



June 9, 2017

PREVAILING WAGE WORKS IN MCHENRY COUNTY

PREVAILING WAGE WORKS IN MCHENRY COUNTY

Economic Commentary

INTRODUCTION

The McHenry County Board is statutorily required to adopt prevailing wage rates. Results from this report find that these prevailing wage rates reflect local market conditions, primarily through private market agreements between contractors and workers.

- Labor costs account for just 24 percent of total costs on heavy and civil engineering projects in Illinois;
- Payroll costs on workers in heavy and civil engineering construction in McHenry County reflect the wages paid in the regional labor market and the higher cost of living in the Chicago area;
- Median housing costs are 36 percent of the typical income for a laborer earning the prevailing wage in McHenry County;
- Public works construction projects require skilled workers who complete more classroom and on-the-job training than the minimum requirements to receive a typical bachelor's degree;
- In Illinois, heavy and civil engineering construction workers are more productive than the average construction worker, producing \$164,012 in value added to the economy per worker; and
- Prevailing wage is *not* a union wage, but unionized contractors completed 97 percent of all construction work on public projects in McHenry County in 2016.

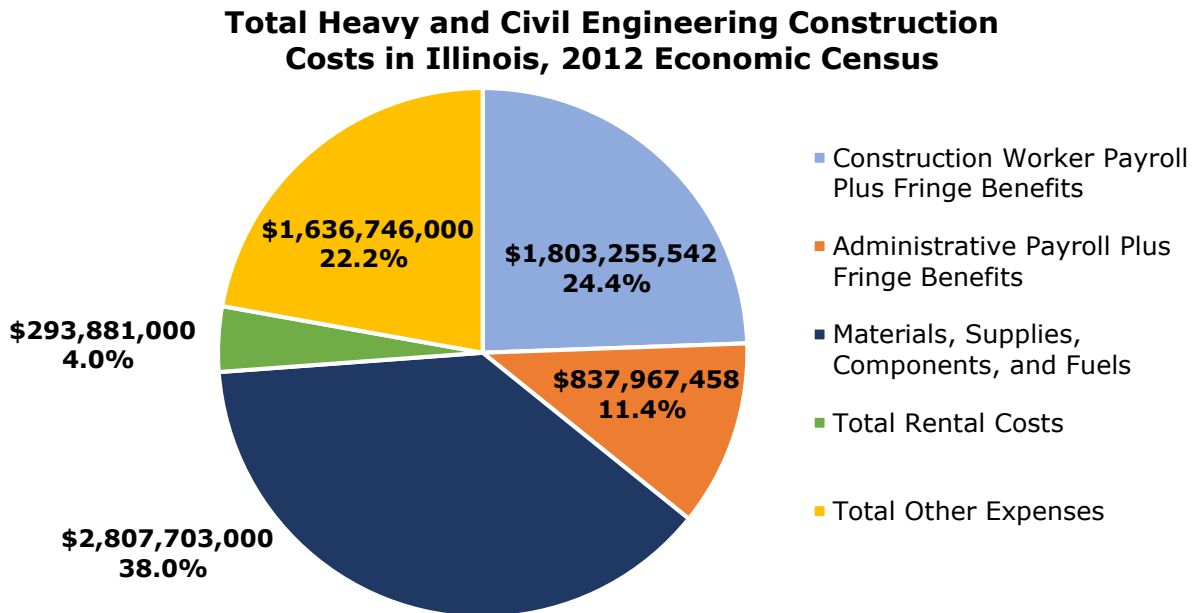
Prevailing wage is the best deal for McHenry County taxpayers.

LABOR COSTS AS A SHARE OF TOTAL COSTS IN MCHENRY COUNTY

The most recent data from the *Economic Census of Construction* reveals that labor costs account for just 24.4 percent of net construction costs in heavy and civil engineering in Illinois (Figure 1). Heavy and civil engineering construction is used throughout this study because it includes work on highways, road, bridges, dams, water and sewer lines, and land subdivision– projects which are predominately funded using taxpayer dollars. Construction worker payroll costs plus fringe benefits comprised \$1.8 billion (24.4 percent) of the \$7.4 billion in total construction costs on heavy and civil engineering across the state in 2012. Meanwhile, administrative payroll and fringe benefits were 11.4 percent of total construction costs in the sector. The largest heavy and civil engineering construction expense in Illinois was on materials, components, supplies, and fuel costs (38.0 percent).

