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New Groundbreaking Study Reveals “Project Labor Agreements” (PLAs) Increase School Construction Costs by 13 to 15 Percent in California

School projects built under these contracts cost \$28.90 to \$32.49 more per square foot

JULY 25, 2011 SAN DIEGO – California school construction projects built under contracts that contain provisions known as Project Labor Agreements (PLAs) cost 13 to 15 percent more than non-PLA projects. That is the major finding of a new study published today by the National University System Institute for Policy Research (NUSIPR). This research is, to date, the most expansive review of the use of these agreements on school construction. It is particularly relevant considering that California voters have approved \$64 billion in school construction bonds during the last decade. Clearly, the facts suggest that enactment of a PLA may have significant financial consequences.

Project Labor Agreements are agreements between those constructing projects and construction trade unions. They address issues such as hiring preferences, wages, benefits and how labor disputes are to be resolved. At present, at least 24 K-12 school districts in California have adopted PLA provisions, including Los Angeles Unified, Santa Ana Unified, San Diego Unified, San Francisco Unified and West Contra Costa Unified school districts. Between 1996 and 2008 these districts built 65 schools using PLAs with a cumulative cost of \$1.7 billion. Given the higher costs of PLAs, this means these agreements cost taxpayers and students more than \$200 million.

Prior statistical research identified PLAs as contributing to higher final costs of school construction in other states, but no study has examined California school projects. NUSIPR research shows that Project Labor Agreements in California are associated with higher construction costs for public schools. Costs are higher when school districts construct a school under a Project Labor Agreement. In inflation-adjusted dollars, the presence of a PLA is associated with costs that are \$28.90 to \$32.49 per square foot higher.

The relationship between the presence of a PLA and higher school construction costs was found even when controlling for other factors that previous studies found impact cost: such as the number of stories, whether the school was built in an urban setting or whether the project included swimming pools and gymnasiums. The NUSIPR study sets a new national standard for PLA research. The authors examined 551 schools in 180 different districts and used two different methods to get the most accurate information possible. The study is four times larger than other studies.

On Wednesday, NUSIPR received a letter from Dr. Dale Belman of Michigan State University, a co-author of a previous work, which argues that the findings the study support more limited conclusions. As with Dr. Belman's other work, he argues that it is impossible to disentangle the effects of PLAs from building conditions in urban areas, which drive construction costs higher. NUSIPR believes that by examining 551 schools, a dataset six times larger than Dr. Belman and looking just within California, they largely addressed these problems. It also follows Dr. Belman's own call in 2010 to "expand the size and variability of the data." NUSIPR found, and prominently noted in the text to the report, that there remains a challenge in disentangling the impact of PLAs from the high cost of construction that occurs in Los Angeles Unified School District, the entity which has built more schools using PLAs than any in the rest of the country. In the data that NUSIPR examined, inflation adjusted costs in LAUSD were \$312 per square foot while schools built outside of LAUSD, many in equally urban settings, were \$221. The authors found the presence of PLAs the best explanation for this variance and a factor which could be objectively measured using publicly available sources. The authors found other straw men arguments in both the letter and the press release provided by Dr. Belman.

NUSIPR Senior Policy Analyst and the report's co-author Vince Vasquez noted "This study, the largest and most comprehensive to date, provides new insight into the fiscal impact of PLAs. Our statistical models indicate that that schools built under PLAs are likely to cost more." He went on to note, "These findings are important for California. Over the last decade, state voters have passed more than \$64 billion of school construction bonds to build thousands of new classrooms and modernize hundreds of existing facilities. California's rapid pace of school construction activity is now matched by only a handful of other states. It is our hope that our findings inform public debate when PLAs are advanced as a costless policy tool. Our research suggests they are not. Should districts choose to adopt them, school construction costs are likely to rise significantly."

Note: The study's authors conducted three sensitivity tests, including and excluding projects known to have extraordinary costs. These projects include Robert F. Kennedy Community Schools, Central Los Angeles High School #9 and the Edward R. Roybal Learning Center. NUSIPR employed statistical tests that neutralize the impact of outliers on results. In each case, they found that school construction costs were higher when Project Labor Agreements were used.

Additionally, the Keston Institute for Public Finance and Infrastructure Policy at the University of Southern California performed an independent review focusing specifically on the statistical analysis and associated findings. "Overall, we believe that the conclusion drawn in the report regarding the influence of PLAs on project cost are supported by the data set provided to us and the subsequent statistical analysis of that data," said Richard G. Little, AICP, Director of The Keston Institute. The research team appropriately utilized well-accepted statistical methods to arrive at this conclusion and it constitutes an important research finding. However, I would like to reiterate at this time that the results of our review should in no way be construed as the Keston Institute for Public Finance and Infrastructure Policy supporting any position relating to the use of Project Labor Agreements by any public or private entity."

The research was partially underwritten by a grant from the Associated Builders and Contractors, California Cooperation Committee. NUSIPR estimates that this support comprised no more than 20 percent of the total project cost.

The full version of the PLA study can be found at the NUSIPR website, www.nusinstitute.com

About the National University System Institute for Policy Research

Based in San Diego, the National University System Institute for Policy Research, (NUSIPR) is a non-partisan organization that formulates and promotes high quality economic, policy, and public-opinion research so as to improve the quality of life enjoyed by the region's citizens.

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