LEGISLATIVE RESEARCH COMMISSION

PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

An Analysis of Kentucky's Prevailing Wage Laws and Procedures

Research Report No. 304

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AN ANALYSIS OF KENTUCKY'S PREVAILING WAGE LAWS AND PROCEDURES

Adopted by Program Review and Investigations

PROGRAM REVIEW & INVESTIGATIONS COMMITTEE STAFF REPORT

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LEGISLATIVE RESEARCH COMMISSION

Frankfort, Kentucky

Committee for Program Review and Investigations

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FOREWORD

Program Review staff would like to acknowledge the extensive cooperation of Joe Norsworthy, Secretary of the Kentucky Labor Cabinet, and Larry Roberts, Director of the Division of Employment Standards, Apprenticeship, and Training, in providing information for the preparation of this report. In addition, staff of the Finance Cabinet, Department of Education, and the Transportation Cabinet also provided very useful information and data.

Many individuals also provided valuable information. Staff would like to thank the contractors, union representatives, school and local officials who provided information and answered staff's questions.

Finally, we would also like to acknowledge the assistance of the several staff members of the Legislative Research Commission for assistance in various aspects of this study.

Robert Sherman
Director

Frankfort, Kentucky
December 13, 2001

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Robert Sherman
Director

MEMORANDUM

TO: The Honorable Paul E. Patton, Governor
The Legislative Research Commission, and
Interested Individuals

FROM: Senator Katie Stine, Chair
Representative H. "Gippy" Graham, Co-Chair

SUBJECT: Adopted Committee Staff Report: An Analysis of Kentucky's Prevailing Wage Laws and Procedures

DATE: December 2001

In May 2001, the Program Review and Investigations Committee authorized a study of Kentucky's prevailing wage law. The Committee was concerned about whether or not Kentucky's prevailing wages accurately represented local wages, and if the use of prevailing wages increased the costs of public construction. Prevailing wage laws require that workers on certain public works projects be paid a minimum wage rate. In theory, the wage rate was supposed to represent the wages being paid in a local area.

Committee staff conducted numerous interviews with Labor Cabinet officials, union representatives, contractors, school officials, and local government officials. Staff found that there was a great deal of disagreement among interested parties regarding the effects of Kentucky's prevailing wage laws. Generally unions and union contractors spoke favorably of the law. Most non-union contractors, school, local government, and municipal utility officials spoke unfavorably of the law.

Currently, neither prevailing wages set by the Kentucky Labor Cabinet nor the United States Department of Labor yield prevailing wages that are representative of local wages.

While prevailing wages do not yield representative wages, the Labor Cabinet appeared to be correctly administering the prevailing wage laws as they are directed by statute. There are some changes to the process that the Labor Cabinet can make to improve its accuracy; however, most of the changes needed for substantial improvements would have to come in the form of statutory changes. There was substantial evidence that prevailing wage laws did increase the initial costs of construction. It was unclear, however, whether the requirements resulted in higher quality construction. To the extent that quality was increased, prevailing wages were an inefficient method to increase quality. The wage requirement results in contractors paying higher wages with no guarantee that the additional wages would result in quality improvements.

Staff did not make a recommendation as to whether or not the prevailing wage requirements should be continued, since that would be a policy decision not subject to staff review. However, staff proposed the following recommendations which suggested changes intended to yield prevailing wages that would be more representative of local wages:

Recommendation 3.1: If it is the desire of the General Assembly that prevailing wages be more representative of local wages, data collection through hearings should be replaced with a data collection process that provides better coverage of all construction workers in an area. One possibility is a survey of contractors doing commercial construction.

Recommendation 3.2: Contingent upon the implementation of recommendation 3.1, the Labor Cabinet should follow-up with contractors who do not respond to the initial request for wage data.

Recommendation 3.3: If it is the General Assembly's desire that prevailing wages be more representative of wages being paid in an area, the use of the majority wage should be discontinued.

Recommendation 3.4: If the General Assembly would like prevailing wages to reflect the current local labor markets, wages paid to workers on previous prevailing wage projects should be excluded from the determinations for later projects.

Recommendation 3.5: If it is the desire of the General Assembly that localities reflect construction labor markets, current definitions of localities should be replaced with definitions that would reduce the number of unrelated counties grouped together.

Recommendation 3.6: If no changes are made to make Kentucky's determination process more representative of local wages, federal prevailing wages should be adopted wherever they exist. If, however, the accuracy of Kentucky's determination process can be improved and it is the desire of the General Assembly that prevailing wages more accurately reflect local wages, the use of federal prevailing wages should cease entirely and be replaced with the improved state determinations.

Recommendation 3.7: The Kentucky Labor Cabinet should develop a process to validate evidence submitted for prevailing wage determinations. As there have been numerous cases of invalid data being submitted for federal determinations, it is reasonable to suspect that this occurs for Kentucky's determinations as well.

Questions or requests for additional information should be directed to Dr. Ginny Wilson, Committee Staff Administrator for the Program Review and Investigations Committee.

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EXECUTIVE SUMMARY

Kentucky's prevailing wage law requires that construction workers on certain public construction projects must be paid at least the prevailing wage for the area in which the project is being built. Prevailing wages must be paid on all public construction projects estimated to cost $250,000 or more. Public construction includes construction projects for the state, school districts, or local governments.

The Overall Conclusions of the Report are as follows:

There is a great deal of disagreement between interested parties regarding the effects of Kentucky's prevailing wage laws. Generally unions and union contractors speak favorably of the law. Most non-union contractors, school, local government, and municipal utility officials speak unfavorably of the law.

Currently, neither prevailing wages set by the Kentucky Labor Cabinet nor the United States Department of Labor yield prevailing wages that are representative of local wages. Because prevailing wages are not representative, it is unclear what effect prevailing wage has on local construction contractors. While prevailing wages do not yield representative wages, the Labor Cabinet does appear to be correctly administering the prevailing wage laws as they are directed by statute. There are some changes to the process that the Labor Cabinet can make to improve its accuracy; however, most of the changes needed for substantial improvements would have to come in the form of statutory changes. There is substantial evidence that prevailing wage laws do increase the initial costs of construction. It is unclear, however, whether the requirements result in higher quality construction. To the extent that quality is increased, prevailing wages are an inefficient method to increase quality. The wage requirement results in contractors paying higher wages with no guarantee that these additional wages will result in quality improvements.

Procedures for Setting Prevailing Wages

Prevailing wages for an area are set by one of two procedures. In eighty-one counties, prevailing wages are determined by the Kentucky Labor Cabinet. These counties were grouped into 20 localities, typically based on Senatorial districts. Prevailing wages are determined through hearings in each locality. Wage data is collected from various groups, such as contractors and union locals. The data shows the wages and benefits provided to various classifications of construction workers on projects done in the locality. The prevailing wage for each classification is based on this data. If the majority (51%) of the workers in the submitted data in a single classification are paid the same wage, this wage becomes the prevailing wage for the classification in the locality. If there is no majority wage in the submitted data, a weighted average of the wages is calculated and this becomes the prevailing wage.

In thirty-nine counties, a 1996 decision by the Kentucky Labor Cabinet to adopt federal prevailing wages rather than determine them at the state level remains in effect. Federal prevailing wages are determined by the United States Department of Labor. Wage and

benefits data are collected through surveys of contractors and labor organizations. Prevailing wages for a job classification, such as electrician, in an area, are calculated in one of two ways. If a majority of the workers in the classification were paid the same wage, this becomes the prevailing wage. If there is no majority, prevailing wages are calculated by taking the weighted average of the wages paid to workers in the classification.

Opinions about Prevailing Wage

Prevailing wage requirements are controversial and arguments are plentiful from strong advocates and critics of the program. For such an important subject, it is valuable to know the views of broader groups of people who have an interest in the issue because they are directly involved in prevailing wage projects. To accomplish this task, staff administered opinion surveys of members of various groups who work on prevailing wage projects or commission their construction.

Generally speaking, two of the groups surveyed strongly support prevailing wage: contractors with unionized workers and representatives of union locals. They approve of the process for setting rates and feel that, taking improvements in construction quality and workplace safety into account, prevailing wage does not increase construction costs. Non-union contractors, local government, school, and municipal utility officials are not supportive of prevailing wage. They feel that prevailing wage increases construction costs with no corresponding increase in quality. Non-union contractors are also critical of the process for setting rates.

Representativeness of Prevailing Wages

Prevailing wage determinations are not designed in a manner that would likely yield prevailing wages that are representative of local wages. This is true for both prevailing wages determined by the Kentucky Labor Cabinet and by the United States Department of Labor.

The determination process used by the Kentucky Labor Cabinet is more likely to yield prevailing wages that are representative of union wages rather than wages for all construction workers in the locality. While union workers account for approximately 21% of non-residential construction workers, 81% of the workers for which wages were submitted at prevailing wage hearings were union members. Sixty-four percent of the determinations made resulted in the prevailing wage being set equal to the union wage.

There are several possible reasons why union workers are over-represented and non-union workers are under-represented in prevailing wage hearings. First, there is no incentive for contractors who do only private construction projects to submit wage data. As these contractors are not affected by the outcome of prevailing wage determinations, they have no incentive to participate. Unless some other group such as a union submits data for these contractors, the wages they pay will not be included in the determination. Unions may have a greater incentive to submit wage data. Because unions can represent

several contractors, it is likely that at least one of these contractors will bid on prevailing wage projects. In addition, one study (O'Connell 1986) found that unions are able to negotiate higher wages with their employers when the prevailing wages were high.[1] The ability to negotiate higher wages occurs because high prevailing wages reduce competition from contractors that pay lower wages.

Finally, the use of the majority wage for defining the prevailing wage tends to favor union wages, because unions typically negotiate a single wage for each classification of worker; therefore, there is little variation in the wages. Collective bargaining agreements may also cover several contractors. Wages for non-union workers are much more varied. Because there is little variation in union wages, they are more likely to be the majority wage.

There are a number of other reasons why prevailing wages set by the Kentucky Labor Cabinet are not representative. For example, in many determinations either no data or insufficient data is submitted. In these cases, past prevailing wages are carried forward. In addition, there is no validation of the wage data submitted to the Cabinet. Lack of validation has been a serious problem in federal determinations.[2] Also, wages paid on public construction projects are currently used for new determinations. The wages paid on public projects reflect the results of past determinations. Including them in new determinations prevents new determinations from accurately reflecting the current local labor market. Finally, the use of Senatorial districts to define localities results in unrelated areas being grouped together for determinations. In these cases, the prevailing wage will not reflect either of the areas accurately.

Many of the same concerns regarding the state determinations exist for the federal determination process as well. The federal determinations also rely on voluntary information, which likely does not accurately reflect all workers in the area. Federal determinations also apply the majority rule. As discussed, the majority rule tends to favor union wages. In addition, there have been a number of concerns about the validity of the wage data submitted for federal determinations. These concerns range from outright fraud to simply invalid data. The effects of both are that federal prevailing wages do not accurately represent local wages.

Prevailing Wage and Costs of Construction

Public projects in Kentucky are typically awarded to the lowest bidder. In the absence of prevailing wage laws, contractors are free to select among various mixes of inputs, such as labor and equipment, in an attempt to develop a competitive bid. Prevailing wage laws constrain contractors from one avenue by which they can reduce bids and, therefore, the costs of construction. That is by hiring lower-wage workers. To the extent that

[1] John F. O'Connell, "The Effects of Davis-Bacon on Labor Cost and Union Wages," *Journal of Labor Research*, 3 (Summer 1986), pp. 239-253.
[2] U.S. General Accounting Office, GAO/HEHS-99-21, "Davis-Bacon Act: Labor Now Verifies Wage Data, but Verification Process Needs Improvement," January 1999.

prevailing wages are higher than the wages that would be paid to at least some workers, paying prevailing wages could increase the costs of construction.

When faced with paying higher wages, contractors will attempt to shift from using low skilled labor to more productive labor or increase the use of equipment. This substitution tends to offset some of the additional costs associated with prevailing wages. Although there are several studies which conclude that there are no additional costs associated with prevailing wages, there are a number of technical problems which raise doubts about their validity.

Staff compared the wages paid to workers on a sample of forty-six recent prevailing wage projects to what these same workers were paid on private projects during the same period. The comparison showed that sixty percent of the workers on these projects were paid more on the prevailing wage project than they normally earn on private projects. The difference suggests that the prevailing wage increased the wage portion of the construction costs on these projects by twenty-four percent. As these are the actual workers used on these projects, there are no additional offsets to these costs in the form of higher productivity.

Proponents of prevailing wage laws argue that higher quality workers are employed as a result of prevailing wage laws. It is argued that any increase in the initial cost of construction is offset by lower maintenance and repair costs in the future. It is possible that prevailing wage requirements result in higher quality construction. Due to the difficulty of sorting out the effects of prevailing wages from those of other factors that affect maintenance costs, it is unlikely that this debate will be definitively settled in the foreseeable future. However, even if prevailing wages do have an effect on quality in some cases, prevailing wage requirements are judged to be an inefficient method of achieving quality improvements. The wage requirement results in a public entity paying higher wages up-front, with no guarantee that these additional expenditures will provide additional quality.

RECOMMENDATIONS

Note that the report does not make a recommendation as to whether or not the prevailing wage requirements should be continued. This is a policy decision not subject to staff review. Staff was asked to specifically evaluate whether prevailing wages are representative of local wages. These recommendations suggest changes intended to yield prevailing wages that are more representative of local wages, if this is the desire of the General Assembly. The majority of these recommendations will require statutory changes.

(The numbering of recommendations below refers to chapter three of this report where recommendations are found.)

Recommendation 3.1: If it is the desire of the General Assembly that prevailing wages be more representative of local wages, data collection through hearings should be

replaced with a data collection process that provides better coverage of all construction workers in an area. One possibility is a survey of contractors doing commercial construction. (Page 29)

Recommendation 3.2: Contingent upon the implementation of recommendation 3.1, the Labor Cabinet should follow-up with contractors who do not respond to the initial request for wage data. (Page 29)

Recommendation 3.3: If it is the General Assembly's desire that prevailing wages be more representative of wages being paid in an area, the use of the majority wage should be discontinued. (Page 31)

Recommendation 3.4: If the General Assembly would like prevailing wages to reflect the current local labor markets, wages paid to workers on previous prevailing wage projects should be excluded from the determinations for later projects. (Page 35)

Recommendation 3.5: If it is the desire of the General Assembly that localities reflect construction labor markets, current definitions of localities should be replaced with definitions that would reduce the number of unrelated counties grouped together. (Page 37)

Recommendation 3.6: If no changes are made to make Kentucky's determination process more representative of local wages, federal prevailing wages should be adopted wherever they exist. If, however, the accuracy of Kentucky's determination process can be improved and it is the desire of the General Assembly that prevailing wages more accurately reflect local wages, the use of federal prevailing wages should cease entirely and be replaced with the improved state determinations. (Page 44)

Recommendation 3.7: The Kentucky Labor Cabinet should develop a process to validate evidence submitted for prevailing wage determinations. As there have been numerous cases of invalid data being submitted for federal determinations, it is reasonable to suspect that this occurs for Kentucky's determinations as well. (Page 44)

CHAPTER 1

INTRODUCTION

Prevailing wage laws mandate that workers on certain public construction projects be paid a minimum wage.

Prevailing wage laws require that workers on certain public works projects be paid a minimum wage rate. In theory, this wage rate is supposed to represent the wages being paid in a local area. In May 2001, the Program Review and Investigations Committee authorized a study of Kentucky's prevailing wage law. The Committee was concerned about whether or not Kentucky's prevailing wages accurately represent local wages and whether the law increases the costs of public construction. The Committee adopted the following objectives for the study:

1. To provide a detailed definition of the prevailing wage and a clear description of how prevailing wage requirements are implemented in Kentucky.

2. To elicit, summarize, and report the opinions about prevailing wage requirements held by those most directly affected by the requirements.

3. To determine if prevailing wages accurately reflect local wages.

4. To evaluate the existing research literature and available data to determine if either can provide a statistically significant indication of the impact of prevailing wage requirements on state construction costs.

Program review staff conducted numerous interviews with Labor Cabinet officials, union representatives, contractors, school officials, and local government officials. In addition, staff surveyed local construction unions leaders, contractors, and school, local government, and municipal officials. Staff reviewed and analyzed evidence and documentation used by the Labor Cabinet to determine prevailing wages. Prevailing wage determinations were compared to local wage data where available. Numerous studies on the effects of prevailing wage laws were reviewed. Finally, staff drew a sample of public construction projects. Contractors on these projects were asked to provide payroll records to determine how the wages they normally pay their workers on private projects compared to the wages they paid on the sampled public projects.

Major conclusions regarding the study objectives are as follows.

1. Prevailing wages for an area are set through one of two methods. In certain counties, federal prevailing wages were adopted in 1996. In areas where the federal wages were not adopted, the Labor Cabinet conducts periodic hearings to collect wage data on construction projects in the area. If a majority of workers (51%) in a job classification are paid the same wage rate, this becomes the prevailing wage. If there is no majority, a weighted average of wages paid for the classification is calculated. This average then becomes the prevailing wage for this classification in the area.

2. Two groups strongly support prevailing wage: contractors with unionized workers and representatives of union locals. They approve of the process for setting rates and feel that, taking improvements in construction quality and workplace safety into account, prevailing wage does not increase construction costs. Non-union contractors, local government, school, and municipal utility officials are not supportive of prevailing wage. They feel that prevailing wage increases construction costs with no corresponding increase in quality. Non-union contractors also disapprove of the process for setting rates.

3. The methods used to set prevailing wages are designed in a way that is more likely to yield prevailing wages that represent union wages rather than all wages in the area. This is true for both federal prevailing wages and prevailing wages set by the Labor Cabinet.

4. Due to difficulty in separating the effects of prevailing wage from other factors that may affect construction costs, it has been difficult for past studies to definitively estimate the effects of prevailing wage on costs. Overall the evidence appears to suggest that prevailing wage laws do increase public construction costs. A comparison of the wages paid on prevailing wage projects to what the same workers are paid on private, non-prevailing wage projects shows that workers are frequently paid more on prevailing wage jobs than they typically earn. This suggests that these projects could have been built at a lower cost. While there may be some long-term benefits in the form of lower maintenance costs and longer life, it is difficult to determine if these benefits exist and, if they do, to estimate their magnitude. Some studies do suggest that there are some long-term benefits, but that these benefits are not large enough to offset the initial costs of the prevailing wage requirements.

Organization of the Report

The structure of the report is as follows:

- Chapter 1 describes Kentucky's prevailing wage law. This includes a description of how prevailing wages are applied to public construction and how prevailing wages are determined across different areas of the state.
- Chapter 2 summarizes the results of several surveys sent to different groups that are affected by the prevailing wage law.
- Chapter 3 provides an evaluation of whether procedures used to set prevailing wages accurately reflect the wages of workers in an area.
- Chapter 4 summarizes and evaluates past studies that attempted to estimate the effects of prevailing wages on construction costs. It also presents a comparison between what workers were paid on recent public projects in Kentucky and what the same workers were paid on private projects.

Prevailing Wage Laws and Procedures

The Kentucky Labor Cabinet determines local prevailing wages.

Prevailing wage laws state that contractors on certain public works projects must pay their workers at least the prevailing wage for work done on these public projects. Prevailing wages are determined by the Kentucky Labor Cabinet. The rates vary by area within Kentucky and by classification of worker. For example, a separate prevailing wage is determined in different localities, say Pikeville and Bowling Green, and for different classifications of workers within the same locality, say plumbers and electricians. Kentucky's prevailing wage law is administered by the Kentucky Labor Cabinet's Division of Employment Standards, Apprenticeship, and Training. It is the Cabinet's responsibility to set prevailing wages for Kentucky and, in part, to enforce the prevailing wage laws. The Transportation Cabinet is responsible for ensuring that prevailing wages are paid on all transportation projects. The Labor Cabinet is responsible for enforcing prevailing wage laws on all other projects.

Thirty-two states and the federal government have prevailing wage laws.

Kentucky's prevailing wage laws were first passed in 1940. Thirty-one other states currently have similar laws. Although the specifics of the laws differ somewhat from Kentucky's law, they

all set minimum wages for construction workers on public projects. Kansas was the first state to enact a prevailing wage law in 1891. In 1931, Congress passed the Davis-Bacon Act, which established minimum wages for workers on federal or federally-funded construction projects.

Kentucky's Prevailing Wage Law

The following section provides a description of Kentucky's prevailing wage laws. This includes a discussion of how prevailing wages are applied and determined.

Prevailing wages must be paid to workers on all public construction projects estimated to be over $250,000

KRS 337.010 requires that a wage no less than the prevailing wage must be paid to all construction workers on public projects fairly estimated to cost $250,000 or more. This includes projects for any public authority, including school districts and local governments. There have been some changes to Kentucky's prevailing wage law over time that have affected which projects were covered by the law. The 1982 General Assembly made two significant changes to the projects covered by prevailing wage laws. The first change was to exempt schools and local government construction from the prevailing wage requirements, unless the state provided fifty percent or more of the financing for the projects. The second change dealt with the threshold. Prior to 1982, projects under $500 were not covered by prevailing wage laws. Starting in 1982, however, this threshold was increased to $250,000 and increased for inflation each year. In 1996, the General Assembly reversed these changes. School and local governments projects were once again covered by state prevailing wage laws. By 1996, the threshold for projects being covered by the law had increased to $392,000 because of the adjustments for inflation. The threshold was returned to $250,000 and the adjustment for inflation was repealed.

Under KRS 337.510(1), prior to advertising for bids or entering into a contract for public works construction, a public authority must notify the Department of Workplace Standards (which has been replaced by the Division of Employment Standards, Apprenticeship and Training), in writing, about a specific construction project and get the prevailing wage rate schedule for the locality. Wage rates must be obtained for each classification of laborer, workman, or mechanic who will be working on the project. To obtain an official prevailing wage rate schedule, a representative of a public authority must submit a "Notification of Public Works Project" (ES-48) to the Department.

Figure 1.1
Excerpt from Prevailing Wage Schedule for Locality 21

CLASSIFICATIONS		RATE AND FRINGE BENEFITS	
CARPENTERS:			
Carpenters	BUILDING	BASE RATE	$10.61
	HEAVY & HIGHWAY	BASE RATE	$18.35
		FRINGE BENEFITS	5.80
Piledrivers	BUILDING	BASE RATE	$15.41
		FRINGE BENEFITS	3.82
	HEAVY & HIGHWAY	BASE RATE	$18.00
		FRINGE BENEFITS	5.80
Divers	HEAVY & HIGHWAY	BASE RATE	$25.80
		FRINGE BENEFITS	4.20
CEMENT MASONS		BASE RATE	$9.50
ELECTRICIANS	BUILDING	*BASE RATE	$23.50
		FRINGE BENEFITS	6.44+
		5½% gross wages	
	HEAVY & HIGHWAY	*BASE RATE	$22.60
		FRINGE BENEFITS	5.89+
		4½% gross wages	
*When electricians are required to work from Bosum chairs, trusses, stacks, tanks, scaffolds, catwalks, radio and TV towers, structural steel-open, unprotected, unfloored raw steel, bridges, or similar hazardous locations where workmen are subject to a direct fall (except for work performed using JLG's and bucket trucks up to 75 ft.): 50' to 75' - add 25% above workman's straight time rate; over 75' - add 50% above workman's straight time rate.			
ELEVATOR CONSTRUCTORS		BASE RATE	$19.00
		FRINGE BENEFITS	5.48
ELEVATOR CONSTRUCTOR HELPERS		BASE RATE	$12.67
		FRINGE BENEFITS	3.73

Source: Kentucky Labor Cabinet.

In addition, KRS 337.510 further states that the prevailing wage schedule sent by the Department should include a statement indicating that the wages listed have been determined according to the statutes, and must be attached and made part of the project work specifications, printed on the bidding blanks, and made a part of every public works construction contract. Also, the public authority issuing the bid or awarding the contract must include a stipulation in the proposal and contract: "that not less than the prevailing hourly rate of wages as determined by the commissioner shall be paid..." The same declaration of intent must be included in the contractor's bond, and it becomes the responsibility of the public authority, or its agents and officers, to recognize all complaints raised regarding the prevailing wage during the period of the contract. If the contractor violates the prevailing wage

statute, the public authority must, when paying the contractor, withhold or retain all sums owed to workers as a result of the violation. The contractor may do likewise for a subcontractor who violates the statute. If the contractor has already paid the subcontractor, he or she may recover the amount in dispute by suing the subcontractor.

Prevailing wages are either determined by the Kentucky Labor Cabinet or through the adoption of federal prevailing wages.

