



Maryland Chapter
National Electrical Contractors Association



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February 15, 2022

Dear Chair Guzzone and members of the Senate Budget & Taxation Committee:

On behalf of the Maryland Chapter of the National Electrical Contractors Association (NECA), I write today to express our strong support for Senate Bill 507, requiring procurement contract for construction to include a clause providing for contract modification when there's a substantial increase in the price of materials.

Maryland NECA represents 75 construction contractors, some 2,000 workers and over 400 working apprentices. Our economic footprint throughout the region is substantial, generating some \$300 million in annual revenue, and some \$50 million in state, federal and local taxes each and every year.

Maryland NECA strongly supports Senate Bill 507 because the volatility of prices for material in the construction industry has increased exponentially since the outbreak of COVID-19 and the contractor is the one who must bear the brunt of the increased cost.

In construction, generally, the most stable and predictable part of bidding a project is the cost of material; however, since COVID-19, the cost of material has fluctuated greatly due to increased cost in labor to produce and manufacture the construction material, shipping and processing delays, as well as the inflated market for the material because of the high demand. For these reasons, the cost of essential building material has increased beyond what anyone could predict.

In a study conducted by the Bureau of Labor Statistics to determine, "Construction input and 'Bid Price' producer price indexes (PPIs)," between August 2020 through August 2021, bid prices rose only 5% over 12 months with eight (8) of those months with zero to minimal increase. In contrast, the cost of contractors' purchases soared as high as 23% over the same interval. In other words, if a contractor submitted a fixed-price bid in August 2020 based on materials costs at that time but did not buy the materials until a year later—a common occurrence—their cost for the materials would have risen an average of more than 20%. Given that materials often represent half or more of the cost of a contract, such an increase could easily wipe out the profit from a project and potentially put the contractor out of business.

According to the same study, the change in PPIs from August 2020 to August 2021 for six widely used materials showed that the index for copper increased 45%, the PPI for aluminum increased 35%, plastic construction products have increased by 30%, and the cost of steel has increased a staggering 123%. Accordingly, contractors whose purchases are weighted toward any of these broad classes of materials are likely to have experienced even greater total increases in costs than the overall PPI for inputs suggests.

Senate Bill 507 is critical for the members of NECA and any contractor in the construction industry by making sure that when a dramatic increase in material cost occurs which is both, unforeseen and "out of the hands" of the contractor, they have the ability to reprice the increase in construction material in order to remain profitable on an already bid project.

For these reasons, Maryland NECA supports Senate Bill 507 and asks for a favorable report.

Sincerely,

A handwritten signature in black ink that reads "William Yull". The signature is written in a cursive style with a large initial "W" and a distinct "Yull" at the end.

William Yull
Executive Director
Maryland Chapter, NECA