COMMON SENSE INSTITUTE

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# OREGON'S PLA MANDATE: WHAT IT MEANS FOR THE STATE'S WORKFORCE

## LESSONS FROM OTHER STATES' USE OF PLAS AND THE IMPACT OF MANDATES

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# ABOUT THE AUTHORS

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# INTRODUCTION

In a move that will reshape Oregon's construction landscape, and perhaps its entire econo-my, Governor Tina Kotek has signed Executive Order (EO) 24-31, which mandates the use of **Project Labor Agreements** (PLAs) for state-funded projects. The PLAs mandated by Gov-ernor Kotek's order represent a significant shift in Oregon's approach to public construction projects.

A PLA is a unique type of pre-hire collective bargaining agreement designed specifically for the construction industry. They establish terms and conditions of employment for a particu-lar construction project before hiring begins and are legally grounded in federal labor law under 29 U.S.C. § 158 (f), which permits PLA use without violating unfair labor practice provisions.[i]

Core features of PLAs are:

- **Universal Terms for Contractors:** PLAs bind all contractors and subcontractors on a project to a single agreement, which simplifies administration.
- **No-Strikes, No-Lockouts:** PLAs prevent labor disputes that could delay project timelines.
- **Hiring Through Union Halls:** PLAs typically require contractors to recruit workers from un-ions, providing access to a pool of trained labor.
- **Local and Equitable Hiring Goals:** Many PLAs incorporate provisions to hire local workers, support small businesses, and advance equity for underserved communities.

In Oregon, PLAs will operate within a framework of robust prevailing wage laws, which set standards for wages and benefits. As such, prevailing wage laws will play a key role in shaping the cost implications of PLAs in the state.

Researchers disagree on the benefits and drawbacks of PLAs.

While proponents highlight their potential to streamline project execution, prevent labor disputes, and foster apprenticeship programs, critics argue they may limit competition by disadvantaging nonunion, minority-owned, and local businesses that have diffi-culty meeting procedural and practical barriers. In an attempt to strike a balance between equity goals and contractor accessibility, inclusivity measures under EO 24-31[ii] al-low open bidding and allow nonunion contractors to retain key workforce members. Monitor-ing enforcement mechanisms embedded in the executive order will be necessary if the state wants to determine how well PLAs advance the governor's equity, stability, and labor market development goals.

# KEY FINDINGS

- Most states either have no PLA policy, or they limit PLA use in order to encourage open competition. Specifically:
  - 17 states are generally neutral on PLA policy.
  - 9 states regulate, encourage, or require the use of PLAs.
  - 24 states limit PLAs in favor of open competition.
- Requiring PLAs for state construction projects will likely increase the cost of projects — in some cases by as much as 20%.
  - Using Regional Economic Models Incorporated (REMI), CSI found a 5% increase in the wage-related portion of construction costs would reduce state employment levels by 17,262 jobs by 2030 and by 14,503 jobs by b 2040.
  - Using REMI again, CSI found a 10% increase in construction costs would reduce state employment by 33,146 jobs by 2030 and by 27,690 jobs by 2040.
  - Should PLAs lead to higher construction costs, Oregon may be forced to divert funds from education, transportation, and housing or the state may have to take on more debt. With General Fund and Lottery Fund debt capacity nearing its limit during the 2023-2025 budget cycle, rising costs could reduce the number of projects completed and strain essential public services.
- Oregon's labor market is not uniform across the state. In fact, it varies quite a bit between urban and non-urban areas. Since Oregon is already a state with a prevailing wage statute, the increase in costs for PLA projects may be less pronounced in urban areas, where con-struction tends to be larger, more complex, and already subject to unionized labor condi-tions, compared to non-urban areas
  - The potential impact on nonunion and local contractors is unclear. With fewer than 20% of Oregon's construction workers unionized, hiring hall rules and duplicative benefit costs that would need to be borne by nonunion contractors may limit participation, raising concerns about access for small businesses and locally owned businesses.

# EXECUTIVE ORDER 24-31: SETTING THE FRAMEWORK

Governor Kotek's executive order, signed in December 2024, mandates the use of PLAs for specific state-funded public improvement projects. The order states "broad adoption of PLAs by the state government will help ensure that our projects are adequately resourced and provide benefits to the communities where they are constructed." This move follows a similar federal order under Biden administration that was issued in February 2022. That order mandated the use of PLAs for federal projects worth more than $35 million.[iii]

Key features of Governor Kotek's executive order include:

- **Scope and Applicability:** PLAs are required for all state-owned construction projects where onsite labor constitutes at least 15% of the total construction costs. This threshold ensures the mandate focuses on significant projects with a substantial labor component.
- **Equity and Inclusivity:** The governor emphasized workforce equity by prioritizing local hiring and the participation of historically underserved communities. Importantly, the order also ensures non-union contractors can bid on projects as long as they comply with PLA terms.
- **Labor Standards:** PLAs are required to contain no-strike and no-lockout clauses and mechanisms for dispute resolution to minimize disruptions and maintain project timelines.
- **Skilled Workforce Development:** Contractors must meet apprenticeship and training standards in order to ensure the development of a skilled workforce. This provision aligns with Oregon's broader goals of supporting Registered Apprenticeship Programs and creating pathways for workers from underserved groups.
- **Project Oversight:** The governor emphasized accountability measures by requiring agencies to monitor compliance and provide periodic reports on the effectiveness of PLAs in achieving their intended outcomes.

# HOW PLAS HAVE AFFECTED OTHER STATES

California is one of the few states that has embraced PLAs. In the 1990s, only 19 PLAs were used for public works projects in California. Between 2010 and 2016, there were 122, many of which governed multiple projects simultaneously. The agreements have been im-plemented across various federal, state, and local public projects, including large-scale ini-tiatives and smaller projects that collectively form larger undertakings.

As their use has increased, PLAs have come under significant scrutiny. Debates focus on legality, impact on project costs, and ability to provide job opportunities for disadvantaged and local workers. Researchers also have analyzed how PLAs influence the preservation and expansion of union presence in the construction industry, as well as their effect on project quality, timelines, and budget adherence.

## PLAs May, or May Not, Increase Project Costs

The relationship between **PLAs and construction costs** is one of the most debated aspects surrounding their use. Critics argue **PLAs increase costs** because of **union wage requirements and reduced competition.** Duplicative benefit contributions are another concern. With PLAs, nonunion contractors may be required to pay into **union health and pension funds** while con-tinuing to provide benefits for their own employees, for example, an issue that would lead to **higher overall costs.**

Several reports indicate PLAs can increase costs:

- A 2019 study (Bachman, Burke and Tuerk) estimated PLAs increase construction costs by **15 to 20%.** These findings have been challenged because of **methodological flaws,** however, including failure to control for **project size, complexity, and urban location.**
  - A 2007 study (Bachman and Haughton) of 126 school construction projects in Massachusetts from 1995 to 2003 found PLAs **increased costs by 9% to 15%, or $12 to $20 per square foot.**
- A case study from **Fall River, Mass.** revealed PLA-covered projects **exceeded budget expectations,** prompting the city to **remove the PLA requirement.** The resulting **rebid projects were 6.4% lower,** saving **$5.8 million.**[vi]

Critics further contend that by **discouraging nonunion contractors from bidding,** PLAs **reduce competition,** which can result in **more costly bids.** (With fewer bidders, competitive pres-sures diminish.) Detractors also argue **union work rules and labor restrictions** in PLAs contribute to **inefficiency**, which could further contribute to cost escalation.

While these claims are serious, other studies have determined PLAs may not raise costs. This research includes:

- A 2021 study (Philips and Waitzman)[vii] that analyzed school c**onstruction projects in California and Massachusetts** found **no statistically significant cost differences** between PLA and non-PLA projects. **This study controlled for project size and complexity.**
- A 2010 study conducted (Belman, Ormiston, Kelso, Schriver, and Frank)[viii] that concluded prevailing wage laws, which are often tied to PLAs, d**o not significantly affect construction costs.**

A key factor influencing **PLA cost effects** is the presence of **prevailing wage laws.** In states like **Oregon** where **prevailing wage laws already standardize wages on public projects,** PLAs primarily build on existing wage frameworks rather than introduce substantial new labor costs. Indeed, a study from 2019 (Ormiston and Duncan)[ix] found prevailing wage laws **do not significantly increase construction costs** for municipal projects like schools and highways though they may have a **modest impact on affordable housing projects.** This study suggests that in states like Oregon where **prevailing wages set a high baseline,** PLAs may n**ot intro-duce substantial new costs**. In states **without prevailing wage laws,** however, PLAs can **increase labor costs more sharply** by imposing **union pay scales and benefits** on nonunion contractors.

What's more, proponents of PLAs argue the agreements enhance cost efficiency by **prevent-ing costly delays** caused by **strikes or lockouts**. The inclusion of **no-strike clauses** and streamlined dispute resolution mechanisms in PLAs helps mitigate risks that could escalate expenses. Additionally, by establishing **clear labor management terms,** they argue PLAs may contribute to s**moother project execution** particularly for **large-scale infrastructure.**

Oregon's EO emphasizes **cost management** by **mandating PLAs for state-funded projects** that meet specific criteria, such as **prevailing wage compliance and workforce training initiatives.** While these measures aim to balance cost concerns with workforce benefits, their effectiveness will depend on careful implementation and monitoring to prevent inefficien-cies.