In addition, according to the *McHenry County Annual Appropriations Ordinance Report for Fiscal Year 2016-2017 Draft Budget*, actual expenditures in the county's Highway Fund totaled \$18.2 million in 2015 (Figure 2). About one-fourth of this government spending was on overhead Division of Transportation personnel (26.1 percent); 27.3 percent was disbursed for contractor, laborer, and other contractual services; 33.5 percent was spent on operating transfers out of the Highway Fund to balance other accounts, and the remainder was used to pay for commodities and capital outlays to improve McHenry County's road network (13.2 percent). Note that contractors use a significant portion of the "contractual costs" component to buy materials and machinery, invest in technologies, and turn a profit, so labor costs are only a component of this 27.3 percent of total expenditures. Therefore, labor costs for workers who actually earn a prevailing wage are under 25 percent of total costs in McHenry County.

Figure 1: Labor Costs as a Share of Total Public Works Construction Costs, Illinois, 2012



Source: 2012 Economic Census, United States Census Bureau available at <http://www.census.gov/econ/census/>.

Figure 2: Highway Fund Expenditures, McHenry County Actual Expenditure, 2015

2015	Actual Expenditure	Personnel	Contractual	Commodities	Capital Outlay	Operating Transfers Out
Spending by County	\$18,182,075	\$4,749,470	\$4,955,371	\$612,050	\$1,780,839	\$6,084,345
Percentage of Spending	100.00%	26.12%	27.25%	3.37%	9.79%	33.46%

Source: County of McHenry, Illinois Comprehensive Annual Appropriations Ordinance, Fiscal Year 2016-2017 Draft Budget, available at <https://www.co.mchenry.il.us/home/showdocument?id=68203>.

COUNTY AND INDUSTRY COMPARISONS OF PAYROLL COSTS

The Illinois Prevailing Wage Act reflects local standards in McHenry County's labor market. The law is intended to prevent a government body from undercutting privately-established wages and benefits in a community. In effect, the law takes labor costs out of the equation for contractors in winning a bid on a public construction project. Instead of lowering costs by using low-skill, low-wage workers, firms compete on the basis of productivity, materials costs, technology, management practices, and profit margins— while paying market wages.

Figure 3: July 2015 Prevailing Wage Rates of Laborer, McHenry County

McHenry County Prevailing Wage	Hourly Rate	1,600 Annual Hours	Percent of Income
Base Wage	\$39.20	\$62,720	60.9%
Fringe Benefits	\$24.70	\$39,520	38.4%
Training	\$0.50	\$800	0.8%
Total Compensation	\$64.40	\$103,040	100.0%

Source: "McHenry County Prevailing Wage for July 2015" from the Illinois Department of Labor, available at <https://www.illinois.gov/idol/Laws-Rules/CONMED/rates/2015/july/MCHENRY9.htm>.

Take prevailing wage for laborers as an example. In July 2015, the prevailing wage for a laborer was \$39.20 per hour in base wage and \$24.70 per year in hourly health and pension benefits in McHenry County. At first glance, these rates may seem high, but most construction is seasonal

work. Road construction workers, for instance, only have jobs for eight or nine months out of the year and can only log around 1,600 hours of work each year. With 1,600 hours of prevailing wage work, a laborer in McHenry County would earn \$103,040 in total compensation, including \$62,720 in wages, \$39,520 in fringe benefits, and \$800 in training benefits (Figure 3).

Figure 4 displays data on the regional labor market from the U.S. Census Bureau on *payroll costs*—which include all forms of compensation, such as salaries, wages, bonuses, vacation allowances, sick-leave pay, and contributions to qualified pension plans. In 2015, the average payroll cost per employee was \$74,834 for construction workers in McHenry County. Labor costs in heavy and civil engineering construction, on the other hand, were \$113,881 per employee in the county (which is about \$10,000 more than the thought experiment in Figure 3).

