



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE



Presented to the Public School Capital Outlay Oversight Task Force

July 21, 2023

Explaining Rising Construction Costs

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The views expressed in this presentation are the opinions of the presenters and do not reflect the opinions of the New Mexico Legislative Council or any other member of its staff.

Problem Statement

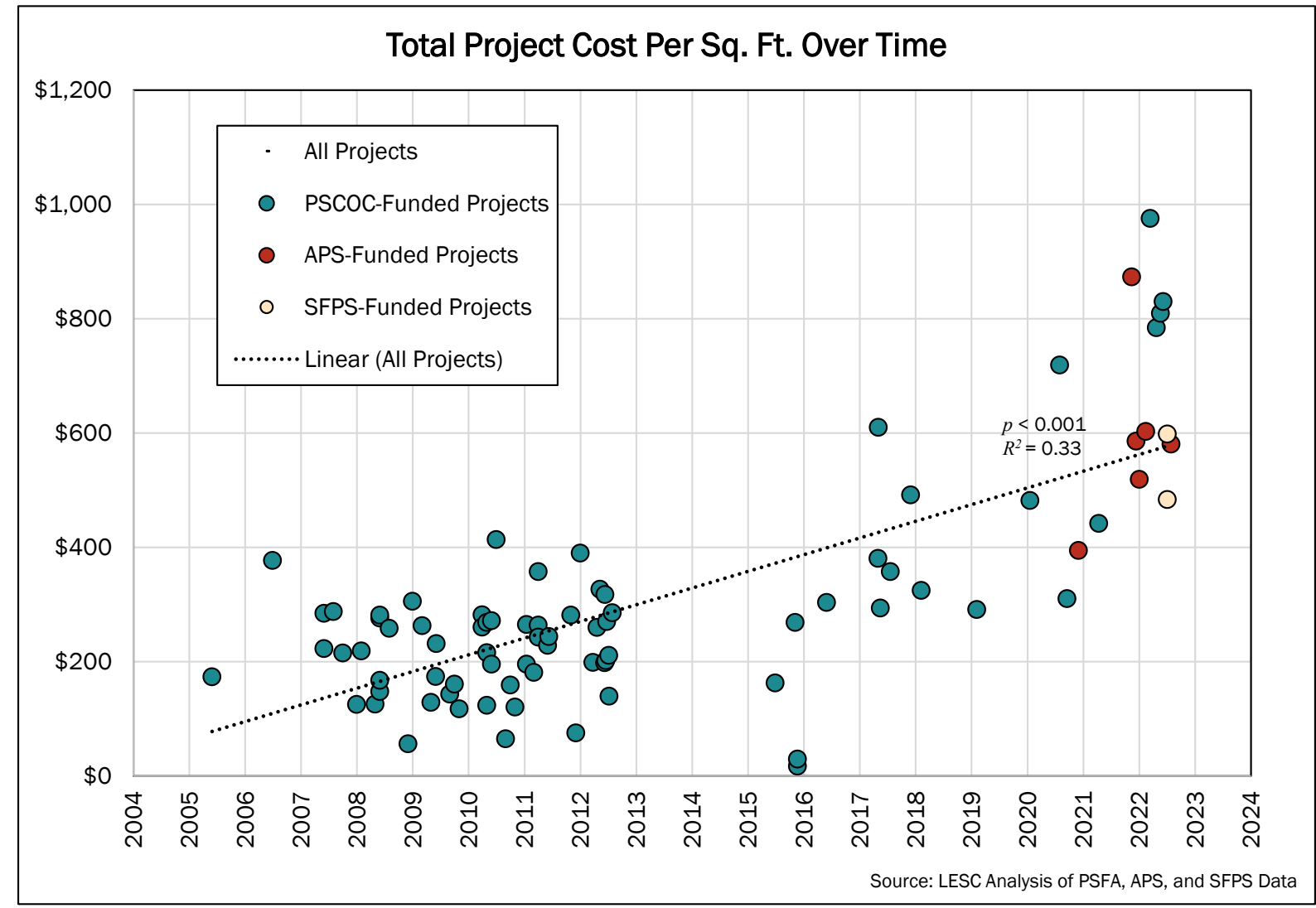
- Construction costs continue to increase in the wake of the Covid-19 pandemic
- School districts applying for awards are requesting to waive their local share of projects
- Continued cost escalation will limit the state's ability to meet increased demand for school improvements statewide

Costs

A linear regression estimates the cost of building a school today is **\$582 per sq. ft.**

Last year, this prediction was \$425 per sq. ft.

Recent expensive projects have driven the predicted cost upward.

