



## FOUNDATION FOR FAIR CONTRACTING OF CONNECTICUT, INC.

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### **M.O.R.E Commission – Mandates Working Group Subcommittee on Prevailing Wage**

Currently in Connecticut, the prevailing wage law applies to all public state and municipal new construction projects that cost \$400,000 or more, and all public renovation, alteration or repair projects that cost \$100,000 or more.

The Connecticut Conference of Municipalities (CCM) and the Connecticut Council of Small Towns (COST) have long spearheaded the efforts to weaken and/or repeal the state prevailing wage law. On March 25, 2013, CCM distributed to the Mandate Working Group subcommittee on prevailing wage a seven page handout detailing what they believe to be “reasonable compromise options.”

CCM continues to indicate in this handout that they do not wish to “**repeal prevailing wage – just adjust it.**” However, recommendation number three of page four of the handout suggests that we enact a “statewide, three-year moratorium on Connecticut’s prevailing wage law.” Further, CCM requests that we “exempt certain municipal projects from the State’s mandated prevailing wage rate law.” It is fairly obvious that CCM does in fact wish to repeal our State’s prevailing wage law.

Connecticut’s prevailing wage law is incredibly necessary to the vitality of our cities and towns. Of foremost importance is the fact that prevailing wage increases our state’s revenue. We do not want to see municipal aid cut. However, if we start chipping away at our sales tax and income tax revenues to our general fund, then our municipalities will surely feel reductions in their state assistance.

Hiring Connecticut workers and paying them a family sustaining wage has far reaching positive effects on our municipalities. If we lower workers’ pay, all we’re doing is hurting our own local economies, and specifically hurting our local small businesses that depend on our workforce’s ability to purchase goods and services.

Lastly, prevailing wage undoubtedly creates a safer work environment. Studies prove that prevailing wage states suffer far less construction related fatalities much in part because those states possess a more trained workforce.

CCM also calls attention to the fact that the thresholds have not been raised in eighteen years and makes various recommendations to alter the thresholds and weaken the law. Proposed amendments include raising the threshold on all public projects to \$1 million, indexing thresholds to inflation, and creating exemptions for certain municipal projects. Opponents of the

law support raising the threshold amounts based on the assertion that prevailing wage laws drive up cost, which we know to be un-true.

Connecticut, however, remains as one of the most stringent states in terms of thresholds: 27 out of 32 states, as well as the Federal Davis Bacon Act, have lower thresholds than Connecticut. In fact, Connecticut's neighboring states have significantly lower thresholds. Rhode Island's threshold is \$1,000. New Jersey's threshold is \$2,000. New York has no threshold and Massachusetts has no threshold. And yet we wonder why our responsible in-state contractors continually lose bids to contractors who bus in their own workforce from these outer-lying neighboring states.

In 2010, Professor Peter Philips and Professor Cihan Bilingsoy's conducted a study entitled *Impact of Prevailing Wages on the Economy and Communities of Connecticut*. Though CCM and COST try to ignore or refute the findings of this study, it remains the only comprehensive independent study of Connecticut's prevailing wage law. Based upon CCM's constant recommendation to enforce a three-year moratorium on our prevailing wage law, the study found that:

- A moratorium on the prevailing wage law in Connecticut would cost the state \$214 million to \$432 million annually in lost income through lower construction sector earnings and reduced demand for local products and services in workers' communities. In fact, earnings by construction workers alone would be reduced by \$123 million to \$249 million annually (in 2008 dollars).
- A moratorium on the Connecticut's prevailing wage law would also cost the state \$15 million to \$31 million annually (in 2008 dollars) in lost income tax and sales tax revenues due to the lower incomes of Connecticut construction workers and others in Connecticut who rely upon construction workers to purchase their goods and services.

Though CCM's report proclaims that "prevailing wage mandates inflate project costs," a 2008 study conducted by the Economic Policy Institute (EPI) entitled, *Prevailing Wages and Government Contracting Costs*, found the following:

- Labor costs are not dominant costs in government construction contracts. Even including benefits and payroll taxes, labor costs are roughly 20-30% of construction contracts. Thus, for example, if labor costs are 25% of total costs and if a prevailing wage regulation raised wages by 10%, the impact on contract costs would be less than 2.5%. Thus, even if there is an increase in contract costs it is likely to be small – to the point of being undetectable.
- States with prevailing wage laws had higher productivity, with about 13% to 15% more value-added per worker. The 31 states with prevailing wage laws had higher rates of construction training programs, and trainees were more likely to complete their programs compared to states without prevailing wage laws.

