

Why PLAs Increase Project Costs

Project Labor Agreements (“PLAs”) increase project costs between 12% and 20%, depending on the circumstances of the project. The primary driver of these cost increases is the dramatic reduction in bid competition on PLA projects. Very few contractors will work on PLA projects due to the withdrawal liability associated with union pension funds. The absence of a full and fair competition drives costs up dramatically.

A recent study by the RAND Corporation found that the PLA requirement mandated by the Los Angeles City Council on Proposition HHH, a voter-approved plan to build 10,000 units of affordable housing increased project costs by 14.5%.¹

RAND’s detailed analysis concluded that the decision to place a PLA on Proposition HHH cost taxpayers an extra \$141 million and prevented over 800 units of affordable from being built.

Other studies have found that PLAs lead to even higher costs. A recent study by the Beacon Hill Institute found that PLAs increased the cost of school construction in Connecticut by nearly 20%.² That equals an additional \$89.33 per square foot of construction relative to non-PLA school construction projects!

Why won’t contractors bid on PLA projects?

PLAs require contractors to pay into a union-run pension funds as a requirement to work on a project. These funds are called a “multi-employer pension funds.” Under federal law, contractors that make contributions to multi-employer pension funds are considered “participants” and, as such, are responsible for their share any of the pension’s underfunding. Underfunding occurs when the fund’s resources are not sufficient to meet its future liability to pensioners.

In order to withdraw as a participant of the plan after the PLA project is over, contractors will be subject to “withdrawal liability” in the hundreds of thousands, sometimes millions, of dollars. Contractors who were unaware of this potential liability have wound up paying massive penalties and settlements years after the PLA project. The amount of withdrawal liability can cripple or destroy construction firms. The only way to avoid this financial risk is to never sign a PLA, which is the decision taken by most construction contractors.

¹ Ward, Jason M., [The Effects of Project Labor Agreements on the Production of Affordable Housing: Evidence from Proposition HHH](#). Santa Monica, CA: RAND Corp., 2021.

² Burke, William F. and David G. Tuerck. [“The Effects of Project Labor Agreements on Public School Construction in Connecticut,”](#) January 2020.