illinois Economic Policy Institute and the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign, is an evaluation of contract thresholds for project coverage under the prevailing wage law. The background section reviews the academic and policy research on the effects of weakening state prevailing wage laws on economic outcomes. The section also discusses data sources and study methodology. The impact that increases in state contract thresholds have on business and labor market outcomes is presented in the following section. The analysis is subsequently applied to Illinois to forecast effects if Illinois were to introduce a prevailing wage threshold. Finally, a conclusion summarizes key findings.

EXECUTIVE SUMMARY

A contract threshold is the minimum cost of a public project at which point workers must be paid prevailing wage rates. Publicly-funded projects below the threshold are exempt from the law, while those above are covered. Contract thresholds vary by state, from those with no threshold (such as Illinois) up to $500,000 in Maryland.

Higher contract thresholds lower business revenues for in-state contractors. Increases in prevailing wage thresholds incentivize out-of-state contractors to enter the market.

- A $100,000 increase in a prevailing wage state's contract threshold is associated with a 1.2 percentage-point drop in the market share of in-state contractors (±0.5 percentage points).
- Over the five years from 2007 to 2012, three states raised their prevailing wage coverage thresholds: Indiana had a $100,000 threshold hike and the in-state contractor share fell 2.7 percentage points; Oregon had a $25,000 threshold hike and the in-state contractor share fell 1.6 percentage points; Ohio had a $10,405 threshold hike and the in-state contractor share fell 0.5 percentage points.
- Another $100,000 threshold change in Indiana from 2012 to 2013 had no statistical impact on the number of bids submitted on public projects, indicating that prevailing wage coverage did not limit competition.

Higher contract thresholds reduce wages and health insurance coverage for construction workers. Differences in coverage thresholds across and within states provide an opportunity for researchers to understand how thresholds affect construction workers. Every $100,000 threshold increase is statistically associated with:

- A 0.45 percent to 4.9 percent decrease in the annual incomes of construction workers;
- A 0.28 percent to 0.33 percent decrease in health coverage for construction workers;
- Inconclusive impacts on the employment of blue-collar construction workers.

Similarly, a separate "difference-in-differences" method finds that threshold changes were responsible for a 0.44 percent reduction in annual incomes, a 1.11 percent decline in health coverage, and a small negative effect on overall employment among blue-collar construction workers. Raising a threshold lowers the wages and health coverage of construction workers.

Introducing a threshold would have negative consequences for public construction in Illinois. Public bid data suggest that the median cost of all public projects in the state is about $300,000. If Illinois introduced a threshold of $100,000 for coverage under the state's prevailing wage law:

- About 25 percent of all public projects would be affected;
- The average number of bids would be unchanged;
- In-state contractors would annually lose $139 million in business revenue to out-of-state construction companies on public projects that are funded by Illinois taxpayers;
- Annual labor income of blue-collar construction workers in Illinois would decline by $53 million;
- Between 600 and 2,040 construction workers in Illinois would lose their health coverage at work.

These predictions align with a previous forecast on the impact of weakening prevailing wage in Illinois. Researchers have estimated that a statewide repeal of Illinois' prevailing wage law would shrink Illinois' economy by $1.1 billion per year and reduce state and local tax revenues by $44 million annually. With a total income loss of $192 million for Illinois' contractors and workers, the consequences of a $100,000 threshold would equate to about 18 percent of the total effect of full-scale repeal. A $300,000 threshold would equate to about 54 percent of the total effect.

Raising the threshold lowers the bar in public construction. Weakening prevailing wage laws by introducing or raising contract thresholds has negative impacts on local contractors, construction workers, and economies.

LABOR EDUCATION PROGRAM
PROJECT FOR MIDDLE CLASS RENEWAL
ILLINOIS
UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN
SCHOOL OF LABOR AND EMPLOYMENT RELATIONS

A Higher Road for a Better Tomorrow
MIDWEST ECONOMIC POLICY INSTITUTE