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Economic Impact on Louisiana Agricultural Industries of the Proposed Change to the Wage Methodology for the Temporary Non-Agricultural Employment H-2B Program

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Executive Summary

This report presents preliminary estimates of the impact of the proposed prevailing wage rate increase for temporary non-agricultural workers hired in the United States under the H-2B program. Economic impact estimates presented here represent estimated increased H-2B labor costs (i.e., processing facility reduction in net returns) as well as the related impacts on associated economic activity for agricultural processing sectors in Louisiana. Study results can be summarized as follows:

- Using FY2010 Department of Labor data, 3,145 H-2B workers were certified in Louisiana for work in agricultural processing sectors.
- The estimated increase in the average prevailing wage for these industries across all industries under new proposed regulations would increase by 32.5%.
- The estimated increase in agricultural processing sector H-2B labor costs would increase by $13.0 million to $19.5 million per year, depending upon hours worked per week.
- The estimated reduction in economic activity resulting from this wage increase is estimated to be $40.1 million to $60.2 million per year.

Introduction

The Department of Labor has proposed to increase the methodology for determining the prevailing wage to be paid to temporary non-agricultural workers hired under the H-2B program. This new wage determination process is scheduled to become effective on April 23, 2012. This purpose of this report is to provide an approximation of the added labor cost, as well as the resulting economic impacts, of this new wage rule on the agricultural processing industry in Louisiana. Employment and wage data from the Department of Labor is utilized to estimate the increase in prevailing wage to be paid to H-2B workers as well as the resulting impacts on economic activity in the state that the resulting decrease in processing firm net returns would cause. Although other related industries, such as agricultural production, could be directly impacted from consequences of the higher H-2B wage rate, this analysis does not include any estimated economic impacts on those related industries. Since estimates in this analysis represent a preliminary approximation of the impact of H-2B wage increases, results presented here are expected to be conservative in nature, given a variety of factors including the potential impacts on other related industries in the state.

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Background

In the January 19, 2011 issue of the Federal Register, the U.S. Department of Labor published the Final Rule which revises the methodology by which the Department calculates the prevailing wage to be paid to temporary non-agricultural workers under the H-2B program (*Federal Register 76(12):3452-3484*). In describing the change in the method of determining wages for H-2B workers the notice states "*This Final Rule requires employers to offer H-2B workers and U.S. workers hired in response to the required H-2B recruitment, a wage that is at least equal to the highest of the prevailing wage, or the Federal, State, or local minimum wage. Under the Final Rule, the prevailing wage is defined as the highest of the following: (1) The wage rate established in the CBA, if the job opportunity is covered by a CBA that was negotiated at arms' length between the union and the employer; (2) the wage rate established under the DBA or the SCA for the occupation in the area of intended employment, if the job opportunity is in an occupation for which such a wage rate has been determined; or (3) the arithmetic mean of the OES-reported wage. This Final Rule changes the methodology for calculating the prevailing wage to the arithmetic mean of the OES wages for a given area of employment and occupation.*"

Final amended regulations to this wage methodology determination for workers hired in the H-2B program, including the process by which employers obtain a temporary labor certification from the Department of Labor for use in petitioning the Department of Homeland Security to employ a nonimmigrant worker in H-2B status, were published by the Department of Labor in the Federal Register on February 21, 2012 (*Federal Register 77(34):10038-10182*). The new H-2B rule is slated to become effective on April 23, 2012, with additional guidance relative to transition procedures to ensure that employers filing H-2B applications on or after April 23, 2012, have sufficient information to file appropriately published in the Federal Register on March 20, 2012 (*Federal Register 77(54):16157-16158*).

