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Cities and Towns to Suffer A Rise in the Cost of Building Schools under Project Labor Agreements

BOSTON, MA – New state funding formulas mean that the costs to cities and towns for building schools under Project Labor Agreements (PLAs) are due to rise. This is the finding of a study from the Beacon Hill Institute at Suffolk University.

Project Labor Agreements (PLAs) are agreements with labor unions that establish the rules to be followed by firms that bid on construction projects. PLAs typically require that the contractor hire all workers through union halls, that non-union workers pay dues for the length of the project and that the contractor follow union rules on pensions, work conditions and dispute resolution. By their nature, PLAs are anti-competitive since they discourage open shop firms from bidding.

In a 2003 study, BHI examined a sample of 126 school construction projects undertaken in the Greater Boston area over the period 1995-2003. Of the 126 projects in the BHI sample, 17% were conducted under PLAs, accounting for \$481 million in construction costs. The study found that PLAs cause winning bids to rise by \$18.83 per square foot, or by 14%, and final construction cost to rise by \$16.51 per square foot, or by 12%.

The recent experience of Fall River provides a case study in the inflationary effects of PLAs. The city sought to build new schools under a PLA, but there were only a few bidders and the bids submitted far exceeded the city's budget. As a result, the city subsequently canceled the PLA and reopened the bidding process. In the new round of bidding, without the PLA, the city saw the number of bidders soar and the prices of the lowest bids drop substantially.

Fall River's experience reflects BHI's finding that schools built under a PLA incur a "surcharge" of \$16.51 per square foot. This surcharge is shared between the state and the cities and towns, depending on the portion of the total cost assumed by the state. In the past, the city or town could shift at least half of this surcharge to the state. Under new state funding formulas, the portion that can be shifted to the state will fall.

This is part of the impending transition from the old School Building Assistance Program (SBAP) to the new Massachusetts School Building Authority (MSBA). Under the new MSBA funding mechanism, effective January 1, 2007, school districts will face tougher audits of their building programs, tighter control of expenses, lower reimbursement rates and more financial responsibility for cost overruns.

Under the SBAP formulas, the portion of the surcharge that fell on cities and towns ranged from \$1.65 to \$8.26 per square foot. The average was \$4.62. Under the MSBA formulas, the portion borne by the cities and towns will range from \$3.30 to \$9.91. The average will rise by 35% to \$6.27. (See Table 1 on the next page.)

To put these figures into perspective, building a new 125,000 square foot school with a PLA increases construction costs by approximately \$2.1 million (125,000 multiplied by \$16.51, rounded). Under the old average reimbursement rate of 72%, the school district would pay \$588,000 (28% of \$2.1 million) of this cost increase, and the state would pay \$1.5 million (72% of \$2.1 million). Under the new system, the school district would pay \$798,000 (38% of \$2.1 million) and the state would pay \$1.3 million (62% of \$2.1 million).

The city of Fall River's recent experience highlights the costs of the PLA surcharge. After withdrawing the PLA designation, the city expects to save over \$3.7 million on the Kuss Middle School project, \$1.2 million on the Small Elementary School and \$900,000 on the Slade Elementary School.

"The state's new MSBA reimbursement formula, annual funding ceiling and stringent auditing mean that the cities and towns will need to be much more cost conscious in their school construction projects, or bear a higher burden for failing to do so," says David G. Tuerck, BHI Executive Director.

This update of the BHI study was underwritten by a grant from the Massachusetts Chapter of Associated Builders and Contractors.

Table 1: Local State Shares of the PLA Surcharge*			
	Minimum	Maximum	Mean
Former SBAP Reimbursement Rates	50%	90%	72%
Local portion of the PLA surcharge (per square foot)	\$8.26	\$1.65	\$4.62
State portion of the PLA surcharge (per square foot)	\$8.26	\$14.86	\$11.89
New MSBA Plan Reimbursement Rates	40%	80%	62%
Local portion of the PLA surcharge (per square foot)	\$9.91	\$3.30	\$6.27
State portion of the PLA surcharge (per square foot)	\$6.60	\$13.21	\$10.24

*Based on a BHI finding that a PLA increases construction costs by \$16.51 per square foot.