The difference between heavy and civil engineering construction costs and total construction labor costs is *not* the result of the Illinois Prevailing Wage Act. First, the average firm size was much smaller for the overall construction industry (6.1 employees per firm) in McHenry compared to those working in heavy and civil engineering (31.5 employees per firm) because heavy and civil engineering contractors work on the county’s largest projects. Larger businesses are more likely to provide health and retirement benefits to their employees (BLS, 2016).

Figure 4: Comparison of Payroll Costs to Neighboring Counties and States, 2015

2015	Entire Construction Industry			Heavy and Civil Engineering Construction		
County	Employees	Payroll Per Employee	Firm Size	Employees	Payroll Per Employee	Firm Size
McHenry, IL	6,501	\$74,834	6.14	1,671	\$113,881	31.53
Lake, IL	10,030	\$74,323	5.37	607	\$113,954	7.99
Cook, IL	71,377	\$78,046	7.04	5,547	\$117,153	16.31
Kane, IL	9,038	\$73,756	5.83	880	\$134,194	11.28
<i>All Illinois</i>	<i>198,152</i>	<i>\$71,349</i>	<i>6.91</i>	<i>22,202</i>	<i>\$105,111</i>	<i>15.96</i>
<i>All Wisconsin</i>	<i>101,661</i>	<i>\$66,356</i>	<i>7.52</i>	<i>14,400</i>	<i>\$103,475</i>	<i>21.98</i>
<i>All Minnesota</i>	<i>113,661</i>	<i>\$71,089</i>	<i>6.26</i>	<i>15,449</i>	<i>\$104,778</i>	<i>16.92</i>
<i>All Iowa</i>	<i>64,083</i>	<i>\$57,802</i>	<i>7.50</i>	<i>5,904</i>	<i>\$85,118</i>	<i>10.66</i>

Source: 2015 County Business Patterns, United States Census Bureau, available at <https://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>.

Second, heavy and civil engineering payroll costs per employee in McHenry County reflect wages paid in the local labor market. McHenry payroll costs are less than the comparable figures in Kane County (\$134,194 per employee), Cook County (\$117,153 per employee), and Lake County (\$113,954 per employee). This is what construction workers on public projects earn in the regional economy— mostly because they are highly skilled and face significant workplace safety risks compared to other industries. Public works construction employees earn more because it is what the market dictates, not because prevailing wages inflate the wage rate (Figure 4).

Labor costs are similar in nearby regions outside of Chicagoland (Figure 5). The Illinois average for per-employee payroll costs was \$105,111 in heavy and civil engineering. The reason labor costs are greater in McHenry County (\$113,881 per employee) is that the cost of living is higher in Northern Illinois. While living expenses are 6.6 percent cheaper than the national average in the Champaign area and 7.7 percent cheaper than the national average in Springfield, the cost of living is 6.0 percent more expensive than the national average in the Chicago area, which includes McHenry County (Figure 5). Furthermore, payroll costs per employee were comparable in border-state Wisconsin (\$103,475) and Midwest-state Minnesota (\$104,778), despite lower costs of living in those states compared to the Chicago area. Similarly, while employee payroll was significantly lower in nearby Iowa (\$85,118), the primary reason is the lower cost of living. This is evidence that prevailing wages are not artificial or inflated.

Figure 5: Comparison of Cost of Living, 2014 GDP & Personal Income by Metropolitan Area

Metropolitan Economy	Cost of Living Compared to National Average
Chicago area, IL	+6.0%
Champaign area, IL	-6.6%
Springfield area, IL	-7.7%
Milwaukee-Waukesha area, WI	-4.1%
Madison, WI	-2.2%
St. Paul, MN	+2.6%
Des Moines, IA	-5.1%

Source: Bureau of Economic Analysis (BEA) "GDP & Personal Income: Regional Price Parities - 2014 Data," available at <https://www.bea.gov/itable/iTable.cfm?ReqID=70&step=1#reqid=70&step=1&isuri=1>.

