POLICY POINTS

from the COMMONWEALTH FOUNDATION February 2012

Pennsylvania's Prevailing Wage Law

Pennsylvania's Prevailing Wage Law was enacted in 1961 to protect construction workers from out-of-state competition, mandating that contractors pay the wages that "prevail" in each region on all government construction projects more than $25,000. This limits the number of construction jobs in the state and forces state and local governments to unnecessarily spend more taxpayer money.

INFLATED PREVAILING WAGE

- Despite what its name suggests, the "prevailing wage" is higher than the average local market wage for occupations such as carpenter or plumber on a government construction project. 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 between **30 and 75%**.
- According to U.S. Census data, Pennsylvania state and local governments spend more than $10 billion on construction.
  - ⇒ Based on wage data, prevailing wage raises the total cost of construction projects by 20% on average. This represents upwards of **$2 billion in extra costs** for Pennsylvania taxpayers each year.
  - ⇒ School districts alone spent more than $2 billion on construction in 2008-09. Allowing schools to opt out of the state mandate could save **$400 million per year** in property taxes.

HOW LOW IS $25,000? THE EFFECTS OF PREVAILING WAGE

- The prevailing wage applies to any project of more than $25,000. When the law was enacted in 1961, this represented twice the value of an average home. If the prevailing wage threshold had been adjusted for inflation, it would have increased to $185,000 today.
- Hit with shrinking funds because of the recession, townships, counties, boroughs, cities and school districts are desperately looking for ways to use taxpayer money more efficiently.
- Local governments frequently defer routine repair and construction projects because they exceed the $25,000 prevailing wage threshold, making them too expensive. The County Commissioners Association of Pennsylvania compiled examples of small, routine projects that are still subject to prevailing wage requirements:
  - ⇒ A $42,000 bridge repair project in Carbon County
  - ⇒ A $46,500 roof replacement in Adams County
  - ⇒ A $134,000 traffic light upgrade in Lebanon County
  - ⇒ Spending $44,000 to replace exterior lights and posts at the Westmoreland County Courthouse
- Cumberland County's director of facilities estimated that 90% of the county's contracts would fall under the threshold if it were raised to $185,000.

Other States' Experience

- Eighteen states have no prevailing wage laws, and 10 have repealed their mandates in the last 30 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. 91% said construction was of the same quality, 6% reported higher quality, and only 3% reported lower quality.
- Contrary to unions' claims, construction quality does not suffer if workers are paid the market instead of prevailing wage. Homes, hospitals, and office buildings are built to high standards at market wages. Market forces weed out shoddy builders, and builders must also adhere to existing building codes.
- 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**. Being paid a government-mandated wage does not guarantee top-notch construction work.

Proposed Reforms

The Pennsylvania Legislature is considering bills that are important first steps in reforming the 51-year-old prevailing wage law. These reforms include:

- Raising the minimum amount to which the Prevailing Wage Act applies to $185,000 (from $25,000) and adjusts for inflation in future years.
- Requiring the use of federal occupational classifications to clarify the application of the law to jobs on construction sites.
- Defining "maintenance work" to include road repairs, which reduces the number of projects subject to Prevailing Wage Act requirements.
- Exempting projects where more than half the funding comes from private sources from the Prevailing Wage Act.
- Allow school districts or all local governments to opt out of the Prevailing Wage Act for construction projects.

Recommendations

- While raising the threshold is long overdue, simply adjusting for inflation will not maximize all possible savings for the commonwealth.
- Allowing school districts and local governments to opt out of wage mandates would have a large and important impact on how taxpayer funds are used.
- Redefining prevailing wage to represent the local market wage would maximize savings for taxpayers, and free up funding for additional projects.

# # #

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