



“THE IMPACT OF RISING GAS PRICES ON AMERICA’S SMALL BUSINESSES”

TESTIMONY OF TIM WILLIFORD

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES  
HOUSE SMALL BUSINESS COMMITTEE  
SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT

April 9, 2008

10:00 a.m.

Room 1539, Longworth House Office Building

The Honorable Jason Altmire (PA-4), Chairman  
The Honorable Louie Gohmert (TX-1) Ranking Minority Member

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## **“The Impact of Rising Gas Prices on America’s Small Businesses”**

Good Morning. Thank you Chairman Altmire, Ranking Member Gohmert and Members of the Subcommittee, for the opportunity to speak to you today regarding rising fuel prices and the impact this is having on small business.

My name is Tim Williford and I appear before you today as a small business owner and a representative of the over 4000 member companies of the Plumbing-Heating-Cooling Contractors – National Association. I currently serve as Vice President of Finance and Administration for Southern Piping Company, a mechanical contractor founded by my father over 40 years ago in Wilson North Carolina. I also serve as the Chairman of the Government Relations Committee of the PHCC (Plumbing-Heating-Cooling Contractors National Association). PHCC is the oldest trade association in the construction industry and as I mentioned represents over 4000 Plumbing-Heating-Cooling Contractors from around the country, the majority of whom are small business owners.

Anyone who has built or helped to operate a business, particularly a small business, can tell you that it is not an easy proposition. This axiom has never been more true than today. Remaining profitable has become increasingly difficult with the rise in fuel prices that we are currently experiencing.

The construction sector accounts for approximately five (5%) percent of the country’s gross domestic product (GDP) and, roughly, the same proportion of the nation’s employment. Unfortunately, the recent slowing of the economy has had a profoundly negative impact on all aspects of the nation’s construction industry. Data for February showed a decline of .3% in construction spending, making it the fifth straight monthly decline in our industry.

As a result, contractors are searching for ways to trim their overhead costs. These efforts are complicated by the steady increase in gas prices with which contractors are forced to contend.

Over the course of the last few days, PHCC solicited the comments of our members regarding the impact of fuel prices on their operations. The response from our membership was overwhelming. Over 90% of the respondents said that their businesses will suffer this year because of increased fuel costs.

In the past, many service contractors have chosen to add a “fuel surcharge” to their invoices in an effort to offset rising gas prices. Others have simply tried to pass the increases on to consumers in the service billing itself. In either case, my opinion is that consumers have probably reached their limit in terms of paying for the increased costs of contractors.

Indeed, service contractors responding to our query provided us with thoughtful insight. One contractor informed us that in 2005 the service fee they charged customers was \$78; in 2006 that was increased to \$85. They have held their service fee at \$85 for the last 15 months, however an increase will probably be necessary very soon. They would prefer not to increase their prices as to do so would put them at a competitive disadvantage. This contractor notes that they have long standing relationships with their customers and realize that they, too, are dealing with increased costs themselves and don’t want to burden them anymore than necessary.

Another PHCC member cited spending \$47,000 in 2005 on gas and oil for a fleet of 16 trucks. In 2006, they spent \$62,000 and \$70,000 in 2007. At the current rate they expect to spend about \$88,000 this year. They have only budgeted \$66,000 for 2008. Rising gas prices will siphon off \$22,000 from the bottom line unless they pass along that increase to customers.

For contractors engaged in construction, the installation of plumbing and mechanical systems, gas prices pose a particular risk. For projects that last for a year or more, contractors must make an informed estimate as to what prices may be in 12 to 15 months. Contractors build this price into their projected overhead costs for a project. However, if the price goes above what they have estimated, they are forced to absorb the cost which can cause a tremendous financial strain. If the price is less, they are able to enjoy a slight profit. It is the proverbial crap shoot.

A representative sample of our construction members commented on the subject as follows:

“Over the last two years, our company fuel costs have nearly tripled. Our monthly usage in 2006 was \$22,000 per month...it is now \$55,000 per month! This all happening at a time when the downward price pressure of the market won't allow us to raise our prices! That's \$33,000 right off of the bottom line every month...\$400,000 per year!”

Another contractor added

“In January of 2007, our fuel bill was \$13,000.00. A year later our bill was \$20,000.00. The sad news is we were within about 150 miles of the same mileage in that time frame! Translated into per vehicle and per year it is scary. At 72 vehicles it is a change of \$97,000 per vehicle per month. In a year that is a change of \$84,000.00 or 53%.”

The nature of construction means that contractors are usually heavy consumers of gasoline. Even if a contractor's work is mostly local in nature, he or she must still have fuel to power generators, welders, lifts, and other equipment.

At Southern Piping Company, we spent about \$1 million for gas and oil products last year. For 2008, we believe those costs are going to increase by 20% to 40% or between \$250,000 and \$500,000. As you can see, even a small change in the price of gas can have a significant impact on our budget. Indeed, we know that for every rise of ten cents in the price of gasoline, we will incur an additional \$35,000 in overhead.

As a result, we and other contractors are evaluating ways to reduce gasoline consumption. We make every effort to be sure that our vehicles carry full crews to reduce the number of vehicles on the road. We have started using passenger vans to transport some of our crews to jobsites. We are also buying smaller trucks and substituting passenger cars for trucks where we can.

Aside from those measures, our options are limited. Nevertheless, we are considering reducing our contributions to our employees' retirement accounts, increasing the amount that employees must pay for their health insurance, and reducing other employee benefits. These are painful reductions. We have to compete very hard for employees coming from a limited talent pool. One of the ways we compete for those workers is to offer a good benefits package. Rising costs, including gasoline prices, put those benefits in jeopardy.

For example, we recently shelved plans to implement a wellness program for our employees. We have also postponed additional spending on our safety program. We view these initiatives as crucial to our efforts to keeping a safe, healthy, and productive workforce. However, increased fuel prices are forcing us to make a very difficult choice.

In the end, Southern Piping is no different than the rest of PHCC's members and PHCC's members are certainly reflective of small businesses across the country. Gasoline and other petroleum products enable small businesses to remain the backbone of the economy. As gasoline prices climb ever higher, the fortunes of America's small businesses grow more dim, and with them, the fortunes of the economy as a whole.

Thank you for your time and consideration in this matter of mutual interest. I look forward to any questions you may have.