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

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 by 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 level, the 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, and a “weak” prevailing wage law, and no law. For example, by the mid-1990s, state-level prevailing wage laws were intended to study states with similar statutes.

Contract thresholds are an important determinant of the strength of a state’s prevailing wage policy. 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 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 work project directly contracted with federal tax dollars or for which appropriation 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, Idaho, Ohio, and Wisconsin-raised their minimum thresholds by between $23,000 and $500,000 for all construction projects. Finally, thresholds can also vary across states (Figure 1). Low prevailing wage states—such as Illinois—have no minimum threshold. In these states, the prevailing wage law covers all publicly-funded projects regardless of size. Other states have thresholds of at or near the federal Davis-Bacon level of $2,000. However, the range of coverage thresholds extends from $250,000 to $350,000 in Indiana.

INCREASING THRESHOLDS HAS DEVASTATING EFFECTS ON WORKERS

Increasing contract thresholds at state level has negative impacts on public construction in Illinois. Raising the threshold lowers the bar in public construction.

A $100,000 increase in a prevailing wage state’s contract threshold is associated with a 1.1 percentage points drop in the market share of in-state contractors (±0.5 percentage points).

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) to thresholds ranging from $250,000 to $350,000 in Indiana. Higher contract thresholds lower business revenues for in-state contractors, increases in prevailing wage thresholds incent out-of-state contractors to enter the market.

Workers without healthcare: 600+

$139 million
To out-of-state firms

$53 million
Lost in labor income

Nearly 90.65% of taxpayer money spent on in-state contractors
Nearly 93.09% of taxpayer money spent on out-of-state contractors

INSTATE CONTRACTORS TEND TO DO BETTER IN STATES WITH PREVAILING WAGE LAW

There is no evidence that raising threshold increases bid competition

Bids on projects from $250K to $500K

Bids on all projects below $350K

For every $100,000 prevailing wage threshold increase:

3.4% decrease in the market share of in-state contractors

0.71% drop in the market share of state contractors

Threshold hikes in the Midwest affect in-state work more than national average

An Analysis of the Impact of Prevailing Wage Thresholds On Public Construction by Frank Manzo IV, MPP, Policy Director, Illinois Economic Policy Institute

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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.

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 $121,742 from 2012 to 2013 (Figure 1).

The average number of bids would be unchanged;

In-state contractors would annually lose $139 million in business revenue to out-of-state contractors.

Annual labor income of blue-collar construction workers in Illinois would decline by $33 million.

Between 60% and 2,504 construction workers in Illinois would lose their health coverage at work.

Annually, families of blue-collar construction workers in Illinois would lose $139 million in business revenue to out-of-state contractors.

A $300,000 threshold would equate to about 54 percent of the total effect of full repeal.

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.