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Raising the Price on School and Road Construction

By Chris Braunlich

Politicians are quick to recognize the construction needs in Virginia, variously estimated at $13 billion for road and bridge repair (nevermind new roads) and at least $3 billion to repair and replace the 40 percent of Virginia's schools more than 50 years old.

So why are so many of those same politicians willing to raise the cost of that construction, so less construction can be done?

That answer in a minute.

First, let's consider what would drive these rising costs.

Four bills are now working their way rapidly through the General Assembly. Two (SB182 and HB358) would permit government-mandated project labor agreements (PLAs) on state and local construction projects. Two others (SB8 and HB833) would increase wage requirements on those construction projects at nonmarket rates, set under 1931's Davis Bacon Act.

PLAs, when mandated by government, discourage nonunion contractors and subcontractors – currently 98 percent of the state construction industry – from competing to build taxpayer-funded projects. By limiting the pool of bidders, contractors are forced to hire their workers out of the union halls.

But this means contractors are also forced to exclude their existing employees, change their existing practices and instead bring on new workers who may never have worked together, don't know each other and don't share common quality-control procedures. Put it another way: What would have happened if the Washington Nationals were forced to get rid of all their players and bring on new ones from different teams just as they entered the World Series?

More importantly for taxpayers footing the bill: By narrowing the companies that can compete, the costs of construction go up. For example, the Beacon Hill Institute has several times compared the effects of PLAs on school construction bids and construction cost in a number of states, finding that PLAs increased both bid costs and final construction costs of public school construction projects by almost 18 percent.

Their most recent study examined those costs within the state of Connecticut, comparing PLA projects with non-PLA projects. The data show that PLAs raised the cost of building schools by 19.84 percent.

In Virginia, that $3 billion in school costs would rise another $600 million – meaning either fewer schools would be repaired, or taxpayers would be on the hook for more than they should have to pay.

PLA laws have other consequences as well. Not only do they eliminate potential non-union competitors, they would also exclude start-up firms trying to build a business for themselves and their employees. Importantly, this includes a significant number of small, women and minority-owned (SWAM) businesses. Because these businesses are typically non-union, they would be discriminated against if PLAs were forced upon the contracting process. It is what drove the National Black Chamber of Commerce to argue that, if passed, these PLA arrangements "will have a negative impact on Virginia's taxpayers and African-American businesses and construction employees."

Requiring federal prevailing wages is equally expensive, locking contractors into a federally-determined wage instead of paying employees based on their skill-sets, merit, availability and experience.

Recent studies by the Anderson Economic Group demonstrate that Michigan taxpayers have paid, on $2.1 billion of construction per year, $127 million more for each of ten years as a result of mandated Davis-Bacon wages. In Illinois, the figure is $158 million per year on $2.9 billion of construction per year.

So … back to the original question.

Why would legislative leaders drive up the costs for renovating school buildings Governor Ralph Northam says are "crumbling?" Why would they either force taxpayers to pay more for the same work, or decrease the scope of work done? Why would they pass a law excluding women and minorities from participating in the bidding process?

Cynics would argue that it is payback to special interests. According to the Virginia Public Access Project, those special interests have pumped $1.64 million in direct contributions to liberal candidates over the last two years – 60 percent of it from out-of-state interests looking to pass laws that would increase their market share.

Those special interests are, of course, national labor unions. By requiring union workers on public contracting jobs, their membership (and the dues that flow to the union) would increase. If minority and women-owned businesses are hurt, or schools and roads remain unrepaired, or if taxpayers pay more … that is of little concern to those who don't live here.

Legislators (and Governor Northam) have a choice with these bills: They can side with out-of-state special interests or they can side with the schoolchildren, motorists, and taxpayers of Virginia.

Which will it be?

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