

# IAC Report on the Impact of Prevailing Wage

Required by 2018 Md. Laws, Chap 14, Section 7  
December 31, 2020

## Introduction

Section 7 of the 21st Century School Facilities Act (2018 Md. Laws, Chap. 14) requires the Interagency Commission on School Construction (IAC) to examine the effects of prevailing wage requirements on school construction costs, including in different regions of the State and in counties with different State and local cost-share percentages. The IAC was to report to the Governor and the General Assembly on its examination of prevailing wage requirements on school construction costs by July 1, 2020. However, due to the COVID-19 pandemic, IAC staff were concerned that the release of the survey instrument at the planned time could result in skewed results. IAC staff delayed the issuance of the survey and notified the Governor and General Assembly that the report would be submitted before December 31, 2020.

Prevailing wage laws have been a part of both Federal and State policy in the United States since the early 20<sup>th</sup> century. These laws require that construction workers be paid the “prevailing rate” for their trade when working on publicly funded construction projects. Minimum wages are determined independently by each jurisdiction on a trade by trade basis. Prevailing wage laws were initially established to support the objective of maintaining a family wage, and to protect contractors from the government’s monopolistic power as a purchaser of construction labor. The question of whether prevailing wage laws continue to make public policy sense continues to be debated throughout the Country.

One of the most significant issues in this policy debate is what impact prevailing wage laws have on providing and sustaining publicly funded infrastructure. Opponents of prevailing wage laws argue that prevailing rates unwarrantedly raise construction costs. Proponents of prevailing wage argue that cost of work is directly related to quality and thereby value.

According to some, the removal of prevailing wage laws would cut total public construction costs by 15 to 25 percent.<sup>1</sup> Claims of cost savings from the repeal of prevailing wage laws are generally based on the resulting prevailing rate effect of

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<sup>1</sup> [http://ohiostatebtc.org/wp-content/uploads/2014/04/Union\\_Lawyer\\_Perspective\\_19.pdf](http://ohiostatebtc.org/wp-content/uploads/2014/04/Union_Lawyer_Perspective_19.pdf)

increased wages. According to a 2002 argument published by the American Bar Association, less than a third of the total cost of a construction project is dedicated towards salaries and wages, leaving healthy skepticism of seeing an overall savings as high as 15 to 25 percent by eliminating prevailing wage rate laws.<sup>2</sup> Furthermore, there is question over other tangible benefits of prevailing wage rates, such as an increase in quality of construction. In a 1999 survey conducted by the Ohio Legislative Service Commission, 65 respondents claimed that there was no change or improvement to overall construction quality under prevailing wage rate projects, while only one said that construction quality worsened.<sup>3</sup> A follow up survey from the same Commission in 2000 expanded on this, finding that while a strong majority (91%) of local school districts claimed that Prevailing Wage has no significant impact over quality of construction. Six percent of respondents believed that prevailing wage resulted in “higher quality” projects.<sup>4</sup>

In 1999, Prince George’s County commissioned a researcher with the State University of New York (SUNY) Cortland to conduct an analysis on the impact of prevailing wages on public school construction projects. The county council commissioned the study to guide them as they considered the adoption of a bill to require adherence to state prevailing wage rates in public school construction. Using data from an assortment of public and private schools in the mid-Atlantic region, researchers developed a regression model designed to predict the cost of building a school based on its grades of students, square footage, configuration, and materials.<sup>5</sup> The same study methodology was then duplicated and conducted by the same researchers for schools exclusively in Maryland, also in 1999. Researchers first sampled 186 school construction projects, primarily within Anne Arundel, Baltimore, Montgomery, and Prince George's counties. In the Maryland research, prevailing wage laws accounted for a 1.9% cost increase when compared to schools built without prevailing wage rates. The study stated this small discrepancy did not fall within the statistically significant threshold meaning there was no practical difference between building a school with prevailing wage or without prevailing wage in Maryland.<sup>6</sup>

A 2001 study of Pennsylvania school construction projects attributed a 17% wage difference between public and private construction contracts due to state prevailing wage laws. The authors compared a national mean hourly rate of \$17 for school construction projects that paid prevailing wages, and \$14.13 for private sector projects. When accounting for total difference in costs, the authors calculated an

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<sup>2</sup> <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1468-232X.00299>

<sup>3</sup> [https://www.heartland.org/\\_template-assets/documents/publications/srr149.pdf](https://www.heartland.org/_template-assets/documents/publications/srr149.pdf)

<sup>4</sup> [https://www.heartland.org/\\_template-assets/documents/publications/srr149.pdf](https://www.heartland.org/_template-assets/documents/publications/srr149.pdf)

<sup>5</sup> <https://files.eric.ed.gov/fulltext/ED456630.pdf>

<sup>6</sup> [http://ohiostatebtc.org/wp-content/uploads/2014/04/Union\\_Lawyer\\_Perspective\\_19.pdf](http://ohiostatebtc.org/wp-content/uploads/2014/04/Union_Lawyer_Perspective_19.pdf)

average 2.25% total construction cost difference nationally.<sup>7</sup> However, a more recent 2016 study asserts that Michigan, Florida, and Ohio have all experienced 10% savings or more in the absence of prevailing wage rates. Through their analysis, they found that prevailing wage rates not only costs taxpayers more in construction costs, but it also limits job creation.<sup>8</sup> Ultimately, they argue that the repeal of prevailing wage laws could save the federal government \$1.3 billion over the next ten years, although this is not exclusive to school construction.

