

BUILDING A STRONG WINNEBAGO COUNTY

How Prevailing Wage Works



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ILEPI Economic Commentary #44

INTRODUCTION

As part of his “turnaround agenda,” Governor Bruce Rauner has proposed allowing local units of government to opt out of paying prevailing wages to construction workers employed on public projects. Consequently, various counties across Illinois have attempted to become exempt from Illinois’ prevailing wage law. In April 2015, the Winnebago County Board voted to endorse most of the Governor’s agenda, but excluded the provision to eliminate prevailing wage (*Rockford Register Star*, 2015).

Localities across Winnebago County, including the County Board, should not vote to repeal prevailing wage. Results from this ILEPI Economic Commentary should give Winnebago County residents reason to be skeptical of abolishing or changing the state’s prevailing wage law. This analysis finds:

- Labor costs account for just 22.6 percent of total costs on heavy and civil engineering projects in Illinois, so it is mathematically impossible to save as much as 20 percent by eliminating prevailing wage;
- Median housing costs are 30.9 percent of the typical income for a laborer earning the prevailing wage in Winnebago County;
- Public works construction projects require skilled workers who complete more classroom and on-the-job training than the minimum requirements to receive a typical bachelor’s degree;
- In Illinois, heavy and civil engineering construction workers are more productive than the average construction worker, producing \$164,012 in value added to the economy per worker;
- Prevailing wage is *not* a union wage, but unionized contractors submitted 100 percent of bids on public projects in Winnebago County in the twelve months from April 2014 through March 2015; and
- In Winnebago County, prevailing wages generate \$36.3 million in economic output and support \$1.5 million in state and local tax revenues that otherwise would not occur.

Prevailing wage is necessary to prevent government bodies from undercutting the established labor market, and drives economic development in the county. Prevailing wage is the best deal for Winnebago County taxpayers.

LABOR COSTS AS A SHARE OF TOTAL COSTS IN WINNEBAGO COUNTY

The most recent data from the U.S. Economic Census reveals that labor costs account for just 22.6 percent of total construction costs in heavy and civil engineering in Illinois (Figure 1). Heavy and civil engineering construction is used throughout this study because it includes work on highways, road, bridges, dams, water and sewer lines, and land subdivision— projects which are predominately financed by the public. Payroll costs plus fringe benefits comprised \$2.02 billion (22.6 percent) of the \$8.9 billion in total construction costs on heavy and civil engineering across the state in 2012. Meanwhile, administrative costs were 6.9 percent of total construction costs in the sector. Spending on materials, components, supplies, subcontracts, and energy costs accounted for the bulk of expenses (59.0 percent).

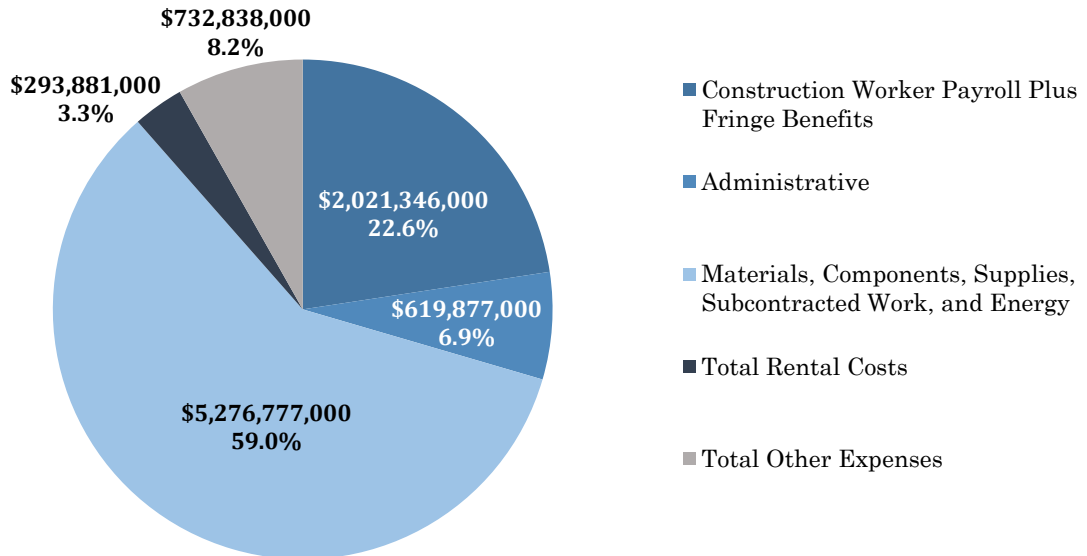
As the argument goes, prevailing wage raises the cost of public works construction. However, as will be evident, wages do not equal higher costs, but exploring the myth is worthwhile at the onset. If there were a 10 percent reduction in wages in Winnebago County, there would be just a 2.3 percent savings in total costs. Put another way, the county would save \$22,600 on a \$1 million project or \$226,000 on a \$10 million project. However, savings would occur *only if there is no relationship between wages paid and work performed*. Of course, this is an implausible assumption: higher wages attract more-experienced and better-skilled career employees who are more productive, which offsets most if not all of the cost savings.

