SUBCOMMITTEE HEARING ON THE UPCOMING HIGHWAY BILL AND ENSURING IT MEETS THE NEEDS OF SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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FIRST SESSION

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SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT HEARING ON THE UPCOMING HIGHWAY BILL AND ENSURING IT MEETS THE NEEDS OF SMALL BUSINESSES

Thursday, July 16, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:06 a.m., in Room 2360, Rayburn House Office Building, Hon. Jason Altmire [chairman of the Subcommittee] presiding.

Present: Representatives Altmire and Fallin.

Also Present: Representative Shuster.

Chairman ALTMIRE. I now call this hearing to order.

I would like to begin by asking unanimous consent that we allow Congressman Shuster and any other members outside the Committee who would like to sit in. So, without objection, welcome back, Congressman Shuster. And thank you for being here.

In the decades since the first interstate was poured in the 1950s, our highways and bridges have become crucial arteries of commerce. Much of this infrastructure was built through the ingenuity and hard work of our Nation's small businesses. Given the role that entrepreneurs have played in the creation of our highway system, it only makes sense that as Congress begins work to reauthorize the Federal highway bill, we take small business priorities into account.

Today's hearing will examine whether our transportation system is meeting the needs of our entrepreneurs. We are also going to look for ways to ensure small businesses continue to be the cornerstones of America's infrastructure. The reauthorization of the highway bill is not just a matter of building roads and bridges; it gives us an opportunity to revive our economy with new job creations. The benefits of this growth would be felt both immediately, but also for decades to come.

There are several infrastructure challenges which, if properly addressed, will help our economy to grow and thrive. Traffic congestion, for example, is an issue which touches our lives on a daily basis. Easing congestion would lead to lower shipping costs and improve productivity. Every year, gridlock eats up 4.2 billion hours and wastes 2.8 billion gallons of fuel. These costs are taking $87.2 billion out of our economy each year. Just think what a powerful boost we could give entrepreneurs if we were able to recapture those dollars and invest them back into small firms.

No other sector of the economy is more uniquely positioned to tackle infrastructure challenges than our Nation's entrepreneurs. The American Recovery and Reinvestment Act, with nearly 5,500 projects already authorized, is a big step that will go a long way in helping small firms grow. We need to make sure that the highway bill builds off of that important initiative and that it does so in a way that benefits both entrepreneurs who use our roads and the small contractors who construct them.

Today, as in the era when our highway system was first created, it will be entrepreneurs in the fields like architecture, engineering, and construction who lead the charge in rebuilding and modernizing our infrastructure. But these projects are not easy solutions. They will require long-term planning and investment in a myriad of different areas. Without adequate funding and fair competition, small firms won't be able to offer the innovative systems and cost-efficient technologies that would otherwise benefit every community in this Nation.

A long-term surface transportation reauthorization has the potential to provide that long-term vision and foundation. It holds the promise of creating jobs that put people back to work improving our Nation's infrastructure. In fact, the Federal Highway Administration estimates that every $1 billion in highway capital leads to 30,000 jobs and $1.1 billion in employment and wages. This multiplies the benefit of each Federal dollar spent, growing our economy and leaving our country with lasting economic gains. We need a transportation system that increases both our economic strength and our competitive edge in the global marketplace.

In my district in western Pennsylvania, and all across the country, we have roads and bridges that are in critical need of repair. Going forward, the highway reauthorization bill will be a critical vehicle for our entrepreneurs as they work to improve our infrastructure and rebuild our economy.

[The statement of Chairman Altmire is included in the appendix.]

Chairman ALTMIRE. I would like to thank all of our witnesses today in advance for their informed testimony. And, with that, I yield to Ranking Member Fallin from Oklahoma for her opening statement.

Ms. FALLIN. Thank you, Mr. Chairman. And may I just say thank you for holding this hearing today. We appreciate all of our witnesses that have joined us. Thank you for taking time away from your busy schedules to be with us to share your knowledge and interests and solutions and even concerns about our highway infrastructure and how we are going to pay for this highway reauthorization bill.

And as has been mentioned already, a Federal requirement for all modern economies is a safe and efficient transportation system. Many businesses depend upon a transportation system to obtain needed materials and labor to send goods and services to market and to consumers. Every household depends upon transportation systems for access to work, shopping, medical care, food, family, and entertainment. According to the Bureau of Transportation Statistics, the average household spends more on transportation-related expenses than health care and food.

The Federal Highway Administration, when we look at the delivery of products and services, also estimates the volume of freight shipments will triple by 2035 to almost $42 million in constant dollars, with 24 trillion of that carried by truck, and 9 billion intermodal combinations that include trucks. That growth will put an enormous pressure on every element of our transportation system.

And I want to just address real quickly, knowing that all of you are small business owners, that I think there is great concern here in Congress about how are we going to pay for our next highway reauthorization bill. What impact will it have upon small businesses, upon your profits, upon your margins, upon just the cost of delivering your products and your services?

And I think all of you are aware that this year we face some economic challenges within our economy. We have been talking about how to best address our recession. How can we best jump-start our national economy? How can we work with putting our money wisely where it needs to go here in Congress? We have had several different types of initiatives that we have taken here in Congress. There has been the bailout package which cost the taxpayers more than $7 billion. We passed the stimulus package which pumped in another $780 billion. We have had an omnibus appropriation bill which cost our taxpayers $410 billion. And, of course, now we are talking about a national climate change bill and also health care reform.

So when you take all of this spending that has been going on here in Washington, D.C., and now we are talking about infrastructure and its importance to our economy and to small businesses, the question is: How are we going to fund that? And of course we know that our highway reauthorization trust fund has run into deficits, and we have had to take general revenue funds to shore up that money so that when the money goes back to the States they can pay their contractors and suppliers.

So I guess the question we want to hear from you today is: What are your concerns as we look forth in our economy, as we look forth in small businesses, to help you be successful? And how can we best use our taxpayer dollars to build upon an infrastructure system that is so critical to our small businesses and so critical to our economy?

The Chairman mentioned some of the concerns that affect our small businesses, whether it is congestion, whether it is looking at ways of funding our next highway reauthorization bill, and how are we going to do that. The draft highway bill that we are going to be seeing soon does have different ways of paying for the next highway reauthorization package, but it also expands into several different areas that I personally have concern about. It creates a National Infrastructure Bank, an Office of Public Benefit, an Office of Livability, just to name a few.

And when we are talking about new elements that we are adding into our highway reauthorization bill at a time when money is scarce and when we need to invest in our infrastructure—which I am all for—I think we have the obligation as Members of Congress to be very good stewards with our taxpayer dollars to put that money exactly where it needs to go, where it will benefit our economy first and foremost so we can get this economy moving again and create those jobs and create an atmosphere to where you want to invest your money back into your businesses and create those jobs.

So I am looking forward to hearing your testimony. I will tell you that as we consider our next highway reauthorization bill—and Chairman Altmire and I are both on the Transportation Committee—that I am concerned about the effect of any type of taxes that may be increased, especially on small businesses with fuel charges. It would affect your delivery of products and services, because those costs have to be passed on down to the consumers and to the other suppliers that you work with.

We have talked about raising the gas tax, the mileage tax. We have talked about Davis-Bacon, prevailing wages. All those things have been mentioned as we talk about how are we going to fund our next highway transportation bill and what will be in the bill itself.

So thank you all for coming today. I hope that we can all work together here in Congress to build a responsible and cost-efficient way to sustain our national transportation needs and promote measures that will allow our transportation projects to be completed and, hopefully, in a way that doesn't overburden the construction of those services with too much red tape from our government. So I appreciate you coming here today.

Mr. Chairman, I yield back my time.

[The statement of Ranking Member Fallin is included in the appendix.]