- In the nine states that had repealed prevailing wage laws, worker earnings declined \$1,477 per year, a drop that would result in substantial losses in income and sales tax revenues to the states.

The full study conducted by the Economic Policy Institute (EPI) can be found here:

<http://www.epi.org/publication/bp215/>

In response to CCM's call for a three-year moratorium of the law, we should also refer to a study conducted by The Department of Economics at the University of Missouri entitled, *The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri*. A number of economics professors contributed to this study, including but not limited to, Michael P. Kelsay, Ph.D., L. Randall Wray, Ph.D. and Kelly D. Pinkham, Ph.D. Some of their findings include:

- The mean cost per square foot of non-residential construction in prevailing wage states was \$78.17. The mean square cost per foot of non-residential construction in non-prevailing wage states was \$74.94. There were **no** [emphasis added] statistically significant differences in mean square foot costs across all types of non-residential construction for prevailing wage versus non-prevailing wage states.
- The repeal of the prevailing wage law in Missouri would cost the State of Missouri and the residents of Missouri between \$294.4 million and \$350 million annually in lost income.
- The repeal of the prevailing wage law in Missouri would cost the State of Missouri and the residents of Missouri between \$5.7 million and \$6.9 million annually in lost sales tax collections. The repeal of the prevailing wage law in Missouri would also cost the state and its residents between \$17.7 million and \$21.4 million annually in lost income tax collections.

The full study conducted by the Department of Economics at the University of Missouri can be found here: <http://www.pinp.org/files/PWL-MVEA-2004.pdf>

CCM's handout references Michigan's moratorium of their prevailing wage law. They reference the state's estimated construction savings of approximately \$251 million during their moratorium of the law. However, CCM fails to present the loss in tax revenue and overall wages from said moratorium. In response to Michigan's move to enact a moratorium, the Michigan Building and Construction Trades Council and a number of contractor associations, including but not limited to the Michigan Chapter of the Associated General Contractors, The Greater Michigan Plumbing & Mechanical Contractors and the Michigan Chapter of the National Electrical Contractors Association, submitted a report entitled *The Facts About Prevailing Wage*. The report looked specifically at the state of Kansas, which has repealed its prevailing wage law.

- In the four years following the repeal of Kansas' prevailing wage law, construction workers' wages fell 11%.

- Apprenticeship training in Kansas fell 38%. Minority apprenticeship training fell 54%.
- Total employer contributions to pension and health funds declined 17% - from an average of \$20 million per year to \$16.6 million.
- Worker injuries increased 19% (serious injuries rose 21.5%) after Kansas repealed its prevailing wage law.

The full report can be found here: <http://www.prevailingwage.org/pdf/PreWg.pdf>

CCM also referenced Columbia University's Center for Urban Real Estate study. That study argued that of New York's \$16 billion infrastructure plan, "some \$6 billion will be spent on labor, much of it at artificially high prevailing wages". However, the 2007 Fiscal Policy Institute's Study, entitled *Building Up New York, Tearing Down Job Quality: Taxpayer Impact of Worsening Employment Practices in New York City's Construction Industry*, told a much different story. According to that study:

- An estimated 50,000 New York City construction workers – nearly one in four- are either misclassified as independent contractors or employed by construction contractors completely off the books.
- An estimated 43,000 New York City construction workers earn less than \$11 per hour, not much above the federal poverty guideline for a family of four.
- Contractors in the underground economy skirt payment of legally required payroll taxes and workers compensation premiums and shift these and other costs onto taxpayers and their competitors who play by the rules. \$148 million in health care costs shifted onto the workers themselves, taxpayers and other employers that provide employee health insurance. \$70 million was lost in personal income taxes because there is no withholding for underground economy workers and/or they are paid off the books.
- Construction safety had reached crisis proportions the year before this study was released, when 29 construction workers were killed on the job in New York City. The Occupational Safety and Health Administration (OSHA) data indicates a strong correlation between construction fatalities and the characteristics of the underground economy.

