

Executive Summary of Professor Herbert Weisberg's July 8, 2002 "Analysis of Regression and Surveys in Ohio LSC Report on S.B. 102 on Claimed Cost Savings from Exempting School Construction from Prevailing Wage Requirements"

In May 2002, Ohio's Legislative Services Commission (LSC) claimed that there are "indications of \$487.9 million" in savings from the exemption of school construction from prevailing wage laws in a five-year period after its repeal in August 1997. That estimate is based on their analysis of bid prices collected by the F. W. Dodge company, which seems to be the gold standard data in the field, extensively analyzed to estimate the effects of prevailing wage legislation on construction costs. However, my analysis of the LSC Report finds that the prevailing wage law exemption did not cut construction costs.

The LSC Report analyzes "inflation-adjusted cost per square foot" of projects to take into account differences in projects' size and the effects of inflation. But these projects also differ in other ways that can affect costs, such as whether it is a primary, junior high, senior high, or vocational school and whether the construction was in an urban or rural county. The LSC staff used a standard statistical technique, known as "regression analysis", to determine the extent to which differences in construction projects can be explained by differences in the type of school, differences between urban and rural counties, and whether or not prevailing wage was in effect.

A regression analysis will report the extent to which the differences in school construction costs are explained by the factors included in the analysis. Good regression equations could be used for purposes of estimating total cost saving, if they are explaining say 70% or maybe even 50% of the differences in costs of different projects. However, the equations in the LSC Report account for only 1%-3% of the differences in project costs. In other words, 97%-99% of the differences in the project costs are not being explained by the LSC analysis. Estimation of cost savings is not reliable when so little of the differences in project costs are being explained.

Second, the effect of prevailing wage on costs is NOT statistically significant in any of the LSC Report's equations. In other words, the best statistical evidence from the LSC's own analysis is that prevailing wage has NO effect on school construction costs. A small cost difference of a few thousand dollars might not be found significant, but it is

hard to believe that a saving of \$487.9 million would not be statistically significant if it were real.

A third essential point is that the F.W. Dodge data refers only to accepted *bids* for projects, not the actual costs of construction after change orders and cost overruns. The actual cost can be much higher than the original bid, especially if the low bidder is inexperienced in keeping costs within the level of the bid. Therefore, the Dodge data does not provide any information about actual cost savings.

On July 21, 2002, the *Columbus Dispatch* published an article about my analysis of the LSC Report. The *Dispatch* interviewed James Burley, the Legislative Services Commission Director, and they reported that he "did not dispute Weisberg's analysis."

Finally, my conclusions fit with those of other studies and in other states. As the LSC Report itself states, Professor Mark Prus researched the effects of prevailing wage on new school construction costs in Delaware, Maryland, North Carolina, Virginia, and West Virginia and found there were no significant effects, Professor Cihan Bilginsoy examined prevailing wage laws in British Columbia and found they did not have significant effects on school construction costs, and Professor Peter Phillips analyzed the effects of prevailing wage laws on school construction in Ohio, Michigan, and Kentucky and found no significant effects in costs. Two more recent studies come to the same conclusion. Professor Azari-Rad tested the effects of prevailing wage laws on school construction costs across all fifty states and found they did not significantly affect costs. Professor Randall Wray researched twelve midwestern states, including Ohio, and this statistical analysis of construction projects found no significant effects of prevailing wages. Thus, study after study finds that prevailing wages laws do not increase construction costs.

In summary, The Legislative Services Commission estimates of cost savings are based on weak equations that do not account for 97%-99% of the differences in project costs. The prevailing wage effects that the LSC Report claims are not statistically significant. The best evidence in Ohio and other states is that a prevailing wage exemption does not reduce school construction bids, let alone the actual project costs.