It is also mathematically impossible for prevailing wages to increase total construction costs up to 20 percent. Prevailing wage only impacts the labor cost portion of total expenditures, which only accounts for 22.6 percent of the cost of public projects. In order to “save” 20 percent, construction worker wages would have to

be reduced by 88.5 percent.¹ This means that workers would see their middle-class incomes fall to the minimum wage *and* it assumes that skilled workers would stay in Winnebago County’s construction industry, still show up to work, and be just as happy, hardworking, and productive.

Figure 1: Labor Costs as a Share of Total Public Works Construction Costs, Illinois, 2012 Economic Census

Total Heavy and Civil Engineering Construction Costs in Illinois, 2012 Economic Census



Source: 2012 Economic Census, United States Census Bureau available at <http://www.census.gov/econ/census/>.

PREVAILING WAGE IS THE LOCAL MARKET RATE

The Illinois Prevailing Wage Act establishes local standards in Winnebago County’s labor market. The law is intended to prevent a government body, such as the Winnebago County Board, from using its expansive purchasing power to undercut privately-established wages and benefits in a community. In effect, the law takes labor costs out of the equation for contractors in winning a bid on a public construction project. Instead of lowering costs by using low-skill, low-wage workers, the law forces firms to compete on the basis of productivity, quality, materials costs, technology, management practices and logistics, and profit margins—while paying local market wages.

Efforts to repeal, weaken, or otherwise renounce prevailing wage determinations are motivated by the claim that the rates are “inflated” or “too high.” Even though the Illinois Department of Labor is already required to determine prevailing wages based on actual certified transcripts of payroll forms from *both* employers and employees in the county, those who advocate against prevailing wage question the process. In doing so, they imply that cutting worker wages would somehow help to increase prosperity in Illinois.

Take the prevailing wages for laborers as an example. In July 2015, the prevailing wage for a skilled laborer was \$36.99 per hour in base wage and \$25.84 per year in hourly health and pension benefits in Winnebago County. At first glance, these rates may seem high, but construction is seasonal work. Road construction workers, for instance, only have jobs for eight or nine months out of the year and can only log around 1,600 hours of work each year. With 1,600 hours of prevailing wage work, a laborer in Winnebago County would earn \$59,184 in wages, \$41,344 in fringe benefits, and \$1,280 in training benefits (Figure 2). Note that the average wage and salary income in Illinois exceeds \$60,000 annually for all workers 41 years old or older in the state (Manzo, 2015). The prevailing wage ensures laborers a middle-class income in Illinois.

¹ Basic algebra: 22.6% share of total cost multiplied by -88.5% labor cost = -20% total cost.

Figure 2: June 2015 Prevailing Wage Rates of Skilled Laborer, Winnebago County

Winnebago County Prevailing Wage	Hourly Rate	1,600 Annual Hours	Percent of Income
Base Wage	\$36.99	\$59,184	58.13%
Fringe Benefits	\$25.84	\$41,344	40.61%
Training	\$0.80	\$1,280	1.26%
Total Compensation	\$63.63	\$101,808	100.00%

Source: "Winnebago County Prevailing Wage for June 2015" from the Illinois Department of Labor, available at <https://www.illinois.gov/idol/Laws-Rules/CONMED/rates/2015/july/WINNEBAG.htm>.

Figure 3 displays data on the regional labor market from the U.S. Census Bureau *County Business Patterns* (CBP) on payroll costs— which include all forms of compensation, such as salaries, wages, bonuses, vacation allowances, sick-leave pay, and contributions to qualified pension plans. In 2013, the average payroll cost per employee was \$96,115 for heavy and civil engineering construction workers in Illinois. Labor costs were even greater, \$107,847 per worker, in bordering Wisconsin.

