

BUILDING TRADES BULLETIN

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August 8, 2011

Labor, Management Inform Local Governments Why PLAs Work

The California Construction Industry Labor Management Cooperation Trust has contacted every city mayor, councilmember and city manager; county supervisors and officials; along with school board members and school district officials, with a detailed letter explaining why it is in their best interest to use Project Labor Agreements on local construction projects.

The letter, endorsed by both management and labor officials, explains what PLAs are, who ABC is and why they attack PLAs, and how PLAs benefit governments and taxpayers, while keeping jobs in local communities.

The letter also includes a thorough rebuking of ABC's recent false and misleading study on PLA costs by Michigan State economist Dale Belman.

The entire letter is attached.



CALIFORNIA CONSTRUCTION INDUSTRY LABOR MANAGEMENT COOPERATION TRUST

TRUSTEES

Date

MANAGEMENT

MARK BOWERS
CAL SMACNA (CALIFORNIA
ASSOCIATION SHEET METAL
AND AIR CONDITIONING
CONTRACTORS NATIONAL
ASSOCIATION)

Name
City
Address
City, state

JEREMIAH HALLISEY
CALPINE, INC.

Dear Mayor XXXXX:

GREG MCCLELLAND
WESTERN STEEL COUNCIL

The recent release of a study commissioned by the Associated Builders and Contractors (ABC) has advanced false and misleading conclusions about the impact of Project Labor Agreements (PLAs) on the costs of school construction in California. Academics cited in this work have challenged its conclusions, cited its lack of peer review and reasserted forcefully that “**there is no statistical evidence that PLA schools are more costly compared to non PLA schools**” (see enclosure). Crafted to meet a community’s particular needs, PLAs remain an invaluable tool for creating local jobs, encouraging open and fair competition and maximizing taxpayer dollars on public projects.

SEAN O’DONOGHUE
AGC CALIFORNIA (ASSOCIATED
GENERAL CONTRACTORS OF
CALIFORNIA, INC.)

SCOTT STRAWBRIDGE
NORTHERN CALIFORNIA MECHANICAL
CONTRACTORS ASSOCIATION (MCA)

JEFF TEATHER
BECHTEL CONSTRUCTION CO.

What is a Project Labor Agreement?

LABOR

Hundreds of California construction companies employing hundreds of thousands of workers believe Project Labor Agreements are an essential vehicle for large construction projects. By governing and establishing work rules, pay rates, and dispute resolution processes for every worker on the project prior to the start of construction, PLAs maximize project stability, efficiency and ensure the coordination needed for smooth project completion. That’s why Project Labor Agreements have long been used in the private and federal sectors, as well as by state, county and municipal agencies.

BOB BALGENORTH
STATE BUILDING & CONSTRUCTION
TRADES COUNCIL OF CALIFORNIA,
AFL-CIO

CESAR DIAZ
STATE BUILDING & CONSTRUCTION
TRADES COUNCIL OF CALIFORNIA,
AFL-CIO

It should also be noted that **any contractor—union or nonunion—is free to bid on projects covered by project labor agreements**. Because PLAs determine all terms and conditions in advance, they allow contractors to more accurately predict labor costs and schedule production timetables. All contractors who agree to perform under the terms of the PLA can then bid on the project, and can do so free of fear of having their own bids undermined by unscrupulous contractors who often betray the public trust through inflated profits, abusive employment practices, and low ball bids. In this respect, PLAs not only help preserve marketplace competition, but help stimulate it.

ERIK EMBLEM
WESTERN STATES COUNCIL, SHEET
METAL WORKERS

MICHAEL MOWREY
IBEW NINTH DISTRICT

JOE STANDLEY
D.C. OF IRON WORKERS

Who is ABC?

STEVE STEELE
INSULATORS & ALLIED WORKERS
LOCAL 16

The Associated Builders and Contractors is a nationwide group that has for decades promulgated false and misleading claims regarding Project Labor

Agreements and prevailing wage laws. Though they represent just a fraction of licensed contractors (less than 1 percent in California), the “ABC” has been a vocal and active participant in public policy.

ABC and other PLA opponents claim that PLAs challenge competitive bidding on public works projects; the fact is that because of the **proven management features** of PLAs, many contractors will not bid on a project where a PLA is ***not*** in place.

