

The ABC Truth Kit

*Five Revealing Special Reports
From COCKSHAW's*

- ✓ **A Long Hard Look at ABC**
- ✓ **Why Wage Law Repeal Will *Not* Save \$\$**
- ✓ **A Probe of Open Shop Training Programs**
- ✓ **Do Project Labor Agreements Raise Costs?**
- ✓ **Wages Are *Not* the Key Cost Factor**

COCKSHAW's

CONSTRUCTION LABOR NEWS+OPINION

THE LEADER IN LABOR ANALYSIS SINCE 1971

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ABOUT THE AUTHOR OF "ABC TRUTH KIT"

Peter A. Cockshaw is construction's leading expert on labor-related issues.

This nationally respected authority also is founder and publisher of the industry's most widely read labor relations advisory, COCKSHAW's Construction Labor News+Opinion

Prior to launching his newsletter in 1971, Cockshaw acquired vital industry experience as editor-in-chief of "Contractor News" and "Industrial Construction" magazines.

A 39-year industry veteran, Cockshaw has won more awards for his revealing reports and industry exposés than any construction analyst.

For 34 years, Cockshaw's publication has provided construction with interpretive analysis of crucial labor and employee relations developments and emerging trends.

The following special reports address many claims made by ABC about issues critical to the unionized construction industry.

WHY WAGE LAW REPEAL WILL *NOT* SAVE \$\$

Eye-opening analysis of prevailing wages' impact refutes opponents' cost savings pronouncements

Prevailing wage laws have been one of construction's most controversial and contentious issues since we first became involved in the industry 39 years ago.

This year is no exception as campaigns to repeal, or water down, wage statutes rage in many states and local areas.

Proponents and opponents of such mandates continue to make numerous claims to make their case to the media, legislators and public.

But now comes potent data to buttress many arguments of wage law supporters in a study conducted by the Dept. of Economics at the University of Missouri-Kansas City.

Titled, "The Adverse Economic Impact from Repeal of the Prevailing Wage Law," it is authored by the University's Michael P. Kelsay, Ph.D., L. Randall Wray, Ph.D. and Kelly D. Pinkham, M.S.

Their work is the most comprehensive and well documented study on this subject that COCKSHAW's has uncovered in a long time.

What follows are highlights of the 148-page study.

A key contention of wage law critics, the authors point out, is that prevailing wage laws increase public construction costs 10-30 percent due to the impact of higher wage rates.

Yet, close analysis of the wage component in *overall* construction costs shows that wages have only a moderate and decreasing impact.

Citing data from the U.S. Census of Construction, the study notes that *total* direct craft payroll as a percentage of total construction project value averaged 21.1 percent in 1997, the most recent year in which census figures are available.

As COCKSHAW's often has observed, it is very difficult to take seriously critics' claims that wage laws boost costs 10-30 percent when TOTAL labor costs average just 21.2% of ALL project costs!

That point aside, the methodology used in many studies is inadequate or, in many cases, flawed.

This is because, as University of Missouri authors confirm, the factors that go into determination of construction costs are complex.

For one thing, project types vary tremendously in terms of square foot

Cost Per Square Foot of New Construction by Type and Prevailing Wage Status for 12 North Central States During 1993-2002

NON-Prevailing Wage States	Cost/Sq.Ft.	Prevailing Wage States	Cost / Sq. Ft.
Amusement, Social and Recreational Buildings	\$111.23	Amusement, Social and Recreational Buildings	\$118.54
Dormitories	\$128.93	Dormitories	\$116.51
Government Service Buildings	\$132.36	Government Service Buildings	\$142.42
Hospitals and Other Health Treatment	\$121.03	Hospitals and Other Health Treatment	\$130.18
Hotels and Motels	\$62.37	Hotels and Motels	\$79.24
Manufacturing Plants, Warehouses, Labs	\$62.10	Manufacturing Plants, Warehouses, Labs	\$53.21
Miscellaneous Nonresidential Buildings	\$56.20	Miscellaneous Nonresidential Buildings	\$86.53
Office and Bank Buildings	\$89.17	Office and Bank Buildings	\$98.07
Parking Garages and Automotive Services	\$37.21	Parking Garages and Automotive Services	\$41.22
Religious Buildings	\$81.99	Religious Buildings	\$77.82
Schools, Libraries, and Non-Mfg. Labs	\$99.45	Schools, Libraries, and Non-Mfg. Labs	\$122.71
Stores and Restaurants	\$79.57	Stores and Restaurants	\$55.41
Warehouses (excluding manufacturer-owned)	\$37.55	Warehouses (excluding manufacturer-owned)	\$33.53
Non-Prevailing Wage Status		Prevailing Wage Status	
Mean Cost Per Square Foot of New Construction \$74.94		Mean Cost Per Square Foot of New Construction \$78.17	
Total Dollar Value of New Construction	\$37,305,560,070	Total Dollar Value of New Construction	\$241,524,373,519
Total Square Feet of New Construction	364,346,200	Total Square Feet of New Construction	3,089,590,300