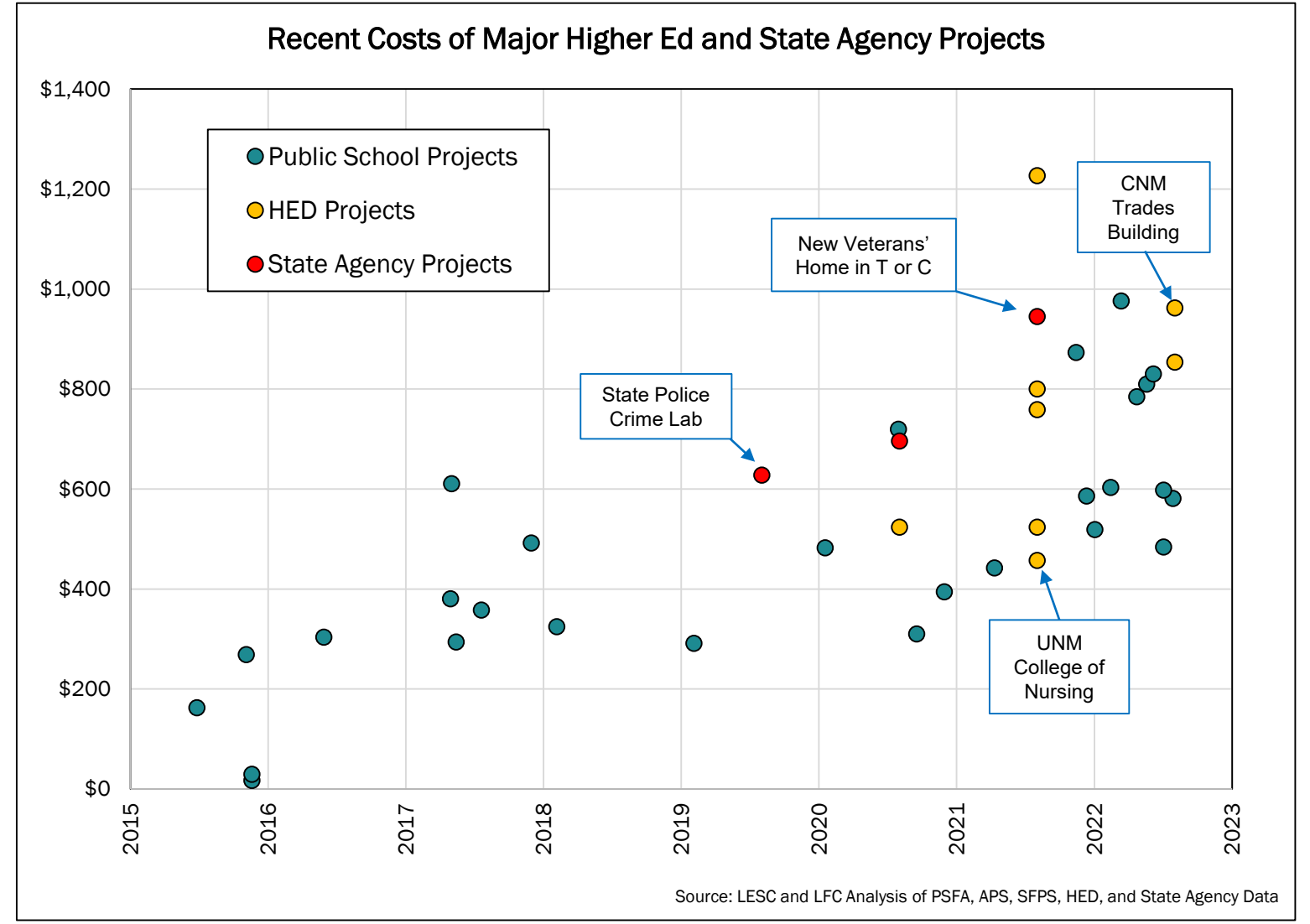


Costs

The costs of recent higher education projects appear to be following similar trends to those of public schools.

Rising costs are a topic of concern for the Higher Education Capital Outlay Committee.

Costs will likely present a challenge for the 2024 G.O. bond funding cycle.