ABC insists on claiming that the use of PLAs in the public sector results in an increase in construction costs. Yet the reality is that many cities have found that PLAs help them save money on construction projects, and these arrangements are **the method of choice for many private sector projects**, where cost is the overriding issue. It has worked for Toyota, Honda, Disneyworld, the Trans-Alaska Pipeline, power plants and schools up and down the state; it will work for your city too.

PLAs Keep Jobs in Local Communities

PLAs are also useful and effective drivers for economic growth. In many cities, research has shown that, too often, new development fails to generate high quality jobs. In these communities, as well as all those struggling from the onslaught of the economic recession, local hire requirements (as contained in PLAs) have created **critical paths towards job creation**.

By creating a concrete mechanism for ensuring that investment of public funds in economic development will direct resources into low-income neighborhoods, PLA local hire requirements not only ensure that local residents are hired, but are useful for targeting opportunities to low-income residents who might otherwise not benefit from new development. Moreover, **local hire provisions help guarantee that public funds are diverted directly back into taxpayer pockets, and into the communities where they live**.

Thus, by ensuring that everyone pulls their own weight, PLAs benefit all parties involved in the construction project, and function to revitalize the entire community.

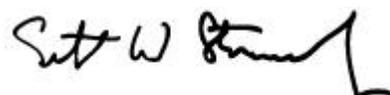
For more information on how your community can benefit from PLAs, we would like to invite you to visit our new site “California Municipal Labor Project.” You can access the site by copying this url into your internet browser: www.calmunilabor.com

We appreciate the opportunity to share this information with you. If you feel you would like to discuss the contents of this letter or have specific questions about project labor agreements, please do not hesitate to contact us. We are more than happy to schedule a phone call or meeting.

Sincerely,



Bob Balgenorth
Chairman
California Construction Industry
Labor- Management Trust



Scott Strawbridge
Secretary-Treasurer
California Construction Industry
Labor- Management Trust

Enclosure: Dr. Dale Belman, Michigan State University: letter to researchers of Measuring the Cost of Project Labor Agreements on School Construction in California

MICHIGAN STATE UNIVERSITY

July 18, 2011

Mr. Vince Vasquez, Mr. W. Erik Bruvold and Dr. Dale Glaser
National University System, Institute for Policy Studies
11355 North Torrey Pines Road
La Jolla, California 92037

Dear Mr. Vasquez, Mr. Bruvold and Dr. Glaser:

I was pleased to read your study, *Measuring the Cost of Project Labor Agreements on School Construction in California*, with great interest. As you know, I have researched and published studies on project labor agreements (PLAs) and school construction costs including *Project Labor Agreements' Effect on School Construction Costs in Massachusetts*, Industrial Relations 49, no. 1 (2010) and remain interested in all new research in this area.

I have read your study carefully to better understand your data, model and methods. I find that your study's conclusion is not supported by your research; that you have overlooked important factors that affect costs, and that you have misinterpreted and drawn erroneous conclusions from my work; mistakes that I hope you will want to correct. Correctly interpreted, your results are basically consistent with those presented in my article on PLAs and Massachusetts school construction costs. The take-away from your results can be summarized as follows: ***When appropriate controls are included for differences in the characteristics of schools built including school type and location, building specifications, materials used etc., there is no statistical evidence that PLA schools are more costly compared to non PLA schools.***

Since you may not realize that this is what your research results mean, let me provide some detail:

- As I have shown in the past, it is challenging to separate out the effect of PLAs on school construction costs from the effect of the specific characteristics of particular projects. Because different schools can have very different construction specifications and can differ in other ways, it is critical to separate out any PLA effect from the effect of building characteristics. If the effect of school characteristics is not distinguished from any possible PLA effect, there will be omitted variable bias which potentially completely invalidate the research results.
 - Because of the set of factors used to explain school construction costs is so limited (you have only six explanatory factors other than PLA) there is considerable risk of omitted variable bias. For example, although all workers on school construction projects are paid prevailing wage, the prevailing wage varies systematically by region. If high prevailing wage regions, such as the Los Angeles area, are more likely to use PLAs, your PLA variable will be biased upward by the omission of a control for differences in prevailing wages between regions. A control, such as the prevailing wage for a benchmark trade such as carpenter, at the time the school was constructed, would likely have been sufficient to remove the bias.



