About this Report
The WCIRB prepares and presents reports to the WCIRB's Classification and Rating Committee to assist in the formulation of proposed changes to the Insurance Commissioner’s regulations. Once adopted by the Classification and Rating Committee, the recommendations contained in the report are provided to the WCIRB Governing Committee and may be included in a WCIRB regulatory filing that is submitted to the Insurance Commissioner for approval.

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Report on Dual Wage Thresholds

5190/5140, Electrical Wiring
5183(1)/5187(1), Plumbing
5183(2)/5187(1), Refrigeration Equipment
5538/5542, Sheet Metal Work

2011 Study of Dual Wage Thresholds

At the direction of the Classification and Rating Committee, in 2011 the WCIRB commenced a two-year comprehensive review of the wage thresholds for the construction classifications currently segregated based on hourly wage. The 2011 study included Classifications 5538/5542, Sheet Metal Work; 5183(1)/5187(1), Plumbing; 1 5474/5482, Painting; and 5190/5140, Electrical Wiring, 2 and recommended wage threshold changes for the following classifications:

2011 Study – Recommended Thresholds

<table>
<thead>
<tr>
<th>Classification</th>
<th>Current Threshold</th>
<th>Recommended Threshold</th>
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<tbody>
<tr>
<td>5190/5140, Electrical Wiring</td>
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<td>$30</td>
</tr>
<tr>
<td>5538/5542, Sheet Metal Work</td>
<td>$25</td>
<td>$28</td>
</tr>
<tr>
<td>5183/5187, Plumbing</td>
<td>$24</td>
<td>$29</td>
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At its meeting on July 25, 2011, the Classification and Rating Committee discussed whether the full change in each threshold should be recommended for 2012 or the change phased in over several years. Historically, increases in the dual wage thresholds have been limited to $1 per year to mitigate the impact of threshold changes on the affected industries. The Committee noted that (1) the threshold values for the dual wage classifications had not been increased since 2009, (2) the 2011 study of these dual wage classifications supported the full amount of the increase, and (3) the full increases are generally supported by wage inflation in the construction industry since the threshold was last changed. The Committee concluded that wage threshold changes reflected above should be included in the WCIRB’s January 1, 2012 Pure Premium Rate Filing.

The recommended threshold changes were reviewed by the Governing Committee at its meeting of August 10, 2011, wherein the Governing Committee expressed concern over the continued viability of dual wage classifications. The Governing Committee deferred recommending any changes to the threshold values at that time. Instead, the Governing Committee directed the WCIRB to continue studying the remaining dual wage thresholds while concurrently conducting a comprehensive study of the use of dual wage classifications.

Comprehensive Study of Dual Wage Classifications and Thresholds

In 2012, the WCIRB conducted a comprehensive study on the use of dual wage classifications 3 and continued its study of additional dual classification wage thresholds. During this process, the WCIRB conducted outreach meetings on December 12, 2011, February 9, 2012, May 8, 2012 and July 16, 2012 where employers, insurers, brokers, labor and construction association representatives were invited to discuss the continued viability of dual classifications by wage level in today’s open rating environment, the use of alternative premium adjustment programs, fraud and the need for wage threshold adjustments.

1 Classification 5183(1)/5187(1), Plumbing, has is an alternate wording – 5183(2)/5187(2), Refrigeration Equipment. Reference to Classification 5183(1)/5187(1), Plumbing, or “plumbing” in this report includes Classification 5183(2)/5187(2), Refrigeration Equipment.
2 See the Minutes for Item CR11-07-06 Report on the Study of Dual Wage Thresholds of the July 25, 2011 WCIRB Classification and Rating Committee meeting.
3 See the report on Comprehensive Evaluation of California’s Dual Wage Classifications on www.wcirb.com.
The comprehensive 2012 study of the dual wage system showed that dual wage classifications were generally effective in addressing potential pure premium inequities due to differing wage levels within construction classifications and recommended its continuation. The study also recommended that thresholds be adjusted regularly to maintain the integrity of the dual wage system.

As a result of the 2012 comprehensive study, the wage threshold changes indicated in the 2011 and 2012 studies, including those shown above, were included in the January 1, 2013 Pure Premium Rate Filing.