The prevailing wage paid to a skilled laborer in Winnebago County is thus reflective of local market wages paid in the region. The total labor cost of a skilled laborer working 1,600 hours and the prevailing wage was \$101,808 in June 2015. This is in line with the 2013 averages for Illinois (\$96,115) and Wisconsin (\$107,847). Note that the state-level averages have not been adjusted for inflation since 2013 and are now likely even higher. The \$59,184 wage and salary income plus benefits earned by a skilled laborer in Winnebago reflect what construction workers on public projects earn in the regional economy. Public works construction employees earn good wages because they are highly skilled, because they face significant workplace safety risks, and because that is what the market dictates – not because prevailing wages “inflate” the wage rate.

Figure 3: Comparison of Payroll Costs, Winnebago County vs. All Illinois and All Wisconsin

County	Payroll Per Employee	Source
Winnebago, IL	\$101,808	June 2015: skilled laborer prevailing wage at 1,600 hours
All Illinois	\$96,115	CBP 2013: heavy and civil engineering construction
All Wisconsin	\$107,847	CBP 2013: heavy and civil engineering construction

Source: 2013 County Business Patterns, United States Census Bureau, available at <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl>.

An investigation into housing costs in Winnebago County further corroborate that prevailing wage is the local market rate (Figure 4). From May 2015 to May 2016, the median price of homes that were sold in Winnebago County was \$93,700 (Zillow, 2016). Data from the U.S. Census Bureau show that median monthly homeowner costs in Winnebago County were \$1,522 per month in 2015. The median monthly costs (“selected monthly owner costs”) include payments for mortgages, real estate taxes, insurance, and utilities and fuels. Compared with the income from wages that a typical laborer earns from Figure 2, the median cost to own a home amounts to 30.9 percent of a worker’s take-home income.

Figure 4: Total Wages vs. Homeowner Costs in Winnebago County, 2015 American Community Survey

2015 Winnebago County Industry	Monthly	Annual
Laborer Income from Prevailing Wages (Figure 2)	\$4,932	\$59,184
Median Monthly Homeowner Costs	\$1,522	\$18,264
Homeowner Costs as Share of Income from Wages	30.86%	30.86%

Source: Selected Monthly Owner Costs from “Selected Housing Characteristics” from the 2015 American Community Survey, 5-year estimates, available at <http://factfinder2.census.gov>; “Winnebago County Prevailing Wage for June 2015” from the Illinois Department of Labor, available at <https://www.illinois.gov/idol/Laws-Rules/CONMED/rates/2015/july/WINNEBAG.htm>.

Government agencies consider housing affordable only if costs are below 30 percent of household income. Therefore, prevailing wage essentially supports purchasing a home in Winnebago County without a second job or without having a spouse or roommate who also works. If the suggestion that labor costs would be significantly lower without prevailing wage is true, then construction workers would not be able to afford a

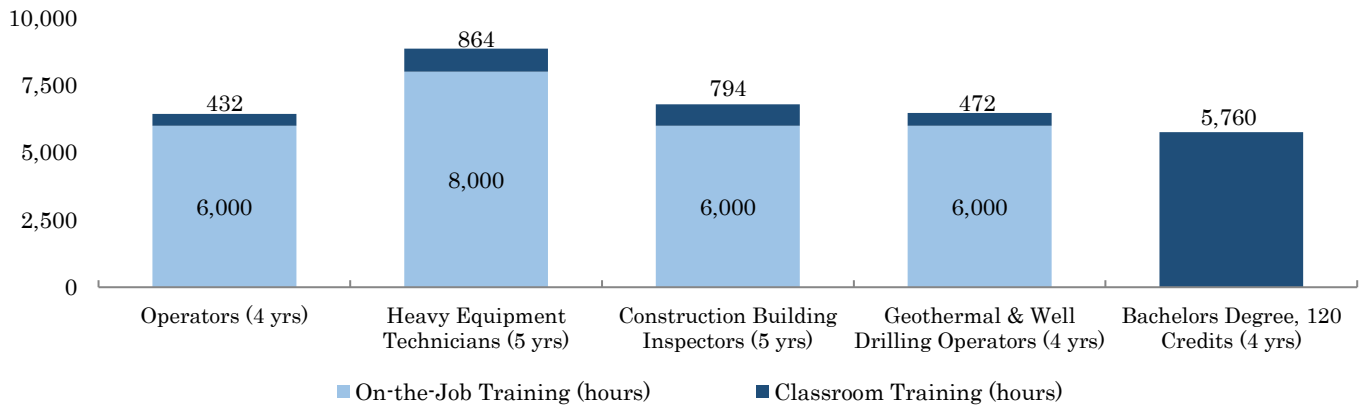
home in Winnebago County without the law. At a lower wage, the typical construction worker would have to exhaust much more than 30.9 percent of his or her income on homeownership in the county. This is why the prevailing wage law works, as currently written. Prevailing wage ensures that construction workers can afford to live in the community where they are building a road, school, or other public infrastructure project.

