

# Evaluating the California Contractors State Licensing Exam and Its Relevance to the Construction Industry

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The California contractors licensing exam tests aspiring contractors on their knowledge of the construction industry on other legal and trade topics. This paper is a case study that evaluates the contractors licensing exam and its ability to evaluate contractors. It concludes that the test itself is not responsible for increasing quality due to it being a simple process of memorization, but that California's strict licensing requirements correlate to lower percentages of negative reviews. Various contractors from California were interviewed to understand their opinions of the licensing exam and how the knowledge from the exam related to their time in the industry. The licensing process in California could be improved by revising the exam to better reflect knowledge needed in the construction industry and to better test contractors and their ability to work in the construction industry. These changes would better serve consumers and help to improve standards and increase quality in the California construction market.

**Key Words:** Quality, Licensing, Contractors, Knowledge, Consumers

## Introduction

Becoming a licensed contractor in California is a long process that construction business owners need to complete in order to legally contract for over \$500 in labor and materials. The CSLB has 15 members, five of which are contractor members and ten of which are public members, including a member from a statewide senior citizen organization, a labor representative and a building official. The California Contractors State Licensing Board, or the CSLB, regulates contractors in California and has some of the strictest requirements in the United States. They require a minimum of four years work experience, a licensing exam, a background check, a financial audit, workers' compensation insurance if they have employees, and a surety bond for \$15,000. The CSLB was established in 1929 under the Department of Professional and Vocational Standards and is now under the Department of Consumer Affairs. In June of 2016 there were 223,788 active contractors licensing spanning across 44 different classifications (CSLB, 2016). The current fees for applying for a license are \$330 application fee and a \$200 license fee. Contractors must also pay \$400 every two years for reactivation of their license. These requirements and fees are a burden to contractors entering the construction market and are used as a barrier to unqualified contractors in order to protect the consumers. There are three major classification for contractors licenses Class A General Engineering, Class B General Building, and Class C Specialty Licenses which have 42 different classifications. This paper and the methodology focus on the Class B General Building License and its examination.

The contractors licensing exam is one of the hurdles that aspiring contractors must overcome to become licensed to build in California. The contractors Class B exam consists of two portions, the first is the law and business section and the second is the trade examination. The law and business exam covers subjects such as business organization, business financial knowledge, employment requirements, bonds, insurance, and liens, contract requirements, safety requirements, and public works regulations. The trade examination tests planning and estimating, framing and structural components, core trades, finish trades, and safety. Each section consists of approximately 100 questions and a 70% or higher is needed to pass and be eligible to receive a license. All questions on the test are multiple choice and are written and updated with the help of industry experts.

Occupational licensing, such as licensing contractors, is done to increase quality to the consumers, but when done improperly can cause increases in cost to consumers and still provide little to no increase of quality. A need for licensing contractors in California could be due to a need for asymmetric information on quality or for the benefit third parties who could be affected by a contractors work (Cox, Foster, 1990). Occupations can benefit from licensing if it is difficult for the consumer to evaluate the quality of a service, so licensing sets a standard that all

sellers would adhere to. Licensing is also important in careers like construction that can have a large effect on third parties when building buildings, bridges, or roads. Licensing contractors seek to improve quality but a licensing exam does not necessarily guarantee that quality. A contractor may spend more time preparing for the exam than they spend in informal and hands on training (Cox, Foster, 1990). Passing a contractor's exam does not guarantee that someone can complete quality work but simply that they can pass an exam. Imposing a license on a career causes a barrier to entry and reduces the supply of people who can complete a service which can drive up costs. If licensing cannot show a benefit to the consumers then it is only a burden increasing costs.

A study conducted by Build Zoom compared the percentage of negative complaints that contractors receive in each state versus the licensing requirements of each state. California is shown as having the strictest licensing requirements of all the states and it also shows customer negative reviews at 5.2% below the national average (Wei, 2015). This study shows that California's strict licensing standard have reached their goal of increasing quality to the consumers by reducing the percentage of negative customer reviews to below that of less regulated states.

## Methodology

To acquire data about the contractor's exam, 18 California general contractors with their Class B general building licenses were surveyed. The people chosen to be interviewed showed a range of timing in which they had taken their licensing exams, from 1993 to 2011. These contractors were chosen from personal contacts and by referral from these personal contacts. The interviews were conducted by phone call and recorded as the discussion happened. This survey method allowed for personal opinions to be expressed for the different questions giving a better understanding of how people felt about the exam.

The objectives of this case study were the following:

- To categorize how contractors prepared for the contractor's license exam.
- To evaluate how previous industry experience related to the licensing exam.
- To evaluate how the exam content related to their industry experience after becoming licensed.
- To understand contractor's opinions of the licensing exam and its content.
- To evaluate if contractors believed the licensing exam helped to improve quality in the construction industry.

