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# School Construction and Prevailing Wage in Minnesota



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A Higher Road for a Better Tomorrow

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## Introduction

School districts in Minnesota do not have prevailing wage standards unless the districts enact their own prevailing wage requirements. Prevailing wage is essentially a minimum wage for construction workers. The policy ensures that workers employed on infrastructure projects funded by taxpayer dollars are compensated according to rates normally paid on similar projects in an area. Minnesota's state prevailing wage law applies to all projects with state funding and most projects with federal funding, but does not apply to construction using funds from municipalities. Many school districts in Minnesota have not passed prevailing wage standards, arguing that prevailing wage would increase the cost of school construction projects.

This Midwest Economic Policy Institute (MEPI) Economic Commentary discusses school construction costs, prevailing wage, and the economic positives of passing a prevailing wage ordinance. The report reviews academic and policy research on the impacts of prevailing wage on school construction costs. Then, the report discusses the positive impacts of prevailing wage on workers and the economy. Finally, a conclusion summarizes key findings.

## Prevailing Wage and Costs

Opponents of prevailing wage say the law increases construction costs. However, economic research has found no statistically significant cost difference on projects where workers are paid prevailing wage and projects where workers are not paid the prevailing wage. Using state-of-the-art statistical methods, economists and policy researchers have examined the effect of prevailing wage on the cost of building schools, highways, low-income housing, and other structures.

An independent report from the Wisconsin Legislative Fiscal Bureau provides the following summary of the research: “[T]he evidence on prevailing wage effects generally range from relatively small effects to no statistically significant effects. ... These findings echo a 2007 report prepared by the nonpartisan Minnesota Office of the Legislative Auditor which ... concluded that while some studies found a small impact on costs, more comprehensive studies have found that the impact is not statistically significant” (Horton, 2015).

The preponderance of peer-reviewed studies over the last 15 years have found no statistically significant cost difference between schools built with prevailing wage and those built without prevailing wage. Fully 80 percent of all peer-reviewed studies find that prevailing wage has no



statistical impact on school construction costs (Manzo et al., 2016). Figure 1 is taken from University of Utah Professor Peter Philips' study, "A Comparison of Public School Construction Costs in Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s." As Figure 1 shows, not a prevailing wage at the

Photo: "Rogers High School" by Bill Klotz, Finance & Commerce (2014).

local level does not help save taxpayer dollars. School construction projects in both rural and urban areas are not costlier with prevailing wage standards. Additionally, peer-reviewed research finds that prevailing wages do not affect the level of bid competition, which is an important determinant of project cost (Kim et al., 2012; Waddoups & May, 2014).

**Figure 1: Construction Costs of New Public Schools\***

|                                   | Rural Schools             |                   | Urban Schools             |                   |
|-----------------------------------|---------------------------|-------------------|---------------------------|-------------------|
|                                   | Mean Cost Per Square Foot | Number of Schools | Mean Cost Per Square Foot | Number of Schools |
| <b>No PW Law</b>                  | \$96                      | 161               | \$114                     | 40                |
| <b>PW Law</b>                     | \$98                      | 104               | \$114                     | 86                |
| <b>Statistically Significant?</b> | NO                        |                   | NO                        |                   |

*\*Source: "A Comparison of Public School Construction Costs in Three Midwestern States that Have Changed Their Prevailing Wage Laws in the 1990s," Dr. Peter Philips, University of Utah, 2001.*

A variety of studies examining states across the United States have found that eliminating prevailing wage requirements on school construction projects saves no money to taxpayers because quality, timeliness, and availability of skilled workers suffered in states and communities without prevailing wage. A 2013 study of Ohio exempting school construction from prevailing wage in 1997 found that Ohio did not save any money from exempting schools from paying the prevailing wage (Atalah, 2012), while another study examining construction costs in West Virginia and five neighboring states found no statistically significant difference in construction costs for elementary schools, secondary schools, and universities between jurisdictions with and without prevailing wage laws (O’Leary, 2015). Another study comparing new school construction costs in Kansas and neighboring states that eliminated their prevailing wage laws found no difference in square foot construction costs (Philips, 1998). Furthermore, a nationwide, peer-reviewed study of 4,000 new schools built nationally found that there was not a statistical significant effect of prevailing wage regulations on total construction costs (Azari-Rad et al., 2002).