January 1, 2013 Pure Premium Rate Hearing
At the January 1, 2013 Pure Premium Rate hearing held on November 16, 2012, a representative of the Pacific Advocacy Group (PAG) testified on behalf of members of the Western Electrical Contractors Association, Plumbing-Heating-Cooling Contractors Association of California, and the Air Conditioning Trade Association. In its testimony and submitted written comments, PAG opposed the WCIRB's recommendation to increase the wage thresholds for contractors involved in electrical wiring, plumbing and sheet metal work. PAG noted that the recent recession has resulted in a decrease in construction wages over the last several years, and that any increase to the wage thresholds would increase the cost of construction, dampen job growth and potentially drive more contractors out of business.

In response to the business reasons provided by PAG, the Insurance Commissioner did not adopt the recommended wage thresholds for Classifications 5190/5140, Electrical Wiring, 5183(1)/5187(1), Plumbing, and 5538/5542, Sheet Metal Work. The Insurance Commissioner also directed the WCIRB to meet with PAG and the associations noted above to obtain additional information on how the wage-level adjustments will affect those employers with these classifications and attempt to reach an agreement on when and by how much an adjustment to the wage-level should occur.

2013 Update to Study of Dual Wage Thresholds
The 2011 study and recommended wage thresholds for the electrical wiring, plumbing and sheet metal work classifications were based on unit statistical report payroll and losses for policy year 2007. In 2013, the WCIRB reviewed more current data for policy years 2008 through 2010 to assess indicated loss differential by wage intervals underlying the indicated wage threshold for each dual wage classification. The findings based on the use of more current data are summarized below.

Electrical Wiring
Table 1 shows the loss costs per $100 of payroll as a percentage of class average by employer average wage level based on policy years 2008 – 2010 sample employer payroll and losses developed and limited to $100,000 per loss. As in the 2011 study of these classifications, losses were developed and limited to $100,000 to mitigate the extremes caused by large losses when classification data is reviewed at the more granular level presented herein.

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4 PAG's written comments are included as Exhibit 1.
5 All other recommended wage thresholds were adopted.
Based on the three sample policy years of experience, the loss costs per $100 of payroll of the surveyed employers with average wages below the current threshold is 251% of that of surveyed employers at or above the threshold. The differential in the 2011 study based one policy year (2007) of experience was 208%. This relationship is relatively consistent at increasing wage thresholds from $28 upwards.

Since the time of the 2011 study, the USR industry payroll distribution between low wage and high wage employers has further eroded from 41% of wages in the low wage classification to 38%. In addition, wage indices from UCLA project statewide average wages across construction to grow by approximately 10.8% in the five years since the dual wage thresholds were last increased. The California Department of Finance forecasts the average annual wages in construction to increase 13.2% over this same period.

The 2011 study as augmented subsequently with experience from policy years 2008 – 2010 suggests that the current threshold for the electrical wiring classification is not problematic as there is (a) credible experience in both the low wage and high wage classifications, (b) relatively few employees at the current threshold level and a significant differential in loss experience between employers with average wages at or above the threshold and those with wages below the threshold. However, given the relatively low proportion of unit statistical payroll in the low wage classification (38%) and the level of inflation in construction wages since the threshold was last increased in 2009, the WCIRB recommends a modest increase in the threshold from $28 to $30. In addition, the WCIRB recommends that a follow-up study of the dual wage threshold for Electrical Wiring be conducted in the next several years.
Sheet Metal Work

Table 2 shows the loss costs per $100 of payroll as a percentage of class average by employer average wage level based on policy years 2008 – 2010 sample employer payroll and losses developed and limited to $100,000 per loss. As in the 2011 study of these classifications, losses were developed and limited to $100,000 to mitigate the extremes caused by large losses when classification data is reviewed at the more granular level presented herein.

Table 2

<table>
<thead>
<tr>
<th>Hourly Wage Range</th>
<th>Loss Costs as % of Class Average</th>
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<tbody>
<tr>
<td>0-18</td>
<td>0.8</td>
</tr>
<tr>
<td>19-24</td>
<td>1.2</td>
</tr>
<tr>
<td>25-27</td>
<td>1.4</td>
</tr>
<tr>
<td>28+</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Based on the three sample policy years of experience, the loss costs per $100 of payroll of the surveyed employers with average wages below the current threshold is 151% of that of surveyed employers at or above the threshold. The differential in the 2011 Study based one policy year (2007) of experience was 130%. This relationship was relatively consistent at increasing wage thresholds through a threshold of $28.

