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DATE: April 27, 2021
TO: Chair Smith-Warner, and Members of the House Committee on Rules
FROM: Michael Wilkerson, Ph.D. and John Tapogna (on behalf of the Associated General Contractors)
SUBJECT: Prevailing Wage and Collective Bargaining Agreement Policy Analysis

The Oregon Legislature is considering changing the method used to calculate prevailing wage rates (PWR) under HB 2419 and SB 493. Rather than rely on a wage and benefit survey, the state would set PWRs using the hourly wage for trades with collective bargaining agreements (CBAs) established at the county level. These bills under consideration closely follow the recently enacted legislation in Washington State through Senate Bill 5493.

The Associated General Contractors requested an analysis of the proposed bills to determine their impact on the construction industry in Oregon. Although ECONorthwest has not had the opportunity to conduct a comprehensive analysis, we have the following initial findings:

- Established academic literature are not helpful for estimating impacts of a policy like the one Oregon is considering. Specifically:
    - An established academic literature examines the impact of states moving from private market labor agreements to PWR for publicly funded projects. The studies primarily attempt to identify the impact of adopting a PWR on project costs, and other related topics around the use of in state contractors, or the competitiveness of the bid process.
    - The findings in these studies may be relevant to an analysis involving a state that is newly adopting a prevailing wage policy. But the literature is not particularly helpful in evaluating situations, like Oregon's, in which a PWR has already been adopted, and hourly rates would be determined through a CBA rather than a survey.
    - For example, literature on PWR impact often asserts potential cost increases offset through productivity gains obtained through more capital intensive processes and higher paid labor. In Oregon, any such productivity gains have already been realized.
    - It isn't possible to systematically raise the cost of labor without impacting total construction costs. Academic literature therefore hasn't studied this crucial detail, focusing entirely on the difference between states (and projects) with and without PWR.

<u>Analyzing the impacts of a move to a CBA determined PWR</u>

Rather than relying on literature designed to study a different question, we do have some early examples of the impact of a similar policy that was recently enacted in Washington State. These examples can help frame how moving to a CBA-determined PWR might impact construction

costs, and importantly the budgetary impact to state and local agencies subject to these types of a labor rate agreements. Initial findings:

- The Washington Office of Financial Management (OFM) estimated that the enactment of SB 5493 (which replaced the PWR survey with CBA established rates) would increase construction-related expenditures of public ports, cities, and counties, stating in their fiscal note that "any changes in prevailing wage would likely increase local government costs for labor work on projects, costs would also depend upon the types of labor used".[1]

- The Association of Washington Housing Authorities (AWHA) reported that implementation of SB 5493 resulted in "dramatic increases" in project costs that have threatened the feasibility of affordable housing.[2]

- Implementation of SB 5493 has resulted in increases in prevailed wages that vary by trade and county as identified by Washington State Department of Labor and Industry.[3]

- In order to better understand the impact of moving to a CBA determined PWR, we can use the observed hourly rate increases in Washington State to estimate how labor, and importantly total project costs might be impacted in Oregon. Using a recently completed 200 unit affordable housing project in Portland as an example, we applied the hourly wage increases by trade using the observed average increase in Washington State. Hourly prevailing wages in Oregon prior to a CBA approach are in the $20 to $57 range, with an average of $39 dollars per hour using this example project, which is equivalent to $81,100 a year for full time work. Applying the increases in hourly assuming the observed impact passing of SB 5493 resulted in a total labor cost increase of 17.7%. Labor cost represented 55% of total construction cost, therefore the impact of the hourly wage increase would have raised the project cost by 9.8% (see figure 1 for more detail).

- Not all affordable housing projects are subject to prevailing wage in Oregon, but some would be impacted by this policy change. Per ORS 279c. 810, exemptions are provided for residential projects that are predominantly affordable housing. Affordable housing projects that are deemed commercial, which is typically for buildings with more than four stories, or with a commercial mixed use, are not exempt. A recently completed study by Oregon Housing and Community Services found that projects that were

[1] Washington Office of Financial Management (February 4, 2018) *SB 5493 Local Government Fiscal Note*. Olympia, WA. https://fnspublic.ofm.wa.gov/FNSPublicSearch/GetPDF?packageID=52707