Source: The Department of Economics, University of Missouri-Kansas City - "The Adverse Economic Impact from Repeal of the Prevailing Wage Law" by Michael P. Kelsay, Ph.D, L. Randall Wray, Ph.D. and Kelly D. Pinkham, M.S.

Missouri's Bureau of Economic Analysis, the authors estimated that repeal of the wage law in the State of Missouri would:

- Cost residents and their families between \$294.4 million and \$356 million annually in lost income;
- Cost the state between \$5.7 million and \$6.9 million in lost sales tax collections annually;
- Cost the state between \$17.7 and \$21.4 million annually in lost income tax revenue.

The total economic result of wage law repeal in Missouri would be a loss of income and revenue between \$317.8 million and \$384.2 million annually.

Missouri researchers point out value of wage laws to apprenticeship training

The study also claims that prevailing wage laws in Missouri and other states offer other benefits. A prime one cited is apprenticeship.

"The long run impact of repeal," the authors contend, "is a decrease in training. This will create a less skilled work force, more craft shortages and a construction industry that is less safe."

Before opponents of wage laws reject the study findings out-of-hand, we suggest they carefully review the well documented data.

To review the 148-page "Adverse Impact from Repeal of the Prevailing Wage Law," visit the University of MO-KC at <http://iml.umkc.edu/econ/>. ☒

A Probe of Open Shop Training Programs

New study lays bare the "flaws and failures" of ABC's much ballyhooed apprenticeship results

The Associated Builders and Contractors, as COCKSHAW's has often noted, masterfully markets its various programs. But the group's biggest success is in the promotion of its training.

ABC has convinced many in this industry, including owner-users, that its training is equal, or superior to, the union sector.

They've done this over the years while the building trade unions sat idly by doing little, if anything, to market *their* greatest strength — skilled workforce training.

But now it appears the "sleeping giant" finally has awakened from its long slumber and has gone on the offensive. Evidence of this is a 14-page position paper titled, "A Preliminary Report on ABC's Apprenticeship Training: Flawed and Failing Initiatives."

Released late last month, the report was compiled by the Building and Construction Trades Department (BCTD) which drew largely on U.S. Department of Labor's data on apprenticeship registrations, cancellations and graduations.

BCTC claims its document is "the

most complete profile of ABC apprenticeship programs ever published." And that it is.

The report examined data from 37 ABC programs that represent about half of all the association's training efforts.

The key finding of BCTD's six-month study is the "startling flaws and failure in the standards and completion rates of apprenticeship programs sponsored by the ABC."

The key study finding is the "startling flaws and failure in the standards and completion rates of apprenticeship programs sponsored by the ABC."

Edward C. Sullivan, President
Building & Const. Trades Dept.
Washington, D.C.

To back up its statement, labor cites data revealing that, overall, ABC programs produce twice as many cancellations overall as graduations.

DOL statistics covering 37 ABC

programs from various time periods show 21,286 total apprentice registrants and 10,181 cancellations.

Moreover, the study notes that numerous ABC programs accounted for three to four times as many cancellations as graduations.

Some examples cited include Colorado where 105 apprentices graduated while 516 canceled between 1995 and 2002; Indiana where there were 291 graduates compared to 935 cancels over the same time period.

In Maryland between 1990 and 2002,

apprentices who registered in 1989, 1990 and 1991, unions accounted for 82.2% of apprentices who graduated by December 1995.

As the table on previous page illustrates, union programs accounted for over 90% of all graduates in many crafts.

BCTD urges DOL to initiate actions 'to remedy this troubling situation'

BCTD president, Edward C. Sullivan wasted no time distributing the report's findings to every member of Congress.

In addition, he fired off a letter to Secretary of Labor, Elaine L. Chao. In it Sullivan urged her "to take immediate action to remedy this troubling situation" by taking the following steps:

- ◆ Initiate a thorough investigation of ABC's programs to determine the cause for high cancellation rates;
- ◆ Establish minimum graduation rates for all apprenticeship programs, with rates established by craft;
- ◆ Create a monitoring process based both on on-site inspection and on the use of OATELS' database of apprenticeship registrations, cancellations and graduations; and
- ◆ Terminate registration of programs that fail to meet these new standards.