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- There is considerable evidence in your study of omitted variable bias in the estimates provided in chart 6. The estimates with a sample of PLA and non-PLA schools which are matched on their characteristics better control for the characteristics of schools and of the construction environment than other estimates in the report. On page 15, you write:
 - “ In our second phase, we analyzed the matched set of 130 projects (incorporating a propensity weight covariate) using the ordinary least squares method. We found that PLAs were not statistically significant. Similar results were found when the propensity score was omitted from the model.”
 - The implications from this are clear, but downplayed in the report: when the model better controls for differences in characteristics between PLA and non-PLA schools, *PLAs do not affect school construction costs.*
 - This section also indicates that, parallel to my work, there are statistically meaningful differences between PLA and non-PLA schools and that the majority of schools built without PLAs are unlike schools built with PLAs. These differences suggest that PLAs are, as they should be, used on unusual projects rather than on “plain vanilla” schools.
- The estimates in Chart 7 also indicate that your study suffers from omitted variable bias. Similar to my work, you find that, when controls for construction in a large urban district are included in the model, the PLA variable is no longer statistically significant. The district in question, LAUSD, builds to higher seismic standards than other school districts and is more likely to build multi-story steel structures which differ considerably from typical schools. When a control for construction by the LAUSD school district is included in your model (Chart 7), the PLA variable becomes small in magnitude and is far from statistical significance. Again, this is consistent with omitted variable bias.
- I am concerned that your results do not provide apples-to-apples comparisons. For example, when you estimate a model which excludes LAUSD schools, you change the explanatory variables in the specification without explanation. As a result, the reader doesn’t know whether the seeming positive effect of the PLA variable in this sample is indeed a positive effect, or the result of changing the specification when you switch your data sample. To avoid concern about manipulating your results, you need to use the same model when testing for PLA cost effects on data using LAUSD data and when excluding that data.
 - Another apples-to-oranges comparison in your research of the mixing of rehab, renovation and remodeling data in with new construction. This is a bad idea simply because the specific needs of individual renovation projects can vary so widely. One school might just need a roof while another might require a rebuild to meet earthquake seismic standards. The two schools could have exactly the same square foot size and hugely different square foot renovation costs. These kinds of projects should not be lumped together, much less thrown in with new construction. A cleaner data set would have used new construction only to avoid apples-to-oranges comparison mistakes. But at the very least, you should have had a control variable in your model indicating whether the project was a renovation project and what type of renovation was done.

Some of the results reported in Chart 6 are not sensible. An implication of your model is that a very large school will cost nothing. While this might be viewed as good news for financially stressed school boards, it is obviously wrong and indicates the variable is mis-specified.. Similarly, your model indicates that seems that school costs rise without limit by \$7.50 per square foot each year. It is not credible that school construction costs will rise by \$75 between now and 2021, or by \$300 per square foot by 2051 simply because of the passage of time. This is obviously wrong and again, suggests serious misspecification.

Another apples-to-oranges mistake in your work is failing to use clustered errors to allow for common factors affecting school costs among schools in a single school system. School district construction policies can be very different across school districts. As noted previously, the LAUSD builds to different seismic standards than many other school districts and this certainly affects both costs and the error term of schools built in the LAUSD. This is a technical point but an important one: errors in your estimates will not be independent across observations and your estimates of statistical significance will be wrong. The large effect of controlling for the LAUSD on the estimates strongly suggests that observations are not independent.

You have also made some errors with respect to my work. The 2005 paper is an early version of the article which, having gone through peer review, appeared in the January 2010 issue of *Industrial Relations*. The 2010 work builds on the prior working paper and extends that work, so it would be most appropriate to use only the 2010 version. Also, your chart 4 took the estimate of the PLA effect from a model which I was using to demonstrate the effects of under specification on estimates of PLA effects. My final conclusion, based on the whole of my work, was that there was considerable evidence that PLAs did not affect school costs, but that it was difficult to separate out the effects of PLAs from the effects of characteristics which cause PLAs to be used in school construction.

All said, I was pleased to review your report and find that, similar to my work, it supports the view that PLAs do not affect the cost of construction of schools. I doubt that is the conclusion which you intended, but it is clearly there in your results. To the degree you disagree with this, the appropriate venue for deciding the merit of your work would be a peer reviewed journal. This is the accepted forum for the evaluation of research as it provides review by disinterested experts on the subject and methodology. I would suggest you try *Industrial Relations*, *The Industrial and Labor Relations Review* or *Economic Inquiry* as these are journals which are well respected and are likely to be interested in this issue. I am interested in taking a closer look at the data and would be most grateful if you would share your data with me; I would be happy to provide you with the data my colleagues and I collected from Massachusetts.

Yours,

Dale Belman

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