Chairman ALTMIRE. Congressman Shuster.

Mr. SHUSTER. Thank you, Mr. Chairman, for allowing me to sit in on the Committee today. I was on the Small Business Committee for four terms. This is the first term I haven't been. They were able to find my old name tag so they didn't have to make one up. I appreciate that. I am sure it was in the bottom of the box with a little dust on it. So thank you for letting me sit in.

I want to welcome all of the people here testifying today, especially Tom Kirchhoff, who is Executive Vice President and COO of Cleveland Brothers Equipment, in the Ninth District and sells a lot of equipment into the Ninth District. We appreciate that greatly and what you do.

I want to echo what my colleagues have said about the importance of the highway authorization bill. It is important to the economy of the United States, it is important to small businesses to be able to get some consistency, to be able to plan over the next 6 years what they are going to do in their businesses to expand them, contract. And what are you going to do with employees? I have heard story after story how companies in this economy don't really want to lay off people, because when the economy turns or when we pass a highway bill we want to have the people in place, whether it is people in the quarries or on road crews or in places like Cleveland Brothers, mechanics being able to fix the equipment.

So I know it is a struggle not knowing what is going to happen. I think an 18-month extension is not the best thing for the economy or businesses, especially small businesses.

I do have to say the stimulus bill that I was not in favor of has not got the money out as fast as we thought it would or hoped it would or were told it would. Although in Pennsylvania, it is the one shining example of where money seems to be flowing out. I know Secretary LaHood uses Pennsylvania. When they ask about the stimulus bill, he points to Pennsylvania. So we are doing something right in Pennsylvania when it comes to getting the money out to infrastructure jobs.

And as my colleague from Oklahoma said, the $450 billion question is: Where are we going to get the money? And I think you have to look at it in all places, whether it is the public-private partnerships, tolling, looking at the user fees. Somebody has got to pay for it. It is not magic. Sometimes as politicians we get out there and say we want to do this and do that, but at the end of the day somebody has to pay. And who always pays is the American people. So we want to go about it in a fair and equitable way that we get the best bang for our buck.

So again I thank all of you for being here and taking your time to come to Washington. And, again, Mr. Chairman, thank you for allowing me to sit in on this. Thank you.

Chairman. ALTMIRE. We will now move into the testimony. For those who have not testified before, we have a light system there. You will each have 5 minutes to give your remarks. It is right in the middle of that table there. The green light means you are good. The yellow light means you have 1 minute remaining. And the red light means you are done; start to summarize and wrap up. And then we are going to get into the questions.

So we are going to begin by introducing Mr. John M. Mills. Mr. Mills is President and Treasurer of Plum Contracting, Incorporated, located in Greensburg, Pennsylvania. Plum Contracting is in highway groups and a utility contractor. Mr. Mills is here to testify on behalf of Associated General Contractors of America. Founded in 1918, AGC represents more than 32,000 firms in the contracting industry.

Chairman ALTMIRE. Welcome, Mr. Mills.

STATEMENT OF JOHN M. MILLS

Mr. MILLS. Good morning, Chairman Altmire, Ranking Member Fallin, and Congressman Shuster. Thank you for the opportunity to testify on a topic of great importance to the highway and bridge construction industry: the upcoming highway bill. My name is Jack Mills. I am the owner and president of Plum Contracting, located near Delmont in Westmoreland County, Pennsylvania. I am a resident of Plum Borough in Allegheny County.

Plum Contracting was incorporated in 1980. We had nine employees and we did work as a subcontractor installing edge drains and erosion-control features on roads and highways throughout Pennsylvania. In 1999 Plum diversified into road and bridge building. Today we are a prime contractor for projects up to $10 million and annual revenues around $30 million.

Plum is a member of the Construction Association of Western Pennsylvania and the Associated General Contractors of America, on whose behalf I am pleased to represent today. AGC is the largest and oldest national construction trade association in the United States, representing more than 33,000 firms engaged in construction of the Nation's public works infrastructure and commercial facilities.

Plum Contracting is a small business in the highway and bridge construction industry. We have built projects that have had a positive impact on economic opportunities in western Pennsylvania. We recently completed an 8.5 million project in New Stanton, PA, and are currently working on a $7.5 million project in Westmoreland County. We have an office staff of nine professionals and 40 full-time field employees. Plum Contracting is a union contractor, and our current weekly payroll is around 100 employees.

Plum has been affected by the downturn in the highway and bridge funding. Our revenues and weekly payrolls have decreased by around 35 percent since 2007. Nationwide, construction unemployment is still at 17.4, percent compared to the total unemployment rate of 9.7 percent. The Recovery Act is already going a long way towards creating and saving these jobs. And in fact, Plum Contracting is a subcontractor on a Recovery Act job in Pennsylvania.

Last summer, to address revenues, Plum Contracting expanded its bridge division and was successful in being the low bidder on six bridge projects in Pennsylvania. Although we currently have a backlog, we expect our profit margins to be down this year due to the increased competition for the work in this industry. That is why we have a vested interest in the upcoming highway bill, which we hope will substantially increase Federal funding for highway and bridge work as well as the immediate crisis facing the balance of the Highway Trust Fund.

First, let me address the Highway Trust Fund. The U.S. Department of Transportation and others have found that the balance of funds will fall below the minimum cash level necessary to make daily payments by the end of August. When this happens, the U.S. DOT will be required to drastically slow down State reimbursements for highway and bridge work. Action is needed immediately to fix this problem.

The American Association of State Highway and Transportation Officials estimate that the additional 8 billion transfer of general funds into the Highway Trust Fund will be necessary to accomplish this. The fund also needs an additional 10 billion in fiscal year 2010, when the program could face a 35 percent cut in funding.

In the contracting business, contractors typically do the work and incur the costs and then submit payment requests to the State. However, in a payment slowdown or stoppage situation, your payment is delayed, meaning the contractor is the one who suffers the cash flow crunch. This is exceptionally problematic for small business contractors who rely more on timely repayments to stay afloat.

Congress must take the steps immediately to bring short- and long-term certainty to the program. The construction industry makes decisions about investments and new equipment and in retaining and training a workforce based on its best projection about where the market will be over the long term. This is particularly true for small businesses which typically have less operating capital to invest.

To bring long-term certainty to the program, Congress must also continue work towards enacting a multiyear surface transportation authorization bill to replace SAFETEA-LU, which expires on September 30. We ask Congress to reject proposals by the administration to delay action on the critical legislation until March 2011. Our transportation challenges will not solve themselves and will only get worse over the next 18 months.

Congress must enact a bill that establishes a national vision for a transportation system that meets 21st century needs. Congress must provide the resources to improve existing assets to expand system capacity, both transit and highway, and to reduce congestion and prevent highway facilities.

To fund these national priorities, we urge Congress to increase the Federal motor fuels tax to recoup lost purchasing power and index it to inflation, while moving towards a non fuel-based financing mechanism for the future. We recognize that a fuels tax increase is a tough political decision, but this user fee, which has not been increased since 1993, is the most reliable and efficient method to finance surface transportation improvements in the short term.

We also recommend that Congress take steps to improve workzone safety for construction workers and motorists by calling for greater use of barriers in highway work zones, despite the increased costs. Smaller contractors have a hard time bidding for projects that require these measures because of their costs and the difficulty including their costs in the overhead.

Mr. Chairman, the United States has been under-investing in our transportation systems for far too long. The under-investing is costing U.S. businesses, small and large, and the traveling public time and money. Congress must address the immediate short-term shortfall facing the Highway Trust Fund before it breaks for the August recess, and it must continue efforts to enact a multiyear bill that increases investment and provides construction companies with the continuity that allows them to thrive and contribute to the Nation's economic well-being. Thank you.