WORKER PRODUCTIVITY AND VALUE ADDED TO THE ECONOMY

Public works construction is not low-skilled work. Building high-quality infrastructure that is safe and durable for the public requires an experienced, educated workforce. Accordingly, many workers in heavy and civil engineering construction go through rigorous registered apprenticeship programs. These programs provide thousands of hours of classroom and on-the-job training to boost workers’ skills. The apprenticeship programs sponsored jointly by the International Union of Operating Engineers Local 150 and signatory contractors, for example, require at least 6,432 total hours of training over at least four years, including a minimum of 6,000 hours of on-the-job training (Figure 5). Heavy equipment technicians complete an even longer program: apprentices must log 8,000 hours of on-the-job training and 864 hours in the classroom over five years. By contrast, it is worth noting that the typical 120-credit hour bachelor’s degree requires just 5,760 hours of classroom training over four years and generally does not require any development of hard skills through on-the-job training.

Figure 5: Public Works Construction Skills Requirement Compared to Typical Bachelor’s Degree

Hours Required by Heavy and Civil Engineering Construction Apprenticeship Programs, Compared to Bachelor's Degree



Source: International Union of Operating Engineers (IUOE) Local 150, which has membership in Winnebago County. Requirements generously provided by Martin Turek, M.S., Assistant Coordinator-Safety Administrator. Typical bachelor’s degree assumes 120 credit-hours required to graduate, such as in the University of Illinois College of Liberal Arts and Sciences (LAS): <http://www.las.illinois.edu/students/requirements/minimum>. The hours estimate assumes classroom time of three hours per class per week, five classes per semester, 16 weeks per semester, and two semesters each year over four years.

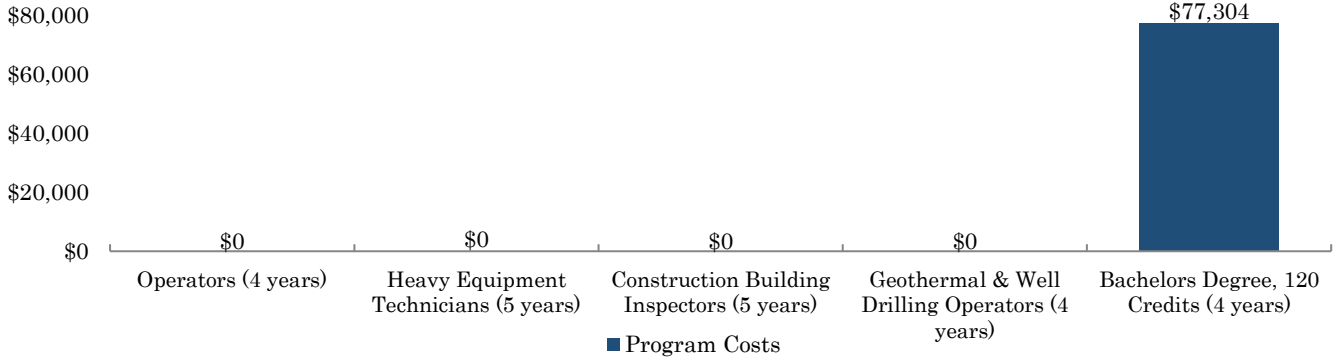
Additionally, apprenticeship programs are operationally funded by contractors and supported by prevailing wages. The total out-of-pocket program cost for apprentices is \$0. Expenses are covered by employers through a cents-per-hour contribution to apprenticeship programs. By contrast, the cost of attendance at the University of Illinois at Urbana-Champaign (excluding room and board) totals \$77,304 over the next four years for new enrollees (Figure 6). Prevailing wages, therefore, support “the largest privately financed system of higher education in the country” (Philips, 2014).

