

**PREVAILING WAGE IN
NEW YORK STATE
THE IMPACT ON PROJECT COST
AND COMPETITIVENESS
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Prepared for:
New York State Economic Development Council

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SUMMARY

The Center for Governmental Research (CGR) was engaged by the New York State Economic Development Council (NYSEDC) to assess the impact of a prevailing wage requirement on the cost of construction in NYS. The request was prompted by the fact that the State Legislature is considering legislation to extend prevailing wage law requirements to projects for which industrial development agencies (IDAs) issue revenue bonds or provide tax abatements (referred to for the purposes of this report as “IDA projects”).

CGR estimated the impact of prevailing wage on project cost and competitiveness, should the prevailing wage requirements be extended to IDA projects. CGR developed a prototype construction project for purposes of the study.

CGR designed this study to address two key questions:

- ❖ What is the cost impact on a typical construction project when prevailing wage is used rather than market wage?
- ❖ How does the increased cost affect the state’s ability to attract and keep investment and jobs of private employers compared with other states?

To answer the questions, CGR considered the impact of prevailing wage on labor costs and project costs for seven metropolitan statistical areas (MSAs) in New York and seven MSAs in other states.

- ❖ The seven New York regions are: Albany, Buffalo, Nassau/Suffolk (Long Island), New York City (NYC), Poughkeepsie, Rochester and Syracuse.

- ❖ The seven communities outside the state are: Tampa, FL; Indianapolis, IN; Raleigh, NC; Cleveland, OH; Providence, RI; Scranton, PA; and Austin, TX. To compare labor costs and project costs within the state with these out-of-state metro regions, CGR considered current law in each state. Thus, market wages and prevailing wages were reported for Cleveland and market wages only for the remaining six regions.

The analysis made the following assumptions:

- ❖ CGR developed cost estimates for a prototype construction project requiring 200,000 labor hours to complete and five million dollars of other costs. The “other costs” were assumed to be constant in all labor markets.
- ❖ The 200,000 labor hours were distributed among the 17 largest construction occupations according to their share of the construction workforce.
- ❖ The cost of labor by occupation for each of the NYS and comparison communities was estimated using published statistics on both market wages and prevailing wages from the federal and state labor departments.

The full report outlines many significant conclusions. Key findings include:

- ❖ Market wages in NYS metropolitan areas are already higher than wages paid by projects funded by local industrial development agencies in comparison metros. Requiring projects aided by the state’s industrial development agencies to pay prevailing wage would increase the labor cost component of construction projects significantly.
 - At market wages, construction labor costs UPSTATE (the Buffalo, Rochester, Syracuse and Albany labor areas) are 9% higher than comparison communities.

- At **prevailing wages**, construction labor costs UPSTATE are 57% higher than comparison communities.
 - At market wages, construction labor costs DOWNSTATE (the Poughkeepsie, NYC and Long Island labor areas) are 33% higher than comparison communities.
 - At **prevailing wages**, construction labor costs DOWNSTATE are 154% higher than comparison communities.
- ❖ Higher wages translate into significantly higher construction costs.
- At market wages, prototype total project costs UPSTATE are 4% higher than comparison communities.
 - At **prevailing wages**, prototype total project costs UPSTATE are 28% higher than comparison communities.
 - At market wages, prototype total project costs DOWNSTATE are 16% higher than comparison communities.
 - At **prevailing wages**, prototype total project costs DOWNSTATE are 76% higher than comparison communities.

These findings indicate there will be a very significant impact on the ability of NY regions to compete for projects if prevailing wages were extended to IDA projects in New York.

TABLE OF CONTENTS

Summary	i
Table of Contents	iv
Acknowledgments	v
Introduction	1
Overview	2
CGR’s Approach	3
Comparisons Among Occupations	4
Prevailing Wage: Cost Impact in NYS	6
Implications of the Cost Increases	7
Comparing NYS to Other States	8
The Cost of Doing Business in NYS	8
Prevailing Wage Laws in Competitor States	9
Comparison of Labor Costs (No Prevailing Wage Required for IDA Projects)	9
Comparison of Labor Costs (Prevailing Wage Required for IDA Projects)	11
Comparison of Total Project Costs with Market Wages.....	12
Comparison of Total Project Cost with Prevailing Wages	13
Methodology	14
Wage Data	14
How CGR “Built” the Prototype Project	15
Assumptions Used for Calculating Total Project Cost.....	17
Conclusion	17

ACKNOWLEDGMENTS

CGR conducted substantial background research to identify key elements of the construction industry in order to create a realistic, virtual prototype construction project on which to base our analysis. The sources of this information ranged from general contractors to benefit agencies. CGR is grateful for the time and attention numerous individuals provided as we developed a sophisticated approach to answering the key questions posed in this study.