Chairman ALTMIRE. Thank you, Mr. Mills.

[The statement of Mr. Mills is included in the appendix.]

Chairman ALTMIRE. For our next witness, Mr. Kirchhoff's introduction, I am going to send it over to Congressman Shuster.

Mr. SHUSTER. Thank you very much, Mr. Chairman.

Tom, welcome today. Tom Kirchhoff is the Executive Vice President and Chief Operating Officer of Cleveland Brothers Equipment in Harrisburg, Pennsylvania. Cleveland Brothers sells, rents, and services Caterpillar construction equipment throughout the State of Pennsylvania and, as I mentioned earlier, most importantly, throughout the Ninth Congressional District in Pennsylvania.

Mr. Kirchhoff is here to testify on behalf of the Associated Equipment Distributors. AED members provide construction equipment and supplies and services in the U.S. and in Canada.

So again, Tom, welcome.

STATEMENT OF TOM KIRCHHOFF

Mr. KIRCHHOFF. Good morning, Chairman Altmire, Ranking Member Fallin, and Congressman Shuster. It is my pleasure to come before you today both in my capacity as a small business owner and as a spokesman for my industry, to discuss the ways in which highway investment affects small companies.

Cleveland Brothers is the authorized Caterpillar construction distributor for 59 Pennsylvania counties, in an area that stretches from the northeast corner of the State throughout all of central and western Pennsylvania, including Pennsylvania's Fourth Congressional District and the Ninth. Our territory also includes 17 counties in northern West Virginia and two in western Maryland. Our family-owned company has 27 locations and 1,050 employees.

I am also testifying on behalf of the Associated Equipment Distributors, the national trade association representing authorized independent distributors of construction, mining, forestry, and agricultural equipment. AED has more than 1,000 members, the overwhelming majority of which are small businesses. Approximately 48 percent of the Association's distributor members report revenue of $10 million or less.

I would like to use my time this morning to highlight three key points. First, America's surface transportation infrastructure policy is in a state of crisis. Numerous studies have concluded that our Nation's crumbling highways threaten our economic vitality and public safety, and the transportation investment should be increased at all levels of government.

The Texas Transportation Institute reported just last week that traffic congestion, resulting in large part from inadequate road capacity, cost the country $87.2 billion per year in wasted time and fuel. A study released earlier this month by the Transportation Construction Coalition found that more than half of all highway fatalities are related to deficient road connections, and that poor roads are the single-most lethal contributing factor to motor vehicle crashes.

And the Surface Transportation Revenue and Study Commission, which was established by Congress to examine the infrastructure crisis, said last year that the United States should be investing at least $225 billion annually from all sources to upgrade our existing surface transportation system. We are spending less than 40 percent of that amount today.

The current highway reauthorization presents an ideal opportunity to tackle this crisis. However, at the same time that Americans are waking up to problems with our highways, the Highway Trust Fund, the primary vehicle for surface transportation investment, is on the verge of bankruptcy. Congress must therefore take immediate action both to shore up the HTF and to enact a long-term plan to address the Nation's infrastructure investment shortfall.

My second point is that highway investment has a significant market impact on the small business-dominated equipment distribution industry, which is why my colleagues and I are so attuned to the problems facing the highway program. A study conducted by George Mason University economist Steven Fuller last year determined that, on average, 6.4 cents of each dollar spent on highway construction is spent to buy and lease new equipment and on major repair and maintenance outlays. Dr. Fuller also found that every dollar of direct spending for the purchase of heavy construction equipment generates a total of $3.19 in economic impact. This represents $1 of direct spending and $2.19 in indirect and induced economic activity as the money spent at equipment dealerships like Cleveland Brothers is re-spent by AED members and their employees in other sectors of the economy.

Dr. Fuller's research confirms that highway spending at all levels of government has a major impact on equipment distributors. It also shows that in addition to the long-term societal benefits of infrastructure investment, the related spending on construction equipment and services has significant economic impact in communities throughout the Nation where AED members do business and their employees live and work.

My third point is that the uncertainties surrounding the near-term health of the Highway Trust Fund and the status of reauthorization are adding to the historic instability in construction markets and negatively affecting equipment distributors and their contractor customers.

AED members around the country report market conditions similar to those that I face in Pennsylvania. Contractors lack confidence in the long-term demand for their services and are therefore refraining from purchasing new equipment. As a result, equipment distributors like Cleveland Brothers have seen sharp declines in sales. Equipment inventory is piling up and putting a strain on distributors who must finance the machines in their yards at a time when credit has tightened dramatically.

The problems are compounded by the fact that State governments have been forced to slash their transportation budgets, and uncertainty about the future of the Federal program is making it more difficult for State transportation departments to plan.

AED members are, like other small construction industry companies, directly affected by the uncertainties facing the Federal Highway Program. However, AED members are also affected, along with other businesses and the public at large, by inadequate infrastructure investment at all levels of government. In urban areas, our members and their employees confront traffic congestion which drives up costs of doing business and wastes precious time and fuel. In rural areas, inadequate investment means unsafe roads and diminished access to jobs, customers, and public services.

Mr. Chairman, I see that my time is about to expire, and I wonder if I might have 1 minute to conclude my remarks.

In conclusion, the United States is confronting an unparalleled infrastructure crisis which threatens our ability to compete globally in the 21st century and which threatens the safety of our citizens. At the same time, the uncertainty surrounding Federal infrastructure programs is contributing to historic volatility in equipment markets and compounding the challenges facing the construction industry at large.

Congress can address these two issues simultaneously by quickly resolving the near-term solvency of the Highway Trust Fund and by enacting a long-term highway reauthorization bill that dramatically increases highway capacities and creates new revenue streams to support infrastructure investment.

We look forward to working with the members of this Subcommittee and with all your House and Senate colleagues in a bipartisan manner to achieve these goals. Thank you again for the opportunity to participate in this hearing, and I look forward to answering any questions you may have.

Chairman ALTMIRE. Thank you.

[The statement of Mr. Kirchhoff is included in the appendix.]

Chairman ALTMIRE. We will turn now to Mr. Rob Robinson. Mr. Robinson is Chairman of Urban Design Associates based in Pittsburgh, Pennsylvania. His firm offers is urban design and architectural services. Mr. Robinson is here to testify on behalf of the American Institute of Architects. Founded in 1857, the AIA is the leading professional membership association for licensed architects. Welcome, Mr. Robinson.

STATEMENT OF ROB ROBINSON

Mr. ROBINSON. Thank you very much, Chairman Altmire, Ranking Member Fallin, and Congressman Shuster. I appreciate the opportunity to appear before you to discuss the transportation policy and its impact on small businesses.

At Urban Design Associates—and we were founded in 1964—we have spent our lives designing cities, towns, and neighborhoods as vibrant places for people to live, work, and play. Through our projects, we see how transportation systems connect people to jobs, connect people to opportunities, and to each other to create liveable, sustainable, and prosperous places.

I am also pleased to represent the American Institute of Architects, because the AIA is comprised of more than 83,000 licensed architects, architects in training, and allied professionals who are committed to the planning and design of safe and sustainable buildings and communities. Today, thousands of AIA architects are involved in designing transportation systems, transit facilities, roadway amenities, and master plans that don't just foster mobility and access but also create sustainable, smart communities. Many of those architects work for small firms like my own and many are sole practitioners.

In fact, 96 percent of U.S. architecture firms have 50 or fewer employees, and those firms account for nearly six in ten of the workers who are employed by architectural companies nationwide.

It is small-design firms like ours that drive prosperity in our communities. We are in multiple places, almost always locally, working for communities we know well. However, the current economic crisis has devastated much of the architecture profession. There is no secret about that. Every architect I know has seen layoffs and cutbacks in his or her firms. Smaller firms are particularly harder hit.