Finally, public works construction workers are extremely productive in Illinois. Figure 7 provides state-level data on the value added to the economy by workers in the entire construction industry and in the heavy and civil engineering sectors. “Value added”— which measures worker productivity over one year— is the total amount of business revenues generated minus the costs for materials, components, supplies, fuels, and subcontracted work. While value added in the entire Illinois construction industry was \$119,517 per worker in 2012, workers in heavy and civil engineering construction each contributed \$164,012 to Illinois’ GDP on average (37.2 percent more). Together, the high-skill requirement and elevated productivity levels are the main reasons why wages are higher for public works construction employees compared to other blue-collar

construction workers (Figure 7). It is worth noting, however, that the \$164,012 contribution to the economy per worker exceeds the \$101,808 payroll cost per worker from Figure 2.

Figure 6: Public Works Construction Training Program Costs Compared to Typical Bachelor's Degree

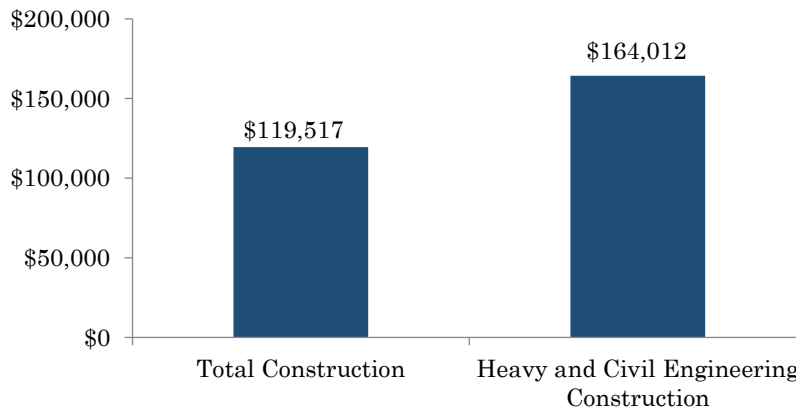
Heavy and Civil Engineering Construction Apprenticeship Program Cost to Individual, Compared to Bachelors Degree



Source: Typical bachelor's degree program costs from the University of Illinois College of Liberal Arts and Sciences (LAS) for enrollees in Summer 2014, Fall 2014, and Spring 2015: <http://www.osfa.illinois.edu/cost/undergraduate-resident-cost>. Costs include tuition, fees, books and supplies, and other expenses but not room and board.

Figure 7: Worker Productivity, Entire Industry vs. Public Works Construction, 2012 Economic Census

Value Added Per Worker in Illinois, 2012 Economic Census



Source: 2012 Economic Census, United States Census Bureau available at <http://www.census.gov/econ/census/>.

ADDRESSING THE UNION WAGE MYTH

The prevailing wage is a living wage determined by private actors in the local labor market. Arriving at a prevailing wage is the result of the majority of contractors and employees entering into private contracts. The rate is determined based on certified payrolls submitted by employers and workers. While employees are sometimes represented by a labor union, the prevailing wage is *not* necessarily a union wage.

A union wage only prevails if the majority of workers in a particular job classification are paid that rate. Still, in Winnebago County, nonunion contractors are not even bidding on public projects— let alone employing individuals to work on them (Figure 8). In the twelve months from April 2014 through March 2015, there were 13 lettings on public projects that involved work performed by operating engineers. These projects were awarded by the county, townships, cities, state, and school boards in Winnebago County. The total value of the projects was \$11.0 million over the year.

Figure 8: Market Share of Public Projects Using Operating Engineers in Winnebago County, 2014-2015

Contractors	Number of Bids	Project Wins	Total Project Costs
Union	34	13	\$11,002,575
Nonunion	0	0	\$0
Total	100.00%	100.00%	100.00%

Source: Author's analysis of internal data generously provided by the Indiana, Illinois, Iowa Foundation for Fair Contracting (III FFC), which covers Winnebago County. The III FFC dataset is limited to only projects that employ operating engineers.

On these 13 projects, union contractors submitted all 34 bids (100.0 percent). As a result, nonunion contractors won zero projects in Winnebago County from April 2014 to March 2015. Simply put, with a market share of 100 percent, it makes sense if a union wage prevails in Winnebago County (Figure 9).

