

Summary of Testimony by: Mark Wilhelms
Vice President of Architectural Sales, Midwest Block & Brick
Former Chairman (2011) of National Concrete Masonry Association

Hearing before: Subcommittee on Commerce, Manufacturing, and Trade
“Our Nation of Builders: Home Economics.”
Tuesday, June 4, 2013, at 10:00 a.m.

Mr. Wilhelms represents Midwest Brick Block

- Family-owned business with 275 full-time employees at 21 facilities in MO, KS, OK, AR and IL
- Recession impact: loss of 100 employees (27%), sales revenues down 43%.
- Manufactures concrete block, retaining walls, and paving stones for residential and commercial construction markets. Since 1940.
- A “Hometown USA” business. Due sheer product weight, Midwest sources local sand, gravel and cement to produce at local plants concrete masonry products that are transported by local truckers for use by local mason contractors who hire local masons to build local homes and infrastructure owned and enjoyed by the local public.

Concrete Masonry and Residential Construction

- Residential construction is a principal market for concrete masonry products.
- Other principal markets are driven by residential markets – schools, hospitals, fire stations, libraries, community centers, churches, retail centers, etc. These also impacted by downturn.
- Products serve both functional and architectural home construction roles: basements, foundations, safe areas, walls and firewalls, stairwells, patios, sidewalks, driveways, retaining walls, decorative exteriors, fireplaces and chimneys.
- “Functionally resilient.” Concrete masonry systems produce strong and durable structures that provide protection in natural disasters and achieve energy efficiency and sustainability objectives.
- Concrete block manufacturing is dominated by small producers that operate in all 50 states. The downturn has accelerated consolidation and plant closures, closing nearly half of family-owned plants over last 20 years.
- Concrete masonry is a commodity product with low profit margins, effectively limiting the ability to brand products and support needed investment in research, education and promotion.

Legislative authorization needed for our industry to help itself

- “Concrete Masonry Products Research, Education, and Promotion Act of 2013” (H.R.1563), introduced by Mr. Guthrie of the Subcommittee and Ms. Castor of the full Committee, would give the concrete masonry industry the (required) federal permission to assess itself to research, educate and promote concrete masonry technologies for the good of the American public.
- Commodity nature of the concrete masonry industry makes this commodity check-off approach the most effective means of achieving objectives.
- This program would require no financial investment from the federal government.
- The program would be funded by and managed by nominated and appointed representatives from the industry with minimal government involvement - oversight only by a reimbursed Department of Commerce.
- The legislation does not create the program, rather provides the opportunity for the industry to implement (and if necessary subsequently terminate) through referendum.

Closing comments:

- As small business in construction market, we desperately need the housing industry to rebound. This protracted downturn has hurt us and others dramatically.
- We request this committee and Congress to help businesses address availability of lending capital, burdensome liability protection and legal expenses, and dramatic increases and uncertainty of health care costs.
- We request support in the pursuit of our check-off initiative, to help ourselves as the economy slowly recovers.

Testimony of Mark Wilhelms

At Hearing of “Our Nation of Builders: Home Economics” – June 4, 2013

Of the House Subcommittee on Commerce, Manufacturing, and Trade

I am Mark Wilhelms, VP of Architectural Sales for Midwest Block & Brick Inc. and am testifying on behalf of the National Concrete Masonry Association. I am pleased to offer this written testimony for today’s discussion on home building within the United States.

Like the majority of concrete block producers, our company’s beginnings started with the production of concrete block to build basements and homes for builders in St. Louis, Springfield and Jefferson City, Missouri in the mid 1940’s. As the demand for homes grew over the next twenty years, so did our original companies. The demand for homes created jobs in the local communities where we started. This same residential construction cycle has led every growth our company has experienced throughout our 67 year history. Like many associated with the construction industry, we have contracted greatly with the housing downturn, and without a strong residential housing sector, our potential to grow and re-hire employees will be nominal over the next few years.

Midwest Block and Brick manufactures concrete block and several types of concrete retaining walls and concrete paving stones for the residential and commercial construction markets. In addition to the products we manufacture, we serve as a distributor for clay brick, stone and most of the accessory items that complement the installation of the materials. We sell these products directly to mason contractors, builders, landscape contractors, local specialty dealers, national supply chains as well as retail trade customers.