[2] Association of Washington Housing Authorities. *2019 State Legislative Agenda.* *https://www.awha.org/uploads/1/1/7/4/117481790/awha_state_legislative_agenda_2019.pdf*

[3] See https://secure.lni.wa.gov/wagelookup/ to view PWR in 2018 prior to the adoption of SB 5493, compared to 2019 after the adoption.

subject to prevailing wage cost 9% more to build, and that more than half of the projects in their sample paid prevailing wages.[4]

- Paying a family wage is an important identified purpose in prevailing wage statutes. For some context, it is helpful to understand where current prevailing wages fall on the income distribution for all workers statewide. The median household income in Oregon for 2019 was $67,058. If we take the blended effective hourly wage from the example project referenced above, the full time equivalent is $81,100 per year ($39 per hour). A worker earning $81,100 in 2019 would have been in the 84th percentile, which means that 16% workers in the state earned more.

- The range of observed impacts for individual trades varied across Washington, but is typically smaller in urban counties and higher in suburban and rural counties across the state (see figure 2 for a summary of selected trades, and figure 3 for more detail of impacts at the county level for cement masons).

Economists evaluate policies by comparing the benefits to the costs. There has not been extensive study of this approach to PWR rate setting, and early findings in Washington indicate increases in project costs, particularly for affordable housing. It would be prudent to evaluate the range of impacts for different types of projects, including how they might vary by region across Oregon. If a policy of this type were adopted, the benefits would accrue to craft workers already earning a prevailing wage, while any increased project costs would be absorbed entirely by public agencies and are unknown in size. Further study would help frame the magnitude.

[4] http://static1.1.sqspcdn.com/static/f/675504/28163179/1564080440837/OR_Affordable_Housing_Cost_Study_FINAL.pdf?token=yxFSlvCeEa027hNRPUwT42FWeOk%3D

Figure 1. Calculating the impact of observed Prevailing Wage rate increases in Washington State after moving to a CBA model (SB 5493) for an example 200 unit affordable housing project in Oregon

Example Affordable Housing Project -- Cost Impact of Adopting CBA rates in Oregon

