

WILL
WISCONSIN INSTITUTE
FOR LAW & LIBERTY



The Cost to School Districts Due to Wisconsin's Prevailing Wage Law

Rick Esenberg
President

Martin F. Lueken, Ph.D.
Education Research Director

CJ Szafir
Education Policy Director

May 20, 2015

Introduction

School districts have decried Governor Walker's proposed reductions in anticipated state aid. While it now appears that these deferred increases will be reinstated, the controversy is instructive on another pending reform. There exists an antiquated, very costly mandate that forces school districts to pay above market wages for their construction projects. This is known as the prevailing wage laws. Reform would make much more money available for education. In this paper, we give examples for how much it might save particular school districts.

Much has been written about how this law – a super minimum wage for a select few – costs taxpayers. The Wisconsin Taxpayers Alliance issued a report concluding that if market wages were used instead of prevailing wages for state and municipal projects, in 2014, taxpayers could have saved between \$200 million and \$300 million. Americans for Prosperity used data to estimate the impact of prevailing wage laws on referendum projects in 2015 (\$37.8 million) and between 1995 and 2011 (\$890 million).¹

WILL adds to the debate by estimating the potential savings to taxpayers over the last 5 years if all Wisconsin school districts paid market wages, instead of the prevailing wage, for projects approved by voter referendum. Using our methodology, we conclude that districts would have saved at least **\$163.2 million and \$244.8 million over the last five years (individual school district breakdown given by Table 2 on page 5).**

Data and Methodology

We derive estimates for savings that school districts would have experienced had school bonding projects occurred without the prevailing wage laws. To do this, we use data from the Wisconsin Department of Public Instruction on school referenda passed since January 1, 2010. We exclude referenda that do not fall under prevailing wage laws, such as those associated with refinancing debt or land acquisition. In the last 5 years, there have been 142 referenda passed in 121 school districts resulting in \$1.8 billion worth of bonds issued. Districts that did not pass referenda in any of the last 5 years do not show up in the analysis.

Our estimates are based on savings rates calculated by the Wisconsin Taxpayers Alliance.² They estimated that savings from capital projects under market wages would have ranged from 9% to 13.5%. We apply this range to the school bond amounts.

¹ <http://americansforprosperity.org/wisconsin/files/2015/05/Prevailing-Wage-School-Construction.pdf>
<http://americansforprosperity.org/wisconsin/files/2015/04/Prevailing-Wage-District-By-District.pdf>

² To compute savings rates, the economists compared prevailing wage rates to market rates using data from the Wisconsin Department of Workforce Development and Bureau of Labor Statistics. To account for the fact that building projects costs are not entirely labor costs, assumption are made about the labor's share of the project costs – they assume that labor's share is 20% to 30% of total costs. These assumptions are based on conservative ranges

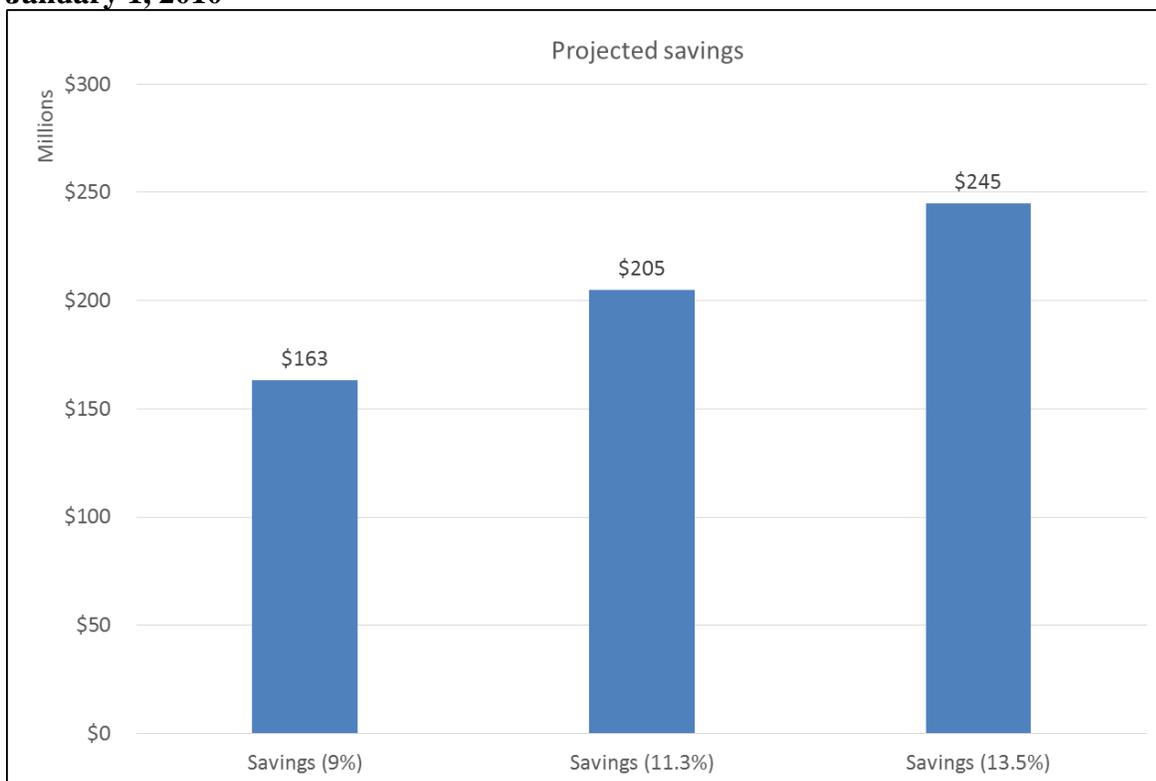
Our estimates will likely understate actual savings because our study only uses project costs through school referenda only. School districts have other projects that fall under prevailing wage laws that are not taken up by referenda.