Overall, the impact of PLAs on construction costs is highly context-dependent, shaped by local labor policies, market competition, and project characteristics. As Oregon moves for-ward with its PLA framework, evaluating cost implications within the state's unique eco-nomic and labor environment will be critical to ensuring successful outcomes.

## PLAs May, or May Not, Diminish Competition

Critics also have raised concerns about the impact PLAs will have on competition, arguing they can discourage nonunion contractors from bidding on projects because of the additional requirements imposed on them by these agreements.

Key concerns include the requirement for nonunion contractors to pay into collectively bar-gained health and pension programs while maintaining their existing benefit systems, a burden that leads to duplicative costs. Some nonunion contractors also are reluctant to work alongside union labor dispatched through hiring halls, which are systems used by unions to allocate jobs to their members and adhere to union employment standards. For contractors accustomed to managing their workforce independently, these conditions can be perceived as restrictive and burdensome.

Other concerns about PLAs center on reduced local contractor participation. Projects may have fewer local bids, raising concerns about the inclusivity of local businesses in PLA-governed projects. While this fact does not mean PLAs inherently exclude local contractors, it does highlight the need to assess whether such agreements are structured in a way that maximizes opportunities for Oregon-based businesses and workers.

Some research indicates critics are right to worry about competition. For example:

- A survey conducted in western Washington state during the late 1990s found 61 of 69 non-union contractors chose not to bid on PLA-governed projects, citing reliance on union labor and uncompetitive bid conditions as primary deterrents.[x]
- A 2003 report , cited in Bachman's 2019 analysis of PLAs, analyzed 125 public construction projects in Washington state and found PLA projects attracted 18.26% fewer bidders on average compared to non-PLA projects. This reduction in competition was at-tributed to the fact that PLAs tend to exclude open shop competitors in favor of union con-tractors.

Other studies suggest PLAs do not suppress competition. The 2021 Phillips and Waltzman analysis of 263 public community college projects in California between 2007 and 2016 found no significant evidence that PLAs reduced the number of bidders or increased bid prices once project size, timing, and location were controlled.

These mixed results highlight the complexity of evaluating PLAs' impact on competition, which may vary by region, market conditions, and the specific terms of the agreements. In Oregon, monitoring how PLAs influence contractor participation and bid competitiveness will be critical to understanding PLAs' long-term effect on the construction industry.

## Workforce Development and Diversity Goal May, or May Not, Be Met

PLAs aim to address workforce development challenges and promote diversity within the construction industry. By requiring provisions for local hiring, apprenticeship programs, and equity goals, PLAs seek to provide career pathways for underrepresented groups while meeting the demand for skilled labor.

However, there is limited evidence directly assessing whether PLAs themselves achieve these objectives.

PLAs often include provisions that mandate local hiring and the engagement of apprentices from registered programs. While this research does not specifically analyze apprenticeships within PLAs, studies show that joint labor-management apprenticeship programs—commonly associated with PLAs—train approximately 70% of construction apprentices in the United States and have a completion rate of 56%, compared to 46% for employer-only (nonunion) programs.[xi]

At the same time, critics argue that PLAs may create unintended barriers for small and mi-nority-owned contractors. Many of these businesses operate as nonunion firms and PLA re-quirements—such as hiring through union halls—can limit their ability to utilize their estab-lished workforce. Additionally, nonunion contractors are often required to pay into union benefit programs while maintaining their own employee benefits, increasing costs and po-tentially discouraging participation in PLA-covered projects. For instance, a 2022 survey by the Associated General Contractors of America found that 73% of federal contractors would refrain from bidding on projects with mandated PLAs, citing difficulties in partnering with small, minority, and disadvantaged businesses under such agreements. Similarly, minority and female-owned contractors in Baltimore opposed a proposed PLA in 2019, expressing concerns about reduced competitiveness for nonunion firms.[xii]

Oregon's EO attempts to address these concerns by emphasizing inclusivity. The order al-lows nonunion contractors to bid on PLA-governed projects as long as they comply with the agreement's terms. While contractors may retain their current workforce , they must also adhere to a PLA's apprenticeship and equity goals. Whether Oregon can successfully balance workforce development and diversity objectives with equitable access for small and minority-owned businesses remains uncertain. Addressing this question will require rigorous study and long-term evaluation.

## There Are Other Legal and Policy Considerations Too

Recent federal initiatives like the Biden administration's 2022 Executive Order mandating PLAs for federal projects worth more than $35 million underscore the growing policy em-phasis on using PLAs to ensure labor stability and workforce equity. Oregon's order mirrors this approach by mandating PLAs for state-funded construction projects.

