An Analysis of the Impact of Prevailing Wage Thresholds On Public Construction

**BACKGROUND**
A state prevailing wage law supports construction workers employed on public infrastructure projects. The policy requires that workers employed on projects funded by taxpayer dollars are compensated according to hourly wage and benefits rates normally paid on similar private and public projects in an area. Prevailing wage prevents units of government from undercutting local wage standards on public construction, ensuring that workers can afford to live in the community where they are building a project. Instead of lowering worker wages below their privately-established levels, prevailing wage policies ensure that workers can afford to live in the community where they are building a project.

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**EXECUTIVE SUMMARY**
A contract threshold is the minimum cost of a public project at which point workers must be paid prevailing wage rates. Publicly-funded projects below the threshold are exempt from the law, while those above are covered. Contract thresholds vary by state, from those with no threshold (such as Illinois) up to $500,000 in New Hampshire.

Higher contract thresholds lower business revenues for in-state contractors. Increases in prevailing wage thresholds incentivize out-of-state contractors to enter the market.

**A $100,000 increase in a prevailing wage state’s contract threshold is associated with a 1.2 percentage-point increase in the market share of out-of-state contractors to 35.6 percent of total submissions.**

Over the five years from 2007 to 2012, three states raised their prevailing wage coverage thresholds: Indiana increased its $100,000 threshold hike from $75,000 to $100,000 in 2012; Ohio raised its $35,000 threshold hike from $25,000 to $35,000 in 2012; Oregon increased its $15,000 threshold hike from $10,000 to $15,000. In the aggregate, this increase in contract thresholds increased the market share of out-of-state contractors by 0.5 percentage points.

**Another $100,000 threshold hike in Indiana from 2012 to 2013 had no statistical impact on the number of bids submitted on public projects, indicating that prevailing wage coverage did not limit competition.**

Higher contract thresholds increase wages and health insurance coverage for construction workers. Differences in coverage thresholds across states and within states provide an opportunity for researchers to understand how thresholds affect construction workers.

Every $100,000 threshold increase is statistically associated with:

- A 0.28 percent to 0.33 percent decrease in health coverage for construction workers;
- Increased in-contract threshold has devastating effects on workers

**INCREASED THRESHOLDS HAS DEVASTATING EFFECTS ON WORKERS**

<table>
<thead>
<tr>
<th>THRESHOLD INCREASES BID COMPETITION</th>
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<tr>
<td>Bids on projects from $250k to $500k</td>
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<tr>
<td>Bids on all projects $350k or less</td>
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<tr>
<td>For every $100,000 prevailing wage threshold increase</td>
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<tr>
<td>Increased contract threshold from $250k in 2012 to $500k in 2013</td>
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<tr>
<td>5.0/2.94</td>
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<td>6.0/3.53</td>
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<td>7.0/4.12</td>
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<td>8.0/4.71</td>
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**NO EVIDENCE THAT RAISING THRESHOLD INCREASES BID COMPETITION**

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<tr>
<th>THRESHOLD HIKES IN THE MIDWEST AFFECT IN-STATE WORK MORE THAN NATIONAL AVERAGE</th>
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<td>Thresholds in Midwest</td>
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<td>National average</td>
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**PROJECT FOR MIDDLE CLASS ECONOMY**

Frank Manis IV, MPP, Policy Director, Illinois Economic Policy Institute
Robert Bruno, PhD, Director, Labor Education Program

**IN-SATE CONTRACTORS TEND TO DO BETTER IN STATES WITH PREVAILING WAGE LAW**

93.09% of taxpayer money spent on in-state contractors
90.65% of taxpayer money spent on in-state contractors

**WHAT ALL OF THIS MEANS FOR ILLINOIS:**

* $139 million
  * To out-of-state firms
  * $53 million
  * Lost in labor income

* 600+
  * Workers without healthcare

For every $100,000 threshold increase, the consequences of a $100,000 threshold would equate to:

- A 0.28 percent to 0.33 percent decrease in health coverage for construction workers;
- Increased in-contract threshold has devastating effects on workers

**Raising the threshold lowers the wages and health coverage of construction workers.**

**EXECUTIVE SUMMARY**

A state prevailing wage law supports construction workers employed on public infrastructure projects. The policy requires that workers employed on projects funded by taxpayer dollars are compensated according to hourly wage and benefits rates normally paid on similar private and public projects in an area. Prevailing wage prevents units of government from undercutting local wage standards on public construction, ensuring that workers can afford to live in the community where they are building a project. Instead of lowering worker wages below their privately-established levels, prevailing wage policies ensure that workers can afford to live in the community where they are building a project.

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