

THIRD READING

Bill No: AB 1198
Author: Haney (D)
Amended: 8/21/26 in Senate
Vote: 21

SENATE LABOR, PUB. EMP. & RET. COMMITTEE: 5-0, 6/10/26
AYES: Smallwood-Cuevas, Strickland, Cortese, Durazo, Laird

SENATE APPROPRIATIONS COMMITTEE: 6-1, 8/13/26
AYES: Cervantes, Cabaldon, Dahle, Grayson, Richardson, Wahab
NOES: Seyarto

ASSEMBLY FLOOR: 65-6, 1/29/26 - See last page for vote

SUBJECT: Public works: prevailing wages

SOURCE: State Building and Construction Trades Council of California

DIGEST: This bill requires updated prevailing wage rates, as determined by the Director of the Department of Industrial Relations (DIR), to apply to any public works contract that is awarded or for which notice to bidders is published after July 1, 2027, if the awarded value of the prime contract is \$35 million or greater. Contracts for affordable housing development projects are exempt from this requirement, as specified.

Senate Floor Amendments of 8/21/26: 1) limit mid-project prevailing wage rate increases to any public works contract that is awarded or for which notice to bidders is published after July 1, 2027, if the awarded value of the prime contract is \$35 million or greater; and 2) clarify, for affordable housing development projects, that the Director shall determine prevailing wage rate increases during a semiannual period.¹

¹ For affordable housing developments, the Director's determination shall not be effective as to any contract for which notice to bidders has been published or as to any contract that has been awarded.

ANALYSIS:

Existing law:

- 1) Establishes the DIR, under the control of an executive officer known as Director of Industrial Relations (Director), to foster, promote, and develop the welfare of the wage earners of California, to improve their working conditions, and to advance their opportunities for profitable employment. (Labor Code §50-64.5)
- 2) Requires that not less than the general prevailing rate of per diem wages be paid to all workers employed on a “public works” project costing over \$1,000 dollars and imposes misdemeanor penalties for violations of this requirement. (Labor Code §1771)
- 3) Requires the body awarding any contract for public work, or otherwise undertaking any public work, to obtain the general prevailing rate of per diem wages and the general prevailing rate for holiday and overtime work in the locality in which the public work is to be performed for each craft, classification, or type of worker needed to execute the contract from the Director. (Labor Code §1773)
- 4) Requires the Director to determine the general prevailing rate of per diem wages and the Director’s determination to be final, except as specified. (Labor Code §1770)
- 5) Provides that in determining the prevailing wage rate, the Director shall ascertain and consider the applicable wage rates established by collective bargaining agreements (CBAs) and the rates that may have been predetermined for federal public works, within the locality and in the nearest labor market area. Where the rates do not constitute the rates actually prevailing in the locality, the Director shall obtain and consider further data from the labor organizations and employers or employer associations concerned, including the recognized collective bargaining representatives for the particular craft, classification, or type of work involved. The rate fixed for each craft, classification, or type of work shall be not less than the prevailing rate paid in the craft, classification, or type of work. (Labor Code §1773)
- 6) Provides that if the Director determines that the rate of prevailing wage for any craft, classification, or type of worker is the rate established by a CBA, the Director may adopt that rate by reference as provided for in the CBA and that

determination shall be effective for the life of the agreement or until the Director determines that another rate should be adopted. (Labor Code §1773)

- 7) Requires the Director to use the following methodology to determine the general prevailing rate of per diem wages in the locality in which the public work is to be performed:
 - a) The basic hourly wage rate being paid to a majority of workers engaged in the particular craft, classification, or type of work within the locality and in the nearest labor market area, if a majority of the workers are paid at a single rate. If no single rate is being paid to a majority of the workers, then the single rate being paid to the greatest number of workers, or modal rate, is prevailing. If a modal rate cannot be determined, then the Director shall establish an alternative rate by considering the appropriate CBAs, federal rates, rates in the nearest labor market area, or other data such as wage survey data.
 - b) Other employer payments included in per diem wages pursuant to Labor Code §1773.1 and as included as part of the total hourly wage rate from which the basic hourly wage rate was derived. In the event the total hourly wage rate does not include any employer payments, the Director shall establish a prevailing employer payment rate, as specified.
 - c) The rate for holiday and overtime work shall be those rates specified in the CBA when the basic hourly rate is based on a CBA rate. In the event the basic hourly rate is not based on a CBA, the rate for holidays and overtime work, if any, included with the prevailing basic hourly rate of pay shall be prevailing. (Labor Code §1773.9)
- 8) Provides that if the Director determines that the general prevailing rate of per diem wages is the rate established by a CBA, and that the CBA contains definite and predetermined changes during its term that will affect the rate adopted, the Director shall incorporate those changes into the determination. Predetermined changes that are rescinded prior to their effective date shall not be enforced. (Labor Code §1773.9)
- 9) Provides that if during any quarterly period the Director determines that there has been a change in any prevailing rate of per diem wages in any locality he or she shall make such change available to the awarding body and his or her determination shall be final. Such determination by the Director shall not be

effective as to any contract for which the notice to bidders has been published.
(Labor Code §1773.6)