THE BENEFITS OF PREVAILING WAGE TO WINNEBAGO COUNTY

An overwhelming majority of research on prevailing wages has concluded that a state prevailing wage law has no statistical impact on the overall cost of public construction projects (Philips et al., 1995; Prus, 1996; Wial, 1999; Bilginsoy & Philips, 2000; Philips, 2001; Azari-Rad et al., 2002; Duncan, 2011; Duncan & Lantsberg, 2015). By paying a living wage, prevailing wage encourages skilled workers to enter the construction industry, increases worker training and productivity, and reduces workplace injuries and illnesses. These effects lead to workers who complete jobs on-budget and on-time, offsetting any increases in labor costs (Philips, 2014).

Prevailing wage builds local middle-class jobs. Studies show prevailing wage laws encourage the use of local, in-state contractors. Out-of-state contractors are 5 percent less likely to win bids on public construction projects due to prevailing wage laws, and repeal of prevailing wage leads to 6 percent of a project's total value leaking out of the county economy (Prus, 1999; Working Partnerships USA, 2011). The preponderance of research also finds that state prevailing wage laws—requiring market rates be paid— increase worker incomes by up to 10 percent but increase productivity by 14 to 33 percent (Kessler & Katz, 2001; Kelsay et al., 2004; Philips, 2014). Any higher costs associated with requiring that market rates be paid is offset by increased productivity and better infrastructure quality.

Prevailing wage drives economic development. The economy benefits substantially from well-paid, highly-skilled, and healthy construction workers who complete jobs right the first time. Higher worker wages lifts consumer demand and increases spending at local businesses such as grocery stores, restaurants and bars, and professional and management services offices. As a result, prevailing wage stimulates job creation and generates \$1.1 billion in economic output in Illinois (Dickson Quesada et al., 2013).

Prevailing wage is the best deal for taxpayers. Prevailing wage laws promote worker training, which reduces errors and minimizes the chances of footing taxpayers with another bill to reconstruct low-quality infrastructure that does not last. Additionally, by fostering a strong middle class and enhancing economic development, prevailing wage generates millions of dollars in state and local tax revenues through increased consumer spending and reduced reliance on government assistance (Manzo & Carroll, 2014). In fact, prevailing wage supports \$44.4 million in state and local tax revenues each year in Illinois (Dickson Quesada et al., 2013).

Figure 10 presents an economic impact analysis of prevailing wage on Winnebago County using IMPLAN (IMpact analysis for PLANning), an economic modeling software. IMPLAN is an input-output software that estimates the ripple effect, or multiplier, of changes in industry spending or household expenditures. The input-output model investigates inter-industry relationships in an economy based on Census data, specifically measuring market transactions between industries and consumers. IMPLAN is considered the “gold standard” for economic impact modeling (Vowels, 2012). The economic impact analysis finds that prevailing wages stimulate the local economy through increased consumer spending. In fact, prevailing wages generate \$36.3 million in economic output in Winnebago County annually and also support \$1.5

million in state and local tax revenues each year in the county. In summary, the prevailing wage for public construction projects delivers positive economic outcomes for Winnebago County (Figure 10).

Figure 10: Impact of Prevailing Wage on Economic Output and Tax Revenues in Winnebago County, 2013

Economic Impact Analysis of Prevailing Wage on Winnebago County, IL, 2013		
Region	Economic Output (GDP)	State and Local Tax Revenues
Winnebago County	\$36.3 million	\$1.5 million
Chicagoland Area	\$658.4 million	\$27.3 million
Illinois	\$1,072.9 million	\$44.4 million

Source: Author's analysis of prevailing wage using inputs and assumptions from A Weakened State: The Economic and Social Impacts of Repeal of the Prevailing Wage Law in Illinois by Dickson Quesada et al. (2013). The economic impact analysis uses IMPLAN (2014).

CONCLUSION

The Winnebago County Board should not act to weaken or renounce the prevailing wage rates ascertained by the Illinois Department of Labor. Prevailing wage determinations are based on certified payroll records from contractors and employees. They reflect the levels of compensation privately agreed upon by contractors and employees in the local labor market, which in turn are the result of the high skill level and high productivity of Winnebago County's construction workforce. Prevailing wage fosters middle-class incomes and long-term construction careers, and is necessary to prevent government bodies from undercutting the market. Prevailing wage is the best deal for Winnebago County taxpayers.

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