While PLAs are permissible under federal labor law , opponents have sued to stop them. In January 2024, the Associated General Contractors of Oregon-Columbia Chap-ter sued the Oregon Department of Transportation over its use of PLAs on eight pilot pro-jects. The lawsuit claimed PLAs restricted competition and could exclude a significant por-tion of Oregon's road contractors from bidding. In response, **Marion County Circuit Court Judge Jennifer Gardiner issued a preliminary injunction,** ruling that prioritizing union labor over open-shop contractors was **"prejudicial"** and could e**xclude up to 70% of contractors from state projects.** The case escalated to the Oregon Supreme Court, and while awaiting a final ruling, **Governor Kotek issued her EO.**

# SUMMARIZING THE EVIDENCE ON PLAS

Given the conflicting evidence regarding the impact of PLAs, CSI synthesized the quantitative data from the multiple independent studies cited above. Four research questions emerged:

- What type of an effect will PLAs have on project costs generally?
- What type of an effect will PLAs have on timely project completion?
- Are there certain types of projects where PLAs have a material impact on completion and costs?
- Does the potential impact of PLAs differ by geographic region?

## What type of an effect do PLAs have on project costs generally?

As illustrated in the research cited above, the impact of PLAs on construction costs remains a contested issue.

Ultimately, the cost impact of PLAs appears to be **highly context-dependent,** influenced by:

- **The Presence of Prevailing Wage Laws:** In states like Oregon, where prevailing wage laws already regulate public project wages, PLAs may not create significant additional labor costs. In states without such laws, PLAs can introduce union wage structures that contractors would not otherwise follow, increasing total project expenses.
- **The Level of Bid Competition:** When fewer contractors are willing to bid on PLA-covered projects, a less competitive environment can drive up construction costs.
- **Project Type and Location:** Certain types of projects, including those in high-cost urban areas, may see different PLA cost effects, a topic explored in later sections.

## What type of an effect do PLAs have on timely project completion?

Researchers also have debated the relationship between PLAs and timely project completion. While some studies suggests PLAs reduce delays and increase efficiency, others argue that restrictive labor conditions may lead to inefficiencies. The evidence remains mixed, with some studies showing shorter completion times under PLAs and others indicating no significant difference compared to non-PLA projects.

A 1989 study (Ivanoff and Diekmann)[xiii] examined the role of PLAs in preventing work stoppages by prohibiting strikes and lockouts, which can lead to more predictable project timelines. This study emphasizes PLAs were historically implemented to ensure uninterrupted labor supply on large, complex projects such as dams, power plants, and major infrastructure developments. Similarly, the 2021 Philips and Waitzman found PLA-covered projects did not experience greater delays than non-PLA projects, largely due to better workforce coordination and reduced labor disputes.

Conversely, the 2019 study of Bachman, Burke and Tuerk found Washington state's PLA projects did not consistently outperform non-PLA projects in terms of completion time, suggesting factors such as project complexity, contractor experience, and management practices may play a more profound role when it comes to timelines.

A study of California's community college projects from 2007 to 2016 found PLA projects and non-PLA projects had similar completion rates, though PLA-covered projects **trained more apprentices and engaged more local workers,** which may influence long-term workforce sustainability.

Ultimately, the impact of PLAs on timely completion appears to depend on:

- **The Complexity of the Project:** Larger, more complex projects benefit more from PLA's structured labor-management coordination.
- **The Strength of Preexisting Labor Agreements:** In states with strong union presence and prevailing wage laws, PLAs may not significantly alter project timelines.

## Are there certain types of projects where PLAs have a material impact on completion/costs?

The impact of PLAs on construction **costs and completion times** depends on the type of project. While school construction has been the most studied sector, researchers also have examined **large-scale infrastructure projects and affordable housing developments.** Again, the literature suggests the complexity, scale, and labor requirements of a project can influence how PLAs affect costs and completion.

## SCHOOL CONSTRUCTION PROJECTS

School construction projects are among the **most analyzed category** in PLA research, most likely due to the l**arge number of them** available for study.

- Studies examining PLA use in school construction generally showed mixed results. Some report higher costs due to restricted competition and labor mandates, while others show no statistically significant impact after controlling for factors such as project location and complexity.
- A 2010 New Jersey Department of Labor and Workforce Development report[xiv] found school construction projects completed under a PLA were 30.5% more expensive than non-PLA projects.
- On the other hand, the 2021 Philips and Waitzman report, which analyzed California's community college projects, found PLAs did not significantly impact construction costs when prevailing wage laws were already in place.