Housing costs are an example of high living expenses in McHenry County (Figure 6). In the past year, the median price of homes in McHenry County was \$203,800 (Zillow, 2017).¹ Data from the U.S. Census Bureau show that median monthly homeowner costs in McHenry County were \$1,873 in 2015. The median monthly costs ("selected monthly owner costs") include payments for mortgages, property taxes, insurance, and utilities and fuels. Compared with the income from wages that a typical laborer earns, the median cost to own a home would exhaust 35.8 percent of a worker's take-home income. It is worth noting that most government agencies consider housing affordable only if costs are less than 30 percent of household income. Therefore, prevailing wage does not even support purchasing a home in McHenry County without a second job or without having a spouse or roommate who also works.

Figure 6: Example of Housing Costs in McHenry County, 2015

2015 McHenry County Value	Monthly	Annual
Laborer Income from Wages (Figure 3)	\$5,227	\$62,720
Median Monthly Homeowner Costs	\$1,873	\$22,476
Homeowner Costs as Share of Income from Wages	35.8%	35.8%

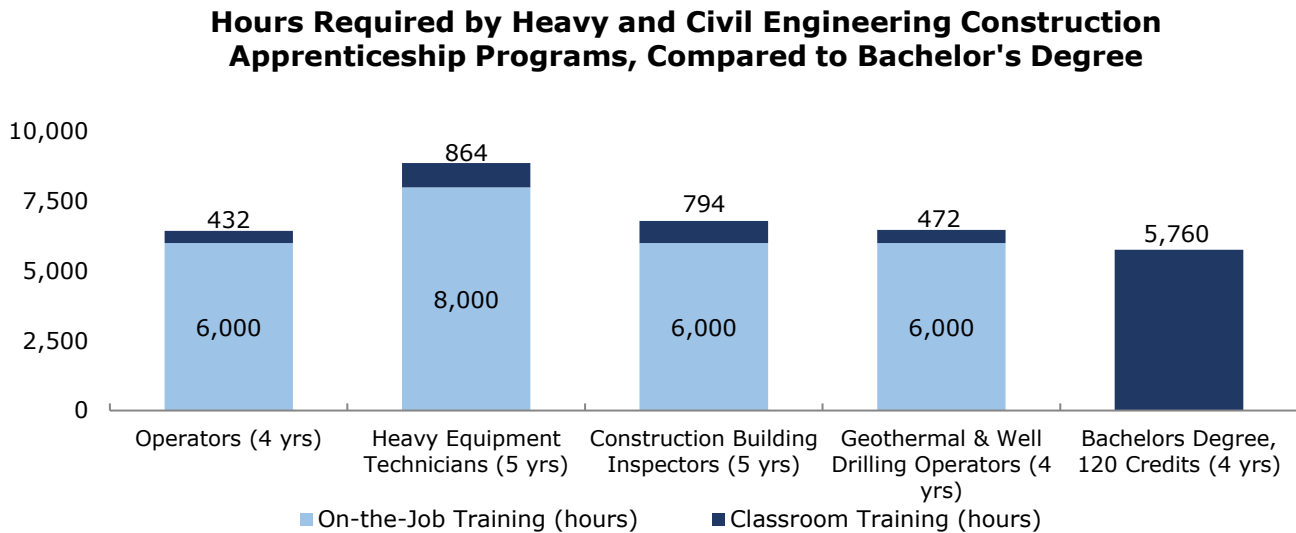
Source: Selected Monthly Owner Costs from "Selected Housing Characteristics" from the 2015 American Community Survey, 5-year estimates, available at <http://factfinder2.census.gov>; "McHenry County Prevailing Wage for July 2015" from the Illinois Department of Labor, available at <https://www.illinois.gov/idol/Laws-Rules/CONMED/rates/2015/july/MCHENRY9.htm>.