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INTRODUCTION

The Center for Governmental Research (CGR) was engaged by the New York State Economic Development Council (NYSEDC) to assess the impact of a prevailing wage requirement on the cost of construction in NYS. The request was prompted by the fact that several bills are currently before the State Legislature is considering legislation to extend prevailing wage law requirements to projects for which industrial development agencies (IDAs) issue revenue bonds or provide tax abatements (referred to for the purposes of this report as “IDA projects”).

This report is focused solely on estimating the impact of prevailing wage on project cost and competitiveness should the prevailing wage law be extended to IDA projects. CGR developed a prototype construction project to use for comparison, using construction costs for seven metropolitan statistical areas (MSAs) in New York and seven MSAs located in other states. (*Note:* use of the term “region(s)” throughout this report refers to one or more MSAs.)

The seven New York regions are: Albany, Buffalo, Nassau/Suffolk (Long Island), New York City (NYC), Poughkeepsie, Rochester and Syracuse. Throughout the report, CGR makes distinctions between downstate (Long Island, NYC, and Poughkeepsie) and upstate (Albany, Buffalo, Rochester and Syracuse).

The seven regions outside the state are: Tampa, FL; Indianapolis, IN; Raleigh, NC; Cleveland, OH; Providence, RI; Scranton, PA; and Austin, TX. (*Note:* In this report, CGR refers to these seven MSAs as “competitors.”) To compare labor costs and project costs within the state with these out-of-state metro regions, CGR considered current law in each state. Thus, market wages and prevailing wages were reported for Cleveland and market wages only for the remaining six regions.

Based on extensive analysis, CGR's key findings are:

- ❖ For the regions in our sample, CGR estimates that requiring prevailing wage, on average, will increase the total cost of a typical construction project across New York's major metro regions by approximately 36%.
- ❖ CGR estimates extending prevailing wage to IDA projects will increase the total cost of a typical construction project 23% for upstate regions (Albany, Buffalo, Rochester, Syracuse) and 52% for downstate regions (Poughkeepsie, Long Island, NYC).
- ❖ CGR estimates that with market wages, total costs of a prototype construction project in upstate regions are, on average, 4% above their competitors' project costs. However, project costs with prevailing wages for upstate regions are 28% higher than their competitors.
- ❖ For downstate regions, CGR estimates that total costs of a prototype construction project with market wages are, on average, 16% above their competitors' project costs. Requiring prevailing wages causes project costs to be 76% above their competitors for downstate metro areas.

The remainder of this report explains how CGR reached these conclusions.

Overview

The concept of paying a "prevailing wage" dates back more than 65 years to passage by Congress of the Davis Bacon Act. The 1931 act made prevailing wage federal policy in the construction industry, where project bids accepted based on price historically had created a downward push on workers' wages.

Soon after U.S. law mandated that prevailing wage be paid to all construction employees working on federal government projects, states began passing similar legislation. Today 32 states (64%), including New York, have such laws and 18 (36%) still do not have any prevailing wage laws or have repealed them in recent

years. The state laws vary from one state to another, but all typically extend the Davis Bacon Act to any project in the state created for a public entity or classified as a public works project.

In theory, the prevailing wage is one that is either given to the majority of workers of a specified occupation, or is the average wage of all of an occupation's workers within a specified locale. In New York's construction industry, the prevailing wage is essentially equivalent to the regional union wage for a given occupation.

CGR'S APPROACH

CGR designed this study to address two key questions:

- ❖ What is the mark-up on a typical construction project when prevailing wage is used rather than market wage?
- ❖ How does the increased cost impact the state's ability to attract and keep investment and jobs of private employers compared with other states?

To answer these questions, CGR focused on the seven most populous New York metropolitan areas. CGR recorded the median market wages (including benefits) and prevailing wages (including benefits) for every region for the construction occupations of relevance. CGR then used the data to determine the costs of constructing a virtual prototype project in each of these regions.*

*The sources of data and creation of a prototype project are explained in detail in the "Methodology" section at the end of this report. However, a summary description of the prototype project is that CGR created a list of occupations (based on NYS occupations) that are most prevalent in the construction industry. The distribution of employment by occupation within New York's construction industry was used to determine how an occupation should be "weighted" in order to assess its impact on the prototype project.

In order to make comparisons with other states, CGR recorded the median market wages of seven MSAs and prevailing wages of one MSA across the United States with which one or more of the NY regions compete for business and projects (market wages - Tampa, Raleigh, Indianapolis, Austin, Cleveland, Scranton and Providence; prevailing wages - Cleveland). CGR then compared the cost in each of the seven New York localities with the non-NY regions' wages to assess whether a law requiring prevailing wage for private projects in NY would significantly impact relative costs and discourage expansion and retention of businesses into New York State.