As a result of changes to prevailing wage laws in 1996, prevailing wages in Kentucky are determined through one of two methods. In eighty-one counties, prevailing wages are determined by the Kentucky Labor Cabinet using wage data collected during hearings. Each of the eighty-one counties are assigned to one of twenty localities. The Department of Employment Standards, Apprenticeship, and Training (also the Secretary of the Labor Cabinet) designates the localities, which may include one or more counties, but can be no larger than a senatorial district. The Labor Cabinet conducts periodic hearings in each locality to collect data on the wages paid to construction workers within the locality. In counties where federal prevailing wages are available, the Labor Cabinet may choose to adopt these wages rather than conduct hearings. Federal prevailing wages were adopted in thirty-nine counties in 1996. Federal prevailing wages are determined by the United States Department of Labor (DOL) using wage data collected by surveying various interested parties, such as contractors and labor organizations. Figure 1.2 shows the counties for which prevailing wages are set by the Kentucky Labor Cabinet and those where federal prevailing wages were adopted. The figure also shows how the counties that use the Labor Cabinet's prevailing wages are grouped into localities. The designation of localities and adoption of federal wage rates for certain counties was made after the prevailing wage law was changed in 1996.

Hearing Process

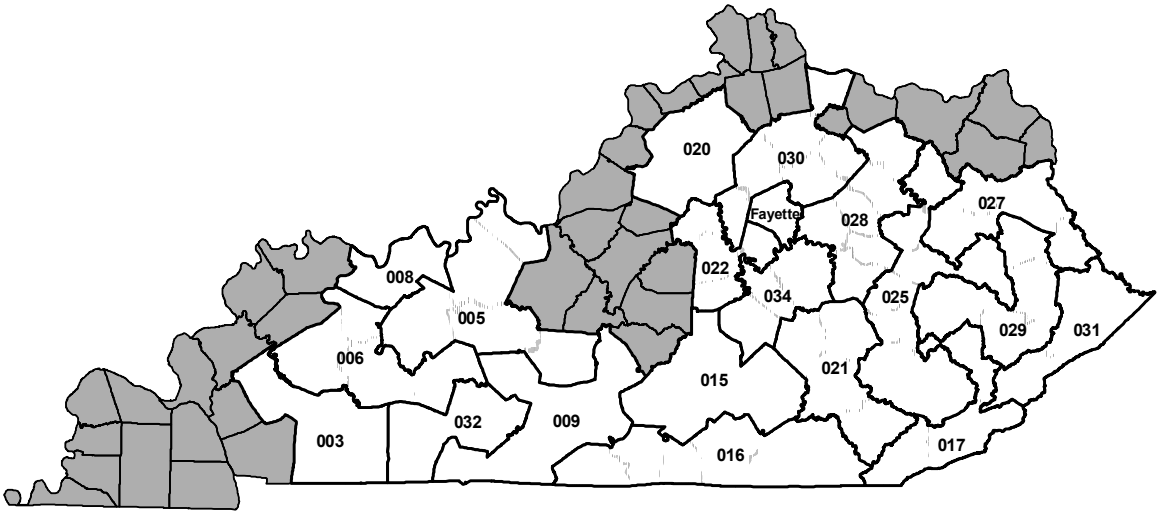
In eighty-one counties, prevailing wages are determined by the Kentucky Labor Cabinet.

Hearings to determine prevailing wages in the twenty localities are scheduled periodically by the Labor Cabinet. Typically, revisions for each locality are made every two years. Administrative regulation 803 KAR 1:030, however, does state that any interested person may request a hearing to make or revise prevailing wage rates.[3] The interested party must write the Commissioner and indicate where he or she wants the hearing to be held. While the

[3] Interested party may include any public authority in the locality of the hearing, any contractor eligible to bid on public works construction, any association or group representing a class, trade or group of workers in the locality of the hearing who will be affected by the wage determination process, and any class, trade or group of nonunion workers in the locality of the hearing who will be affected by the wage determination process.

Labor Cabinet will respond to a request for hearings, if the existing determination is less than a year old, the Cabinet will not hold a new hearing.

Figure 1.2
Prevailing Wage Localities
Note: Federal prevailing wage rates are adopted in the gray counties.



Source: Kentucky Labor Cabinet, Department of Employment Standards, Apprenticeship, and Training

Hearing are held to obtain wage data.

When a hearing is to be conducted, the Cabinet relies on three methods to inform interested parties of the hearing. First, as required by KRS 337.522(3), notice of the hearing is printed one time in the newspaper having the largest circulation in the locality. The advertisement must run between 10 to 20 days prior to the date of the hearing. The advertisement must provide information, such as the time, place, and purpose of the hearing. The Cabinet also posts the hearing schedule on its website. Finally, the Cabinet maintains a mailing list of interested parties who are sent notices of the hearings. Participation in the public hearing process is voluntary.

Wage data may be submitted by mail.

Evidence relating to wages paid on building, heavy, and highway construction projects is accepted at the hearing. Evidence may also be mailed to the Cabinet within 30 days from the date of the hearing. In the past, the Cabinet also used surveys to collect wage data, but stopped conducting surveys in 1996. Any evidence presented is available for public inspection under the open records statutes.

On May 9, 2001, Legislative Research Commission (LRC) staff observed a prevailing wage public hearing in central Kentucky.

The hearing, held in the local court house, was conducted and recorded by one Labor Cabinet employee. Persons wishing to testify were required to sign in. Labor Cabinet staff called the hearing to order, read a statement of the purpose of the hearing, procedures for presenting evidence at the public hearing or by mail, and other details. Prior to recording the testimony, Labor Cabinet staff read the names of those on the sign-in sheet, checked to see if there were others wishing to speak, asked if there were any public authorities present, and read into the record the names of persons present to observe the hearing.

Next, those persons wishing to testify were sworn in and called to testify in the order their names appeared on the sign-in sheet. All five persons testifying that day were union affiliated and provided information on their current collective bargaining agreements. They were asked to give their current negotiated wage rates including fringe benefits (such as health and welfare, pension, local/national apprenticeship training funds, marketing fund, substance abuse testing fund, labor and management fund), and asked whether or not the fringe benefits were paid to a third party. Since several of the contracts were due to expire on May 31, 2001, information on future rates was accepted as well. Labor Cabinet staff informed those testifying that additional evidence could be sent to the Labor Cabinet within 30 days of the hearing and would have to be accompanied by an affidavit. After all persons registered had spoken, Labor Cabinet staff asked if anyone had further statements. When there were none, the public hearing was declared closed. The hearing lasted approximately 40 minutes.

Calculation of State Prevailing Wages

Prevailing wages are calculated in one of two ways depending on data received.

Criteria for determining state wage rates are found in KRS 337.520(3). The Cabinet must consider the following when making a determination:

- wage rates paid on previous public works constructed in the localities;
- wage rates previously paid on reasonably comparable private construction projects constructed in the localities; and
- collective bargaining agreements or understandings between bona fide labor organizations and their employers, in Kentucky, where agreements apply or

pertain to the localities in which the public works are to be constructed.

Data gathered on wage rates must include, to a practical extent, names and addresses of the contractors and subcontractors, locations, approximate costs, dates of construction and types of projects, including the number of workers employed on each project, and the respective wage rates paid each worker engaged in the construction of the projects. Any projects with costs under $250,000 are excluded from the determination process. In addition, evidence is only accepted for work performed after the date of the last hearing. For example, a public hearing was held for Locality No. 30 (Bourbon, Bracken, Harrison, Nicholas, Scott and Woodford counties) on May 9, 2001; the date of the previous hearing for that locality was June 3, 1999. Therefore, no data covering work performed prior to June 3, 1999, would be accepted. Currently, wage data presented at the hearing is not systematically validated. Only in cases where the data appears suspect does the Cabinet verify that the evidence presented is valid.

If 51% of the workers in a classification are paid the same wage, this wage becomes the prevailing wage.

Requirements for wage determinations are governed by KRS 337.505 (1). The statute lists two methods for calculating the prevailing wage. If a majority (51%) of the workers in a classification earn the same amount, then that amount is selected as the prevailing wage. For example, if there are twenty plumbers, and eleven of them earn $20.00 per hour, then $20.00 is selected as the prevailing wage for that classification. Only wages are considered in determining the majority. In the example above, $20.00 would still be the majority even if all of the workers who earn $20 received different fringe benefits.

If there is no majority wage, a weighted average of the wages submitted is used to set the prevailing wage.

If a majority of the workers in a classification are not paid at the same rate, then a weighted average is used to calculate the prevailing wage. An example is shown below for twenty plumbers. Ten of the plumbers earn $20.00 per hour, five earn $18.00 per hour and five earn $16.00 per hour. The number of plumbers per wage level are multiplied by their wage rate (10 plumbers x $20.00 = $200). These amounts are then totaled and divided by the total number of plumbers to get the prevailing wage rate. In this case, the prevailing wage would be $18.50 per hour.

The Cabinet determines rates for three categories of construction: building construction, heavy construction and highway

Example of a Wage Determination
Using the Weighted Average Method

	Number of Workers		Wages		
	10	x	$ 20.00	=	$ 200.00
	5	x	$ 18.00	=	$ 90.00
	5	x	$ 16.00	=	$ 80.00
Total	20				$ 370.00

Prevailing Wage = $370/20 or $18.50.

construction. In determining wage rates for classifications in the building category, if there is no evidence provided for a classification or evidence is only presented for one worker, then previous wage rates for that classification will be carried over. As long as there are two or more workers for a classification, the prevailing wage is revised based on the new evidence available. If there is insufficient evidence in Fayette County (the only single-county locality), Labor Cabinet staff will look to bordering counties for evidence of wages paid for that classification. If the wage determination is being computed for the heavy and highway construction category, and no evidence is provided, Labor Cabinet staff will then look to wage rates for highway projects in that locality. The theory is that the Transportation Cabinet always has construction projects in progress, so there is recent evidence available on wages.

Federal Prevailing Wage Rates

In thirty-nine counties, federal prevailing wages were adopted.

In thirty-nine Kentucky counties, federal prevailing wages were adopted as the minimum wage rate for Kentucky public works projects. The choice to adopt federal prevailing wages in these counties was made in 1996 when the Labor Cabinet determined that the rates that would be set by the Cabinet's hearing process would be similar to the federal prevailing wages. No reevaluation of this similarity has been completed since then. Federal prevailing wages are issued by the U.S. Department of Labor (DOL) as required by the Davis-Bacon and Related Acts. These Acts require all contractors and subcontractors who work on federally funded or federally-assisted projects (financed with federal loans, grants, loan guarantees or insurance), in excess of $2,000, to pay the federal prevailing wage to their workers.

Federal prevailing wages are based on surveys of contractors and other interested groups.

While Kentucky's prevailing wages are determined based on wage data provided through hearings, federal prevailing wages are based on wage data collected from periodic surveys. DOL's Wage and Hour Division collects, analyzes, and tabulates payroll data from various sources. These sources include contractors, contractor associations, construction workers, labor unions, and federal, state, and local agencies. A list of contractors is obtained using the F.W. Dodge reports. These reports provide listings of construction projects and their locations. Typically the reports also include a listing of primary contractors. Primary contractors are contacted by DOL and asked to provide a list of subcontractors. As with Kentucky's prevailing wage, the wage data is provided on a voluntary basis.

Survey data is submitted on a voluntary basis.

Contractors, subcontractors, and other interested parties submit payroll information to DOL on "The Report of Construction Contractor's Wage Rates" (Form WD-10), which is considered confidential. Payroll data is reported by distinct job classifications and construction categories, and includes the name(s) and address(es) of prime and subcontractors, project description and location, value of the project, start and completion dates, peak number of workers employed in each classification, and their actual wages and fringe benefits for a peak week.

Either the majority wage, or weighted average wage, is used to set the federal prevailing wage.

The calculation of the federal prevailing wage is very similar to that of Kentucky's prevailing wage. If more than fifty percent of the workers in a single classification are paid the same wage rate, that rate becomes the prevailing wage for the classification.[4] If not, a weighted average wage is calculated. In addition, if more than one- half of the workers do not get fringe benefits, a fringe benefit rate is not published. The method for calculating fringe benefits is the same as that used for calculating the hourly wage rate.

Usually, only wages paid on private construction projects are considered.

Generally, only private construction wage data are used on building and residential construction wage surveys. Wage data from federal construction projects can be used in certain circumstances. For example, wages of federal projects will be used if only twenty-five percent or less of the private construction survey for a county are completed and returned. Federal wage rates will also be used if the private construction data is insufficient to determine prevailing wage rates for one half of the key classifications expected to be required for the construction covered. If the data is still insufficient to make a determination,

[4] http://www.dol.gov/dol/esa/public/programs/dbra/faqs/calculat.html.

DOL will may use data from adjoining counties or data from federal construction projects.

CHAPTER 2
OPINIONS ABOUT KENTUCKY'S PREVAILING WAGE LAW

Staff administered opinion surveys of six groups directly involved in prevailing wage projects.

Prevailing wage requirements are controversial and arguments are plentiful from strong advocates and critics of the program. For such an important subject, it is valuable to know the views of broader groups of people who have an interest in the issue because they are directly involved in prevailing wage projects. To accomplish this task, staff administered opinion surveys of members of six groups who work on prevailing wage projects or commission their construction:

1) Kentucky construction contractors;
2) representatives of union locals with members working for Kentucky contractors;
3) city government officials;
4) county government officials;
5) local school district representatives; and
6) Kentucky municipal utility officials.

This chapter provides an overview of how members of each of these groups evaluate aspects of prevailing wage, including the process for determining rates and the accuracy of those rates, enforcement efforts of the Kentucky Labor Cabinet, and the effects of prevailing wage on construction costs and quality. Details on how these surveys were conducted, the exact questions used, and summaries of responses to all questions are included in Appendix A.

Union contractors and union locals support prevailing wage. Non-union contractors and officials of local governments, schools, and municipal utilities do not.

To greatly simplify the results of the surveys, two of the groups surveyed strongly support prevailing wage: contractors with unionized workers and representatives of union locals. They approve of the process for setting rates and feel that, taking improvements in construction quality and workplace safety into account, prevailing wage does not increase construction costs. Non-union contractors, local government, school, and municipal utility officials are not supportive of prevailing wage. They feel that prevailing wage increases construction costs with no corresponding increase in quality. Non-union contractors disapprove of the process for setting rates.

Kentucky Construction Contractors

Typically, union contractors are favorable toward all aspects of prevailing wage. Non-union contractors are dissatisfied with many aspects of prevailing wage.

Not surprisingly, the views of contractors on Kentucky's prevailing wage law differ based on whether their employees are part of a collective bargaining agreement. Contractors with unionized employees are favorable toward virtually all aspects of prevailing wages: their effects on construction costs and quality, the rates and the process for determining them, classifications of occupations, and enforcement by the Kentucky Labor Cabinet. About three-fourths of union contractors say the overall effect of prevailing wage is positive for their firms. Non-union contractors, while not critical of all aspects of prevailing wages, are dissatisfied with the process for setting prevailing wages and think prevailing wage increases construction costs with no increase in quality or workplace safety. A majority of non-union contractors report that prevailing wage rates are different from the rates they pay workers on non-prevailing wage projects. Over sixty percent of non-union contractors believe that the overall effect of prevailing wage for their firm is negative.

Table 2.1 provides a brief overview of responses, by union status of firms' workers, to selected questions from the survey mailed to construction contractors in Kentucky. [5]

Most union contractors said they had recently supplied wage information for setting prevailing wage. Fewer non-union contractors said they had provided wage information.

One question for contractors was how many times since October 1999 they had supplied wage and benefit information to the Kentucky Labor Cabinet as part of the process to set prevailing wages. As shown in the table, about half (48.9%) of non-union contractors report that they have supplied such information during this period of time. About three-fourths of unionized contractors said they had supplied information. Union and non-union contractors also differ in their views on the process for setting prevailing wage rates and benefits. About two-thirds of union contractors are satisfied with the process. Well less than a fifth (16.8%) of non-union contractors are satisfied.

[5] For each contractor table in this chapter, contractors who reported doing only private residential construction are not included and the percentages are based on excluding those who answered "Don't Know." Since all the questions covered in Tables 2.1 to 2.3 relate directly to prevailing wage, contractors are only included if they reported doing work subject to Kentucky's prevailing wage law in the year 2000.

Table 2.1
Contractors Doing Prevailing Wage Work in 2000
By Union Status

	Non-Union	Union
Have supplied information used to set prevailing wage	48.9%	74.0%
Satisfied with how prevailing wage rates, benefits are determined	16.8%	64.0%
Prevailing wage rates same as rates you pay	16.2%	76.3%
Prevailing wage classifications for occupations accurate	65.9%	98.9%
Satisfied with enforcement efforts of Labor Cabinet	53.0%	52.3%
Prevailing wage increases construction costs for your firm	90.7%	24.4%
Prevailing wage affects quality of construction for your firm	10.8%	33.3%
Prevailing wage affects workplace safety for your firm	5.7%	27.9%
Number of contractors	332 to 377	69 to 97

Contractors who had not supplied wage information as part of the prevailing wage process were asked to explain why they had not done so. The most common response was that they had not been asked.

Virtually all union contractors and a majority of non-union contractors agree that prevailing wage classifications accurately reflect the work that their employees perform. Contractors were also asked if the prevailing wages and benefits set by the Kentucky Labor Cabinet were the same as those usually paid to their employees for privately funded construction jobs. Three-fourths of union contractors said yes, only 16.2 percent of non-union contractors said that prevailing wage rates were the same as their private construction wages.

Majorities of union and non-union contractors are satisfied with the Labor Cabinet's enforcement.

Slightly more than half of each group of contractors was satisfied with the enforcement efforts of the Kentucky Labor Cabinet in making sure that contractors were paying prevailing wages when required by law to do so. This is not shown in this table, but about

thirty percent of each group reported being dissatisfied with the Labor Cabinet's enforcement efforts.

Almost all non-union contractors say prevailing wage increases costs of their work. About a quarter of union contractors agree.

Almost all non-union contractors (over ninety percent) thought that the requirement to pay prevailing wages increases the cost of public construction done by their firms and very few thought that there was any increase in construction quality or workplace safety that might compensate for at least some of this increase. About a quarter of union contractors said that prevailing wages increase public construction costs for their firms and about thirty percent said that prevailing wage affects the quality of their firms' construction and safety for their workers.

A large majority of non-union contractors say the overall effect for their firms is negative. Most union contractors say the overall effect is positive.

Finally, contractors were asked to characterize the overall effect of prevailing wage on their businesses, with possible responses ranging from very positive to very negative. Table 2.2 details how contractors responded. The differences between union and non-union contractors are dramatic. Over sixty percent of non-union contractors opine that prevailing wage has a negative effect on their businesses, with a third rating the effect as very negative. Only about fifteen percent say prevailing wage has a positive impact for their firms. In contrast, three-fourths of union contractors feel that prevailing wage is positive for their firms, with almost half rating the impact as very positive.

Table 2.2
How Contractors Characterize Effect of Prevailing Wage on Their Businesses, by Union Status

	Non-Union	Union
Very Positive	4.2%	46.8%
Somewhat Positive	11.9%	28.7%
No Effect	19.1%	11.7%
Somewhat Negative	31.6%	8.5%
Very Negative	33.2%	4.3%
	100.0%	100.0%
Number of contractors	377	94

Typical non-union contractor on prevailing wage rates: "Too weighted to union wage scales." Typical union contractor: "Our pay scale is higher than prevailing wage…."

Among non-union contractors, larger firms are more dissatisfied with prevailing wage than smaller firms are.

Besides the collective bargaining status of their workers, union and non-union contractors also differ in size. Whether measured by number of employees or total dollar value of recent construction projects, the typical union firm is about twice the size of the typical non-union contractor. This means that it is possible that previously noted differences between union and non-union contractors could be all or partly due to small and large businesses perceiving prevailing wage differently. As a test of this idea, Table 2.3 divides non-union contractors doing prevailing wage work in 2000 by size, comparing firms with ten employees or less to companies with over ten employees. If union contractors' more favorable attitudes toward prevailing wage were due only to their being larger firms on average, then the larger non-union contractors should be more favorable to prevailing wage as well. Clearly, this is not the case. As shown in the table, large non-union contractors are less likely to be satisfied with how prevailing wage rates are set and are more likely to say that prevailing wage negatively affects their firms and increases construction costs for their firms.

In summary, union contractors are generally favorable toward prevailing wage. The typical non-union contractor does not like prevailing wage. This difference is not due to union firms being larger. Among non-union contractors, larger firms are more critical of many aspects of prevailing wage than smaller firms are.

Union Locals

Union officials are supportive of virtually all aspects of Kentucky's prevailing wage law.

Table 2.4 summarizes answers to selected questions from questionnaires mailed to officials of union locals with members who work on construction projects in Kentucky. The officials overwhelmingly approve Kentucky's prevailing wage law. The vast majority report that their locals have supplied information used to set prevailing wage rates and that they are satisfied with how wage and benefit rates are set. Almost all agree that prevailing wage rates reflect the wages paid to their members and that wage classifications reflect the work their members do. Almost all union local officials believe that prevailing wage increases workplace safety and quality of construction. Not a single official who responded to the questionnaire felt that prevailing wage raises construction costs. The weakest support for any aspect of prevailing wage was the percentage of union officials satisfied with the enforcement efforts of the Labor Cabinet, and even here over seventy percent were satisfied.

Table 2.3
Non-Union Contractors Doing Prevailing Wage Work in 2000
By Number of Employees

	10 or fewer employees	10 or more employees
Have supplied info used to set prevailing wage	34.7%	52.7%
Satisfied with how prevailing wage rates, benefits are determined	22.1%	12.5%
Prevailing wage rates same as rates you pay	18.8%	14.0%
Prevailing wage classifications for occupations accurate	68.3%	63.8%
Satisfied with enforcement efforts of Labor Cabinet	55.6%	50.8%
Prevailing wage has negative effect on your business	55.4%	73.0%
Prevailing wage increases construction costs for your firm	85.6%	95.4%
Prevailing wage affects quality of construction for your firm	12.3%	9.5%
Prevailing wage affects workplace safety for your firm	6.8%	4.9%
Number of contractors	148 to 180	184 to 200

As with contractors, union local officials were asked to characterize the general effect of prevailing wage on their members. The results are shown in Table 2.5.

Only one union local official viewed prevailing wage as negative for the local's membership. None rated prevailing wage's effects as "very negative." Over 98 percent felt the overall impact was positive, with 75 percent saying "very positive." In sum, by virtually any indicator, union locals of Kentucky construction workers are very supportive of prevailing wage.

Union local official: "Statistics show that prevailing wage laws recruit higher skilled employees. So it takes fewer men to do the same job in the same amount of time. Therefore costing less. It's just plain common sense! You get what you pay for!"

Table 2.4
Summary of Survey Results
Union Locals

Have supplied info used to set prevailing wages	84.2%
Satisfied with how prevailing wage rates, benefits are determined	84.8%
Prevailing wage rates same as rates for your members	89.7%
Prevailing wage classifications for occupations accurate	95.7%
Satisfied with enforcement efforts of Labor Cabinet	70.5%
Prevailing wages increase construction costs	0.0%
Prevailing wages affect quality of construction	91.3%
Prevailing wages affect workplace safety	93.3%
Number of locals answering each question	38 to 46

Table 2.5
How Union Local Officials Characterize The Effect of Prevailing Wage on Their Members

Very Positive	75.0%
Somewhat Positive	22.7%
No Effect	0.0%
Somewhat Negative	2.3%
Very Negative	0.0%
Total (44 locals)	100.0%

Cities, Counties, School Districts, and Utilities

Questionnaires were mailed to city, county, and municipal utility officials in Kentucky. Local school officials completed an online version of a similar questionnaire. The answers to selected questions from the surveys are summarized in Table 2.6.

Table 2.6
Summary of Survey Results
Kentucky Cities, Counties, School Districts, and Municipal Utilities

	Cities	Counties	School Districts	Municipal Utilities
Prevailing wages increase construction costs	95.7%	84.9%	95.7%	83.3%
Prevailing wages increase construction quality	7.0%	18.2%	4.0%	0.0%
Prevailing wages decrease number of bidders	72.2%	70.5%	44.9%	60.0%
Apply prevailing wages to projects under $250,000?	3.8%	11.3%	3.0%	0.0%
Number of respondents	43 to 52	44 to 53	75 to 101	11 to 13

Based on surveys, Kentucky city, county, school district, and municipal utility officials think prevailing wage increases construction costs without increasing quality.

Kentucky city, county, local school district, and municipal utility officials clearly do not favor Kentucky's prevailing wage law. At least eighty percent of each group feels that prevailing wage increases its construction costs. This perceived increase in costs is not compensated for by an increase in quality according to these officials. Almost twenty percent of county officials said there was an increase in quality but less than ten percent of city, school district, and utility officials agreed. This is not shown in this table, but overall there were more officials (9.2%) who felt that prevailing wage decreased quality than increased it (8.1%). Some of those who said that quality was not increased volunteered that they thought the same workers were used on prevailing wage and non-prevailing wage projects. Many of those who felt that quality was increased by prevailing wage asserted that it attracted more skilled workers for local construction projects.

Most such officials say that prevailing wage reduces the number of bidders and they do not apply prevailing wage for projects valued at under $250,000.