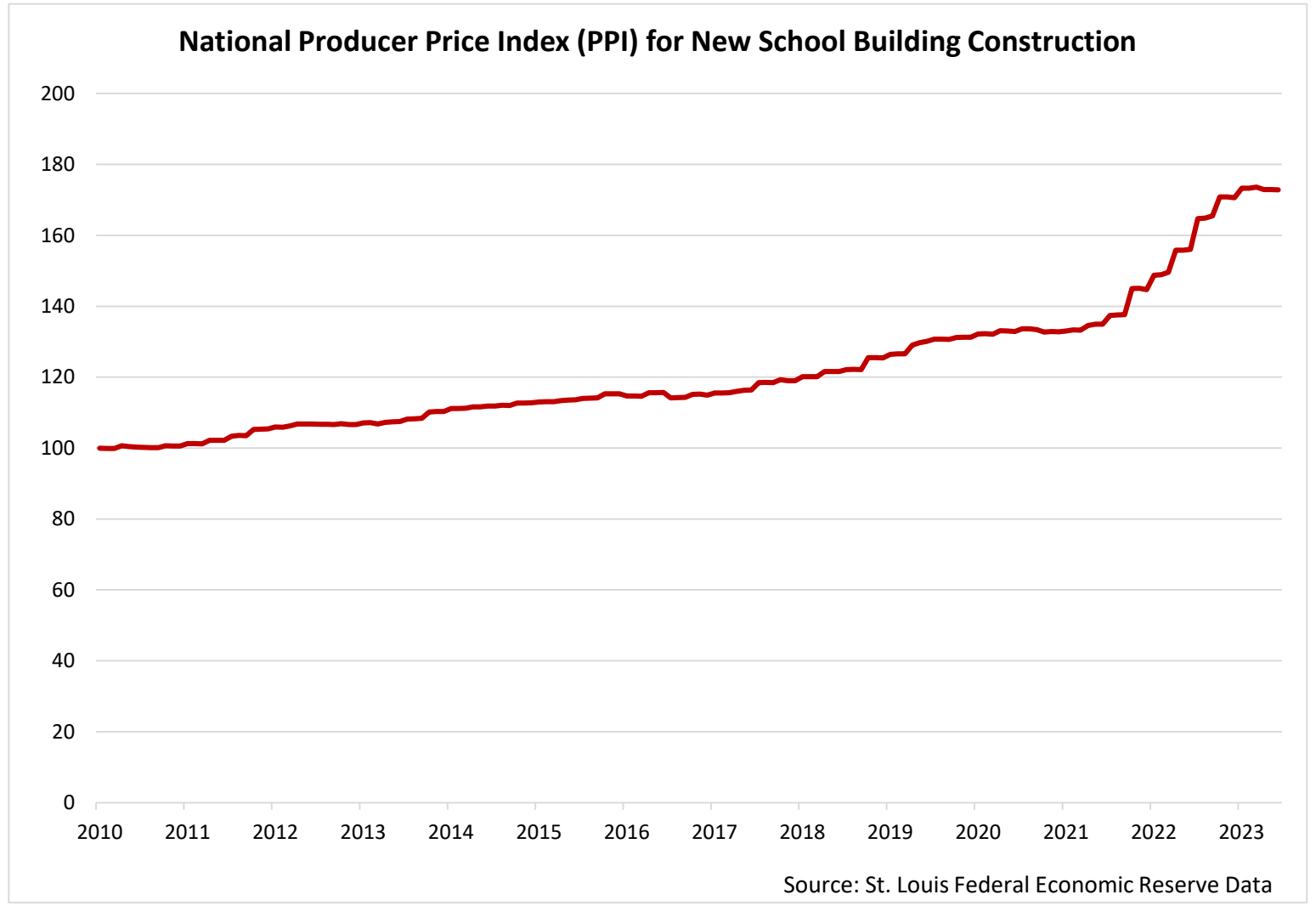


Costs

Nationally, school construction projects have become more expensive.

The Bureau of Labor Statistics' producer price index (PPI) for new school construction projects increased substantially during the pandemic.

The PPI has stabilized over the past year.

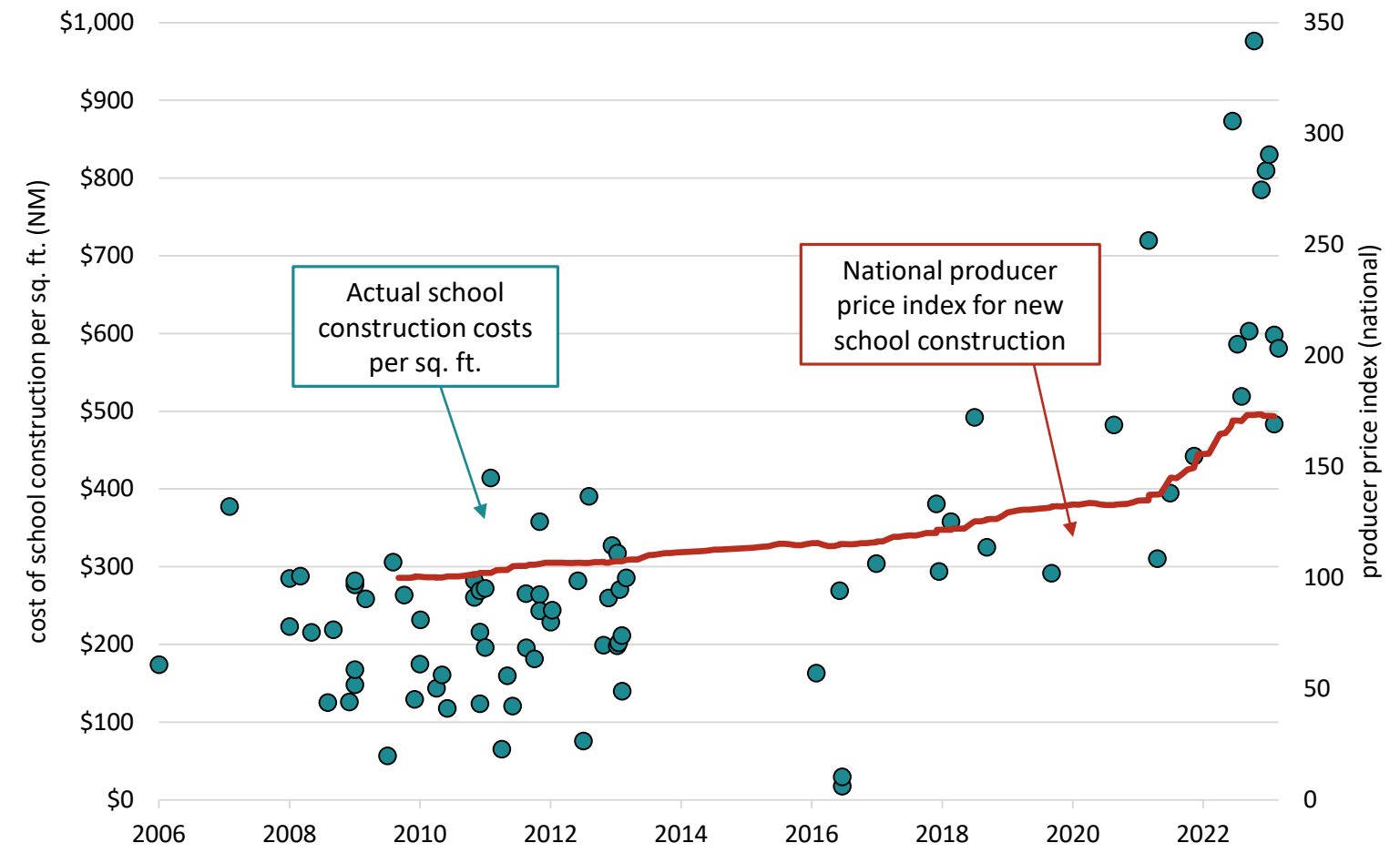


Costs

New Mexico's school construction costs have closely mirrored the national trend until recently.