Since the time of the 2011 Study, the USR industry payroll distribution between low wage and high wage employers has further eroded from 38% of wages in the low wage classification to 35%. In addition, wage indices from UCLA project statewide average wages across construction to grow by approximately 10.8% in the five years since the dual wage thresholds were last increased. The California Department of Finance forecasts the average annual wages in construction to increase 13.2% over this same period. While the update of the 2011 study with experience from policy years 2008 – 2010 does not strongly contraindicate the results based on policy year 2007 data, the loss costs differential between the low and high wage sheet metal classifications is higher based on these more recent years and there is not significant improvement in the loss differential with increasing the threshold to $28. However, given
inflation in construction since the threshold was last increased five years ago and the relatively low level of payroll in the high wage sheet metal classification, the WCIRB recommends increasing the dual wage threshold from $25 to $27. In addition, the WCIRB recommends that a follow-up study of the dual wage threshold for Sheet Metal Work be conducted in the next several years.

**Plumbing**

Table 3 shows the loss costs per $100 of payroll as a percentage of class average by employer average wage level based on policy years 2008 – 2010 sample employer payroll and losses developed and limited to $100,000 per loss. As in the 2011 study of these classifications, losses were developed and limited to $100,000 to mitigate the extremes caused by large losses when classification data is reviewed at the more granular level presented herein.

![Chart showing loss costs per $100 as percentage of class average by employer average wage level.](chart.png)

Based on the three sample policy years of experience, the loss costs per $100 of payroll of the surveyed employers with average wages below the current threshold is 215% of that of surveyed employers at or above the threshold. The differential in the 2011 study based one policy year (2007) of experience was only 128%. This relationship was relatively consistent at increasing wage thresholds through a threshold of $29.

Since the time of the 2011 study, the USR industry payroll distribution between low wage and high wage employers has further eroded from 39% of wages in the low wage classification to 37%. In addition, wage indices from UCLA project statewide average wages across construction to grow by approximately 10.8%
in the five years since the dual wage thresholds were last increased. The California Department of Finance forecasts the average annual wages in construction to increase 13.2% over this same period.

While the update of the 2011 study with experience from policy years 2008 – 2010 does not strongly contraindicate the results based on policy year 2007 data, the loss costs differential between the low and high plumbing classifications is higher based on these more recent years and there is not significant improvement in the loss differential with sharply increasing the threshold to $29. However, given inflation in construction since the threshold was last increased more than five years ago and the relatively low level of payroll in the high wage plumbing classification, the WCIRB recommends increasing the dual wage threshold by $2 from $24 to $26. At a threshold of $26, the sample payroll distribution between the low wage and high wage classifications improves from 37% (low) / 63% (high) to 45% (low) / 55% (high). In addition, the WCIRB recommends that a follow-up study of the dual wage threshold for plumbing be conducted in the next several years.

To summarize, based on the more current data for policy years 2008 through 2010, the recommended wage thresholds for the electrical wiring, plumbing and sheet metal work classifications for January 1, 2014 are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Current Threshold</th>
<th>Recommended 2014 Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>5190/5140, Electrical Wiring</td>
<td>$28</td>
<td>$30</td>
</tr>
<tr>
<td>5538/5542, Sheet Metal Work</td>
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<td>5183/5187, Plumbing</td>
<td>$24</td>
<td>$26</td>
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WCIRB Outreach
Pursuant to the Insurance Commissioner’s directive noted above, the WCIRB contacted PAG, Western Electrical Contractors Association, Plumbing-Heating-Cooling Contractors Association of California, and the Air Conditioning Trade Association. The results of these outreach efforts are summarized below.

Western Electrical Contractors Association (WECA)
According to its website, WECA is a statewide non-profit organization serving independent/merit shop electrical contractors, their employees and the industry suppliers that support them. WCIRB staff met with WECA board of directors via teleconference on June 13, 2013 to discuss the recommended $2 increase to the wage threshold for the electrical wiring dual wage classifications. WECA was informed that the increase is based on updated wage and loss information for 2008, 2009 and 2010 policy years and an analysis of wage inflation since the threshold was last adjusted.

