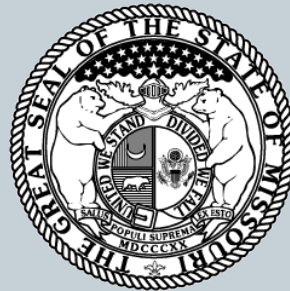


The Economic Impact of Missouri's Prevailing Wage Laws



SENATOR
TIMOTHY GREEN



What is Prevailing Wage?



- The minimum wage and benefits requirement to be paid to construction workers on public projects.
- Davis-Beacon Act of 1931
- 290.230. 1. RSMo. Not less than the prevailing hourly rate of wages for work of a similar character in the locality in which the work is performed, and not less than the prevailing hourly rate of wages for legal holiday and overtime work, shall be paid to all workmen employed by or on behalf of any public body engaged in the construction of public works, exclusive of maintenance work. Only such workmen as are directly employed by contractors or subcontractors in actual construction work on the site of the building or construction job shall be deemed to be employed upon public works.



What is Prevailing Wage?



- **Intent of the law:**
 - Stabilize local wages and industry standards.
 - Prevent unfair and/or unregulated bidding practices
 - Enables locality to protect itself economically from “a race to the bottom” in wage rates



Why *Lowest and NOT Best* for Construction?



- RsMo 8.250.3 Requires that public works bids be awarded based to the “lowest, responsive, responsible bidder...”
- Other professional services contracted by public bodies are paid for at the industry standard required to attain the best service providers.
 - Architects
 - Engineers
 - Attorneys
 - Financial Managers
 - Information/Technology
- Why not just hire the best contractors to build our schools, hospitals, parks, roads and other government facilities?

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Aftermath of Hurricane Katrina



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Aftermath of Hurricane Katrina



- September 2005, President George W. Bush signed Executive Order suspending prevailing wage rates in areas ravaged by Katrina.
- Bush wrote that his decision is justified because Davis-Bacon increases construction costs, and suspension "will result in greater assistance to these devastated communities and will permit the employment of thousands of additional individuals."
- Avg. wage at the time was \$9.00/hr.
- Federal min. wage at the time was \$5.15/hr.



Aftermath of Hurricane Katrina



Result

- Gulf Coast workers and businesses complained that they are being left out of the recovery.
- While the federal government was spending more than \$60 billion on recovery, locals complained that out-of-state companies receive most of the contracts and that many of those firms pay workers less than the prevailing wage.
- For example, 75 unionized electricians said they lost their \$22-an-hour jobs rebuilding the Belle Chasse Naval Air Station near New Orleans because a Halliburton Co. subcontractor found workers to do the job for less.
- October 2005, Approx. 45 days later, President Bush reinstated prevailing wage rates.

Senator Timothy Green



Joplin, May 22, 2011



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Joplin Praise for Prevailing Wage



- After the tornado, out-of-state, unscrupulous contractors flooded the area to undercut local contractors.
- Joplin Public Schools and the City reached out to the State for help, offering office space and seeking advice to enforce the prevailing wage laws and contract compliance.
- Division of Labor Standards officials have been assisting Joplin ever since to prevent contractor fraud and other injustices.

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Prevailing Wage in Missouri



- Missouri families benefit from receiving competitive and sustainable wages, health care benefits, and pension benefits. Prevailing wage contributes between \$300.3 million and \$452.4 million annually to Missouri workers' income. **Michael P. Kelsay, PhD, James I Sturgeon, PhD, Kelly D Pinkham, MS, UMKC Department of Economics, 2011.**
- Missouri's economy benefits from the income and sales tax revenues generated by Missouri prevailing wage workers. Prevailing wage employment results in up to \$27.1 million in additional income tax and \$8.7 million in local sales tax collections. **Michael P. Kelsay, PhD, James I Sturgeon, PhD, Kelly D Pinkham, MS, UMKC Department of Economics, 2011.**

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Prevailing Wage in Missouri



- Missouri's workers benefit from safer working conditions. In the five years following the repeal of prevailing wage in Utah, occupational injuries in construction increased 15%. **Peter Philips, Ph.D.** Professor of Economics, University of Utah
- Also, lower construction wages and benefits, lack of apprenticeship programs, and other factors lead to a less skilled workforce. Productivity gains resulting from a more highly trained and paid workforce is a critical component in the reduction of overall construction costs to the public sector. **Stephen Allen**, *Quarterly Journal of Economics*, 1984.

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Prevailing Wage in Missouri



- Missouri benefits from more productive and efficient construction. Construction workers in prevailing wage states produce 13% to 15% more value added from their work compared to workers in states without prevailing wage laws.
Peter Philips, Ph.D. Professor of Economics, University of Utah
- The fatality rate from construction work-site accidents is 25% lower in states with prevailing wage laws and 35% lower in states with the strongest and best-enforced prevailing wage laws.
Peter Philips, Ph.D. Professor of Economics, University of Utah
- Missouri boasts one of the lowest numbers of injuries of all reporting states in the region. The average is 4.2 compared to 5.32 in non-prevailing wage states in our region.
Michael P. Kelsay, PhD, James I Sturgeon, PhD, Kelly D Pinkham, MS, UMKC Department of Economics, 2011.

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Direct Economic Impact In Missouri



- Union, Prevailing Wage Construction has invested and created jobs in Missouri.
 - **\$1.4 billion** paying healthcare claims for workers and their families in Missouri
 - **\$78 million** training workers to improve job and safety skills in Missouri
 - **\$270 million** in pension benefits to retired workers in Missouri
 - **\$90 million** invested by Union Labor Life in local development projects in Missouri
 - **\$87 million** invested by AFLCIO Building Investment Trust in St. Louis
 - **\$430 million** invested by AFL-CIO Hit Fund in 24 projects around Missouri
 - **\$169 million** invested by MEPT in 6 projects
 - **\$100 million** invested by Commonwealth Advisors in local Missouri projects

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Myths about Prevailing Wage



- Prevailing wage rates are set by the unions.
 - **False.** Wage rates are set by the information collected during the annual wage survey. In 2011, 68 counties had rates that were set by non-union contractor survey submissions.
- There is no point in participating in the wage survey.
 - **False.** The wage rate with the most hours submitted will set the rate. The system works when contractors participate.
- Only unions participate in the survey.
 - **False.** In 2011, 465 individual contractors participated in the survey.
- The objection process is too difficult.
 - **False.** Over the past ten years there have been 61 objections filed. Only 14 had to go to a hearing before the LIRC, the rest were settled without a hearing.



The Biggest Myth of All



- Public works construction is more expensive in the 18 states with prevailing wage laws than in others.
 - **False.** Public works construction data shows clearly that prevailing wage states spend less per square foot than non-prevailing wage states.



The Truth



Median Cost per square foot for Government Service Buildings

Kansas

\$296.75

Missouri

\$201.01

Prevailing Wage Savings = \$95.44 per square foot

School Construction Cost per square foot

Combined Non-Prevailing Wage States Average in the North
Central Region (our region)

\$185.31

Missouri

\$175.96

Prevailing Wage Savings = \$9.35 per square foot

Michael P. Kelsay, PhD, James I Sturgeon, PhD, Kelly D Pinkham, MS, UMKC Department of Economics, 2011.

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Questions?



Thank you for your time.

Senator Timothy Green