In performing our analysis, CGR made the following assumptions:

- 1) Materials costs were assumed to be the same (\$5 million) in every region.
- 2) The productivity of workers was assumed to be the same for both prevailing wage and market wage projects. CGR assumed 200,000 hours of labor for the prototype project and a constant distribution of labor among metro regions.
- 3) The ratio of benefits to total wages for market wages was assumed to be 25.8% for all construction occupations.

(*Note:* For details on the sources of data and calculations used in CGR's analysis, see "Methodology" at the end of this report.).

COMPARISONS AMONG OCCUPATIONS

The following table provides information, by MSA, for the annual market wages of "all occupations" compared to five major construction occupations. For all five construction occupations, the median annual market wage is larger than the median annual wage for all occupations.

Annual Median Wage (Market Wages)							
Occupation	Albany	Buffalo	Rochester	Syracuse	Poughkeepsie	Nassau/Suffolk	NYC
ALL occupations	\$33,550	\$30,098	\$31,179	\$30,139	\$32,802	\$35,027	\$41,490
Carpenters	\$37,274	\$38,043	\$33,488	\$37,024	\$43,618	\$48,235	\$55,630
Construction Laborers	\$33,738	\$33,030	\$34,070	\$32,469	\$30,784	\$40,456	\$53,790
Electricians	\$38,501	\$52,957	\$45,469	\$50,627	\$43,264	\$54,309	\$65,650
Plumbers, Pipefitters, and Steamfitters	\$47,112	\$52,146	\$51,314	\$39,208	\$44,969	\$59,571	\$58,330
Cement Masons and Concrete Finishers	\$54,038	\$45,698	\$43,846	\$49,525	\$54,267	\$52,042	\$49,430

Source: May 2006 Occupational Employment Statistics, Bureau of Labor Statistics

The following table outlines the median market and prevailing wages (with and without benefits) in upstate NY (averaged over the four upstate regions) for the five major construction occupations. CGR's analysis of labor cost and total project cost differences is based on wages with corresponding benefits.

Upstate¹ MSA Market and Prevailing Wage Comparison					
	Median Market Wage	Market Wage incl. Benefits ²	Prevailing Wage	Prevailing Wage incl. Benefits	% Markup of Prevailing Wage incl. benefits over Market wage incl. benefits
Carpenters	\$18.05	\$24.36	\$24.45	\$38.42	57.7%
Construction Laborers	\$16.50	\$22.27	\$21.46	\$34.02	52.8%
Electricians	\$23.22	\$31.33	\$28.74	\$43.78	39.7%
Plumbers, Pipefitters, and Steamfitters	\$22.45	\$30.29	\$27.54	\$44.97	48.5%
Cement Masons and Concrete Finishers	\$23.49	\$31.70	\$28.56	\$43.69	37.8%

1: Upstate includes Albany, Buffalo, Rochester, and Syracuse MSAs

2: Benefits are 25.8% of total wage rate

The next table provides average wage information for the three downstate areas in the analysis.

Downstate¹ MSA Market and Prevailing Wage Comparison					
	Median Market Wage	Market Wage incl. Benefits ²	Prevailing Wage	Prevailing Wage incl. Benefits	% Markup of Prevailing Wage incl. benefits over Market wage incl. benefits
Carpenters	\$24.34	\$32.85	\$41.91	\$77.44	135.8%
Construction Laborers	\$20.64	\$27.85	\$29.43	\$50.10	79.9%
Electricians	\$26.94	\$36.35	\$42.34	\$71.01	95.3%
Plumbers, Pipefitters, and Steamfitters	\$30.46	\$41.10	\$39.46	\$61.11	48.7%
Cement Masons and Concrete Finishers	\$26.88	\$36.27	\$42.16	\$66.50	83.3%

1: Downstate includes Poughkeepsie, Nassau/Suffolk, and NYC MSAs

2: Benefits are 25.8% of total wage rate

PREVAILING WAGE: COST IMPACT IN NYS

To answer the first question – *What is the mark-up on a typical construction project when prevailing wage is used rather than market wage?* – CGR first calculated the impact on labor and construction costs for NY regions. The table below presents the results.