Certain construction projects approved in recent months have substantially exceeded the national trend.

Cost of School Construction vs. National Producer Price Index (PPI)



Source: LESC Files and FRED

Costs

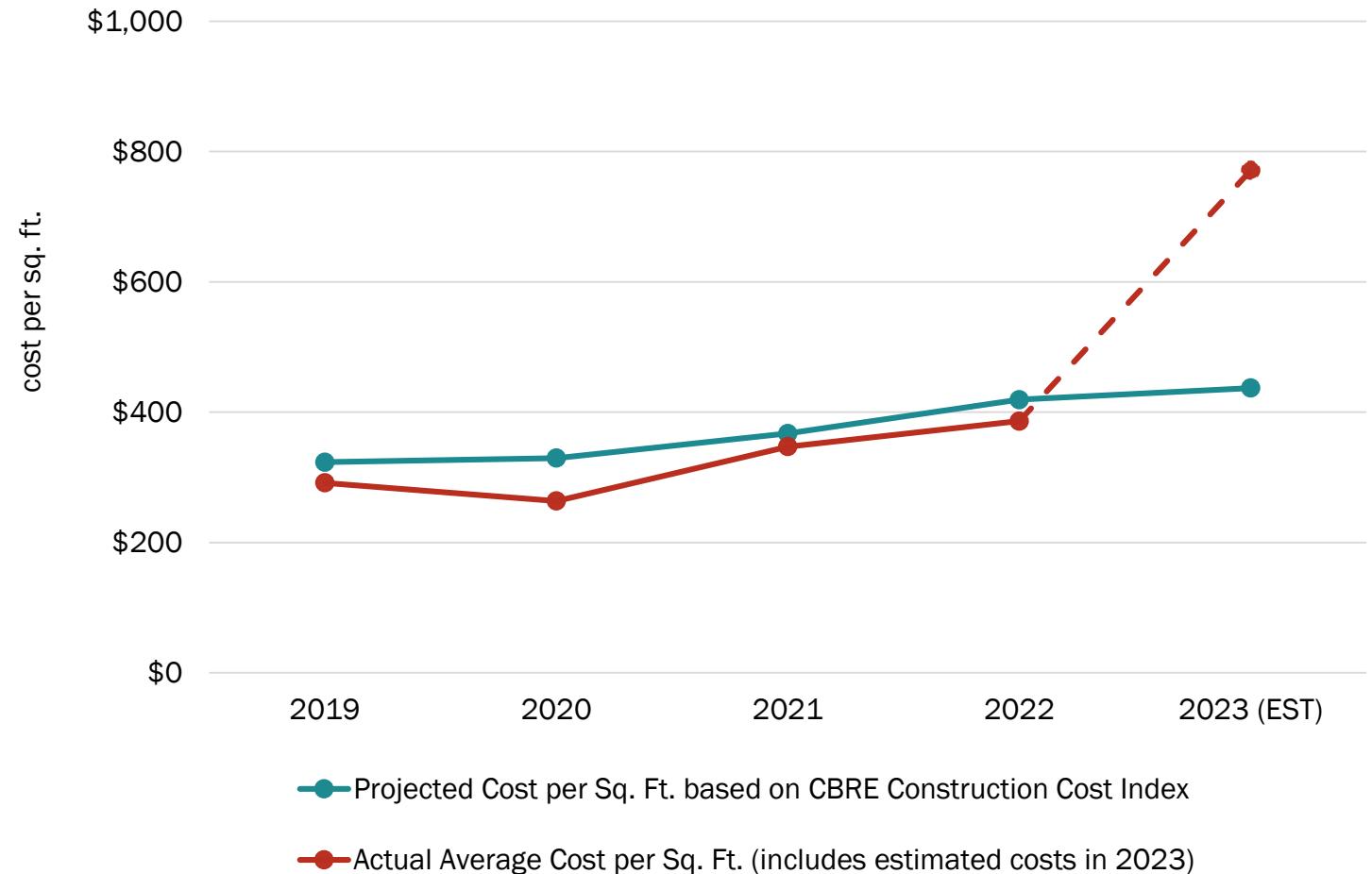
A national commercial real estate investment firm, Coldwell Banker Richard Ellis (CBRE), designed a “construction cost index” to summarize the net effect of changes across multiple dimensions of the construction market.

New Mexico’s construction costs were closely aligned to the CBRE index until this year.

Using the CBRE construction cost index, construction costs should be approximately \$437 per square foot this year.

Actual costs and contractor bids on four 2023 school projects have averaged \$771 per sq. ft.

Actual Construction Costs and Construction Index Estimates



Source: LESC Analysis of CBRE and PSFA Data

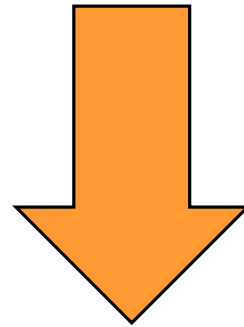
Supply and Demand Effects

Construction costs increased during the pandemic due to

- material costs,
- supply chain disruptions, and
- labor issues.

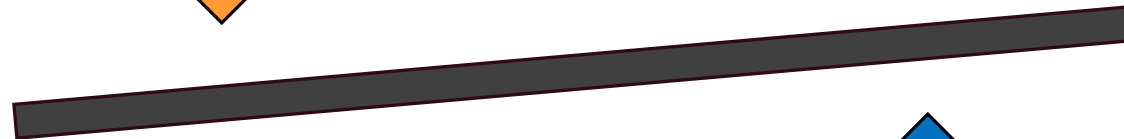
The supply chain has mostly stabilized, but some material and equipment costs remain high.