In an attempt to quantify the impact of prevailing wage on school construction in Maryland and to meet the statutory requirements for this report, the IAC looked at existing bid data submitted by Local Education Agencies (LEAs) and surveyed firms who have worked or applied to work on school construction projects in the State of Maryland.

## Methodology

### 2012-2018 LEAs Comparative Bids

Multiple LEAs sometimes bid projects concurrently as prevailing wage and non-prevailing wage. Bidders provided a prevailing wage bid and/or provided a non-prevailing wage bid for the same project. The prevailing wage requirement is the only difference between the two bids. As part of the contract submission process to the IAC, LEAs sometimes submit bid information for projects that are bid both ways. To provide information regarding the impact of prevailing wage, the IAC has provided the data submitted by LEAs in this report.

### Findings

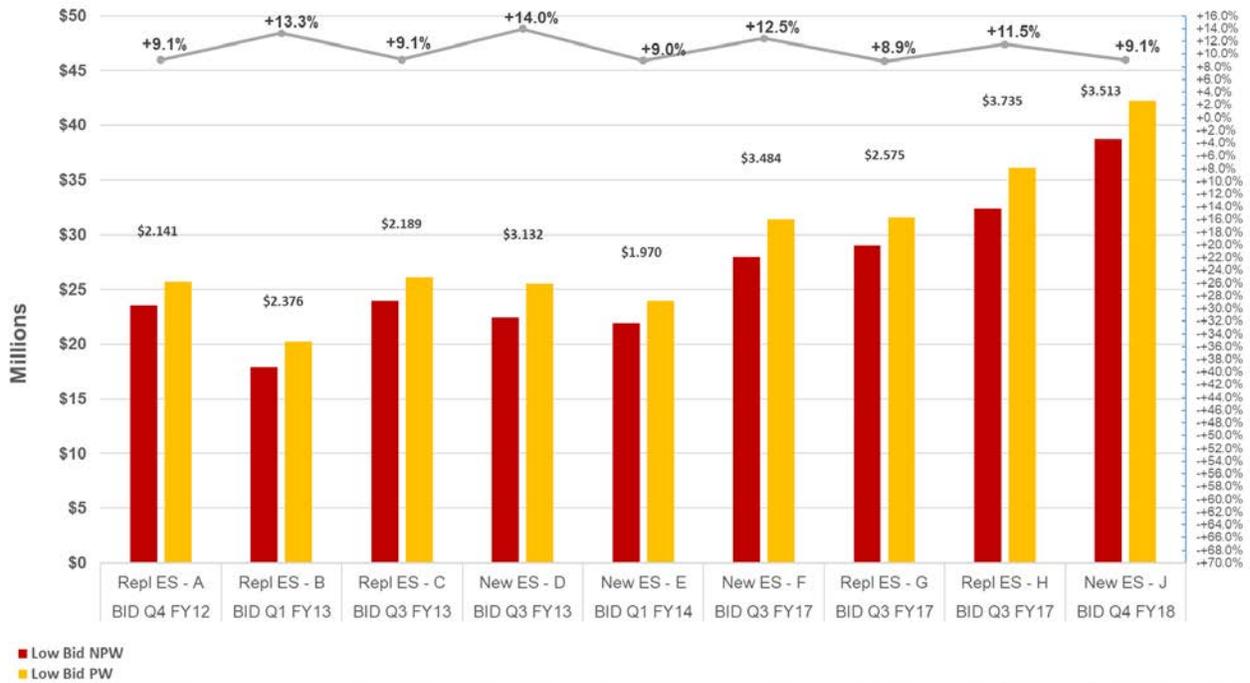
Between Fiscal Year 2012 and Fiscal Year 2018, from IAC records, only nine new or replacement Elementary Schools were discovered to have been bid both ways. The IAC's information is limited to State-funded projects where both bid results were submitted by the LEA. Additional projects may have been bid both ways without IAC knowledge. All nine showed prevailing wage bids were higher than non-prevailing wage bids. Increases ranged between 8.9% and 14.0%, with more than half of the projects 9.0% +/- 0.1% higher. In total, the difference between the non-prevailing wage low bid and the prevailing wage low bid was approximately \$25 million.