The challenges our Nation faces are not just confined to the economy. The fragile state of infrastructure in many of our communities is challenging our ability to recover and prosper. This is why we think it is vital for Congress to pass the comprehensive legislation this year rather than waiting for some in the future.

The Surface Transportation Authorization Act couldn't come at a better time. It recognizes what we know as architects so well: that well-planned and -designed transportation projects create prosperous, sustainable, and liveable communities. This legislation will rebuild our infrastructure, it will reduce congestion and lower greenhouse gas emissions. Most importantly, it will create jobs; jobs for architects and planners, engineers, builders, operators, maintenance personnel, suppliers. It is a huge and interrelated network dependent on the transportation improvements.

At a time when unemployment is nearing 10 percent, it makes no sense for us to delay legislation that will create so many well-paying jobs across many spectrums of the economy. The impact of the bill on job creation is not limited to direct employment either. Its benefits to the small business community will be significant.

First, well-designed transportation projects create attractive and accessible business districts where small businesses can flourish. And this is particularly true in older historic Main Streets and central business districts. And in Pennsylvania we have got many of those conditions all linked together to make for a stronger regional economy.

Second, a 21st century transportation system will help people live near where they work, and that will grow the talent pool for small businesses and reduce dependency on fossil fuels and long commutes.

Third, a 21st century transportation system will reduce congestion, pollution, and improve the safety and reliability of the transportation network. As you mentioned earlier, every minute stuck in traffic, every axle damaged by potholes, is money off the bottom line. Small businesses with thinner profit margins and tighter cash flows can't really depend on an unreliable transportation system.

For those reasons, we think that Congress simply cannot wait another 18 months or longer to pass a transportation bill. It must act now.

In my written statement to you, I have made recommendations to ensure the bill will help small architecture firms plan and design transportation that will strengthen our country, and I will summarize those briefly.

The legislation should provide ample opportunities for small businesses to take part in the design and construction of new transportation infrastructure, including the design of transit and intermodal facilities which has really a direct impact on multipliers within towns and cities. The legislation should ensure that small firms have a chance to compete for and win contracts. And the legislation should preserve provisions in current law that require funds to be awarded to architecture and engineering firms through qualifications-based selection. QBS ensures that architects and engineers who design public projects are the most qualified to do the work.

We appreciate the opportunity to provide testimony on this important issue, and I am happy to answer any questions after the testimony here. Thanks.

Chairman ALTMIRE. Thank you, Mr. Robinson.

[The statement of Mr. Robinson is included in the appendix.]

Chairman ALTMIRE. We now move to Mr. Rod Martin. Mr. Martin is the Vice President of Martin Stone Quarries, Inc., in Bechtelsville, Pennsylvania. Martin Stone Quarries has been serving southeastern Pennsylvania and surrounding States with stone and gravel since 1953. Mr. Martin is here to testify on behalf of the National Stone, Sand, and Gravel Association which represents the crushed stone, sand, and gravel industries in the U.S. Welcome, Mr. Martin.

STATEMENT OF ROD MARTIN

Mr. MARTIN. Thank you, Chairman Altmire, Ranking Member Fallin, and Congressman Shuster for inviting me to testify today on behalf of the National Stone, Sand, and Gravel Association on the importance of the reauthorization of our Nation's surface transportation law to the aggregates industry, particularly its small business members.

The National Stone, Sand, and Gravel Association represents the crushed stone, sand, and gravel or construction aggregates industry. Its member companies produce more than 90 percent of crushed stone and 70 percent of the sand and gravel consumed annually in the United States. There are more than 10,000 aggregate operations nationwide, and almost every congressional district is home to a crushed stone, sand, or gravel operation.

Proximity to market is critical to high transportation costs, so 70 percent of our Nation's counties include an aggregate operation. Of particular relevance, 70 percent of the NSSGA's members are considered small businesses.

As you said, Martin Stone Quarries was founded in 1953 by my grandfather, Henry Martin. We operate two granite quarries in Bechtelsville, Pennsylvania, and people have actually quarried at our one site since the late 1800s. Right now, I run the business with two other third-generation owners, and we currently employ 58 people, which is down 20 percent from 2006 levels.

In addition to providing quality materials and services to our customers, we are committed to being a responsible corporate member of our surrounding community. Our time, materials, and financial resources have been routinely donated to the construction and restoration of local parks, recreation areas, and churches. Educational field trips are offered to any interested school districts to inform the local students about the unique nature of the mining industry. We have also opened our gates to local fire companies, allowing them to perform mock rescue drills inside the quarry.

Nearly two-thirds of the nonfuel minerals mined each year in the United States are aggregates. Construction aggregates are used primarily in asphalt and concrete; 94 percent of asphalt pavement is aggregate and 80 percent of concrete is aggregate, and every mile of interstate contains 38,000 tons of aggregate.

The business of successfully building and maintaining our national surface transportation infrastructure depends in large measure on funding stability and year-over-year predictability provided by the Surface Transportation Act. The current law, SAFETEA-LU, does expire on September 30, and it is imperative that Congress act to reauthorize the law now or lose many of the benefits of the economic stimulus package that are just beginning to be felt by the construction sector.

Reauthorization is critical to NSSGA's many small aggregate producers. Sixty percent of our business comes directly from road construction and sales to asphalt plants, concrete plants, and other highway contractors. We are no different than the majority of the small business producers in the NSSGA. Multiyear reauthorization provides an important continuity that my company, our employees, and our customers rely on in order to meet significant needs of the local, State, and Federal transportation systems.

In the absence of a long-term plan, our customers are telling me that they are not sure what the next years are going to bring them; therefore, causing me to withhold investing in plants and new machinery for the foreseeable future.

It is also increasingly difficult for us to do workforce planning due to the uncertain demand. We are looking at possibly another round of layoffs that will take our workforce down again if there is no improvement in marketing conditions and Congress fails to pass a multiyear reauthorization plan.

I would like to thank you for allowing me to testify today on the importance of this action on a multiyear surface transportation bill. Martin Stone and the members of the National Stone, Sand, and Gravel Association look forward to working with Congress in developing a reauthorization bill that will spur economic revitalization by creating jobs, as small businesses generate 60 to 80 percent, while simultaneously building the surface transportation network of the 21st century.

Thank you again for allowing me to testify today, and I will be happy to take any questions later.

Chairman ALTMIRE. Thank you, Mr. Martin.

[The information is included in the appendix.]

Chairman ALTMIRE. And for the introduction of our final two witnesses, I will turn it over to Ranking Member Fallin.

Ms. FALLIN. Thank you, Mr. Chairman. I would like to introduce Mr. Henry Ross from Elmira, New York. Mr. Ross is chairman of the board of the American Traffic Safety Services Association, and employed by the USA-SIGN, a small sign manufacturing company, where he serves as director of sales and marketing. And we want to thank you for coming to Washington, D.C. to help us with this Committee hearing. Mr. Ross.

STATEMENT OF HENRY A. ROSS

Mr. ROSS. Thank you, Congresswoman Fallin. Mr. Chairman and Congressman Shuster, thank you for being here. Thank you all very much for giving me the opportunity today to discuss the transportation authorization and its effects on small businesses and on the Nation as a whole.

As the Ranking Member said, my name is Henry Ross. I am chairman of the board of directors of American Traffic Safety Services Association, and I am employed by USA-SIGN, a traffic sign manufacturing company in Elmira, New York.

American Traffic Safety Services Association, an international trade association, is located in Fredericksburg, Virginia. And since 1969 it has represented companies and individuals in the traffic control and roadway safety industry.

