WEAKENING WAUKESHA COUNTY
Prevailing Wage Changes Will Hurt the County
**WEAKENING WAUKESHA COUNTY: PREVAILING WAGE CHANGES WILL HURT THE COUNTY**

**Economic Commentary #52**

**INTRODUCTION**

In February 2011, Wisconsin Governor Scott Walker implemented his “Budget Repair Bill,” which triggered weeks of demonstrations and rallies by hundreds of thousands of Wisconsinites. Upon passage, the bill curtailed the rights of thousands of public sector workers, cutting pay and benefits for more than four hundred thousand public employees (Taylor, 2015).

In July 2015, Governor Walker signed the 2015-17 State Budget into law, once again cutting pay for tens of thousands of workers in Wisconsin. The 2015-17 Budget Bill made significant changes to the state’s prevailing wage laws. Act 55 of the bill repeals the state prevailing wage law for local governmental units and municipalities. These changes will take effect on January 1, 2017. After the change, state agency and state highway public work projects are the only projects in Wisconsin where prevailing wage rates will apply.

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; Horton, 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, 2015).

Arguments that prevailing wage increases construction costs by 30 percent are mathematically impossible. Prevailing wage supports middle-class careers in the construction industry. Repealing prevailing wage on most construction projects will decrease tax revenues because construction workers will have lower pay, will prolong construction projects because unskilled workers will join the workforce, and will hurt Wisconsin’s state and local economies.

Localities across Waukesha County should be very concerned about the gutting of Wisconsin’s Prevailing Wage Law at the beginning of 2017. Results from this MEPI Economic Commentary should give Waukesha County residents reason to be skeptical about the repeals that will take effect. This analysis finds:

- Labor costs account for just 22.5 percent of total costs on heavy and civil engineering projects in Wisconsin, so it is mathematically impossible to save as much as 30 percent by eliminating prevailing wage;
- Median housing costs are 47.1 percent of the typical income for a laborer earning the prevailing wage in Waukesha 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 Wisconsin, heavy and civil engineering construction workers are more productive than the average construction worker, producing $179,293 in value added to the economy per worker;
- In 2017, the State of Wisconsin is expected to lose 8,700 jobs across all sectors, $1.2 billion in overall economic output, and $77 million in tax revenues from weakening prevailing wage; and
- Waukesha County will lose 600 jobs and $82.4 million in economic activity with the weakening of prevailing wage.

Prevailing wage is necessary to prevent government bodies from undercutting the established labor market, and drives economic development in the county. Conversely, economic hardships in the construction industry and Wisconsin’s economy are expected to occur when the 2015-17 Budget Bill takes full effect.
LABOR COSTS AS A SHARE OF TOTAL COSTS IN WAUKESHA COUNTY

The most recent data from the U.S. Economic Census reveals that labor costs account for just 22.5 percent of total construction costs in heavy and civil engineering in Wisconsin (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 $1.1 billion (22.5 percent) of the $5.0 billion in total construction costs on heavy and civil engineering across the state in 2012. Meanwhile, administrative costs were 4.1 percent of total construction costs in the sector. Spending on materials, components, supplies, subcontracts, and energy costs accounted for the bulk of expenses (62.4 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 Waukesha County, there would be just a 2.25 percent savings in total costs. Put another way, the county would save $22,500 on a $1 million project. However, savings would occur only if there is no relationship between wages paid and work performed (Philips, 2015). 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 30 percent. Prevailing wage only impacts the labor cost portion of total expenditures, which only accounts for 22.5 percent of the cost of public projects. In order to “save” up to 30 percent, construction workers would have to see their middle-class incomes fall to the minimum wage and it assumes that skilled workers would stay in Waukesha 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, Wisconsin, 2012 Economic Census

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

**Prevailing Wage is the Local Market Rate**

Wisconsin’s Prevailing Wage Rate Law establishes local standards in Waukesha County’s labor market, until January 2017 when the Budget Bill will be in full effect and only public works projects conducted by the state and state agencies must pay workers the prevailing wage.

The law was intended to prevent a government body, such as the Waukesha 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 labor costs by using low-skill, low-wage workers, the law incentivizes 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 weaken prevailing wage have achieved successes in Wisconsin. Repealing Wisconsin’s prevailing wage at the local level – such as villages, towns, cities, school districts, and sewerage districts – will hurt local contractors and workers. 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, 1996; Working Partnerships USA, 2011). The State of Wisconsin and Waukesha County will see decreases in skilled construction workers in the industry due to falling worker wages after the January 2017 changes to prevailing wage.

These efforts to repeal, weaken, or otherwise renounce prevailing wage determinations have been motivated by the claim that the rates are “inflated” or “too high.” Even though prevailing wages are based on payroll records from both employers and employees, opponents of prevailing wage laws question the process. In doing so, they imply that cutting worker wages would somehow help to increase prosperity in Wisconsin. The question becomes: Is prevailing wage “too high” in Wisconsin?