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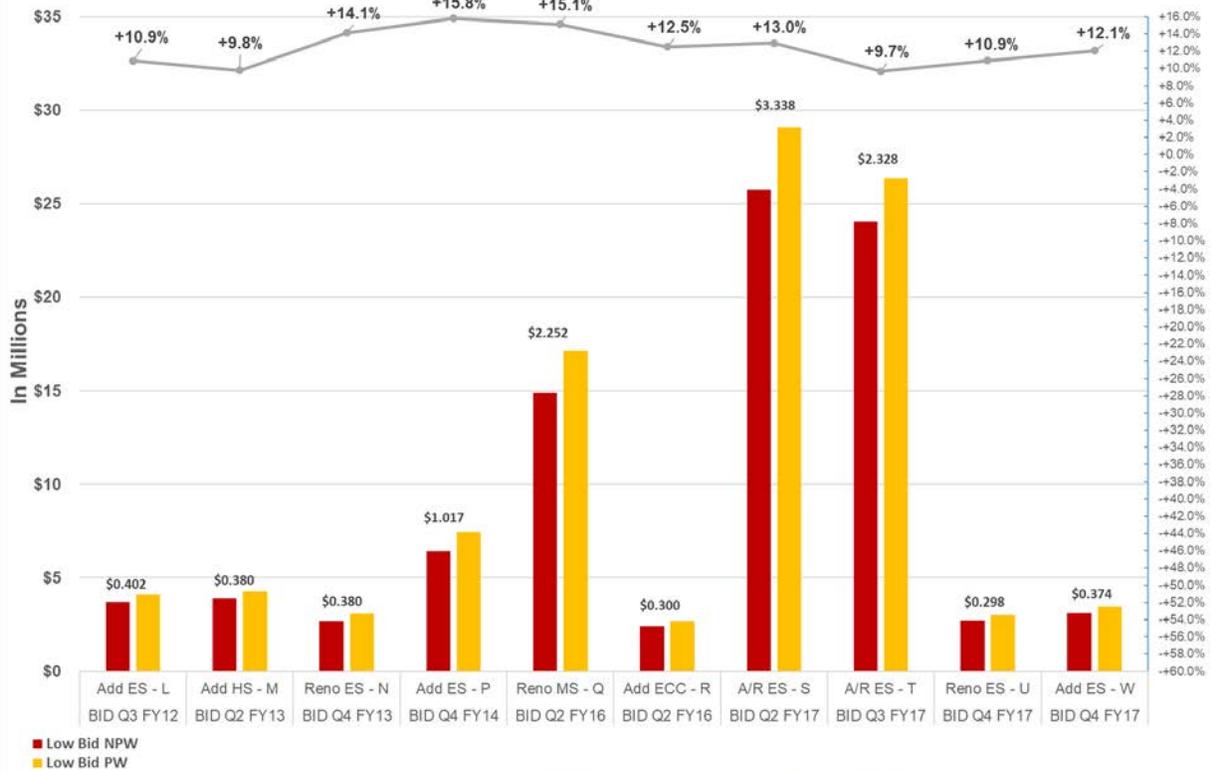
<sup>7</sup> <https://www.jstor.org/stable/20764029?seq=1>

<sup>8</sup> <https://psrf.org/government-union-review-1/2016/11/13/prevailing-wages-costly-to-state-and-local-taxpayers-by-f-rank-gamrat-phd-alleggheny-institute-for-public-policy>

### NEW & REPLACEMENT ELEMENTARY SCHOOLS BID BOTH WAYS FY12 - FY18



### ADDITION & RENOVATION SCHOOLS BID BOTH WAYS FY12 - FY17



Within IAC records, ten similar comparably bid addition and/or renovation projects were bid. These projects ranged from elementary to high school and were all between Fiscal Year 2012 and 2017. These projects reflected a premium of between 9.7% and 15.8% when bid as prevailing-wage projects, with an average premium of 12.3%. In total, the difference between the non-prevailing wage low bid and the prevailing wage low bid was \$11.1M.

There may be additional data from projects bid both ways more recently by LEAs that was never submitted to the State. There is not a requirement for the LEAs to provide both bid results to the State when a project is bid both ways. Thirteen of the 19 projects determined to be bid both ways also contained the bid results broken down by trade. A deeper statistical dive into the individual effect on labor intensive trades versus less labor intensive trades could possibly occur from this data, or from additional information solicited from the LEAs.

