Evaluating Wisconsin's Approach to Determining Prevailing Wages:

- State Methodology
- Regional Market Comparisons
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Executive Summary

Wisconsin has had prevailing wage laws since the 1930s. Yet, Wisconsin's specific approach to calculating prevailing wages has undergone little study.

An in-depth examination of this methodology shows that Wisconsin's employer survey and unique calculations lead to prevailing wages that:

- ❑ Often do not reflect varying county construction wages or regional labor markets;
- ❑ Are more "costly" in low-wage, low-income counties, particularly those in northern Wisconsin;
- ❑ Can fluctuate widely and unpredictably from year to year, rather than change slowly and consistently as market wages typically do;
- ❑ Can require contractors to pay unskilled workers more than skilled workers in some situations; and
- ❑ May cost state and local government hundreds of millions of dollars in excess costs.

Method. Wisconsin surveys construction contractors annually to get information on wages and benefits paid to workers on private construction projects. That information is then used to calculate, by county, hourly prevailing wage and benefit rates for public construction projects.

Unfortunately, only about 10% of surveys are completed correctly and returned, a dramatically lower response rate than achieved by the federal government survey of the same employers.

One result of this low return rate is that the union/nonunion split in hours reported in the survey do not reflect the overall construction industry. Approximately 25% of the industry is unionized in Wisconsin, but 87% of the hours reported are covered under union contracts. This tends to raise prevailing wage rates above market rates. Federal wage surveys take care to boost response rates and to ensure the characteristics of survey respondents match the underlying population.

A second methodological "flaw" also tends to inflate prevailing wages. Most states that employ survey averages to calculate prevailing wages use all survey responses. If the desire is to measure the "market," this kind of traditional average makes sense. However, Wisconsin is unique: it selects and averages only the top portion of the wage distribution. This unique method results in prevailing wages that can be 20% to 40% above the rate that results from calculating a true average from all respondents.

Prevailing Wages and the Market. If prevailing wages reflected local markets, one would expect county prevailing wages would, to some extent, mirror patterns in other construction wages. There is no evidence of this. Federal estimates of average weekly wages from the entire construction industry show construction earnings tend to be much higher in urban counties than in rural ones. Earnings differentials can be over 200%.

Yet prevailing wages often vary little from county to county, and when they do vary, the variations do not reflect county differences reflected in overall industry earnings data. For example, in 2014, prevailing wages for carpenters were identical in 57 of the state's 72 counties. Prevailing wages for roofers varied, but the pattern appears "random," with no tie to location.

A more specific example is instructive. Average wages for the entire construction industry averaged $1,119 in Waukesha County and $569 in Washburn County. Despite this large difference, the prevailing

wage for a roofer was higher in Washburn than in Waukesha ($30.50 vs. $29.40).

Ability to Pay. Since prevailing wages typically do not vary with local market rates, residents of Wisconsin's income-poor counties end up devoting a greater share of their incomes to public construction projects than residents of more prosperous counties. This analysis uses an hour-cost ratio that measures how many hours an average worker must work in order to pay for one hour of prevailing wage work.

For example, the prevailing wage and benefit rate (total package) for a carpenter was $46.38 in both Dane and Florence counties. While the average Dane County worker across all industries earned $23.68 per hour, the average Florence County worker earned only $11.45. Thus, it would take four average Florence County workers an hour's work to pay for a carpenter on a public project, but only two Dane County workers to pay that same carpenter. In general, prevailing wages were most burdensome in Bayfield, Burnett, Florence, Iron, and Marquette counties, all remote counties mostly in the north.

Anomalies. Wisconsin's unique prevailing wage methodology also created some unexpected results. For example, prevailing wages and benefits for a carpenter in Adams county fluctuated between $12 per hour and $49 per hour during 2011-15. In Lafayette county during 2013-15, the range was $17.95 to $45.47. Market wages do not show this kind of volatility.

Sometimes, Wisconsin methodology results in compensation rates that do not reflect skill levels. In 2014, the prevailing wage and benefit package for an electrician in Lafayette County was $21.00 per hour; for an unskilled clean-up worker, it was $37.97.

These anomalies further indicate that prevailing wages here often bear little resemblance to the local economies where public projects are occurring.

Excess Costs. Local data from a statistically-valid federal wage survey show that prevailing wages here are, on average, 23% higher than local averages. Adding estimated benefits to the federal figures enables calculation of the difference in total packages. Wisconsin's prevailing package rates are, on average, about 45% higher than market rates.

In 2014, state and local governments requested prevailing wage determinations for about $1.9 billion in building or heavy construction projects. Estimated labor costs on these projects range from 20% to 30% of the total. Those figures can be used to estimate that state and local governments could have saved between $199.7 million (9.0% of total costs) and $299.5 million (13.5%) on these projects if market averages, rather than prevailing wages, were used.

Background. About six months ago, long before the current legislative session, Associated Builders and Contractors (ABC) approached the Wisconsin Taxpayers Alliance (WISTAX), asking if it could study Wisconsin's approach to calculating prevailing wages and the resulting impact, if any, on local government finance.

ABC asked WISTAX to answer two questions:

1. Do the prevailing wages determined by the state Department of Workforce Development accurately reflect wages and benefits in Wisconsin counties? and

2. If they overestimate area wages, what is the additional cost to local governments and taxpayers?

Remember: This study does not address whether Wisconsin should or should not have a prevailing wage law, but only how it calculates those wages. □

7. Conclusions

Wisconsin's prevailing wage laws were passed in the 1930s to ensure that out-of-area contractors with low-wage workers were not able to underbid local contractors on public projects. However, Wisconsin's approach to calculating prevailing wages has flaws which inflate these compensation requirements above market averages.

With only 10% of contractors responding to DWD's mandated survey and 85% of reported hours covered under union contracts, the underlying data do not reflect Wisconsin's construction industry, which is 75% non-union. This response bias inflates both wages and benefits above true market averages. Federal wage surveys avoid this by ensuring respondent characteristics are similar to those of the entire population.

In addition, Wisconsin is unique in how it calculates average wages from the DWD survey, as it only averages the highest wages, rather than averaging all responses. This unique method can inflate prevailing wages by more than 20%. When wage averages are increased, large, out-of-county firms with higher labor costs are competitive with smaller, local firms paying market wages, and can "beat out" local firms for public construction projects.

Using estimates from a statistically sound and much larger federal survey shows Wisconsin's prevailing wages and benefits are, on average, about 45% above market averages. In 2014, this cost state and local governments—and taxpayers—between $199.7 million and $299.5 million on public building and heavy construction projects. □