

The Adverse Economic Impact From Repeal of the Prevailing Wage Law in West Virginia

**Michael P. Kelsay, Ph.D.
University of Missouri – Kansas City
Department of Economics
5100 Rockhill Road
Kansas City, MO 64110
Research Associate and Instructor**

**A study funded by
Affiliated Construction Trades Foundation,
A Division of the WV State Building Trades.**

January, 2015

Executive Summary

Attempts to repeal the prevailing wage law in West Virginia are based upon the claim that repeal will save dollars on total construction costs and will bolster state and local budgets. However, this study has shown that repeal of the prevailing wage statute in West Virginia would not save dollars on construction costs and would result in a negative economic impact on families in West Virginia, taxpayers in West Virginia, and the state and regional economies in West Virginia. This study has shown that the consequences of repeal in West Virginia would include:

- No cost savings on construction costs in the non-residential sector.
- No cost savings in construction costs of elementary, secondary, and university school construction.
- Lower wages for all construction workers in West Virginia (direct impact of repeal in West Virginia) and reduced incomes for other workers in industries located in West Virginia (the indirect, or induced, impact of repeal).
- Reduced health and pension benefits for construction workers in West Virginia (and, as a result, probability of eventual increased costs to state and local communities).
- Reduced sales tax revenues to the State of West Virginia and regional economies in West Virginia.
- Reduced income tax revenues to the State of West Virginia and regional economies in West Virginia.
- Weakened system of construction apprenticeship training in West Virginia.
- Increased occupational injuries and their associated costs in West Virginia.
- Lower productivity of the construction workforce.

Findings

Chapter II

Summary of Findings on School Construction Based on Descriptive Statistics

- Total school construction projects from 2006-2013 were 7,691; of which 4,734 were in non-prevailing wage states (North Carolina, Ohio, and Virginia) and 2,957 were in prevailing wage states (Maryland, Ohio, Pennsylvania, and West Virginia).¹
- In non-prevailing wage states (North Carolina, Ohio, and Virginia): dollar value of school construction was \$31,360,599,000; total square feet of new construction was 124,710,000.
- In prevailing wage states (Maryland, Ohio, Pennsylvania, and West Virginia): dollar value of new construction was \$24,921,094,000; total square feet of new construction was 71,562,000.
- For elementary and secondary school construction, there is no statistical difference in the means square foot costs of construction in the State of West Virginia and the non-prevailing wage jurisdictions of North Carolina, Ohio, and Virginia.
- For elementary school construction, the mean square foot costs of construction is \$6.10 per square foot *cheaper* in West Virginia than in the non-prevailing wage states of North Carolina, Ohio, and Virginia; for secondary school construction, the mean square foot costs of construction is \$22.37 per square foot *cheaper* in West Virginia than in the non-prevailing wage states of North Carolina, Ohio, and Virginia
- For university school construction, the mean square foot costs of construction is \$50.25 per square foot *cheaper* in West Virginia than in the non-prevailing wage states of North Carolina, Ohio, and Virginia and the difference is statistically significant.
- Conclusion: There is no statistical difference in mean square foot costs in elementary and secondary school construction for the period 2006-2013 between

¹ School construction is exempt from prevailing wage in Ohio and school construction in Ohio is included in non-prevailing wage states.

the State of West Virginia and the non-prevailing wage states of North Carolina, Ohio, and Virginia, although it is *cheaper* on a square foot basis in all three levels of school construction in West Virginia; university school construction costs are \$50.25 *cheaper* per square foot in West Virginia than in non-prevailing wage states and it is statistically significant.

Summary of Findings Based on Total Construction Based on Descriptive Statistics

- Total new construction projects from 2006-2013 were 81,168; of which 34,438 were in non-prevailing wage states and 46,730 were in prevailing wage states.²
- Distribution of structure type (by percentage of projects) is essentially the same in prevailing wage states (Maryland, Ohio, Pennsylvania, and West Virginia) and non-prevailing wage states (North Carolina and Virginia) although there are slight variations in structure type.
- In non-prevailing wage states (North Carolina and Virginia): dollar value of new construction was \$112,216,020,001; total square feet of new construction was 595,262,000; and mean cost per square foot of new construction across all structure types expressed in constant 2014 dollars was \$188.52
- In prevailing wage states (Maryland, Ohio, Pennsylvania, and West Virginia): dollar value of new construction was \$145,572,040,001; total square feet of new construction was 744,812,000; and mean cost per square foot of new construction across all structure types expressed in constant 2014 dollars was \$195.45
- Conclusion: There is no statistical difference in mean square foot costs across all types of construction for the period 2006-2013 for prevailing wage states (Maryland, Ohio, Pennsylvania, and West Virginia) versus non-prevailing wage states (North Carolina and Virginia).