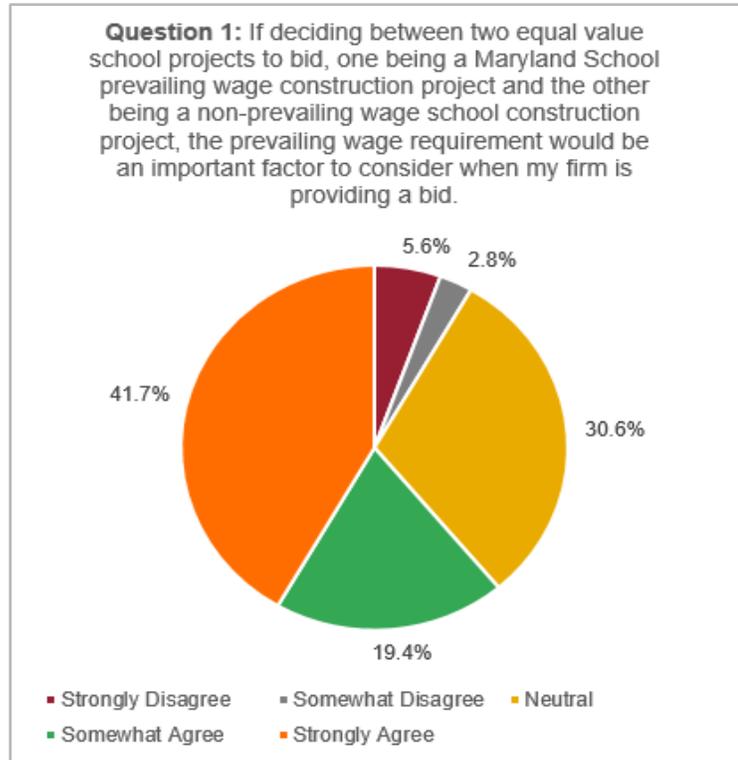
## 2020 IAC Contractor Prevailing Wage Survey

The Interagency Commission on School Construction surveyed 102 construction managers, general contractors and trade subcontractors regarding prevailing wage rate effects on efficiency, safety, quality, and overall cost. Specific survey language and demographics questions are attached to this document as an appendix. The survey was distributed online over email via Google Forms. All 102 survey participants selected for our sample had actively bid on school construction projects in the State of Maryland within the last ten years. Participants were given one month to respond to the survey.

Responses were received from ten general contractors and twenty-six trade subcontractors, with a sample participation rate of 35.3%. With a 95% confidence interval, the margin of error in our sample is approximately 13%. This means with 95% certainty, we can say our respondents represent the sample's true leanings somewhere within a +/-13% range. While 13% is not insignificant, this margin of error gives us a reasonable expectation of adequate representation of Maryland contractor sentiment in our results.

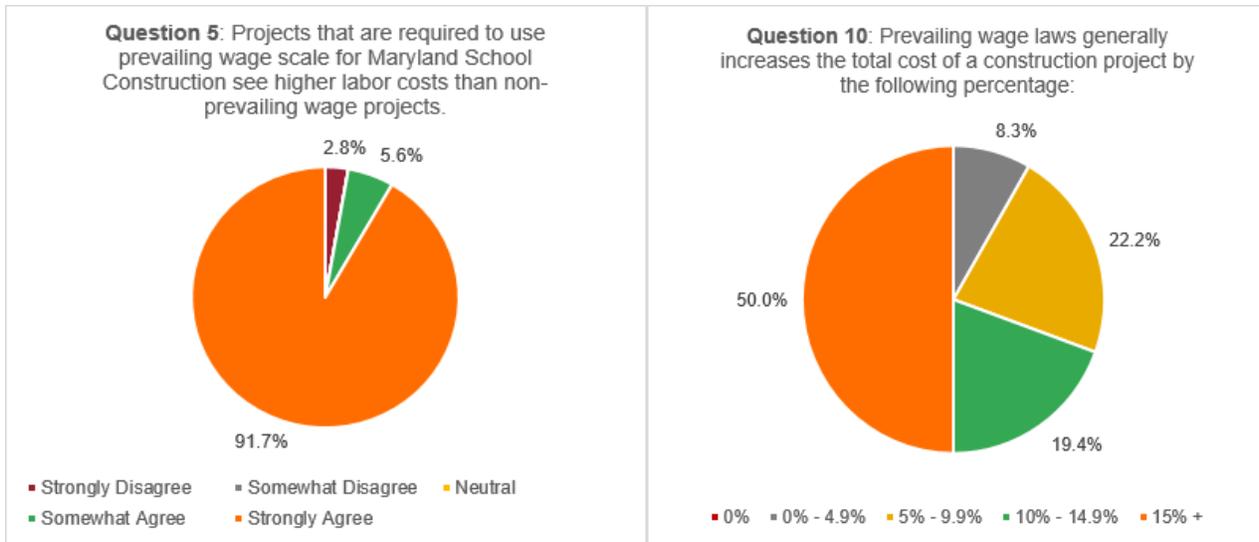
## Findings

Overall, our survey shows that prevailing wage rate requirements are important factors for firms to consider when they are deciding whether or not to bid on a Maryland school construction project. 41.7% of survey participants reported they “strongly agree” that it is an important factor, with 19.4% reporting they “somewhat agree” and 30.6% reporting “neutral.” Conversely, only 8.4% of survey participants said they do not believe it plays a significant role, with 5.6% of participants claiming they strongly disagree.