This bill:

- 1) Requires, if during any semiannual period the Director determines there has been a change in any prevailing rate of per diem wages, the Director to make such change available to the awarding body. The Director's determination shall be final, except as specified.
- 2) Provides that the Director's determination of a change in the prevailing wage shall only apply on its effective date to any contract that is awarded or for which notice to bidders is published after July 1, 2027, if the awarded value of the prime contract is \$35 million or greater.
- 3) Exempts from the requirement in 2) contracts for a housing development project if 100 percent of units, excluding managers' units, are restricted by deed, regulatory restrictions contained in an agreement with a governmental agency, or other recorded document as affordable housing for persons and families of low or moderate income, as specified, or subject to an agreement that provides housing subsidies for affordable housing for persons and families of low or moderate income, as specified.
- 4) Provides that for contracts for a housing development project, described in 3), the Director's determination of a change in the prevailing wage *shall not be effective* as to any contract for which notice to bidders has been published or as to any contract that has been awarded.
- 5) Authorizes any contractor, awarding body, or representative of any craft, classification, or type of work affected by a change in rates on a particular contract to, within 20 days after publication of the new determination, file with the Director a verified petition to review the determination of that rate upon the ground that it has not been determined in accordance with (Labor Code §1773). Within two days after the filing of the petition, a copy of that petition shall be filed with the awarding body. The petition shall set forth the facts upon which it is based.
- 6) Requires the Director, or the Director's authorized representative, to, upon notice to the petitioner, the awarding body, and other persons the Director deems proper, including the recognized collective bargaining representatives for

the particular crafts, classifications, or types of work involved, initiate an investigation or hold a hearing.

- 7) Requires the Director, within 20 days after the filing of a petition, or within a longer period as agreed upon by the Director, awarding body, and all interested parties, to make a final determination and transmit that determination in writing to the awarding body and to the interested parties.
- 8) States that a determination by the Director is effective 10 days after its issuance. The Director shall include an issue date on the determination. The determination shall remain in effect until it is modified, rescinded, or superseded by the Director.
- 9) Provides that 1) through 8) shall become operative on July 1, 2027.

Background

Prevailing Wages: The prevailing wage rate is the basic hourly rate paid on public works projects to a majority of workers engaged in a particular craft, classification, or type of work within the locality and in the nearest labor market area. Prevailing wage laws ensure that the ability to receive a public works contract is not based on paying lower wages than a competitor. The Director of DIR has the sole responsibility to establish prevailing wage rates for all classifications of workers. In determining the rates, the Director ascertains and considers the applicable wage rates contained in CBAs and the rates that have been predetermined for federal public works.

The Director issues wage determinations semiannually on February 22 and August 22. Determinations become effective 10 days after their issue date- on March 3rd in leap years and March 4th in non-leap years and September 1st.

Predetermined Wage Increases: Existing law states that if the Director determines that there has been a change in the prevailing wage, such change shall be made available to an awarding body. This notification is for informational purposes and *does not require* an awarding body to update wages on contracts for which the notice to bidders has been published or for ongoing projects. However, there is the potential for prevailing wage rates to change mid-project if the wage determination in effect at the time of bidding includes a predetermined increase.

Each prevailing wage determination contains an expiration date and either one or two asterisks to indicate whether there is a predetermined change. A double asterisk following the determination's expiration date indicates a predetermined

change in the prevailing wage rate. If work on a project extends past the expiration date, the new rates must be paid and should be incorporated into contracts at the start of the project. Predetermined increases typically occur when the prevailing wage rate is based on a CBA and the CBA includes a scheduled pay increase. Predetermined increases are available on DIR's website. A single asterisk following the determination's expiration date indicates that the prevailing wage rate remains in effect for the entirety of the project.

