

An Examination of Minnesota's Prevailing Wage Law

Effects on Costs, Training, and Economic Development

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Report Summary

Prevailing wage is a minimum wage for construction workers employed on publicly-funded projects. The main purpose of a prevailing wage law is to protect local construction labor standards in the low-bid environment. Prevailing wage laws create a level playing field for all contractors by ensuring that public expenditures maintain and reflect local area standards for wages, benefits, and training contributions. This study examines the effects of Minnesota's prevailing wage law on the cost of public construction, apprenticeship training programs, and economic development outcomes— including impacts on worker incomes, government assistance programs, and the broader Minnesota economy.

Minnesota's Prevailing Wage Law, Public Construction Costs, and Bid Competition

Fully 72 percent of peer-reviewed studies conducted since 2000 find that prevailing wage laws have no effect on the cost of public construction projects, including 82 percent of the studies focused on school construction costs. Prevailing wage laws do not impact project costs because labor costs are a low and historically declining share of total construction costs— about 23 percent in the United States. Consequently, only minor changes in labor

productivity and other construction costs are needed to offset the effect of the wage policy.

Opponents of prevailing wage laws claim that the wage policy reduces the level of bid competition, leading to higher costs. This claim is often made in the absence of any empirical evidence. There have been three peer-reviewed studies and one other report that examine the effect of the wage policy on the level of bid competition. These studies investigate 2,183 total bids on public projects in four distinct states or provinces and find that prevailing wage standards do not reduce the number of bidders on public projects.

To provide recent evidence of the effect of prevailing wage standards on the cost of public construction in Minnesota, 640 subcontractor low bids in the Minneapolis-St. Paul metropolitan area are analyzed. The results indicate that winning bids based on the payment of prevailing wages are no more costly than bids that do not require prevailing wages. These results are consistent with the preponderance of peer-reviewed academic research.

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Minnesota's Prevailing Wage Law and Apprenticeship Training

Formal apprenticeship training is the foundation for human capital development in Minnesota's construction industry. By reflecting local market-based standards for wages, benefits, and training contributions, Minnesota's prevailing wage law increases apprenticeship training. Economic research has found that prevailing wage laws are associated with higher apprenticeship shares, better apprenticeship program completion rates, and higher levels of worker productivity. By strengthening private apprenticeship investments, Minnesota's prevailing wage law is an essential policy to help meet the demand for skilled workers. Prevailing wage promotes a skilled workforce that completes high-quality public construction projects on time and under budget.

In Minnesota, fully 93 percent of all registered apprentices are enrolled in joint labor-management programs. Joint labor-management programs train 92 percent of all white apprentices, 92 percent of all African-American apprentices, 95 percent of all Latino and Latina apprentices, and 84 percent of all veterans in registered apprenticeship programs in Minnesota.

There is a significant disparity in training resources between joint labor-management apprenticeship programs and those offered by non-joint sponsors, such as the Construction Education Foundation of Minnesota sponsored by the Associated Builders and Contractors (ABC). Joint labor-management programs are financed by a "cents per hour" contribution that is part of the total wage and benefit package negotiated privately with contractors. In 2015, the 10 largest labor-management programs, by

number of active apprentices, had \$29.8 million in annual revenue, \$68.5 million in total assets, and 252 total employees. By contrast, non-joint programs are sponsored by a single contractor or group of employers. The ABC's apprenticeship training program had just \$297,000 in annual revenue, \$290,000 in total assets, and one employee.

Minnesota's Prevailing Wage Law and Economic Development

In addition to ensuring that the next generation of construction workers is well-trained, state prevailing wage laws foster good, middle-class careers for construction workers. Minnesota's prevailing wage law statistically increases annual blue-collar construction incomes by 5.2 percent on average and on median.

Minnesota's prevailing wage law supports self-sufficient construction workers. The law expands private health insurance coverage by 5.0 percentage points, improves the share of construction workers with pension plans by 5.3 percentage points, and reduces the share of construction workers who qualify for food stamp assistance by 2.1 percentage points. As a result, an estimated 5,800 construction workers have pension plans, 5,500 construction workers have private health insurance coverage (including over 400 veterans), and 2,300 construction workers avoid reliance on food stamps due to Minnesota's prevailing wage law. By improving apprenticeship training and safety, promoting a strong middle class, and keeping construction costs stable, Minnesota's prevailing wage law produces fiscally-responsible public budgets.

Minnesota's prevailing wage law also produces positive impacts on the broader Minnesota economy. By protecting local standards,

prevailing wage supports work for local contractors and their employees— keeping more taxpayer funds in the local economy and stimulating economic activity. The policy allows local contractors to submit competitive and profitable bids based on the wage rates needed to attract local workers possessing the skills required by the project. As a consequence, local contractors have an advantage over out-of-area, out-of-state, and foreign competitors.

Evidence of this benefit is illustrated by more than 600 contractor bids for school construction projects built within the seven-county Minneapolis-St. Paul metropolitan area. Fully 74 percent of the total bid values for school projects requiring the payment of prevailing wages was awarded to metro-resident contractors. When prevailing wages were not applied, only 64 percent of the total bid values was awarded to local contractors. This means that, when a school district chooses to include prevailing wage standards, local contractors and workers account for a 10 percent higher market share, on average.

By maintaining prevailing wage standards, Minnesota ensures that more work is completed by local contractors and that project funds, jobs, income, and economic activity do not leak out of the local economy. In total, Minnesota's prevailing wage law protects \$505 million in construction business for in-state contractors. The stimulus effect— through, for instance, higher sales at local retail stores and service industries— improves the Minnesota economy by approximately \$981 million annually. The corresponding total employment increase is 7,200 jobs— including 5,000 construction jobs and 2,200 jobs in other industries, such as retail, service, and restaurants. Minnesota's prevailing wage

generates \$37 million in state and local tax revenue every year.

Finally, nearby Indiana offers a case study to compare and contrast with Minnesota. Minnesota's construction market has fared better than Indiana's construction market since Indiana repealed its prevailing wage law in 2015. Per-worker productivity has grown 7.7 percentage-points faster in Minnesota and worker turnover rates have fallen in Minnesota while rising in Indiana. Employment on public projects has also grown 1.1 percentage-points faster in Minnesota than in Indiana. Ultimately, maintaining the prevailing wage law has produced positive effects on construction market outcomes in Minnesota.

Prevailing Wage is Good for Minnesota Taxpayers

Minnesota's prevailing wage law has positive impacts on the state's construction industry and broader economy. Both the highest-quality research available and recent data on school construction projects in the Twin Cities region indicate that Minnesota's prevailing wage law keeps construction costs stable. The law promotes apprenticeship training programs and ensures that public projects are completed safely, on time, and on budget. Prevailing wage also fosters a strong middle class in Minnesota, raising wages for people of all backgrounds and keeping blue-collar construction workers off public assistance programs. By ensuring that Minnesota's tax dollars are used to employ Minnesota workers at Minnesota construction companies, the prevailing wage law boosts economic development in the state. Ultimately, the prevailing wage is the best deal for Minnesota taxpayers.