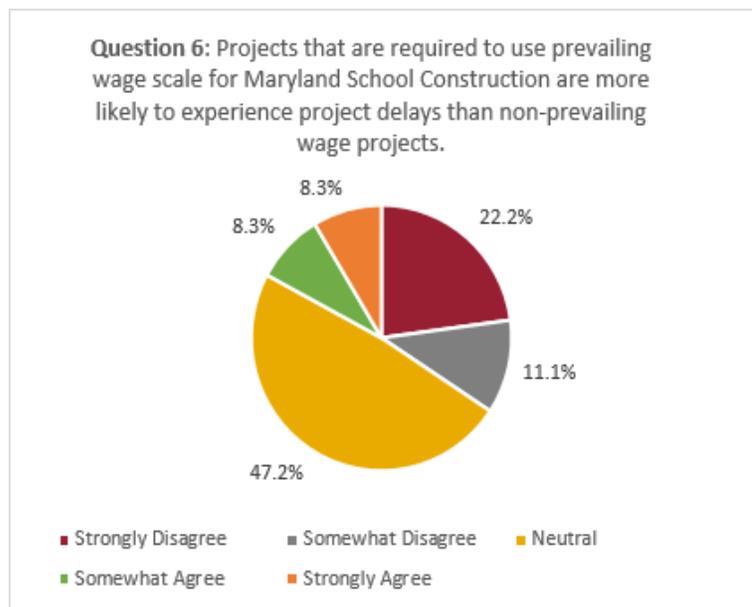
Participants showed firm disagreement with the belief that prevailing wage laws help Maryland school construction contractors achieve higher quality, greater efficiency, or greater safety in their projects compared with non-prevailing wage projects. Only 8.4% of participants “somewhat agreed” or “strongly agreed” that prevailing wage laws help Maryland school construction contractors achieve higher quality projects. 2.8% of participants “somewhat agreed” that prevailing wage laws help Maryland school construction contractors achieve higher efficiency, with zero percent “strongly” agreeing. A 69.4% majority “strongly disagreed” that prevailing wage laws help achieve greater quality, efficiency, or safety in all three of these categories.

Participants also showed firm belief that projects required to use prevailing wage rates for Maryland school construction see higher labor costs than non-prevailing wage rate projects. 91.7% of firms “strongly agreed” with the higher labor costs claim, with 5.6% “somewhat agreeing.” Less than 3% of total participants disagreed, though they all “strongly disagreed.” When asked how much prevailing wage laws increase the total cost of construction, 50% of survey participants said the total cost increases by 15% or more. 19.4% of respondents claimed that total cost increases between 10% and 14.9%, 22.2% claimed that total cost increases between 5% and 9.9%, and 8.3% claimed that



total cost increases between zero percent and 4.9%. No participants claimed that prevailing wage laws do not generally increase the total cost of a construction project.

Regarding whether projects are more likely to experience delays when required to use prevailing wage rate for Maryland school construction, 47.2% of respondents claimed they were “neutral” on this question, with 16.6% arguing they “somewhat agree” or “strongly agree,” and 33.3% claiming they “somewhat disagree” or “strongly disagree.”



Participants generally felt that projects required to use prevailing wage rates for Maryland school construction

have become more common in the last five years. 69.4% of participants claimed they “somewhat agree” or “strongly agree” with this, while 22.2% said they were “neutral” on this question and 5.6% said they “somewhat disagree.” 27.7% of respondents claimed they “somewhat agree” or “strongly agree” that prevailing wage laws are inconsequential for Maryland school construction projects because paid wages in the private sector regularly meet or exceed the prevailing wage rates. A strong majority disagreed.

# Conclusion

The information examined in this report was not exhaustive, but was broadly considered to provide a balanced perspective. The dual-bid projects in Maryland provided comparative information that we were not able to find anywhere else. Clearly first cost savings for non-prevailing wage projects is significant although without corresponding long-term value data, first cost—or cost to construct—can be misleading. Quality must also be considered both as a measure of intended functional value. Schools need to be safe, healthy, and educationally sufficient learning environments. This requirement does not end immediately upon construction of a new facility, but persists over the expected life of the facility, and quality of the construction is reflected in the facility's operating costs over time, including capital replacement of building systems. Poor quality of installation can strongly influence post-occupancy cost of ownership such as premature building systems failure, which is very expensive. As currently good cost-to-own information does not exist for Maryland, this report relies on quality perspective from previous studies, though this must be qualified as we believe most are impressions at first occupancy from the contractors and tradesmen that we surveyed.

We conclude from the dual-bid job information, based on a very small sample set, that prevailing wage requirements increase the first cost of new and replacement projects by more than 9%. For renovation projects, the increase was even greater, although further analysis on the increase on a trade specific basis could be beneficial because of the many, potentially confounding, variables involved with renovation projects. We expect that some trade types are impacted more or less by prevailing wage than others. Information available to us from the other studies considered varied but generally suggested about the same cost premium for prevailing wage requirements.

To improve upon the information in this report, more data would be required. Statewide data sets are limited, and regional or localized data sets would contain only a few projects. The survey results, which polled contractors and specialty building trades, were opinions, but paralleled the results of previous studies and the cost results of IAC dual-bid project data.