Labor appears to continue to drive cost increases, with surges in state and federal money for public projects contributing to the tight market.



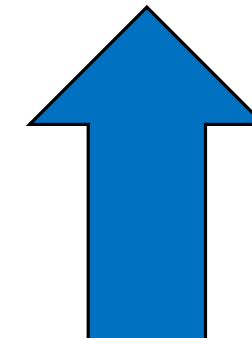
Decreasing Supply

- Tight labor market
- Workforce shortage, particularly in rural NM



Increasing Demand

- Public construction (state and federal)
- Private commercial construction
- Residential construction



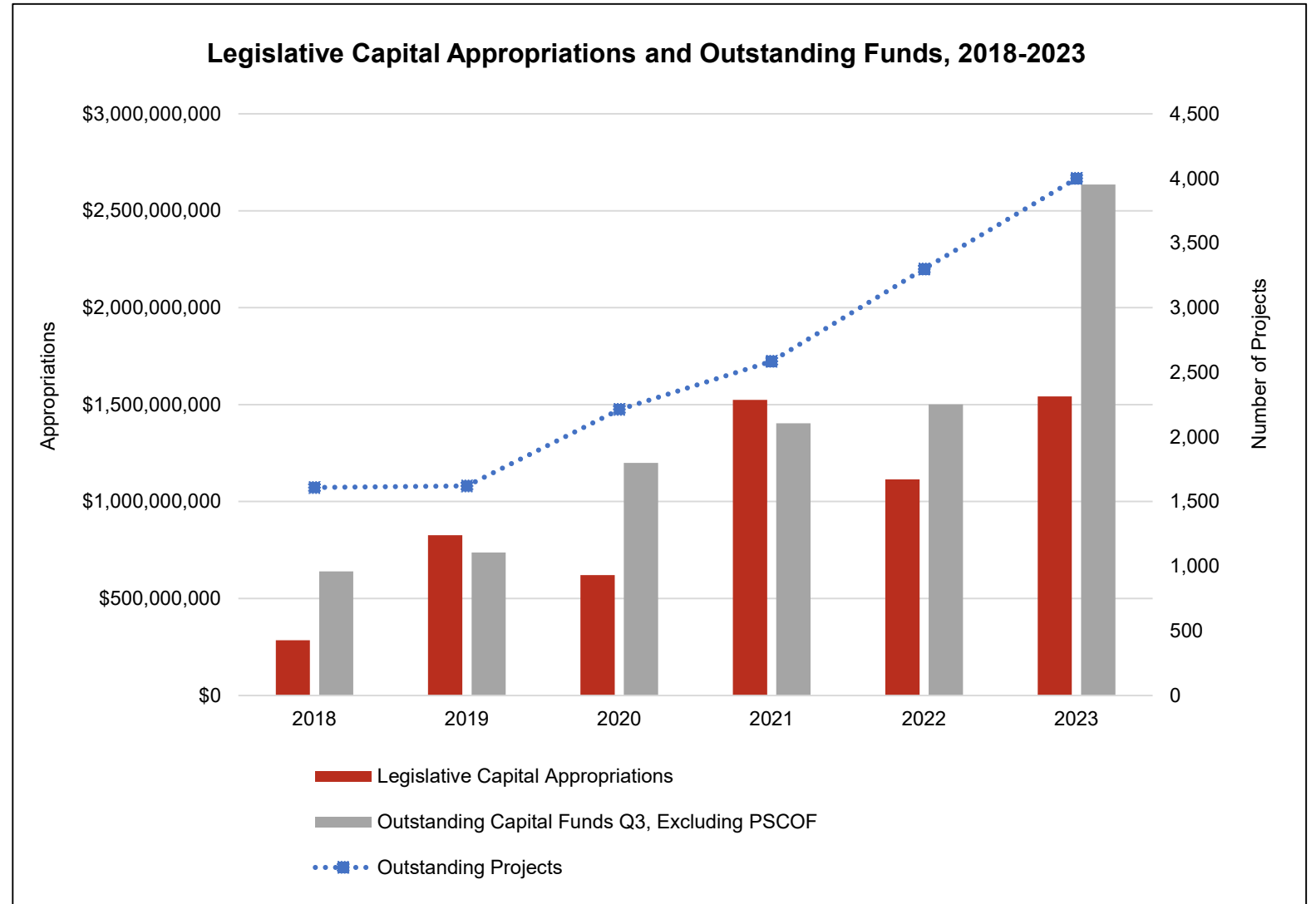
Demand

The Legislature passed historically large capital appropriations packages several years in a row.

At the end of the third quarter of FY23, outstanding capital funds appropriated by the Legislature, including earmarks, totaled \$2.6 billion.

Another \$464 million is available in the public school capital outlay fund (PSCOF).

The number of outstanding projects totaled about 4,000 this year, a 150% increase over 2018.

