

## How to Reduce the Cost of Highway Projects

Edited by Bob Pishue, Director, Coles Center for Transportation

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### Policy Recommendations

1. End the practice of the state charging itself sales tax for transportation projects.
2. Save 15% on transportation projects by using market-based labor pricing, rather than the artificially inflated prevailing wage system.
3. Officials at all levels of government should review permitting and regulatory mandates on transportation projects in order to reduce costs and shorten planning and construction time.
4. Remove the requirement that light rail be included in a new Columbia River bridge.

### Background

One of the more significant obstacles to building transportation infrastructure in the U.S. is the ever-rising cost of projects.

In debating a new, six-year surface transportation reauthorization bill, Congress considered whether to expand funding beyond projected revenues and, if so, how to pay for the new spending. Current revenues in the Highway Trust Fund can only pay for \$236 billion worth of projects over the next six years. Some people claim there is a need for much higher spending levels, which would require new taxes and fees.

There is another side to the funding equation that lawmakers must solve before they obligate taxpayers to another transportation package: How to reduce costs.

In the broadest sense, there are two drivers of costs in transportation projects: natural and unnatural. Natural cost drivers occur as a result of normal economics. They include inflation, material expenses and higher costs for new technologies.

Unnatural costs result from policies created by government officials that artificially inflate expenses on public works projects. These policies are implemented for reasons that are unrelated to actually building a project. Unnatural cost drivers include prevailing wage rules, imposing state sales taxes on state projects, apprenticeship requirements, inefficient permitting, environmental compliance, setting aside money for public art and requiring that mass transit be included in highway projects.

### Policy Analysis

The existing Washington State Route 520 floating bridge spans Lake Washington and connects the cities of Seattle and Bellevue. It was built in 1963 and cost about \$245 million in today's dollars. The cost of the proposed replacement will be about 19 times more. Officials have already spent more money (\$400 million in 2011) on planning and design than the total cost of building the first bridge, adjusted for inflation.

The Federal Highway Administration (FHWA) estimates that a typical Environmental Impact Statement took an average of 2.5 years to complete in the 1970s. Today it takes 6.5 years. According to the FHWA, complex highway projects now take an average of 13 years to complete. Only a fraction of that time is spent on construction.

Then there are the costs created by requiring mass transit to be included in highway projects. One of the most significant cost-contributors of the Columbia River bridge project between Vancouver, Washington and Portland, Oregon, is the requirement to add light rail. Building light rail across the Columbia River would cost about a billion dollars, which represents 30% of the project's total costs, not to mention the millions in additional operating expenses that will burden local taxpayers indefinitely. Yet, light rail would serve only between three and nine percent of all trips that cross the bridge.

Deliberately increasing costs by 30% to serve less than 10% of bridge crossings, most of which are already served by inexpensive buses, creates unnecessary risk and establishes a very large gap between public costs and public benefits.

Another example of an unnatural cost driver is the state's use of the expensive and antiquated prevailing wage system to pay for public construction. Studies show that imposing prevailing wage rules on transportation projects unnecessarily increases labor costs by 22% and boosts total project costs by about 10%.

Prevailing wage is supposed to be the wage paid to the majority of workers in the applicable trade. In practice though, the rate used is not the true market wage but is the going union rate for the largest city in the region, usually Seattle. The effect of this interpretation is to reverse the meaning of the term "prevailing wage."

Currently the federal government and 33 states, including Washington, impose prevailing wage requirements on public construction projects. Ten states have abolished their prevailing wage laws and reaped significant public benefits as a

result.<sup>1</sup> To cite just one example, Florida lawmakers found they saved 15% on public projects once their state's inflationary prevailing wage law was repealed.<sup>2</sup>

Open market forces and transparent pricing determine the true prevailing price of labor, not a predetermined, government-fixed price. By interfering in the natural function of the labor market, the government artificially drives up how much it must pay to build and maintain the public road network.

Most people recognize and agree that mobility, and the infrastructure that it requires, is the key to economic strength and security as the country moves deeper into the 21st century. But to do more with less, officials must recognize the artificial nature of these particular policies and work to contain them in any new funding package.

On August 1, 2007, the Interstate 35 bridge in Minneapolis collapsed, tragically killing 13 people and injuring 145 others. Investigators concluded the bridge failed from a design flaw. Within hours of the collapse, Minneapolis officials pledged to rebuild the bridge.

Remarkably, a new, state of the art, ten-lane bridge opened on September 18, 2008, just 414 days after the old one fell. The new bridge cost under \$300 million. Officials were able to rebuild the I-35 bridge quickly and cheaply because they controlled risk.

Funding was secured up front. Permitting and environmental reviews were streamlined. Officials used a design/build public/private partnership, which allowed design and construction to occur simultaneously. Instead of bogging down in a debate over adding expensive light rail,

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1 "Prevailing Wage Laws Mandate Excessive Costs," Policy Brief 99:33, Washington Research Council, November 29, 1999, at [www.researchcouncil.org/Briefs/1999/PB99-33/PrevailingWagePB.htm](http://www.researchcouncil.org/Briefs/1999/PB99-33/PrevailingWagePB.htm).

2 Ibid.

which transit supporters strongly lobbied for, officials included two additional general purpose lanes and suggested they could be replaced by a transit system at some point in the future. This allowed the project to move forward without costly delays. Officials also provided \$27 million in financial incentives if the contractor completed the project early, and they imposed penalties for delays.

The I-35 bridge is a successful model of how to build transportation infrastructure. By controlling risk and using the private sector, officials kept costs low and completed the project on budget and ahead of schedule.

State and federal officials can learn a lot from officials in Minnesota. Instead of a system based on politics, process and red tape, we need a system focused on project delivery, results and performance—one that leverages public funds by using all financial tools available and limits artificial cost drivers.

## Recommendations

1. End the practice of the state charging itself sales tax for transportation projects. The state's current practice of charging sales tax on transportation design and construction is simply a device for cycling money out of the transportation budget and into the General Fund budget. Ending this practice would increase the funding available for road improvements and traffic relief. The state's own projects
2. Save 15% on transportation projects by using market-based labor pricing, rather than the artificially inflated prevailing wage system. Built-in waste like the prevailing wage system makes it difficult for elected leaders to ask the public to pay more in taxes for needed transportation projects. Using competitive market wages would stretch limited transportation dollars and show respect for the financial sacrifice people make when they pay for public roads.
3. Officials at all levels of government should review permitting and regulatory mandates on transportation projects in order to reduce cost, planning and construction time. Artificial cost-drivers drive up budgets without improving service to the public. Officials should eliminate policies that may result in benefits to certain interest groups but do not contribute to getting road projects built.
4. Remove the light rail requirement across the Columbia River bridge. Light rail represents about a third of the cost of the project yet will provide less than 10% of all crossings, most of which are already provided by inexpensive buses. Adding light rail across the Columbia River bridge would be redundant, expensive and wasteful.

should be tax exempt, so that all funds raised through dedicated transportation taxes can be used in the way they were intended: improving mobility for citizens.

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