WECA advised that it does not support the continued use of dual wage classifications for electrical wiring contractors. It was noted that electrical wiring apprentices require extensive training, including safety training; however, they are paid hourly wages that do not exceed the dual wage threshold. Contractors that pay trained apprentices by the hour often compete with contractors that employ untrained workers who are paid on piece work basis. It was stated that contractors that pay on a piecework basis often keep fraudulent records and misreport payroll under the high wage classification, which gives them a competitive advantage.

WECA was informed of the recently approved requirement to audit policies, effective on or after January 1, 2014, of any size that develop payroll under a high wage construction classification. WECA also was informed of the findings and conclusions of the recently completed comprehensive study of the use of dual wage, which validated the viability of dual wage classifications. WECA was informed that the continued the use of dual wage classifications is widely supported by the construction industry, including many electrical wiring contractors.
WCIRB staff asked WECA for its observations on wage trends in the electrical wiring industry. WECA stated that wages have decreased over the past five years for contractors that primarily conduct private work.

WECA’s written comments in opposition to the continued use of dual wage classifications for electrical wiring are included as Exhibit 2 and the WCIRB’s response to WECA is included as Exhibit 3.

**Plumbing-Heating-Cooling Contractors Association of California (PHCC)**

PHCC represents union and non-union contractors that primarily perform plumbing and sheet metal work in connection with new construction and remodeling for public and private concerns. WCIRB staff met with the PHCC board of directors via teleconference on May 9, 2013 to discuss the recommended $2 increases to the wage thresholds for the plumbing and sheet metal work dual wage classifications. PHCC was informed that the increases are based on updated wage and loss information and an analysis of wage inflation since the threshold was last adjusted.

PHCC asked that the wage thresholds for the plumbing and sheet metal work classifications not be increased in 2014. PHCC maintains that the wage information used by the WCIRB does not accurately represent the typical wages paid by non-union plumbing and sheet metal work contractors; rather, the wages represent those paid by union contractors.

PHCC was informed of the need for regular wage threshold increases to reflect wage inflation. Such adjustments ensure that each classification maintains a balanced proportion of payroll and statistical credibility. The current distribution of payroll between low wage and high wage employers in the plumbing and sheet metal work trades has eroded to a point where payroll in the low wage classification is far less than 50%, i.e., 35% for sheet metal work and 37% for plumbing.

PHCC opined that the relatively low amount of payroll in the low wage classifications is due to the recent recession. In the past several years contractors have retained high wage, higher skilled employees and laid off the low wage, lower skilled employees. It was stated that as the economy improves, employers will be inclined to hire low wage employees, which will increase the amount of payroll reported in the low wage classifications. PHCC also cited payroll fraud and the “underground economy” as causes for the low amount of payroll in the low wage classification.

PHCC indicated that non-union plumbing and sheet metal work has begun to increase in 2013. PHCC recommended that wage threshold increases be deferred for a few years and to conduct further wage level analysis in 2015 or 2016 when construction wages have returned to more typical levels.

PHCC’s written comments in opposition to wage threshold increases for the plumbing and sheet metal work classifications are included as Exhibit 4.

**Air Conditioning Trade Association (ACTA)**

According to its website, ACTA is a non-profit, contractor member association that serves free enterprise non-union HVAC, Mechanical, and Service Contractors, as well as their employees and the industrial suppliers that service them. ACTA is opposed to an increase to the wage threshold for the sheet metal work classification due to the slow recovery of the construction industry. ACTA’s written comments are included as Exhibit 5. The WCIRB offered to meet with ACTA to discuss the proposed wage threshold adjustment; however, the WCIRB did not receive a reply.

**May 13, 2013 Outreach Meeting to All Construction Trade Groups**

The WCIRB invited over 75 construction trade associations, brokers, and labor representatives to meet with WCIRB staff on May 13, 2013 to discuss and provide input on indicated wage threshold adjustments for several dual wage classifications, including the classifications for the electrical wiring, plumbing and sheet metal work trades, the use of Collective Bargaining Agreements (CBA) to validate hourly wage rates, and clarifying amendments to the California Workers’ Compensation Uniform Statistical Reporting.
Plan—1995. PAG, WECA, PHCC and ACTA were in invited but did not attend. Those in attendance were in general agreement with the proposed wage threshold adjustments, including those for the electrical wiring, plumbing and sheet metal work classifications.