Over 1,600 ATSSA members provide the majority of features, services, and devices used to make our Nation's roadways safer. These include pavement markings, road signs, work-zone traffic control devices, guard rail, and other safety features.

Many of ATSSA's members who focus on roadway safety infrastructure are small business owners. For example, temporary traffic control operations are more often than not performed by small businesses that act as subcontractors in work zones.

Late last month, House Transportation and Infrastructure Chairman James Oberstar and Ranking Member John Mica introduced the Surface Transportation Authorization Act of 2009, a 775-page draft, for a new, comprehensive, 6-year transportation bill. This draft truly highlights the Nation's needs for increased roadway safety.

Last year, a little more than 37,000 men, women, and children perished on America's roadways. ATSSA, through its Toward Zero Deaths Vision Plan, is committed to reducing these tragically high numbers through a targeted investment in roadway safety infrastructure. The House Transportation and Infrastructure Committee's bill is committed to reducing these deaths through new performance measures, and ATSSA commends them for that.

One concern of our members is timely payment. Small businesses rely on timely payment due to limited cash flow. While subcontractors are often first on and last off the work site, they may be the last to be paid. These small businesses rely on projects created through the transportation authorization to keep their businesses running, to hire and maintain existing employees, and to buy new equipment.

For example, one of our California members who owns a pavement marking company mentioned his frustration to ATSSA staff just yesterday regarding timely payment to subcontractors.

California prompt pay statutes require all payments to be made to subcontractors within ten days. The reality is that sometimes the payments don't get doled out for 30 days. Sometimes it is over 6 months. Even public agencies have been known not to pay within the 10-day required period.

ATSSA would like to recommend that the Committee consider directing the Secretary of Transportation to undertake a study of payment practices to small businesses that are receiving funds for Federal aid highway projects, and report back to Congress their findings on these payment practices within a year of passage of the transportation authorization. It is unfair for small businesses to struggle to stay afloat due to delayed payments. The results from such a study could be utilized as a basis for further action.

There truly is a ripple effect throughout the construction industry with each new authorization bill that is enacted. Unfortunately, without a timely new transportation authorization focused on expanding investment in our Nation's transportation safety infrastructure, these small businesses will indeed suffer.

Many argue that the recent passage of the American Recovery and Reinvestment Act, that with the passage of that there is no need for a reauthorized transportation bill. In our opinion, this is exactly the right time to continue to invest in our Nation's transportation infrastructure. These small businesses are beginning to feel the positive effects of the stimulus package and have started to rehire previously laid off employees. To halt any forward momentum at this time would be devastating. If the transportation authorization is delayed past the September 30 expiration of SAFETEA-LU, then many of these small businesses will have to begin to cut back on employees, new hires, equipment, and material purchases.

Federal highway programs authorized under the transportation authorization account for 40 to 45 percent of the total roadway dollars spent annually in the United States. In addition, many of the contracts that our member companies work on stem from the Highway Safety Improvement Program, HSIP. ATSSA continues to advocate that these HSIP funds not be transferrable out of HSIP to other programs. According to the Federal Highway Administration, seven States have transferred their dollars out of their HSIP funds. With these transfers, funding flows away from the safety-specific subcontractors and our small businesses that work on these vital safety projects and save lives. There should be an end to transferring infrastructure safety dollars out of HSIP due to the continuing death toll on our Nation's highways.

Chairman Altmire, Ranking Member Fallin, Congressman Shuster, there is great urgency and anxiety throughout our member companies, especially within those which are small businesses that rely on the authorization projects to continue their day-to-day operations and their prosperity.

America truly is the land of opportunity. ATSSA's small business members bring needed services, safety devices, and jobs to communities throughout the country. Many of us can agree that the United States is still facing troubling economic times.

Let's all work together, small businesses, local, State, and Federal governments, the hardworking men and women, to better our roads and make them safer, boost our economy, and, most importantly, save lives on our roadways. ATSSA's small business member companies are eager, willing, and capable, and with an authorized transportation bill we can all work together over the next 6 years to do just that. There is no time for a 12-month, or an 18-month extension, for that matter. Our small businesses across the country can't afford this kind of delay.

Thank you very much for the opportunity to testify, and I will take your questions. Thank you.

Chairman ALTMIRE. Thank you, Mr. Ross.

[The statement of Mr. Ross is included in the appendix.]

Chairman ALTMIRE. For our final witness, to introduce Mr. Filipczak, I will turn it over to Ranking Member Fallin.

Ms. FALLIN. Thank you, Mr. Chairman. We are pleased today to have Michael Filipczak from Elkridge, Maryland. Mr. Filipczak is the president of a company called Midasco, which is a specialty infrastructure contractor. And we appreciate you coming today to talk about our infrastructure problems.

STATEMENT OF MICHAEL FILIPCZAK

Mr. FILIPCZAK. Chairman Altmire, Ranking Member Fallin, and Congressman Shuster, thank you very much. My name is Michael Filipczak, and I am the president of Midasco LLC, a specialty infrastructure contractor based in Elkridge, Maryland. It is my pleasure to appear today on behalf of the American Road and Transportation Builders Association.

ARTBA represents the transportation construction industry that builds and preserves the Nation's roads, bridges, transit systems, airports, railroads, and waterports.

Midasco is a signing, lighting, traffic signal, tolling and intelligent transportation system contractor. We perform both construction and maintenance services, and work both as a prime contractor for various State agencies and as a subcontractor to other contractors primarily on interchange and major bridge projects. We employ about 140 people and operate primarily in Maryland, Virginia, and North Carolina.

According to the latest economic census conducted by the U.S. Bureau of the Census, there are just over 11,000 business establishments involved in transportation construction. Most of these are small businesses. More than 90 percent have less than 100 employees, and the average has about 40 employees. So my industry is largely comprised of small businesses, and the improvements we deliver are very important to an even broader range of smaller firms throughout our economy.

Small businesses depend on the Nation's transportation network to move people and products around town and throughout the country. Highway congestion has become a major drain on the energy and vitality of American small businesses. It negatively affects small businesses in three significant ways:

First, when employees are paid by the hour, time lost waiting in traffic or waiting for a delivery means higher costs.

Second, when businesses are paid by the job, by the trip, or by the call, traffic congestion that reduces the number per day means lower income for the businesses.

Third, and most importantly, when the day is spent dealing with the fallout of highway congestion, scheduling, routing, late deliveries, missed appointments, or unhappy customers, this takes time away from planning and growing the business.

The reauthorization of the Federal highway and public transportation programs has the potential to be a major benefit to small businesses. Unfortunately, virtually every State is facing budget shortfalls. According to the National Governors Association, 15 States have cut transportation investment in 2009, and 19 States will make similar reductions in 2010.

At the same time, revenues flowing into the Federal Highway Trust Fund will fall short of meeting fiscal year 2009 highway investment commitments and not be able to support current levels of spending beyond this year.

The only bright spot is the transportation investment from the American Recovery and Reinvestment Act. Due to State budget challenges, however, in many cases and many areas, the stimulus funds are simply enabling States to maintain current activities. It is this confluence of challenges that makes the current push by some to delay the reauthorization until march of 2011 so mind-boggling. We learned the hard way from 2001 to 2005 that uncertainty at the Federal level at a time of economic and State budget difficulty leads to a stagnated national effort to deliver surface transportation improvements.

Beyond the economic cost of our current system, we are paying too great a price in safety. Our recent study by the Pacific Institute for Research and Evaluation revealed that deficiencies in the Nation's roadway environment contributed to more than 22,000 fatalities and cost the Nation more than $217 billion annually. My company specializes in safety improvements, and I agree with the report's conclusion that making the roadway environment more protective and forgiving is essential to reducing highway fatalities and costs.