The 21<sup>st</sup> Century School Facilities act required this report to determine the impact of prevailing wage, not only at the statewide level, but also in various regions of the State. With very few major school projects that were dual-bid, it is nearly impossible to determine what local or regional school construction costs have been impacted by prevailing wage. There are many variables that factor into school construction cost, including highly individualized designs, variations in local markets, construction cost

inflation from year-to-year, and more. Nevertheless, the survey results indicate that there are only small variations in the impact of applying prevailing wages between regions.

The IAC has evolved from a grant management agency to a facilities management support agency. Over the last several years, the IAC's focus has transitioned to the importance of understanding the total cost to own a school facility over its life, rather than just the initial cost to build. More important than a single cost factor, such as prevailing wage or fluctuations in the construction market, is an emphasis on managing the entire school facilities portfolio, so that every school project regardless of scope improves the educational effectiveness and affordability of Maryland's portfolio of schools. The IAC will continue to study all components that impact the cost and quality of construction and make recommendations to improve requirements and processes that contribute to the IAC's mission of ensuring that every child in every seat in Maryland has an educationally sufficient learning environment.

## Appendix

### *Survey Questions and Comparative Results by Demographics*

**Question 1:** If deciding between two equal value school projects to bid, one being a Maryland School prevailing wage construction project and the other being a non-prevailing wage school construction project, the prevailing wage requirement would be an important factor to consider when my firm is providing a bid.

**Question 2:** Prevailing wage laws help Maryland School Construction contractors achieve a higher quality in their projects than non-prevailing wage projects.

**Question 3:** Prevailing wage laws help Maryland School Construction contractors achieve more efficiency in their projects than non-prevailing wage projects.

**Question 4:** Prevailing wage laws help Maryland School Construction contractors provide safer projects than non-prevailing wage projects.

**Question 5:** Projects that are required to use prevailing wage scale for Maryland School Construction see higher labor costs than non-prevailing wage projects.

**Question 6:** Projects that are required to use prevailing wage scale for Maryland School Construction are more likely to experience project delays than non-prevailing wage projects.

**Question 7:** Projects that are required to use Prevailing wage scale for Maryland School Construction has been more common in the last 5 years than previously.

**Question 8:** Prevailing wage laws are inconsequential for Maryland School Construction projects because paid wages in the private sector regularly meet or exceed the prevailing wage rates.

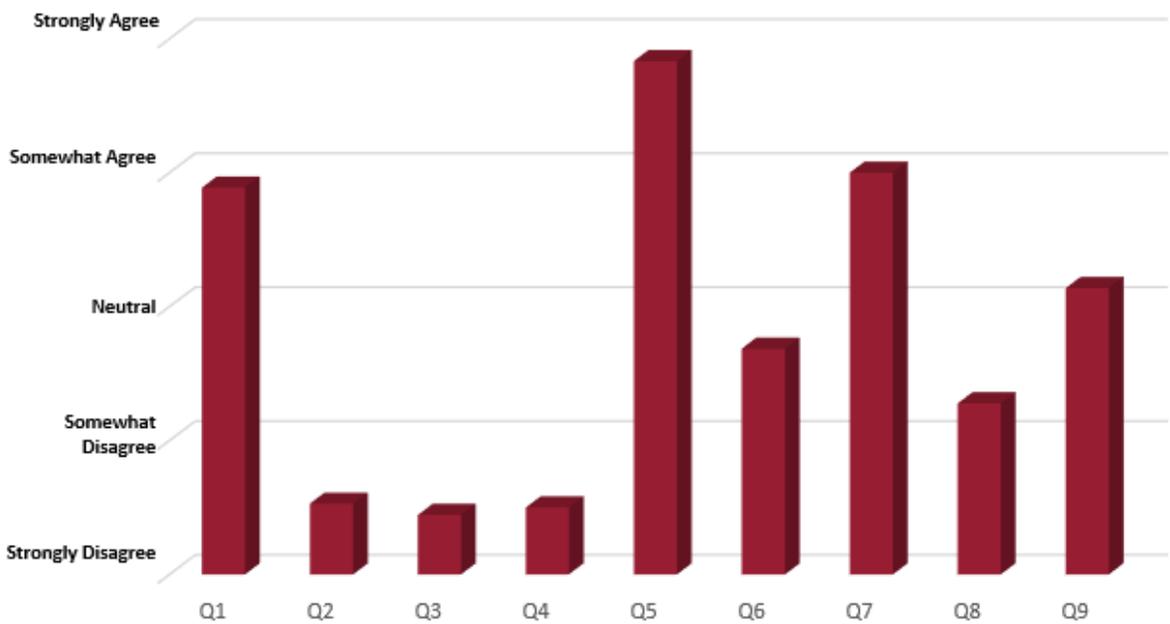
**Question 9:** Bordering county jurisdictions have approximately the same list of worker classifications and approximately the same hourly rates (including fringe benefit rates) per worker classification.