Except for school officials, sizable majorities responded that prevailing wage reduces the number of bidders for construction projects. Almost half the school officials (44.9%) said that prevailing wage decreases bidders; 53.6% said prevailing wage has no impact. Overall, only six city, county, school, or utility officials (3.8% of the total) said that prevailing wage increases the number of bidders. Not surprisingly given these results, few officials report that their government, school district, or utility applies prevailing wage to construction projects valued at less than $250,000.

Comment from city official: "The law unnecessarily adds cost to municipal projects. Cities are already strapped to make necessary public improvements and this requirement adds another financial hurdle. The law should be repealed."

CHAPTER 3

PREVAILING WAGES AND LOCAL WAGES

Data does not exist to allow general comparison of prevailing wages to average wages.

One of the questions staff was asked to address was whether or not Kentucky's prevailing wage laws and procedures yield wage rates that are representative of the wages of local workers. One way to determine whether prevailing wages are representative of local wages would be to compare prevailing wages to reliable data on the wages paid for each occupation in local areas. While some data on local wages does exist, the data is fairly limited in that it only covers a few occupations in metropolitan areas. Also the data includes both commercial and residential construction workers in the wage data, which limits its usefulness for public construction wages.

In areas where comparisons are possible, the prevailing wage is higher than some average wages and lower than others.

Analysis does indicate that, in those cases in Kentucky where comparison is possible, prevailing wages are higher than average wages in the area. This may be due to prevailing wages or the inclusion of residential construction workers. In some areas, the prevailing wage is slightly below the average wages of the area. Another way to determine if prevailing wages are representative of local wages is to evaluate the procedures used to set prevailing wages to determine if they would result in unbiased estimates of local wages. Review of the determination process indicates that neither the Kentucky nor federal determination process is likely to yield representative wages. Both are likely to yield prevailing wages that are more representative of union wages.

Wage Comparisons for Metropolitan Areas

The United States Bureau of Labor Statistics (BLS) collects hourly wage data, by occupations, in numerous metropolitan areas across the nation. This information can be used as a benchmark for prevailing wages, but there are a number of limitations that must be considered when comparing the BLS wage estimates to prevailing wages.

Average wage data is only available for metropolitan areas.

First, the data only covers metropolitan areas. There are seven metropolitan areas in Kentucky that have estimates for wages in specific construction occupations. These areas are not defined in the same manner as the localities used in determining prevailing wages. For example, northern Kentucky is included in the Cincinnati metropolitan area. This area covers Boone, Campbell, Gallatin, Grant, Kenton, and Pendleton counties. The area also covers nearby portions of Ohio and Indiana. Wages presented for

this area are representative of the area as a whole, but do not reflect any differences within the area. While this should be considered, it should not present a major problem. The workers in the area are located relatively close to one another and likely compete for work. To the extent that wages are higher in one section of the area, it is likely that workers from the rest of the area would seek out these higher wages and drive the wages down. Therefore, wage differences within the area are likely to be insignificant.

Data includes wages for both residential and commercial construction.

A second possible limitation of the data is that the wages include both residential and commercial construction workers. If residential workers' wages are substantially different then commercial workers' wages, the average wage may not be a fair comparison to the prevailing wage. Finally, the BLS data is somewhat limited in its coverage of occupations.

Table 3.1 shows estimates of hourly wages paid to carpenters and electricians in 1999 in metropolitan areas in Kentucky. These estimates are compared to prevailing wages that existed in the areas in 1999.[6] Estimates provided by the BLS show that carpenters in the Cincinnati metropolitan area earn, on average, $15.14 per hour. The median wage is $15.39 per hour. The median is the wage at which 50% of workers earn above this amount and 50% earn below this amount. The prevailing wage for carpenters in Kentucky counties included in this area range from $17.72 to $18.00 per hour. Neither the BLS estimates nor the prevailing wages include fringe benefits. The prevailing wage is approximately 17% to 19% higher than the average wage for carpenters in this area. The prevailing wage for carpenters in Christian county is 62% higher than the average wage for carpenters in the Clarksville-Hopkinsville area. The prevailing wage is higher than the average wage in Lexington and Louisville as well. Again, it should be noted that the BLS wage estimates include residential construction workers. If these workers make less than commercial construction workers, this would account for at least some of the differences observed. Prevailing wages, however, are not always higher than the BLS estimates. The prevailing wage in Henderson county is 6% below the average

[6] Federal prevailing wages can change several times in a given year. The federal prevailing wages listed in Table 3.1 reflect the lowest wage for the year in each county.

Table 3.1
Comparison of Area Average Wages to Prevailing Wages (1999)

MSA	BLS Wage Estimates		Prevailing Wage for Kentucky Counties within the MSA			
	Median	Mean	Prevailing Wage	Percent Difference	County	State or Federal Prevailing Wage
Carpenters						
Cincinnati	$15.39	$15.14	17.72	17%	Boone	Federal
			17.72	17%	Campbell	Federal
			18.00	19%	Gallatin	Federal
			17.78	17%	Grant	Federal
			17.72	17%	Kenton	Federal
			17.72	17%	Pendleton	Federal
Clarksville-Hopkinsville	$10.67	$11.09	17.98	62%	Christian	State
Evansville-Henderson	$18.40	$17.19	16.15	-6%	Henderson	Federal
Lexington	$12.57	$13.16	15.32	16%	Fayette	State
Louisville	$13.48	$13.90	17.45	26%	Bullit	Federal
			17.45	26%	Jefferson	Federal
			17.45	26%	Oldham	Federal
Electricians						
Cincinnati	$18.11	$18.04	21.05	17%	Boone	Federal
			21.05	17%	Campbell	Federal
			21.05	17%	Gallatin	Federal
			21.05	17%	Grant	Federal
			21.05	17%	Kenton	Federal
			21.05	17%	Pendleton	Federal
Clarksville-Hopkinsville	$17.80	$17.38	22.00	27%	Christian	State
Evansville-Henderson	$22.41	$20.50	21.21	3%	Henderson	Federal
Huntington-Ashland	$22.57	$20.83	19.90	-4%	Boyd	Federal
			19.90	-4%	Carter	Federal
			23.80	14%	Greenup	Federal
Lexington	$15.70	$16.48	22.25	35%	Fayette	State
Louisville	$18.12	$18.58	22.25	20%	Bullit	Federal
			22.25	20%	Jefferson	Federal
			22.25	20%	Oldham	Federal
Owensboro	$15.52	$15.92	21.21	33%	Daviess	State

Source: United States, Bureau of Labor Statistics, 1999 Metropolitan Area Occupational Employment and Wage Estimates, and the Kentucky Labor Cabinet.

wage for the Evansville-Henderson area. The comparison for electricians shows similar results. In most counties available for comparison, the prevailing wage is higher than the average wage for the area. The exceptions are Boyd and Carter counties, in which prevailing wages are 4% below the wage estimated by BLS.

The comparison of wages should be viewed with caution.

Although this comparison tends to show that prevailing wages are often higher than average wages, these figures should be interpreted carefully. The result cannot be extended to other occupations of other areas. It may be that a similar comparison for other occupations or for non-metropolitan areas would show substantially different results. In addition, if residential workers earn less than commercial workers, that would explain some of the difference.

Process Not Designed to Yield a Representative Wage

Prevailing wage process is not designed to yield wages representative of the average wage.

Review of the statutes that state how prevailing wages are to be determined suggests that the prevailing wages are not designed, nor are they implemented, in a manner that would yield wage determinations that are representative of local wages. As discussed earlier, Kentucky's prevailing wages are determined by one of two procedures, depending on the county. One procedure is the determination process conducted by the Kentucky Labor Cabinet. The other is simply the adoption of the federal Davis-Bacon wage rates. Neither the Kentucky procedures nor federal procedures are likely to yield prevailing wages that are representative of local wages. The prevailing wages determined by the Kentucky Labor Cabinet are discussed first, followed by a review of the federal prevailing wage.

Kentucky

Because wage data is submitted voluntarily, it is likely not represenative.

For prevailing wages to be representative of wages paid on public works or comparable construction, data must be obtained in a way that does not exclude particular groups of workers. The data collected at hearings are provided on a voluntary basis. The Labor Cabinet cannot compel contractors to participate in the hearing process; consequently, evidence typically suffers from self-selection bias. That is, only those groups that are likely to be affected by the outcome of the prevailing wage determination will likely participate. The result is wage data that are not representative of the wages for all workers for public works and comparable projects.

There is no incentive for contractors who do only private construction to submit wage data.

Contractors likely to bid on prevailing wage projects may have an incentive to provide data. Contractors are more likely to benefit if the prevailing wage is equal to the wage they pay. The prevailing wage basically inhibits competition from contractors who may pay lower wages. Therefore, it is in a contractor's best interest to have the wage set close to the wages it pays, thereby offering the maximum level of protection from contractors with lower wages. If, however, prevailing wages are set above the wages the contractor pays, the contractor will lose some of its competitive advantage relative to those who pay higher wages. The greater the likelihood that the contractor will bid on public projects, the greater the incentive for the contractor to provide wage data at a determination hearing. This is true regardless of whether the contractor is a union-shop or merit-shop. There is little incentive, however, for a contractor that does no public construction to participate in the process. As this contractor will probably never have to pay prevailing wages, there is no incentive to present evidence at a hearing.

Unions have a greater incentive than individual contractors to submit wage data.

Contractors are not the only groups that provide evidence for a determination. Union representatives also provide evidence. Unions have an incentive to provide wage data to the extent that the prevailing wage affects their members or their employers. Because union representatives frequently represent workers for multiple contractors it is more likely that at least one of the contractors will bid on a public project and be affected by the results of the determination. This likelihood suggests that unions have a greater incentive than contractors to participate in the hearings. Unions may also present data for contractors with whom they have collective bargaining agreements. Even if this contractor has no incentive to present wage data, the union may have an incentive to provide data for work done by the contractor because the results of a prevailing wage determination might still affect other union members.

Many contractors surveyed said they were not aware of the hearings.

Another factor that can affect the results is the extent to which contractors understand how the prevailing wage determinations work. Many of the contractors surveyed indicated that they were not aware of the hearings or that they could present data.

Prevailing wage allows unions to negotiate higher wages.

It has also been shown that the federal Davis-Bacon determinations tend to increase unions' ability to negotiate higher wages (O'Connell 1986). If the union wage is mandated on public projects, any competitive advantage that non-union contractors would have from lower wages is reduced. The result is that union contractors face less competition in bidding for public projects.

The reduced competition allows them to grant higher wages during negotiations. Therefore, union wages are being used to set prevailing wages, but the protection from competition from non-union contractors provided by prevailing wages also allows unions to negotiate higher wages.

Union workers make up 21% of non-residential construction workers in Kentucky, but account for 81% of the wage data submitted at hearings.

The differing incentives suggest that the evidence presented for prevailing wage determinations will not result in the setting of prevailing wages that are representative of wages being paid for public works projects and comparable projects in a locality. Non-union wages are likely to be relatively under-represented in data collected through hearings. The effect of these incentives can be seen by comparing the share of union workers represented in prevailing wage determinations to the share of union workers in the construction industry in Kentucky. Data provided by the Labor Cabinet shows that approximately 81% of the workers represented in prevailing wage determinations since 1996 were union members. Estimates of the percentage of union workers in the construction industry in Kentucky are not very reliable, but do suggest that union workers are probably over-represented in the prevailing wage determinations. Estimates can be obtained from the March Current Population Survey (CPS), which is an annual survey conducted by the U.S. Census Bureau. The major weakness of these estimates from the CPS, however, is that the sample size of construction workers in Kentucky for any one year is too low to make estimates. Combining five years of CPS data suggests that approximately 22% of construction workers in Kentucky are union members.[7] The margin of error on this estimate, however, is very large, suggesting that the actual figure could easily fall between 9% and 35%. Still, even the upper bound estimates are less than half the 81% reflected in the hearings. Another possible concern regarding this estimate is that it includes all construction workers rather than those who work on public or comparable construction projects. Data from staff's survey of construction contractors in Kentucky shows that 21% of non-residential construction workers are members of a union. It does appear that union wages are substantially over-represented in prevailing wage determinations, while non-union wages are substantially under-represented.

[7] Combining five years of data masks any changes that are occurring over time in the percent of workers who are union members. That is, the percent could be increasing or decreasing over this time period. Although there is no data to indicate if the percent is changing in Kentucky, the percent of construction workers who are union members has not shown a statistically significant change nationally.

Although it is not possible to be certain as to why union workers are relatively over-represented in the data and non-union workers are relatively under-represented, the data is consistent with non-union contractors having less incentive to provide data and union representatives having a great deal of incentive to provide data. Therefore, it is not surprising that unions participate more. Regardless of the reason, however, this suggests that prevailing wages are more representative of union wages than wages paid to all workers on public and comparable projects.

RECOMMENDATION 3.1

If it is the desire of the General Assembly that prevailing wages be more representative of the wages being paid in an area, collection of wage data through public hearings should be discontinued and replaced by a process that provides greater participation from all types of contractors. The Labor Cabinet should collect data by surveying contractors working on projects in the locality. An initial list of contractors can be obtained from the F. W. Dodge Reports. While coverage of subcontractors is incomplete in these reports, coverage can be supplemented by contracting primary contractors for a list of subcontractors used on the projects. Doing so should reduce the problem of contractors not submitting data because they were not aware of a hearing.

RECOMMENDATION 3.2

Contingent upon the implementation of recommendation 3.1, the Labor Cabinet should follow-up with contractors that do not respond to the initial request for wage data. It is generally accepted in survey research that multiple contacts are necessary in order to achieve sufficient participation. If the Labor Cabinet is able to substantially reduce the level of selection bias, the prevailing wage determination will be more representative of area wages.

Defining prevailing wages as the majority wage increases the probability that the prevailing wage will equal the union wage.

KRS 337.505 (1) states that if a majority of workers are paid the same wage, then that wage becomes the prevailing wage. The advantage of this measure for wages is that if a majority exists, then the prevailing wage accurately characterizes the wages of more than half of the workers. The disadvantage of this measure, however, is that it ignores any information provided for other workers. This provision of the law, however, is more likely to yield union wages rather than wages that are representative of all workers. To the extent that union wages are not representative of

the wages for the area, the prevailing wage will be unrepresentative.

Wages paid to union workers are much more formally determined than the wages paid to non-union workers. Union wages are negotiated for a group of workers at one time. These wages are set in the collective bargaining agreement which serves as the contract between the contractor and the employees for a stated period of time. Non-union wages are generally negotiated on an individual basis. As a result, there is much less variation in union wages than in non-union wages. For example, all workers within a particular classification, such as journeyman wireman, might be paid the exact same wage. In addition, it is not uncommon for a collective bargaining agreement to cover multiple contractors. In these cases, there is likely to be little or no variation in union wages across union contractors.

Union wages are more uniform; so more likely to be the majority wage.

When there is relatively little variation in union wages, the union wage is more likely to be the majority wage in a hearing, and therefore, the prevailing wage. The ability of the union representatives to present data for multiple contractors at a prevailing wage hearing also increases the probability that the union wage would be the majority wage. In addition, the lack of incentive to provide wage data among non-union contractors not working on public projects also increases the probability that the union wage would be the majority.

Individual non-union contractors are less able to affect determinations.

While non-union contractors who are likely to bid on public projects have an incentive to provide evidence, there is little incentive to provide wage data if it does not change the prevailing wage. For instance, it may be difficult for a single contractor to present data on a sufficiently large number of workers so as to affect the prevailing wage. Evidence submitted from a single contractor will only affect the wage if it breaks the majority rule. If not, the data has no effect on the outcome of the determination. For example, wages from 163 workers were used to determine the prevailing wage for laborers in Fayette County. All of these workers belonged to the same union and earned the same rate. It is unlikely that a single contractor that pays a different wage rate would have been able to present evidence on 163 workers to have any effect on the determination. While there may have been more than 163 additional laborers in Fayette County, it is unlikely that one contractor would employ enough laborers to change the determination.

While the hearing process may present all contractors with an equal opportunity to submit wage data for a hearing, the process is one that yields only data from interested parties. The process, therefore, increases the probability that the results of the determination will not be representative of the wages being paid in an area.

Table 3.2 shows prevailing wage determinations by the type of wages submitted. This data represents nearly all determinations for the past two hearings for each locality that uses prevailing wages from the Kentucky Labor Cabinet. Out of 392 determinations, wage data submitted for 239 consisted of union wages only. Non-union wages were submitted for 135 (34%) of the determinations. In seventeen of these determinations the prevailing wage that resulted was the union wage, in spite of the fact that non-union wages were presented. The prevailing wage, however, is not always set at the union wage. There were six determinations for which both union and non-union wages were presented and for which the prevailing wage was set at the non-union wage. Forty determinations consisted of both union and non-union wages and resulted in the use of an average wage, or a mix of both union and non-union wages. In seventy-two determinations only non-union wages were presented.

Table 3.2
Prevailing Wage Determinations

Type of Wage Data Submitted	Number of Determinations	Percent
Union Wages Only	239	61%
Union & Non-Union Wages		
Prevailing Wage=Union Wage	17	4%
Prevailing Wage=Non-Union Wage	6	2%
Prevailing Wage=Mix of Union & Non-Union Wage	40	10%
Non-Union Wages Only	72	18%
Insufficient Amount of Evidence	18	5%
Total	392	100%

Source: Staff analysis of evidence submitted at Kentucky prevailing wage hearings since 1996. Excludes Locality 28, 4/1/1999 and Fayette County 10/16/1998.

RECOMMENDATION 3.3

If it is the General Assembly's desire that prevailing wages be more representative of wages being paid in an area, the use of

the majority wage should be discontinued. The majority wage tends to result in prevailing wages that are equal to union wages. Therefore, prevailing wages based on the majority wage are not likely to be representative of area wages. In addition, it may reduce participation by merit shop contractors. It is important to note that this recommendation should only be implemented in conjunction with recommendation 3.4. Otherwise past prevailing wage determinations will influence future determinations.

Wages for a large number of job classifications are carried over from past determinations

Self-selection is only one problem with voluntary wage data. Another problem occurs when no data or insufficient data is submitted for certain occupations. If wages for only one worker is submitted for an occupation, the Labor Cabinet deems this insufficient evidence upon which to make a determination. In these cases, the prevailing wage from the previous determination is carried forward and used again. Since 1996, there were eighteen determinations that were carried forward because an insufficient amount of evidence was submitted. It is not clear how many determinations have been carried over because no evidence was presented, but it does appear to be a substantial number.

Previous prevailing wages have been carried over even for fairly common classifications. For example, prevailing wages for journeyman electricians in 1999 were carried over for localities 25 and 31. Prevailing wages for this classification, however, were revised for both districts when wage data was presented in 2001. For some occupations in certain localities wages have not been updated for several years. For instance, the prevailing wage for roofers in localities 3, 6, 16, 17, and 29 have been carried forward since at least 1997. Records from the last two hearings for each district indicates that wage data for asbestos workers were only presented in four districts. In the remaining districts, prevailing wages for asbestos workers were carried over. Prevailing wages for glaziers have been updated only in one district. Other classifications that have a high incidence of carryovers include boilermakers, bricklayers, cement masons, millwrights, plasterers, and sprinkler fitters. Prevailing wages that were determined several years earlier are not likely to represent the wages currently being paid in local areas. This may not be a significant problem, however, because the lack of data being submitted might simply be an indication that there is little work of this type being performed.

Prevailing wages often change dramatically from one determination to the next.

To the extent that enough wage data is submitted for the Cabinet to make a determination, the prevailing wages often change substantially. In Locality 32, the prevailing wage for sheet metal

workers was determined to be $11.65 with no fringe benefit using data collected at the hearing conducted on February 5, 1999. The prevailing wage rates increased to a $25.91 wage rate with a $8.06 fringe in the next determination. This amounted to a 192% increase in the total wages and benefits provided to these workers. While this was an extreme case, there were several instances of the rates increasing by more than 100% and increases of 20% or greater were common. In some cases prevailing wages decreased by large amounts. This was not as frequent, but there were still several instances of this. The largest decrease (63%) was for carpenters in Locality 25. Using data collected from a hearing on April 23, 1999, the prevailing wage was set at $17.73 per hour with a fringe benefits of $11.32 per hour. The prevailing wage was reduced to $10.66 per hour with no fringe using the new data collected. The large changes in prevailing wage may simply reflect the changes in the local wages. Because the changes are so large it seems more likely that they simply reflect difference in participation from one year to the next. For example, data only for low wage workers may have been submitted at one hearing and only for high wage workers at the next.

There is currently no validation of wage data submitted at hearings.

Data submitted to the Labor Cabinet and used in determining prevailing wages are not currently validated. Any person providing evidence at a hearing is sworn in and required to sign the form used to submit wage data. The form clearly states that it is "illegal to make a material false written statement with the intent to mislead a public official in the performance of his or her duty." Anyone mailing evidence for a determination is required to sign an affidavit that states that the evidence is correct. Beyond this, however, there are no attempts to validate that the data is, in fact, correct. The lack of enforcement opens the potential for invalid data to be used. As will be discussed below, there have been numerous cases of incorrect data being used to set federal prevailing wages. This suggests that invalid data could be a problem for Kentucky prevailing wage determinations. Staff did not, however, have sufficient resources to investigate whether there actually were instances of invalid data being used in the determinations.

Including wages for public construction in determinations allows the prevailing wage to perpetuate itself.

Although one of the concepts behind the prevailing wage is that it reflects wages in a locality, Kentucky's prevailing wages may perpetuate themselves and drive prevailing wages up faster than local wages. KRS 337.520 (3)(a) states that "wage rates paid on previous public works constructed in the localities" may be used in determining new prevailing wages. When the prevailing wage is required for public works projects, the wages on these projects do

not reflect the current local labor market. Instead, these wages represent the results of past determinations. The determination is typically set higher than some of the wages that are paid in the area. Including wages from public projects in the determination prevents the determinations from accurately reflecting the market wages. This can best be illustrated through a simple example.

Consider a hypothetical locality where wages are not changing over time. In this example, there are six projects each year. Three projects are private and three are public. From one year to the next the wages paid on the private jobs do not increase, per the assumption. Using wages from the first year it is determined that the prevailing wage paid was $10.67. This becomes the minimum wage that can be paid in the next year. In the second year, wages paid on private projects do not change, per the assumption of no wage growth. Some wages paid on public construction, however, increase to reflect the prevailing wage. These higher wages were increased solely due to the prevailing wage are then used to determine a new prevailing wage. This results in a higher determination, even though there has been no other upward pressure on wages.

Example 3.1
Including Public Construction Projects Results in Determinations That are Influenced by Past Determinations

		Year					
Project	**Sector**	**1**	**2**	**3**	**4**	**5**	**6**
1	Private	9.00	9.00	9.00	9.00	9.00	9.00
2	Private	10.00	10.00	10.00	10.00	10.00	10.00
3	Private	13.00	13.00	13.00	13.00	13.00	13.00
4	Public	9.00	10.67	11.06	11.19	11.23	11.24
5	Public	10.00	10.67	11.06	11.19	11.23	11.24
6	Public	13.00	13.00	13.00	13.00	13.00	13.00
Results of Prevailing Wage Determination		$ 10.67	$ 11.06	$ 11.19	$ 11.23	$ 11.24	$ 11.25

Although this is a hypothetical example, it does demonstrate what can happen when allowing public projects that were subject to the prevailing wages to be used for determining new prevailing wages. It is not possible to know for certain how often this occurs and how much it increases prevailing wages. To the extent that prevailing wages do not reflect current local labor markets, it is uncertain

what effect the regulations have on local construction contractors and workers. If the prevailing wages for the area are higher than the wages being paid in the area, it might reduce local contractors' ability to compete for public projects in the locality.

RECOMMENDATION 3.4

If the General Assembly would like prevailing wages to reflect the current local labor markets, wages paid to workers on previous prevailing wage projects should be excluded from the determinations for later projects. These wages are the result of past determinations, and therefore do not reflect the current labor market in the locality.

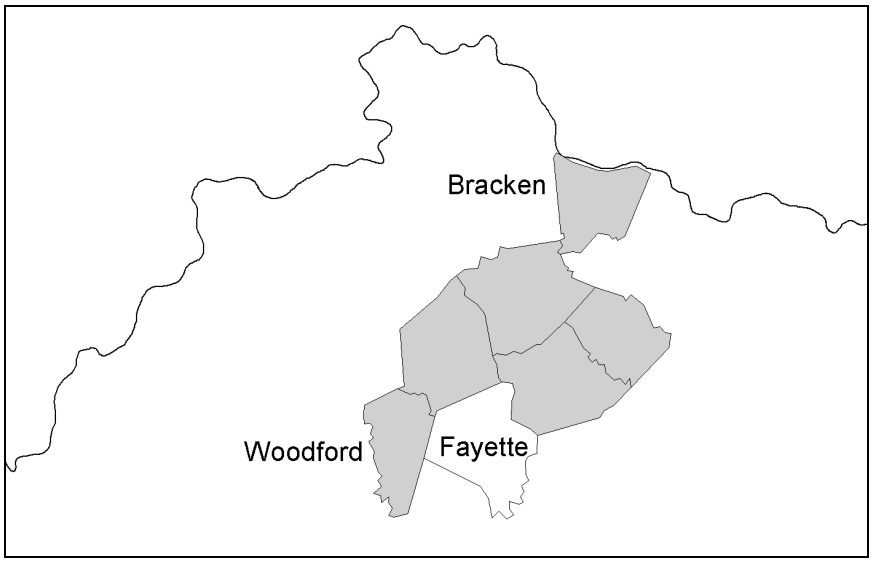
Senatorial districts do not reflect construction labor markets.

