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As construction costs climb, key projects shrink and taxpayers' burden grows

Maine and its cities mirror a national trend, with a labor shortage driving up bids, while agencies scale back work on roads, bridges and schools.

BY PETER MCGUIRE STAFF WRITER | MARCH 1, 2020 |

Booming construction costs have delayed the repair and replacement of public roads, bridges, schools, sewers and more across Maine, worsening a backlog of work to restore the state's battered infrastructure.

A critical shortage of skilled labor and increased demand in a booming economy **has reduced competition** in the Maine construction industry, **driving up project costs** to the highest point in more than a decade. **And now taxpayers are footing the bill.**

Shackled to thin budgets and beholden to rules and regulations in place to ensure transparency and good governance, public agencies are increasingly unable to afford critical work and have scaled back or eliminated projects. Meanwhile, a decades long list of overdue improvements keeps growing.

Four years ago, Maine received a C- grade from the American Society of Civil Engineers in its quadrennial infrastructure report card, basically unchanged from its previous grade. **The state is billions of dollars behind in repairs and replacements to airports, dams, schools, roads and bridges, water and wastewater systems and more, according to the association.**

"It is a crisis now," said Matt Marks, CEO of the Associated General Contractors of Maine, a trade group. **"I think it is a bit of a reality check that we've underfunded infrastructure for years," he added. "There are a lot of issues that are going to be harder to fix as the costs rise and rise and rise."**

The problem isn't confined to Maine. Local governments from coast to coast are struggling to get work done amid a national labor shortage, said Brittney Kohler, infrastructure advocacy director at the National League of Cities. Local property taxes don't keep up with escalating costs, state rules prevent many towns and

cities from raising local sales or fuel taxes, and the federal government hasn't done enough to take the burden off homeowners, Kohler said.

"What we are really talking about is **a problem we have known about since the 1980s and have let it continue to fester without real solutions and real funding sources**," she said.

Construction prices naturally modulate but the last three years have seen a sustained increase of at least 8 percent a year, said Clif Greim, CEO of Harriman, an architecture firm in Auburn that specializes in designing public buildings. The recent price escalation is steeper than any he recalls in his nearly 40-year career.

"It has been very noticeable. We are in a market now that regularly sees a premium of 30 percent over what would be typical for pricing. That is significant," Greim said.

High material prices have partially driven construction costs in recent years, but a skilled-labor shortage is frequently cited as the central cause. Maine's unemployment rate was 2.9 percent in January and has been below 4 percent for two straight years. The shortage drives up overtime, recruitment and training costs. With plenty of work to go around, companies that bid on public projects don't have as much incentive to offer competitive pricing.

Public agencies are particularly disadvantaged in a high-cost environment. Major building construction, such as a school, can take years of planning, public input and buy-in and often a local vote on borrowing. By the time the project is ready to start, economic conditions may be very different from when project design and bond were authorized.

"By the time a shovel hits the ground it an be three to four years from when it was visualized," Greim said. "If you are not sure you are following the market correctly, you could be behind the eight-ball from the very start."

Paying with taxpayer money also limits flexibility to select contractors and limit costs. Open bidding is necessary to provide transparency and limit public graft. But it also means if agencies want to proceed with a project, they're locked in with the companies that put in a bid.

Ten years ago, in the depths of the Great Recession, public projects regularly received 10 or more bids and had the upper hand in purchasing power, Greim added. These days, the opposite is true.

“What we are seeing is a reduction of bidders on public projects,” he said. “Sometimes there is as few as one bidder, sometimes none for subcontracts.”

Public work has strict timelines, restrictions on materials and additional costs and oversight, said Marks, from the associated general contractors. Also, many public jobs are advertised late in the year, after construction firms and specialized subcontractors already have a full schedule.

“All those kind of things add up. On the public side there are a lot more rules and regulations; on the private side you have a client that can determine what is important for them,” he said. “At the end of the day it is a lot easier for folks to manage.”

The construction balloon cut into projects across the state in 2019 and public officials are expecting more challenges ahead.

The Portland School Department may scale back long-awaited renovations to four elementary schools after a new estimate revealed the work would cost at least $21 million more than the $64 million bond approved by voters almost three years ago.