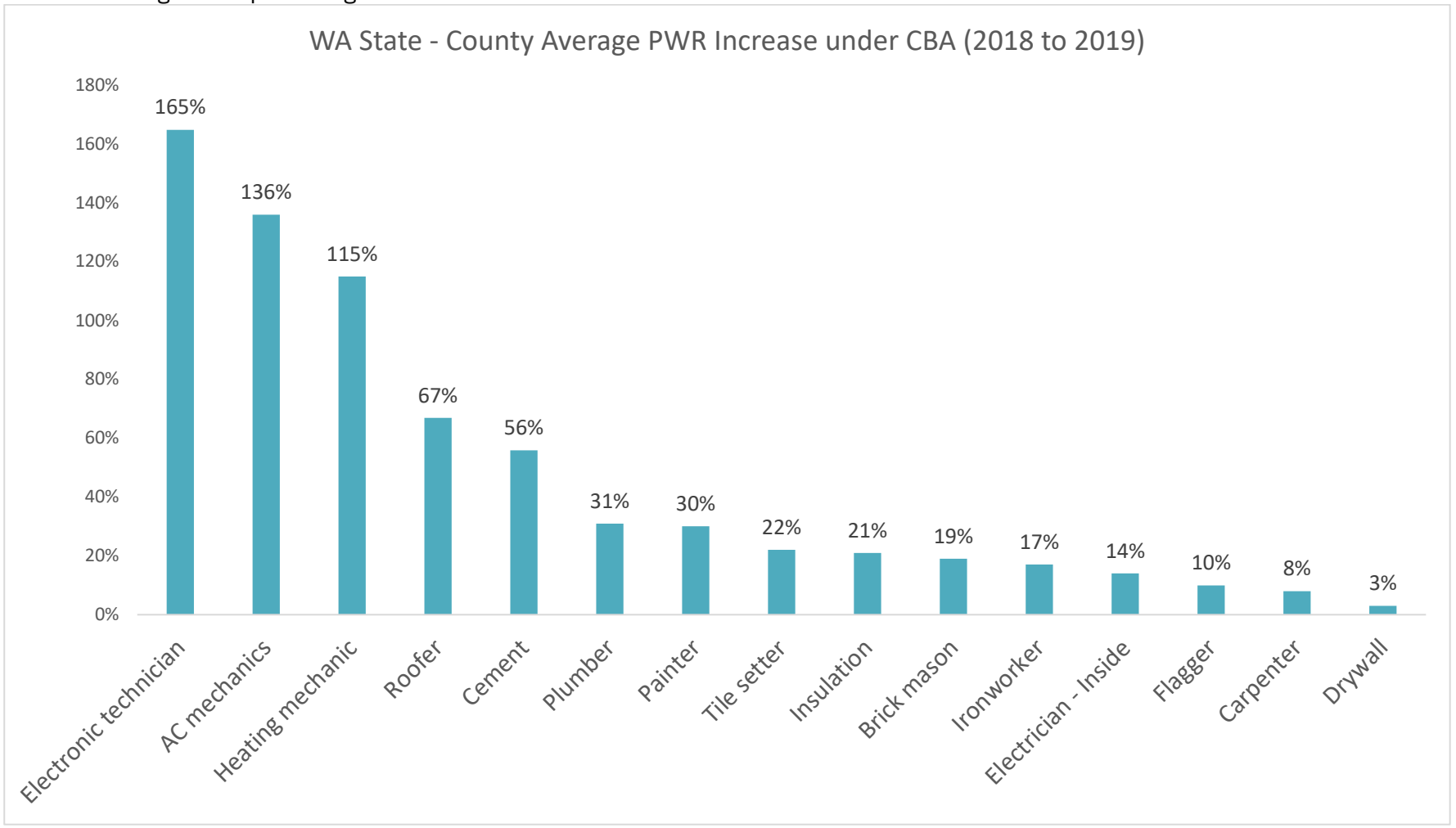
Trade Name	Total Journeymen Hours Worked	Percent of Labor Hours	Average Wage per Hour (OR average, 2021)	WA State Average Wage Increase (2018 to 2019)	Increased labor cost under CBA rates compared to PWR
ASBESTOS WORKER/ INSULATOR	1,241	1%	$52.77	21%	$ 13,435
BRICKLAYER/STONEMASON	747	0%	$41.20	19%	$ 5,717
CARPENTER	67,246	36%	$41.83	8%	$ 226,594
CEMENT MASON	5,197	3%	$36.29	56%	$ 105,223
DRYWALL TAPER	1,046	1%	$40.42	5%	$ 2,110
ELECTRICIAN	17,468	9%	$42.90	15%	$ 109,357
ELEVATOR CONSTRUCTOR	901	0%	$56.92	3%	$ 1,672
GLAZIER	2,512	1%	$42.10	71%	$ 75,366
IRONWORKER	11,393	6%	$39.10	17%	$ 77,541
LABORER	13,126	7%	$30.80	4%	$ 15,504
LANDSCAPE LABORER	3,132	2%	$19.92	247%	$ 153,890
PAINTER	11,935	6%	$29.72	30%	$ 106,584
PILEDRIVER	1,537	1%	$42.87	11%	$ 7,356
PLASTERER & STUCCO MASON	1,226	1%	$39.09	55%	$ 26,228
PLUMBER/PIPEFITTER/STEAMFITTER	11,286	6%	$43.88	31%	$ 155,402
POWER EQUIPMENT OPERATOR	10,419	6%	$46.26	2%	$ 9,975
ROOFER	2,968	2%	$30.66	67%	$ 61,119
SHEET METAL WORKER	14,899	8%	$34.90	13%	$ 68,696
SOFT FLOOR LAYER	4,381	2%	$31.86	20%	$ 27,744
SPRINKLER FITTER	2,268	1%	$37.77	40%	$ 34,156
Total Hours Across All Trades	184,925		$ 39.15		$ 1,283,670

Increased Labor Cost	17.7%
Labor Share of Construction Cost	55%
Total Project Cost Impact	**9.8%**

Sources: 1) Washington State Department of Labor and Industry https://secure.lni.wa.gov/wagelookup/, 2) https://www.oregon.gov/boli/workers/Prevailing%20Wage%20Rate%20Books/january-1-2021-pwr-rate-book.pdf