ABC calls study a 'politically motivated, misleading attack' on its programs

Many in the non-signatory sector argue that DOL statistics like the ones cited in BCTD's report do not tell the whole story.

And that's because they obscure the

open shop's difficulties in gaining access to some state-approved training programs. (See "Barriers to Open Shop Training?" March 2003 issue.)

One making this argument is M. Kirk Pickerel, President and CEO of ABC. Reacting to the union study findings, Pickerel bristled:

"The labor unions once again have issued a politically motivated and misleading attack on ABC's apprenticeship programs.

"This is due, we believe, to their anger about the U.S. DOL's efforts to effectively address the bias that many state apprenticeship councils, like in California, have had favoring union-only training.

"DOL has the responsibility and authority to regulate such councils, many of which have given sweetheart deals to union programs in the past.

"The bottom line is that the president of the Building and Construction Trades Department fears competition in the apprenticeship arena.

"He will do anything he can to try to preserve the virtual monopoly the unions have had over apprenticeship programs in states like California."

BCTD's attack on ABC's training and its calls for various actions by the U.S. Department of Labor signal a new "chapter" in the two organization's long and acrimonious relationship.

COCKSHAW's will report and analyze the fall out from these latest developments in upcoming issues. ☒

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DO PROJECT LABOR AGREEMENTS RAISE COSTS?

Study reveals why claims that PLAs
raise costs are 'inflated and unreliable'

"The Intense Battle Over PLAs" was the title of a recent article in COCKSHAW's. A key point it made was that conflict over project labor agreements has shifted from the nation's courthouses to local and state legislatures.

Judging by the flood of responses to the article we've received from all over the country, the PLA legislative struggle appears even *more* widespread than we originally thought.

Moreover, this response also confirms that pro-and anti-PLA forces are pulling out all the stops to produce studies and other materials to win support for their positions with the media, public and lawmakers.

The study that is generating most attention is one being circulated by the Associated Builders and Contractors (ABC). Compiled by the Beacon Hill Institute (BHI) in Boston, it purports to support ABC's argument that work done under PLAs is more costly.

The 12-page paper is titled, *The Effects of Project Labor Agreements in Massachusetts* and authored by Jonathan Haughton, PhD, Darlene C. Chisholm, PhD and Paul Bachman, MSIE.

The authors describe their effort as a "groundbreaking study of the effects of PLAs on the cost of school construction projects" in the Greater Boston area.

To scrutinize the study's methodology and findings, COCKSHAW's turned to two authorities, Dale Belman, PhD of Michigan State University's School of Labor and Industrial Relations and Matthew M. Bodah, PhD of the Charles T. Schmidt, Jr. Labor Research Center, University of Rhode Island.

Their analysis follows.

necessary for their new Middle School.

"Our statistical analysis indicates that, in the absence of a PLA, Wilmington would have saved \$5.7 million measured in 2001 dollars on constructing their new Middle School."

Officials in three areas refute claims that their schools were PLA-built

The \$5.7 million "savings" the BHI study claims for Wilmington's Middle School is impressive. The problem is that the Wilmington facility and two other schools named in study were not constructed under a PLA.

Testimony to that fact is contained in three letters COCKSHAW's has obtained.

One is from Roger J. Lessard, Superintendent of Wilmington's Public Buildings Department. He writes:

"There has been a mistake. The Town of Wilmington has had no project labor agreement on any project."

The same holds true for two other schools the study cites as PLA-built in the cities of Lynn and Melrose, Massachusetts.

A letter from Charles E. White, Purchasing Agent for the City of Lynn states:

"Be advised that there have been no construction projects completed in Lynn subject to a PLA."

"The projects in question, Lynn Classical High School, Lynn English High School and Lynn Vocation

Technical Institute were originally bid out with a project labor agreement as part of the specification.

"However the bid was successfully protested in the court system and subsequently re-bid without the PLA."

As to the third project BHI lists as PLA-built, the Roosevelt Elementary School in Melrose, Massachusetts, the city's Director and City Planner, Denise M. Gaffey writes:

"I wish to clarify that the City of Melrose did not utilize a project labor agreement for construction of the Roosevelt Elementary School."

Moreover, Behlman and Bodah point out that even if the data for the three schools were

"There has been a mistake. The Town of Wilmington has had no project labor agreement on any project."

Roger J. Lessard, Superintendent
Public Works Department
Town of Wilmington, MA

correct, nearly all the difference between PLA and non-PLA bid prices is accounted for by four schools built under PLAs in a

single community — Milton, Massachusetts.