Labor and Project Cost for New York State MSAs Using Market and Prevailing Wages						
MSA	Market Wage - labor cost only	Prevailing Wage -labor cost only	Prevailing Wage Markup - labor cost only	Total Market Wage Cost of Project	Total Prevailing Wage Cost of Project	Prevailing Wage Markup - total project cost
Albany	\$5,345,798	\$7,710,149	44%	\$10,345,798	\$12,710,149	23%
Buffalo	\$5,622,540	\$8,550,985	52%	\$10,622,540	\$13,550,985	28%
Nassau/Suffolk	\$6,534,522	\$12,821,433	96%	\$11,534,522	\$17,821,433	55%
Poughkeepsie	\$5,701,214	\$11,353,441	99%	\$10,701,214	\$16,353,441	53%
Rochester	\$5,233,270	\$7,479,480	43%	\$10,233,270	\$12,479,480	22%
Syracuse	\$5,250,555	\$7,237,908	38%	\$10,250,555	\$12,237,908	19%
NYC	\$7,435,243	\$13,412,893	80%	\$12,435,243	\$18,412,893	48%
Average	\$5,874,734	\$9,795,184	67%	\$10,874,734	\$14,795,184	36%

As the table illustrates, certain regions in the state would experience higher increases than others. Implications from the table include:

- ❖ Prevailing wage policy would increase labor costs in upstate anywhere from 38% to 52%.
- ❖ Labor costs in the Long Island and Poughkeepsie regions are increased by almost 100%.
- ❖ Prevailing wage would increase the labor costs associated with a typical project (the prototype project) by nearly 67%, on average, over market wage for the seven NY regions.

Of course, labor costs are not the only component in a construction project. As noted earlier, CGR assumed a constant

materials cost of \$5 million across all regions.* This assumption created a range of labor ratios from 52% to 60% (and materials ratios from 40 to 48%) depending on geographic region. Results vary for the various metropolitan areas depending on geographic location and include:

- ❖ Prevailing wage requirements would increase the cost of a \$10.35 million project in Albany to approximately \$12.7 million, or by 23%. The increase would be as high as 55% on Long Island.
- ❖ On average across the NY regions, CGR estimates that prevailing wage would increase the total costs of a typical project by approximately 36%.
- ❖ For upstate regions, prevailing wage would increase the total cost of CGR's prototype project by 23%, on average.
- ❖ For downstate regions, prevailing wage would increase the total cost of the prototype project by 52%, on average.

Implications of the Cost Increases

It is difficult to forecast the ultimate impact of larger construction costs on economic development. A close examination of the table above listing labor and project costs for the New York MSAs should raise concern about the potential impact on private projects that have tight budgets. Any project subject to prevailing wage rates might well result in foregone or scaled-back levels of investment.

In particular, construction projects in a community initiated by non-profit organizations (e.g., hospital emergency room, Cerebral Palsy Treatment Centers, senior living facilities, group homes for the mentally and physically disabled, etc.) may be dropped or

* See the Methodology section for a discussion of this assumption. While this assumption drives the numbers in the table on this page, it is not an assumption that is critical to the overall analysis. Using the information from the "Prevailing Wage Mark-up on labor costs only" column, one can change the materials cost assumption and still determine the resulting mark-up in total project costs.

significantly scaled back due to higher costs making planned construction projects unaffordable. These charitable organizations rarely have the option of building their projects in other states. It is beyond the scope of CGR's study to estimate the losses a community might incur as a result of a foregone (or reduced) community construction project. But given the size of the cost differentials, there should be concern that many project investment decision makers would be forced to potentially alter or forgo their construction plans if prevailing wage were extended to IDA projects.

Higher construction costs driven by prevailing wage requirements could also negatively impact a community whenever a developer is choosing between a location in NYS and one outside the state. The next section of this report deals with the second question CGR addresses in this study: *How does the increased cost impact the state's ability to attract and keep investment and jobs of private employers compared with other states?*

COMPARING NYS TO OTHER STATES

The Cost of Doing Business in NYS

Even without prevailing wage laws being extended to IDA projects, economic development teams still face major barriers retaining current business and attracting new business to New York. The Public Policy Institute of New York State, Inc.*, provides information about the high cost of doing business in the state, and we summarize key points below:

- ❖ New York has the second highest cost of doing business in the nation, taking into account wage cost, tax burden, electricity cost, industrial and office rent.
- ❖ New York ranks 35 in the state competitiveness index, which measures a variety of factors (e.g., government fiscal

* See www.ppinys.org/reports/JustTheFacts.html

policy, security, infrastructure, labor force, technology, environmental policy).

- ❖ New York ranks 48 in the Tax Foundation's State Business Tax Climate Index, which rates states based on overall burden, complexity, compliance costs and other factors. The index incorporates corporate, individual income, sales, unemployment insurance, and property taxes.
- ❖ New York has the highest per capita state and local tax burden in the nation.