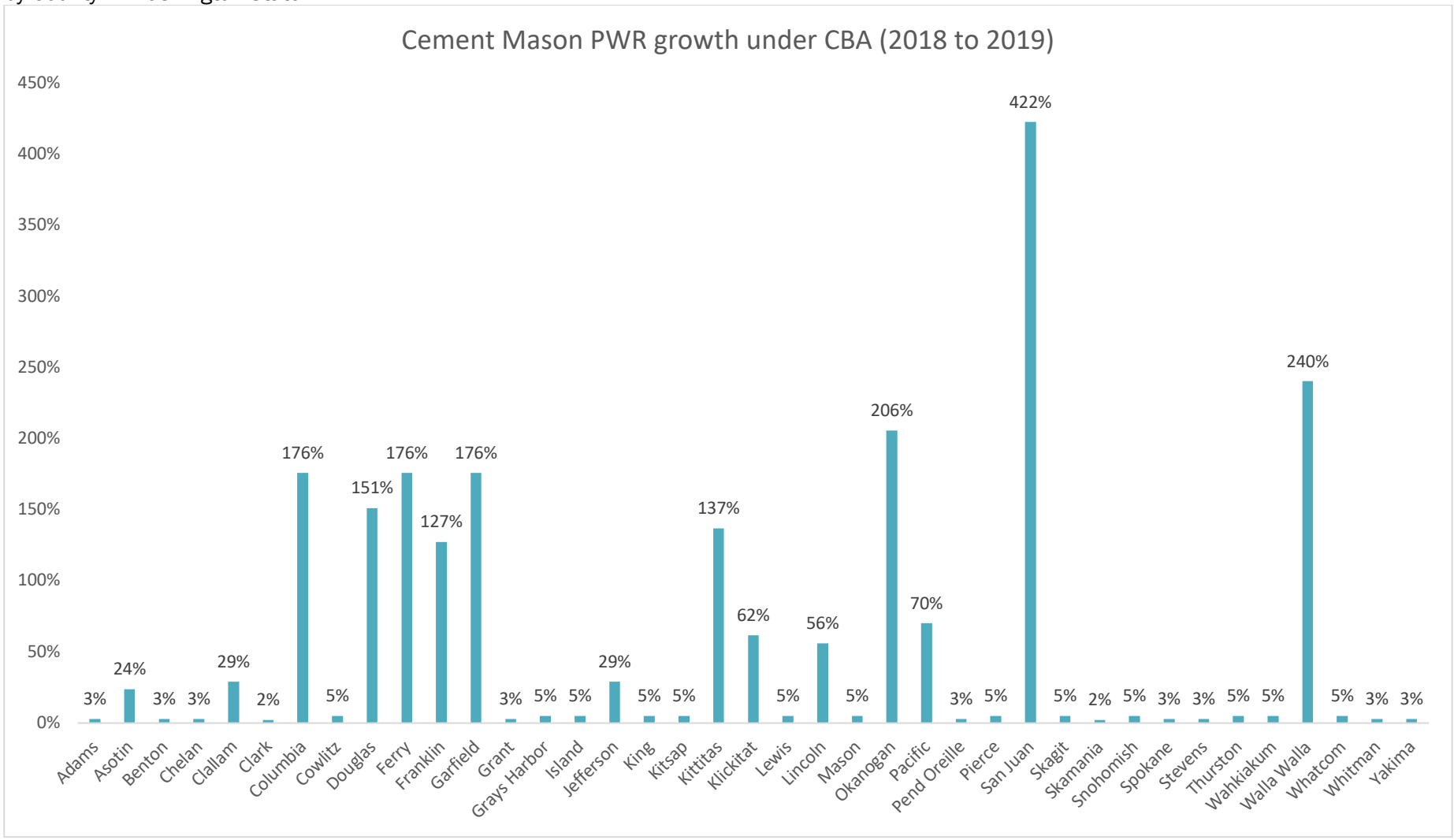
3)Contractor provided data from recently constructed 200 unit affordable housing project in Portland

Figure 2. Prevailing wage hourly rate increases after adopting a CBA approach in WA State (SB 5493) for selected trades, statewide impacts calculated using the simple average of all counties in the state.



Source: Washington State Department of Labor and Industry https://secure.lni.wa.gov/wagelookup/

Figure 3. Prevailing wage hourly rate increases after adopting a CBA approach in WA State (SB 5493) for an example trade (Cement Masons) by County in Washington State



Source: Washington State Department of Labor and Industry https://secure.lni.wa.gov/wagelookup/