Comments

This bill requires the Director's determination of a change in the prevailing wage rate to apply on its effective date to any public works contract that is awarded or for which notice to bidders is published after July 1, 2027. Put simply, this bill requires mid-project prevailing wage increases. Additionally, this bill exempts contracts for an affordable housing development project, as specified, and establishes a mechanism to review the Director's determination.

The author argues that if a project extends beyond scheduled wage increases, or if no increases were set by the wage determination in effect at the time of bidding, workers will receive outdated wages that do not reflect current labor standards. Furthermore, the author argues that allowing contractors to pay outdated wage rates for the duration of a project creates an uneven playing field for contractors who update wages to reflect current prevailing wage determinations or negotiated labor agreements.

This bill contains nearly identical language to AB 1140 (Daly, 2013), which was vetoed by Governor Brown, and AB 2182² (Haney, 2024), which was vetoed by Governor Newsom.

Governor Brown's veto message stated the following:

"This measure requires contractors on public works projects to increase workers' pay any time the state updates its prevailing wage rates. This is intended to address the circumstance where a non-union contractor is not

² AB 2182 would have applied mid-project prevailing wage increases to any contract for which notice to bidders was published after July 1, 2026, and that met all of the following requirements:

- The contract is not for the development of housing.
- The contract is subject to public works law, as specified.
- The awarded value of the prime contract is \$35 million or greater.
- The contract is not awarded by the state or a state agency, nor is the contract awarded in furtherance of a project undertaken by the state. "State" is inclusive of the Legislature, the Judicial Council, the California State University, and the University of California.

required to adjust wages mid-project but a union contractor is subject to such adjustments pursuant to a collective bargaining agreement.

In most cases, projects are bid, awarded and completed in a relatively short period of time and this measure would have little, if any impact. Larger, long term projects are the more likely setting for the union/non-union wage differential this bill seeks to address. Unfortunately, introducing such wage adjustments as proposed by this measure is likely to lead to uncertainty in the cost of public works projects and increase costs ultimately borne by the taxpayers.

Finally, many collective bargaining agreements already address this limited circumstance by allowing wage rates to remain at the level determined by the state at the time of the bid, award or start of the contract. Given this, I do not find a statutory change warranted to address the issue raised by this measure.”

Governor Newsom’s veto message stated the following:

“This bill would require that any change in prevailing wage rates apply to existing contracts on certain public works projects...

While I am a steadfast supporter of prevailing wage law, the adjustments proposed by this measure would likely lead to uncertainty in the cost of public works projects, potentially creating significant cost pressures on the state budget.

In partnership with the Legislature this year, my Administration has enacted a balanced budget that avoids deep program cuts to vital services and protected investments in education, health care, climate, public safety, housing, and social service programs that millions of Californians rely on. It is important to remain disciplined when considering bills with significant fiscal implications that are not included in the budget, such as this measure.”

The questions raised in both veto messages remain relevant today. Who will bear the costs related to increases in wage rates mid-project? What effect will this have on future bids for public works projects? However, the committee also asks, is it fair to pay non-union workers employed on lengthy public works projects an outdated prevailing wage rate? Would applying mid-project wage rate increases maintain a level playing field?

Related/Prior Legislation

AB 2182 (Haney, 2024) would have, among other things, required a change in the prevailing rate of per diem wages, as determined by the Director, to apply to any public works contract for which notice to bidders is published after July 1, 2026, and that meets specified criteria. AB 1198 is substantially similar to AB 2182. The bill was vetoed by Governor Newsom.

AB 1140 (Daly, 2013) would have required a change in the prevailing rate of per diem wages, as determined by the Director, to apply to any public works contract that is awarded or for which notice to bidders is published on or after January 1, 2014. AB 1198 is nearly identical to AB 1140. The bill was vetoed by Governor Brown.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- DIR indicates that it would incur first-year costs of \$5.75 million to \$6 million, and \$5.4 million to \$5.7 million annually thereafter, to implement the provisions of the bill (State Public Works Enforcement Fund).
- To the extent that state agencies execute a public works project, the bill would result in increased project costs. The magnitude is unknown, but potentially significant (General Fund and special fund).

