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Testimony of
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Before the
New York City Council
Committee on Finance

Prevailing Wage for Building Service Workers in Buildings Owned or Managed by Persons Receiving City Financial Assistance

New York City
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Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. FPI regularly prepares reports on the state of the New York City economy and the economic condition of workers and their families, and on city budget, tax and economic policy issues. Thank you for the opportunity to testify today.

With the city's poverty rate at 22 percent and 20 percent of families with one full-time, year-round worker not able to rise out of poverty,¹ New York City clearly needs good-paying jobs that provide workers the opportunity to lift their families into the middle class. As the Mayor's Commission on Economic Opportunity found in 2006, there has been a tremendous rise since the early 1990s in the number of people in New York City who work yet remain in poverty.²

¹ According to the New York City Center for Economic Opportunity, New York City's poverty rate in 2008 was 22.0 percent. For families with one full-time, year-round worker and one part-time worker, the poverty rate was 15.0 percent. New York City Center for Economic Opportunity, *The CEO Poverty Measure, 2005-2008*, March 2010.

² In its report to the Mayor, the Commission for Economic Opportunity stated: "There has been in recent years a large growth in the number of people who work but remain in poverty. There are over 340,000 working New Yorkers who are living in poverty. They constitute 46 percent of poor households in 2005—up from only 29 percent of poor households in 1990. An ever-widening skills gap and stubborn wage stagnation require strategic approaches

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Using an alternative method to specify the poverty rate recommended by the National Academy of Sciences, New York City's Center for Economic Opportunities estimates that the poverty threshold for a family of four in 2008 was \$30,419. For a full-time, year-round worker, that means it takes an hourly wage of about \$15.00 to reach the poverty threshold. For the fourth quarter of 2009, the median hourly wage for non-managerial, non-professional workers in New York City was about \$13.50.³ Thus, half of city workers who are not managers or professionals are paid wages 10 percent or more below the hourly equivalent of the four-person poverty level.

The City's economic development efforts should be central to this critical need for good-paying jobs. Through various types of tax subsidies, the city annually provides about \$2.3 billion in tax breaks in the name of economic development.⁴ In addition, the City often provides substantial capital investments to subsidize economic development projects and/or sells City-owned property at below-market prices for economic development purposes.

Given the importance of good-paying jobs to the City's economy and its people, the City should not be in the business of subsidizing poverty-wage jobs. In many cases where low-wage jobs are created in projects subsidized directly by taxpayers, there is also a second layer of subsidy if the workers holding those low-wage jobs also have to rely on public subsidies such as food stamps or Medicaid. Where this happens, the City is effectively subsidizing unfair competition to businesses that are paying their workers fair wages and benefits.

This legislation would establish a prevailing wage requirement for building service workers in buildings owned or managed by persons receiving financial assistance or rent from the City. The City Comptroller, who is charged under state law with determining prevailing wage levels, has set the prevailing wage level for office cleaners in Class A buildings at \$21.80 an hour, with a supplemental rate of \$8.36 for health and other benefits.⁵ On an annual basis, an hourly wage of this amount equals \$43,600, about 73 percent of the average annual wage of \$60,081 outside of the finance sector in New York City, and about 143 percent of the four-person poverty level of \$30,419 as determined by the City.⁶

The City already requires prevailing wage for building service workers employed under service contracts with the City.⁷ Prevailing wages are different from "minimum wages" or "living wages." Minimum wages and living wages establish wage floors, while prevailing wages refer to the wages already being paid to the majority of workers in a particular occupational category for

to raise the living standards of low-wage workers. Playing by the rules and being rewarded for hard work must be the ticket to financial security for our city's families." The New York City Commission for Economic Opportunity, Report to Mayor Michael R. Bloomberg, *Increasing Opportunity and Reducing Poverty in New York City*, September 2006, p. 12.

³ FPI analysis of the Current Population Survey.

⁴ See, James A. Parrott, Ph.D., *Testimony before the New York City Council Committee on Economic Development, Oversight: The feasibility of requiring a unified economic development budget as a reporting requirement*, New York City, April 27, 2010.

⁵ Prevailing wages for building service workers vary depending on the occupation, skill required and building type. See Officer of the Comptroller, City of New York, Section 230 Prevailing Wage Schedule. August 31, 2009. http://www.comptroller.nyc.gov/bureaus/bll/2010_pdf_files/230-2009-2010-FINAL.pdf.

⁶ Data from the New York State Department of Labor indicates that the average annual wage in New York City excluding the finance and insurance sector was \$60,081 in 2008.

⁷ The New York City Housing Authority also requires prevailing wages on building services contracts.

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a given class of businesses. This legislation broadens the class of companies doing business with the City to include those businesses that voluntarily enter into agreements with the City to receive a public subsidy or to lease space from the City.

The legislation builds on voluntary agreements that have been reached with developers to pay building service workers prevailing wages in several major economic development and redevelopment projects across the city, including Greenpoint-Williamsburg, Willets Point and Coney Island.

This legislation is good economic and public policy. While data are not readily available on the wages paid on projects benefitting from public subsidy or in companies leasing space from the City, data from the Current Population Survey indicate that one quarter of the roughly 100,000 janitors and other building service workers in New York City receive hourly wages below \$9.39.⁸ Other government data indicate that several thousand New York City building service workers likely are misclassified as independent contractors.⁹ Employers misclassify workers as independent contractors in order to skirt employer obligations to pay payroll taxes and premiums for social insurance programs such as unemployment insurance and workers compensation.¹⁰ Employment misclassification harms workers, law-abiding employers, and taxpayers.

Many New York City building service workers are already paid prevailing wages. This legislation helps level the playing field up. Considerable evidence involving wage standards of different forms underscores the positive effects of wage standards for workers, businesses and for local economic development. Generally, worker turnover is reduced and employers save on recruitment and training costs. Labor productivity increases and customer service improves. Employers adapt and wage standards contribute to stronger local economies. Prevailing wages are critical in helping to build more paths into the middle class.

Extending prevailing wages for more building service workers will help New York City alleviate poverty and promote a sustainable economy. The Mayor's Poverty Commission put it best, "Playing by the rules and being rewarded for hard work must be the ticket to financial security for our city's families." Extending prevailing wages should be part of those rules, for workers, businesses and for the city.

Thank you.

⁸ FPI analysis of the Current Population Survey for 2007 to 2009, expressed in 2009 dollars.

⁹ The Census Bureau reports 16,823 "nonemployers" in janitorial services in New York City in 2007. U.S. Census Bureau, Nonemployer Statistics, <http://www.census.gov/econ/nonemployer/index.html>. The average annual receipts for these 16,823 nonemployers was \$12,240. As the label suggests, "nonemployers" are defined as business entities without employees. While some portion of "nonemployer" janitorial service entities might represent self-employed janitors, the Current Population Survey indicates that only 2.5 percent of New York City's roughly 100,000 janitorial workers are self-employed. This suggests that there may be upward of 10,000 janitors misclassified as independent contractors in New York City.

¹⁰ See, *Annual Report of the Joint Enforcement Task Force on Employee Misclassification to David A. Paterson, Governor, State of New York*, submitted by NYS Department of Labor, M. Patricia Smith, Commissioner and Task Force Chair, February 1, 2009. A Cornell University study estimated that 10.3 percent of New York State's private sector workers were misclassified as independent contractors, Linda H. Donahue, James Ryan Lamare, Fred B. Kotler, J.D., *The Cost of Worker Misclassification in New York State*, Cornell University, ILR School, Feb. 2007.