Additional Support for Dual Wage Threshold Adjustments
Politico Group (Politico), representing nine (9) construction trade associations⁶ comprised of several hundred union electrical wiring, plumbing and sheet metal work contractors, has submitted written comments (Exhibits 6 and 7) in support of the continued use of dual wage classifications and the proposed wage threshold adjustments for the electrical wiring, plumbing and sheet metal work classifications. Politico notes that higher wage earners are less likely to become injured, and that higher wage employers have lower loss to payroll ratios than those developed by lower wage employers. Politico maintains that according to the Department of Labor, hourly wage rates for the electrical wiring, plumbing and sheet metal work trades have increased over the past 5 years to levels that support the recommended wage threshold adjustments.

The California Association of Sheet Metal and Air Conditioning Contractors’ National Association (CAL SMACNA), which represents over 300 union sheet metal and air conditioning contractors in California, has submitted written comments (Exhibit 8) in support of the continued use of dual wage classifications and the proposed wage threshold adjustment for the sheet metal work classification. CAL SMACNA maintains that dual wage classifications are beneficial to establish workers’ compensation rates that “fully recognize and appreciate the spectrum of relative risk associated with the different tiers of skilled workers in the construction industry.” CAL SMACNA also maintains that hourly wage rates for sheet metal work have increased over the past 5 years to a level that supports the recommended wage threshold adjustment. A representative of CAL SMACNA attended the May 13, 2013 outreach meeting.

Conclusions
Regular adjustments to wage thresholds are necessary to maintain an appropriate balance of reported payroll under low wage and high wage classifications. Ideally, there should be a relatively even distribution of payroll among low wage and high wage classifications. The distribution of payroll among the low wage and high wage classifications for employers in the electrical wiring, plumbing and sheet metal work trades has eroded to a point where payroll in the low wage classification is far less than the target of 50%, i.e., 35% for sheet metal work, 37% for plumbing and 38% for electrical wiring.

While the WCIRB shares some of the concerns voiced by some of the employer groups as to the economic conditions during the period of the study, much of the payroll erosion observed in the high wage classifications occurred prior to the last recession. In addition, waiting another two or three more years to study the matter will result in further erosion of payroll in the low wage classifications, perhaps to unacceptable levels, i.e., eventually nearly all payroll and losses will be reported under high wage classifications resulting in low statistical credibility for corresponding low wage classifications.

Most construction trade associations support the continued use of dual wage classifications and the wage threshold increases recommended by the WCIRB.

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⁶ The Politico Group represents the following construction trade organizations:
California chapters of the National Electrical Contractors Association (NECA)
California Legislative Conference of the Plumbing Heating and Piping Industry (CLC)
Air Conditioning and Sheet Metal Contractors Association (ACSCMA)
Air Conditioning and Refrigeration Contractors Association (ARCA/MCA)
Associated Plumbing and Mechanical Contractors of Sacramento (APMC)
California Plumbing and Mechanical Contractors Association (CPMCA)
Northern California Mechanical Contractors Association (NCMCA)
Plumbing, Heating and Cooling Contractors of the Greater Bay Area (GBA)
Santa Clara Valley Mechanical Contractors Association (SCVMCA)
Recommendation
The WCIRB recommends that the indicated wage threshold adjustments for the electrical wiring, plumbing and sheet metal work classifications be approved for inclusion in the January 1, 2014 Regulatory Filing.

As recommended in the Comprehensive Evaluation of California’s Dual Wage Classifications, in order to maintain the integrity of dual wage classifications, the WCIRB will review wage thresholds regularly and propose adjustments to reflect wage inflation in construction as well as any structural changes to the construction industry.
Proposed Revisions to the California Workers’ Compensation Uniform Statistical Reporting Plan—1995

Recommendation
Amend Classifications 5190/5140, Electrical Wiring, to increase the hourly wage threshold from $28.00 per hour to $30.00 per hour based on the results of the WCIRB’s 2013 wage level study.

PROPOSED

ELECTRICAL WIRING — within buildings — including installation or repair of fixtures or appliances — shop and outside — employees whose regular hourly wage does not equal or exceed $28.00/30.00 per hour

The installation of electrical machinery or auxiliary apparatus shall be separately classified.