Prevailing Wage Laws in Competitor States

Metro areas in NY do not compete for business with the same out-of-state regions. Thus, CGR selected, for comparison purposes, seven MSAs around the country that reflect the broad range of metropolitan regions that are likely competitors for one or more of NY's regions. These metro areas are: Indianapolis, IN; Providence, RI; Cleveland, OH; Scranton, PA; Austin, TX; Tampa, FL; and Raleigh, NC. Two of the metro areas outside the state are located in North Carolina and Florida, which do not have state prevailing wage laws. The remaining five states require prevailing wage for projects when state financing is involved. In Ohio, the prevailing wage law specifies if revenue bonds are issued, then prevailing wage is required. CGR has estimated that approximately half of all projects assisted by a NYS IDA involve financing. Thus, CGR includes both prevailing wages and market wages for Cleveland, with the average of the two Ohio alternatives used for the summary averages.

Comparison of Labor Costs (No Prevailing Wage Required for IDA Projects)

The table on the next page compares the market labor costs for CGR's prototype project to the labor costs for regions outside the state. Throughout the remainder of the analysis, market wages were used for Tampa, Raleigh, Scranton, Austin, Providence and Indianapolis but both prevailing wages and market wages were used for Cleveland.

Not surprising, labor costs in NYC are substantially higher than the other six regions within New York State. Since NYC is

atypical, CGR did not include that region in the overall average for the state's regions (see last column of the table). However, what is noteworthy, when examining the accompanying table, is how the other six NY regions stack up against the competitor regions outside the state in terms of labor costs.

Competitiveness Gap: NYS Labor Cost (Market Wage) over Other States' Labor Costs											
MSA	Labor Cost of 200,000 Hour Project	Albany	Buffalo	Rochester	Syracuse	Nassau/ Suffolk	Pough- keepsie	NYC	Upstate	Downstate	Average (w/o NYC)
		\$ 5,345,798	\$ 5,622,540	\$ 5,233,270	\$ 5,250,555	\$ 6,534,522	\$ 5,701,214	\$ 7,435,243	\$ 5,363,041	\$ 6,556,993	\$ 5,614,650
Scranton	\$5,074,072	5%	11%	3%	3%	29%	12%	47%	6%	29%	11%
Cleveland - market	\$5,678,572	-6%	-1%	-8%	-8%	15%	0%	31%	-6%	15%	-1%
Cleveland - prevailing	\$7,989,613	-33%	-30%	-34%	-34%	-18%	-29%	-7%	-33%	-18%	-30%
Providence	\$5,569,857	-4%	1%	-6%	-6%	17%	2%	33%	-4%	18%	1%
Indianapolis	\$5,304,203	1%	6%	-1%	-1%	23%	7%	40%	1%	24%	6%
Austin	\$3,975,431	34%	41%	32%	32%	64%	43%	87%	35%	65%	41%
Tampa	\$3,943,232	36%	43%	33%	33%	66%	45%	89%	36%	66%	42%
Raleigh	\$3,889,435	37%	45%	35%	35%	68%	47%	91%	38%	69%	44%
Average	\$4,941,474	8%	14%	6%	6%	32%	15%	50%	9%	33%	14%

Overall, as summarized in the table, CGR finds:

- ❖ The NY regions have significantly lower labor costs only when their competitor requires prevailing wages for IDA projects (i.e., Cleveland).
- ❖ Even at market rates, NYS is not competitive with Tampa, Raleigh, and Austin. That implies that with market wages, NYS is not able to compete for business with these regions. This anti-competitive situation will only be exasperated if prevailing wages were implemented.
- ❖ If one excludes the high costs of doing business in New York noted earlier, five of the NY regions (Albany, Buffalo, Poughkeepsie, Rochester, Syracuse) are on par with the most competitive non-NY regions (Indianapolis, Scranton, Providence, and market wages for Cleveland). That implies that currently these NY regions should be capable of competing head-to-head for business with those regions outside the state.

- ❖ Long Island and NYC are only able to compete with Cleveland's prevailing wages. They are, however, much less competitive than upstate regions due to higher labor costs. The labor costs for downstate regions are 33% higher, on average, than their competitors in other states.