They contend that when Milton is removed from BHI's sampling, "the average difference between PLA and non-PLA bid prices drops to about \$12 per square foot which, when subject to testing, is not statistically significant."

Also interesting is a January 9, 2000 article in the *Boston Globe*. It reported that the Milton project would be "among the most costly school construction projects in the region."

That was approximately two years before a PLA was attached to the project.

Another revealing aspect of the study is professor Bodah's discovery

And, in fact, several of the projects in BHI's study included demolition and re-remediation. Such items make square foot costs look extreme because costs rise while the size of school stays the same.

Also, high schools tend to be more expensive than elementary or middle schools. While the latter typically have only simple classrooms, auditoriums and play areas, high schools include science labs, more expansive gymnasiums and athletic fields.

Differences in the type and quality of materials used in a building also affect costs.

Add professors Belman and Bodah: "Since the need to include a building's amenities in cost models is well-established in economics literature on construction costs, it is not clear to us why the BHI authors did not follow this well trod path."

Belman and Bodah conclude:

"It is likely that a more complete model of school costs would produce greatly different estimates of the effects of PLAs than those reported by BHI."

Authors of PLA study respond to key criticisms of their findings

COCKSHAW's contacted the Beacon Hill Institute to give it an opportunity to address some central concerns about the study raised by professors Belman and Bodah.

BHI's executive director David G. Tuerck addressed the points we raised. The first was the study's listing of

three projects as PLA-built when, in fact, they were not constructed under such an agreement.

BHI's Tuerck stated: "We made painstaking efforts to determine whether a school was built under a PLA or not which turns out to be a surprisingly elusive piece of data.

"As for Lynn's Classical High School, it was originally bid with a PLA in 1997 and was subsequently re-bid without the PLA (due to lawsuit noted previously). Our numbers were from the

original 1997 bids which were filed under a PLA.

"With regard to the Wilmington and Melrose school building projects, we reran our analysis (i.e., after called by COCKSHAW's to inform that neither were PLAs) on the assumption that both schools were *not* PLAs. But this affects only the magnitude, not the direction, of our results.

"The new results show that the cost per square foot added by using a PLA (measured in 2001 dollars) is \$30.13."

Also questioned in the Belman-Bodah critique of the study was the model's primary reliance on size of project — which fails to account for many other factors that impact building costs. BHI's Tuerck replied.

"This suggests that differences in facilities and materials were not controlled and therefore may bias the regression results.

"But the only way these factors would bias the regression results is if

"The BHI model is greatly oversimplified and, as such, does not allow for true apples-to-apples cost comparisons."

Dale Belman, PhD, Michigan State University School of Labor and Industrial Relations

Matthew M. Bodah, PhD, Labor Research Center, University of Rhode Island

WAGES ARE *NOT* THE KEY COST FACTOR

New data documents crucial role of skills/productivity in bottom line costs

Many industry customers and legislators believe that higher craft wages are the prime cause of higher construction costs.

And a key reason construction users and lawmakers believe higher wages result in higher costs is because prevailing wage opponents constantly make these claims.

Over the years there have been various assertions that repeal of the Davis-Bacon Act and state prevailing wage statutes results in cost savings.

But these claims remain unsubstantiated because there is no documentation to support them.

However, there are two studies that refute wage law critics cost arguments. They convincingly show that skills and productivity – *not* differences in wage rates – are the critical determiner of *bottom line* labor costs.

Both studies were commissioned by the National Heavy and Highway Alliance and performed by the respected Construction Labor Research Council (CLRC). These compilations draw on Federal Highway Administration (FHWA) statistics to analyze the correlation between wages, manhours and highway construction expenditures.

And, both are the only ones in existence which use data compiled by a government agency to illustrate that wage rates and *total* construction project costs have no direct correlation.

The first study in 1995 examined 14 years of FHWA data and concluded that hourly wage rates are a poor indicator of cost per mile in building highways.

Lower wage states, the study found, can have *higher* total costs per mile and higher wage states can have lower total costs per mile.

To determine if the conclusions reached in 1995 remain valid, the Alliance, a labor-management group based in Washington, D.C. once again retained the Construction Labor Research Council to update its earlier effort.

This new study was just completed. It reviewed cost data from all 50 states for all highway projects reported to the FHWA from 1994 through 2002.

A closer examination was made for those states with the greatest highway expenditures. This was done to eliminate any variability that might occur in lower construction dollar volume states.