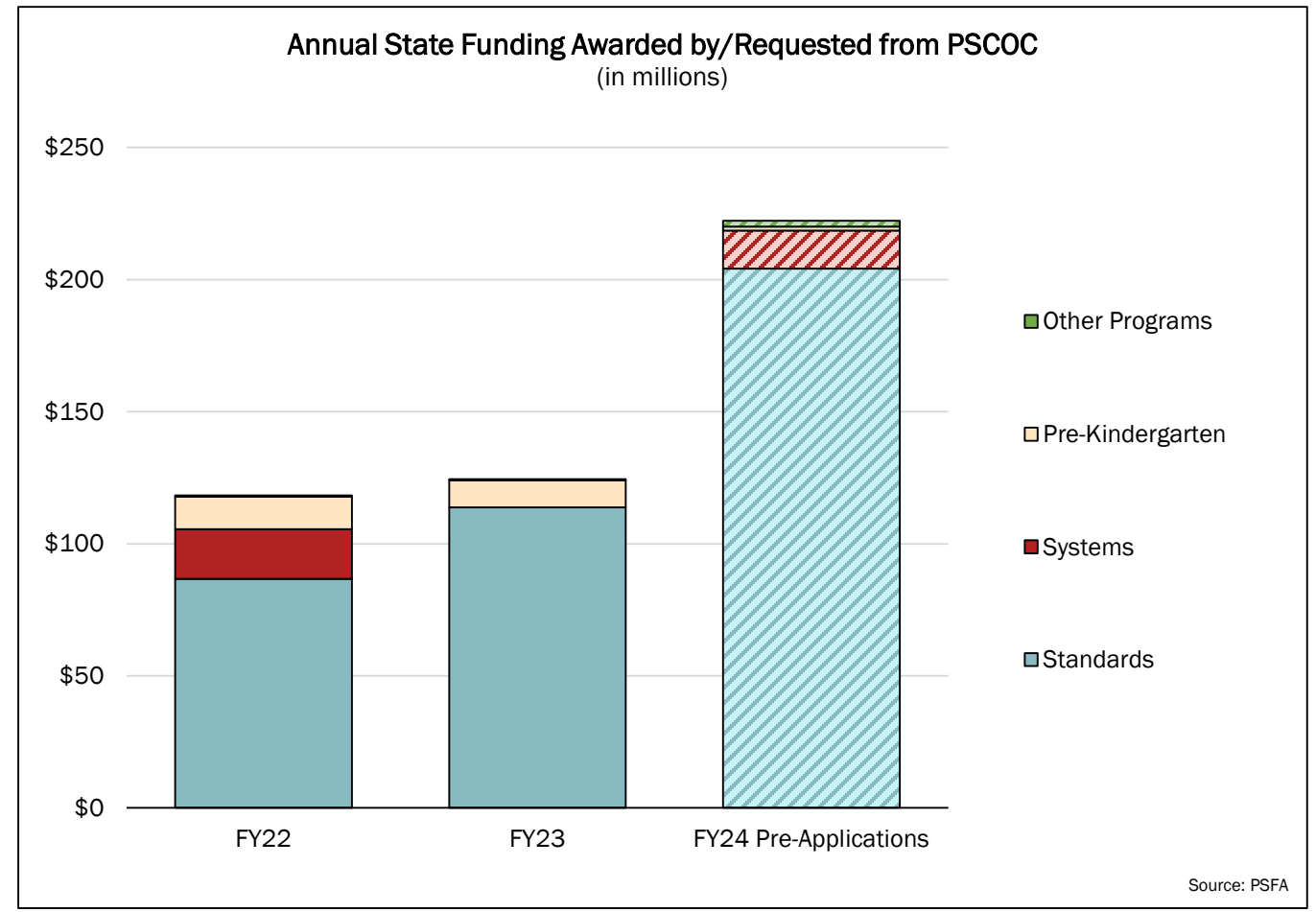


Demand

Senate Bill 131 from the 2023 legislative session decreased the local match for projects by 33 percent for most school districts, and 50 percent for micro-districts.

The reduction has increased demand for PSCOC funded projects.

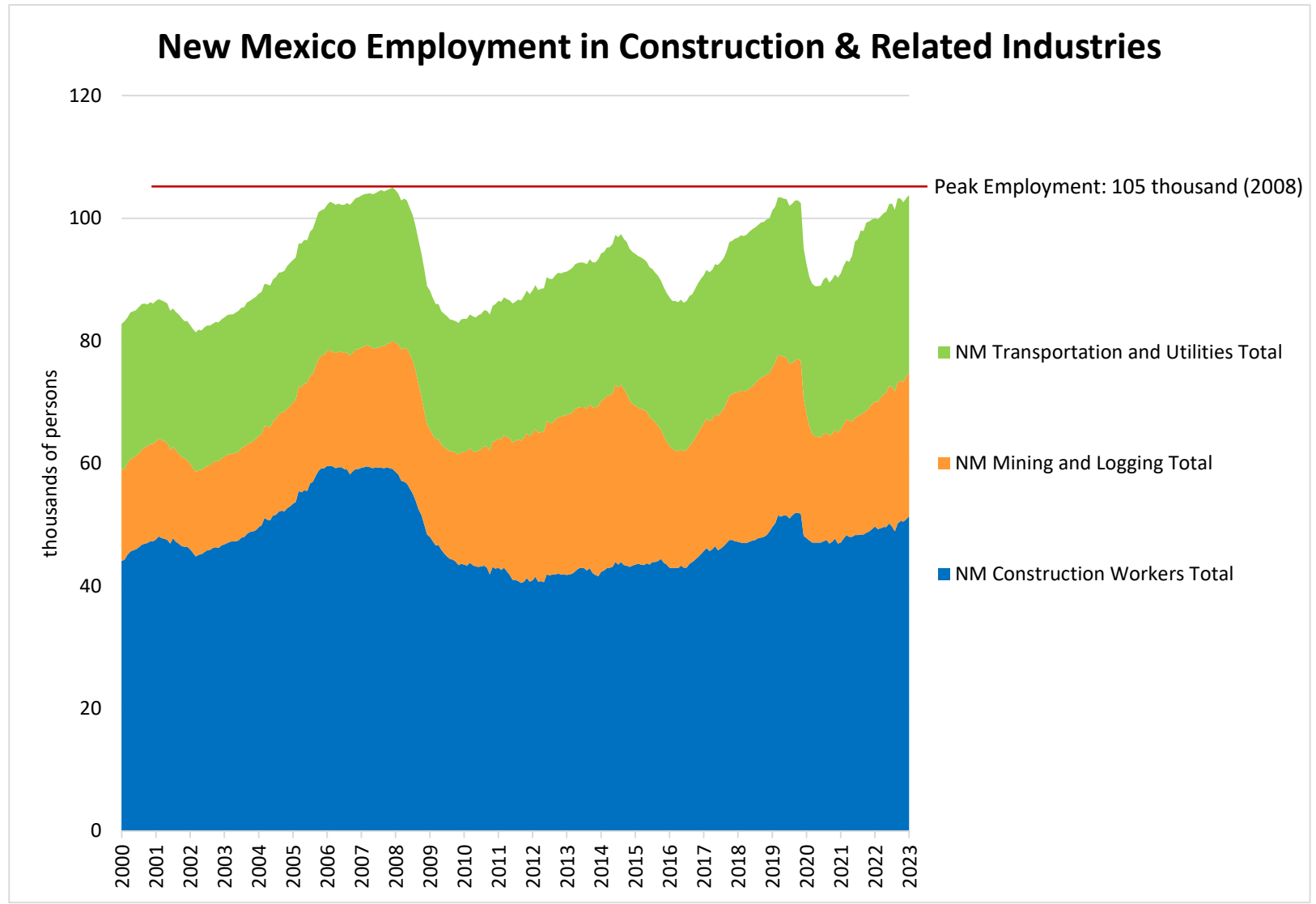
Most districts applying for PSCOC funds cannot afford their local match, which will increase the state's cost burden for school construction.