Data

The first step in determining the potential impact of changes in H2B regulations is to establish typical usage of H2B labor in Louisiana. Case disclosure data for H2B labor for Fiscal Year 2010 was obtained from the Foreign Labor Certification Data Center's (FLCDC) online site (http://www.flcdatacenter.com/). The FLCDC provides data on individual H2B labor requests and certifications for the fiscal year. It also provides detailed information regarding the number of workers requested, the state in which the business making the request is located, the state in which the workers will be used, and the specific job title of the workers requested. Across the US, a total of 4,535 individual requests were made in FY2010 for 113,055 workers. Of those requests, roughly 82 percent of the requests were either certified or partially certified with a total of 86,596 workers approved.

For Louisiana, a total of 222 requests for H2B labor in FY 2010 (See Table 1). Of those requests, 216 were made by firms located in Louisiana with an additional 6 requests coming from firms outside of the state but requesting a Louisiana work location for the H2B workers. A total of 7,056 workers were requested with 3,921 being certified or roughly 56 percent.

To determine H2B labor usage specifically by agricultural industries, the data provided by FLCDC had to be labeled into general industry categories. Since the FLDC did not provide these industry categories, each individual request was provided an industry label based on the assumed major function of the firm making the request. The total number of workers certified during FY2010 ranged from a low of 2 for firms involved in the companion animal industry (pet care) to as high as 1,415 for firms involved in the seafood industry.

Methodology

With an estimate for H2B labor usage by industry, the next step in determining the impact of regulation changes was to determine the impact on wage rates under the new policy. The FLCDC has an online wage library

that provides wage rates used in H2B labor requests for specific job classifications in different geographic work locations (parishes) throughout the state and country. The user simply selects the geographic region and the specific occupation classification and the online wage library provides prevailing wage rates. Wage rates can and do vary for the same occupation classification depending on the assumed work location.

Table 1. Summary Statistics of H2B Labor in Louisiana, FY 2010

Industry	Total Requests Made	Total Workers Requested	Total Workers Certified	Percent Certified	Average Number Requested Per Request	Average Number Certified Per Request
Ag Aviation	1	6	6	100.00%	6.0	6.0
Ag Machinery	3	14	7	50.00%	4.7	2.3
Amusement Park	2	33	33	100.00%	16.5	16.5
Companion Animals	1	2	2	100.00%	2.0	2.0
Food Service	17	569	150	26.36%	33.5	8.8
Food Processing	4	450	332	73.78%	112.5	83.0
Forestry	3	321	170	52.96%	107.0	56.7
Landscaping Service	35	601	531	88.35%	17.2	15.2
Health Service	1	0	0	0.00%	0.0	0.0
Horse Industry	5	22	20	90.91%	4.4	4.0
Hotel Industry	8	336	180	53.57%	42.0	22.5
Meat Processing	3	79	79	100.00%	26.3	26.3
Non-Agriculture	53	2,498	550	22.02%	47.1	10.4
Rice Industry	1	30	30	100.00%	30.0	30.0
Seafood Industry	37	1,603	1,415	88.27%	43.3	38.2
Sugar Industry	48	492	416	84.55%	10.3	8.7
Total	222	7,056	3,921	55.57%	31.8	17.7

To identify the occupation classification, data from the FLCDC was used. In addition to providing information on the number of workers being requested, the FLCDC data provides job titles and Dictionary of Occupational Titles (DOT) codes for each labor request. These codes were converted into the Occupational Employment Survey (OES)/ Standard Occupational Classification (SOC) codes required by the online wage library with a conversion calculator available on the FLCDC website. To identify the geographic work location of the request, it was assumed that the work location would be the same as the address provided in the FLCDC data of the firm making the request.

With the OES/SOC codes identified for each of the job titles listed in the FLCDC data and with the assumption of the work location being the same as the requesting firm's location, an OES/SOC code and a work location was developed for each labor request with in each of the identified industries. This information was then entered into the online wage library to determine wage rates under both the previous and new H2B regulations. In the few cases in which a labor request was made by an out-of-state firm for a Louisiana work location, the assumption about the work location being the same as the firm's location could not be used. As a result, wage rates for the particular occupation classification was determined for every geographic location within the state and then averaged to be used as the wage rates for those labor requests.

