

**Written Testimony of Frank Manzo IV**  
**Policy Director of the Illinois Economic Policy Institute**  
**Before the McHenry County College Board of Trustees**  
**Regarding Illinois' Prevailing Wage Law and School Construction Costs**

Chairman Smith, Vice Chair Liddell, and fellow Trustees, my name is Frank Manzo IV and I serve as Policy Director of the Illinois Economic Policy Institute (ILEPI).<sup>1</sup> ILEPI is a nonprofit research organization which provides timely, candid, and dynamic analyses on major labor market policies and infrastructure investment projects throughout Illinois. ILEPI's Board of Directors includes representatives from business, labor, higher education, and the Illinois General Assembly—including one former Republican State Senator and one former Democratic State Representative.<sup>2</sup> Over the past two years, I have authored or coauthored a dozen reports specifically pertaining to prevailing wage and have appeared on WTTW's *Chicago Tonight* to discuss the topic.<sup>3</sup> I was also born and raised in the City of McHenry.

Prevailing wage is a minimum wage for construction workers on projects that are financed using taxpayer dollars. There are three main reasons why prevailing wage has existed in Illinois since 1941. First, prevailing wage promotes a skilled workforce by investing a portion of worker incomes into training programs. Second, prevailing wage ensures that workers are paid the local market rate so they can support middle-class families in the community where the project is being built. Finally, Illinois taxpayers believe that government should not use its massive purchasing power to undercut privately-established wages in a local economy. Taxpayer dollars should reward the lowest bidder as long as the company is responsible and pays its workers a living wage.

I often urge state and local decision-makers to be skeptical of exorbitant "cost savings" claims made by opponents of prevailing wage laws. In both Illinois and the rest of the country, labor costs only account for 20 to 25 percent of total expenditures on public construction projects, according to data from the *Economic Census of Construction*.<sup>4</sup> But let's focus on commercial and institutional building construction in Illinois: In this sector in 2012, construction worker annual wages totaled \$526,080,000 and fringe benefits paid to workers totaled \$283,902,000 across the state. The statewide total value of construction work completed in this sector amounted to \$12,116,732,000, meaning that labor costs only accounted for 6.7 percent of total costs.<sup>5</sup> Items such as materials costs, supply costs, and contractor profits are of far greater significance. This is *actual* economic data submitted to the U.S. Census Bureau from Illinois contractors, not some hypothetical estimate using poor assumptions. If eliminating prevailing wage lowers worker wages to \$0.00 per hour, then local governments can save taxpayers up to 6.7 percent. That is, however, implausible and illegal. Even if labor costs for construction of McHenry County College facilities are closer to the 20 to 25 percent average for other public works projects, it is impossible to generate significant savings without paying workers less than the minimum wage.

The problem is that workers are not as productive if their wages are suddenly cut by 10 or 20 percent. They do not go to work the next day, thank their employers, and work just as hard. Higher-skilled employees look for new careers in other industries where their skills will be rewarded. But public works construction projects require skilled workers who complete jobs safely for our students. In fact, northern Illinois apprenticeship programs in the trades require *at least* 6,400 hours of objective, certified training—

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<sup>1</sup> See: [www.illinoisepi.org](http://www.illinoisepi.org)

<sup>2</sup> See: <http://illinoisepi.org/board-of-directors-countryside/>

<sup>3</sup> See: <http://chicagotonight.wttw.com/2015/05/26/debating-prevailing-wage-law>

<sup>4</sup> See: <http://www.faircontracting.org/wp-content/uploads/2015/05/How-Weakening-Wisconsin's-Prevailing-Wage-Policy-Would-Affect-Public-Construction-Costs-and-Economic-Activity2.pdf>

<sup>5</sup> See: [http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ECN\\_2012\\_US\\_23A1&prodType=table](http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ECN_2012_US_23A1&prodType=table)

more than the minimum requirements (5,760 hours) to receive a bachelor's degree from the University of Illinois at Urbana-Champaign.<sup>6</sup> Construction is not low-skilled work.

This is reflected in the productivity numbers for public works construction workers: the average construction worker employed on public projects contributes over \$164,000 per year to Illinois' gross domestic product (GDP).<sup>7</sup> High productivity should be—and is—rewarded by good wages.