## LARGE SCALE INFRASTRUCTURE PROJECTS

The impact of PLAs on **major infrastructure projects like highways, bridges, and power plants** is less studied. Still:

- Some analysts argue PLAs are more beneficial in large-scale infrastructure projects where maintaining a stable workforce and avoiding work stoppages is crucial.
- The 2019 Ormiston and Duncan study found state prevailing wage laws, which often reflect union wage structures required in PLAs, had no significant impact on the cost of highway construction projects.
- The 2019 Bachman, Burke and Tuerck report cited a case study of Washington State's public projects that found PLAs reduced the number of bidders, a problem that can contribute to higher infrastructure costs.

## AFFORDABLE HOUSING PROJECTS

There is limited research on the effect PLAs have had on affordable housing. A 2021 RAND Corporation study on Los Angeles affordable housing projects found PLAs increased construction costs by 14.5%. The study attributed this increase to higher labor costs and union work rules, which reduced the flexibility of some developers.

To summarize:

- Regarding school construction, some studies report higher costs due to PLAs while others find no significant difference when controlling for prevailing wage laws.
- Large-scale infrastructure projects may benefit more from PLAs' workforce stability provisions, but some studies indicate potential cost increases due to reduced bid competition.
- Affordable housing projects may sustain higher costs under PLAs, but further research is needed to confirm this hypothesis.

# Does the potential impact of PLAs differ by geographic region?

The effectiveness and cost implications of PLAs vary significantly across **geographic regions** due to differences in **local labor markets, state policies, and the urban-rural divide**. Research suggests **PLAs tend to have a greater effect on urban areas** where construction projects are larger and labor conditions differ from rural settings.

### URBAN VS. RURAL

- Studies indicate PLA projects are largely located in urban areas, where construction tends to be larger, more complex, and already subject to unionized labor conditions.
- The 2010 Belman, Ormiston, Kelso, Schriver, and Frank study found when controlling for project location, complexity, and size, the cost effect of PLAs was not statistically significant, suggesting geographic factors play a major role in cost estimates.

### STATE LEVEL DIFFERENCES

- The 2019 Bachman, Burke and Tuerck study found Washington State's PLA projects reduced bidder competition by 18.26%, leading to higher costs.
    - The 2019 Ormiston and Duncan study found California community college PLA projects showed no significant cost differences when prevailing wage laws were already in place.

### THE ROLE OF STATE POLICIES

- States that encourage PLAs, such as California, New York, and Illinois, tend to have stronger union representation and prevailing wage laws the presence of which can mitigate potential cost increases.
- States that restrict or prohibit PLAs, such as Texas, Florida, and Tennessee, tend to have weaker union presence and lower prevailing wage requirements, which may result in PLAs leading to greater cost differences.

Although PLA effects are shaped by many factors, geographic location clearly plays a key role.

# PROMINENT PROJECTS THAT USED PLAS

Project Labor Agreements have been used across some well-known projects, including:

- **Walt Disney World:** Effective from 2010 to 2013, this PLA facilitated construction projects across the resort in Orange, Osceola, and Polk Counties, Fla., ensuring workforce stability, standardized wages, and streamlined dispute resolution to maintain efficient and uninterrupted operations.[xv]
- **Hoover Dam:** One of the largest infrastructure projects of its time, construction relied on a PLA to coordinate labor, ensure workforce stability, and meet a demanding timeline. The project was successfully completed in 1936, ahead of schedule.[xvi]
- **Shasta Dam:** Located in California, this project utilized a PLA to manage labor relations effectively, contributing to its successful completion in 1945.[xvii]
- **Cape Canaveral:** Several significant construction projects at Cape Canaveral utilized PLAs, including a 132,000-square-foot engineering test facility at the Naval Ordnance Test Unit that was designed to support prototyping, development, testing, and evaluation of advanced missile systems.[xviii]