The online wage library provided wage rates effective from July 2011 to June 2012 for 4 different levels (Levels 1, 2, 3, and 4 with the rate increasing as you go from Level 1 to Level 4) as well as an H2B wage rate. Under previous H2B regulations, the H2B wage rate was set essentially at a level that was very close to or equal to the Level 1 wage rate. New regulations, however, change the calculation of the H2B wage rate to the arithmetic mean of the wage rates of Levels 1 through 4. As a result, the impact of the new regulation on wage rates was assumed as the difference between the Level 1 and the H2B wage rates provided by the online wage library. These differences were determined for each labor request made in each industry and then multiplied by the total number of workers certified to determine the total change in H2B labor costs for all labor requests by the industry.

For simplicity, it was assumed that the increased labor costs associated with the new H2B labor regulations would result in equal reductions of net income for the firms. While this would be the direct impact of the new regulations, there would also likely be additional or indirect impacts. To estimate these indirect impacts, labor income multipliers for each general industry category were derived from the Implan™ economic impact modeling system. These multipliers were then used to adjust the direct impact calculated as the increase in labor costs for the industry to develop an estimate for the total (direct plus indirect) impact.

Results

While data was available for non-agricultural related industries, the results were developed for only those agricultural related industries. Table 2 provides estimates for the number of workers certified by major industry classification as well as the wage rates under the previous H2B regulations (previous prevailing wage rate) and the new regulations (final rule wage rate). The percent increase in wage rates from the previous to the existing regulation averaged 32.51 percent across all industries examined ranging from a low of 18.98 percent to a high of 51.42 percent.

Table 2. Estimated H2B Labor Usage and Wage Rates By Agricultural Industry For Louisiana

Industry	Total Workers Certified	Previous Prevailing Wage Rate[A]	Final Rule Wage Rate[A]	Percent Change
Ag Aviation	6	$9.00	$13.02	44.67%
Ag Machinery	7	$8.15	$9.70	18.98%
Food Service	150	$8.01	$10.09	25.91%
Food Processing	332	$8.65	$12.32	42.44%
Forestry	170	$11.64	$16.31	40.12%
Landscaping Service	531	$8.60	$11.38	32.33%
Horse Industry	20	$9.03	$12.27	35.91%
Meat Processing	79	$7.85	$9.44	20.33%
Rice Industry	30	$8.48	$12.84	51.42%
Seafood Industry	1,415	$8.38	$10.57	26.16%
Sugar Industry	416	$10.05	$14.35	42.73%
Total	3,156	$8.81	$11.68	32.51%

[A] These wage rates are the weighted average of all occupational classifications certified for the industry.

Given the number of workers certified in agricultural related industries in Louisiana during FY 2010 and with wage rates under both the previous and new H2B labor regulations, the only issues left to be addressed to determine the total change in labor costs were assumptions about the number of hours worked per week and the total number of weeks worked. Two different scenarios were analyzed. The first scenario assumed workers would work 40 hours per week over a 36 week period (or roughly 9 months). Table 3 provides the total estimated labor costs associated with each industry under both the previous prevailing wage rate and the final rule wage rate. The increase in labor costs across all industries examined was $13 million at FY 2010 H2B labor usage. Increased costs ranged from as low as $34,733 for those industries with relatively few H2B workers to as high as $4.5 million for the seafood industry which employed over 1,400 H2B workers during FY 2010.

These increased labor costs are assumed to equal the expected reduction in net income for those industries and are, therefore, the direct impact of the regulation changes. However, they provide only a part of the impact as reductions in net income to those industries would be expected to have other indirect impacts on the surrounding economies. To address this issue of indirect impacts, labor income multipliers for each of the industries were obtained. Given the direct impact of the income reduction, the labor income multiplier provides an estimate of the impact to not only that industry (i.e., the direct impact) but also the impact to the remaining sectors in the economy (i.e., indirect impact).