Now, there is a myth that prevailing wage is automatically a union wage. The truth is that the prevailing wage is determined through certified payrolls submitted by *both* workers and employers. A union wage only prevails if a majority of unionized employees are working on public projects. However, the construction labor market in McHenry County is predominately unionized. Of the 86 public projects up for bid across the entire county in 2013, there were 196 total bids. Contractors signatory to a collective bargaining agreement submitted 181, or 92.3 percent, of those bids. Though nonunion contractors won 4 of the 86 bids, they were for smaller projects. Over the entire year, union contractors completed \$116.4 million worth of work compared to the nonunion share of \$118,139. The rates listed by the Illinois Department of Labor *are* the local market rates.<sup>8</sup>

My question for any Trustee who believes that the rates are “too high” is this: Why haven't you entered the construction industry and joined an apprenticeship program? Wages and benefits are determined by the supply of workers meeting the demand for workers. If the wage is “too high,” you and other workers should be flooding the market (which would lower the prevailing wage). But workers aren't entering the trades. Anecdotally, contractor after contractor actually says that, since many workers are nearing retirement, the demand for skilled construction workers is going up! How does a business attract *new* workers into an industry that 1.) is dangerous, 2.) requires a three- to five-year personal investment in training, and 3.) is unstable (due to the business cycle, seasonal weather patterns, and unbalanced government budgets) where they may only work 1,600 hours over 9 months of the year? The answer is paying higher wages! Money is a good incentive.

Finally, I wanted to touch upon the peer-reviewed economic research specifically regarding prevailing wages and school construction costs. The Anderson Economic Group did publish one study claiming that prevailing wage repeal could save Illinois taxpayers about \$160 million per year on school construction costs alone.<sup>9</sup> As a policy researcher, I am very skeptical of these claims. First, the author does not consider how lowering workers' wages might impact worker productivity, even though blue-collar construction workers in states with prevailing wage laws are at least 14 percent more productive than their counterparts in states without the law.<sup>10</sup> Second, the report makes no effort to account for project type (elementary school, high school, college, etc.), project size, location of project, complexity of the project, or materials used. The report is based on assumptions and not actual data from the construction industry.

In the academic research that is grounded in official data, however, the evidence finds that repeal of prevailing wage has no statistical impact on total school construction costs. In the mid-1990s, Ohio, Kentucky, and Michigan school districts all experienced changes in prevailing wage requirements— either by eliminating the requirements or introducing them. After accounting for project size, type of project,

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<sup>6</sup> See: <http://illinoisepi.org/countrysidenonprofit/wp-content/themes/12/docs/McHenry%20County%20Prevailing%20Wage%20Economic%20Commentary.pdf>

<sup>7</sup> See: <http://illinoisepi.org/countrysidenonprofit/wp-content/themes/12/docs/McHenry%20County%20Prevailing%20Wage%20Economic%20Commentary.pdf>

<sup>8</sup> See: <http://illinoisepi.org/countrysidenonprofit/wp-content/themes/12/docs/McHenry%20County%20Prevailing%20Wage%20Economic%20Commentary.pdf>

<sup>9</sup> See: [http://www.andersoneconomicgroup.com/Portals/0/AEG\\_ABCIL\\_PrevailingWage\\_FINAL.pdf](http://www.andersoneconomicgroup.com/Portals/0/AEG_ABCIL_PrevailingWage_FINAL.pdf)

<sup>10</sup> See: <http://www.faircontracting.org/wp-content/uploads/2014/02/Kentucky-Report-2014-Philips.pdf>

urban vs. rural schools, and other factors, there was no difference in school construction costs due to prevailing wage.<sup>11</sup> This conclusion has been supported in numerous other studies as well.<sup>12</sup>

While prevailing wage is only one policy, it is part of a broader debate about what type of state we want to live in. If we want to live in a state where prosperity means lowering the wages of our residents and discouraging skilled workers from building the roads we drive on every day and schools our children go to every day, that is a possibility. However, if we want to live in a state that supports working families, builds quality infrastructure, and raises incomes so that no one has to rely on government assistance, prevailing wage remains an excellent policy to help achieve this aim.

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<sup>11</sup> See: <http://www.faircontracting.org/wp-content/uploads/2014/02/Kentucky-Report-2014-Philips.pdf> (pp. 29-33)

<sup>12</sup> Example: <http://onlinelibrary.wiley.com/doi/10.1111/irel.12072/abstract>