Comparison of Labor Costs (Prevailing Wage Required for IDA Projects)

The table below shows the impact on labor costs if prevailing wages were to be extended to IDA projects in NYS. CGR analysis shows it is particularly interesting to see what happens to the competitiveness of a particular region once prevailing wage is factored into CGR's analysis. For example:

Competitiveness Gap: NYS Labor Cost (Prevailing Wage) over Other States' Labor Costs											
MSA	Labor Cost of 200,000 Hour Project	Albany	Buffalo	Rochester	Syracuse	Nassau/Suffolk	Pough-keepsie	NYC	Upstate	Downstate	Average (w/o NYC)
		\$ 7,710,149	\$ 8,550,985	\$ 7,479,480	\$ 7,237,908	\$ 12,821,433	\$ 11,353,441	\$ 13,412,893	\$ 7,744,630	\$ 12,529,255	\$ 9,192,232
Scranton	\$5,074,072	52%	69%	47%	43%	153%	124%	164%	53%	147%	81%
Cleveland - market	\$5,678,572	36%	51%	32%	27%	126%	100%	136%	36%	121%	62%
Cleveland - prevailing	\$7,989,613	-3%	7%	-6%	-9%	60%	42%	68%	-3%	57%	15%
Providence	\$5,569,857	38%	54%	34%	30%	130%	104%	141%	39%	125%	65%
Indianapolis	\$5,304,203	45%	61%	41%	36%	142%	114%	153%	46%	136%	73%
Austin	\$3,975,431	94%	115%	88%	82%	223%	186%	237%	95%	215%	131%
Tampa	\$3,943,232	96%	117%	90%	84%	225%	188%	240%	96%	218%	133%
Raleigh	\$3,889,435	98%	120%	92%	86%	230%	192%	245%	99%	222%	136%
Average	\$4,941,474	56%	73%	51%	46%	159%	130%	171%	57%	154%	86%

- ❖ With market wages (see "Mark-up of NYS Market Wage Labor Costs over Other States' Labor Costs"), Albany was competitive with all but Tampa, Raleigh and Austin. If prevailing wages are required, Albany is competitive only with Cleveland's prevailing wages. The average mark-up of labor costs in Albany rises from 8% with market wages to 56% with prevailing wages. Things are much worse for Buffalo, Long Island, Poughkeepsie and NYC.
- ❖ In general, implementing prevailing wage moves the upstate communities from a position of being able to compete with Scranton, Cleveland, Providence and Indianapolis, to one where they are no longer competitive in terms of labor costs in most of those regions.

- ❖ For downstate communities, prevailing wages take away any possibility of competing with out-of-state regions.
- ❖ Prevailing wages cause, on average, a mark-up of labor costs for upstate regions of 57% (compared with 9% with market wages) over their competitors. For downstate, labor costs, on average, are 154% higher than their competitors when prevailing wages are used (compared with 33% with market wages).

Comparison of Total Project Costs with Market Wages

Ultimately, of course, firms do not construct a building project with labor alone. One must consider the entire cost of a project. Thus, CGR next factored in a \$5 million materials cost in order to compare total project costs from one region to another, using the CGR prototype. The table below presents the results of comparing total project costs using market wages in NYS with the competitor regions outside the state.

Competitiveness Gap: NYS Total Project Cost (Market Wage) over Other States' Total Project Costs											
MSA	Total Cost of 200,000 Hour Project	Albany	Buffalo	Rochester	Syracuse	Nassau/Suffolk	Pough-keepsie	NYC	Upstate	Downstate	Average (w/o NYC)
			\$ 10,345,798	\$ 10,622,540	\$ 10,233,270	\$ 10,250,555	\$ 11,534,522	\$ 10,701,214	\$ 12,435,243	\$ 10,363,041	\$ 11,556,993
Scranton	\$10,074,072	3%	5%	2%	2%	14%	6%	23%	3%	15%	5%
Cleveland - market	\$10,678,572	-3%	-1%	-4%	-4%	8%	0%	16%	-3%	8%	-1%
Cleveland - prevailing	\$12,989,613	-20%	-18%	-21%	-21%	-11%	-18%	-4%	-20%	-11%	-18%
Providence	\$10,569,857	-2%	0%	-3%	-3%	9%	1%	18%	-2%	9%	0%
Indianapolis	\$10,304,203	0%	3%	-1%	-1%	12%	4%	21%	1%	12%	3%
Austin	\$8,975,431	15%	18%	14%	14%	29%	19%	39%	15%	29%	18%
Tampa	\$8,943,232	16%	19%	14%	15%	29%	20%	39%	16%	29%	19%
Raleigh	\$8,889,435	16%	19%	15%	15%	30%	20%	40%	17%	30%	19%
Average	\$9,941,474	4%	7%	3%	3%	16%	8%	25%	4%	16%	7%

Results for the analysis in the table shows:

- ❖ Even with market wages, all seven of the NY regions have higher project costs than the three southern metro areas: Tampa, Raleigh and Austin. NYS is currently at a disadvantage in competing with these southern metro areas.