**Question 10:** Prevailing wage laws generally increases the total cost of a construction project by the following percentage:

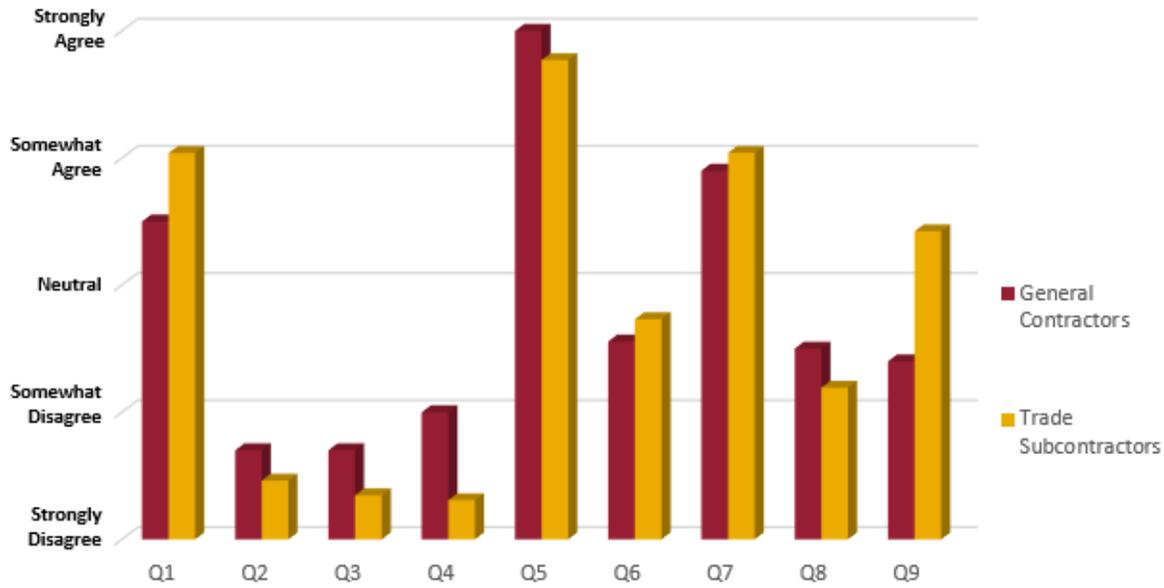
*1 = Strongly Disagree; 2 = Somewhat Disagree; 3 = Neutral; 4 = Somewhat Agree; 5 = Strongly Agree*

*Questions were answered on a scale of 1 – 5, with the exception of question 10.*