Midwest Block & Brick, currently based in Jefferson City, Missouri, operates 21 separate facilities in Missouri, Kansas, Oklahoma, Arkansas and Illinois. To operate our production and sales facilities, we employ over 275 full time employees. Despite rosy construction forecasts, our sales over the past few years have remained relatively flat at around \$68,000,000.

This current status compares poorly to our peak sales volume and highest number of employees that we experienced when the housing sector was at its strongest in 2004-2007. From a historical perspective, we employed approximately 400 people and had sales near \$100,000,000 at our peak. Simply put, we provide a vivid example that a growing housing sector generates local job opportunities.

My employment with our company spans 27 years. I began working at F. F. Kirchner Inc. when I graduated from college with my B.S. Degree in Business Management from Missouri State University. With a strong family tradition in construction, I knew I wanted to be involved in the construction industry and found the “Small Business Values” at F.F. Kirchner to be similar to my own standards. Seven years into my employment I met and married the granddaughter of the company founder, Frank Kirchner. My wife, Karen, is the daughter of Dale Kirchner who was a co-owner at that time with Ron Ohmes, who was also Frank Kirchner’s son-in-law. Spending the following 20 years growing with the family company I’ve learned to appreciate the real value that family-run, small businesses add to our local economy. Midwest Block & Brick today remains a family owned company lead by Patrick Dubbert, Michael Farmer and Elliot Farmer families. The “Small Business” values that were present in the past remain as a strong foundation for how our company operates today.

One value instilled in me throughout my employment is a commitment to support the industry as a whole. Locally in St. Louis, I am a past president and member of the Construction Specification Institute, past

chairman of the Missouri Concrete Masonry Council and involved with industry promotion at the Masonry Institute of St. Louis. Nationally, I have been active on many committees at the National Concrete Masonry Association and served as the association Chairman in 2010. (In fact, I was the fourth person from our company to act as Chairman for NCMA. Dale Kirchner 1986, Ron Ohmes 1993 and Pat Dubbert 2002.)

It is as a representative of the industry that I submit my testimony to the Subcommittee today. The evolution of our company is representative of many companies that remain in business producing concrete block and other products today. The depressed building industry has suffered greatly over the last six years. Within our company, this recession has led to ownership changes within our company and many other producers throughout the U.S. Within the past six years, the ripple effect of the banking industry has made it very difficult to operate. Wildly fluctuating asset values have forced ourselves and many others to spend money on attorney and professional fees as we are required to review processes for bank refinances. And changing health care costs which once averaged 10% of typical compensation, are now averaging 20%+ and will be a growing challenge as we operate in the future. Efforts by this committee to support a strong housing industry will be important to our growth in the next few years.

I would also like to address some specifics about the products that our company manufactures and the value of those products to our homes and communities. Specifically, I would like to address the one product that dominates our production volume: concrete block. Many still refer to this product as "cinder block," a term which harkens back to days when it was once manufactured from lightweight cinders that were a by-product of coal combustion. The concrete block is ubiquitous, and has had an instrumental role the building of America.

Like most products, the concrete block has evolved in both its manufacturing and its use: new shapes, new materials, new architectural colors and textures. But, in many ways, the traditional gray concrete block continues to have relevance in the building of America today.

Concrete block and related concrete products are used in many different ways within residential construction. They are used to: build basements and foundations; create outdoor living spaces; achieve decorative sidewalks and driveways; expand and enhance properties through the use of retaining walls; decorate and protect the exterior of homes with manufactured stone and brick veneers; craft fireplaces and chimneys; provide firewalls and stairwells for multi-family buildings; and serve as a structural load-bearing walls in single-family homes and multi-family structures.

The impact of a declining or rising residential market deeply affects not only us, but also many other companies and individuals in our geographic markets both upstream and downstream.

We estimate that for every dollar of revenue that we collect on the sale of a concrete product, it generates at least \$ 9 in revenue across all of our partners that are engaged in the stream of bringing these products to market and installing them: our suppliers of raw materials used in the manufacture of the product; the equipment and services providers that keep our plants running; our transportation providers that deliver both raw materials and finished products; the contractors and craft workers that install our products.

And it is important to note that concrete masonry is not only an American industry, it is a LOCAL industry. Concrete block are manufactured locally (typically within 50 miles of the construction project), using locally extracted plentiful raw materials, and installed by local masons. Where is local? Today there are approximately 350 concrete block manufacturing companies operating about 600 plants across America. Our industry has a manufacturing presence in every state of the country and likely within most of the

districts of the members of this subcommittee. Those plants, our customers, and our suppliers are also local constituents.