Even “light touch” renovations – less than the original plan – were too expensive after two rounds of estimates, said Superintendent Xavier Botana. The price for Lyseth Elementary School, the first to be worked on, came in $2 million above estimates and costs have only gone up since.

“Even work we were about to do with Lyseth basically a year ago is not affordable in the three schools we have left,” Botana said.

Less visible projects have also been casualties of soaring costs. A 2-year-old plan to replace a culvert in Hallowell attracted bids far above estimates both times it was advertised, said road foreman Chris Buck. A renovation of the town’s boat ramp was delayed last year after the low bid was $60,000 more than expected.

“Everyone is coming in high,” Buck said. “It is probably the labor force in the construction field that is driving it.”

A new fire station in Farmingdale was delayed for years because contractor prices outpaced the budget. Road improvements in Augusta came in hundreds of thousands of dollars over estimates last year.

Lewiston got its highway work done within budget in 2019, but Public Works Director Dale Doughty suspects that was a fluke because some paving companies were freed up after other work got canceled.

“I am very concerned those were catch-as-catch-can – we were lucky,” Doughty said. “I suspect our luck may not hold out this year.”

Similar concerns swirl around the future of a years long plan to build two bridges in Scarborough for a multi-use path to connect South Portland to the Eastern Trail, an on- and off-road network that runs through southern Maine. A group behind the project finished raising $4.1 million two years ago but is still getting rights-of-way permission.

The work will be advertised this spring, but Scarborough Town Manager Tom Hall is prepared for bad news. “It is likely we will not have an adequate budget,” Hall said. “There is really no sign of things cooling down in the construction industry.”

Last year, Portland’s public work was quoted an average 30 percent higher than expected. One important sewer separation project was more than twice what engineers estimated. Prices seem to have moderated this year, but at a historically high rate. “It didn’t go down any, it just hasn’t gone up any,” said Public Works Director Chris Branch.

That’s an ominous sign for plans to restore at least $146 million worth of battered city streets and sidewalks. Portland will likely try inexpensive pavement overlay on streets, but there are typically no cheap options for sidewalks, particularly the city’s distinctive red brick ones. Steep prices “have an impact everywhere; there is no question that it is an issue,” Branch said.

The Maine Department of Transportation last year canceled almost $60 million worth of road and bridge projects to keep up with prices. Its newest $2.6 billion, three-year plan includes more money than the last iteration but only accomplishes two-thirds of the work.

So far, bids for Maine DOT work have been in line with officials’ expectations, but some came in over budget, said department spokesman Paul Merrill. It’s too early to say if those are outliers or a trend. If high prices become the “new normal” in Maine, it will mean tough public spending decisions.

“If a workforce shortage continues to impact the prices we continue to get on bids, we are going to have to have a lot of conversations about how we are going to do the work

we know needs to be done," he said. "If those prices do stabilize at the highest point, that's not going to be good."

Aging sewer lines and treatment plants in Maine communities have an estimated $1 billion maintenance backlog, said John True, director of the clean water loan fund at the Maine Department of Environmental Protection. Voters in 2018 passed a $30 million bond to help local wastewater agencies replace equipment and improve systems, but if costs stay high, that money won't go nearly as far as expected, True said.

"Obviously with price increases, you are not going to get as much bang for your buck," he said. "Construction costs have slowed some projects down and if we are asking them to come into environmental compliance that makes it more difficult."

Maine's public schools are in the same situation. The average Maine school is between 50 and 60 years old, at or beyond what's considered a useful life. The cost to replace schools has more than quadrupled since the 1990s, according to the Maine Department of Education. In 2009, it cost the state $65 million to build a new technical high school in Farmington. Last year, it approved almost double that amount – $120 million – to replace the slightly bigger Edward Little High School in Auburn.

Scott Brown, the head of school facilities at Maine DOE, cautions that each project is different, and schools are especially expensive because they take a long time to design and build and need specialized spaces such as kitchens, gymnasiums and particular security and ventilation systems.

Even taking that into account, the $126 million state debt limit on new school construction may not be enough to compete with construction prices, Brown said. There are more than 70 schools on a waiting list for state funding and last year the state chose three small elementary schools for replacement, at a projected cost of $140 million.

"The dollars don't go as far," he said. "We have to say we're concerned because we know there is a need and the prices are really high. But there have been other times when we've been able to do more, and those have been great."