Take, for example, the prevailing wages for laborers in Waukesha County. In January 2016, the prevailing wage for a skilled laborer was $29.01 per hour in base wage and $17.39 per year in hourly health and pension benefits in Waukesha 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 Waukesha County would earn $46,416 in wages and $27,824 in fringe benefits (Figure 2). The average wage and salary income in Wisconsin was $43,930 in May 2015 (BLS, 2016). The prevailing wage ensures that laborers a middle-class income in Wisconsin.

**Figure 2: January 2016 Prevailing Wage Rates of Skilled Laborer, Waukesha County**

<table>
<thead>
<tr>
<th>Waukesha County Prevailing Wage</th>
<th>Hourly Rate</th>
<th>1,600 Annual Hours</th>
<th>Percent of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Wage</td>
<td>$29.01</td>
<td>$46,416</td>
<td>62.52%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>$17.39</td>
<td>$27,824</td>
<td>37.48%</td>
</tr>
<tr>
<td>Total Compensation</td>
<td>$46.40</td>
<td>$74,240</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: “Waukesha County 2016 – Skilled Laborer in Building or Heavy Highway Construction” from the Wisconsin Department of Workforce Development, available at [http://idwd.wisconsin.gov/PrevailingWageSearch/PrevailingWage/SearchByCounty](http://idwd.wisconsin.gov/PrevailingWageSearch/PrevailingWage/SearchByCounty).

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 2014, the average payroll cost per employee was $98,827 for the heavy and civil engineering construction sector in the county.

Heavy and civil engineering payroll costs per employee in Waukesha County reflect the wages that are paid in the local labor market. A skilled craftsman or craftswoman in heavy and civil engineering construction makes an average of $98,827 in salary and benefits in Waukesha County. Some surrounding counties like Dane County ($100,853 per employee) and Milwaukee County ($107,139 per employee) have higher
compensation than Waukesha County, while other counties have lower compensation rates. Nonetheless, Waukesha County labor costs tend to reflect averages for both Wisconsin and Illinois.

The $46,416 wage and salary income plus benefits earned by a skilled laborer in Waukesha 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 wage has “inflated” the wage rate.

An investigation into housing costs in Waukesha 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 Waukesha County was $252,300 (Zillow, 2016). Data from the U.S. Census Bureau show that median monthly homeowner costs in Waukesha County were $1,821 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 47.1 percent of a worker’s take-home income.

It is worth noting that government agencies consider housing affordable only if costs are below 30 percent of household income. Therefore, prevailing wage does not even support purchasing a home in Waukesha County without a second job or without having a spouse or roommate who also works. The January 2017 gutting of prevailing wage will lower construction workers’ salaries in Wisconsin, making it even more difficult for a single construction worker to afford adequate housing. In 2017, the typical construction worker will have to exhaust much more than 47.1 percent of his or her income on homeownership in Waukesha County. Prevailing wage has helped construction workers afford housing 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. Apprenticeship programs sponsored by unions and signatory contractors in the Midwest often require at least 6,432 total
5 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 typically 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**

<table>
<thead>
<tr>
<th>Hours Required by Heavy and Civil Engineering Construction Apprenticeship Programs, Compared to Bachelor’s Degree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On-the-Job Training (hours)</strong></td>
</tr>
<tr>
<td>Operators (4 yrs)</td>
</tr>
<tr>
<td>Construction Building Inspectors (5 yrs)</td>
</tr>
<tr>
<td>Bachelors Degree, 120 Credits (4 yrs)</td>
</tr>
</tbody>
</table>

Source: International Union of Operating Engineers (IUOE) Local 150, which has one of the largest apprenticeship programs in the Midwest, provided this information. 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 Wisconsin–Madison: [https://bus.wisc.edu/bba/academics-and-programs/curriculum-degree-requirements](https://bus.wisc.edu/bba/academics-and-programs/curriculum-degree-requirements). 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 Wisconsin – Madison (excluding room and board) totals $55,729 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).

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

<table>
<thead>
<tr>
<th>Heavy and Civil Engineering Construction Apprenticeship Program Cost to Individual, Bachelors Degree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$0</strong></td>
</tr>
<tr>
<td>Operators (4 yrs)</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: Typical bachelor’s degree program costs from the University of Wisconsin – Madison for “in-state” enrollees in over the nine-month school year for four years. Available at [https://finaid.wisc.edu/undergraduate-cost.htm](https://finaid.wisc.edu/undergraduate-cost.htm). Costs include tuition, fees, books and supplies, and miscellaneous expenses but not room, board, travel, or loan fees.
Finally, public works construction workers are extremely productive in Wisconsin. 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 Wisconsin construction industry was $109,389 per worker in 2012, workers in heavy and civil engineering construction each contributed $179,293 to Wisconsin’s GDP on average (63.9 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). Furthermore, the $179,293 contribution to the economy per heavy and civil engineering construction worker significantly exceeds the $96,349 payroll cost per heavy and civil engineering construction worker from Figure 3. After the January 2017 changes, this high level of productivity is expected to plummet (Duncan & Lantsberg, 2015).