# WHERE ARE PLAS PREVALENT?

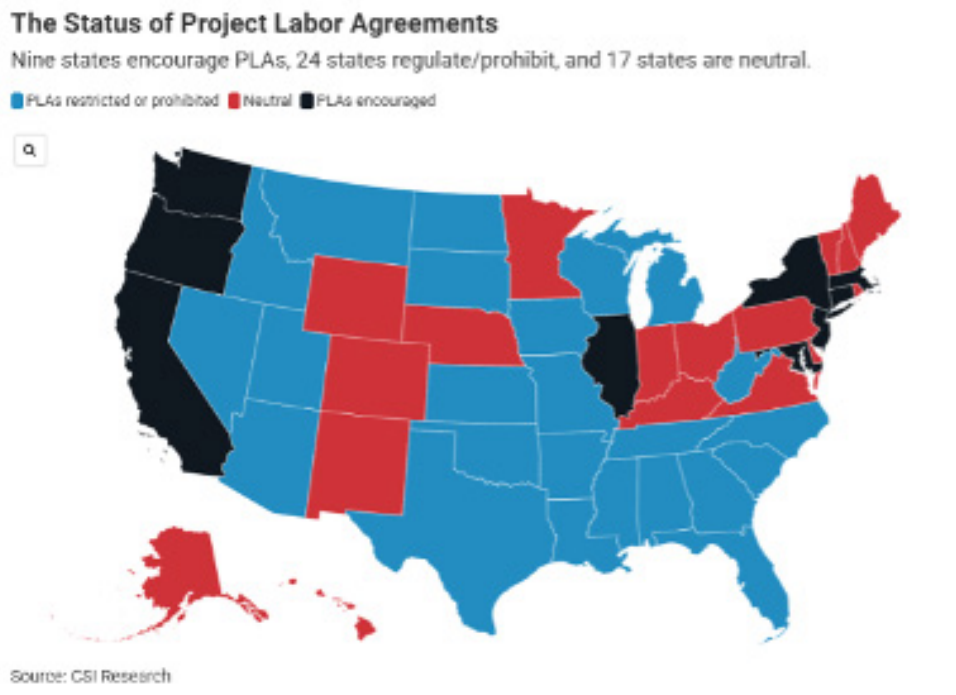
As the 2010 study by Belman and his co-authors states, PLAs use is most concentrated in states with strong union presence, prevailing wage laws, and legislative or executive support. PLAs are particularly prevalent in public sector infrastructure projects where labor agreements are seen as a mechanism for ensuring wage stability and workforce reliability.

The 2019 Bachman, Burke and Tuerk study found PLAs are most prevalent in states such as **California, New York, Washington, and Illinois,** where legislative measures actively encourage their use. Research indicates PLAs are frequently used in **major public infrastructure, transportation, and school construction projects.** Examples include California's community college system and Massachusetts' public school construction programs. In states with ambitious renewable energy targets, such as New York and Illinois, in their 2019 study Ormiston and Duncan note PLAs have also been applied to offshore wind, solar, and clean energy projects.

By contrast, PLAs are far less common in southern and Midwestern states where right-to-work laws and state-level restrictions on government-mandated PLAs encourage open competition. According to Bachman, Burke and Tuerk's 2019 analysis, Texas, Florida, Georgia, and Tennessee are among the states that prohibit PLAs on public construction projects. In these regions, private-sector PLAs remain rare, though, as Ormiston and Duncan noted in their 2019 study, some large-scale industrial and energy projects still utilize voluntary PLAs when labor stability is a priority.

As Figure 1 shows, nine U.S. states encourage or require PLA use, 24 states encourage open competition, and 17 states are generally neutral. In some instances, however, it is hard to classify policy since lines are blurred by municipality, project type and size, and other factors. The delineation into the three groups is not completely black and white.

**FIGURE 1**



# CSI ANALYSIS: PLAS INCREASE COSTS

For this report CSI reviewed the results of seven studies that examined the impact of PLAs on total cost and log of total cost — or the cost per square feet — and attempted to perform a formal meta-analysis. Given the limitations on consistent data, however we advise readers consider our meta-analysis to be directional with the magnitude of the effect sensible, but also dependent on many factors.

In our opinion, as Table 1 indicates, studies generally confirm PLAs are correlated with higher project costs. Given the wide spectrum of conclusions drawn by the studies CSI reviewed, however, we believe further research is needed.

**TABLE 1**

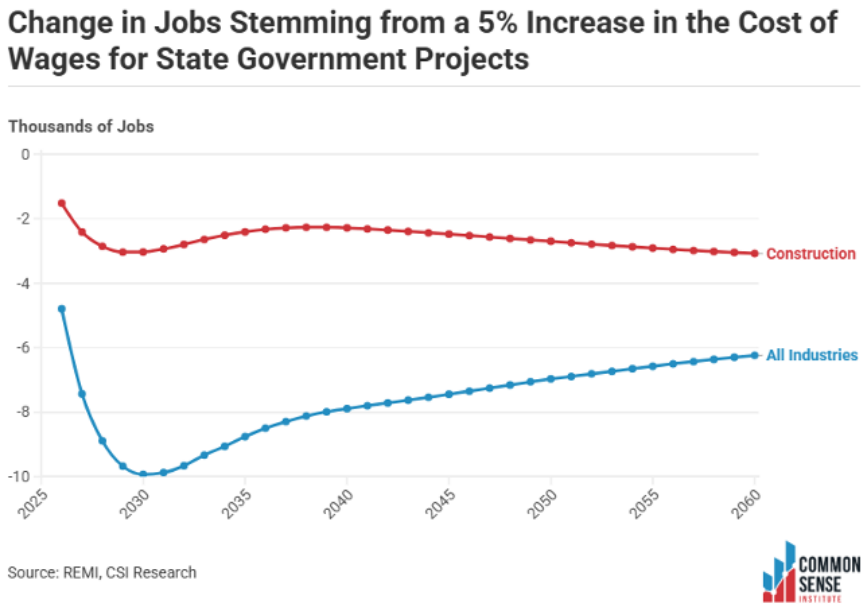
| PLA Impact (Difference = Cost with PLA - Cost w/o PLA) | | | |
|---|---|---|---|
| Comparison Measure | Minimum Difference | Average Difference | Maximum of Difference |
| log of Total Cost | -0.015 | 0.069 | 0.206 |
| Per Square Foot | 6 | 59 | 121 |
| Total Cost | -42,840 | 2,232,476 | 9,638,659 |

