

REMARKS FOR TRANSPORTATION COMMITTEE HEARING

February 8th

- Thank you, Mr. Chairman.
- One of our most important responsibilities as legislators is creating an environment in which all small businesses can compete and thrive.
- Unfortunately, current regulations are preventing many small businesses from competing for state contracts that they are perfectly capable of completing.
- The issue before us today was brought to my attention by a small business owner in my district who was prevented from bidding on a valuable construction project due to the prohibitive cost of meeting PennDOT's financial reporting standards.
- In learning about this issue, I've found out that his problem is not unique. Many small construction businesses throughout the state are finding it increasingly difficult to meet PennDOT's pre-qualifications to bid on projects.
- For the benefit of the members, I would like to briefly explain this problem as it relates to my constituents – to protect their privacy, I will not name them.
- In 2005, the small business was awarded a contract for a 1.7 mile extension of a trail located in my district. The business was required to provide a reviewed financial statement, which they did at a cost of around \$500.
- At the time, the business owner was thrilled to be the only local contractor to have State Prequalification Status and to have the honor to work on such a great project right in his own backyard. He completed the job on time and within budget. In fact, in the 43 years that he has been in business, he has completed every job and never filed for bankruptcy or reneged on a bonding requirement.
- In 2016, another section of this trail came up for bid. Upon renewal of his State Prequalification Status, the business owner was told he would need to again provide a reviewed financial statement.
- However when this business owner attempted to renew his status as a prequalified bidder, he was told that the cost associated with obtaining a reviewed financial statement could cost as much as \$10,000 due to changes in accounting principles.

- Again, that means that over the past 11 years, the cost of meeting PennDOT's qualification to bid on a contract increased from \$500 to nearly \$10,000. There are very few small construction firms that can absorb those kinds of costs.
- Remember: This is the cost associated with his ability to *bid* on a contract, and there were no assurances his proposal would be selected. For a small company, such an increase represents a barrier to entering the bidding process that, I believe, will be significantly dominated by larger firms that are able to absorb such a cost.
- That's not good for small businesses, and that's not good for the taxpayers who are asked to fund these projects.
- Together, we discussed the need for changes in law that modernize the financial statement requirements for road projects up to a threshold of \$1 million. Specifically, my proposal exempts these small construction firms from certain financial statement filing requirements by requiring them to submit a "compiled" versus "reviewed" financial statement in order to be qualified as a bidder. These types of statements would be less restrictive and less expensive for small firms, than those required of larger firms that work on more costly projects.
- Making accommodations to certain businesses bidding on state contracts is not a novel idea. Right now, state procurement law recognizes the value and importance of women and minority owned businesses which are given certain advantages when bidding on a state contract. My legislation simply asks for this same recognition to be afforded to our state's small businesses in the limited context of PennDOT construction projects under the modest threshold of \$1 million.
- Unfortunately, my constituent was unable to be with us this morning, but I would like to share with you his recent correspondence with me:
 - "We really appreciate the invitation to participate in the process, however, as we are a very small business (two people at this point), it is not possible to give up a couple of work days to come to Harrisburg. It has already cost us \$475 to have our accountant exchange emails with your office on this issue. Also, the job (i.e. trail in the district) for which we would need PennDOT's Pre-Qualification as a contractor will be coming out for bid in the next few weeks. Since the requirement for the compiled versus the reviewed financial statement for smaller contractors has not been changed, we will not be able to apply for Pre-Qualification Status in time to bid on this job. Note: The last job of this type that

came out was in 2004. I doubt there will be another bidding opportunity in our area any time soon.

- As business has been abysmal this past year (we typically bid on over ten jobs and were out bid by larger, and in some cases out of state, businesses), we are considering putting our business of 43 years up for sale. Sadly, we will not benefit from your efforts but perhaps other small businesses in Pennsylvania will.”
- Again, thank you Mr. Chairman. I look forward to the testimony that will be shared this morning.