Many of the localities in Kentucky are defined based on Senatorial districts. Senatorial districts are established by the Kentucky General Assembly, after each decenial census. There are a number of guidelines that must be followed when defining the Senate districts. Labor markets for construction workers, however, are not one of the factors considered in definitions of the districts. Because of this, Senatorial districts provide groups of counties that probably bear little resemblance to the labor markets for construction workers.

Labor market borders are difficult to define.

The borders of labor markets are very difficult to define because they can vary across occupations. Generally, a labor market can be considered as the area in which workers compete for jobs. Wages in an area are determined by the demand for workers in the area and the workers who are willing to take this work regardless of where they live. Therefore, a labor market for a county is likely to include workers in the county and in neighboring counties. For example, although Fayette County is considered a separate locality for the purposes of prevailing wages, the workers in Fayette County probably face substantial competition from workers in surrounding counties (Figure 3.1). Because the cost of driving from Woodford County to Fayette County is relatively low, workers in Woodford County will likely compete for jobs in Fayette County. Evidence for Woodford County, however, is not typically used to determine prevailing wages in Fayette. For prevailing wage purposes, Woodford County actually shares a locality with Bracken County. Although it is possible that workers from Woodford and Bracken compete for the same jobs, this seems unlikely due to the distance. Workers from Bracken would seem more likely to compete for work in Northern Kentucky than in Woodford.

Figure 3.1
Fayette County and Locality 30

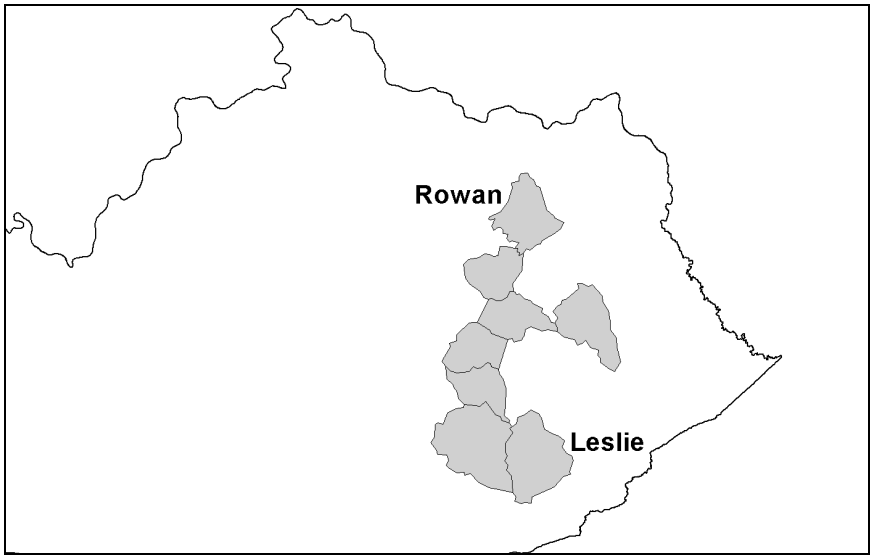


Using Senatorial districts for localities results in unrelated counties with different wages being grouped together.

The use of Senatorial districts to define which counties will be grouped together for prevailing wage purposes may result in groups of counties that have unrelated labor markets. Grouping unrelated counties together may result in prevailing wages that are not representative of the local wages for an area. For example, Locality 25 includes both Rowan and Leslie counties even though they are fairly distant from one another. It is likely that the wages in these two counties are affected by different markets. The wages in one may be much different than the other. Combining the two into one locality yields a prevailing wage that may not accurately represent either. That is, the average wage for this locality might be too high for one county and too low for another.

Labor markets typically do not respect any type of non-economic boundary that may be placed on them. Rather, they are defined by the ability of workers from various areas to compete for similar work. This makes it particularly difficult to determine which counties should be grouped together for prevailing wage determinations. Senatorial Districts, however, yield groups of counties that are unlikely to represent distinct labor markets. Therefore, the prevailing wages for these localities will be unrepresentative of many of the areas contained within the locality.

Figure 3.2
Locality 25



RECOMMENDATION 3.5

If it the desire of the General Assembly that localities reflect construction labor markets, current definitions of localities should be discontinued. The current use of senatorial districts for localities results in groups of counties that likely have unrelated labor markets. It is unlikely that any definition would accurately reflect construction labor markets. Therefore, a more attainable goal would be to reduce the number of unrelated counties grouped together. One possible definition for localities would be based on the current definitions for area development districts. Although ADD's do not accurately define construction labor markets, the adoption of ADD's for localities would likely reduce the number of unrelated counties being included in a locality.

Only wages paid on projects in Kentucky are used in setting prevailing wages.

One concern regarding the determination process that was raised during the Committee's discussion of prevailing wages was that the wage information presented at hearings might represent workers who live outside of the locality. Specifically, the concern was that out-of-state workers might be represented in the data. According to the Labor Cabinet, only data for work done in the locality is used for a determination, unless the available data is insufficient. If there is insufficient data available, the Cabinet may use data from neighboring localities under certain circumstances. Wage data on out-of-state projects, however, are never used. Therefore, typically the wage information used to determine the

prevailing wage for a locality represents wages being paid for work that did occur in the locality. This does not necessarily indicate that the wages are for workers that lived in the locality. Staff's review of government construction data showed that there were numerous instances of out-of-state contractors working in Kentucky. If these contractors have a core crew of workers that they bring to Kentucky for projects rather than employing Kentucky workers, then the evidence presented at hearings may include wages for out-of-state workers.

Out-of-state contractors can work on in-state projects and submit related wage data.

Program Review staff examined the issue by focusing on Locality 27, located in Eastern Kentucky and consisting of Morgan, Elliott, Lawrence and Martin counties. The locality is adjacent to, but does not include, the Ashland-Huntington, West Virginia Metropolitan Statistical Area. Evidence presented at the latest hearing in Locality 27 included companies from Ohio, Pennsylvania and West Virginia. All were union shop contractors. Staff interviewed representatives of fifteen companies about their hiring practices.

Out-of-state contractors reported hiring mostly in-state workers for Kentucky projects.

Staff found that unionized out-of-state contractors undertaking projects in Kentucky generally will bring some supervisory personnel with them when coming to the state for public construction projects. They normally hire their skilled trades people and laborers from applicable union locals either in the state or in an adjacent state with Kentucky membership. Union rules stipulate that companies can take a certain number of workers to a project site, but must hire others from the local in the vicinity of the project. If employees are not available at the local, unionized companies then can draw from a broader pool. In some cases for that prevailing wage district, the union locals are situated in an adjacent state, but have Kentucky membership. For example, Local 317 of the International Brotherhood of Electrical Workers is located in Huntington, West Virginia, but also serves Kentucky, Ohio, and Virginia, according to one company official. In that instance, the company hired about 90 percent of its workforce from that local, but it is unclear how many were from Kentucky. In another instance, a company doing mechanical work at an American Electric Power project in Louisa hired union laborers from a local in Catlettsburg. Many of the company representatives contacted said the firms attempt to hire locally, but that cannot always be achieved because needed workers are not available.

There is no evidence that wages for a substantial number of out-of-state workers are included in setting prevailing wages.

Staff could not determine the extent to which out-of-state wages were used to set prevailing wages in Locality 27. While it appears that there may be some out-of-state workers represented in the hearings, the contractors for which data was presented in Locality 27 said they attempted to hire their workers locally. To be certain that prevailing wage determinations only represented the wages of the workers living in the area, substantially more detailed data would have to be collected on the workers.

Federal Prevailing Wages

In 39 counties, federal prevailing wage rates, issued by the U.S. Department of Labor (DOL), were adopted for state and local public works construction. At least one of the technical limitations that exists for Kentucky's prevailing wage determination process is not a concern with federal determinations. Federal determinations, however, do suffer from a number of issues that suggest that federal prevailing wages are likely to be unrepresentative as well.

Federal prevailing wage determinations generally exclude wages on public construction projects.

The federal determination process typically excludes public projects. Therefore, current prevailing wages are less likely to reflect past determinations. There are instances, however, where federal projects were used. This occurs for heavy and highway construction projects and when there are insufficient wage data for private building and residential construction projects.

Many of the same concerns exist for federal determinations as was discussed for Kentucky determinations.

Otherwise, many of the same concerns regarding the state determinations exist for the federal determination process as well. The federal determinations rely on voluntary information, which may be subject to selection-bias. Those contractors that do not have an incentive to submit wage data are less likely to do so. A number of past studies have shown that federal prevailing wages often reflect wages of union workers rather than wages of all workers. These studies are, however, fairly dated. The amount of bias may have changed since these studies were released. Federal determinations also apply the majority rule. That is, if more than fifty percent of workers earn the same wage, then this becomes the prevailing wage. As discussed, this tends to favor union wages.

In addition, there have been a number of concerns about the validity of the wage data submitted for federal determinations. This ranges from outright fraud to simply invalid data. The effects of both are prevailing wages that do not accurately represent local wages.

Fraudulent and inaccurate data has been used in setting federal prevailing wages.

In 1995, allegations were made that fraudulent data was submitted for Davis-Bacon prevailing wage determinations in the Oklahoma City area. A labor official was subsequently convicted in 1997 of fourteen counts of fraud for falsifying wage information sent to the U.S. Labor Department. As a result of this incident, the U.S. Department of Labor, Office of Inspector General conducted an audit examining data submitted for seven different prevailing wage determinations published during calendar year 1995. The Inspector General concluded that, "inaccurate data were frequently used in wage determinations made under the Davis-Bacon Act."[9]

The Inspector General requested information from 360 employers to determine if the data submitted had, in fact, been submitted by the employers and if the employer believed the data to be accurate. In addition, employers' payroll records were examined to determine if the data compiled and submitted was accurate. Overall, the Inspector General found significant inaccuracies in nearly fifteen percent of the survey forms submitted. Perhaps more troubling is that significant inaccuracies were found on sixty-five percent of all payroll examinations completed. However, the Inspector General found no evidence to conclude that the evidence was intentionally falsified or deliberately submitted in error.

The U.S. General Accounting Office (GAO) also reviewed the process used to determine prevailing wages under the Davis-Bacon Act. GAO concluded in 1996 that the process contained internal control weaknesses that could contribute to a lack of confidence in wage determinations. These weaknesses included limitations in the verification of data submitted to DOL and an appeals process that GAO felt could be difficult for interested parties to access. GAO noted that DOL staff rarely requested supporting documentation, such as payroll records, to supplement submitted information. GAO reported that DOL relied primarily on telephone responses from employers or third parties to verify the information provided and, before 1995, there was no requirement to contact the employer to verify information, even when there was a discrepancy between information submitted by the employer and a third party. The GAO report also noted that limited computer capabilities hindered the ability of DOL to detect erroneous data, noting that DOL staff depended on past experience and 'eyeballing' data for accuracy and consistency. [10]

[9] U.S. Department of Labor, Office of Inspector General, Office of Audit Report Number 04-97-013-04420, "Inaccurate Date Were Frequently Used in Wage Determinations Made Under the Davis-Bacon Act," March 10, 1997.
[10] U.S. General Accounting Office, GAO/HEHS-96-130, "Davis-Bacon Act: Process Changes Could Raise Confidence That Wage Rates Are Based on Accurate Data," May 1996.

DOL has improved its verification of wage data.

By 1999, DOL had taken steps to increase its efforts to verify the data submitted during the prevailing wage surveys. In January of 1999, GAO reported that while DOL had taken efforts to verify submitted data, the verification process still needed improvement.[11] GAO noted that DOL had established procedures to select samples of wage data forms for telephone verification that differed, depending on who had submitted the form. Additionally, DOL had hired a private accounting firm to conduct on-site verification reviews of the submitted information, though GAO did express some concern that the data was confirmed only with the contractors. GAO reported that in a limited number of reviews the on-site auditors found errors in wage rates reported in about seventy percent of all wage data forms reviewed.

A sample of wage data will be audited.

In order to further improve the data validation process, GAO recommended that DOL use a judgmental sample of the submitted data, based upon the potential impact of the data on prevailing wage rate determinations, rather than a random sample of all data. Consider, for example, a determination based on twenty workers, nineteen of which worked for the same contractor and all earn $15 per hour. Because a majority of the workers are paid the same wage, this wage becomes the prevailing wage. In this case, there is no reason to audit the twentieth worker, as this worker has no impact of the determination. Audits of the data that actually impact the wages would be more productive. That is, GAO contended that the judgmental sample would provide greater accuracy gains than a random sample. GAO also expressed concern about the use of data that could not be verified, noting that twenty-seven percent of contractors selected for verification either refused or were unable to provide payroll records for verification of submitted data. By including this information in wage calculations, DOL is assuming the information is correct, even though it could not be verified. GAO pointed out that while the effect of the verification process had so far been fairly minimal, a greater long-term improvement might be anticipated as contractors and third parties would be deterred from submitting inaccurate or fraudulent data. As GAO stated:

> Without accurate and timely data, Labor cannot determine prevailing wage rates that correctly reflect the labor market. While obtaining accurate wage data through Labor's voluntary surveys will not ensure that wage rate

[11] U.S. General Accounting Office, GAO/HEHS-99-21, Davis-Bacon Act: Labor Now Verifies Wage Data, but Verification Process Needs Improvement," January 1999.

> determinations are accurate, inaccurate data guarantee inaccurate wage determinations…A system to verify wage data submitted by contractors and third parties is necessary to ensure that inaccurate data do not have a negative effect on the prevailing wage determination.[12]

Greater participation by contractors is being sought.

In May 1999, GAO reported that Labor was testing alternatives to improve the process for determining prevailing wage rates.[13] Labor was assessing whether to redesign its existing process or to use data from existing surveys conducted by the Bureau of Labor Statistics to determine prevailing wage rates. Under either track, Labor officials said the process must promote greater survey participation, improve the accuracy of submitted data and Labor's ability to verify the data, as well as increase the efficiency of data collection and analysis. Low participation rates and old data were two issues GAO had identified as contributing to poor accuracy.

State-wide wage surveys are being planned.

Officials with the U.S. Department of Labor told Program Review and Investigations Committee staff that rather than using the Bureau of Labor Statistics data, they are currently reengineering their process for determining federal prevailing wage rates. DOL officials said the reengineering involves the deployment of a new computerized information system, which is scheduled for completion in early 2002. Internet submission of wage rate information will be included as part of this new system. Additionally, DOL will begin doing state-wide surveys for all four types of wage determinations (residential, commercial, heavy, and highway) at the same time. This will reduce the number of times the same area will need to be surveyed. DOL officials said they hope to survey all states at least once every three years.

In order to improve the validation of the data submitted in the federal prevailing wage survey, DOL officials will use telephone contacts to follow up with five percent of contractors submitting data to request supporting information. Additionally, ten percent of interested third parties submitting data will be selected for follow-up phone calls. DOL will also use an accounting firm to do targeted, onsite follow-ups with some organizations. Organizations selected for on-site review will be selected because they submit substantial amounts of survey information that could have a significant impact on the wage determination. Organizations or individuals submitting a relatively minor amount of wage data

[12] *Ibid.*, p. 28
[13] U.S. General Accounting Office, GAO/HEHS-99-97, "Davis-Bacon Act: Labor's Actions Have Potential to Improve Wage Determinations," May 28, 1999.

would not have a significant impact on the eventual wage determination and would not necessitate the added time and expense of an on-site review.

Steps can be taken to make Kentucky's prevailing wages more representative, but it is unlikely that they will ever be accurate.

Neither the state process nor the federal process is likely to yield prevailing wages that are representative of the wages being paid in local areas. Both suffer from a number of technical issues that make them unrepresentative. While there are a number of steps that the Labor Cabinet and the General Assembly can take to improve the accuracy of state determinations, it is unlikely that prevailing wages will accurately reflect local wages without substantial efforts to collect wage data. To accurately determine local wages would require the ability to collect data more completely and in an unbiased manner. Ideally, it would involve the collection of payroll data on all non-residential construction projects in the state. Data would need to be collected on the type of work and the wages and benefits of these workers. In addition, the wage data would have to be validated.

Development of accurate prevailing wages will likely be costly for both the Cabinet and contractors.

The costs of such a program would likely be fairly high for both the Kentucky Labor Cabinet and for contractors. Staff attempted to collect wage and fringe benefit data from a small sample of contractors. Collection of this type of data was difficult for two primary reasons: contractors were not equipped to provide this type of data and the data is inconsistent across contractors. Union contractors typically pay workers hourly rates for both wages and fringe benefits. For example, a union worker may be paid $20 in wages and $3 in health insurance benefits. The health insurance benefit, however, goes to the union, which provides a health insurance policy for the worker. In addition, union workers are typically assigned to one classification, such as electrician, regardless of the work being done. Non-union contractors provide benefits directly to their workers. The benefits are not associated with a particular job and do not typically vary based on the number of hours worked. Therefore, the benefits provided per hour might vary across workers and, for a single worker, the hourly benefits may vary from week to week. It is difficult, therefore, for these contractors to accurately state the hourly benefits they provide. Staff spent a great deal of time clarifying the details of the data.

RECOMMENDATION 3.6

It is not clear that Kentucky's current determination process is more accurate than the federal determination process. Therefore, there is no obvious reason to switch from the adoption of federal prevailing wages to establishing state prevailing wages in these areas. If no changes are made to make Kentucky's determination process more representative of local wages, federal prevailing wages should be adopted where ever they exist. Adopting federal prevailing wages would reduce the cost of conducting state prevailing wage hearings. If, however, the accuracy of Kentucky's determination process can be improved and it is the desire of the General Assembly that prevailing wages more accurately reflect local wages, the use of federal prevailing wages should cease entirely and be replaced with the improved state determinations.

RECOMMENDATION 3.7

The Kentucky Labor Cabinet should develop a process by which to validate evidence submitted for prevailing wage determinations. As there have been numerous cases of invalid data's being submitted for federal determinations, it is reasonable to assume that invalid data may be submitted for Kentucky's determinations as well.

CHAPTER 4

PREVAILING WAGE AND CONSTRUCTION COSTS

Prevailing wage laws eliminate one method by which contractors can lower their bid: by hiring low wage workers.

Public projects in Kentucky are typically awarded to the lowest bidder. In the absence of prevailing wage laws, contractors are free to select among various mixes of inputs, such as labor and equipment, in an attempt to put together a competitive bid. Prevailing wage laws constrain contractors from one avenue by which they can reduce bids and, therefore, the costs of construction. That is by hiring lower wage workers. To the extent that prevailing wages are higher than the wages that would be paid to at least some workers, this could increase the costs of construction.

It is possible that there are certain circumstances under which costs would not increase. For example, when faced with an increase in the cost of labor, contractors are likely to try to reduce the amount of labor that is used. This is typically accomplished by using more of other types of inputs. This may involve an increase in the use of more productive workers or an increase in the use of labor-saving equipment. This substitution towards other types of inputs could offset the increased costs of labor. It is possible that the substitution fully offsets the effects of the higher wages. If this were the case, it would suggest that firms that choose to hire lower wage workers and use less capital, and firms that hire higher wage workers and use more capital have the same total costs. Prevailing wages would then result in the project being awarded to the contractor who pays the higher wages, but the total costs would remain the same.

It is unlikely that prevailing wages would result in lower construction costs. If it were possible for a contractor to pay at or above prevailing wages and have lower costs, this contractor would win the bid with, or without, prevailing wages. Therefore, imposing prevailing wages would not reduce costs.

Review of Previous Studies

Researchers have had difficulties in sorting out the effect of prevailing wage from other factors that affect construction costs.

Studies of the effects of prevailing wage on construction costs have been reported for years in the academic literature. Empirical estimates of the effects vary greatly, due largely to the difficulty in separating the effects of prevailing wage laws from other factors that affect construction costs. Ideally, to measure any cost effect from prevailing wage laws, it is necessary to compare the costs of

projects under the prevailing wage law to the costs of the same exact projects in the absence of a prevailing wage law. Unfortunately, it is not possible to see what construction costs would be in the total absence of prevailing wage law. Therefore, several alternative methods have been developed over the years in an attempt to estimate the effects. Some studies compare construction costs in prevailing wage states to construction costs in non-prevailing wage states. Others compare the Davis-Bacon wages to other, more representative, measures of wages. These methods are discussed in a number of studies. There is little agreement between the studies as to whether prevailing wage laws increase costs, because a commonality in all of them is that there is always some technical issue that could substantially affect the results. The conclusions of these studies range from one that prevailing wage laws have no effect on construction costs to one that they increase costs by as much twenty-six percent. This section reviews the major studies on this topic.

Early Studies

Early studies evaluated a suspension of the federal prevailing wage.

Two studies used a brief suspension in the Davis-Bacon Act to evaluate the effect of prevailing wages on construction costs. In 1971, the Davis-Bacon act was suspended for approximately one month. Projects that had been bid, but not awarded, were re-bid without federal prevailing wages. This provided an opportunity to compare the same projects with and without prevailing wages. Thieblot (1975) evaluated these costs and found that the costs of the projects were just over one half of one percent higher under prevailing wages.[14] Gould and Bittlingmayer (1980), however, argued that Thieblot (1975) underestimated the effects of the prevailing wage.[15] They argued that there were several factors that caused the re-bids to be higher than they would have been. One of these factors was inflation. As this was a period of high inflation, they concluded that the second bids reflected new information about inflation. They also pointed out that if the low bidders in the first round were much lower that all the other bidders, they may have actually increased their bids in the second round. Gould and Bittlingmayer (1980) concluded that the Davis-Bacon Act would have actually increased costs for these projects by four to seven percent. These results did suggest that prevailing wages generally increased construction costs. They provide little information for

[14] Armand J. Thieblot, *The Davis-Bacon Act*, Labor Relations and Public Policy Series, Report No 10, Philadelphia: University of Pennsylvania Press, 1975.
[15] John P. Gould and George Bittlingmayer, *The Economics of the Davis-Bacon Act: An Analysis of Prevailing Wage Laws,* American Enterprise Institute for Public Policy Research, Washington D.C., 1980.

evaluating the effects of Kentucky's prevailing wages, however, because the results are for the federal prevailing wage in the early 1970's. It is not clear how relevant this information is for Kentucky today.

Other studies attempted to compare prevailing wages to average wages.

Other studies made comparisons between Davis-Bacon wages and market wages. These studies applied the wage difference to the number of hours worked on public projects to estimate the costs of prevailing wages. The General Accounting Office (1979) compared the Davis-Bacon wage rates to wages estimated from a survey of contractors.[16] The study estimated that the Davis-Bacon Act increased construction costs by 3.4%. Using a similar method, Allen (1983) estimated the cost of federal prevailing wages to be between $41 million and $224 million per year.[17] These estimates, however, are for the federal prevailing wage in 1977. Again, it is not clear how relevant this information is for Kentucky today.

Average wages in prevailing wage states were compared to average wages in non-prevailing wage states.

Another study looked at the earnings of construction workers relative to all workers in states that repealed their prevailing wage laws and those that did not. Thieblot (1996) examined the earnings of construction workers relative to the earnings of all workers.[18] States were grouped into three basic categories: those with prevailing wage laws, those without prevailing wage laws, and those that repealed their prevailing wage laws. The study compared the earnings of construction workers to those of all workers for these three groups during the period before several states repealed their laws (1976-1979) and to the period after the states repealed their laws (1991-1993). The study found that earnings for construction workers dropped in states that repealed their laws. The study also found, however, that the earnings of construction workers relative to all workers dropped in states that did not repeal their prevailing wage laws and states that never had prevailing wage laws. Although all three groups experienced a decrease in earnings of construction workers relative to all workers, states that repealed their prevailing wage laws experienced the largest decline. It was noted that earnings of construction workers relative to all workers in prevailing wage states were, on average, higher than in states without prevailing wages and those that repealed their laws. The study argued that the remaining prevailing wage states would experience similar reductions in the earnings of construction workers. It was further

[16] General Accounting Office, "The Davis-Bacon Act Should be Repealed," April 27, 1979.
[17] Steve Allen, "Much Ado About Davis-Bacon: A Critical Review and New Evidence" *Journal of Law & Economics*, 26 (Oct. 1983), pp. 707-736.
[18] A. J. Thieblot, "A New Evaluation of Impacts of Prevailing Wage Law Repeal" *Journal of Labor Research*, 17.2 (1996), pp. 297-322.

argued that these earnings represent the costs of prevailing wages and estimated that repeal of the Davis-Bacon Act and state and local prevailing wage laws would reduce the cost of federal and federally funded construction by 3% per year.