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

<table>
<thead>
<tr>
<th>Total Construction</th>
<th>Heavy and Civil Engineering Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>$109,389</td>
<td>$179,293</td>
</tr>
</tbody>
</table>

THE IMPENDING COST OF GUTTING PREVAILING WAGE TO WAUKESHA COUNTY

Wisconsin’s Prevailing Wage Law was implemented to ensure of living wage for construction workers. Though some argue that paying construction workers the prevailing wage increases overall project costs, an overwhelming majority of research on prevailing wages has concluded that a state prevailing wage law has no statistical impact on the overall cost (Philips et al., 1995; Prus, 1996; Wial, 1999; Bilginsoy & Philips, 2000; Philips, 2001; Azari-Rad et al., 2002; Duncan, 2011; Duncan & Lantsberg, 2015). An independent report from the Wisconsin Legislative Fiscal Bureau (Horton, 2015) provides the following summary of the research:

“[T]he evidence on prevailing wage effects generally range from relatively small effects to no statistically significant effects. ... These findings echo a 2007 report prepared by the nonpartisan Minnesota Office of the Legislative Auditor which ... concluded that while some studies found a small impact on costs, more comprehensive studies have found that the impact is not statistically significant.”

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, 2015).

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 (Prus, 1996). The preponderance of research also finds that state prevailing wage laws – by requiring market rates – increase worker incomes by up to 10 percent but increase
productivity by 14 to 33 percent (Kessler & Katz, 2001; Kelsay et al., 2011; Philips, 2014). Any higher costs associated with prevailing wage is offset by increased productivity and better infrastructure quality.

Prevailing wage has been a great deal for taxpayers. Prevailing wage promotes worker training, reduces errors, and minimizes reconstruction costs. In addition, the law fosters a strong middle class and enhances economic development.

Conversely, repeal of prevailing wage negatively impacts local economies. Without prevailing wage, the economy losses well-paid, highly-skilled, and healthy construction workers who complete jobs right the first time. Cutting worker wages reduces consumer spending at local businesses such as grocery stores, restaurants and bars, and professional offices. Due to the gutting of Wisconsin’s prevailing wage law, economists estimate that the State of Wisconsin will lose a total of 8,700 jobs across all sectors, $1.2 billion in overall economic output, and $77 million in tax revenue once the 2015-17 Budget Bill is fully implemented in 2017 (Duncan & Lantsberg, 2015). These challenges will then require cuts to other vital public services.

Figure 8 presents an economic impact analysis of prevailing wage on Waukesha 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 weakening Wisconsin’s prevailing wage laws hurts the economy. Weakening the prevailing wage results in 8,730 jobs lost in Wisconsin, including 600 jobs lost in Waukesha County alone. A decrease in consumer spending due to fewer construction jobs and lower wages in the construction industry leads to negative economic growth. In fact, Wisconsin’s economy is expected to lose $1.2 billion from the January 2017 changes to prevailing wage and annual economic activity in Waukesha County is expected to decline by $82 million. For comparison, Dane County will experience similar losses. The weakening of prevailing wage for public construction projects will have negative outcomes on local economies (Figure 8).

Figure 8: Impact of Weakening Prevailing Wage on Economic Output and Employment in Waukesha County, 2014

<table>
<thead>
<tr>
<th>Economic Impact Analysis of Weakening Prevailing Wage on Waukesha County, WI, 2014</th>
<th>Region</th>
<th>Total Economic Impact</th>
<th>Employment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Waukesha County</td>
<td>-$82.4 million</td>
<td>-600 jobs</td>
</tr>
<tr>
<td></td>
<td>Dane County</td>
<td>-$108.9 million</td>
<td>-792 jobs</td>
</tr>
<tr>
<td></td>
<td>Wisconsin</td>
<td>-$1.2 billion</td>
<td>-8,730 jobs</td>
</tr>
</tbody>
</table>


CONCLUSION

The gutting of prevailing wage in Wisconsin will hurt the state and local economy. Construction workers will earn lower salaries, have less money to spend in the economy, and pay less in taxes. Furthermore, more out-of-state contractors will bid on public projects in Wisconsin, ultimately taking their earnings and spending it back in their home state’s economy. Less money will be spent in Wisconsin’s economy overall as a result of the repeal. In fact, weakening the prevailing wage law in Wisconsin will cause a loss of over 8,700 jobs in Wisconsin statewide, including 600 in Waukesha County alone. Economic activity will also decrease by $82.4 million in Waukesha County after the January 2017 changes to prevailing wages take effect. Unfortunately, taxpayers will never experience any of the benefits promised by opponents of prevailing wage in Wisconsin.
REFERENCES