Mr. Chairman, the Nation's transportation's challenges will not solve themselves, and postponing the reauthorization is not going to make the difficult decisions associated with that bill any easier. Absent major initiatives by all levels of government and the private sector, traffic congestion will get worse, physical conditions will deteriorate, and U.S. competitiveness in the global marketplace will be further impaired.

The House Transportation and Infrastructure Committee has produced a robust and comprehensive reauthorization bill. The bill represents an excellent beginning of the reauthorization process and should be a call to action for all Members of Congress. We urge you to push for action on a multiyear reauthorization bill to address the transportation needs of our Nation and its small businesses.

Thank you for allowing me to speak before you today, and I would be happy to respond to any questions.

Chairman ALTMIRE. Thank you.

[The statement of Mr. Filipczak is included in the appendix.]

Chairman ALTMIRE. And thank you to all the witnesses. We realize that you have each taken a day or two off of your work from your business and the impact that that has. You traveled here at your own expense, and we really appreciate the effort that you put into being here today. It is helping us greatly as we work through this very important issue of whether or not to delay the highway bill, as we are talking about, which none of us support. And it helps us to have a face with this issue, with each one of you and your businesses, and how it is going to directly impact. So thanks to each one of you.

We are going to do two rounds of questions. Each of us, including myself, will have 5 minutes each, and then we will go through twice, just for planning purposes.

I am going to open it with Mr. Mills. In many respects it is advantageous for the government to contract with the smaller firms. Small local businesses can get to work quickly, they can access the labor market, and are often more innovative. What advantages do you feel that small business contractors offer the government?

Mr. MILLS. First off, one is that we are a little bit more competitive. We have smaller overhead than the large corporations. If there is a change in the type of work that the DOTs are letting, we can make the change overnight where the larger corporations aren't able to do that.

Chairman ALTMIRE. Thank you.

For Mr. Ross, deteriorating road conditions are a significant cause of motor vehicle accidents, as you pointed out. So in the context of what we try to accomplish with the highway bill—which many people think is rebuilding our roads and bridges, crumbling infrastructure, which is critically important, certainly in Pennsylvania and around the country—but what are the key steps the Congress can take in the highway bill specifically to improve road safety?

Mr. ROSS. Mr. Chairman, thank you for that question. As you may know, ATSSA has put forward a Toward Zero Deaths, what we call a reauthorization or an authorization policy.

There are significant initiatives laid out in there. One of them is to increase funding for high-risk rural roads. An inordinate percentage of the highway deaths that occur, occur on rural roads, and yet the investment in low-cost safety solutions can be increased dramatically and can affect those fatalities.

One of the emerging issues also is the specific funding of older-driver programs. The SAFETEA-LU provided for the program but didn't fund it. And we need to recognize that a greater and greater portion of the driving public is getting a little bit older and have needs that maybe go beyond some of the features that we are currently providing, such as sign size, the ability to see the signs as far as fonts and letter size and reflective materials and things of that sort. So those are just two right off the top of my head.

Chairman ALTMIRE. Thank you.

Mr. Robinson, the American Institute of Architects' Moving Communities Forward study found that investing in transportation upgrades creates increased commercial activity. Can you elaborate from your testimony on the nature of the study, and what were the key driving factors in boosting this type of business activity?

Mr. ROBINSON. Well, there are a number of things that are happening, both when that study was authored and continuing today, particularly with the investment in multimodal transit in urban regions, both in cities and in sort of the first-year suburbs.

When you invest in the sort of multimodal platform for bringing buses, light rail, transit, bike, and walking together, it is all of the DNA you need to build a great integrated community that has amenities, has multiple uses, has synergy there where people are attracted to live and work. We are in that phase in this country where there is an enormous move back to urban mixed-use surface. I mean, the Gen Y-ers coming out of school where the opportunities are, it is a huge magnet.

When you invest in the transportation infrastructure that hooks, connects people to jobs, as you can see in this region particularly, it is like a lightening rod for private sector investment around that. And I think it makes it easier on the funding side, because then you really do get private—we find you get a lot of private activity to complement the public investment. So that is a continuing theme. We see it all across the country in relatively a large variety of scales, from sort of small towns to large cities.

Chairman ALTMIRE. Thank you.

I will now conclude and recognize Ranking Member Fallin.

Ms. FALLIN. Thank you, Mr. Chairman. And we appreciate all of you coming today, once again. And I appreciate your comments about not delaying the highway reauthorization bill and what an effect it would have upon your businesses and small businesses if we did wait 18 months. And, as the Chairman said, we are not for that. We want to get on with our planning and our highway reauthorization bill. We know how important it is to our infrastructure and safety, and, of course, the jobs.

I have a question. I guess it is something we debate here in Congress quite a bit. With the stimulus package that was passed recently, a portion of that money went to highway infrastructure, not as much as what I would have liked to have seen. It was a very small portion of that bill. But we are always debating here in Congress whether that has created jobs or whether it has sustained jobs within your businesses.

So I would just like to ask each of you, with the stimulus package that was passed and the portion that went to highway infrastructure, have you been able to actually create new jobs or are you just sustaining the jobs that you had? Because some of you mentioned having to make layoffs with the economy.

Mr. Mills, I will start with you.

Mr. MILLS. Thank you for that question. In my particular business, we have one small subcontract where it is stimulus money. The other projects that are out for bid in Pennsylvania are smaller projects that I could do with a decreased workforce, and I would not replace or buy new equipment or lease new equipment to do the work on that. So what I have seen in the amount of jobs that are available to me, the stimulus package hasn't helped very much at all.

Mr. KIRCHHOFF. Likewise, we have seen very little benefit. There has been some small paving work out there and some small bridge work, which I think has kept some idle equipment busy. It has not led to any increased acquisition of products from companies like Cleveland Brothers.

A larger highway construction project would solve that issue, but the stimulus bill to this date has done nothing to allow Cleveland Brothers to remain fully employed. As a matter of fact we, 18 months ago, employed about 1,500 people; we are now down to a little over 1,000. So, steep declines.

Mr. ROBINSON. I think for us in the architecture profession this is a little early to really evaluate how that is affecting, because it does—even though you say ″shovel ready″ and ″things are ready,″ it takes a while. And we recognize that. But on our clients' side and the constituents', I think it is very early. You might be sustaining jobs, but we don't see any evidence on our client side of job creation yet.

Mr. MARTIN. The same goes for our company. We haven't been able to create any new jobs with the stimulus package. There are a few stimulus projects in our area that are funded by the stimulus package, but they were getting ready to begin anytime soon anyway. So whether the dollars are actually from the stimulus, the signs are up there, but there haven't been any jobs created on our side because of the stimulus project.

Mr. ROSS. Anecdotally, we are hearing of some people who are hiring people back. I don't know that they are going to hire levels that they were, say, a year ago or a year and a half ago. We are also hearing, as was said I think earlier, that some of the stimulus money projects are just sort of replacing State programs. Some of the States are in such disarray funding-wise that, except for the stimulus money, I don't know that they would have a program at all. So it is just basically treading water and trying to keep your nose up above a certain level in certain areas, in certain geographic areas.

So the stimulus money is helping that. But if not for that, it would be even a worse situation. But I wouldn't say that anybody is really doing well.

Mr. FILIPCZAK. Thank you, Ranking Member Fallin. It is really a great question that you ask, because we have not seen any job creation through the stimulus jobs. We have seen, really, a tremendous amount of bidding activity primarily in what we would consider maintenance, contracts for lighting or signals, or signing, which tend to be task order-based contracts.