Total Impact

In using the methodology described above, **we conclude that school districts in Wisconsin could have saved between \$163.2 million and \$244.8 million over the last five years had school bonding projects been conducted under market wages instead of prevailing wage.**

Figure 1 shows the findings.

Figure 1: Projected savings for Wisconsin school districts if market wages instead of prevailing wages were used for school projects funded through referenda passed since January 1, 2010



found in empirical labor economics studies. For further details, please refer to: Wisconsin Taxpayers Alliance (2015). *Evaluating Wisconsin's Approach to Determining Prevailing Wages*, March 2015.

Impact on Individual School Districts

Table 2 on page 5 shows the savings for all 121 school district in Wisconsin that passed referendum since 2010.

The calculations are revealing about the tradeoffs and difficult decisions that schools face because of the current law.

For example, Green Bay Area Public Schools and Menomonie Area *each could have saved as much as \$5 million* in the last 5 years. Baraboo, Pewaukee and Platteville could have saved up to \$2 million. The total savings in Prescott in the last five years range between \$2.9 million and \$4.3 million. Beloit would have spent between \$6.3 million and \$9.5 million less under market wages. Fox Valley school districts could have saved up to \$7.5 million.

Perhaps a lot of the angst expressed over the proposed reductions for many districts could have been avoided had prevailing wage been repealed. There was widespread concern among school and district leaders when the Governor released his proposal earlier this year. Cedarburg Superintendent Jonathan Lamberson said that budget reductions "definitely compounds the already massive fiscal challenges that Cedarburg and most other districts are already facing for next year."³ It seems evident, however, that, for many districts prevailing wage laws were contributing factors to any fiscal challenges. Having to pay more than a market rate for new or renovated facilities will leave less money for everything else. While we cannot say for sure that repealing prevailing wage would have completely avoided these actual or perceived lack of funds, it would certainly have helped.

To offer additional perspective, we convert the total savings for each district to annual savings (second-to-last column in Table 1). These debt obligations are typically not paid off in one period. We assume a 20-year amortization schedule at 4% interest to determine how much each district would have saved each year for the next 20 years.⁴ The last column reports how much this annual savings would have offset the proposed state aid reductions which have caused so much concern. The first year of proposed reductions *would have been offset by between 11% and 71% in these districts*. Of course, these districts would continue to save for the next 19 years while the proposed aid reductions were only to be temporary.

³ <http://www.jsonline.com/news/education/scott-walkers-budget-forcing-school-districts-to-trim-further-b99461926z1-296494961.html>

⁴ We follow the Wisconsin Taxpayers Alliance methodology.

Table 1: Estimated savings for school districts if market wages instead of prevailing wages were used for school projects funded through referenda passed since January 1, 2010

District	Savings (9%) (A)	Savings (13.5%) (B)	proposed budget cut (C)	Difference (C-A)	Annual payment under 20-year schedule*	% offset
Appleton	\$2,250,000	\$3,375,000	\$2,190,225	-\$59,775	\$248,338	11%
Baraboo	\$895,500	\$1,343,250	\$454,275	-\$441,225	\$98,839	22%
Beloit	\$6,300,000	\$9,450,000	\$1,096,275	-\$5,203,725	\$695,348	63%
Green Bay	\$3,303,000	\$4,954,500	\$3,234,975	-\$68,025	\$364,561	11%
Hortonville	\$2,290,950	\$3,436,425	\$531,000	-\$1,759,950	\$252,858	48%
Menasha	\$2,699,550	\$4,049,325	\$558,900	-\$2,140,650	\$297,956	53%
Menomonie Area	\$3,240,000	\$4,860,000	\$501,000	-\$2,739,000	\$357,607	71%
Pewaukee	\$1,480,500	\$2,220,750	\$384,975	-\$1,095,525	\$163,407	42%
Platteville	\$1,350,000	\$2,025,000	\$220,725	-\$1,129,275	\$149,003	68%
Wausau	\$2,660,850	\$3,991,275	\$1,274,850	-\$1,386,000	\$293,685	23%