WORKER PRODUCTIVITY AND VALUE ADDED TO THE ECONOMY

Public works construction is not low-skilled work. Building high-quality infrastructure that is safe and durable for the public requires an experienced, educated workforce. Accordingly, many workers in heavy and civil engineering construction go through rigorous registered apprenticeship programs. These programs provide thousands of hours of classroom and on-the-job training to boost workers' skills. The apprenticeship programs sponsored jointly by the International Union of Operating Engineers Local 150 and signatory contractors, for example, require at least 6,432 total hours of training over at least four years, including a minimum of 6,000 hours of on-the-job training (Figure 7). Heavy equipment technicians complete an even longer program: apprentices must log 8,000 hours of on-the-job training and 864 hours in the classroom over five years. By contrast, the typical 120-credit hour bachelor's degree requires just 5,760 hours of classroom training over four years. At the same time, apprenticeship programs are operationally funded by contractors and impose little to no cost onto the trainee. This has led one researcher to conclude that prevailing wages support "the largest privately financed system of higher education in the country" (Philips, 2014).

¹ This is about \$78,000 higher than the median for Iowa (\$125,600), nearly \$39,000 higher than the median for Wisconsin (\$165,300), and over \$34,000 higher than the median for Illinois as a whole (\$169,400).

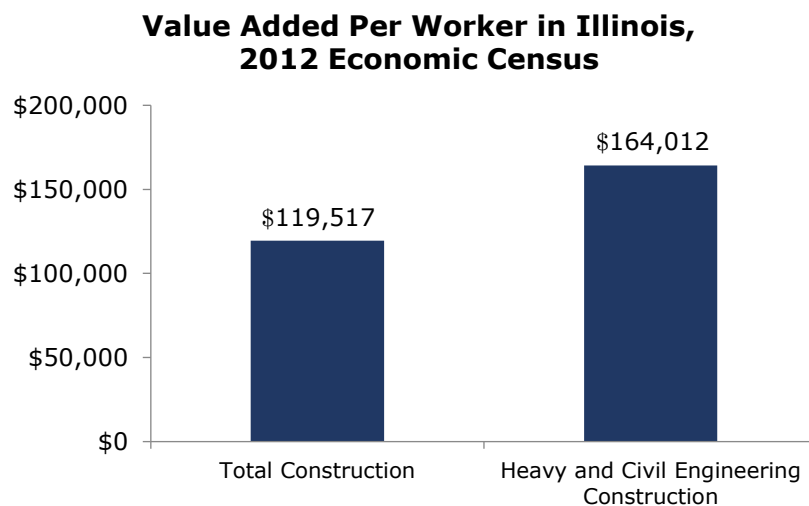
Figure 7: Public Works Construction Skills Requirement Compared to Typical Bachelor's Degree



Source: International Union of Operating Engineers (IUOE) Local 150, which has membership in McHenry County. Requirements generously provided by Martin Turek, M.S., Assistant Coordinator-Safety Administrator. Typical bachelor's degree assumes 120 credit-hours required to graduate, such as in the University of Illinois College of Liberal Arts and Sciences (LAS): <http://www.las.illinois.edu/students/requirements/minimum>. The hours estimate assumes classroom time of three hours per class per week, five classes per semester, 16 weeks per semester, and two semesters each year over four years.

Finally, public works construction workers are extremely productive in Illinois. Figure 8 provides state-level data on the value added to the economy by workers in the entire construction industry and in the heavy and civil engineering sectors. "Value added"—which measures worker productivity over one year—is the total amount of business revenues generated minus the costs for materials, components, supplies, fuels, and subcontracted work. While value added in the entire Illinois construction industry was \$119,517 per worker in 2012, workers in heavy and civil engineering construction each contributed \$164,012 to Illinois' GDP on average (37.2 percent more). Together, the high-skill requirement and elevated productivity levels are the main reasons why wages are higher for public works construction employees compared to other blue-collar construction workers (Figure 8).