² School construction is exempt from prevailing wage in Ohio and school construction in Ohio is included in non-prevailing wage states.

Chapter III - Summary of Empirical Findings

- Construction costs are higher for public construction versus private construction in *both* prevailing wage states and non-prevailing wage states.
- The presence of a prevailing wage statute did not result in any statistically significant difference in construction costs in the period for the period 2006-2013.
- School construction costs in West Virginia were lower per square foot for elementary, secondary, and university school construction projects than in the non-prevailing wage states of North Carolina, Ohio, and Virginia for the period 2006-2013.

Chapter III – Economic Impact of Repeal in West Virginia

Summary of Findings:

- This chapter uses an input-output approach to estimate the economic impact of repeal of West Virginia's prevailing wage laws.
- Direct and indirect losses to household income and to government revenues are calculated.
- Losses are estimated for the State of West Virginia.

Specific findings include:

- For the State of West Virginia, the major conclusions are:
 - The repeal of the prevailing wage law would cost the residents of West Virginia and their families between \$51.30 million and \$77.28 million annually in lost income.
 - The repeal of the prevailing wage law would cost the State of West Virginia between \$1.43 million and \$2.15 million in lost sales tax collections annually.
 - The repeal of the prevailing wage law would cost the State of West Virginia between \$3.08 million and \$4.64 million annually in lost income tax revenue.
 - The total economic loss due to repeal of the prevailing wage law in West Virginia in 2015 would be a loss of income and revenue between \$55.81 million and \$84.06 million annually.

Chapter IV – Other Impacts of Prevailing Wage Laws

- Prevailing wage laws promote better compensation packages for workers: average total compensation for states that have prevailing wages laws is higher than for those states that have repealed their prevailing wage laws or have never had a prevailing wage law.
- Prevailing wage laws have helped to prevent erosion of compensation for construction workers: Evidence suggests that there has been little, if any, change in real incomes of construction workers in prevailing wage states while there have been substantial decreases in real incomes for those states that have repealed their prevailing wage laws.
- Real average total benefits per construction worker have increased in prevailing wage states, while they have decreased in non-prevailing wage states.
- Real average pension benefits have increased modestly in prevailing wage states and have decreased substantially in states that have repealed their prevailing wage law.
- Real average health care benefits have increased prevailing wage states while they have decreased in states that have repealed their prevailing wage laws.
- Repeal of prevailing wage laws or the absence of prevailing wage laws encourages small, inexperienced construction firms to enter the sector. These smaller and more inexperienced firms have poorer safety records than do large ones.
- Employee turnover increases in states that do not have prevailing wage statutes. Lower construction wages and benefits, lack of apprenticeship training, and other factors lead to a less skilled workforce that is more prone to injuries.
- Repeal of the state's prevailing wage laws would endanger West Virginia's safety record.
- For the period 2008-2010 in on-the-job training and apprenticeship programs in federal highway construction projects, the top ten states were all prevailing wage states; no non-prevailing wage state was ranked in the top ten.

- For the period 2008-2010 in the growth of on-the-job training and apprenticeship programs in federal highway construction projects, seven of the top ten states were prevailing wage states; three were non-prevailing wage states.
- In terms of women participation in training program from 2008-2010, seven of the top ten states in terms of percentage increase in OJT and apprenticeship programs were prevailing wage states.
- In terms of women participation in training program from 2008-2010, nine of the top ten states in terms of percentage in OJT and apprenticeship programs were prevailing wage states (West Virginia ranked 5th nationally).
- In terms of minority participation in training program from 2008-2010, prevailing wage states dominated the top ten states. In terms of percentage increase in minorities in OJT and apprenticeships, nine of the top ten states were prevailing wage states.
- Union productivity effect in construction is between 17-38%.
- No correlation between average cost per mile and average wage rate in highway construction projects between 1980-1993 and 1994-2002.
- Implausible that repeal of prevailing wage rate would reduce construction costs, given productivity effects in construction.
- The presence of a prevailing wage statute is good for West Virginia contractors, its citizens, and taxpayers as jobs and incomes are kept in West Virginia.