Using labor income multipliers, the total impact or the direct plus indirect impact of the regulation changes were calculated in Table 3. Labor income multipliers ranged from 1.30 for agricultural aviation to as high as 4.62 for sugarcane processing. The total impact across all industries was estimated at $40 million, ranging from $34,309 to $13.5 million depending on the industry.

Table 3. Estimated Economic Impact of Changing H2B Regulations on Agricultural Industries in Louisiana, Assumes 40 hours per week for 36 weeks.

Industry	Total Labor Costs With Previous Prevailing Wage Rate	Total Labor Costs With Final Rule Wage Rate	Difference	Labor Income Multiplier	Total Impact
Ag Aviation	$77,760	$112,493	$34,733	1.30	$45,153
Ag Machinery	$82,166	$97,762	$15,595	2.20	$34,309
Food Service	$1,731,053	$2,179,512	$448,459	1.60	$717,535
Food Processing	$4,133,966	$5,888,261	$1,754,294	2.98	$5,227,797
Forestry	$2,849,472	$3,992,688	$1,143,216	3.81	$4,355,653
Landscaping Service	$6,574,248	$8,699,774	$2,125,526	1.49	$3,167,034
Horse Industry	$260,064	$353,462	$93,398	2.28	$212,948
Meat Processing	$892,858	$1,074,341	$181,483	2.99	$542,635
Rice Industry	$366,336	$554,688	$188,352	2.29	$431,326
Seafood Industry	$17,065,498	$21,530,030	$4,464,533	3.03	$13,527,534
Sugar Industry	$6,022,958	$8,596,656	$2,573,698	4.62	$11,890,483
Total	$40,056,379	$53,079,667	$13,023,288		$40,152,408

The second scenario examined assumed workers would work 60 hours per week over the same 36 week period. Table 4 shows the total labor costs associated with the previous prevailing wage rate and the final rule wage rate as well as both the direct and total impact to the agricultural industries in Louisiana. The total direct impact was estimated at $19.5 million ranging from $52,099 to as high as $6.7 million depending on the industry. The total impact (direct plus indirect) was estimated at $60.2 million with a range for $51,464 to $20.3 million.

Table 4. Estimated Economic Impact of Changing H2B Regulations on Agricultural Industries in Louisiana, Assumes 60 hours per week for 36 weeks.

Industry	Total Labor Costs With Previous Prevailing Wage Rate	Total Labor Costs With Final Rule Wage Rate	Difference	Labor Income Multiplier	Total Impact
Ag Aviation	$116,640	$168,739	$52,099	1.30	$67,729
Ag Machinery	$123,250	$146,642	$23,393	2.20	$51,464
Food Service	$2,596,579	$3,269,268	$672,689	1.60	$1,076,302
Food Processing	$6,200,950	$8,832,391	$2,631,442	2.98	$7,841,696
Forestry	$4,274,208	$5,989,032	$1,714,824	3.81	$6,533,479
Landscaping Service	$9,861,372	$13,049,662	$3,188,290	1.49	$4,750,552
Horse Industry	$390,096	$530,194	$140,098	2.28	$319,423
Meat Processing	$1,339,286	$1,611,511	$272,225	2.99	$813,952
Rice Industry	$549,504	$832,032	$282,528	2.29	$646,989
Seafood Industry	$25,598,246	$32,295,046	$6,696,799	3.03	$20,291,302
Sugar Industry	$9,034,438	$12,894,984	$3,860,546	4.62	$17,835,724
Total	$60,084,569	$79,619,501	$19,534,932		$60,228,612

References

"Wage Methodology for the Temporary Non-Agricultural Employment H-2B Program," Federal Register 76:12 (Jan. 19, 2011) pp. 3452-3484.

"Temporary Non-Agricultural Employment H-2B Aliens in the United States," Federal Register 77:34 (Feb. 21, 2012) pp. 10038-10182.

"Changes to the Labor Certification Process for the Temporary Non-Agricultural Employment of H-2B Aliens in the United States: Transition Period," Federal Register 77:54 (Mar. 20, 2012) pp. 16157-16158.