SUPPORT: (Verified 8/21/26)

State Building and Construction Trades Council of California (Source)
California Association of Sheet Metal & Air Conditioning Contractors National Association
California Federation of Labor Unions
California Legislative Conference of Plumbing, Heating & Piping Industry
California-Nevada Conference of Operating Engineers
California State Association of Electrical Workers
California State Pipe Trades Council
Finishing Contractors Association of Southern California
International Union of Painters and Allied Trades, District Council 16
International Union of Painters and Allied Trades, District Council 36
National Electrical Contractors Association
Northern California Allied Trades
Northern California Floor Covering Association

Southern California Association of Scaffold Contractors
Southern California Contractors Association
Southern California Glass Management Association
Teamsters California
United Contractors
Wall and Ceiling Alliance
Western Painting and Coating Contractors Association
Western States Council Sheet Metal, Air, Rail and Transportation
Western Wall and Ceiling Contractors Association

OPPOSITION: (Verified 8/21/26)

American Society of Civil Engineers Region 9
Associated General Contractors of California
California Association of Resource Conservation Districts
California Association of School Business Officials
California Solar & Storage Association
California Special Districts Association
California State Association of Counties
California Transit Association
Calleguas Municipal Water District
City of Thousand Oaks
City of Roseville
League of California Cities
Nevada County Board of Supervisors
Resource Conservation District of Tehama County
Rural County Representatives of California
San Bernardino County
Urban Counties of California
Western Electrical Contractors Association

ARGUMENTS IN SUPPORT: The source of the measure, the California Building and Construction Trades, argues:

“[AB 1198] is crucial to ensuring that all contractors operate on a level playing field and that workers receive fair wages as determined by collective bargaining agreements (CBAs) which determine the prevailing wage.

In California contract law, the asterisk (*) and double asterisk (**) provisions in prevailing wage determinations indicate that future wage increases are tied to a collective bargaining agreement (CBA) but may not be immediately reflected in the contract at the time of bidding. The single asterisk (*) signifies that wage rates

are subject to periodic adjustments based on scheduled increases in the CBA, while the double asterisk (**) denotes that the wage determination itself is entirely based on an underlying CBA, including any future wage escalations. However, some non-union contractors exploit this system by bidding on public works projects using the lower, pre-adjustment wage rates and then refuse to honor subsequent increases once the contract is awarded. This creates an unfair advantage over responsible contractors who comply with CBA-mandated wage adjustments, undermining fair competition and leading to wage suppression for workers.

AB 1198 seeks to close this loophole by ensuring that all contractors adhere to post-award wage adjustments, reinforcing fair labor practices in public works projects. AB 1198 closes this loophole by requiring that prevailing wages be adjusted in accordance with CBAs that take effect after a contract is awarded. This will ensure that all contractors adhere to the same wage obligations, preventing unfair cost-cutting tactics that harm both workers and law-abiding businesses. Furthermore, this bill reinforces California's commitment to fair labor standards and the protection of skilled workers who rely on negotiated wage increases to keep up with the cost of living."

ARGUMENTS IN OPPOSITION: The Western Electrical Contractors Association opposes the measure, arguing:

"AB 1198 would fundamentally change how prevailing wage determinations apply to public

works contracts by requiring that any change in a prevailing wage rate during a semiannual period be applied to contracts awarded or bid after July 1, 2027. While presented as an administrative update, the fiscal and practical consequences are substantial."

The Rural County Representatives of California, the California State Association of Counties, the League of California Cities, and the California Special Districts Association, among others, oppose the measure unless amended, arguing:

"Under current law, when a project is first advertised for bid, the public agency (as well as the contractor) can go to a webpage managed by DIR to see what the prevailing wage rates are. These wage rates generally include those upcoming increases which will occur during the duration of the project. Contractors incorporate those known labor costs into their bids, allowing public agencies to accurately evaluate proposals, establish project budgets, secure financing, and award contracts with certainty. We are concerned that contracting and put projects in jeopardy.

For projects funded through fixed appropriations, grants, bond proceeds, voter-approved local revenues, or adopted local budgets, unexpected labor cost increases may require agencies to reduce project scope, delay construction, or cancel projects altogether. It would be challenging to predict how many future wage determinations could occur during the project period and adequately plan for cost increases, which may put potential projects at risk...

By introducing additional cost uncertainty into public works contracting, the bill will increase overall project costs and further challenge the affordability of critical infrastructure investments for state and local governments.”

ASSEMBLY FLOOR: 65-6, 1/29/26

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Chen, Connolly, Davies, Elhawary, Fong, Gabriel, Gallagher, Garcia, Jeff Gonzalez, Mark González, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NOES: DeMaio, Ellis, Johnson, Macedo, Sanchez, Tangipa

NO VOTE RECORDED: Arambula, Castillo, Dixon, Flora, Gipson, Hadwick, Ransom, Celeste Rodriguez, Valencia

Prepared by: Emma Bruce / L., P.E. & R. / (916) 651-1556
8/26/26 9:12:15

**** END ****