The full report by the Fiscal Policy Institute can be found here:

[http://www.fiscalpolicy.org/publications2007/FPI\\_BuildingUpNY\\_TearingDownJobQuality.pdf](http://www.fiscalpolicy.org/publications2007/FPI_BuildingUpNY_TearingDownJobQuality.pdf)

Additional excerpts from Professor Peter Philips' and Professor Cihan Bilginsoy's critically important January 2010 study<sup>1</sup> entitled *Impact of Prevailing Wages on the Economy and Communities of Connecticut* are below.

- The Census of Construction data for Connecticut show that the share of total labor costs in construction in Connecticut is around 30% (excluding the purchase of land). Under these conditions, we calculate that a 27% reduction in total construction costs requires the total labor costs to decline by 90%; a 28.5% reduction in total costs is possible if total labor costs decline by 95%. Thus, the hypothetical cost savings estimates of the opponents of Connecticut prevailing wage law are greatly exaggerated. A relatively more plausible 10% decline in wage rates plus benefits would hypothetically create cost savings of 3%.
- The effect of the law on the cost of construction is statistically zero. A hypothetical 3% savings in total public construction costs in response to a 10% reduction in labor costs is based on the assumption that there are no substitution and productivity effects. This assumption is not met in practice.
- A moratorium on prevailing wage would reduce annual earnings per worker by \$2,288. The adverse impact of the moratorium on income is not limited to the construction industry. Since construction workers spend their incomes by purchasing goods and services produced in other industries, the decline in construction sector income spills over to other sectors of the state economy as well.
- The total state income loss of \$213 million would cost the state \$10.7 million in income tax revenue annually. If wages decline by 8% following the moratorium, then income tax loss would be almost twice as much, \$21.6 million.
- Prevailing wage laws are vital to the creation and maintenance of a diverse, qualified workforce, with ethnic and racial minorities being better represented in joint apprenticeship programs. Minority share in incoming apprentices was 16% in unilateral and 36% in joint programs made possible by prevailing wage.
- Construction workers in prevailing wage states receive substantially higher total benefits, by as much as 60%. (including health insurance, pension, payroll), than their peers in non-prevailing wage law states.
- Prevailing wage laws have a disproportionately large positive effect on benefits. In states with prevailing wage laws average income of workers is higher by 15%; Social Security, workers' compensation and unemployment insurance payments are higher by 25% and health insurance and pensions are higher by 63%. Thus, a moratorium on prevailing wage laws would imply a substantial loss in benefits.
- Connecticut residents more likely to be uninsured than other New Englanders. Between 2004 and 2006, 8.9% of New England residents were uninsured, but 10.7% of CT residents lacked insurance, according to point in time surveys by the National Health Interview Survey. Not surprisingly, low income CT residents (below 200% of the federal poverty level) were 2.4 times less likely to have coverage. 12.2% of CT residents, including one in four children were covered by Medicaid. This is lower than our

neighbors in Maine (23.3%), Massachusetts (14.6%) or New York (18.7%). (Connecticut Health Policy Project Blog, June 27, 2008).

### Conclusion:

In summary, the prevailing wage law in Connecticut creates a high-wage, high-productivity and high-quality development path that benefits construction workers and their families, local businesses, as well as the state of Connecticut's coffers.

Those who support weakening the prevailing wage law by placing a moratorium or raising thresholds will tell lawmakers that they support prevailing wage. They will contend that they just want to see thresholds go up or certain projects excluded. However, our state's prevailing wage law is only applicable to state or municipal bonding money. All other projects are already excluded. By excluding any other public projects or by raising the threshold, we are weakening a good law that protects working men and women; a law which ensures that they can support and sustain both themselves and their families.

To say you support the prevailing law while trying to raise thresholds and/or create more exclusions equates to saying that you support our state's minimum wage, but would just like to see the hourly wage amount decreased. This thought process is offense to a heavily trained and educated industry. Simply put, the prevailing wage is the construction industry's minimum wage, set by our federal Department of Labor's Wage and Hour Division. We must do everything we can to protect it.

Claims of large public savings from a suspension of Connecticut's prevailing wage law are not supported by the evidence. In contrast, the State of Connecticut will face substantial short-and long-term public costs if there is a moratorium or weakening of the prevailing wage law.

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<sup>1</sup> Though the study, *Impact of Prevailing Wages on the Economy and Communities of Connecticut*, is not available online, a copy of the study can be made available for any member of this subcommittee at their request.