Figure 8: Worker Productivity, Entire Industry vs. Public Works Construction, 2012



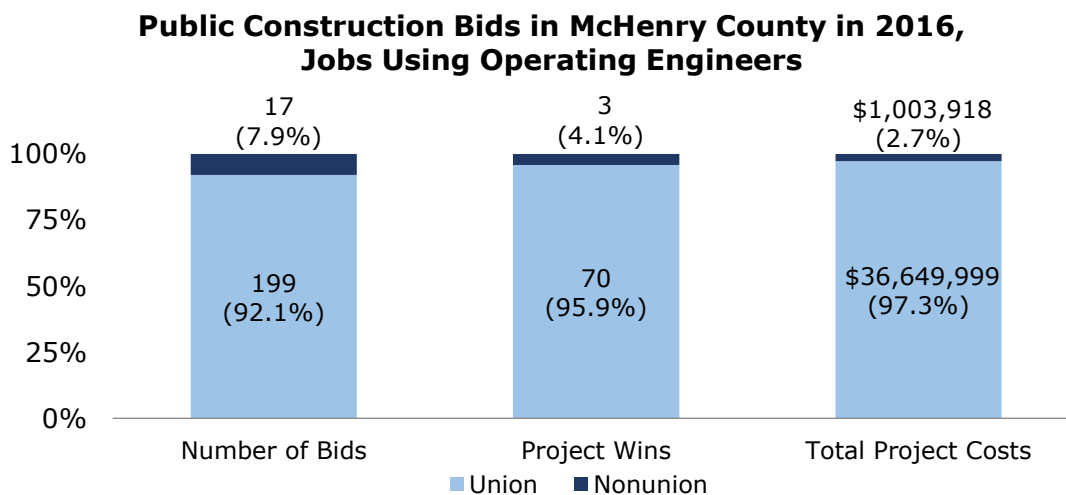
Source: 2012 Economic Census, United States Census Bureau available at <http://www.census.gov/econ/census/>.

ADDRESSING THE UNION WAGE MYTH

The prevailing wage is a living wage determined by private actors in the local labor market. Arriving at a prevailing wage is the result of the majority of contractors and employees entering into private contracts. The rate is determined based on certified payrolls submitted by employers and workers. While employees are sometimes represented by a labor union, the prevailing wage is *not* necessarily a union wage. A union wage only prevails if the majority of workers in a particular job classification are paid that rate.

Union wage rates prevail in McHenry County because nonunion contractors are not bidding on public projects (Figure 9). In 2016, there were 73 lettings on public projects that involved work performed by operating engineers. These projects were awarded by the county (15.1 percent), by townships, cities, and park districts in the county (67.1 percent), by the state (11.0 percent), and by school boards (6.8 percent). The total value of the projects was \$37.7 million over the year.

Figure 9: Market Share of Public Projects Using Operating Engineers in McHenry County, 2016



Source: Author's analysis of internal data generously provided by the Indiana, Illinois, Iowa Foundation for Fair Contracting (III FFC), which operates in McHenry County. The III FFC dataset is limited to only projects that employ operating engineers.

On these 73 projects, nonunion contractors only submitted 17 total bids (7.9 percent) compared to 199 bids made by unionized firms (92.1 percent). As a result, nonunion contractors only won 4.1 percent of all project lettings across McHenry County in 2016. Moreover, nonunion contractors generally bid on small-scale public projects: the total project cost of awarded bids was \$1.0 million for nonunion contractors compared to \$36.7 million for unionized contractors. Simply put, with a market share of 97.3 percent, it makes sense that the union wage currently prevails in McHenry County. If nonunion contractors outperform the workforces of union contractors, a nonunion firm would emerge as the apparent low bidder far more often than 2.7 percent of the time (Figure 9).