Numerous studies have established that repealing a state’s prevailing wage law does not result in a greater number of schools being built due to budget savings. States that have eliminated the prevailing wage saw no savings to taxpayers because worker productivity and worker quality deteriorated. School officials and communities get better quality schools at no additional cost to the budget with prevailing wage laws.

**Positives of Prevailing Wage**

Prevailing wage helps improve economic outcomes for workers, communities, and the state as a whole. Due to higher personal incomes, blue-collar construction workers in the 25 states with average or strong prevailing wage laws contribute \$1,325 more per year in federal income taxes than states with weak or no prevailing wage laws (Manzo et al., 2016). The higher income also amounts to higher consumer spending in the economy.

Prevailing wage lowers income inequality in states and communities. Prevailing wage increases construction worker incomes, closing the gap between blue-collar workers and white-collar managers and supervisors. Prevailing wage also closes the employment gap between racial or ethnic

groups and supports veterans, who are disproportionately more likely to be construction workers (Manzo et al., 2016). All community groups benefit from prevailing wage.

Construction workers who are paid the prevailing wage are less likely to earn incomes below the official poverty line and are less likely to be on government assistance. Only 9.4 percent of construction workers in states with average or strong prevailing wage policies earn incomes below the poverty level, while 15.2 percent of construction workers in states with weak or no wage policies earn below poverty-level incomes. Since poverty-level incomes are more prominent in states without prevailing wage, construction workers who are not paid the prevailing wage are more likely to receive aid from the Supplemental Nutrition Assistance Program (SNAP) – an estimated 9.2 percent of construction workers in areas without prevailing wage are on food stamps, while only 5.1 percent of construction workers in areas with prevailing wage receive SNAP benefits (Manzo et al., 2016).

Prevailing wage laws also protect work for local contractors and construction workers. When local companies and workers are employed on a project, more project funds remain in the local economy and stimulate additional economic activity. Those who earn prevailing wages are paid more, contribute more in income taxes, and spend more in the state and local economy. Prevailing wage not only helps the employees earn a middle-class wage; the law also positively impacts the economy.

Lastly, a project completed with prevailing wage standards is typically high-quality work. Construction workers in areas with prevailing wage are highly trained. Prevailing wage ensures construction workers will want to enter and stay in a construction career over the long run because the occupation pays a good, middle-class wage. When prevailing wage is not present, unskilled workers tend to join the workforce, often causing construction delays and cost overruns. Economic research finds that workers with higher wages due to their skill and productivity build roads at the same, or even lower, costs per-mile than workers with lower wages (Atalah, 2012).

## **Conclusion**

Prevailing wage ensures better quality schools that are built at no additional cost. The policy supports workers earning a middle-class income and improves economic and tax outcomes. Construction workers of all races, ethnicities, and backgrounds benefit from prevailing wage. These workers are less likely to earn incomes below the poverty line and less likely to need government assistance. As a result of prevailing wage, construction workers can support their families and use their skills to create sustainable, safe infrastructure for the community.

A majority of peer-reviewed studies have found that prevailing wage does not increase construction costs. States and communities with weak prevailing wage laws or no prevailing wage standards at all do not see taxpayer savings. Enacted prevailing wage standards for school construction projects would not cost school districts additional money, but would in fact grow local economies. The impact of prevailing wage is better quality schools at no additional cost to public budgets. School districts across Minnesota should implement prevailing wage requirements to build strong, middle-class careers in their local communities.

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