

**TESTIMONY  
OF**

**Geoffrey Tahuahua  
President, Associated Builders and Contractors of Texas**

*before the*

**COMMITTEE ON FINANCE  
TEXAS STATE SENATE**

**Interim Charge**—Inflation: Review and report on the effect inflation is having on the business community and state government, including state salaries, retiree benefits, the state economy, and cost of state services.

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Good morning, Chairwoman Huffman, Vice-Chair Hinojosa, and distinguished members of the Committee. My name is Geoffrey Tahuahua, and I am here on behalf of the Associated Builders and Contractors of Texas. ABC Texas is comprised of over 1,700 members across the state and represents all specialties within the Texas Construction industry including the industrial and commercial sectors.

We would like to begin by first thanking the Committee for inviting ABC Texas to testify on this important manner. As we are all working to adapt to this new post pandemic reality, our industry has been on the frontlines of this crisis and are very familiar with the challenges that it has presented.

Our national association periodically release two indicators to help us understand how the industry feels about the economy.

The Construction Backlog Indicator which reflects the amount of work that will be performed by commercial and industrial construction contractors in the months ahead, reported on April 12 (Exhibit A) that the CBI had increased to 8.3 months in March.

This information is generally good news because it signifies that as projects continue to be completed there is work available for them to move onto. In Texas, we were fortunate enough to have construction deemed essential, so we were able to avoid a complete shutdown here in Austin and construction sites across the state continued to work safely through the pandemic. This meant that we didn't see as many project cancellations during the pandemic, but we did see some delays, most of which were

due to financing concerns or a retooling of the project itself. For example, in one project we saw a major company rework the floor plates and ventilation system in their new office building to ensure smaller groups of employees congregating to prevent any wide spread of future illnesses. This led to a slight delay of the project, but the project is now nearing completion and only a few months delayed.

The other indicator is our Construction Confidence Indicator (Exhibit B). This indicator measures the industry's confidence in items like Profit Margins, Sales Expectations, and Staffing Levels. This indicator saw a slight decline, but our economist believes that given the significant construction backlog, and the fact that all three indicators remain above the 50% threshold, the decrease in confidence has more to do with long term uncertainty, not the next 6-8 months.

Going forward, one of main challenge for our industry will be the continued rise in costs for materials as well as their availability.

Take plywood for example. In construction we measure by "thousand board feet" for estimating purposes. In 2016, the price for a thousand board feet of plywood was about \$240. Pre-pandemic, in January 2020 it was at about \$400.

During last year's peak over the summer, the price per thousand board feet was over \$1,500. Now it appears to be holding around \$1,000, but the volatile nature of this commodity is sending ripple effects throughout the industry. But it's not just this material, but everything from conduit, to concrete, to tiles, and toilets that we are seeing an increase.

This has forced our industry to have to adapt our contracts with our clients in a few different ways:

**Passing all the price increase to the owner.** In this instance, there is usually a provision that states that the owner is responsible to cover the cost all price increases. In some instances, a price is also quoted for certain materials and then it states that if the owner doesn't act within a certain time frame, then they will be responsible for any price increase.

**Contingency.** This has always been a common practice where we build a contingency into the overall budget of the project. The difference is that the overall cost to do the project has increased substantially due to this contingency number going up and that tends to fluctuate greatly.

**Advance Deposits.** In this system, the owner agrees to advancing funding for the purchase of specific materials that you believe will be subject to price escalation. It also provides an incentive to suppliers to hold their price to certain levels by providing them a guaranteed order.

We've also seen instances where contracts are phased to deal with the price escalations. This is largely because any project longer than 12 months will likely see substantial increases. In this structure, the contract may be broken into three or more phases where the owner agrees to pricing and cost for the initial grading and site work, then a second contract will be drafted for the construction of the physical building with new pricing and costs, and finally a third contract for the final finish out and turnover.

I would be remiss if I did not also mention the continued shortage of construction labor. Texas is very fortunate to have a strong and diverse economy, however that also means that all our industries are competing for the same people in the labor pool.

Our national association estimates that the construction industry needs 650,000 additional workers to keep up with demand (Exhibit C). In Texas, this equates to tens of thousands of job openings we have, but very few people to fill them. Last year at a large manufacturing project, it was estimated that at that one site, there was a shortage of over 300 electricians. This shortage existed before the pandemic, but due to the recent events of the last two years, this problem has only been exacerbated. More must be done to help fill the gap of this shortage of skilled workers, and ABC Texas stands committed to help facilitate this however we can.