There are a number of concerns about the estimate from Thieblot (1996). First, the study did not demonstrate that workers in states with prevailing wages have relatively high earnings simply because of the prevailing wage. There may be other factors that explained these differences. To the extent that other factors may have contributed to these higher wages, repeal of prevailing wage laws would not yield the savings claimed. The second concern is that the earnings data is averaged across several years and states, which may mask variation in the data. Because any variation that may exist cannot be observed, it is not possible to determine if the difference in earnings between states with and without prevailing wage laws is statistically significant. Because of these concerns, these estimates of the prevailing wage effect are not judged to be useful.

Studies Using Regression Analysis

Regression analysis attempts to control for other factors that affect construction costs.

Another approach to estimating the effect of prevailing wages on construction costs is to compare the total cost of projects built under prevailing wages to projects built without prevailing wages. The difficulty of this approach is that there are numerous reasons why the construction costs of two projects might differ. For example, if two schools have different construction costs, the cost difference might be the result of one being covered by prevailing wage, or the result of other differences, such as the size of the school, the type of heating systems used, or the amount of excavation required. Comparing the average total cost of prevailing wage projects to non-prevailing wage projects provides little useful information because projects built under prevailing wage requirements may be substantially different than those not subject to prevailing wage requirements. It would not be clear that any costs difference would be the result of the prevailing wage or differences caused by these other factors. Therefore, analysis of the effects of prevailing wages must account for any other differences that could affect the cost. This is typically done through a statistical technique called regression analysis. Regression analysis allows one to determine if, and how, various factors affect the total cost of construction while controlling for these other differences.

While regression analysis is potentially a useful tool for evaluating the effects of prevailing wages on construction costs, its results can be very sensitive to assumptions made by the analysts. For example, Bilginsoy and Phillips (2000) point out that "if private buildings differ from public buildings in ways that are not adequately controlled for, this may conflate cost differences derived from public-private building differences with cost differences derived from prevailing wage regulations."[19] Essentially, this means that public and private buildings may differ in other ways than the prevailing wage. If these differences are not addressed in a study, then any estimates of the prevailing wage effect may reflect differences besides the prevailing wage. This could result in estimates of the prevailing wage effect that are larger or smaller than the true effect. This is only one way in which regression analysis may fail to provide an accurate estimate of the effects of prevailing wage laws. Similarly, failure to adequately account for any cost factor may seriously bias any estimates of the effects of prevailing wage, again resulting in estimates that are larger or smaller than the actual effect. Of the studies reviewed, none adequately account for all the various factors that affect construction costs. Therefore, none of these studies provides convincing evidence of the effects of prevailing wage on construction costs.

This approach was first used to evaluate the effects of the federal prevailing wage on construction costs by Fraundorf, Farrell, and Mason in 1981.[20] Basically, this study compared the costs of projects built under the federal prevailing wage laws to similar private projects. The study used regression analysis to account for differences in various cost factors, such as type of foundation. The authors concluded that the Davis-Bacon Act increased construction costs by twenty-six percent. Later studies, such as Bilginsoy and Philips (2000), have correctly noted that the twenty-six percent may simply represent the difference between the cost of public and private projects, which are likely to have very different characteristics. In fact, Fraundorf, Farrell, and Mason (1981) points out that public projects are often held to a higher standard than private projects. Such factors could be the reason for the cost difference, rather than prevailing wage regulations.

[19] Cihan Bilginsoy and Peter Philips, "Prevailing Wage Regulations and School Construction Costs: Evidence from British Columbia," *Journal of Education Finance*, 24 (Winter 2000), pp. 415-432.
[20] Martha Norby Fraundorf, John P. Farrell, and Robert Mason, "The Effects of the Davis-Bacon Act on Construction Costs in Rural Areas," *The Review of Economics and Statistics*, 66 (Feb 1983), pp. 142-146.

Several studies using the essentially the same analysis and data, have concluded that prevailing wage has no statistically significant effect on construction cost.

Regression analysis was also used in a number of other studies. All of these studies were very similar in the approach applied and the data used. In fact, all were authored by either professors or former students of the University of Utah. All of these studies concluded that prevailing wage laws have no effect on the cost of public construction. As all of these studies are very similar, only one will be discussed in detail. Philips (2001) discusses Kentucky's prevailing wage and its likely effects.[21] Summaries of the other studies are provided in Appendix B.

Philips (2001) compared bid prices on school construction projects across the nation. In doing this, the study accounted for differences in various cost factors in an attempt to isolate the effects of prevailing wage. The study concluded that there was a small increase in bid prices associated with the prevailing wage; however, the increase was not found to be statistically significant. Part of the reason given was that lower wage workers may have been replaced with higher wage workers, who would likely be more productive. More productive workers offset their higher wages by producing more in a given hour. The study is correct that there would likely be some substitution that will offset some of the higher wages required by prevailing wage laws. For this substitution to result in no increase in total costs, however, contractors who already pay higher wages would have to be just as competitive as contractors who pay lower wages. Evidence is presented later to show that this substitution does not completely offset the higher wages.

Another study (Philips 1999), argued that to the extent that the prevailing wage increases bid prices, contractors would shave bids in order to win jobs and then rely on cost over-runs or change orders to make up the lost profit.[22] This practice would lower the price of the bid, but raise the final costs of the project. This argument, however, is a poor one and has no relevance for the analysis of the effects of prevailing wages. In a competitive market, the incentive to shave bids in order to win jobs with hopes of recouping profits from change orders exists with or without prevailing wages. The study provides no reason to explain why bid shaving behavior would be different with prevailing wages than without prevailing wages.

[21] Peter Philips, "A Comparison of Public School Construction Costs in Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s: Kentucky, Ohio, and Michigan," Feb 2001.
[22] Peter Philips, "Kentucky's Prevailing Wage Law: Its History, Purpose, and Effect," Oct 1999.

These studies do not adequately account for differences that affect construction costs.

While regression analysis is a reasonable approach, there are some technical concerns regarding this approach. The first concern is that a number of factors that influence construction costs are not included in the analysis. For example, there is no accounting for various types of heating systems used in different projects. There is also no accounting for site development differences, which can have a major impact on costs. Site development for East Ridge High School in Pike County was particularly expensive because of the amount of excavation that was required. In other schools, however, site development is often less expensive. This type of information is included in the bid packages and is used by contractors to calculate their bids. Not accounting for differences in these and other cost factors causes estimates of the effects of prevailing wages to be incorrect.

These studies do not account for prevailing wage having no effect on certain types of projects.

A second concern is that the analysis does not allow for the possibility that certain types of projects might not be affected by prevailing wage laws, while others are. One study, Allen (1987), found that union contractors were more productive than non-union contractors on certain large projects, but less so on small projects. Because prevailing wages are typically set at the union wage, the prevailing wage would likely have no effect on large projects. That is, union contractors would be the low bidder with or without prevailing wages. Small projects, however, may be more expensive under prevailing wage because the prevailing wage is higher than the wages that workers would otherwise be paid. If this is true, it would explain why Philips (2001) found that, on average, prevailing wages increased construction cost, but that the effect was not statistically significant. Better accounting for these types of differences might show that prevailing wage has a statistically significant effect on certain types of projects, but no effect on others.

Other studies using regression analysis suffer from similar technical issues.

In all of the studies that used similar techniques and data, the conclusion was that prevailing wage regulations did not increase the costs of construction. Each of these studies, however, suffered from similar technical issues as those discussed above. None of the studies adequately account for all factors that impact construction costs. As stated earlier, if the factors that affect costs are not adequately accounted for in the analysis, the estimates of the effect of prevailing wage will likely be incorrect and not represent the true effects of prevailing wage. Because these studies do not control for these additional factors, the results are questionable. These studies do demonstrate, however, the need to control for other differences that affect construction costs. Simply looking at average costs with and without prevailing wage can be

misleading and can result in incorrect conclusions about the effect of these regulations.

Productivity Literature

Another area of the literature examines productivity differences between union and nonunion firms. Prevailing wage determinations typically reflect union wages, which increases the likelihood that union contractors will be awarded public projects. Therefore, it is appropriate to consider whether union contractors are more productive than non-union contractors. To the extent that union contractors are more productive than non-union contractors, their productivity would tend to offset some of the costs of higher wages.

While union contractors were more productive than non-union contractors in the 1970's, the productivity differences decreased until they no longer existed in the early 1980's.

Several studies focused on union-nonunion wage differences for the construction industry. Allen (1984) found, using data from 1972, significant productivity advantages in construction from the union wage effect.[23] Allen (1988b) however, acknowledges an erosion between union and non-union productivity between 1972 and 1977 and states "it had vanished by 1982."[24] These studies do not support the argument that productivity increases outweigh increased construction cost caused by the union-nonunion wage differences. Allen (1988b) concludes that "the productivity advantage of union contractors has eroded to such a degree that the size of the wage cuts needed to restore a balance between the wage and productivity would be unacceptable to the rank and file."

The effects of prevailing wages on construction costs are not offset by productivity differences in the contractors or workers hired.

It should be noted that while these studies found that there were little or no productivity differences between union and nonunion contractors, these estimates were for the 1980's. It is not clear whether these results still hold. Generally though, these studies suggest that any effects of prevailing wage on construction costs are not offset by greater productivity differences in the contractors and workers hired.

Other Studies

Two studies were specific to Kentucky.

There were two studies specifically addressing Kentucky's prevailing wages. A 1981 Legislative Research Commission study identified several government projects that should have been bid as

[23] Steven G. Allen, "Unionized Construction Workers Are More Productive," *Quarterly Journal of Economics* (May 1984), pp. 251-274.
[24] Steven G. Allen, "Can Union Labor Ever Cost Less?" *Industrial and Labor Relations Review* (April 1988b), pp. 347-373.

prevailing wage projects, but were not.[25] When it was discovered that these should have been covered by prevailing wages the projects were re-bid. The LRC study compared the bid amounts with and without prevailing wages and found that the bids were fifty percent higher with prevailing wages. The study notes that there might be other factors that could have increased the bids with prevailing wages. The LRC study also compared the wages actually paid on prevailing wage projects to the wages that contractors normally paid and concluded that prevailing wages increased the labor costs of construction. In both comparisons, the study notes that the sample size is small and not randomly selected. Therefore, the results could not be generalized to all government projects.

Neither study offers definitive evidence.

A 1996 report by the Kentucky Auditor of Public Accounts attempted to evaluate whether including school projects under the prevailing wage in 1996 increased the construction costs of five schools.[26] The report relied on a comparison of bid amounts to architect's estimates, and interviews with contractors, architects, and school officials. The report concluded that requiring prevailing wages to be paid on school construction projects increased the costs of two of the five schools. For one of these schools, the cost increase was estimated at eight percent. The limitation of the report is that it does not clearly establish that prevailing wages were the sole cause of the difference.

An Ohio legislative study is evaluating a 5-year prevailing wage exemption.

The Ohio Legislative Budget Office is currently studying the effects of a five-year exemption of the state's prevailing wage law.[27] Contractors that were awarded construction projects during the exemption were asked to estimate their bid amount if prevailing wages had been applied. Based on this comparison, interim reports on the study conclude that prevailing wages increased the costs by 10.5% on projects where a savings could be estimated. The shortcoming of the analysis is that it assumes that the same contractors would have won the project. In the presence of prevailing wages, the project may have been awarded to another contractor. This contractor may have had a lower bid than what the winning contractor estimated the costs to be with prevailing

[25] Kentucky Legislative Research Commission, "Economic Impact: Kentucky Prevailing Wage Law," Capital Construction and Equipment Purchase Oversight Committee, Research Report No. 185, 1981.
[26] Kentucky Auditor of Public Accounts, "The Effect of Prevailing Wage Legislation on Five School Construction Projects," (August 1997).
[27] Ohio Legislative Budget Office, "A Study of the Effects of the Exemption of School Construction and Renovation Projects from Ohio's Prevailing Wage Law, An Interim Report Of a Five-Year Study – Year Two," (January 2000).

wages. Therefore, the estimate of 10.5% is likely to be larger than the true costs of prevailing wages.

New Kentucky Data

Previous studies provide little information on the effects of Kentucky's prevailing wage on construction costs.

Although most of the peer-reviewed academic literature on prevailing wages concludes that the regulations increase construction costs, there are some studies that conclude that the prevailing wage has no statistically significant effect on costs. Estimates of the effects are very sensitive to the methodology used by the researchers. Therefore, it is not surprising that there is a great deal of disagreement regarding whether prevailing wages increase total construction costs and, if so, to what extent. Unfortunately, no method has emerged as the generally accepted approach for determining whether there is a cost effect and, if so, for estimating its magnitude. In addition, none of these studies specifically estimates the effect of Kentucky's prevailing wage on construction costs nor do they provide a valid approach by which to estimate the effect. Therefore, an alternative method was developed to estimate the effects of Kentucky prevailing wage law on public construction costs.

Several contractors indicated that it was common for workers to be paid less on private projects than they are paid on prevailing wage projects.

Interviews with a number of construction contractors suggested that there were cases where workers were being paid higher wages under prevailing wage than they were being paid for work on private projects. For example, it was reported that a worker might be paid $15 per hour while working on a private job not covered by the prevailing wage. When the worker is assigned to a prevailing wage job he might be paid $20 per hour. When returning to private projects the worker's wage returns to $15 per hour. This suggests that there is an additional $5 cost per hour for this worker as a result of the prevailing wage. If this worker worked 100 hours on a project, this would indicate that the associated costs would have been at least $500 lower in the absence of Kentucky's prevailing wage laws. The contractor interviews indicated that these wage differences were a fairly common occurrence. These differences provide one avenue by which Kentucky's prevailing wage law can be evaluated. If it is a fairly common occurrence for Kentucky projects, it indicates that Kentucky's prevailing wage law does increase the labor costs of public construction.

Staff collected data on wages paid to individual workers on prevailing wage and non-prevailing wage projects.

To determine the extent to which prevailing wages are higher than the wages typically paid, staff randomly sampled construction projects from three groups: road projects, state non-road projects, and school projects. Primary contractors on these projects were

contacted and asked to provide several pieces of information. They were first asked to provide copies of the certified payrolls for the selected projects covering any work performed in 1999 or 2000. Certified payrolls are weekly payroll records that each contractor doing a prevailing wage job must keep for possible inspection by the Labor Cabinet. These records show which workers were employed on the project, their classifications (such as electrician or laborer), how many hours they worked, their rate of pay, and their fringe benefits. Focus was limited to construction activity during 1999 or 2000 because several contractors indicated in early interviews that it would be difficult to retrieve payroll records prior to 1999. Contractors were also asked to provide a list of subcontractors used on the selected projects. Once contractors provided the certified payroll records, staff randomly selected a sample of workers from each project. The contractors were then asked to provide payroll records showing what these specific workers earned on private construction projects during the same time period. This process was repeated for subcontractors as well.

Evaluating wage differences for individual workers means there is no need to control for project differences.

The advantage of this method is that there is no need to control for differences in the types of projects. This control was necessary in other studies because prevailing wage projects were being compared to non-prevailing wage projects. In this analysis, prevailing wage projects are not being compared to private projects. Instead, the wages paid to the workers on prevailing wage projects are being compared to the wages the same individual workers are paid on private projects. This approach also takes into account any offset to the prevailing wage costs that might be obtained by substituting labor for equipment or substituting unskilled labor for skilled labor. To the extent that this occurs, it is already incorporated into the project.

Results

Table 4.1 shows the number of projects sampled from each of the three categories of projects. The first column indicates the initial number of projects sampled. The primary contractors on each of these projects were mailed a request for payroll records. Approximately one-hundred projects were sampled within each of the categories. After obtaining information from the contractors, it was determined that some of the projects were either not prevailing wage projects or had no work done in 1999 or 2000. These projects were excluded from the analysis. Payroll records were received from the primary contractors on forty-six projects in total.

Wage data was collected on 283 workers for 46 recent prevailing wage projects.

Table 4.2 shows the number of projects, contractors, and workers for which payroll data was obtained. There were 56 contractors and 283 workers working on these project. The majority of workers were from the education projects.

Table 4.1
Sample Size
Projects

	Original Sample	Excluded*	Primary Contractor Completed Payroll Request	Response Rate
Road Projects	100	23	16	21%
State Non-Road Projects	117	6	10	9%
Education Projects	128	9	20	17%
Total	345	38	46	15%

*Several projects from the original sample were either not actually prevailing wage projects or had no work done in 1999 or 2000.

Table 4.2
Sample Size
Contractors and Workers

	Projects	Contractors	Workers
Road Projects	16	24	90
State Non-Road Projects	10	8	47
Education Projects	20	24	146
Total	46	56	283

Sixty percent of workers sampled on prevailing wage projects were paid more on these jobs than they were on private projects.

In all three categories of projects, the majority of workers were paid more on the prevailing wage project than they were on private projects (Table 4.3). Overall, sixty percent of the workers sampled normally earn less on private projects than they were paid on the prevailing wage projects. When they worked on these prevailing wage projects, their wages were increased as mandated by the prevailing wage law. Twelve percent of the workers had wages on private projects that were actually higher than prevailing wages they were paid on the sampled projects. It is not clear why this occurs, but it may reflect timing differences in the payroll records. For example, there were some workers who did not have private payroll records that always match to the exact time of the prevailing wage project. In these cases, wages from close work periods were used. This could result in some wages on private projects being higher than the prevailing wage. For twenty-eight

percent of the workers, the prevailing wages they were paid on the sampled projects were equal to their normal wage on private projects.

Table 4.3
Comparison of Prevailing Wage Paid to Private Wage Paid to the Same Worker

	Road Projects	State Non-Road Projects	Education Projects	All Projects
Prevailing Wage Less than Private Wage	13%	13%	10%	12%
No Difference	17%	27%	38%	28%
Prevailing Wage Greater than Private Wage	70%	60%	52%	60%
Total	100%	100%	100%	100%

For workers who received higher wages on the sampled projects, the prevailing wages were, on average, $5.70 per hour higher than the wages earned on private projects. For many workers, the prevailing wage was much higher than the wage they were paid on private projects. In one case, a worker who was normally paid $8 per hour on private projects was paid $22.60 per hour on a prevailing wage project. This worker worked a total of 116 hours on this project. Factoring in overtime hours, the prevailing wage resulted in this worker earning $1,752 more than he would have earned at his normal wage.

The wage costs of sampled projects were at least 24% higher than they would have been without prevailing wages.

Table 4.4 shows the total wages paid to sampled workers on the prevailing wage projects during 1999 and 2000. This is compared to the total wages they would have been paid if they were paid the same wage they earned on private projects. Overall, the 283 workers were paid $86,029 more as a result of the prevailing wage. This indicates that prevailing wages resulted in a 24% increase in the wage cost for these projects.

Data on fringe benefits proved inadequate for analysis.

Staff attempted to compare the fringe benefits that were paid to workers on these prevailing wage projects to the benefits they were paid on private projects, but the data on benefits was deemed unreliable. Fringe benefits for prevailing wages are stated in hourly rates. Benefits provided to union workers are also stated in hourly rates. Therefore, comparisons of the prevailing wage fringe benefits to the benefits provided by unions on private jobs are fairly straightforward. Comparisons for merit shop contractors are more problematic as benefits, such as health insurance or life insurance, are typically provided in discrete amounts, which do not

Table 4.4
Total Wage Costs with Prevailing Wages
and With Wages Paid on Private Projects

Wage Costs	Road Projects	State Non-Road Projects	Education Projects	All Projects
With Prevailing Wage	$94,197	$129,862	$216,714	$440,773
With Private Wage	$73,337	$102,862	$178,544	$354,744
Difference	$20,860	$27,000	$38,169	$86,029
Percent Difference	28%	26%	21%	24%

vary based on the hours worked. For example, single coverage health insurance might be provided for employees who work twenty hours or more per week. In this case the total benefits are the same across all workers, but the hourly benefits may differ from one worker to the next based on the number of hours each works. This made it difficult to determine the hourly benefits that workers are paid on private projects. Information received from contractors on benefits that they provide on private projects was inconsistent and deemed unreliable for evaluating the effects of prevailing wage fringe benefit requirements.

As the benefit information provided by contractors was not useful for estimating additional costs, contractors were also asked if, in general, the benefits were higher on prevailing wage projects than those they normally provide. Eleven of the fifty-six contractors sampled indicated that prevailing wage benefits were higher than what they normally pay. Twenty-four indicated that the benefits they provide were equal to or greater than the prevailing wage benefits. The remaining twenty-one did not provide a clear answer to this question. It does appear that there are some costs associated with the fringe benefits requirements of prevailing wages, but it is uncertain how much this affected construction labor costs.

The additional wage costs indicate that prevailing wages increased the costs on the sampled projects. The total cost increase in unknown.

It is important to understand that this estimate **does not** imply that prevailing wages increased the costs of these projects by twenty-four percent. Rather, it indicates that the wage portion of construction costs was twenty-four percent higher as a result of prevailing wages. The additional wage cost does, however, demonstrate an increase in cost as a result of the prevailing wage. It is argued by some that the additional wage costs of requiring prevailing wages are offset because contractors substitute more

productive workers or use more equipment. Because this analysis only examines the workers that actually worked on the project, it incorporates any productivity gains achieved by this type of substitution. Since prevailing wages paid on the projects are still higher than the wages that these workers are paid on private projects, any productivity gains do not offset the full wage cost associated with the prevailing wage requirements.

Limitations

Comparison of wages paid on prevailing wage projects to wages the same workers were paid on private projects underestimates the total cost of prevailing wages.

This approach does have a number of limitations. The primary limitation is that any estimates of the effects of prevailing wage will tend to underestimate the actual effects, because it is not clear what the project costs would have been in the absence of prevailing wage. It is possible that in the absence of prevailing wages a different contractor could have won the bid. To understand this, consider example 4.1 in which two contractors bid for a state project. First, assume that the project does not require prevailing wages to be paid. Contractor A would hire one worker for this project at a rate of $10 per hour. This worker can perform the job in twenty hours. The total project cost would be $200. Contractor B, however, would hire a worker at $13 per hour who can do the same work in eighteen hours. Contractor B's total cost would be $234. In the absence of prevailing wage requirements, contractor A would have the lowest bid and, therefore, win the job. If a prevailing wage of $15 per hour is required, however, contractor A is no longer the low bidder. With prevailing wages, contractor A's cost is $300 while contractor B's cost is $270. With a prevailing wage of $15, contractor B is the low bidder and, therefore, is awarded the job. In this example, contractor B is awarded the job under prevailing wages. The contractor is required to pay $15 per hour, but would normally pay $13. By comparing these wages, the additional costs of prevailing wage would appear to be ($15-$13) x 18 or $36 in total. The actual cost of prevailing wage, however, is the difference between the low bid under prevailing wages and the low bid without prevailing wages. This difference would be $270-$200 or $70. Unfortunately, it is not possible to observe what the low bid price would have been in the absence of prevailing wages. Although this example is contrived, it illustrates that the low bid contractor in the presence of prevailing wages may not be the low bid contractor in the absence of prevailing wages. Because the costs in the absence of prevailing wages cannot be observed, the method used in this study will tend to underestimate the costs attributable to prevailing wages.

Example 4.1

Comparisons of Prevailing wages paid on public projects to the wages the same workers receive on private projects will underestimate the true additional cost of the prevailing wage.

Without Prevailing Wage (Contractor A wins the Job)

Contractor	Hourly Wage	Number of Hours	Total Cost
A	$10	20	$200
B	$13	18	$234

$200 is the low bid, so Contractor A is awarded the project.

With Prevailing Wage of $15 (Contractor B wins the Job)

Contractor	Hourly Wage	Number of Hours	Total Cost
A	$15	20	$300
B	$15	18	$270

$270 is the low bid, so Contractor B is awarded the project.

Observed Cost Effect of Prevailing Wage

	$270	Contractor B's cost with prevailing wage
-	$234	Contractor B's cost without prevailing wage
	$36	

Actual Cost Effect of Prevailing Wage

	$270	Project Cost with Prevailing Wage
-	$200	Project Cost without Prevailing Wage
	$70	

Effect of prevailing wage underestimated by $34.

Even if the project would have been awarded to the same contractor, it is possible that the comparison of wages would still underestimate the actual cost increase due to prevailing wages. When faced with higher wage rates for some of its workers, a contractor might reduce the amount of hours they work while increasing the hours of higher wage workers or increasing the use

of equipment. In either of these cases, a comparison of the wages would not reflect the higher cost attributable to the substitution to more productive workers or capital. That is, the cost estimates will understate the true increase.

In some cases, workers are paid more than the prevailing wage on private projects.