## The Economic Impact Should Construction Costs Rise 5% and 10%, Respectively

On balance, mandating PLAs for state construction projects will likely raise project costs. To estimate the impact on Oregon's economy, CSI applied a 5% and 10% wage increase for the construction sector using Regional Economic Models Incorporated's (REMI) economic multiplier system.

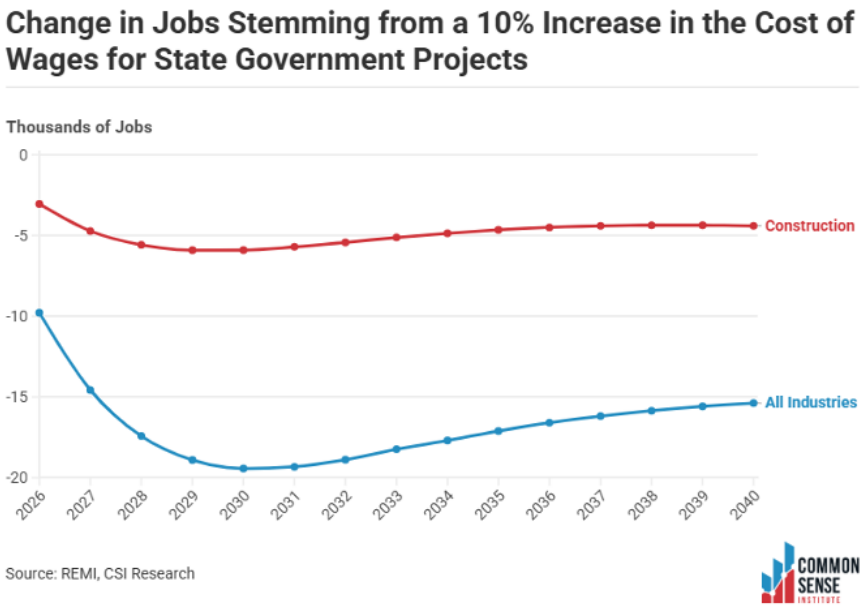
- As Figure 2 shows, a 5% increase in construction-related wages would result in 9,930 fewer jobs in the state by 2030 and 7,888 fewer jobs by 2040.

**FIGURE 2**



- As Figure 3 shows, a 10% increase in construction-related wages would result in 19,434 fewer jobs in the state by 2030 and 15,381 fewer jobs by 2040.

**FIGURE 3**




## Requiring Projects to be Aligned with PLAs May Decrease Funding Available for Schools and Healthcare in the Coming Years

If wages for state construction projects were to increase 5-10%, it will raise the costs of state-funded projects. That outcome could force budget adjustments. Indeed, in some cases, governors have explicitly acknowledged these impacts. For example, California's Governor Gavin Newsom vetoed[xix] a 2023 bill mandating PLAs on certain projects because he was worried **new PLA requirements could impose unbudgeted cost pressures and divert funds from essential services.**

These worries have played out in fact. Boston's "Big Dig," a project that used a project labor agreement (PLA), which suffered massive cost overruns partly due to higher labor and materials costs, left "a gaping financial hole in the state's transportation budget" for years[xx] Massachusetts had to absorb those overruns through heavy borrowing and by shifting future transportation funds to debt repayment, illustrating how higher construction costs can lead.

In other scenarios, instead of increasing overall budgets, states simply **got less infrastructure for the same money.** Los Angeles' Proposition HHH affordable housing program provides a cautionary example: a PLA requirement raised construction costs by about 14.5%, or $141 million, resulting in 800 fewer housing units than projected. When construction wage costs rise, states have either injected more funding to keep projects on track or "shifted" the budget to downsize the project scope.[xxi]

## Changes in Infrastructure Spending Share Amid Rising Labor Costs

Historically, infrastructure spending as a share of state budgets has **declined when construction costs rise** and other priorities demand funds.

