



NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

Response to Critique of Project Labor Agreement Study by UCLA Labor Center

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Mr. Le,

Recently it was brought to our attention that a “white paper” titled “Analysis of ABC-Funded Report on Project Labor Agreements and School Construction” was published by the UCLA Labor Center – California Construction Academy (hereafter “Labor Center”). NUSIPR undertook significant efforts to ensure no selection bias and the accuracy of data.

The UCLA Labor Center writes, “there is potential for ‘selection bias’ since only approximately 50% of the schools targeted for the study responded to the study survey.”

Considering the size of the original public record request, a 50 percent response rate is reasonable. Unlike previous research, we relied upon written responses from school districts, not direct interviews which cannot be independently verified. The data set NUSIPR assembled is the largest ever built in this field of research, and more than four times larger than the next largest data set used in similar studies. In addition, the data set contains more projects built under a PLA and by more individual districts than any other published study in this field of research. The rich diversity in the data provides meaningful answers to the questions related to project labor agreements, and their impact on the cost of public school construction in California. Essentially the Labor Center is accusing some 150 school districts of committing a crime under California law – consciously withholding embarrassing public records. While that could be the case we have a more benign explanation – school districts in California are

underfunded and overburdened and we want to thank all of them for helping build the research base assembled. We see no reason why the challenges with finding records would correlate with their relative ability or inability to control the cost of construction.

The UCLA Labor Center seems strangely worried that 53.7% of our sample is from five populous counties in Southern California. These counties comprise, according to the 2010 U.S. Census, 54% of the state's population. According to estimates from the state, they constitute 50.6% of population gained by California over the past decade. Moreover, 54.9% of California children aged 5 to 17 lived in these five counties in 2010; in 2000, this figure was 55.6%. This suggests to us that our sample is a representative reflection of school construction during the period of interest. It reflects, we fear, a fundamental failure to understand the pattern of growth and demographic change in the state.

We even eliminated for known costly outliers built using PLAs from the dataset to ensure that both the results were not skewed by these anomalies and that audiences would not be distracted by the extreme cost overruns in PLA built-projects such as Los Angeles Unified School District's Belmont Learning Center, Robert F. Kennedy Community Schools or Santa Ana Unified's Segerstrom High School.

1. The Labor Center levels false and highly misleading claims regarding data accuracy.

The Labor Center launches several criticisms about our study with respect to land cost. You seem to suggest that these costs are included in our dependent variable. This criticism is false. As we note on page 6 our dependent variable is CCI adjusted construction costs. We took great care to exclude from the analysis land acquisition costs and other "soft costs." Furthermore, unlike previous research we used a secondary source, the Division of the State Architect, to independently verify responses. Indeed, unlike the previous work by Dr. Dale Belman, who relied upon graduate student interviews with a collection of architects, contractors, and districts, our research lays out how this research can be replicated should other scholars wish to proceed and we have retained all hard copy responses from the 180+ school districts that complied with our Public Records Act request.

2. The Labor Center seemingly doesn't understand CA Prevailing Wage Patterns.

The Labor Center claims that our results could be explained by differences in prevailing wage rates. They state that “prevailing wages are also higher in Los Angeles due to higher costs of living.” The problem is that this is not true. For example, blacksmiths and iron workers are two categories of construction workers that on prevailing wage jobs currently enjoy a wage scale that is uniform across the state. Similarly, Los Angeles carpenters make a straight wage of \$49.47 while their counterparts in the urbanized counties of the San Francisco Bay Area enjoy a wage of \$62.48. Electricians in Fresno are paid \$40.420 an hour in straight wages while those in LA make only \$38.81. To us this suggests a central fact – that there is no uniform pattern between California counties in respect to prevailing wage.

Moreover, it must be noted that our approach to wages mirrors that of Dr. Dale Belman.¹ In his often cited study he did not attempt to try to unpack Massachusetts’s complicated and complex prevailing wage system that creates wage rates that are specific to particular projects. Indeed, we are troubled, at least as we read the Massachusetts law that Dr. Belman includes private schools in his analysis since, again on our reading of the relevant Massachusetts statutes, are not subject to prevailing wage requirements.²

We do agree that it would be ideal to construct a multi-year historic prevailing wage index for the state. That would allow us to test whether controlling for these factors improved our model’s explanatory power. As with most social science research, often the research opens up new opportunities.

¹ . See “The Effect of Project Labor Agreements on the Cost of School Construction” by Dale Belman, Russell Ormiston, William Schriver and Richard Kelso. Page 8.