- ❖ Five of the NY regions (Albany, Buffalo, Poughkeepsie, Rochester, Syracuse) are competitive with Scranton, Cleveland, Providence, and Indianapolis. That implies that currently these NY regions should be capable of competing head-to-head for business with those regions outside the state. These cost advantages are critical for NYS regions to compete, given some of the other higher costs of doing business in New York.
- ❖ There are some differences between downstate and upstate. On average, upstate project costs, using market wages, are 4% above than the project costs of their out-of-state competitors. On average, downstate project costs are 16% higher than out-of-state regions' project costs.
- ❖ NYC is, on average, 25% higher in terms of total project cost relative to competitor regions outside New York. CGR notes this finding does not include an implicit higher materials cost in New York City, which would potentially widen the gap even further.

Comparison of Total Project Cost with Prevailing Wages

For the final step in our analysis, CGR examined what happens to total project cost if prevailing wage is required in NYS.

Competitiveness Gap: NYS Total Project Cost (Prevailing Wage) over Other States' Total Project Costs											
MSA	Total Cost of 200,000 Hour Project	Albany	Buffalo	Rochester	Syracuse	Nassau/Suffolk	Poughkeepsie	NYC	Upstate	Downstate	Average (w/o NYC)
		\$ 12,710,149	\$ 13,550,985	\$ 12,479,480	\$ 12,237,908	\$ 17,821,433	\$ 16,353,441	\$ 18,412,893	\$ 12,744,630	\$ 17,529,255	\$ 14,192,232
Scranton	\$10,074,072	26%	35%	24%	21%	77%	62%	83%	27%	74%	41%
Cleveland - market	\$10,678,572	19%	27%	17%	15%	67%	53%	72%	19%	64%	33%
Cleveland - prevailing	\$12,989,613	-2%	4%	-4%	-6%	37%	26%	42%	-2%	35%	9%
Providence	\$10,569,857	20%	28%	18%	16%	69%	55%	74%	21%	66%	34%
Indianapolis	\$10,304,203	23%	32%	21%	19%	73%	59%	79%	24%	70%	38%
Austin	\$8,975,431	42%	51%	39%	36%	99%	82%	105%	42%	95%	58%
Tampa	\$8,943,232	42%	52%	40%	37%	99%	83%	106%	43%	96%	59%
Raleigh	\$8,889,435	43%	52%	40%	38%	100%	84%	107%	43%	97%	60%
Average	\$9,941,474	28%	36%	26%	23%	79%	64%	85%	28%	76%	43%

Based on the results reported in the table, CGR finds:

- ❖ Substituting prevailing wages for market wages in NYS causes the same project, on average, to cost 43% more in the NY regions (excluding NYC) than in competitor regions outside the state.
- ❖ With prevailing wages, project costs for upstate NY regions are now all higher than competitor project costs. For upstate NY regions, the average mark-up of total project cost with prevailing wages is 28% when comparing to all seven out-of-state regions.
- ❖ For downstate NY regions, the average mark-up of total project cost is 76%. Thus, downstate areas would clearly be unable to compete, even with competitor out-of-state regions that require prevailing wages for private projects.
- ❖ The large discrepancies in project costs after the imposing prevailing wage would make economic development hurdles difficult to clear.

METHODOLOGY

This section of the report describes CGR's data sources and assumptions.

Wage Data

CGR sources included:

- ❖ Prevailing wage data (2007) was collected from the NYS Department of Labor for all MSAs in NYS. For the MSA outside NYS where prevailing wages were collected (Cleveland), data were obtained from the Ohio's Department of Labor (2007 data used). Prevailing wage information is reported by county. CGR used, for each region, the prevailing wage reported by the county accounting for more than 50% of total MSA employment.

- ❖ Median wage rates for the seven NYS regions and seven non-NY regions were collected from the Bureau of Labor Statistics – Department of Labor. The data was collected from the Occupation Employment Statistics (OES) data series. Since May 2006 was the most recently available data for median wages, CGR inflated those median wages by 3% to compare with the 2007 prevailing wage rates.*
- ❖ Total MSA employment – U.S. Census Bureau County Business Patterns. (Note: if one county was not predominant, CGR used a weighted average of the prevailing wages for the dominant counties within the MSA.†)

How CGR “Built” the Prototype Project

While CGR recognizes that every construction project is unique, we wanted to analyze the impact on what could be considered an “average” project. CGR took the following steps:

- 1) Compiled data from the Bureau of Labor Statistics May 2006 State Occupational Employment and Wages Estimates for NYS for the “construction and extraction occupations.”
- 2) From the data above, determined the distribution of the percentage of employees (by occupation) within the construction industry.
- 3) Verified market wages were obtainable for the occupations identified. (Note: CGR deleted small occupations accounting for less than 3% of total construction employment‡, and ended up with 32 occupations within the construction industry representing 97% of total employment.)