THE BENEFITS OF PREVAILING WAGE TO MCHENRY COUNTY

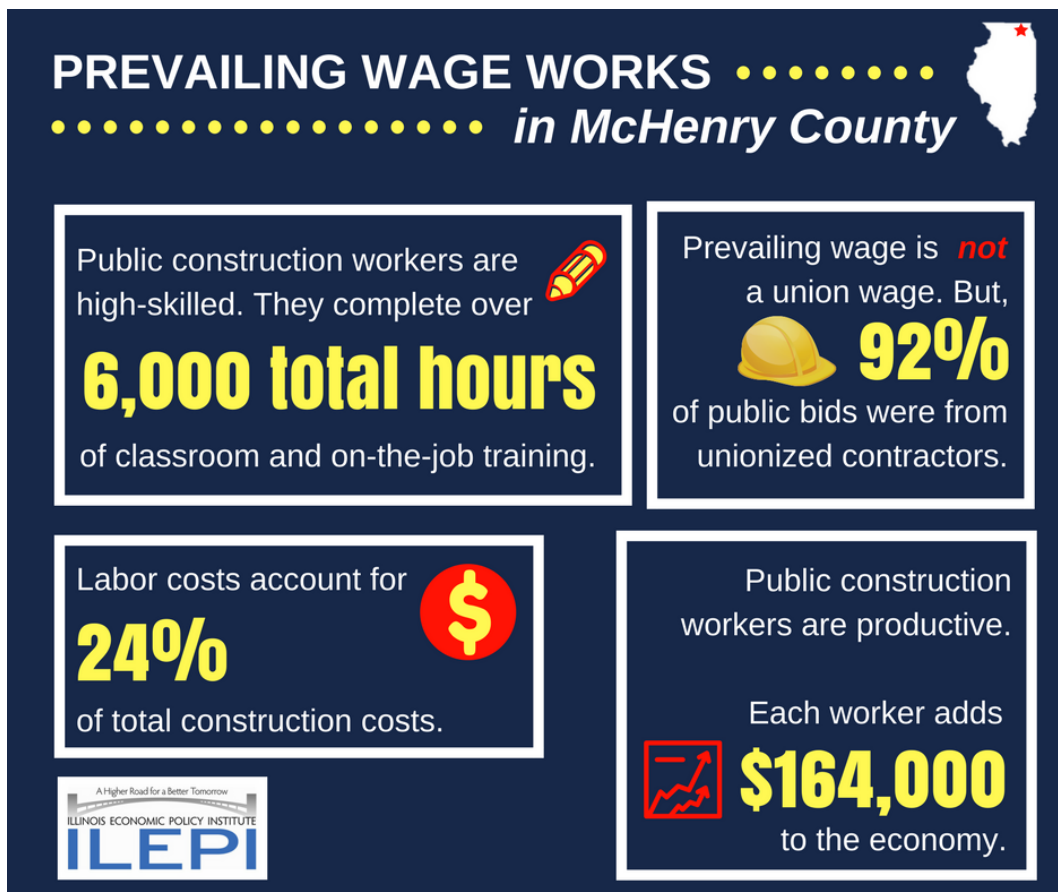
Opponents of prevailing wage laws claim that repealing or weakening the wage policy will save taxpayer dollars, yet 75 percent of recent peer-reviewed studies indicate that construction costs are not affected by prevailing wages (Philips et al., 1995; Prus, 1996; Wial, 1999; Azari-Rad et al., 2002; Duncan, 2011; Manzo et al., 2016; Duncan & Ormiston, 2017). By paying a living wage, prevailing wage encourages skilled workers to enter the construction industry, increases worker training and productivity, and reduces workplace injury and illnesses. These effects lead to workers who complete jobs on-budget and on-time, offsetting any increases in labor costs (Philips, 2014).

Prevailing wage builds local middle-class jobs. Studies show prevailing wage laws encourage the use of local, in-state contractors ([Prus, 1999](#); [Working Partnerships USA, 2011](#); [Manzo, 2016](#); [Manzo & Duncan, 2016](#)). The preponderance of research also finds that state prevailing wage laws increase productivity by 14 to 33 percent ([Kessler & Katz, 2001](#); [Kelsay, 2016](#); [Philips, 2014](#)). Any higher costs associated with requiring that market rates be paid is offset by increased productivity and better infrastructure quality.

Prevailing wage is the best deal for taxpayers. Prevailing wage promotes worker training, which reduces errors and minimizes the chances of footing taxpayers with another bill to reconstruct low-quality infrastructure that does not last. Prevailing wage also increases worker wages, which lifts consumer demand and increases spending at local businesses. Finally, without prevailing wage, construction workers would become more reliant on government assistance. Construction workers would be 2.5 percentage points more likely to rely on food stamps, would be 1.1 percentage points more likely to qualify for Earned Income Tax Credit (EITC), and would pay less in income taxes due to lower annual earnings if prevailing wage were repealed ([Manzo et al., 2016](#)). By ensuring quality infrastructure, promoting a strong middle class, and reducing reliance on government assistance, prevailing wage generates millions of dollars in state and local tax revenues.