The downside of the bidding activity, though, is that there really has been sort of a feeding frenzy at the bid table as contractors sort of race to put this work into their backlogs, because they are not sure what is going to come beyond the stimulus money and the stimulus jobs without the reauthorization. And so it really has created a bit of a situation for us in that way. But in terms of job creation, we have not seen it.

Ms. FALLIN. Thank you, gentlemen. That is all really helpful.

My other question was because I am very pro-small business, so I want you guys to be able to create jobs and opportunity and have investment. But we have been talking about a lot of policy changes here in Congress, and of course you all mentioned about support of raising gasoline taxes to fund the next highway reauthorization bill. But on top of that, if that is done here in Congress, we also have a new piece of legislation going through called cap-and-trade which could raise your costs as small businesses, especially your utility costs, your fuel costs. And then we, of course, are debating health care which can also raise your costs.

So I guess my question is: As small business people, you are talking about possibly raising gasoline taxes to help fund the next highway reauthorization bill. And I am not sure what the right answer is on that yet. But if your health care costs should possibly go up and then cap-and-trade raises your utility costs and fuel costs, can you all sustain those cost increases to your business and will you still be competitive? Anybody? Mr. Mills.

Mr. MILLS. I think that if it is across the board, as far as being competitive, and all the contractors would be on the same level playing field, I think that that is okay.

As far as the increased costs, ultimately it will be passed on to the owner, which would be in my case—consumer, which would be Pennsylvania, which would also be the taxpayers of Pennsylvania. I think for the amount of jobs that we create and the amount of families that we feed, I think it is well worth it.

Mr. KIRCHHOFF. Likewise, we refer to it as a user fee at our company versus a gas tax. And I think the benefits of it—decreased congestion, safer roads in the rural part of our territories and so forth—far outweigh the increased expense that our company would incur.

And as to the other topics of health care and cap-and-trade, I think we would be in a position with our current expense levels and so forth to be able to withstand—the little bit I am understanding of the new bill—be able to withstand that with our current levels of funding for that business.

Ms. FALLIN. That is interesting. Even though you have gone from 1,500 to 1,000 employees, you could withstand those cost increases?

Mr. KIRCHHOFF. I would have to see what the final cost increases are. But I think—we invest heavily in our people. We have a very robust health care plan for our people. And I think anything that we are being obligated to do, we are already doing. So I am confident that we can handle that.

Ms. FALLIN. Okay.

Mr. ROBINSON. I think it is always an interesting argument when you pose it as an increase in costs and operations, as if the way we are headed is not ultimately taking us to a much more expensive end gain. So this idea that you take this slice and it is going to cost you more for all of these things, yes. But isn't it really costing us a lot more for not doing this in the long run? I mean, every one of these are issues that have been piling up. So we are at that moment in history where we are trying to take care of a lot of stuff, and it happens to be all at once.

I think small businesses are exactly—as has been said, we are able to respond to those, and we will survive and we will achieve and we will prosper. As long as it is all headed to reinvestment and recapitalizing this country, I think we are in good shape.

Mr. MARTIN. We look at it the same way as Tom said, as a user fee. I mean, if you are going to use the road, you might as well pay the fee to use the road. And an increase in the user fee will give us more transportation work, which will give our company more work, which in turn will help us pay for the additional costs of the health care and the cap-and-trade. So we strongly are in favor of a user fee increase.

Mr. ROSS. Our Association agrees. We in our Toward Zero Deaths proposal actually have addressed an increase in the user fee. And I think we also have to look at it as a true investment, and the payoff is in creating jobs and saving lives. And we can get into all sorts of subsets of that, but that is the way we approach things.

Mr. FILIPCZAK. We are in favor of increasing the gas tax and in fact indexing that to inflation. And just from a company perspective, we look at it really two ways. You know, we pay now or we pay later. If we pay more in gas tax and we increase our internal fuel costs, that is a cost that I think we can absorb. But we are not just building those systems, we are also using those systems. We dispatch 35 crews every day, and they have got to get to the job site on time to respond to our customers.

And so if we don't make the investment, then we are not going to be able to do the job that we have been contracted to do. So we are in favor of that.

Ms. FALLIN. Thank you, Mr. Chairman.

Chairman ALTMIRE. Mr. Shuster.

Mr. SHUSTER. Thank you very much.

Just to follow up on the line of questioning of my colleague from Oklahoma, and I would assume all of you are going to support an increase in the user fee at the pump. It makes sense. That is where the money is. And if you use it, you pay for it. I look out there, and everybody but probably Mr. Robinson are heavy users of the highways with trucks and vehicles, so you all see that increase go up, but you see the benefit to that.

As far as the increase in possibly health care costs, my question is a little different. One of the proposals is if you don't provide health care to your employees, it is an 8 percent penalty to you. And probably many of you in your head know what you have in health care costs versus what your payroll is. And if you do the math, I had a company that came to me yesterday, a small company that employs about 50 people, $128,000 a year is what they pay in health care costs. Their payroll is about $900,000. So he told me he would rather pay the $72,000 and saving $50,000 a year. And I have got to believe your ratios are about the same for all of you; health cares costs are one-tenth or one-seventh, or something like that, of your payroll.

Would that be the same outcome for you if you had that type of—could you respond to that and be thinking about that?

Yes, Mr. Ross.

Mr. ROSS. Congressman, we have to remember we are in a competitive environment for the people that we have working with us and for us. We have to go out and recruit, we have to train. We are making an investment in them every day. Part of that investment are the benefits that we provide. If we take away some of those benefits, we could very well lose good, trained people, and not get them back.

Mr. SHUSTER. I am not saying taken away from you, I am saying the government can supply you with that insurance and save you, in this case scenario, $50,000 a year. So I am just saying, on a business model, if you are paying $200,000 in health care costs, and you are paying $2 million in wages, an 8 percent penalty on that, it would seem to me you would make the decision to let the health insurance go to a government-supplied entity instead of paying out of your pocket if there is a savings there. I am not saying take it away, I am saying just a different source—as a business person

Mr. ROSS. Looking at absolute numbers, maybe there is an argument there, or maybe there is a substantiation for that other position. I think that you have to—certainly from a business standpoint, you have to look at what are the products you are talking about, and what your employees expect, what do you want to provide? I mean, we pay lots of things every day that we don't want to pay, and I am not just talking about employee benefits, I am talking about lots of stuff.

Mr. SHUSTER. I was a small business owner, and the case you are making to me is you will pay more for the same piece of equipment if you can get the same piece of equipment for less? Thomas, you are shaking your head.

Mr. KIRCHHOFF. Yes. Going back to the logic and how you posed the question, when I do the quick math in my head, the 8 percent is an easy decision for us. I think we invest far more in our people, and their health plan is far more robust than 8 percent of our expense.

So not knowing too much about the legislation and so forth, running the quick math in my head, I would certainly think that could be a direction we would go.

Mr. SHUSTER. We are all waiting to see what the legislation looks like.

I will yield to my colleague.

Ms. FALLIN. Yes, if you will yield for just a moment.

I guess the question he is trying to ask—because we have been debating this here in Congress, too—would you drop your private-sector coverage if you could just pay an 8 percent increase than what you are paying right now with the government?

Mr. KIRCHHOFF. If it could provide the same level or better benefits for our employees, sure we would consider it, if it is the same level of benefits.

Mr. SHUSTER. It takes someone from Oklahoma to make sense of what I was trying to say.

Mr. KIRCHHOFF. I guess the answer is yes.

Mr. SHUSTER. And the other question I had—and I didn't mean to get off on the health care tangent, but it is the issue of the day. But also, just to talk a little bit—I just have 30 seconds—but the competition that is out there, and I see it in my area where people are coming from all over, large companies are competing. How is the competitive environment out there right now for you? Like I said, especially with—I know most of you are smaller companies, but the big boys sort of coming in—

Mr. FILIPCZAK. I can answer from our perspective, it has been extremely fierce. And it has gotten more competitive with the stimulus dollars out there. And in my mind, it is really the stimulus dollars flowing now, but linked with the uncertainty of the long-term funding that is causing a more competitive than normal environment.