High expenditure states were defined as those with reported highway

Top 14 Dollar Value States, 1994 - 2002

By Average Wage Rate

State	Wage Rate	Total Cost Per Mile	Labor Cost Per Mile	Man Hours Per Mile
Texas	\$11.82	\$749,484	\$116,973	9,893
Florida	12.22	941,743	187,248	15,326
Maryland	15.39	2,256,687	474,625	30,833
Iowa	17.13	469,916	85,961	5,018
Colorado	22.10	570,600	115,069	5,206
West Virginia	22.19	1,306,339	276,212	12,446
Pennsylvania	24.29	1,306,979	291,247	11,989
Indiana	24.47	1,155,822	265,128	10,835
AVERAGE	\$15.68	\$857,965	\$161,128	10,276
Conn.	\$25.01	\$2,048,670	\$464,093	18,559
Missouri	25.22	730,918	146,200	5,796
Washington	26.06	484,292	118,309	4,537
Illinois	26.10	653,459	153,883	5,897
Michigan	27.37	787,477	159,013	5,811
New Jersey	30.19	2,506,508	555,135	18,387
AVERAGE	\$26.34	\$826,509	\$184,138	6,991

Over \$1 billion in construction expenditures per year.

Top 17 Dollar Value States, 1994 - 2002

By Average Wage Rate

State	Wage Rate	Total Cost Per Mile	Labor Cost Per Mile	Man Hours Per Mile
Louisiana	\$11.60	\$1,215,282	\$218,696	18,848
Texas	11.82	749,484	116,973	9,893
Florida	12.22	941,743	187,248	15,326
Maryland	15.39	2,256,687	474,625	30,833
Iowa	17.13	469,916	85,961	5,018
Colorado	22.10	570,600	115,069	5,206
West Virginia	22.19	1,306,339	276,212	12,446
Pennsylvania	24.29	1,306,979	291,247	11,989
Indiana	24.47	1,155,822	265,128	10,835
AVERAGE	\$15.43	\$870,328	\$163,120	10,572
Connecticut	\$25.01	\$2,048,670	\$464,093	18,559
Missouri	25.22	730,918	146,200	5,796
Washington	26.08	484,292	118,309	4,537
Illinois	26.10	653,459	153,883	5,897
Oregon	27.18	508,775	109,558	4,031
Michigan	27.37	787,477	159,013	5,811
Massachusetts	30.12	2,913,489	508,242	16,871
New Jersey	30.19	2,506,508	555,135	18,387
AVERAGE	\$26.63	\$836,139	\$182,386	6,849

Over \$100 million in construction expenditures per year.

Source: Federal Highway Administration statistics compiled by the Construction Labor Research Council for the National Heavy and Highway Alliance.

comprehensive and neutral.”

Also, both studies conducted cover a total period of 23 years, so exceptions and atypical projects reported in a specific state in a specific year have little or no impact upon the findings.

Skills and productivity are the critical labor factors, not wage rates

Data from the two study reports document that there is only minimal correlation between hourly wage rates paid to craft workers and cost per mile

For example, workers with varying skill levels may be utilized. Although there are higher costs per unit of time for the more highly skilled, these workers require fewer labor inputs.

Therefore, if the gain in output per unit of time exceeds the premium paid to the more highly skilled worker, this becomes a more cost-effective alternative.

The review of FHWA statistics also noted the small portion of highway cost which accounts for labor – just twenty percent.

This suggests that any efforts to reduce federal highway expenditures be directed toward the other eighty percent of

Costs in 17 High Expenditure States (\$100 Million+)		
	Low Wage	High Wage
Average Hourly Wage	\$15.43	\$26.63
Hours Per Mile	10,572	6,849
Labor Costs Per Mile	\$163,120	\$182,386
Total Costs Per Mile	\$870,328	\$836,139

of highway.

Moreover, the limited correlation which does exist indicates that the relationship is inverse. Higher hourly rates tend to equate to lower highway cost per mile.

CLRC's Gasperow explains that the amount/cost of any single factor in highway construction – various mixes of equipment, labor, materials and management – reveals little about total project cost.

Up to a point, factors are substitutes for each other because they may be exchanged. Similarly, within a factor category, there may be substitutes.

construction cost categories.

The Alliance's Poupore offers his summation after reviewing data from both the fourteen-year study in 1995 and the most recent nine-years of FHWA figures.

“The research found no credible data to substantiate claims that lower wage rates result in lower construction costs.”

Ray Poupore, Executive Director
National Heavy and Highway Alliance
Washington, D.C.

“Simplistic views and pronouncements that lowering hourly craft worker rates

will reduce costs,” he emphasizes, “reveal a basic misunderstanding of the construction industry.

“The two studies illustrate that skills and productivity, not wage rate differences, are the critical factors which determine bottom line labor costs.

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