## Survey Questions

1. What sectors of the construction industry do you work in? Commercial, Residential, Heavy Civil, or Industrial
2. What year did you take the contractor's licensing exam?

Questions 1 and 2 were to get a better understanding of those being interviewed and how long they had been involved in the construction industry.

3. How did you prepare for the contractor's licensing exam?
4. What percentage of the knowledge needed for the test was from past construction experience?
5. What percentage of the knowledge needed for the test has proven useful during your time in the construction industry?

Questions 3-5 were designed to figure out what methods contractors took to prepare for the examination and how they saw their knowledge in the construction industry compared to knowledge needed for the contractor's licensing exam.

6. Do you believe the contractor's licensing exam is applicable to current construction practices?
7. Do you think the contractor's licensing exam has resulted in an increase in quality in the construction industry?
8. In your opinion does the contractor's licensing exam adequately evaluate contractors?

Questions 6-8 focused on the core issue of this case study which is contractor's opinions of the contractors licensing exam and how it relates to current industry standards and whether they believed it was an adequate method of evaluating contractors.

### Survey Results and Discussion

The following figures show the results of the survey conducted.

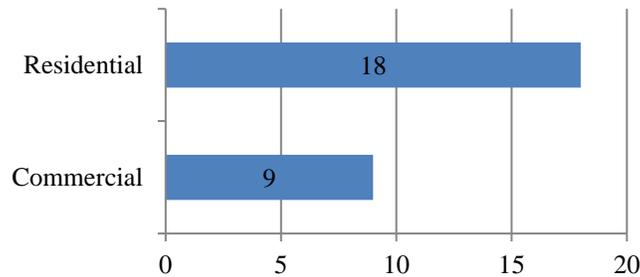


Figure 1: Response to Question #1: What sectors of the construction industry do you work in?

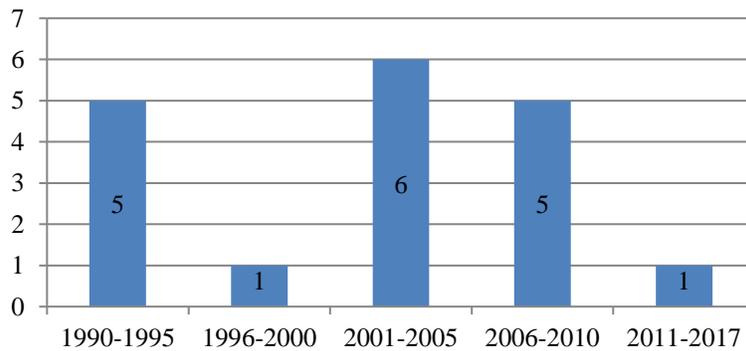


Figure 2: Response to Question #2: What year did you take the contractors licensing exam?

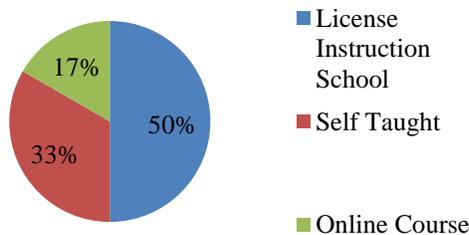


Figure 3: Response to Questions #3: How did you prepare for the contractors licensing exam?

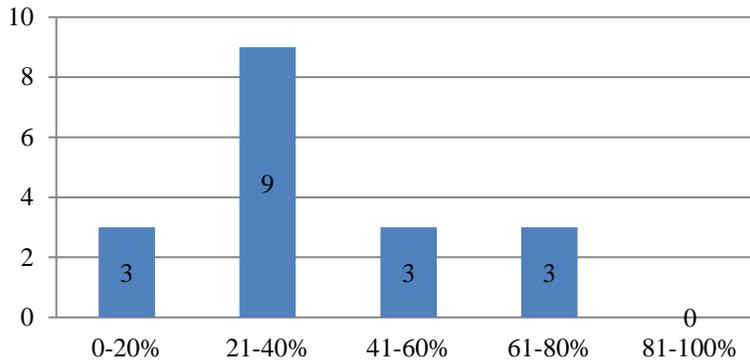


Figure 4: Response to Question #4: What percentage of the knowledge needed for the test was from past construction experience?

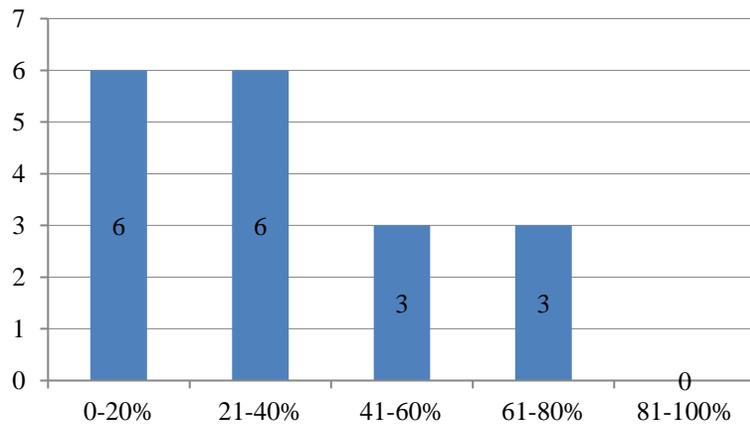


Figure 5: Response to Question #5: What percentage of the knowledge needed for the test has proven useful during your time in the construction industry?