In cases where workers are paid wages that are equal to or greater than the prevailing wage on private jobs, there is no observable wage difference. There are a number of possible reasons why this could be observed. First is that the prevailing wage really did not affect the construction costs of the project. For example, it is possible that the low-cost bidder normally pays its workers more than the prevailing wage. Prevailing wage has no effect on costs in these cases. A second possibility is that under prevailing wages the project was awarded to a contractor who normally pays at or above the prevailing wage. In the absence of prevailing wages, however, the project would have been awarded to a lower-cost contractor who pays below prevailing wages. In this case, the prevailing wage does increase the cost of construction, but no wage difference is observed. A third possibility is that the project might have been awarded to a contractor who does not normally pay the prevailing wage, but does not have a lower cost. This is shown in example 4.2. In this example, two contractors bid exactly the same amount, $200, in the absence of prevailing wage requirements. In the absence of prevailing wage, it is not clear which contractor would be awarded the project. One contractor normally pays its workers above the prevailing wage. The other, however, pays below prevailing wages. If prevailing wages were required, contractor A would have higher costs. Contractor B's costs would not have changed. Therefore, contractor B would be awarded the project. In this scenario, the prevailing wage might affect who wins the project, but does not increase the costs of the project.

In some cases, the prevailing wage was the same as the private wage.

When the workers are paid the same amount on prevailing wage projects as they are on private projects it will not be possible to know whether the prevailing wage increased costs. Therefore, when this happens, the costs are assumed to be zero. This is done even though there may be additional costs as a result of the prevailing wage requirements in some cases. This will result in an underestimate of the effects of prevailing wage on construction costs.

Example 4.2

If there is no difference between the prevailing wages paid on a public project and the wage the same workers are paid on private projects, it may indicate that there was no cost effect.

Without Prevailing Wage (Not Clear which contractor would win the job.)

Contractor	Hourly Wage	Number of Hours	Total Cost
A	$10.00	20	$200
B	$12.50	16	$200

With Prevailing Wage of $15 (Contractor B wins the Job)

Contractor	Hourly Wage	Number of Hours	Total Cost
A	$11.00	20	$220
B	$12.50	16	$200

$200 is the low bid, so Contractor B is awarded the project.

Cost Effect of Prevailing Wage

	$200	Project Cost with Prevailing Wage
-	$0	Project Cost without Prevailing Wage
	$200	

Prevailing wage had no effect on cost.

It is unlikely that contractors would accept lower profits to offset the costs of prevailing wages.

To the extent that workers on a public project are normally paid less on private projects, it suggests that the project could have been built by the same contractor at lower cost. Even with the same mix of labor, capital, and materials, the project would cost less simply because wages normally paid are lower. It has been argued, however, that contractors may be willing to accept lower profits in the presence of prevailing wages. If this were true, the difference in wages would not necessarily indicate higher costs. This,

however, is very unlikely because contractors are unlikely to accept reduced profits for a substantial length of time.

For contractors to continue a certain type of work, they must be able to earn a minimum level of profits. The minimum level of profit is that which the contractor could earn in some other activity. If it becomes clear that this profit level cannot be sustained, the contractor will shift focus to the other activity. For example, if contractors earn less on public construction than they do on private construction, some contractors would stop doing work on public construction and shift to private construction. Contractors would be unlikely to accept lower profits when they could earn higher profits by focusing on private construction. When this happens, the supply of contractors doing private construction increases. The increased competition tends to reduce the level of profits earned on private construction. As some of the contractors stop competing for public projects, however, the profit level earned on public jobs will tend to increase. Contractors will continue to move from public construction to private construction as long as private construction is more profitable. Typically, this process does take some period of time, but it is not expected that profit differences would exists over the long-run.

When the prevailing wage law was first passed, it might have increased the costs of some contractors. This could have resulted in a period of time when contractors doing public construction were earning lower profits. Over time, however, contractors would have shifted from public to private construction to avoid these lower profits. As fewer contractors were available to do public projects, profits would have returned to normal, given sufficient time. This could occur when there are major changes to the prevailing wage laws. As the last major change to Kentucky's prevailing wage law was in 1996, it is expected that contractors have already adjusted to prevailing wages. There may be instances of contractors accepting lower profits temporarily in order to stay in business. When this occurs, however, it is likely the result of other economic factors rather than the prevailing wage and would occur regardless of prevailing wage laws.

The results cannot be generalized to all public construction projects.

A final limitation of the results is that they cannot be generalized to all projects. Because a relatively small number of projects are represented and only a portion of the contractors on these projects provided payroll data, the results might suffer from selection bias. This occurs when those who provide payroll data are significantly different from those that do not. The contractors who responded to staff's request for payroll records may have been those who felt

they were most disadvantaged by prevailing wage laws. The contractors that did not choose to provide data may be those who always pay wages near the prevailing wage.

The Impact of Prevailing Wage on Quality

Proponents argue that prevailing wages result in better workers being hired and higher quality construction. They argue that this reduces future maintenance costs.

Proponents of prevailing wage laws argue that mandating higher wages results in higher quality construction in a one-shot low bid process. It is argued, that by mandating higher wages be paid, contractors will hire better workers. These workers are said to build a higher quality building that will have lower long-term maintenance and repair costs. Therefore, it is argued that while prevailing wages may increase the initial costs of construction, these higher costs would be offset by future savings.

Quality effects are difficult to measure.

While long-term savings from requiring prevailing wages may exist, they are difficult to verify. It does appear, however, that prevailing wages are a fairly inefficient method to increase quality, as the higher wages are paid up front with no method for ensuring the nature or magnitude of actual quality improvements.

It is generally accepted that in a competitive labor market a higher quality worker will be able to command a higher wage, assuming all other factors are equal. Therefore, one would expect that a $20 plumber would likely do better work than a $15 plumber. This is the basis for the argument that prevailing wage requirements result in higher quality. There are a number of flaws with this argument.

Higher wages do not necessarily indicate higher quality workers.

The first problem is that wages for construction workers are not always determined in a competitive labor market. Therefore, higher wages do not necessarily indicate higher quality. For example, two studies, Allen (1984) and Allen (1987), found that in areas where unions have market power, they can bargain for wages above labor's contribution to the value of output and still maintain their market share.[28] These findings suggest that while some of the higher wages observed may be attributable to more qualified workers, the higher wages are also the result of market power of unions in the area. In addition, as stated earlier, there is evidence that prevailing wage laws allow unions that work on public projects to negotiate higher wages with employers because the costs of the higher wages on public projects are paid by public entities.

[28] Steven G. Allen, "Can Union Labor Ever Cost Less?" *Quarterly Journal of Economics (*May 1987), pp. 347-373.

Prevailing wage requirements do not guarantee higher quality workers are hired.

Another concern with this argument is that prevailing wage laws do not ensure that the higher quality worker is employed on the job. This was not the case for sixty percent of the workers sampled in the data obtained by staff. Each of these workers normally earned less on private projects than on the prevailing wage projects. In one instance, a worker that normally commands a wage rate of $8 per hour was being paid $22.60 per hour. This suggests that in these cases the additional costs are being paid without an associated increase in quality.

Prevailing wage requirements are an inefficient method by which to increase quality.

Both of these concerns suggest essentially the same problem. That is, while requiring prevailing wages may in some cases result in higher quality workers being hired, it does this in an inefficient manner. The inefficiency exists because some of the same workers are hired and simply paid higher wages than they would normally be able to obtain. Prevailing wages, therefore, ensure that the higher wages are paid, but do not ensure an associated improvement in quality or productivity.

Other Issues

Some argue that there are social benefits to the prevailing wage.

One of the arguments made for prevailing wage laws is that there are social benefits that result from the laws. For example, it is argued that prevailing wage laws increase the wages and benefits of construction workers. It is also argued that prevailing wages reduce the injury rates of construction workers. Therefore, proponents of prevailing wage laws argue that repeal of the laws would result in lower wages for construction workers and increased injuries. In addition, it has been argued that by lowering the wages of construction workers, repeal of the prevailing wage law would reduce state tax revenues by more than the savings from lower construction costs. These studies are summarized below. While they do suggest that prevailing wages result in some of the benefits listed above, these benefits tend to accrue to a certain group of individuals. In addition, there was no valid support provided for the argument that repeal of prevailing wages would reduce state tax revenues by an amount that exceeded any decrease in construction costs. As discussed in other sections of this report, there are costs associated with prevailing wages as well, such as higher construction costs and fewer construction jobs. Any benefits that accrue to certain individuals may be offset in part or in full by these costs of prevailing wages.

Construction Wages

Prevailing wages appear to increase the wages of union workers and non-union workers who work on public construction.

Prevailing wages do appear to increase wages of construction workers. There appears to be little dispute over this issue. Petterson (2000) looked at the effects of repealing prevailing wages laws on the wages of construction workers.[29] By examining the effects of repeal on compensation packages, the study concluded that prevailing wage laws increased both wages and benefits. Kessler and Katz (2001) drew similar conclusions.[30] They found that "the relative wages of construction workers declined slightly after the repeal of a state prevailing wage law." According to this study, however, the wage decrease was not equal across all construction workers. Union wages decreased substantially. The study concluded that the repeal of prevailing wage laws reduced the difference between union wages and non-union wages by half.

Tax Revenue

Although there have been claims that lost construction wages from the repeal of prevailing wage laws result in substantially lower tax revenues, there is no valid support for this claim.

One study claimed that lower wages for construction workers resulted in lower tax revenues for states and that these lost revenues offset any savings from repeal of prevailing wage laws. Philips, Mangum, Waitzman, and Yeagle (1995) concluded that the repeal of prevailing wages in nine states reduced the annual earnings of construction workers by $1,835 (in 1991 dollars) in those states.[31] This figure was determined by examining the earning of construction workers from 1975 to 1991. Annual earnings across all years and states prior to the repeals were averaged into one number and compared to a similar average of all years and states after the repeals. The study concluded that earnings dropped by $1,835. This drop was attributed to the repeal of prevailing wage laws. The study argues that the reduction in wages resulted in lower tax revenues and that the loss in tax revenue was greater than any construction cost saving. That is, the study claimed that repeal of prevailing wages cost states more than it saved. Conversely, prevailing wage laws increase tax revenues.

[29] Jeffrey S. Peterson, "Health Care and Pension Benefits for construction Workers: The Role of Prevailing Wage Laws," *Industrial Relations*, 39.2 (April 2000), pp. 246-264.
[30] Daniel P. Kessler and Lawrence F. Katz, "Prevailing Wage Laws and Construction Labor Markets," *Industrial & Labor Relations Review*, 54.2 (Jan. 2001), pp. 259-275.
[31] Peter Philips, Garth Mangum, Norm Waitzman, and Anne Yeagle, "Losing Ground: Lessons from the Repeal of Nine 'Little Davis-Bacon' Acts" (Feb. 1995).

It seems unlikely, however, that mandating higher wages would result in greater tax revenues. If this were the case, it would suggest that states can increase tax revenues simply by mandating higher wages for all workers. Mandating higher wages results in some individuals earning more. These individuals will pay more taxes than they would have. The higher wages, however, increases the cost of employing people. This causes employers to decrease the number of workers they employ. The result is fewer people with jobs. These individuals will pay less tax than they would have. This offsets the higher taxes paid by those with higher wages. The study also appears to suffer from several technical issues that inflate the effects of prevailing wages on the earnings of construction workers and on tax revenues. Thieblot (1996) points out that the earnings of construction workers were also decreasing during this same time period in states that never had prevailing wage laws and in states that did not repeal their laws. This suggests that while the $1,835 decrease may have been partially caused by the repeal of prevailing wages, it was also likely caused by a number of other factors not related to the repeal of prevailing wages. Therefore, the study overstates the effect of prevailing wages on earnings and tax revenues. Philips, Mangum, Waitzman, and Yeagle (1995) present additional analysis, but Thieblot (1996) raises similar concerns that the earnings decrease attributed to the repeal of prevailing wages included the effects of other unrelated factors.

Another technical issue regarding the Philips, Mangum, Waitzman, and Yeagle (1995) study is that it presents only one side of the tax issue. To the extent that the earnings of construction workers would decrease after repeal of prevailing wage laws, there would be some lost tax revenue from construction workers. The lost earnings of construction workers, however, would not be lost to the economy. They would simply be transferred to other individuals. For example, lower construction wages reduce the costs of construction. Therefore, the owners of construction benefit from the lower wages by having more of their own income available. Taxes would be collected from these individuals as well. Therefore, it is likely that repeal would result in lower construction earnings and lower taxes from construction workers. This, however, would be offset by greater taxes collected from others. The net effect on state revenues is not clear. Given these technical concerns, the Philips, Mangum, Waitzman, and Yeagle (1995) study did not provide sufficient evidence to conclude that the repeal of prevailing wages would result in lost tax revenue that would exceed any reductions in construction costs.

Injury Rates

It has been argued that excluding school construction from prevailing wage requirements increased construction injuries.

Another potential social benefit of prevailing wages often cited is that the laws may reduce the injury rates in construction. Two studies examined the effects of prevailing wages on injury rates. Phillips (1999) analyzed the effect of excluding school construction from Kentucky's prevailing wage law in 1982. This study offers several reasonable explanations for why injuries might increase with the repeal of prevailing wages. For example, the lower wages might increase turnover, resulting in a group of less experienced workers. It seems reasonable that less experienced workers would have relatively higher injury rates. A similar argument holds for training, assuming that the training provided by unions actually reduces the injury rate. Although the study claims to provide empirical support for this argument, a close examination of the analysis shows that the data were seriously misrepresented. In fact, the data presented show no evidence to support these conclusions.

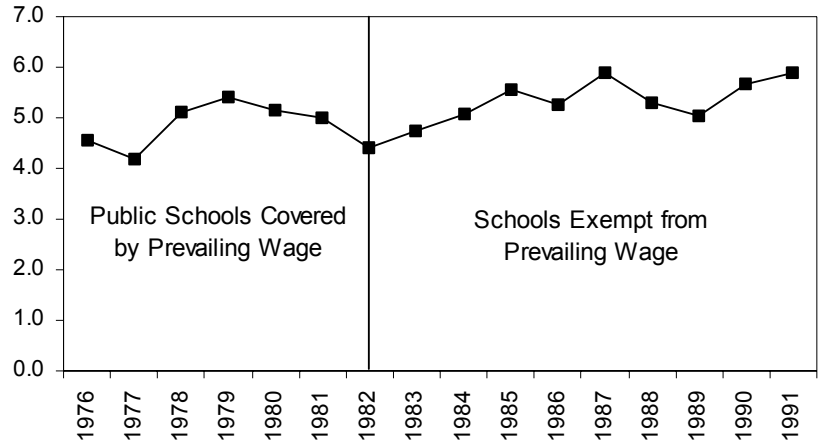
Prior to 1982, public schools built in Kentucky were subject to the state's prevailing wage law, if they were expected to cost more than $500. In 1982, the Kentucky General Assembly amended the prevailing wage statutes to exclude public school construction projects. The study suggests that serious injuries in the construction industry in Kentucky increased as a result of exempting school construction in 1982. As support, the study averaged six years of injury rates for all construction in the state prior to the exemption and compared them to the average injury rate for the nine years after the exemption. The conclusion was that there were an average of 4.9 serious injuries per 100 workers in the period while schools were covered by the prevailing wage law and that this increased to an average of 5.4 serious injuries per 100 workers in the later period. The study also concluded that serious injuries after the repeal resulted in a greater number of lost work days and that serious injuries accounted for a larger percent of total injuries.

The evidence cited is suspect.

There are a number of problems with this analysis. The first problem is that although the legislation only excluded public school construction, the analysis of injury data includes injuries in all types of construction. That is, Philips (1999) does not limit the analysis to school construction where any increase in injuries should occur. Instead, all types of construction, including residential construction, were included. Nationally, construction on public education projects over this period accounted for two to

four percent of total construction, depending on the year.[32] Public education projects could make up a larger or smaller share of total construction in Kentucky. However, the national figure suggests that education projects likely account for a small share of Kentucky's total construction. Changes in construction injuries are likely to occur for a number of reasons. It is difficult to argue that all changes that occur in injury rates are due to a change in the wages of workers is a small segment of construction. Any changes from the exclusion of public schools would have to be sorted out from other factors that may have changed the overall injury rates.

Figure 4.1
Serious Injuries per 100 Workers
All Construction in Kentucky



Use of average rates might mask on-going variation.

The second problem with the analysis is the averaging of injury rates for six years prior to the repeal and nine years after the repeal into two numbers for a comparison. This method hides any variation that may have occurred from year to year. Figure 4.1 shows serious injuries per 100 workers for each year in the analysis. The figure shows that there was no obvious pattern to the changes over time. There was variation in the rates during the period when schools were covered by prevailing wages and there was variation after schools were excluded. This variation suggests that something other than prevailing wage laws was affecting injury rates. Averaging the years, however, masks this variation, allowing the author to claim that an increase occurred when the law was changed even though the prevailing wage may have had nothing to do with the change. There was a period of time immediately after schools were excluded where injury rates increased. Again, it is difficult to argue that the exclusion of a relatively small segment of construction from prevailing wage was

[32] *Statistical Abstract of the United States 1999*, U.S. Census Bureau, No 1195.

the reason for the increase. It is possible that injury rates increased as a result of the exclusion, but this data provides no evidence of that.

Another study, Waitzman, compared injury rates across states to determine if states with prevailing wage laws had fewer injuries.[33] The analysis is limited in that it controls only for changes in time and differences between different types of construction. The study concludes that injury rates are lower in states with prevailing wage laws. While the study is far from definitive, it does seem reasonable that prevailing wages could reduce injury rates in construction. It is not, however, clear why this difference exists. It may be the result of union training or more experienced workers as the study argues. It may, however, be the result of a shift away from manual labor on the construction site. For example, there may be higher injury rates among unskilled labor than skilled labor. The prevailing wage tends to reduce the use of unskilled workers in favor of skilled workers, which would result in a decrease in injuries.

[33] Norman J. Waitzman, "Worker Beware: The Relationship Between the Strength of State Prevailing Wage Laws and Injuries in Construction, 1976-1991" working paper, date not known.

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APPENDIX A

HOW THE OPINION SURVEYS WERE CONDUCTED

OPINION SURVEY QUESTIONNAIRES

RESULTS OF OPINION SURVEYS

How the Opinion Surveys Were Conducted

Questionnaires were completed by members of six groups in Kentucky with direct interest in Kentucky's prevailing wage law: construction contractors, construction unions, city governments, county governments, local school districts, and municipal utilities. The first two groups employ and organize the workers who are paid prevailing wages when appropriate. Contractors and unions also participate in the process used by the Kentucky Labor Cabinet to set prevailing wage rates and benefits. The local governments, school districts, and utilities commission construction projects and must meet the requirements of the prevailing wage law if they meet or exceed the $250,00 threshold. Staff mailed questionnaires to contractors, union representatives, and city, county, and municipal utility officials. Staff emailed a notification to each school district with instructions on how to complete an online version of the questionnaire. Below are the specifics of how each group was surveyed.

Construction contractors. A mailing list was provided by the Workplace Development Cabinet's Department for Employment Services of companies that submitted payroll records for unemployment insurance in the third quarter of 2000. Firms were identified as being in the construction industry based on Standard Industrial Classification codes. The 7,799 construction contractors were then divided at random into two groups, with 3,976 and 3,823 firms respectively. Staff mailed questionnaires to contractors in both groups on October 1 to October 4, 2001. Postcards that thanked those who had responded and reminded those who had not to complete their questionnaires were mailed on October 12 and October 15. Those in the group of 3,976 who had not responded were mailed a second questionnaire on October 22 and 23. Those in the group of 3,823 did not receive a second questionnaire. The logic behind splitting contractors into two groups was to give every contractor on the mailing list an opportunity to respond but to use an extra mailing for one group to increase its response rate.

The response rate for the group receiving a second questionnaire was 18.8 percent. The response rate for the group that did not receive a second survey was 10.6 percent. The response rate for the group of 3,976 was calculated by dividing the number of useable returned questionnaires (686) by the number of eligible respondents. The number of eligible respondents (3646) was arrived at by subtracting ineligible contractors whose addresses were incorrect, had gone out of business, or who indicated that they no longer employed construction workers. For the group of 3,823 contractors, the 394 returns were divided by 3,713, the number of eligible respondents once ineligible contractors were subtracted.

The results from the two groups did differ somewhat. The average contractor in the group that was surveyed twice was slightly larger than in the other group, measured either by number of employees or dollar value of construction work. The groups did not differ much for the key variable of unionization. For the group that received a follow-up questionnaire, 13.9 percent of contractors had employees covered by a collective bargaining agreement. For the other group, 12.4 percent of contractors had collective bargaining contracts. Because this seems to be the key characteristic in influencing contractors' views on prevailing wage issues, the two groups did not usually differ in meaningful ways in their answers to questions that ask for their opinions. For example, in response to question 20, fifty-seven percent of contractors in the follow-up group said prevailing wages increased the cost for public construction. Sixty-four percent of the second group agreed that costs were increased. The answer is substantively the same in either case; a

large majority of contractors think prevailing wages increase costs. Majorities of non-union contractors in each group said costs were increased; majorities of union contractors in each group disagreed. For this reason, unless indicated otherwise any results in this report using contractors' opinions are based on all the contractors who responded to the survey. The summaries of contractors' answers to all questions in this appendix are also based on all contractors who responded to the survey.

Union Locals. Staff compiled a list of union locals with workers employed by Kentucky construction contractors based on a mailing list of union locals available from the Kentucky Labor Cabinet and documentation supplied by the Kentucky State Building and Construction Trades Council, AFL-CIO. Questionnaires were mailed to the leaders of 133 union locals on October 17, 2001. A reminder postcard was sent October 29. Nineteen locals on the list were ineligible for the survey due to incorrect mailing addresses, not having members in construction trades, or because the questionnaires were answered on their behalf at the union district level. Staff telephoned those who had not responded by mid-November. Fifty-two locals returned questionnaires for a response rate of 55.3 percent. A copy of the questionnaire sent to union locals and summaries of responses to questions are included in this appendix.

City Governments. Staff mailed 133 questionnaires to officials of Kentucky's First, Second, Third, and Fourth Class cities on October 22. For each city, the position of the appropriate contact person was taken from the U.S. Census Bureau's Survey of Local Governments. The names of the officeholders were gathered from the website of the Kentucky League of Cities. A follow-up postcard was sent October 29. Staff telephoned those who had not responded by mid-November. Sixty-one cities returned questionnaires for a response rate of 45.9 percent. A copy of the questionnaire and sent to city officials and summaries of answers to questions are included in this appendix. The questionnaires for counties, school districts, and municipal utilities are the same except for replacing references to "city" to "county," "school district," or "utility" as appropriate.

County Governments. Staff mailed questionnaires to the county judge-executives of 119 counties on October 22.[1] A follow-up postcard was mailed on October 29. Staff telephoned those who had not responded by mid-November. Sixty-one counties completed surveys for a response rate of 51.3 percent. Summaries of responses are included in this appendix.

Local School Districts. Local school district officials completed an online questionnaire. Staff emailed instructions for completing the questionnaire on October 24 to the financial contact person as identified by the Kentucky Department of Education in each of Kentucky's 176 school districts. A follow-up email was sent November 5. Staff telephoned those who had not responded by mid-November. One hundred and sixteen school officials completed the online questionnaire for a response rate of 65.9 percent. Summaries of answers to the questionnaire are included in this appendix.

Municipal Utilities. Questionnaires were mailed on October 24 to Kentucky's 29 municipal utilities using a list provided by the Municipal Electric Power Association of Kentucky. A follow-up postcard was sent November 6. Thirteen utility officials returned surveys for a response rate of 44.8 percent. Summaries of responses are included in this appendix.

[1] Fayette County's consolidated government was included on the cities mailing list.

SURVEY OF KENTUCKY CONSTRUCTION CONTRACTORS

Your participation is voluntary and your answers are confidential; any information that would identify you or your firm will not be associated with your answers in any report or public communication.

Feel free to skip any questions that are unrelated to your firm or that you do not want to answer.

For each question, please indicate the best answer for you. When appropriate, please explain your answer to a question. Please use extra paper if necessary.

We would like to receive your response by **October 12, 2001**. Thanks for your help.

1. About how many construction workers were on this firm's payroll in **May 2001**?

   _____

2. Are any of the construction workers employed by this firm covered by a collective bargaining agreement?

   No
   Yes → *If yes, what percentage of the firm's construction workers are covered by a collective bargaining agreement?*
   _____%

3. Do you have construction workers who work on both commercial **and** residential jobs?

   No
   Yes → *If yes, what percentage of the firm's construction workers do both commercial **and** residential jobs?*
   _____%

4. For your firm's **FULL** TIME workers, what benefits do you generally provide to them when they work on prevailing wage jobs and when they work on non-prevailing wage jobs? Please check all that apply.

Benefit	Prevailing Wage Projects	Non-Prevailing Wage Projects
No Benefits		
Health Insurance		
Life Insurance		
401k or Pension		
Other (*Please describe.)*		

Other _____

Other _____

Other _____

5. For your firm's **PART TIME** or **TEMPORARY** workers, what benefits you generally provide to them when they work on prevailing wage jobs and when they work on non-prevailing wage jobs? Please check all that apply.