* annual payments under 20-year amortization schedule and 4% interest rate

Table 2: Estimated savings for school districts if market wages instead of prevailing wages were used for school projects funded through referenda passed since January 1, 2010 using different assumptions for the savings rate

District	Savings (9%)	Savings (11.3%)	Savings (13.5%)
Adams-Friendship Area	\$414,000	\$519,800	\$621,000
Alma	\$270,000	\$339,000	\$405,000
Alma Center	\$927,000	\$1,163,900	\$1,390,500
Altoona	\$2,070,000	\$2,599,000	\$3,105,000
Appleton Area	\$2,250,000	\$2,825,000	\$3,375,000
Arcadia	\$1,260,000	\$1,582,000	\$1,890,000
Baldwin-Woodville Area	\$1,255,500	\$1,576,350	\$1,883,250
Bangor	\$52,200	\$65,540	\$78,300
Baraboo	\$895,500	\$1,124,350	\$1,343,250
Barneveld	\$105,750	\$132,775	\$158,625
Beloit	\$6,300,000	\$7,910,000	\$9,450,000
Berlin Area	\$1,683,000	\$2,113,100	\$2,524,500
Black River Falls	\$2,025,000	\$2,542,500	\$3,037,500
Blair-Taylor	\$1,528,650	\$1,919,305	\$2,292,975
Bloomer	\$1,575,000	\$1,977,500	\$2,362,500
Brillion	\$670,500	\$841,850	\$1,005,750
Bristol #1	\$477,000	\$598,900	\$715,500
Brown Deer	\$1,980,000	\$2,486,000	\$2,970,000
Cadott Community	\$860,850	\$1,080,845	\$1,291,275
Cambria-Friesland	\$112,500	\$141,250	\$168,750
Cambridge	\$417,150	\$523,755	\$625,725
Cameron	\$2,115,000	\$2,655,500	\$3,172,500
Cashton	\$1,107,900	\$1,391,030	\$1,661,850
Cedar Grove-Belgium Area	\$540,000	\$678,000	\$810,000
Clear Lake	\$577,350	\$724,895	\$866,025
Cudahy	\$531,000	\$666,700	\$796,500
Darlington Community	\$186,750	\$234,475	\$280,125
Deforest Area	\$3,690,000	\$4,633,000	\$5,535,000
Denmark	\$110,700	\$138,990	\$166,050
Depere	\$639,000	\$802,300	\$958,500
Desoto Area	\$678,150	\$851,455	\$1,017,225
Durand	\$1,213,200	\$1,523,240	\$1,819,800
East Troy Community	\$2,223,000	\$2,791,100	\$3,334,500
Eau Claire Area	\$4,666,500	\$5,859,050	\$6,999,750
Edgar	\$684,000	\$858,800	\$1,026,000
Edgerton	\$567,000	\$711,900	\$850,500
Elkhorn Area	\$1,837,800	\$2,307,460	\$2,756,700
Fall Creek	\$459,000	\$576,300	\$688,500
Fall River	\$220,950	\$277,415	\$331,425
Fennimore Community	\$530,100	\$665,570	\$795,150
Fox Point J2	\$625,950	\$785,915	\$938,925