² . See http://www.mass.gov/?pageID=elwdterminal&L=4&L0=Home&L1=Workers+and+Unions&L2=Wage+and+Employment+Related+Programs&L3=Prevailing+Wage+Program&sid=Elwd&b=terminalcontent&f=dos_pw_guide_for_awarding_authorities&csid=Elwd

3. The Labor Center Over-Interprets the Second Half of the Study.

It is incorrect to claim we overreach on our conclusions or try to somehow hide the results which fatally flaw our conclusions. When we tested the initial model, we found that there were statistically significant and meaningful differences with projects built under PLAs when controlling for other key variables. The relationship between the presence of PLAs and higher construction costs was found across four separate statistical tests. These results held, even while controlling for other factors known to increase costs. We even eliminated known costly outliers built using PLAs from the dataset to ensure that both the results were not skewed by these anomalies and that audiences would not be distracted by the extreme cost overruns in PLA projects such as Segerstrom High School, Robert F. Kennedy Community Schools or the Belmont Learning Center.

What has caused the greatest concern among our critics is how we treat our efforts to tease out the unique contributions of a school being built in LAUSD. As you know, in at least the popular press there is a perception that LAUSD cannot control the costs of its schools; its pages have described district school projects as “notorious”³ with “quickly ballooning”⁴ construction costs. We believed that due diligence required that we explore what happens when we examined a model that treated LAUSD as an explanatory variable as well as a model that looks, as Belman 2010, tries to use propensity matching.

As we report, these results are not conclusive. The problem that emerges is that LAUSD and the presence of PLAs are highly intercorrelated; the Pearson correlation coefficient of these two variables is .825.

In laymen’s terms, this high degree of intercorrelation makes disentangling the alleged unique contributions of LAUSD from PLAs not possible. This is essentially what USC concluded when they wrote, “The LAUSD projects represent an unavoidable dilemma of covariance which hindered the ability of the research team to delineate to what extent it was the presence of PLAs or the LAUSD that explain the variability in cost.” But that decidedly does not mean that we should reject the hypothesis that PLAs

³ . Blume, Howard. “New name, new life for Belmont school.” [Los Angeles Times](#) August 10, 2008.

⁴ . Hawthorne, Christopher. “Pass/fail for L.A.’s new arts school.” [Los Angeles Times](#) May 31, 2009.

are associated with higher costs. Rather, it means that we should continue to explore possible alternatives as they arise and are testable.

Indeed, that is what we have done. In subsequent correspondence with Dr. Dale Belman of Michigan State University, he suggested two alternative explanations for LAUSD's higher costs. We have examined these prospective omitted variables and will include them in a subsequent update to the report. The results indicate that the inclusion for projects in different zones measuring seismic dangers and the presence of underground parking modestly improve the model's explanatory power and continue to show that PLAs are statistically associated with higher costs. These results will be included in a future update to the study. The insolvable problem of the high intercorrelations between LAUSD and PLA remains – and is likely to do so into the future.

Ultimately this is a difference of interpretation. Those with a vested stake in the debate are likely to seize upon one half or the other of our study. Some will say that the fairest examination is to build a rich and varied data set and specify a sparse model. Others will look at the second half of the study, suggesting that the results are indicative of the need to search for the oft-elusive omitted variable bias.⁵ We think fair scholarship is to report out both and allow the advocates to do battle.

4. NO Statistically Focused Study has found that PLAs LOWER School Construction costs.

Finally, and perhaps most clearly, ours is now the third study examining school construction projects that have failed to find support for the Labor Center's claims that "PLAs also help to prevent work stoppages...therefore reducing construction risks, high costs, and delays" (emphasis added). If PLAs are a useful tool for construction management than this should show that there is a relationship, at a statistically significant level, between the presence of a PLA and lower school construction costs.

Yet our study, Belman 2010 and Bachman (2003, 2004) all have found PLAs associated with higher costs or no relationship. NO study using statistical methods that we are aware of has found that PLAs are associated at a

⁵ . For a discussion about omitted variable bias and why the endless search for them is likely to be often quixotic see Kevin A. Clarke, "The Phantom Menace: Omitted Variable Bias in Econometric Research," Conflict Management and Peace Science, September 2005. vol. 22 no. 4 341-352.

statistically significant level with lower costs. The Labor Center's analysis, no longer easily accessible on your web site, was not a statistically valid examination but rather a set of qualitative case studies. One wonders what you might have concluded should you have chosen to examine a different set of PLA projects, such as the Belmont Learning Complex, the recent Los Angeles Community College District's building program or cost overruns associated with the "Big Dig" in Boston.

PLA proponents like the Labor Center often argue that PLAs provide a host of benefits, ranging from labor peace and availability to better workplace safety. If true, then the costs borne by the sponsoring agency should be lowered. Yet there is no quantitative research supporting this claim. Either PLAs are failing to deliver on their promise of creating efficiencies through their various provisions OR these savings are real but not realized by the agency building the project and, instead, diverted to third parties and programs. The research just does not support the claim that they are helping taxpayers realize savings over other kinds of contracting methods. Indeed, overall the statistical research reaches the opposite conclusion.

We hope that this letter clarifies our thinking on the recent memo released by your center and provides you the opportunity to refine your response.

Sincerely,

Vince Vasquez, Dr. Dale Glaser, and W. Erik Bruvold