Benefit	Prevailing Wage Projects	Non-Prevailing Wage Projects
No Benefits		
Health Insurance		
Life Insurance		
401k or Pension		
Other (*Please describe.)*		

Other _____

Other _____

Other _____

6. What was the total dollar value of this firm's construction work completed in 2000?

$ _____

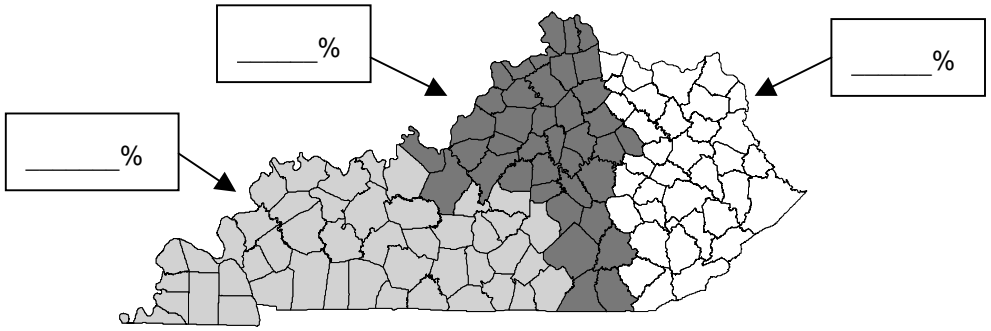
7. In the table below please give us your **estimate** of the value of construction completed by this firm in Kentucky during 2000 for the following types of construction:

Type of Construction		**Dollar Value of Construction in Kentucky**
Private Construction	Residential (single or multi housing units)	$
	Nonresidential (includes industrial, office, hotels, hospital, other commercial, religious, educational)	$
State & Local Government Construction (with any combination of state/local and federal funding)	Schools	$
	Buildings (housing & redevelopment, industrial, hospital)	$
	Transportation (highways & streets)	$
	Other Public	$
Federal Government Construction (include only projects with 100% federal financing)	All 100% federal projects, including military	$

8. Of the construction completed for state and local governments in 2000 (from question 7), please **estimate** the **percentage** of each type that was subject to **Kentucky's** prevailing wage law. (Percentages do not have to add to 100%.)

State & Local Government Construction Only	Percentage of Construction Subject to Kentucky's Prevailing Wage
Schools	%
Buildings	%
Transportation	%
Other Public	%

9. For the work that your firm **completed** in **2000** on **state and local government projects that were subject to Kentucky's prevailing wage laws**, about what percent was located in each of the following three areas of the state? (Percentages should add to 100%.)



10. For the work that your firm did on **state and local government projects that were subject to Kentucky's prevailing wage laws**, please indicate what percent of the work was doing the following activities:

Type of Activity	% of Work
General Contractor	%
Heavy Construction (includes roads)	%
Plumbing, Heating, and Air Conditioning	%
Painting and Paper Hanging	%
Electrical	%
Masonry, Stonework, and Plastering	%
Carpentry and floor work	%
Roofing, Siding, and Sheet Metal Work	%
Concrete Work	%
Paving	%
Mechanical (includes pipefitting, welding)	%
Other (please list below)	%
Total	**100%**

11. When was the last time you bid for any state government, local government, or school construction project in Kentucky, either as a contractor or as a subcontractor?

Month/Year _____

12. Since October 1, 1999, how many times have you supplied wage and benefit information to the Kentucky Labor Cabinet as part of the process to set the prevailing wage?

    _____ times

    If zero, *why have you not provided information for prevailing wage determinations?*

13. Are you generally satisfied with, indifferent to, or dissatisfied with the process by which Kentucky's prevailing wage rates and benefits are determined?

    Satisfied with
    Indifferent to
    Dissatisfied with
    Don't Know

    Please explain your answer:

14. Are the prevailing wages and fringe benefits set by the Kentucky Labor Cabinet about the same as the wages and benefits that you usually pay to your construction workers for privately funded construction projects?

    Yes
    No
    Don't Know

    If no, *how are the wages and benefits that you usually pay different?*

15. Do the classifications for occupations under prevailing wage accurately reflect the work that your employees perform?

    Yes
    No
    Don't Know

    If no, *please explain how they differ.*

16. The Kentucky Labor Cabinet is charged with making sure that contractors doing work on state and local construction projects pay their workers the prevailing wage. Are you generally satisfied with, indifferent to, or dissatisfied with the enforcement efforts of the Labor Cabinet?

    Satisfied with
    Indifferent to
    Dissatisfied with
    Don't Know

    Please explain your answer.

17. Does the prevailing wage have any positive effects on your firm?

    Yes
    No
    Don't Know

    If yes, *please list the positive effects on your firm.*

18. Does the prevailing wage have any negative effects on your firm?

    Yes
    No
    Don't Know

    If yes, *please list the negative effects on your firm.*

19. In general, how would you characterize the effect of prevailing wage on your business?

    Very Positive
    Somewhat Positive
    No effect
    Somewhat Negative
    Very Negative
    Don't know

20. What impact does Kentucky's prevailing wage have on the cost of public construction built by your firm?

    Increases the cost
    Decreases the cost
    No impact
    Don't know

    Please explain your answer.

21. Does Kentucky's prevailing wage have an effect on the quality of public construction built by your firm?

    Yes
    No
    Don't know

    *If **yes** or **no,** please explain your answer*.

22. Has Kentucky's prevailing wage affected workplace safety for your firm's construction workers?

    Yes
    No
    Don't know

    *If **yes** or **no,** please explain your answer.*

23. Do you have any additional comments regarding Kentucky's Prevailing Wage Law?

SURVEY OF KENTUCKY CONSTRUCTION UNION LOCALS

Your participation is voluntary and your answers are confidential. Any information that would identify you or your local will not be associated with your answers in any report or public communication.

Feel free to skip any questions that are unrelated to your local or that you do not want to answer.

For each question, please indicate the best answer for you. When appropriate, please explain your answer to a question. Please use extra paper if necessary.

We would like to receive your response by **October 29, 2001**. Thanks for your help.

1. How many members did this local have in May 2001?

   _____

2. About what percentage of the members of your local work in construction trades or occupations in Kentucky?

   _____ %

3. Please indicate what percentage of your members are in the following trades or occupations:

Occupation	**% of Members**
Asbestos/Insulation Workers	%
Boilermakers	%
Bricklayers	%
Carpenters, Millwrights, and Piledrivers	%
Cement Masons and Plasterers	%
Electricians	%
Elevator Constructors	%
Iron Workers	%
Laborers	%
Operating Engineers	%
Painters and Glaziers	%
Pipefitters	%
Plumbers	%
Roofers	%
Sheetmetal Workers	%
Sprinkler Fitters	%
Teamsters	%
Welders	%
Others (Specify Below)	%
Total	**100%**

4. Since October 1, 1999, how many times have you supplied wage and benefit information
to the Kentucky Labor Cabinet as part of the process to set the prevailing wage?

_____ times

If zero, *why have you not provided information for prevailing wage determinations?*

5. Are you generally satisfied with, neutral toward, or dissatisfied with the process by which Kentucky's prevailing wage rates and benefits are determined?

Satisfied with
Neutral toward
Dissatisfied with
Don't Know

Please explain your answer:

6. Are the prevailing wages and fringe benefits set by the Kentucky Labor Cabinet about the same as the wages and benefits that are usually paid to the members of your local for private construction work?

Yes
No
Don't Know

If no, *how are the wages and benefits that you are usually paid different?*

7. Do the classifications for trades or occupations under Kentucky's prevailing wage law accurately reflect the work that the members of your local perform?

Yes
No
Don't Know

If no, *please explain how they differ.*

8. The Kentucky Labor Cabinet is charged with making sure that contractors doing work on state and local construction projects pay their workers the prevailing wage. Are you generally satisfied with, neutral toward, or dissatisfied with the enforcement efforts of the Labor Cabinet?

   Satisfied with
   Neutral toward
   Dissatisfied with
   Don't Know

   Please explain your answer.

9. Does Kentucky's prevailing wage law have any positive effects on your members?

   Yes
   No
   Don't Know

   If yes, *please list the positive effects*.

10. Does Kentucky's prevailing wage law have any negative effects on your members?

    Yes
    No
    Don't Know

    If yes, *please list the negative effects.*

11. In general, how would you characterize the effect of Kentucky's prevailing wage law on your members?

    Very Positive
    Somewhat Positive
    No effect
    Somewhat Negative
    Very Negative
    Don't know

12. What impact does Kentucky's prevailing wage law have on the cost of public construction?

    Increases the cost
    Decreases the cost
    No impact
    Don't know

    Please explain your answer.

13. Does Kentucky's prevailing wage law have an effect on the quality of public construction?

    Yes
    No
    Don't know

    If yes, *what is the effect? Please explain*.

14. Does Kentucky's prevailing wage law have an effect on safety for those who work on public construction projects?

    Yes
    No
    Don't know

    If yes, *what is the effect? Please explain*.

15. Do you have any additional comments regarding Kentucky's Prevailing Wage Law?

NOTE: This is the questionnaire sent to city government officials. Similar questionnaires were sent to counties, local school districts, and municipal utilities.

SURVEY OF KENTUCKY LOCAL GOVERNMENTS:
KENTUCKY'S PREVAILING WAGE LAW

Our goal is to get responses from virtually every local government surveyed but your participation is voluntary. Your answers are confidential; any information that would identify you or your government will not be associated with your answers in any report or public communication.

Feel free to skip any questions that are unrelated to your government or that you do not want to answer.

For each question, please indicate the best answer for you. When appropriate, please explain your answer to a question. Please use extra paper if necessary.

We would like to receive your response by **October 31, 2001**. Thanks for your help.

1. How many construction projects has your city had in the past two years that were subject to Kentucky's prevailing wage law?

   _____ projects

2. What was the approximate total cost of those prevailing wage projects?

   $ _____

3. What impact does Kentucky's prevailing wage law have on the cost of public construction in your city?

   Increases the cost
   Decreases the cost
   No impact
   Don't know

   Please explain your answer.

4. What impact does Kentucky's prevailing wage law have on the quality of public construction in your city?

   Increases quality
   Decreases quality
   No impact
   Don't know

   Please explain your answer.

5. How does Kentucky's prevailing wage law affect the number of bidders on public construction projects in your city?

   Increases the number of bidders
   Decreases the number of bidders
   No impact
   Don't know

   Please explain your answer.

6. Has Kentucky's prevailing wage law affected the specifications of particular public projects in your city? *Please explain.*

7. Has Kentucky's prevailing wage law affected the timing of specific projects in your city (example: project completed more quickly with prevailing wage or project had to be postponed because of prevailing wage)? *Please explain.*

8. Kentucky's prevailing wage law requires that prevailing wage be paid on all state-funded projects with a fairly estimated value of $250,000 or more. Does this city apply prevailing wages to projects valued *under* $250,000?

   Yes
   No

   Please explain your answer.

9. Have you been required to make back payments of prevailing wages for projects that had originally been awarded without the prevailing wage?

   Please list those projects below:

Project Start Date	**Project Description**

10. Were any projects in this city bid without the prevailing wage and then rebid with the prevailing wage?

    Please list those projects below.

Project Start Date	Project Description	Did the cost of the project change after including the prevailing wage?	Did the specifications of the project change after including the prevailing wage?

11. Do you have any additional comments regarding Kentucky's prevailing wage law?

Survey of Kentucky Construction Contractors

Responses to Questions

(Respondents doing only residential construction are excluded.)

1. About how many construction workers were on this firm's payroll in May 2001?

	Overall		Non-Union		Union	
10 or fewer	658	60.9%	606	64.6%	52	36.6%
11 to 25	226	20.9%	188	20.0%	38	26.8%
26 to 50	118	10.9%	93	9.9%	25	17.6%
51 to 99	43	4.0%	29	3.1%	14	9.9%
100 or more	35	3.2%	22	2.3%	13	9.2%
Total	1080	100.0%	938	100.0%	142	100.0%
Average	19.1		16.5		36.4	
Median	8		7		15	

Note: Open-ended responses were coded into the above categories.

2. Are any of the construction workers employed by this firm covered by a collective bargaining agreement?

No	920	86.6%
Yes	142	13.4%
Total	1062	100.0%

Follow-up to 2: If yes, what percentage of the firm's construction workers are covered by a collective bargaining agreement?

Less than 50%	17	12.0%
50 to 89%	14	9.9%
90 to 99%	17	12.0%
100%	94	66.2%
Total	142	100.0%

Note: Open-ended responses were coded into the above categories.

3. Do you have construction workers who work on both commercial and residential jobs?

	Overall		Non-Union		Union	
No	468	44.3%	386	42.1%	82	58.6%
Yes	589	55.7%	531	57.9%	58	41.4%
Total	1057	100.0%	917	100.0%	140	100.0%

Follow-up to 3: If yes, what percentage of the firm's construction workers do both commercial and residential jobs?

	Overall		Non-Union		Union	
Less than 50%	639	59.2%	534	56.9%	105	73.9%
50 to 99%	90	8.3%	79	8.4%	11	7.7%
100%	351	32.5%	325	34.6%	26	18.3%
Total	1080	100.0%	938	100.0%	142	100.0%

Note: Open-ended responses were coded into the above categories.

4. For your firm's FULL TIME workers, what benefits do you generally provide to them when they work on prevailing wage jobs and when they work on non-prevailing wage jobs? Please check all that apply.

	Prevailing Wage Jobs					
	Overall		Non-Union		Union	
No Benefits	214	27.5%	206	31.2%	8	6.7%
Health Insurance	523	67.1%	417	63.2%	106	89.1%
Life Insurance	294	37.7%	240	36.4%	54	45.4%
401K or Pension	354	45.4%	276	41.8%	78	65.5%
Other	294	37.7%	252	38.2%	42	35.3%
Number of contractors	779		660		119	

4. For your firm's FULL TIME workers, what benefits do you generally provide to them when they work on prevailing wage jobs and when they work on non-prevailing wage jobs? Please check all that apply.

	Non-Prevailing Wage Jobs					
	Overall		Non-Union		Union	
No Benefits	259	28.2%	244	30.3%	15	13.3%
Health Insurance	626	68.2%	531	66.0%	95	84.1%
Life Insurance	356	38.8%	309	38.4%	47	41.6%
401K or Pension	418	45.5%	344	42.7%	74	65.5%
Other	357	38.9%	316	39.3%	41	36.3%
Number of contractors	918		805		113	

5. For your firm's PART TIME or TEMPORARY workers, what benefits you generally provide to them when they work on prevailing wage jobs and when they work on non-prevailing wage jobs? Please check all that apply.

	Prevailing Wage Jobs					
	Overall		Non-Union		Union	
No Benefits	378	77.9%	356	86.4%	22	30.1%
Health Insurance	87	17.9%	38	9.2%	49	67.1%
Life Insurance	47	9.7%	17	4.1%	30	41.1%
401K or Pension	65	13.4%	27	6.6%	38	52.1%
Other	35	7.2%	23	5.6%	12	16.4%
Number of contractors	485		412		73	

5. For your firm's PART TIME or TEMPORARY workers, what benefits you generally provide to them when they work on prevailing wage jobs and when they work on non-prevailing wage jobs? Please check all that apply.

	Non-Prevailing Wage Jobs					
	Overall		Non-Union		Union	
No Benefits	454	81.9%	423	87.6%	31	43.7%
Health Insurance	91	16.4%	53	11.0%	38	53.5%
Life Insurance	52	9.4%	29	6.0%	23	32.4%
401K or Pension	72	13.0%	39	8.1%	33	46.5%
Other	39	7.0%	28	5.8%	11	15.5%
Number of contractors	554		483		71	

6. What was the total dollar value of this firm's construction work completed in 2000?

	Overall		Non-Union		Union	
$200,000 or less	325	30.1%	306	32.6%	19	13.4%
$200,001 to $500,000	175	16.2%	163	17.4%	12	8.5%
$500,001 to $1 million	166	15.4%	146	15.6%	20	14.1%
1 to $3 million	228	21.1%	187	19.9%	41	28.9%
3 to $10 million	137	12.7%	104	11.1%	33	23.2%
Over $10 million	49	4.5%	32	3.4%	17	12.0%
Total	1080	100.0%	938	100.0%	142	100.0%
Average	$2,762,752		$2,518,022		$5,531,008	
Median	$1,000,000		$824,432		$2,012,441	

Note: Open-ended responses were coded into the above categories.

7. In the table below please give us your estimate of the value of construction completed by this firm in Kentucky during 2000 for the following types of construction. [Values shown are the averages for contractors who did each type of construction and the number of contractors (in parentheses) doing that type of work.]

	Overall	Non-Union	Union
Private:			
Residential	$411,381 (452)	$426,751 (417)	$228,253 (35)
Non-Residential	$1,649,956 (729)	$1,387,596 (625)	$3,226,640 (104)
State & Local Government:			
Schools	$887,153 (305)	$799,014 (239)	$1,206,326 (66)
Buildings	$811,680 (240)	$669,923 (188)	$1,324,186 (52)
Transportation	$2,810,594 (62)	$2,282,251 (45)	$4,209,147 (17)
Other	$775,290 (144	$739,592 (118)	$937,306 (26)
Federal Government	$842,286 (143)	$835,255 (97)	$857,114 (46)

8. Of the construction completed for state and local governments in 2000 (from question 7), please estimate the percentage of each type that was subject to Kentucky's prevailing wage law. [Values shown are averages.]

	Overall	Non-Union	Union
Schools	68.7%	70.6%	63.4%
Buildings	54.6%	60.6%	38.7%
Transportation	63.2%	65.4%	57.7%
Other	60.6%	62.0%	55.7%

9. For the work that your firm completed in 2000 on state and local government projects that were subject to Kentucky's prevailing wage laws, about what percent was located in each of the following three areas of the state? [Values shown are the percentages of the total value of Kentucky prevailing wage projects in 2000 for each region.]

	Overall	Non-Union	Union
Western	26.4%	28.9%	20.8%
Central	55.9%	51.7%	65.6%
Eastern	15.7%	18.1%	10.4%

9. For the work that your firm completed in 2000 on state and local government projects that were subject to Kentucky's prevailing wage laws, about what percent was located in each of the following three areas of the state? [Values shown are the percentage of contractors indicating ***all*** *their prevailing wage contracts completed in 2000 were in a particular region.]*

	Overall	Non-Union	Union
Western	53.2%	53.3%	52.6%
Central	62.0%	61.0%	66.2%
Eastern	25.3%	26.4%	20.0%

10. For the work that your firm did on state and local government projects that were subject to Kentucky's prevailing wage laws, please indicate what percent of the work was doing the following activities: [Values shown are the percentages of the total value of Kentucky prevailing wage projects in 2000 for each category.]

	Overall	Non-Union	Union
General Contractor	25.0%	31.1%	10.8%
Heavy Construction	20.2%	14.9%	32.5%
Plumbing, Heating, & AC	8.9%	8.6%	9.6%
Painting & Paper Hanging	0.8%	0.9%	0.5%
Electrical	15.4%	11.0%	25.4%
Masonry, Stonework, & Plastering	3.9%	4.4%	2.8%
Carpentry & floor work	1.8%	1.7%	2.0%
Roofing, Siding, & Sheet Metal	2.9%	4.0%	0.4%
Concrete Work	3.4%	4.4%	0.9%
Paving	6.8%	7.5%	5.1%
Mechanical	4.2%	5.1%	2.1%
Other	5.7%	5.2%	6.7%

11. When was the last time you bid for any state government, local government, or school construction project in Kentucky, either as a contractor or as a subcontractor? [Percentages based on those who have bid for contracts.]

	Overall		Non-Union		Union	
2000, 2001	619	86.5%	515	85.0%	104	94.5%
1998, 1999	56	7.8%	52	8.6%	4	3.6%
1997 or earlier	41	5.7%	39	6.4%	2	1.8%
Total	716	100.0%	606	100.0%	110	100.0%

Note: Open-ended responses were coded into the above categories.

12. Since October 1, 1999, how many times have you supplied wage and benefit information to the Kentucky Labor Cabinet as part of the process to set the prevailing wage?

	Overall		Non-Union		Union	
Zero	516	61.9%	475	66.1%	41	35.7%
1 to 5 times	252	30.2%	194	27.0%	58	50.4%
Over 5 times	66	7.9%	50	7.0%	16	13.9%
Total	834	100.0%	719	100.0%	115	100.0%

Note: Open-ended responses were coded into the above categories.

13. Are you generally satisfied with, indifferent to, or dissatisfied with the process by which Kentucky's prevailing wage rates and benefits are determined?

	Overall		Non-Union		Union	
Dissatisfied	362	37.7%	338	40.8%	24	18.2%
Indifferent to	130	13.5%	116	14.0%	14	10.6%
Satisfied	197	20.5%	122	14.7%	75	56.8%
Don't Know	271	28.2%	252	30.4%	19	14.4%
Total	960	100.0%	828	100.0%	132	100.0%

13. Are you generally satisfied with, indifferent to, or dissatisfied with the process by which Kentucky's prevailing wage rates and benefits are determined? [Don't Knows excluded]

	Overall		Non-Union		Union	
Dissatisfied	362	52.5%	338	58.7%	24	21.2%
Indifferent to	130	18.9%	116	20.1%	14	12.4%
Satisfied	197	28.6%	122	21.2%	75	66.4%
Total	689	100.0%	576	100.0%	113	100.0%

14. Are the prevailing wages and fringe benefits set by the Kentucky Labor Cabinet about the same as the wages and benefits that you usually pay to your construction workers for privately funded construction projects?

	Overall		Non-Union		Union	
No	543	55.3%	511	60.4%	32	23.5%
Yes	227	23.1%	130	15.4%	97	71.3%
Don't Know	212	21.6%	205	24.2%	7	5.1%
Total	982	100.0%	846	100.0%	136	100.0%

14. Are the prevailing wages and fringe benefits set by the Kentucky Labor Cabinet about the same as the wages and benefits that you usually pay to your construction workers for privately funded construction projects? [Don't Knows excluded]

	Overall		Non-Union		Union	
No	543	70.5%	511	79.7%	32	24.8%
Yes	227	29.5%	130	20.3%	97	75.2%
Total	770	100.0%	641	100.0%	129	100.0%

15. Do the classifications for occupations under prevailing wage accurately reflect the work that your employees perform?

	Overall		Non-Union		Union	
No	179	18.6%	177	21.5%	2	1.5%
Yes	537	55.9%	414	50.2%	123	90.4%
Don't Know	245	25.5%	234	28.4%	11	8.1%
Total	961	100.0%	825	100.0%	136	100.0%

15. Do the classifications for occupations under prevailing wage accurately reflect the work that your employees perform? [Don't Knows excluded]

	Overall		Non-Union		Union	
No	179	25.0%	177	29.9%	2	1.6%
Yes	537	75.0%	414	70.1%	123	98.4%
Total	716	100.0%	591	100.0%	125	100.0%

16. The Kentucky Labor Cabinet is charged with making sure that contractors doing work on state and local construction projects pay their workers the prevailing wage. Are you generally satisfied with, indifferent to, or dissatisfied with the enforcement efforts of the Labor Cabinet?