ELECTRICAL WIRING — within buildings — including installation or repair of fixtures or appliances — shop and outside — employees whose regular hourly wage equals or exceeds $28.00/30.00 per hour

Assignment of this classification is subject to verification at the time of final audit that the employee’s regular hourly wage equals or exceeds $28.00/30.00 per hour. The payroll of an employee whose regular hourly wage is not shown to equal or exceed $28.00/30.00 per hour shall be classified as 5190, Electrical Wiring.

The installation of electrical machinery or auxiliary apparatus shall be separately classified.

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Recommendation
Amend Classifications 5183(1)/5187(1), Plumbing, to increase the hourly wage threshold from $24.00 per hour to $26.00 per hour based on the results of the WCIRB’s 2013 wage level study.

PROPOSED

PLUMBING — shop and outside — gas, steam, hot water or other pipe fittings installation, including house connections installation — employees whose regular hourly wage does not equal or exceed $24.00/26.00 per hour — N.O.C.

Automatic sprinkler installation, within buildings, shall be separately classified.

PLUMBING — shop and outside — gas, steam, hot water or other pipe fittings installation, including house connections installation — employees whose regular hourly wage equals or exceeds $24.00/26.00 per hour — N.O.C.

Assignment of this classification is subject to verification at the time of final audit that the employee’s regular hourly wage equals or exceeds $24.00/26.00 per hour. The payroll of an employee whose regular hourly wage is not shown to equal or exceed $24.00/26.00 per hour shall be classified as 5183(1), Plumbing.

Automatic sprinkler installation, within buildings, shall be separately classified.

* * * * *
Recommendation
Amend Classifications 5183(2)/5187(2), Refrigeration Equipment, to increase the hourly wage threshold from $24.00 per hour to $26.00 per hour based on the results of the WCIRB’s 2013 wage level study.

PROPOSED

REFRIGERATION EQUIPMENT — not household units — installation, service and repair — shop and outside — employees whose regular hourly wage does not equal or exceed $24.00 per hour — N.O.C.

Delivery and connection of household refrigeration on purchaser’s premises shall be separately classified as 9519(1), Household Appliances.

REFRIGERATION EQUIPMENT — not household units — installation, service and repair — shop and outside — employees whose regular hourly wage equals or exceeds $26.00 per hour — N.O.C.

Assignment of this classification is subject to verification at the time of final audit that the employee’s regular hourly wage equals or exceeds $26.00 per hour. The payroll of an employee whose regular hourly wage is not shown to equal or exceed $26.00 per hour shall be classified as 5183(2), Refrigeration Equipment.

Delivery and connection of household refrigeration on purchaser’s premises shall be separately classified as 9519(1), Household Appliances.

* * * * *

Recommendation
Amend Classifications 5538/5542, Sheet Metal Work — erection, installation or repair, to increase the hourly wage threshold from $25.00 per hour to $27.00 per hour based on the results of the WCIRB’s 2013 wage level study.

PROPOSED

SHEET METAL WORK — erection, installation or repair — shop and outside — including installation of furnaces or air conditioning systems — employees whose regular hourly wage does not equal or exceed $25.00 per hour — N.O.C.

This classification shall apply to the installation of sheet metal roofing, but only if installed by the same employer who performs the sheet metal skinning in constructing new buildings or additions to existing buildings at the same job or location. All other roofing shall be separately classified.

The installation of pipe and pipe fittings shall be separately classified.

SHEET METAL WORK — erection, installation or repair — shop and outside — including installation of furnaces or air conditioning systems — employees whose regular hourly wage equals or exceeds $27.00 per hour — N.O.C.

Assignment of this classification is subject to verification at the time of final audit that the employee’s regular hourly wage equals or exceeds $27.00 per hour. The payroll of an employee whose regular hourly wage is not shown to equal or exceed $27.00 per hour shall be classified as 5538, Sheet Metal Work.

This classification shall apply to the installation of sheet metal roofing, but only if installed by the same employer who performs the sheet metal skinning in constructing new buildings or additions to existing buildings at the same job or location. All other roofing shall be separately classified.

The installation of pipe and pipe fittings shall be separately classified.

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