

ANALYSIS OF SCHOOL CONSTRUCTION COSTS IN OHIO AND INDIANA

January 2005

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Late last year a report on education in Indiana raised an old issue concerning public construction costs. The Government Efficiency Subcommittee on K-12 education recommended that the state “slow down school construction and eliminate regulations that drive up costs.”¹ One response to this recommendation was the introduction of House Bill 1305, which would repeal the state prevailing wage statute for school construction.

Prevailing wage laws require production employees who work under government contracts be paid no less than the wage received for similar private sector work. These laws have a long history. Beginning with Kansas in 1891, seven states enacted statutes for public construction by the early 1920s. The negative impact of competing public works programs during the 1930s led to a widespread adoption of state prevailing wage statutes. These statutes and the federal Davis-Bacon Act reflected the first efforts to create wage and hour standards in public employment. Although the conditions that created public support for statutory remedies in the first place appear to have faded from memory, the necessity for wage standards remains.

In a fundamental respect, prevailing wage laws are a deliberate effort to restrain government power. They prevent governments from using their sizeable purchasing authority to control wage rates in local construction labor markets. Workers are the major beneficiaries of these policies. Their living standards are not subject to indiscriminate and destabilizing wage cuts that otherwise would be necessary to win public construction contracts.

The Indiana statute has provoked considerable debate over the last several decades. Any controversy that exists must be understood in the context of a well-financed national prevailing wage repeal campaign that began in the 1960s. When this campaign reached Indiana in the mid-1980s, several employer associations already were contending that the Indiana law cost taxpayers upwards of \$200 million annually.² Portrayed as a tax relief

¹ Indiana Government Efficiency Commission, *Schools Need Focus, Flexibility and Efficiency to Lift Student Achievement Within Fiscal Realities*, Press Release, November 8, 2004

² With Wage Law, All that Prevails is Controversy, *Indianapolis Star*, January 5, 1986; Douglas Trolson, Prevailing Wage: Too Much for Public Works? *Indiana Business*, January, 1988; Small and Minority Contractors Burned by Prevailing Wage Law, *Indianapolis Business Journal*, January 26, 1987; Is Prevailing Wage Law Outdated? *Indianapolis Star*, March 3, 1987

measure, Indiana's last statutory revision also created expectations for significant public construction cost reductions, with annual savings estimates ranging from 150 to 300 million dollars.³ These savings have proven elusive and little accountability has been demanded of those who made such astounding claims in 1995.

In part, the policy debate reflects a renewed zeal for efficiency to achieve the lowest possible public construction expenditures. One complication in reaching this goal is that construction industry output is notoriously difficult to quantify with any precision. For example, the Bureau of Labor Statistics stopped publishing industry productivity data in the 1970s. Unlike manufacturing, there is not much in the way of standardized production to allow for comparative data. Quite simply, each construction project is unique, a fact that accounts for the predominance of skilled craft labor in the industry.

There is much speculation about the impact of prevailing wage because of these measurement difficulties. No one can state with any precision the total expenditures involved, let alone calculate potential savings to be realized. Unfortunately, even unbiased analyses downplay the historical context for the prevailing wage concept. The long term negative consequences of cutthroat bidding are either ignored or set aside as too difficult to determine.

Methodological deficiencies in analysis and an incomplete understanding of the consequences of labor market experimentation have not prevented sweeping legislative change. Such was the case in Ohio, which exempted school construction from its prevailing wage law in 1997.⁴ The Indiana Legislative Services Agency also was left to speculate over school construction costs stating that while "exemption from this wage determination provision might reduce expenditures, the precise impact of the change cannot be determined."⁵

Since the Ohio model of exempting school construction from prevailing wage requirements is under consideration in Indiana, a comparison between the two states is a useful exercise. As part of its on-going construction market research, the Indiana University Institute for the Study of Labor on Society conducted a simple cost analysis using information

³ Bill Styring, *Prevailing Wage: What's the Question?* Correspondence from Indiana Policy Review Foundation, March, 1995

⁴ Michael C. Griffaton, *Prevailing Wage Laws, Members Only*, Ohio Legislative Services Commission, 122, 11, November 20, 1998

⁵ Indiana Legislative Services Agency *Fiscal Impact Statement House Bill 1305*, January 3, 2005

from Reed Construction Data.⁶ The analysis is intended to provide a direct answer to the basic question whether Indiana's school construction costs might be higher than Ohio's due to the prevailing wage statute.

The Reed data tracks construction contracts for a variety of projects, including school construction. New school construction data were obtained for each state covering bids that were reported between 2002 and 2004. Standard bid packages for production work were examined and the winning bids tabulated. These packages most commonly included general contracting, masonry, plumbing, HVAC, mechanical systems, and electrical work. Also included in the individual bid packages were excavating, paving, cabinetry, carpentry, casework, concrete, drywall, kitchen equipment, painting and wall coverings, flooring, roofing, sheet metal, fire protection. The list was not exhaustive in that it did not include cost items such as land acquisition, demolition, furnishings, classroom equipment, financing or bonding costs, engineering, architectural work or construction management fees. The results shown below do not factor in any overruns or rework. They also do not account for local demands that inevitably create cost variations in school design specifications.

Although further inquiry can provide a more detailed assessment of final costs, the analysis does provide a reliable comparison between school projects. The findings clearly indicate that school construction in Ohio is more expensive than in Indiana, despite existing prevailing wage requirements.

The conclusion seems obvious: Policy makers in Indiana can do better than target construction worker wages in their efforts to balance the state budget.

⁶ <http://www.reedconstructiondata.com>

Table 1 New School Construction Cost Data

| State | Number of Projects | Project Costs | Average Cost | Average Size (square feet) | Average Cost per square foot | Initial Cost Estimate per square foot |
|---------|--------------------|---------------|--------------|----------------------------|------------------------------|---------------------------------------|
| Indiana | 36 | 358,460,611 | 9,957,239 | 106,437 | 95.23 | 117.87 |
| Ohio | 50 | 501,700,540 | 10,034,010 | 89,256 | 113.52 | 116.79 |
| Total | 86 | 860,161,151 | 10,001,874 | 96,448 | 105.86 | 117.24 |

Table 2 Cost Data by Project Location

| Location | Number of Projects | Project Costs | Average Cost | Average Size (square feet) | Average Cost per square foot |
|-------------------|--------------------|---------------|--------------|----------------------------|------------------------------|
| Indiana | | | | | |
| Urban Counties | 14 | 125,436,682 | 8,959,763 | 93,981 | 97.89 |
| Rural Counties | 5 | 43,805,845 | 8,761,169 | 94,363 | 93.03 |
| Suburban Counties | 17 | 189,218,084 | 11,130,476 | 120,246 | 93.68 |
| Ohio | | | | | |
| Urban Counties | 20 | 181,044,946 | 9,052,247 | 82,344 | 110.95 |
| Rural Counties | 11 | 144,523,983 | 13,138,544 | 102,061 | 132.46 |
| Suburban Counties | 19 | 176,131,611 | 9,270,085 | 89,119 | 105.27 |