CONCLUSION

The McHenry County Board should adopt its prevailing wage ordinance. Prevailing wage determinations are based on certified payroll records from contractors and employees. They reflect the levels of compensation privately agreed upon by contractors and employees in the local labor market, which in turn are the result of the high skill level and high productivity of McHenry County's construction workforce. Prevailing wage is the best deal for McHenry County taxpayers.



REFERENCES

- Azari-Rad, Hamid, Peter Philips, and Mark Prus. (2002). "Making Hay When It Rains: The Effect Prevailing Wage Regulations, Scale Economies, Seasonal, Cyclical, and Local Business Patterns Have on School Construction Costs." *Journal of Education Finance*, 27. Spring 2002.
- Bureau of Labor Statistics (BLS). (2016). "Employee Benefits in the United States news release text." United States Department of Labor. Released Friday, July 22, 2016.
- Bureau of Economic Analysis (BEA). (2017). GDP & Personal Income: Regional Price Parities - 2014 data. *U.S. Department of Commerce*.
- County of McHenry, State of Illinois. (2017). *Annual Appropriations Ordinance, Annual Levy Ordinance*. For the Fiscal Year 2016-2017 Draft Budget.
- Dickson Quesada, Alison, Frank Manzo IV, Dale Belman, and Robert Bruno. (2013). *A Weakened State: The Economic and Social Impacts of Repeal of the Prevailing Wage Law in Illinois*. Labor Education Program, School of Labor and Employment Relations, University of Illinois at Urbana-Champaign.
- Duncan, Kevin. (2011). *An Analysis of Davis-Bacon Prevailing Wage Requirements: Evidence from Highway Resurfacing Projects in Colorado*. Colorado State University- Pueblo.
- Duncan, Kevin and Russell Ormiston. (2017). *Prevailing Wage Laws: What Do We Know?* Institute for Construction Economic Research; Colorado State University- Pueblo; Allegheny College.
- Kelsay, Michael. (2016). *The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri*. University of Missouri- Kansas City.
- Kessler, Daniel and Lawrence Katz. (2001). "Prevailing Wage Laws and Construction Labor Markets." *Industrial and Labor Relations Review*, 54(2). January 2001.
- Manzo IV, Frank. (2016). *Weakening Prevailing Wage Hurts Local Contractors and Workers: A Case Study from Southern Indiana*. Midwest Economic Policy Institute.
- Manzo IV, Frank and Kevin Duncan. (2016). *The Economic, Fiscal, and Social Impacts of Kentucky's Prevailing Wage Law*. Illinois Economic Policy Institute; Colorado State University-Pueblo.
- Manzo IV, Frank, Alex Lantsberg, and Kevin Duncan. (2016). *The Economic, Fiscal, and Social Impacts of State Prevailing Wage Laws: Choosing Between the High Road and the Low Road in the Construction Industry*. Illinois Economic Policy Institute; Smart Cities Prevail; Colorado State University-Pueblo.
- Philips, Peter. (2001). *A Comparison of Public School Construction Costs: In Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s*. University of Utah.
- Philips, Peter. (2014). *Kentucky's Prevailing Wage Law: An Economic Impact Analysis*. University of Utah.
- Philips, Peter, Garth Mangum, Norm Waitzman, and Anne Yeagle. (1995). *Losing Ground: Lessons from the Repeal of Nine 'Little Davis-Bacon' Acts*. University of Utah.
- Prus, Mark. (1996). *The Effect of State Prevailing Wage Laws on Total Construction Costs*. State University of New York- Cortland.
- Wial, Howard. (1999). *Do Lower Prevailing Wages Reduce Public Construction Costs?* Keystone Research Center; Rutgers University.
- Working Partnerships USA. (2011). *Economic, Fiscal and Social Impacts of Prevailing Wage in San Jose, California*. Written by Kevin Duncan, PhD.
- Zillow. (2017). "McHenry County Home Prices & Values." Zillow.com.