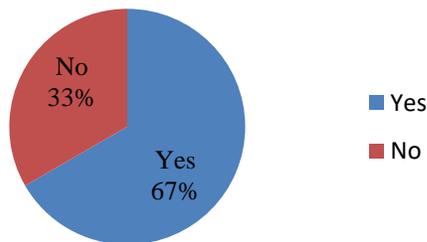
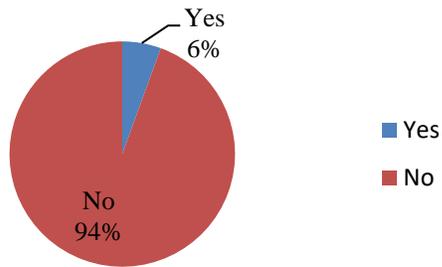
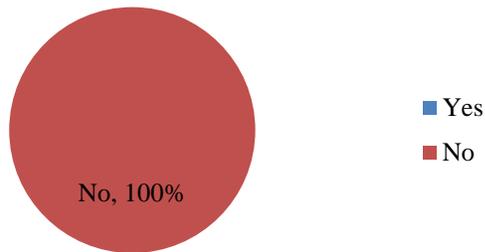


Figure 6: Response to Question #6: Do you believe the contractors licensing exam is applicable to current construction practices?



*Figure 7:* Response to Question #7: Do you think the contractors licensing exam has resulted in an increase in quality in the construction industry?



*Figure 8:* Response to Question 7: In your opinion does the contractors licensing exam adequately evaluated contractors?

### **Analysis of Survey Results**

This survey focused on small scale contractors primarily in the residential construction market. The amount of experience ranged from almost 30 years of experience to as little as seven years. Due to their small scale and work in the residential area, these are the types of contractors that are most likely to be working directly with consumers who are not experts in the construction industry.

Half of those surveyed said they enrolled in license instruction schools to prepare for passing the exam and the other half were either self taught from study guides they purchased or learned to pass the test through an online course. The results from figure four show that the majority of the respondent used very little prior construction knowledge to pass the examination. Figure five shows that the majority of those surveyed used very little of the knowledge from the exam during their construction careers. This data shows that the test is mostly something contractors prepare for by cramming and taking practice tests instead of using knowledge from their past experience. They also do not find this knowledge necessary or useful during their time in the industry.

Figures six, seven, and eight are opinion questions about the contractors licensing exam, and show the contractor's opinions on the licensing exam's quality. The results reveal that the majority believe that the exam is applicable to current construction industry practices showing that the exam is up to date and modernized properly. The results also show that almost none of the contractors supported the belief that the contractors licensing exam improved quality in the construction industry and none of the contractors thought the exam adequately evaluated contractors for their license.

Discussions during the interviews gave some additional insight into the contractor's views on the exam and its purpose in the construction industry. The general consensus from the surveys was that the test was something they studied for just to pass instead of understanding and applying the information. Some of the respondents thought the trade exam was too easy and that the test needed to be more difficult. One respondent found that the exam questions were "verbatim from the practice exams" and that they did not respect people who had simply passed the licensing exam but respected those who had experience in the construction industry. The one respondent who believed the contractors licensing exam increased quality in the construction industry said "licensing contractors helps to increase quality but the exam itself does not." This information from contractors shows that the test is not highly regarded in the industry and that it is a small hurdle for contractors starting their own business.

## **Conclusion**

Research shows that the California Contractors State Licensing Board contributes to increasing quality in the construction industry through their licensing regulations based on California's lower percentage of negative reviews. However, after surveying general contractors it was found that they did not believe the contractors licensing exam increased quality or that it adequately evaluated contractors at all. This shows that the CSLB is able to provide a relevant benefit to consumers but contractors do not believe the test is increasing quality. Data shows contractors find the test as just something to study for and pass but the licensing process still contributes to increasing quality. It may be the process of attaining a contractor's license or the regulations put forth by the CSLB that contribute to quality but the data from the survey shows the test as not being a useful measure of contractors knowledge.

The CSLB could benefit from improving the contractors licensing exam to test on knowledge that is more applicable and useful for contractors during their careers. The exam should focus on knowledge that contractors need day in and day out so that they are better able to retain the information. In addition this knowledge would better test contractors on what they would expect in their day to day activities. The contractors licensing exam should be more that a test contractors study just to pass, it should be a true measure of if a contractor can perform quality work for consumers.

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