	Overall		Non-Union		Union	
Dissatisfied	170	17.8%	141	17.1%	29	22.0%
Indifferent to	150	15.7%	128	15.5%	22	16.7%
Satisfied	378	39.5%	318	38.5%	60	45.5%
Don't Know	259	27.1%	238	28.8%	21	15.9%
Total	957	100.0%	825	100.0%	132	100.0%

16. The Kentucky Labor Cabinet is charged with making sure that contractors doing work on state and local construction projects pay their workers the prevailing wage. Are you generally satisfied with, indifferent to, or dissatisfied with the enforcement efforts of the Labor Cabinet? [Don't Knows excluded]

	Overall		Non-Union		Union	
Dissatisfied	170	24.4%	141	24.0%	29	26.1%
Indifferent to	150	21.5%	128	21.8%	22	19.8%
Satisfied	378	54.2%	318	54.2%	60	54.1%
Total	698	100.0%	587	100.0%	111	100.0%

17. Does the prevailing wage have any positive effects on your firm?

	Overall		Non-Union		Union	
No	588	59.1%	553	64.5%	35	25.5%
Yes	218	21.9%	126	14.7%	92	67.2%
Don't Know	189	19.0%	179	20.9%	10	7.3%
Total	995	100.0%	858	100.0%	137	100.0%

17. Does the prevailing wage have any positive effects on your firm? [Don't Knows excluded]

	Overall		Non-Union		Union	
No	588	73.0%	553	81.4%	35	27.6%
Yes	218	27.0%	126	18.6%	92	72.4%
Total	806	100.0%	679	100.0%	127	100.0%

18. Does the prevailing wage have any negative effects on your firm?

	Overall		Non-Union		Union	
No	340	34.6%	252	29.8%	88	65.2%
Yes	441	44.9%	410	48.4%	31	23.0%
Don't Know	201	20.5%	185	21.8%	16	11.9%
Total	982	100.0%	847	100.0%	135	100.0%

18. Does the prevailing wage have any negative effects on your firm? [Don't Knows excluded]

	Overall		Non-Union		Union	
No	340	43.5%	252	38.1%	88	73.9%
Yes	441	56.5%	410	61.9%	31	26.1%
Total	781	100.0%	662	100.0%	119	100.0%

19. In general, how would you characterize the effect of prevailing wage on your business?

	Overall		Non-Union		Union	
Very Positive	78	7.9%	25	2.9%	53	39.6%
Somewhat Positive	106	10.7%	70	8.2%	36	26.9%
No Effect	264	26.7%	244	28.6%	20	14.9%
Somewhat Negative	194	19.6%	183	21.4%	11	8.2%
Very Negative	197	19.9%	191	22.4%	6	4.5%
Don't Know	149	15.1%	141	16.5%	8	6.0%
Total	988	100.0%	854	100.0%	134	100.0%

19. In general, how would you characterize the effect of prevailing wage on your business? [Don't Knows excluded]

	Overall		Non-Union		Union	
Very Positive	78	8.6%	25	3.5%	53	42.1%
Somewhat Positive	106	11.7%	70	9.8%	36	28.6%
No Effect	264	29.1%	244	34.2%	20	15.9%
Somewhat Negative	194	21.4%	183	25.7%	11	8.7%
Very Negative	264	29.1%	191	26.8%	6	4.8%
Total	906	100.0%	713	100.0%	126	100.0%

20. What impact does Kentucky's prevailing wage have on the cost of public construction built by your firm?

	Overall		Non-Union		Union	
Increases	583	59.9%	555	66.1%	28	21.1%
Decreases	11	1.1%	2	0.2%	9	6.8%
No Impact	232	23.8%	149	17.7%	83	62.4%
Don't Know	147	15.1%	134	16.0%	13	9.8%
Total	973	100.0%	840	100.0%	133	100.0%

20. What impact does Kentucky's prevailing wage have on the cost of public construction built by your firm? [Don't Knows excluded]

	Overall		Non-Union		Union	
Increases	583	70.6%	555	78.6%	28	23.3%
Decreases	11	1.3%	2	0.3%	9	7.5%
No Impact	232	28.1%	149	21.1%	83	69.2%
Total	826	100.0%	706	100.0%	120	100.0%

21. Does Kentucky's prevailing wage have an effect on the quality of public construction built by your firm?

	Overall		Non-Union		Union	
No	659	68.5%	582	70.1%	77	58.3%
Yes	97	10.1%	60	7.2%	37	28.0%
Don't Know	206	21.4%	188	22.7%	18	13.6%
Total	962	100.0%	830	100.0%	132	100.0%

21. Does Kentucky's prevailing wage have an effect on the quality of public construction built by your firm? [Don't Knows excluded]

	Overall		Non-Union		Union	
No	659	87.2%	582	90.7%	77	67.5%
Yes	97	12.8%	60	9.3%	37	32.5%
Total	756	100.0%	642	100.0%	114	100.0%

22. Has Kentucky's prevailing wage affected workplace safety for your firm's construction workers?

	Overall		Non-Union		Union	
No	663	69.5%	585	71.2%	78	59.1%
Yes	55	5.8%	30	3.6%	25	18.9%
Don't Know	236	24.7%	207	25.2%	29	22.0%
Total	954	100.0%	822	100.0%	132	100.0%

22. Has Kentucky's prevailing wage affected workplace safety for your firm's construction workers? [Don't Knows excluded]

	Overall		Non-Union		Union	
No	663	92.3%	585	95.1%	78	75.7%
Yes	55	7.7%	30	4.9%	25	24.3%
Total	718	100.0%	615	100.0%	103	100.0%

Survey of Kentucky Construction Union Locals

Responses to Questions

1. How many members did this local have in May 2001?

250 or less	11	22.0%
251 to 500	10	20.0%
501 to 1000	14	28.0%
1001 to 2000	6	12.0%
Over 2000	9	18.0%
Total	50	100.0%

2. About what percentage of the members of your local work in construction trades or occupations in Kentucky?

25% or less	15	31.3%
26 to 49%	4	8.3%
50 to 99%	13	27.1%
100%	16	33.3%
Total	48	100.0%

3. Please indicate what percentage of your members are in the following trades or occupations:

Asbestos/Insulation Workers	1.3%
Boilermakers	1.2%
Bricklayers	1.1%
Carpenters, Millwrights, & Piledrivers	7.9%
Cement Masons & Plasterers	2.0%
Electricians	12.9%
Elevator Constructors	0.8%
Iron Workers	6.0%
Laborers	12.5%
Operating Engineers	0.8%
Painters & Glaziers	0.5%
Pipefitters	7.9%
Plumbers	2.4%
Roofers	0.3%
Sheetmetal Workers	2.4%
Sprinkler Fitters	19.3%
Teamsters	10.1%
Welders	0.4%
Others (Specify Below)	10.3%
	100.0%

4. Since Oct. 1, 1999, how many times have you supplied wage and benefit information to the Ky. Labor Cabinet as part of the process to set the prevailing wage?

Zero	6	15.8%
1 to 5 times	20	52.6%
Over 5 times	12	31.6%
Total	38	100.0%

5. Are you generally satisfied with, neutral toward, or dissatisfied with the process by which Kentucky's prevailing wage rates and benefits are determined?

Dissatisfied	2	4.0%
Neutral	5	10.0%
Satisfied	39	78.0%
Don't Know	4	8.0%
Total	50	100.0%

5. Are you generally satisfied with, neutral toward, or dissatisfied with the process by which Kentucky's prevailing wage rates and benefits are determined? [Don't Knows excluded.]

Dissatisfied	2	4.3%
Neutral	5	10.9%
Satisfied	39	84.8%
Total	46	100.0%

6. Are the prevailing wages and fringe benefits set by the Kentucky Labor Cabinet about the same as the wages and benefits that are usually paid to the members of your local for private construction work?

No	3	7.0%
Yes	26	60.5%
Don't Know	14	32.6%
Total	43	100.0%

6. Are the prevailing wages and fringe benefits set by the Kentucky Labor Cabinet about the same as the wages and benefits that are usually paid to the members of your local for private construction work? [Don't Knows excluded.]

No	3	10.3%
Yes	26	89.7%
Total	29	100.0%

7. Do the classifications for trades or occupations under Kentucky's prevailing wage law accurately reflect the work that the members of your local perform?

No	2	4.1%
Yes	44	89.8%
Don't Know	3	6.1%
Total	49	100.0%

7. Do the classifications for trades or occupations under Kentucky's prevailing wage law accurately reflect the work that the members of your local perform? [Don't Knows excluded.]

No	2	4.3%
Yes	44	95.7%
Total	46	100.0%

8. The Kentucky Labor Cabinet is charged with making sure that contractors doing work on state and local construction projects pay their workers the prevailing wage. Are you generally satisfied with, neutral toward, or dissatisfied with the enforcement e

Dissatisfied	11	23.4%
Neutral	2	4.3%
Satisfied	31	66.0%
Don't Know	3	6.4%
Total	47	100.0%

8. The Kentucky Labor Cabinet is charged with making sure that contractors doing work on state and local construction projects pay their workers the prevailing wage. Are you generally satisfied with, neutral toward, or dissatisfied with the enforcement e

Dissatisfied	11	25.0%
Indifferent to	2	4.5%
Satisfied	31	70.5%
Total	44	100.0%

9. Does Kentucky's prevailing wage law have any positive effects on your members?

No	1	2.1%
Yes	44	91.7%
Don't Know	3	6.3%
Total	48	100.0%

9. Does Kentucky's prevailing wage law have any positive effects on your members? [Don't Knows excluded.]

No	1	2.2%
Yes	44	97.8%
Total	45	100.0%

10. Does Kentucky's prevailing wage law have any negative effects on your members?

No	37	78.7%
Yes	6	12.8%
Don't Know	4	8.5%
Total	47	100.0%

10. Does Kentucky's prevailing wage law have any negative effects on your members? [Don't Knows excluded.]

No	37	86.0%
Yes	6	14.0%
Total	43	100.0%

11. In general, how would you characterize the effect of Kentucky's prevailing wage law on your members?

Very Positive	33	68.8%
Somewhat Positive	10	20.8%
No Effect	0	0.0%
Somewhat Negative	1	2.1%
Very Negative	0	0.0%
Don't Know	4	8.3%
Total	48	100.0%

11. In general, how would you characterize the effect of Kentucky's prevailing wage law on your members? [Don't Knows excluded.]

Very Positive	33	75.0%
Somewhat Positive	10	22.7%
No Effect	0	0.0%
Somewhat Negative	1	2.3%
Very Negative	0	0.0%
Total	44	100.0%

12. What impact does Kentucky's prevailing wage have on the cost of public construction?

Increases	0	0.0%
Decreases	8	18.2%
No Impact	31	70.5%
Don't Know	5	11.4%
Total	44	100.0%

12. What impact does Kentucky's prevailing wage have on the cost of public construction? [Don't Knows excluded.]

Increases	0	0.0%
Decreases	8	20.5%
No Impact	31	79.5%
Total	39	100.0%

13. Does Kentucky's prevailing wage have an effect on the quality of public construction?

No	4	8.2%
Yes	42	85.7%
Don't Know	3	6.1%
Total	49	100.0%

13. Does Kentucky's prevailing wage have an effect on the quality of public construction? [Don't Knows excluded]

No	4	8.7%
Yes	42	91.3%
Total	46	100.0%

14. Does Kentucky's prevailing wage law have an effect on safety for those who work on public construction projects?

No	3	6.1%
Yes	42	85.7%
Don't Know	4	8.2%
Total	49	100.0%

14. Does Kentucky's prevailing wage law have an effect on safety for those who work on public construction projects? [Don't Knows excluded.]

No	3	6.7%
Yes	42	93.3%
Total	45	100.0%

Survey of Officials of Kentucky Cities, Counties, School Districts, and Municipal Utilities

Responses to Questions

1. How many construction projects has your ____ had in the past two years that were subject to Kentucky's prevailing wage law?

	Overall		Cities		Counties		School Districts		Utilities	
0	76	31.3%	19	32.8%	19	32.2%	32	28.1%	6	50.0%
1	72	29.6%	13	22.4%	16	27.1%	39	34.2%	4	33.3%
2	45	18.5%	7	12.1%	12	20.3%	25	21.9%	1	8.3%
3 or more	50	20.6%	19	32.8%	12	20.3%	18	15.8%	1	8.3%
Total	243	100.0%	58	100.0%	59	100.0%	114	100.0%	12	100.0%

Note: Open-ended responses were coded into the above categories.

2. What was the approximate total cost of those prevailing wage projects?

	Overall		Cities		Counties		School Districts		Utilities	
Less than $500,000	15	9.2%	4	10.3%	4	11.1%	5	6.1%	2	33.3%
Over $500,000, less than $1 million	17	10.4%	8	20.5%	2	5.6%	7	8.5%	0	0.0%
$1 to $2 million	30	18.4%	9	23.1%	5	13.9%	14	17.1%	2	33.3%
$2 to $5 million	35	21.5%	9	23.1%	8	22.2%	18	22.0%	0	0.0%
$5 million or more	66	40.5%	9	23.1%	17	47.2%	38	46.3%	2	33.3%
Total	163	100.0%	39	100.0%	36	100.0%	82	100.0%	6	100.0%

Note: Open-ended responses were coded into the above categories.

3. What impact does Kentucky's prevailing wage law have on the cost of public construction in your ____?

	Overall		Cities		Counties		School Districts		Utilities	
Increases the cost	188	76.4%	45	75.0%	45	76.3%	88	77.2%	10	76.9%
Decreases the cost	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
No impact	16	6.5%	2	3.3%	8	13.6%	4	3.5%	2	15.4%
Don't know	42	17.1%	13	21.7%	6	10.2%	22	19.3%	1	7.7%
Total	246	100.0%	60	100.0%	59	100.0%	114	100.0%	13	100.0%

3. What impact does Kentucky's prevailing wage law have on the cost of public construction in your ____? [Don't knows excluded.]

	Overall		Cities		Counties		School Districts		Utilities	
Increases the cost	188	76.4%	45	95.7%	45	84.9%	88	95.7%	10	83.3%
Decreases the cost	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
No impact	16	6.5%	2	4.3%	8	15.1%	4	4.3%	2	16.7%
Total	204	82.9%	47	100.0%	53	100.0%	92	100.0%	12	100.0%

4. What impact does Kentucky's prevailing wage law have on the quality of public construction in your ____?

	Overall		Cities		Counties		School Districts		Utilities	
Increases quality	14	5.8%	3	5.1%	8	14.0%	3	2.6%	0	0.0%
Decreases quality	16	6.6%	1	1.7%	2	3.5%	11	9.6%	2	15.4%
No impact	143	58.8%	39	66.1%	34	59.6%	61	53.5%	9	69.2%
Don't know	70	28.8%	16	27.1%	13	22.8%	39	34.2%	2	15.4%
Total	243	100.0%	59	100.0%	57	100.0%	114	100.0%	13	100.0%

4. What impact does Kentucky's prevailing wage law have on the quality of public construction in your ____? [Don't knows excluded.]

	Overall		Cities		Counties		School Districts		Utilities	
Increases quality	14	8.1%	3	7.0%	8	18.2%	3	4.0%	0	0.0%
Decreases quality	16	9.2%	1	2.3%	2	4.5%	11	14.7%	2	18.2%
No impact	143	82.7%	39	90.7%	34	77.3%	61	81.3%	9	81.8%
Total	173	100.0%	43	100.0%	44	100.0%	75	100.0%	11	100.0%

5. How does Kentucky's prevailing wage law affect the number of bidders on public construction projects in your ____?

	Overall		Cities		Counties		School Districts		Utilities	
Increases	6	2.5%	1	1.7%	3	5.2%	1	0.9%	1	7.7%
Decreases	94	38.8%	26	44.8%	31	53.4%	31	27.4%	6	46.2%
No impact	59	24.4%	9	15.5%	10	17.2%	37	32.7%	3	23.1%
Don't know	83	34.3%	22	37.9%	14	24.1%	44	38.9%	3	23.1%
Total	242	100.0%	58	100.0%	58	100.0%	113	100.0%	13	100.0%

5. How does Kentucky's prevailing wage law affect the number of bidders on public construction projects in your ____? [Don't knows excluded.]

	Overall		Cities		Counties		School Districts		Utilities	
Increases	6	3.8%	1	2.8%	3	6.8%	1	1.4%	1	10.0%
Decreases	94	59.1%	26	72.2%	31	70.5%	31	44.9%	6	60.0%
No impact	59	37.1%	9	25.0%	10	22.7%	37	53.6%	3	30.0%
Total	159	100.0%	36	100.0%	44	100.0%	69	100.0%	10	100.0%

8. Does this ____ apply prevailing wages to projects valued under $250,000?

	Overall		Cities		Counties		School Districts		Utilities	
No	208	95.0%	50	96.2%	47	88.7%	98	97.0%	13	100.0%
Yes	11	5.0%	2	3.8%	6	11.3%	3	3.0%	0	0.0%
Total	219	100.0%	52	100.0%	53	100.0%	101	100.0%	13	100.0%

APPENDIX B

SUMMARY OF STUDIES

ON PREVAILING WAGE EFFECTS ON CONSTRUCTION COSTS

Authors	Azari, Hamid, Peter Philips, and Mark Prus
Date	Winter 2002 (forthcoming)
Source	Journal of Education Finance
Title	Making Hay When It Rains: The Effect Prevailing Wage Regulations, Scale Economies, Seasonal, Cyclical and Local Business Patterns Have on School Construction Costs
Methodology	Estimates the effects of prevailing wage laws on new school construction costs controlling for several other factors that are likely to explain some of the differences in total construction costs. F.W. Dodge data was used to provide information of the bid price and characteristics of the project. Includes public and private schools built between 1991 and 1999 in all states.
Conclusions	Prevailing wage laws have no statistically significant effect on construction costs.
Comments	Omits a number of cost factors that affect the costs of construction. Includes private schools that may differ substantially from public schools. These issues are likely to bias the estimates of the effect of prevailing wage on construction cost.

Authors	Phillips, Peter
Date	February 2001
Title	A Comparison of Public School Construction Costs In Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s: Kentucky, Ohio, and Michigan
Methodology	Estimates the effects of prevailing wage laws on new school construction costs controlling for several other factors that are likely to explain some of the differences in total construction costs. F.W. Dodge data was used to provide information on the bid price and characteristics of the project. The analysis is limited to Kentucky, Michigan, and Ohio, which all had periods when schools were exempt from prevailing wage laws and periods when schools were covered by prevailing wage laws. Includes public schools built from 1990 through 2000.
Conclusions	Prevailing wage laws increased costs by less than 1%, but this result was not statistically significant.
Comments	Omits a number of cost factors that affect the costs of construction and will likely bias the estimates of the effect of prevailing wage on construction cost.

Authors	Bilginsoy, Cihan, and Peter Philips
Date	Winter 2000
Source	Journal of Education Finance, vol. 24
Title	Prevailing Wage Regulations and School Construction Costs: Evidence from British Columbia
Methodology	Estimates the effects of a few factors on construction costs before and after prevailing wages were imposed on school construction in British Columbia. These estimates are used to determine if costs were higher under prevailing wage controlling for differences in the construction.
Conclusions	Prevailing wage laws have no statistically significant effect on construction costs.
Comments	Omits a number of cost factors that affect the costs of construction and will likely bias the estimates of the effect of prevailing wage on construction cost.

Authors **Date** **Title**	Phillips, Peter October 1999 Kentucky's Prevailing Wage Law: Its History, Purpose, and Effect
Methodology	Estimates the effects of prevailing wage laws on school construction costs controlling for several other factors that are likely to explain some of the differences in total construction costs. Includes both new construction and additions and alterations built between 1993 and 1999 across all states. F.W. Dodge data was used to provide information on the bid price and characteristics of the project.
Conclusions	Prevailing wage laws increase costs by approximately 3%. This result, however, is not statistically significant.
Comments	Omits a number of cost factors that affect the costs of construction. Includes private schools that may differ substantially from public schools. These issues are likely to bias the estimates of the effect of prevailing wage on construction cost.

Authors **Date** **Title**	Prus, Mark J. January 1999 Prevailing Wage Laws and School Construction Costs
Methodology	Estimates the effects of prevailing wage laws on new school construction costs controlling for several other factors that are likely to explain some of the differences in total construction costs. F.W. Dodge data was used to provide information on the bid price and characteristics of the project. Includes public and private schools built between 1991 and 1997 in six states: Delaware, Maryland, North Carolina, Virginia, and West Virginia.
Conclusions	Schools built under prevailing wage laws cost 3.8% more than school built in the absence of prevailing wage. This result, however, was not statistically significant.
Comments	Omits a number of cost factors that affect the costs of construction. Includes private schools that may differ substantially from public schools. These issues are likely to bias the estimates of the effect of prevailing wage on construction cost.

Authors	Kentucky Auditor of Public Accounts
Date	August 1997
Title	The Effect of Prevailing Wage Legislation on Five School Construction Projects
Methodology	Investigated claims that the 1996 change that required school projects built after July 15, 1996 be subject to prevailing wage regulations increased the costs of construction for five schools. Four of the schools were bid prior to July 15, 1996 and, therefore, were not covered by prevailing wage. Some school officials claimed that schedules for several projects were moved forward to avoid the prevailing wage law. It was argued that this additional demand for construction increased costs. The remaining school was bid after July 15, 1996. The study estimated the effect of prevailing wage by comparing architect's cost estimates (which did not incorporate prevailing wages) to the cost of the winning bid and interviews with architects and contractors.
Conclusions	The study concluded that including the schools under prevailing wage increased the costs for one of the projects bid prior to the legislative change, but not the other three. It also concluded that the prevailing wage increased the costs of the school bid after the effective date by 8.4%.
Comments	The study does not clearly establish that prevailing wage is the reason for the differences between the architect's cost estimates and the winning bids. The sample size is too small to make generalizations about the effects of prevailing wage on all school projects.

Authors	Prus, Mark J.
Date	January 1996
Title	The Effects of State Prevailing Wage Laws on Total Construction Costs
Methodology	Estimates the effects of prevailing wage laws on construction costs controlling for several other factors that are likely to explain some of the differences in total costs. F.W. Dodge data was used to provide information on the bid price and characteristics of the project. Includes various types of public and private construction, such as schools, hospitals, and warehouses. These projects were construction from 1990 through 1994.
Conclusions	Prevailing wage laws have no statistically significant effect on construction costs.
Comments	Omits a number of cost factors that affect the costs of construction. Includes private schools that may differ substantially from public schools. These issues are likely to bias the estimates of the effect of prevailing wage on construction cost.

Authors	Thieblot, A. J.
Date	Spring 1996
Source	Journal of Labor Research, vol. XVII, no 2
Title	A New Evaluation of Impacts of Prevailing Wage Law Repeal
Methodology	Compares the ratio of construction workers' earnings to the earnings of all workers across states with prevailing wage laws, states without prevailing wage laws, and states that repeal prevailing wage laws.
Conclusions	Finds that wages of construction workers decreased relative to all workers in states that repealed their prevailing wage laws. Earnings of construction workers were relatively higher in prevailing wage states. Repeal of the Davis-Bacon Act would reduce earnings of construction workers, which would result in lower construction costs. The cost of federally financed construction would be reduced by 3%.
Comments	This study does not adequately demonstrate that prevailing wage is the cause of the difference in the relative earnings of construction workers. Therefore, it is not clear that repeal of the Davis-Bacon Act would result in the projected level of savings.

Authors	Allen, Steve
Date	October 1983
Source	Journal of Law & Economics, vol. XXVI
Title	Much ado about Davis-Bacon: A Critical Review and New Evidence
Methodology	Estimates the costs effect of inaccurate prevailing wage by comparing the Davis-Bacon wages to the wages that would likely exist in the absence of the Davis-Bacon Act. The estimates are adjusted to account for the substitution of labor for other factors, such as capital.
Conclusions	Concluded that inaccurate prevailing wages increased costs of federal projects by $41 million to $224 million per year.
Comments	This study focuses on the costs of inaccurate prevailing wage determinations. It appears, however, that any minimum wage, including accurate prevailing wages, would increase the costs of construction. These potential costs are not included in the study.

Authors	Fraundorf, Martha Norby, John P. Farrell, and Robert Mason
Date	1983
Source	The Review of Economics and Statistics, vol. 66
Title	The Effect of the Davis-Bacon Act on Construction Costs in Rural Areas
Methodology	Estimated the effect of prevailing wage laws by comparing public construction costs to private construction costs. The study controlled for several factors that might have contributed to some of the differences in total construction costs.
Conclusions	Estimated that the Davis-Bacon Act increased construction costs of public projects by 26%.
Comments	By comparing public projects to private projects the estimate of the effect of prevailing wages likely reflects several differences between public and private construction. Therefore, the estimate does not accurately measure the effect of prevailing wages.

Authors	Gould, John P., and George Bittlingmayer
Date	1980
Source	American Enterprisse Institute Studies in Economic Policy
Title	The Economics of the Davis-Bacon Act: An Analysis of Prevailing-Wage Laws
Methodology	Re-evaluated evidence presented in Thieblot (1975). Adjusted those estimates to account for inflation and new information available to the bidders of these project.
Conclusions	The Davis-Bacon Act increased costs by 4% to 7%, rather than less than one percent as found in Thieblot (1975).
Comments	The results are reflective of the effects of the Davis-Bacon Act in 1971. This does suggest that prevailing wage generally increased cost. The results, however, provide little information for estimating the effects of Kentucky's prevailing wage law.

Authors	United States General Accounting Office
Date	1979
Title	The Davis-Bacon Act Should Be Repealed
Methodology	Evaluates the costs effect of inaccurate prevailing wage determinations for the Davis-Bacon Act. This was done by conducting wages surveys of a sample of areas. Wages from these surveys were compared to Davis-Bacon wages required on a sample of federal and federally funded projects.
Conclusions	Estimated that incorrect prevailing wage determinations increase the costs of federal or federally funded construction by 3.4% on average.
Comments	As pointed out by Allen (1983), this estimate does not account for possible substitution of labor for other inputs, such as capital. In addition, this estimate appears to address only the cost of incorrect determinations. However, it appears that any minimum wage, including accurate prevailing wages, would increase the costs of construction. This potential cost is not included in the study.

Authors	Thieblot
Date	1975
Source	American Enterprise Institute for Public Policy Research
Title	The Davis-Bacon Act
Methodology	In 1971 the Davis-Bacon Act was suspended for approximately one month. Any projects that were bid but not awarded were re-bid without the prevailing wage requirement. The study compares the original bids with prevailing wages to the second bids without prevailing wages.
Conclusions	Concluded that costs increased by just over one-half of one percent due to prevailing wages.
Comments	Later studies pointed out that inflation and information about other bidder's costs likely caused the second round of bids to be higher than they otherwise would have been. Therefore, the study underestimated the cost effect of prevailing wages.