Supply

The total employment in construction and related industries in New Mexico is near – but still below – its peak.

New Mexico’s employment in construction and related industries has never exceeded a peak of 105 thousand laborers in 2008.



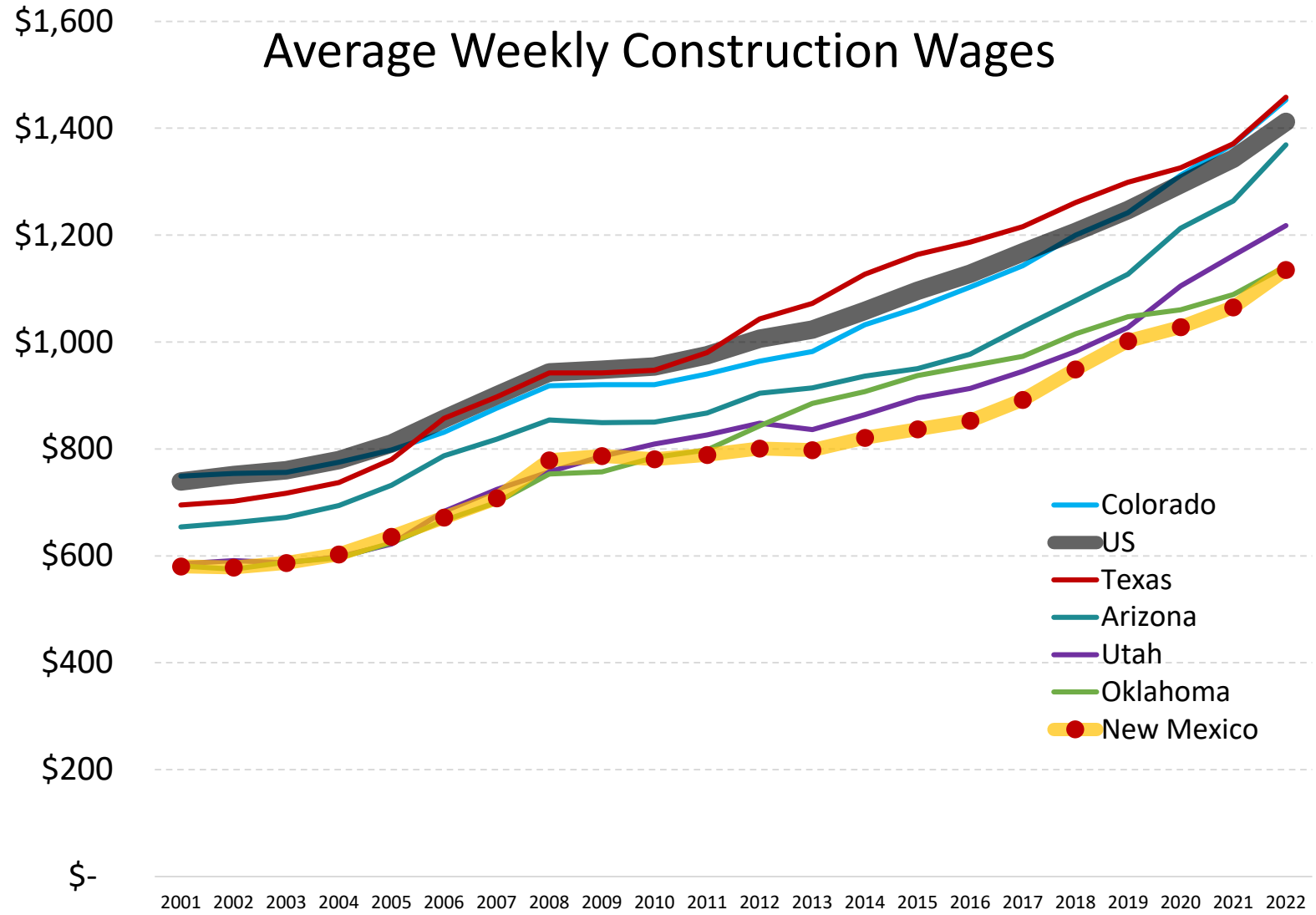
Supply

Construction wages in New Mexico are below surrounding states.