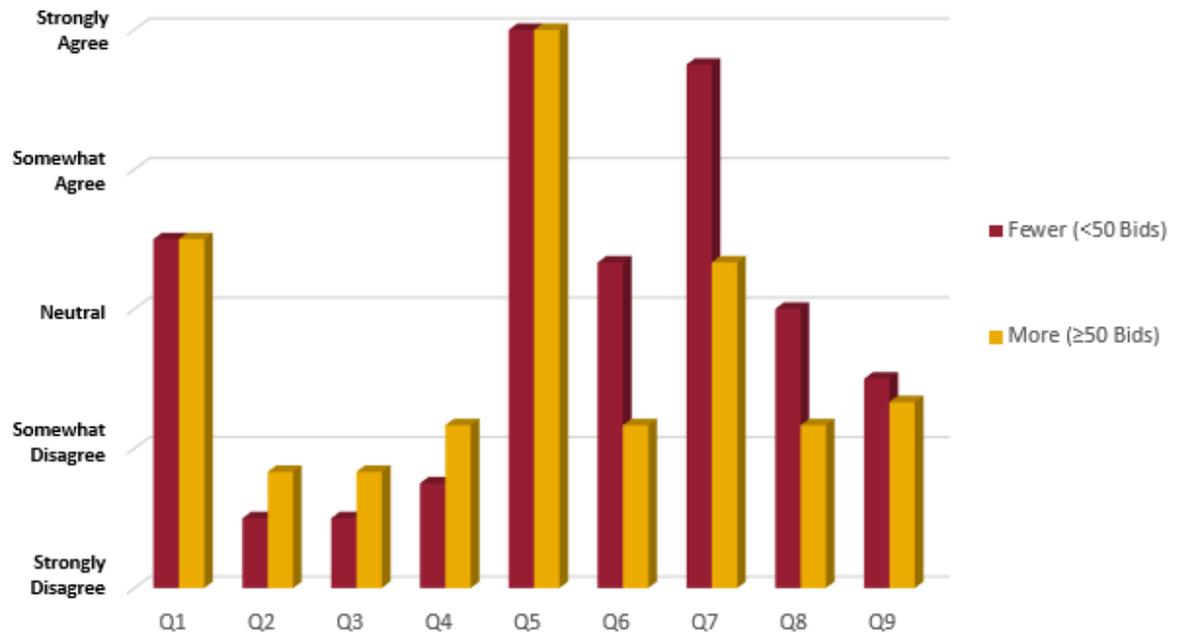
Average Results of All Firms



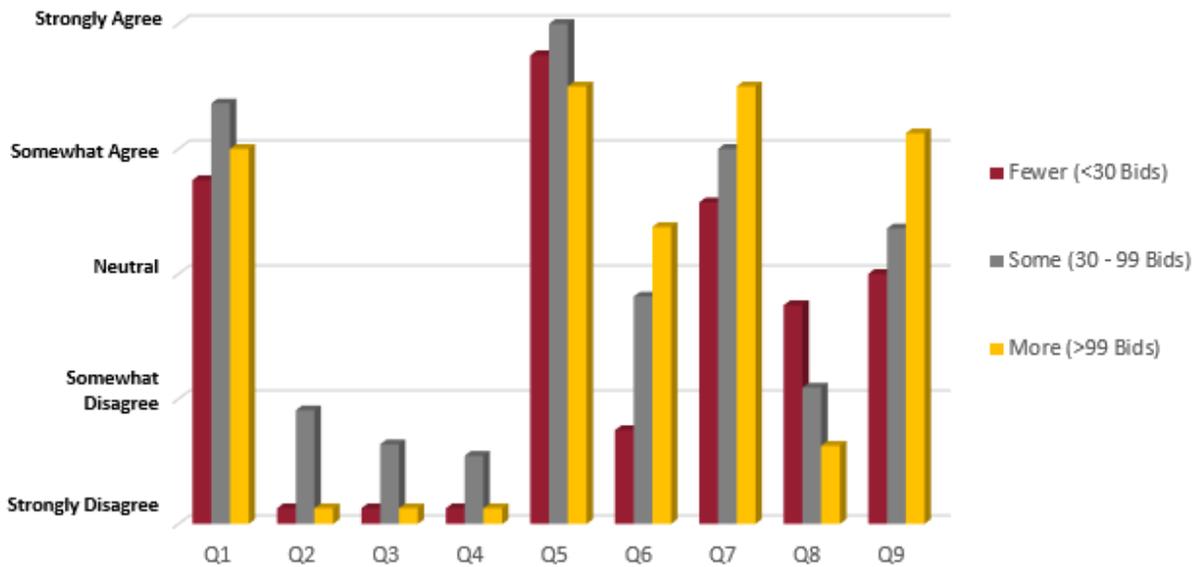
General Contractors vs Trade Subcontractors



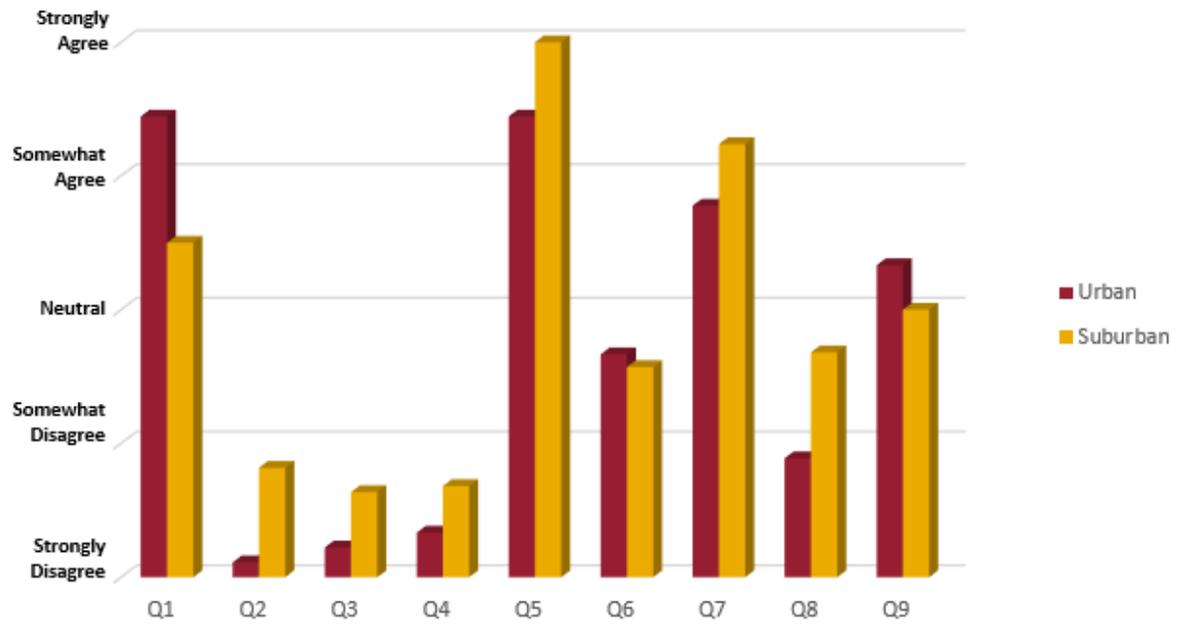
### General Contractors - Fewer Bids vs More Bids on School Construction Projects in past 10 years



### Trade Subcontractors - Fewer Bids vs More Bids on School Construction Projects in past 10 years



### Majority of Firm Work Done in Urban Environments vs Suburban Environments



### Small Firms vs Large Firms

