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An Open Letter to the California Legislature re: Clean Air Legislation

By Matt Stevens

I have spent time in your state in the 80's building two projects, one in Oxnard and one in Westlake Village. I continue to have contact with your state through my management consulting work with construction contractor clients. I only work with these types of firms. This allows me to offer what I believe to be a deeper insight into the potential effects of any law or proposed regulation on construction companies than a general business consultant.

I am aware of the clean air initiative in California. It is the kind of direction worthy and needed by all regardless of nation, ethnicity, or profession. However, I want to voice my opinion about its potential impact on our important industry. This is not about the need for this insightful legislation but, about its unfair impact for construction contracting companies.

Construction companies are analogous to the family farm. There are more owner / operator and closely held firms in construction than any other kind. Of all construction firms, most are owned by individuals and / or families and operated by the same in many cases. These people rely on construction income and thus, profit to insure their financial futures.

Families working together in the construction industry have a healthy social consequence making family relations closer, local and long term. To ignore this fact is to be unobservant of the quality of a good society.

Nearly all California Construction Companies are home grown, will stay in California and will continue to be an "insitu" industry to your leading state. Economic winds will blow some industries across the world but, construction companies (and their sister demolition firms) will not be exported. They will stay local and thus, important to California's economy.

Information provided by Risk Management Associates (RMA) deserves careful consideration. We are using Annual Statement Studies – Financial Ratio Benchmarks / 2005 – 2006. This publication is a statistical compilation of source documents furnished to banks and other lending institutions. It is information in which we can be statistically confident.

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The average profit before tax for contractors is currently less than 5%. As a breakdown:

- Heavy / Highway Contractors (composite of multiple NAICS) 2.6%
- Site Preparation Contractors (NAICS 238910) 3.3%
- Highway, Street and Bridge Construction (NAICS 237310) 3.3%
- Other Heavy and Civil Engineering Construction (NAICS 237990) 3.8%

As shown above, there is very little room between profit and loss. Construction contracting is not a generous business. If demands of the new legislation are sudden, thoughtless and otherwise unfair, then bankruptcies are certain to rise (construction is the second riskiest industry currently). Subsequently, costs to Californians will rise in governmental and business costs in among other things, uncompleted contracts, uncollectible debt and business expansion delays.

Most construction is built by small business. According to RMA, approximately 65% of all construction companies have 10 employees or less. These are not large faceless enterprises but, ones comprised of a few individuals who are working as a team and who are impacted greatly with changes. These small businesses may be unfairly treated by the implementation of the regulations. I strongly feel care should be taken in the formulation of these rules.

We don't debate the need for clean air and in essence, the health prospects of the citizens of California. We do debate the unilateral burden that the preliminary legislation places on construction company owners and their families.

Matt Stevens is management consultant to construction contractors. He has been doing so since 1994. His book, Managing a Construction Firm on Just 24 Hours a Day was published by **McGraw Hill** in 2006. His second book, The New Business Model for Construction Contracting is planned for December, 2007. His firm, Stevens Construction Institute, Inc. is located at www.stevensci.com. Matt's email is mstevens@stevensci.com.