Over the past several decades, the portion of state and local expenditures devoted to infrastructure has **declined significantly,** from about 9% of spending in the late 1970s to roughly 6% by 2021.[xxii] High inflation in the 1970s and early 1980s, which contributed to soaring labor and material costs, squeezed capital budgets. Indeed, state and local capital investment fell sharply as a share of budgets during that period[xxiii] as governments struggled to keep up with rising costs while maintaining other services.

The fact is that when construction prices climb faster than revenues, states **do not proportionally increase infrastructure funding,** causing infrastructure's share of the budget to stagnate or shrink. Additionally, when states focus more on priorities like education, healthcare, and pensions, which are politically harder to cut, they simply defer or scale back projects, effectively reducing infrastructure investment relative to the total budget.

Only recently, with large federal infusions from federal legislation like the 2021 Bipartisan Infrastructure Law, has this trend reversed slightly. State and local capital spending share jumped by about 1.6 percentage points in 2021-22, the biggest rise since 1979.[xxiv]

## Which Budget Sectors Absorb Higher Construction Costs?

When state-sponsored construction projects grow more expensive due to wage increases or other factors, the **impact is usually felt within the capital project sector itself,** though indirect effects can ripple through other areas. In practice, the specific agency or sector running the project typically absorbs the cost increase by adjusting its own plans. For instance, a transportation department like Oregon Department of Transportation (ODOT) facing higher highway construction bids might delay or cancel lower-priority road projects, trim project scopes, or dip into its reserve funds rather than immediately pulling money from unrelated programs. Indeed, ODOT warned its highway program was financially strained even before new PLA wage mandates, and argued requiring PLAs would make already unaffordable projects "10% to 20% more expensive."[xxv] With limited revenues, ODOT indicated it would have to consider severe measures, even layoffs and service reductions, to balance costs.[xxvi] In other words: ODOT told the government the transportation sector would have to absorb the pain through internal cuts and fewer projects.

Of course, if the cost surge is large and a project is a high priority, state policymaker may inject general funds or emergency appropriations to cover the gap. In those cases, since money is finite, **other government priorities may indirectly bear the burden.** High-cost infrastructure can crowd out funding that might have gone to schools, healthcare, or housing programs. Indeed, when vetoing PLAs, Governor Gavin Newsom underscored this trade-off: he noted enacting a costly mandate not planned in the budget could force "deep program cuts" to vital services like education, healthcare, and public safety in order to keep the budget balanced.[xxvii] Similarly, in the context of affordable housing, higher construction wages mean housing agencies can build fewer units with given funds. Portland, Oregon has provided a concrete example of this outcome: the city exempts some affordable housing projects from state prevailing wage rules specifically because **paying the higher wages would shrink the number of units the city can produce.**[xxviiII] In 2018, one nonprofit developer nearly had to abandon 189 affordable apartments until an exemption was found, illustrating that, without relief, the housing sector would have absorbed the cost by sacrificing those units.[xxix]

Oregon's **General Fund and Lottery Funds supported debt capacity is already nearing its limit.** As of the 2024 session, the state had $65.8 million in General Fund debt capacity left and $27.4 million in Lottery Funds debt capacity for the remainder of the 2023-25 biennium. If PLA requirements increase construction costs, it could further strain the state's ability to fund necessary projects.[xxx]

# THE BOTTOM LINE

Project Labor Agreements establish uniform employment terms and include workforce development goals, but their broader implications depend on factors such as industry dynamics, contractor participation, and cost management.

Research suggest PLAs may influence both project costs and contractor competition. While some studies highlight potential benefits such as clearer labor terms and workforce development opportunities, others raise concerns about cost increases and the impact on nonunion and small contractors. The mixed evidence regarding PLAs underscores the complexity of assessing them since outcomes vary based on existing labor laws, market conditions, and project characteristics.

Oregon's fiscal constraints add another layer to this discussion. With General Fund and Lottery Fund debt capacity already limited, the potential for increased project costs may lead to difficult funding decisions. If construction costs rise, Oregon may have to prioritize projects, adjust spending allocations, or reconsider how resources are distributed across sectors.

Ultimately, how PLAs play out in Oregon will depend on their implementation and the state's ability to navigate workforce needs, cost pressures, and long-term infrastructure planning. Continuous evaluation, transparent reporting, and adaptability will be crucial in assessing whether PLAs meet their intended objectives without introducing unintended constraints on the state's budget and construction industry.

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