While we have focused on residential construction today, it is also important to acknowledge that our industry is also engaged greatly in other sectors of construction that are so heavily tied to the success or failure of the homebuilding industry. New development brings the demand for other construction such as schools, retail, community centers, fire stations, and more. In 2012, over \$10 Billion dollars was invested nationally in the construction of new schools, additions, and renovations. While this is a very large number, consider that it is approximately half of the \$20 Billion average from 2000-2008. Most of these schools are constructed using concrete masonry as a primary building material. As such, declining school construction means further declining business and jobs for us as well.

Concrete masonry inherently possesses many advantages to support needed performance objectives for the homes and structures in which it is used. It's strength and permanence are becoming increasingly valued for providing protection against storms such as hurricanes; its impact resistance makes it ideal for the construction of safe rooms for protection against tornados; it is a material that is less impacted by exposure to water from rains and floods since it will not rot or support the growth of mold; it is not only non-combustible, but it also is used effectively to contain fires from spreading. The investment in "functionally resilient construction" provides not only increased life-safety protection, but also protects property in a manner that enables communities to better function in the wake of a disaster and to rebuild more quickly.

However, despite these material strengths, the future of the concrete block industry is cloudy. Over the past two decades, our industry has experienced a loss of about 300 family-owned concrete block producing companies, nearly half of the all U.S all producers in the U.S. Why? Beyond the natural evolution of

consolidation, I would point directly to the nature of our industry and our product. The ubiquitous nature of the concrete block that I referred to earlier also contributes to our inability to adequately compete in the market place. We operate in a commodity product environment, in which it is impractical to effectively brand concrete block. Over ninety percent of the concrete block manufacturers in our industry operate a small single plant, most of which are family owned. Such companies are not able to generate enough profit on these commodity products and do not have the capital to support efforts needed to properly fund the research, education, and promotion needed for the industry to advance.

Our industry is realistic in our view that the housing decline is not exclusively responsible for the reduction in sales by our industry. The construction industry and the way products are made and installed are changing quickly. More energy efficient building materials, “green” building trends, lower number of workers moving into the skilled trades, education of architects and engineers on the use of longer life resilient construction materials and promotion for our commodity product requires a consistent and substantial level of investment. These issues I have listed are best solved by our own industry working to modify and adapt our products to fit within the changing construction environment.

Because concrete block are not a direct consumer product, the programs supported by this proposed check-off program are envisioned to be directed more towards researching new and better ways to build structures, educating engineers and architects how to best design using the attributes of masonry, and promoting the value of these resulting structures. I expect that we would invest in new ways to incorporate recycled materials into manufacturing; develop more sophisticated computer software design programs to yield state-of-the-art masonry buildings that are more energy efficient, more sustainable, and more cost effective; ensure that future design

professionals are exposed to masonry materials and design strategies before graduating from universities; cultivate an adequate supply of trained craft workers to safely and professionally install masonry products; and support research initiatives to advance provisions within building codes and standards to appropriately reflect the ability for masonry structures to protect life and property and create a more sustainable built environment.

It is for this reason that our industry has solicited the leadership and assistance of Representatives Brett Guthrie and Kathy Castor to introduce bi-partisan legislation in the form of HR 1563, the Concrete Masonry Products Research, Education, and Promotion Act of 2013, to create a commodity check-off program for the concrete masonry industry. The legislation, which has been referred to this subcommittee, would not create the Check-Off program, but simply authorize presentation of the opportunity to the rest of our industry and allow us to conduct a referendum to enact the program. We believe that this approach, which requires no federal resources, is the only way to enable our industry to effectively promote itself and to continue to provide valuable building solutions to the public and to generate the local jobs that will naturally follow.

In closing, I would like to add my voice to that of other panel members that have addressed you today and the voice of our segment of the construction industry to help stress the impact and value that the housing industry has on not only the country's gross domestic product, but also directly on jobs. Our company and our industry sit with production capacity in reserve and we are ready and anxious to support badly needed growth and development to compensate for pent-up demand. We encourage this subcommittee to continue to play its role in supporting policies and legislation that will ultimately stimulate construction growth, stabilize property asset values, free up investment capital, and reduce the cost to operate domestic construction and manufacturing businesses. Thank you for the opportunity to address you.