* The inflation rate from May 2006 to May 2007 was actually 2.69%.

† For example, both Dutchess and Orange counties in the Poughkeepsie MSA account for almost 50% of total employment in the region. Thus, CGR calculated the prevailing wages for Poughkeepsie using a weighted average of both counties’ data, with the weights corresponding to each county’s proportion of total MSA employment.

‡ In these cases, there was no comparable category in which to combine a deleted occupation with an existing one. Examples of the occupations deleted include: “Explosives Workers, Ordnance Handling Experts, and Blasters” and “Continuous Mining Machine Operators.”

- 4) CGR determined that some of the 32 occupations were still too small at the MSA level to have wage data*, but did not want to discount the employment distribution of these groups. Thus, with guidance from experts in the construction industry, CGR combined the employment data of some of these smaller occupation categories with comparable larger ones so that wage data could be obtained at the MSA level.† (Note: This step resulted in a change in wage paid for a 200,000-hour project of less than 1% at the state level.)
- 5) The final list of occupations contained 17 different occupations, and CGR normalized the NYS percentage of employment to aggregate to 100 percent. The final distribution of occupations appears in the next table.‡

Distribution of Occupations within the Construction Industry	
NYS Construction Occupation	Percent of NYS employment
Carpenters	20.15%
Construction Laborers	19.26%
Electricians	14.22%
Plumbers, Pipefitters, and Steamfitters	9.87%
Cement Masons and Concrete Finishers	8.58%
Operating Engineers and Other Construction Equipment Operators	6.41%
Painters, Construction and Maintenance	5.24%
Helpers--Carpenters	3.03%
Structural Iron and Steel Workers	2.55%
Sheet Metal Workers	2.43%
Roofers	1.68%
Hazardous Materials Removal Workers	1.43%
Helpers--Electricians	1.41%
Elevator Installers and Repairers	1.36%
Helpers--Pipelayers, Plumbers, Pipefitters, and Steamfitters	1.25%
Helpers--Brickmasons, Blockmasons, Stonemasons, and Tile and Marble Setters	0.60%
Pipelayers	0.54%
Total	100.00%

* Wage data is unavailable for occupations involving fewer than 50 employees within an MSA.

† For example, CGR moved the employment numbers for “mine cutting and channeling machine operators” and “paving, surfacing, and tamping equipment operators” into the “operating engineers and other construction equipment operators” category.

‡ CGR emphasizes that the name assigned to an occupation category represents the largest employment sector. The 17 categories listed actually represent a total of 32 occupations. (See #4 under “How CGR Built the Prototype Project.”)

- 6) Based the portion of the prototype constructed by a particular occupation on the percentage of employment accounted for at the state level within the construction industry as represented in the table on the previous page: “Distribution of Occupations within the Construction Industry.”

Assumptions Used for Calculating Total Project Cost

Benefits – CGR assumed that benefits were 25.8% of total wages based on data provided by GMR Associates, in turn based on benefits and wages of 527 employees across the state. CGR independently verified the benefit/total wages ratio with Rochester Business Alliance and other independent employers.

Project labor cost – CGR assumed a project length of 200,000 hours and equal productivity for all workers. CGR’s study was intended to primarily address the potential increase in costs from applying prevailing wage to projects that currently pay market wages, so there should be no “productivity effect” between states.

Materials costs – CGR assumed such costs were constant at \$5 million in all regions. (Note: some observers may believe that materials costs should have been factored in at varying levels based on geographic location, but CGR chose to focus on the impact of labor costs when using market wage versus prevailing wage and the comparison with competitor regions outside NY.) CGR believes, based on our research, that \$5 million ensures an appropriate range for the labor/capital ratio, which is variable, but averages approximately 50%. (Note: CGR verified use of the \$5 million total by conducting an analysis of The Pike Company’s projects throughout the state.)

CONCLUSION

CGR made no attempt during this study to explore philosophical questions about the merits or value of prevailing wage laws (e.g., are such laws good or bad; is NYS better served by having a public sector prevailing wage law; should state-funded projects and IDA projects have the same requirements regarding wages in the

construction industry). Instead, we were focused on providing data-based, objective information that could inform and empower decision makers, especially since bills that call for extending NY's prevailing wage law to IDA projects are now before the State Legislature.

CGR directed our efforts at developing an approach to estimating the impact of prevailing wage on project cost and competitiveness should the prevailing wage requirements be extended to IDA projects. This report provides analysis to measure the magnitude of negative impacts that would result from such a change in state law. The results imply prevailing wage has a dramatic impact on project costs.

These findings indicate there will be a very significant impact on the ability of NY regions to compete for projects if prevailing wage requirements were extended to include IDA-financed projects.