

1 in 6 California construction workers labors in shadows, study finds

Informal workers are growing part of California's economy — a shift keenly felt in the construction industry, where 1 in 6 workers is either off the books or misreported, new research has found.

Construction businesses in the state employ roughly 895,000 workers, according to a report by downtown Los Angeles research group Economic Roundtable that was released Sunday. In 2011, 143,900 of those workers labored unofficially.

Some 39,800 workers were misclassified by employers as independent contractors, despite not owning their own tools or setting their own schedules. An additional 104,100 workers weren't recorded at all.

In specialty trades such as drywall and flooring, a quarter of laborers are considered informal, according to the Economic Roundtable.

Construction in California is a \$152-billion industry, one in which so-called gray employment has surged 400% since 1972. The upswing has been especially pronounced since the most recent recession because only two-thirds of the formal construction jobs that disappeared have since returned.

This year, for each construction job opening nationwide, there are seven unemployed workers, suggesting that some laborers may be shifting voluntarily into the shadow economy.

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What results, according to lead researcher Yvonne Yen Liu, is an industry where highly skilled and well-paid workers are aging out of the system and being replaced by less-skilled laborers who are often transient because of steep turnover rates.

"The construction industry in California is sinking underground," she said. "It hurts all of us, not just construction workers. It hurts high-road businesses who play by the rules and takes away much-needed public revenue that doesn't get paid."

California lost out on \$473 million in 2011 because of informal construction work, according to the study. The state was stiffed on \$264 million in workers' compensation payments, \$146 million in disability dues and \$64 million in unemployment insurance.

But informal workers also miss out, according to the report. For every dollar earned by a formal employee, an unreported one gets 52 cents and an incorrectly categorized one gets 62 cents.

Across the board, that's a wage gap of \$1.2 billion, researchers said. Households led by such workers are three times more likely to live in poverty than those supported by an officially recognized construction employee.

Jose Javier Lara Sandoval, a drywall hanger and Gardena resident, said he was paid under the table for several months this year while working on a public works project building a community college. His cash payments came in at less than half the official hourly rate.

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The Mexico native, a legal U.S. resident, said he struggled to pay rent and provide food for his family. His wife

decided to leave him.

“Because we never got paid right, it caused problems at home,” Sandoval, 50, said in Spanish through a translator. “It gets really depressing.”

Payroll fraud, labor violations and tax evasion related to shadow construction work occurs on multimillion-dollar private and taxpayer-funded projects alike, according to David Kersh, executive director of the nonprofit watchdog group Carpenters/Contractors Cooperation Committee.

Companies who rely on unreported or incorrectly categorized workers can low-ball other bidders for contracts.

“We come across these types of unlawful business practices at schools, colleges, universities, libraries, airports and other government facilities; at multi-unit housing projects and high-rise buildings,” he said. “They involve regional and international contractors and developers, and companies employing from dozens up to 200 workers on a single project.”

Mark Fowler, executive vice president of the Western Wall and Ceiling Contractor Assn., was once a contractor. He said he watched the best workers gravitate to employers who could pay in cash.

Fowler’s family business, operating legitimately, was left with high tax and insurance costs as well as employees who were less productive, he said.

“We were doing everything by the book and couldn’t compete,” he said.

The Economic Roundtable report recommends a wage floor that allows informal and formal workers to be paid the same amount and also suggests that legislators enact policies that reward on-the-level contractors.

“It’s looking like more and more California residents are making their living hustling and working on the fringes,” Liu said. “And as part of the reality of more people choosing to work in contingent situations, we need to figure out ways to harness their creativity and resilience and make sure social protections are extended.”

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