All of this points to one key item of importance: flexibility. If there is anything that the pandemic has taught our industry, it's the importance of being flexible and learning to adapt as fast as possible in an ever-changing environment. Unfortunately, this could present a challenge for future construction contracts for the State of Texas and should be examined. The state will not be insulated to the rising materials costs or the ongoing labor shortage. If state construction contracts do not allow for flexibility for price escalation or a contingency to cover the costs, then this will likely lead to fewer companies willing to bid or work with the state on their projects. This will mean the overall costs for projects will go up even more than necessary and will be a greater cost to the taxpayer. This flexibility is especially critical on infrastructure projects where the materials can sometimes be more difficult to acquire, or the price fluctuation is greater.

Thank you again for this opportunity to speak with you today. I'm happy to answer any questions you may have.

## **CONTACT INFORMATION**

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## EXHIBIT A



### Construction Backlog Indicator

|                            | Mar. 2022  | Feb. 2022  | Mar. 2021  | 1-Month Net Change | 12-Month Net Change |
|----------------------------|------------|------------|------------|--------------------|---------------------|
| <b>Total</b>               | <b>8.3</b> | <b>8.0</b> | <b>7.8</b> | <b>0.3</b>         | <b>0.5</b>          |
| <b><i>Industry</i></b>     |            |            |            |                    |                     |
| Commercial & Institutional | 8.6        | 8.6        | 7.7        | 0.0                | 0.9                 |
| Heavy Industrial           | 6.3        | 6.6        | 8.5        | -0.3               | -2.2                |
| Infrastructure             | 8.2        | 6.3        | 8.3        | 1.9                | -0.1                |
| <b><i>Region</i></b>       |            |            |            |                    |                     |
| Middle States              | 7.5        | 7.7        | 7.3        | -0.2               | 0.2                 |
| Northeast                  | 8.6        | 6.9        | 8.1        | 1.7                | 0.5                 |
| South                      | 9.7        | 9.5        | 8.3        | 0.2                | 1.4                 |
| West                       | 6.3        | 7.8        | 7.4        | -1.5               | -1.1                |
| <b><i>Company Size</i></b> |            |            |            |                    |                     |
| <\$30 Million              | 7.7        | 7.1        | 7.5        | 0.6                | 0.2                 |
| \$30-\$50 Million          | 8.4        | 9.6        | 7.9        | -1.2               | 0.5                 |
| \$50-\$100 Million         | 9.6        | 12.6       | 8.4        | -3.0               | 1.2                 |
| >\$100 Million             | 13.8       | 11.5       | 10.4       | 2.3                | 3.4                 |

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Source: [ABC: Construction Backlog Up, Contractor Confidence Down in March](#)

## EXHIBIT B



### Construction Confidence Index

| Response                           | March 2022 | February 2022 | March 2021 |
|------------------------------------|------------|---------------|------------|
| <b>CCI Reading</b>                 |            |               |            |
| Sales                              | 65.0       | 66.8          | 65.8       |
| Profit Margins                     | 50.2       | 56.2          | 53.7       |
| Staffing                           | 66.1       | 66.3          | 63.7       |
| <b>Sales Expectations</b>          |            |               |            |
| Up Big                             | 10.3%      | 10.6%         | 13.8%      |
| Up Small                           | 55.7%      | 58.4%         | 55.2%      |
| No Change                          | 19.7%      | 19.3%         | 14.4%      |
| Down Small                         | 12.3%      | 11.2%         | 13.5%      |
| Down Big                           | 2.0%       | 0.6%          | 3.1%       |
| <b>Profit Margin Expectations</b>  |            |               |            |
| Up Big                             | 2.5%       | 4.3%          | 4.3%       |
| Up Small                           | 31.0%      | 39.8%         | 36.8%      |
| No Change                          | 35.5%      | 33.5%         | 32.2%      |
| Down Small                         | 27.1%      | 21.1%         | 22.7%      |
| Down Big                           | 3.9%       | 1.2%          | 4.0%       |
| <b>Staffing Level Expectations</b> |            |               |            |
| Up Big                             | 8.4%       | 8.1%          | 7.1%       |
| Up Small                           | 56.2%      | 56.5%         | 49.7%      |
| No Change                          | 27.6%      | 29.2%         | 35.0%      |
| Down Small                         | 7.4%       | 5.0%          | 7.4%       |
| Down Big                           | 0.5%       | 1.2%          | 0.9%       |

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Source: [ABC: Construction Backlog Up, Contractor Confidence Down in March](#)

