



Prevailing Wage Reform in Pennsylvania

Pennsylvania's Prevailing Wage Law was enacted in 1961, mandating that state and local governments pay construction contractors wages that "prevail" in each region on projects costing \$25,000 or more. This anachronistic mandate limits the number of construction jobs in the state and unnecessarily increases costs for state government, local governments, and school districts.

INFLATED PREVAILING WAGE

- Despite what its name suggests, the "prevailing wage" is an artificially-inflated wage paid to those who work on government construction projects. It is usually set at the union-inflated wage (determined by collective bargaining agreements) and is higher than the rate for identical work on private projects.
- The Pennsylvania Association of Boroughs compared prevailing wage rates across the commonwealth's 67 counties and found they exceed market wages by **30 to 75 percent**.
- According to U.S. Census data, Pennsylvania state and local governments spent more than \$10.7 billion on construction in 2012.
 - ⇒ Based on wage data, prevailing wage raises the total cost of construction projects by an estimated 10 to 30 percent. This represents upwards of **\$1 to \$3 billion in extra costs** for Pennsylvania taxpayers annually.
 - ⇒ School districts alone spent more than \$1.6 billion on construction in 2012. Allowing schools to opt out of the prevailing wage mandate could save taxpayers between **\$160 and \$480 million each year**.

THE EFFECTS OF PREVAILING WAGE

- The prevailing wage applies to most taxpayer-financed construction. When the law was enacted in 1961, the \$25,000 threshold represented twice the value of an average home. If the prevailing wage were adjusted for inflation, the threshold would be approximately \$196,000 today.
- Local governments frequently defer routine repair and construction projects because they exceed the prevailing wage threshold, making them too expensive.
 - ⇒ In testimony before the House Labor & Industry Committee, Vana Dainty, Vice President of the Bellefonte Borough Council, explained how Bellefonte used to complete a paving project every year. Due to prevailing wage, the borough skipped maintenance in three different years since 2008.
 - ⇒ In Ferguson Township, the prevailing wage increased the cost of one road maintenance project by **57 percent** from \$20,990 to \$32,890, according to testimony from Ferguson Township Manager Mark Knuckle.
 - ⇒ In 2011, Southwestern School District in York County needed to fix a leaky roof in one of its schools. The project was originally bid out for \$84,000 without the prevailing wage mandate. The district bid out the project again with the prevailing wage mandate resulting in a cost of \$125,000—a **49 percent increase**.
- A survey conducted by the Local Government Commission found municipalities rank the prevailing wage as one of the most burdensome mandates in the state.

OTHER STATES' EXPERIENCE

- Eighteen states have no prevailing wage laws, and 10 have repealed their mandates or seen them invalidated by the courts within the last 35 years. In terms of taxpayer savings and construction quality, Ohio provides an instructive example:
 - ⇒ In 1997, Ohio allowed its school districts to opt out of the state's prevailing wage mandate.
 - ⇒ The state's Legislative Service Commission found schools saved almost \$500 million as a result, for an overall savings in construction of 10.7%.
 - ⇒ 196 school districts responded to a survey about construction quality without prevailing wage. The vast majority, 91% said construction was of the same quality, 6% reported higher quality, and only 3% reported lower quality.
- According to Michigan's Mackinac Center, when measuring the value added for each construction dollar, **construction workers in market wage states are 6.3% more productive than workers in prevailing wage states.**

ENACTED AND PROPOSED REFORMS

- In 2013, the Pennsylvania Legislature passed Act 89, which amended the Prevailing Wage Act, raising the prevailing wage threshold from \$25,000 to \$100,000 on local highway and bridge projects. More reforms have been introduced this legislative session. They include the following:
 - ⇒ Complete repeal of the Prevailing Wage Act.
 - ⇒ Raising the minimum threshold on all projects to which the Prevailing Wage Act applies.
 - ⇒ Defining "maintenance work" to include road repairs, which reduces the number of projects subject to Prevailing Wage Act requirements.
 - ⇒ Suspending the mandate for school districts.

RECOMMENDATIONS

The anachronistic prevailing wage mandate limits the number of construction jobs in the state and unnecessarily increases costs for state government, local governments, and school districts.

- Eliminate the prevailing wage mandate for state, local governments and school districts to free up tax dollars for other priorities.
- Allow school districts and local governments to opt out of wage mandates.
- Raise the threshold at which the prevailing wage is applied.

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*For more information on **Prevailing Wage**, visit www.CommonwealthFoundation.org.*