Franklin Public	\$2,970,000	\$3,729,000	\$4,455,000
Glenwood City	\$831,600	\$1,044,120	\$1,247,400
Green Bay Area	\$3,303,000	\$4,147,100	\$4,954,500
Hartford J1	\$333,000	\$418,100	\$499,500
Hilbert	\$1,472,850	\$1,849,245	\$2,209,275
Horicon	\$256,500	\$322,050	\$384,750
Hortonville	\$2,290,950	\$2,876,415	\$3,436,425
Howards Grove	\$306,000	\$384,200	\$459,000
Howard-Suamico	\$1,206,000	\$1,514,200	\$1,809,000
Ithaca	\$357,300	\$448,610	\$535,950
Jefferson	\$3,167,100	\$3,976,470	\$4,750,650
Johnson Creek	\$1,701,000	\$2,135,700	\$2,551,500
Kaukauna Area	\$14,299	\$17,954	\$21,449
Kenosha	\$1,503,000	\$1,887,100	\$2,254,500
Kettle Moraine	\$4,464,000	\$5,604,800	\$6,696,000
Kewaunee	\$1,458,000	\$1,830,600	\$2,187,000
Kiel Area	\$585,000	\$734,500	\$877,500
Lacrosse	\$1,413,000	\$1,774,100	\$2,119,500
Lake Mills Area	\$1,683,000	\$2,113,100	\$2,524,500
Linn J6	\$252,000	\$316,400	\$378,000
Lomira	\$2,160,000	\$2,712,000	\$3,240,000
Luck	\$108,000	\$135,600	\$162,000
Luxemburg-Casco	\$496,800	\$623,760	\$745,200
Madison Metropolitan	\$3,690,000	\$4,633,000	\$5,535,000
Mauston	\$225,000	\$282,500	\$337,500
Menasha	\$2,699,550	\$3,389,435	\$4,049,325
Menomonie Area	\$3,240,000	\$4,068,000	\$4,860,000
Mequon-Thiensville	\$1,638,000	\$2,056,600	\$2,457,000
Middleton-Cross Plains	\$5,387,400	\$6,764,180	\$8,081,100
Mondovi	\$135,000	\$169,500	\$202,500
Mount Horeb Area	\$1,500,300	\$1,883,710	\$2,250,450
New Glarus	\$661,500	\$830,550	\$992,250
North Lake	\$203,400	\$255,380	\$305,100
Norwalk-Ontario-Wilton	\$522,000	\$655,400	\$783,000
Oak Creek-Franklin	\$5,318,550	\$6,677,735	\$7,977,825
Oconto	\$819,000	\$1,028,300	\$1,228,500
Oconto Falls	\$198,000	\$248,600	\$297,000
Omro	\$90,000	\$113,000	\$135,000
Onalaska	\$1,440,000	\$1,808,000	\$2,160,000
Oregon	\$4,914,000	\$6,169,800	\$7,371,000
Osceola	\$270,000	\$339,000	\$405,000
Oshkosh Area	\$1,169,550	\$1,468,435	\$1,754,325
Osseo-Fairchild	\$495,000	\$621,500	\$742,500
Pardeeville Area	\$162,000	\$203,400	\$243,000
Parkview	\$1,530,000	\$1,921,000	\$2,295,000

Pewaukee	\$1,480,500	\$1,858,850	\$2,220,750
Platteville	\$1,350,000	\$1,695,000	\$2,025,000
Port Washington-Saukville	\$4,446,000	\$5,582,200	\$6,669,000
Poynette	\$115,650	\$145,205	\$173,475
Prescott	\$2,868,300	\$3,601,310	\$4,302,450
Pulaski Community	\$393,300	\$493,810	\$589,950
Randolph	\$1,581,300	\$1,985,410	\$2,371,950
Random Lake	\$765,000	\$960,500	\$1,147,500
Raymond #14	\$417,600	\$524,320	\$626,400
Rhineland	\$1,233,000	\$1,548,100	\$1,849,500
Rib Lake	\$360,000	\$452,000	\$540,000
Rice Lake Area	\$1,828,800	\$2,296,160	\$2,743,200
Ripon Area	\$2,619,000	\$3,288,300	\$3,928,500
River Falls	\$1,714,500	\$2,152,650	\$2,571,750
Saint Croix Central	\$2,159,550	\$2,711,435	\$3,239,325
Sauk Prairie	\$3,117,600	\$3,914,320	\$4,676,400
Sharon J11	\$538,200	\$675,740	\$807,300
Shullsburg	\$123,750	\$155,375	\$185,625
Somerset	\$715,500	\$898,350	\$1,073,250
Stone Bank School District	\$225,000	\$282,500	\$337,500
Stoughton Area	\$652,500	\$819,250	\$978,750
Suring	\$81,000	\$101,700	\$121,500
Tomorrow River	\$765,000	\$960,500	\$1,147,500
Twin Lakes #4	\$539,100	\$676,870	\$808,650
Union Grove UHS	\$199,350	\$250,295	\$299,025
Watertown	\$558,000	\$700,600	\$837,000
Waukegan Community	\$4,792,500	\$6,017,250	\$7,188,750
Wausau	\$2,660,850	\$3,340,845	\$3,991,275
West Bend	\$2,057,850	\$2,583,745	\$3,086,775
White Lake	\$269,550	\$338,435	\$404,325
Whitehall	\$1,125,000	\$1,412,500	\$1,687,500
Whitewater	\$168,300	\$211,310	\$252,450
Williams Bay	\$1,791,000	\$2,248,700	\$2,686,500
Winneconne Community	\$423,000	\$531,100	\$634,500
Wonewoc-Union Center	\$108,000	\$135,600	\$162,000
TOTAL	\$163,217,149	\$204,928,199	\$244,825,724