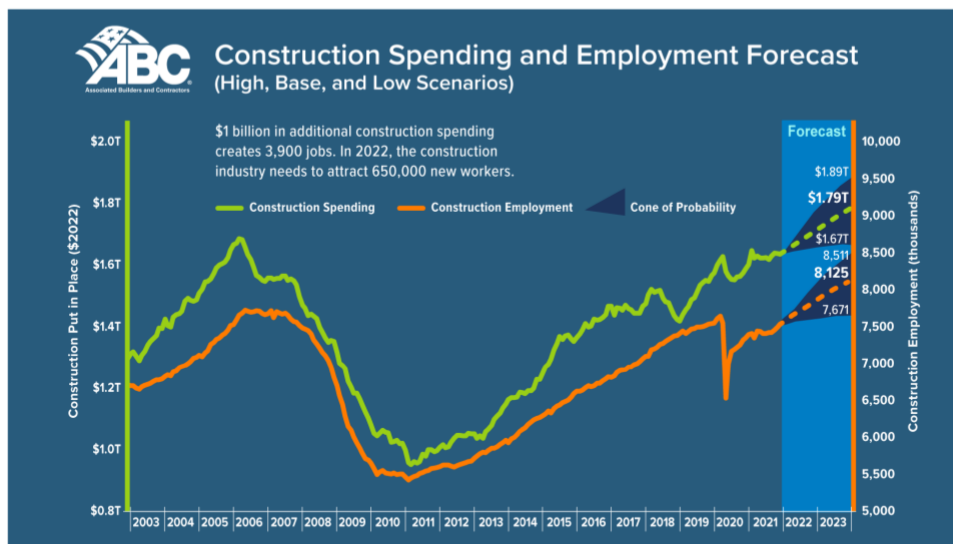
## EXHIBIT C



### ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022

Posted @ Wednesday, February 23, 2022 9:50 AM by Erika Walter | Files in **Construction Economic Update, Employment, Construction Economics, Workforce and Safety, News Release 2022**

**WASHINGTON**, Feb. 23—The construction industry will need to attract nearly **650,000** additional workers on top of the normal pace of hiring in 2022 to meet the demand for labor, according to a model developed by Associated Builders and Contractors.



“ABC’s 2022 workforce shortage analysis sends a message loud and clear: The construction industry desperately needs qualified, skilled craft professionals to build America,” said Michael Bellaman, ABC president and CEO. “The Infrastructure Investment and Jobs Act passed in November and stimulus from COVID-19 relief will pump billions in new spending into our nation’s most critical infrastructure, and qualified craft professionals are essential to efficiently modernize roads, bridges, energy production and other projects across the country. More regulations and less worker freedom make it harder to fill these jobs.”

ABC’s proprietary model uses the historical relationship between inflation-adjusted construction spending growth, sourced from the U.S. Census Bureau’s Value of Construction Put in Place survey, and payroll construction employment, sourced from the U.S. Bureau of Labor Statistics, to convert anticipated increases in construction outlays into demand for construction labor at a rate of approximately 3,900 new jobs per billion dollars of additional construction spending. This increased demand is added to the current level of above-average job openings. Projected industry retirements, shifts to other industries and other forms of anticipated separation are also factored into the model.

Based on historical Census Bureau Job-to-Job flow data, an estimated 1.2 million construction workers will leave their jobs to work in other industries in 2022. It is expected that this will be offset by an anticipated 1.3

million workers who will leave other industries to work in construction.

"The workforce shortage is the most acute challenge facing the construction industry despite sluggish spending growth," said ABC Chief Economist Anirban Basu. "After accounting for inflation, construction spending has likely fallen over the past 12 months. As outlays from the infrastructure bill increase, construction spending will expand, exacerbating the chasm between supply and demand for labor.

"An added concern is the decline in the number of construction workers ages 25-54, which fell 8% over the past decade. Meanwhile, the share of older workers exiting the workforce soared," said Basu. "According to the Centers for Disease Control and Prevention, the industry's average age of retirement is 61, and more than 1 in 5 construction workers are currently older than 55.

"The scarcity of qualified skilled workers is an even more pressing issue," said Basu. "Since 2011, the number of entry-level construction laborers has increased 72.8%, while the number of total construction workers is up just 24.7%. For reference, the number of electricians was up 23.9% over that span while the number of carpenters actually declined 7.5%. The number of construction managers has increased by just 2.1%. More than 40% of construction workforce growth over the past decade is comprised of low-skilled construction laborers, who represent just 19% of the workforce.

"The roughly 650,000 workers needed must quickly acquire specialized skills," said Basu. "With many industries outside of construction also competing for increasingly scarce labor, the industry must take drastic steps to ensure future workforce demands are met."

In 2023, the industry will need to bring in nearly 590,000 new workers on top of normal hiring to meet industry demand, and that's presuming that construction spending growth slows next year.

"Now is the time to consider a career in construction," said Bellaman. "The vocation offers **competitive wages** and many **opportunities** to both begin and advance in an industry that builds the places where we work, play, worship, learn and heal. ABC member contractors use flexible, competency-based and market-driven education methodologies to build a construction workforce that is safe, skilled and productive. This all-of-the-above approach to workforce development has produced a network of ABC chapters and affiliates across the country that offer more than 800 apprenticeship, craft, safety and management education programs—including more than 300 government-registered apprenticeship programs across 20 different occupations—to build the people who build America."

[Click here](#) to view ABC's methodology in creating the workforce shortage model.

Source: [ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022](#)