In 2010, New Mexico's construction wages were the 7th lowest in the nation. In 2022, they were the 4th lowest in the nation.

On average, New Mexico construction laborers make 20 percent less than the U.S. average for construction workers.

Low wages and busy markets in neighboring states may make it difficult to grow the workforce.



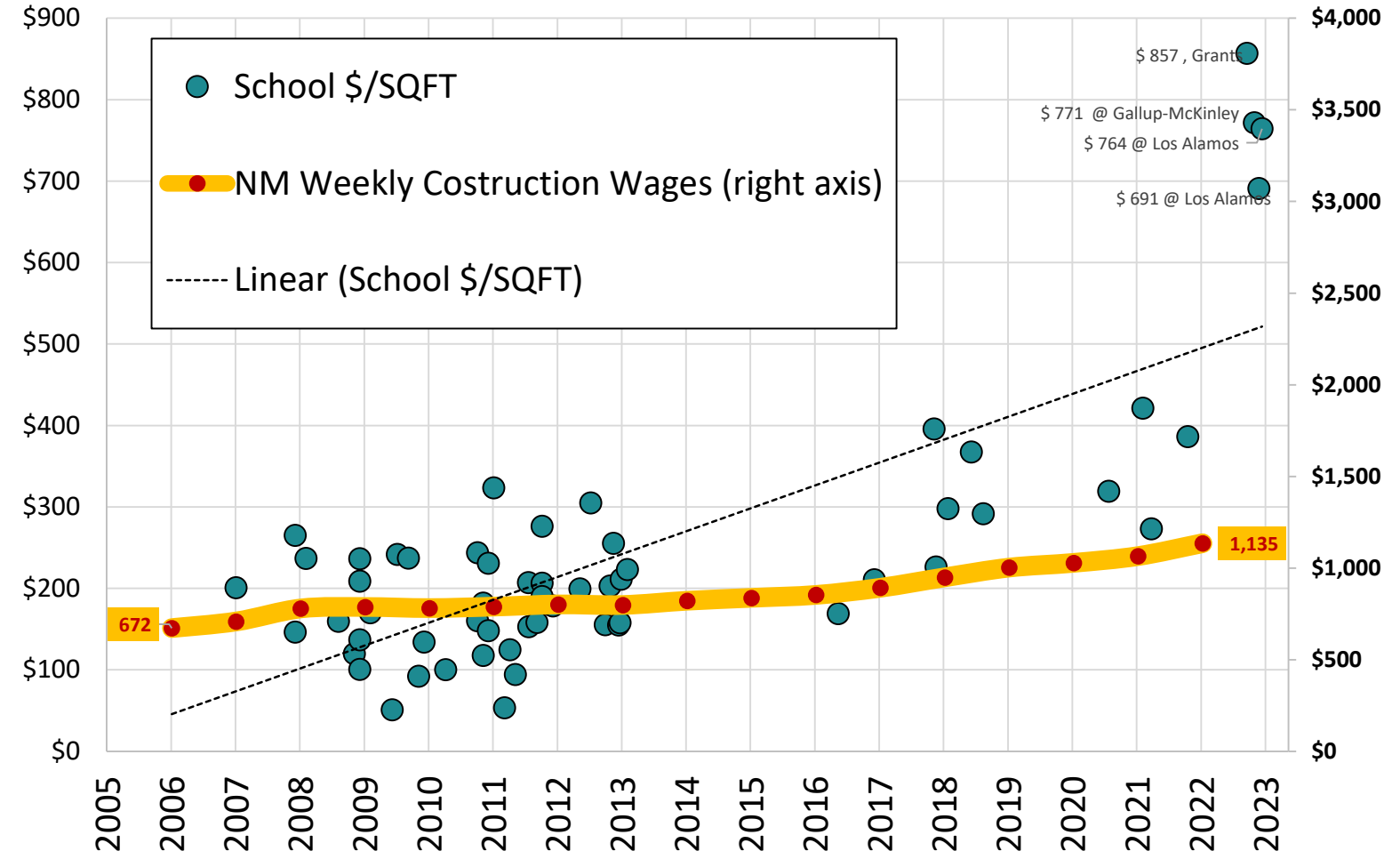
50 State Data: <https://datawrapper.dwcdn.net/bam73/1/>
County Level Data: <https://datawrapper.dwcdn.net/thVVs/1/>

Source: Bureau of Labor Statistics

Supply

Increases in construction wages have not kept pace with increases in construction costs.

Construction Cost Trends



Options for Future Research

Issue	Policy Areas for Further Research
The construction workforce is at capacity	<ul style="list-style-type: none">• Continue investments in career technical education• Effect of project delivery and procurement methods on cost and efficiency• Regional competition and opportunities to attract out-of-state contractors and incentivize rural work• Capital appropriations strategies to prevent flooding the market with new projects
School districts cannot afford their local match, even after SB131 shifts a greater share of costs to the state	<ul style="list-style-type: none">• Update PSCOC waiver policies• Explore options to provide districts with financing options• Revisit state and local match formula

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Q & A