Mr. SHUSTER. Anyone else want to take a crack at that?

Mr. MARTIN. From our perspective, it is definitely much more competitive. We sell directly to the highway contractor, the asphalt plants, so when they get a bid opening, there are 50 people there where there are usually 5 or 10. So they have got to sharpen their pencils and get real tight on their numbers. Their margins are shrinking, so therefore they are starting to hammer us to start shrinking our margins. And now is not the time to be shrinking the margins with all of our other costs that we are talking about possibly going through the roof.

Mr. SHUSTER. If I could just ask one more question, Mr. Chairman, and I will forgo my second round.

I think some of you touched on it, but could you be a little more specific? What kind of things—we are talking about the highway bill and doing an 18-month extension. How much of an impact is that going to have on your short-term and long-term planning if you have an 18-month versus you have a 6-year bill?

I see, Mr. Ross, you put your finger up first.

Mr. ROSS. The thing that concerns me about a 12- or 18-month extension is the fact that you don't have any predictability. Small businesses need to be able to justify investments in people and in equipment, and you can't do that if you don't know what the funding is a year out or 2 years out.

That is what has been nice about having a 6-year bill—although SAFETEA-LU was actually a 4-year bill. You just can't do it. And that is why this whole issue of those of us who are dependent on State programs as well, and we see what has happened with the State programs, and then the normal SAFETEA-LU type of situation, their inability possibly to make their match, it throws all that into question. You are going to get everybody real nervous if we just do extensions the way we did on the last reauthorization, and people are not going to be making the long-term investment in equipment and in people.

Mr. SHUSTER. And I am going to ask you, Tom, because I know we had a discussion about this, what is more difficult, the capital or the people, in trying to figure out which to do, what you are going to do?

Mr. KIRCHHOFF. In regard to our investment in our business?

Mr. SHUSTER. Right. In 18 months versus 6 years?

Mr. KIRCHHOFF. Well, as you have seen, I have talked to probably 10 to 20 large contractors of ours in the last week or 2 preparing for this statement, and they have all mentioned to me their uncertainty about the future is refraining and restraining them from making any kind of a large capital outlay. They are spending some parts and service revenue to keep their equipment going, and they are keeping their idle equipment busy, but that is not moving the needle for our Cleveland Brothers. We are significantly impacted by that, and extending out another 18 months will just further the pain that we have been talking about here all day today.

I think at September 30, we recognize some sort of an extension is going to be necessary. I would like to hope it is going to be far less than 18 months, maybe the order of 6 months, again, to put an end to that uncertainty. Our contractors just know that there is—something is coming, and when I buy this piece of equipment from you, Cleveland Brothers, I will have work for it for the next 6 years—or there is opportunity for work for the next 6 years. And right now they don't have any of that confidence.

Mr. SHUSTER. Thank you very much.

Thank you, Mr. Chairman.

Chairman ALTMIRE. Just one or two more.

Mr. Robinson, the Brooks Act, also known as qualifications-based selection, ensures that architects who design public buildings are the most qualified to perform the work.

How does QBS ensure the highest quality of work and result in a leveling of the playing field for small businesses?

Mr. ROBINSON. What happens with QBS is that you are not competing directly on price anymore. And what typically happens is that you will get large national and multinational firms that bring all their disciplines under one house, so they become huge competitors to take these projects. And they are not necessarily built for that particular expertise, it is included in a whole basket of services.

So it really allows you to pull out where you have very specific expertise and experience and let that become kind of building a team to do these projects rather than just taking it as a full one big shop. And we have seen a lot of that happening over the last few years as consolidation into giant firms who go out—and we talk about competition—are competing for everything under the sun. So it really knocks the small business—it sort of knocks them out of a competitive platform to be able to do that both on price and capacity.

Chairman ALTMIRE. Thank you.

And my final question, I think, will transition nicely into Congresswoman Fallin's final question.

Specifically for Mr. Martin, without a multiyear highway reauthorization, States are unlikely to initiate large transit projects, and contract awards for construction projects will inevitably slow.

Can you discuss the percentage that your business revenues rely on transportation construction dollars, and have you seen this reduced due to the lack of a multiyear highway bill to this point?

Mr. MARTIN. Yes, great question. Roughly 60 percent of our business is directly related to transportation spending, either building the roads, the asphalt for the roads, the concrete for the roads. So that is a large chunk of our business, and that portion has gotten larger as the residential side has dropped. So we are directly tied to the transportation spending.

The customers that we have tell us that they know they have work to finish a year out, but next year, the year after, they are not sure. So that makes us think twice about, all right, we need to upgrade a piece of equipment, we need to buy a new loader from Tom, but we don't know; are we going to have the work for that load, or is it going to sit all next year? And with the uncertainty that contractors are telling us, I mean, our contractors have to make big investments in services as well, and they are scared to do it, which in turn slows us down, which, like I said, we are down 20 percent of our manpower from 2 years ago. And for a company my size, that is 20 percent of people that we know real well, we see them walking in the gate every day, saying hi to them, how is your family. We don't want to lose any more of those people, so we definitely need a long-term plan to give that some stability so we can, in turn, have our company's stability and work for our employees.

Chairman ALTMIRE. Thank you.

I now recognize Congresswoman Fallin.

Ms. FALLIN. Thank you, Mr. Chairman.

I think that goes right along, as you said, with my line of questioning. I was just concerned that if we just do an extension only here in Congress—which we don't support—how would that affect your hiring and your maintenance of employees that you have now, your investment into equipment because you have to pay that off over years, and even the financing from your bank loans? I would assume that you have lines of credit that you have to draw from financial institutions, and you do that based upon the work that you may have in the future. And if you have uncertainty in the quantity of work that you are going to have in the future, then I would assume you would have to start looking at your workforce and planning ahead and the equipment that you buy.

Are you even having trouble with the banks per se in getting the financing? That has been another big issue we have been talking about here is have we actually helped in Congress to release that investment flow of capital, or have we actually kind of caused the market to contract back to where the capital is not even available for you?

Any of you.

Mr. KIRCHHOFF. Two points. First on the employment front. It is pretty simple for us, although it is a gut-wrenching decision. When you take a look at the revenue that were are creating or that is being created for us for our business, keeping our shops and our mechanics busy, the parts that we are selling to contractors, as that slows, we can only afford to keep a level of employment consistent with that level of revenue. As I mentioned earlier, we are down about 30 percent in our employment. Our business is off greater than 30 percent. Our largest expense is employee expense and all the things that go into that; health care, salaries, wages, and so forth. So as business continues to deteriorate, that is one of the first areas where we are forced to look.

As far as our banking goes, we are in a fairly fortunate situation where we do have a source of funding. However, there are covenants that come along with that source of funding, and as our business underperforms, those covenants get tighter and tighter. So we are constantly looking at that to make sure that we don't have to go back out there and reapply for more funds with our banks. But, again, keeping an eye on the top line and the bottom line is where that difference comes in.

Ms. FALLIN. Can I ask you a question; do you do any exporting?

Mr. KIRCHHOFF. Very little; probably less than 5 percent of our business is exporting. We have done more over the years, but not so much this year.

Ms. FALLIN. Okay. Anybody else want to respond?

Mr. FILIPCZAK. I would like to take it just from an equipment perspective. I mean, I guess we are fortunate in that, from the financial perspective, we haven't seen any additional pressure, but we are also not borrowing heavily. So they would go hand in hand.

From an employee perspective, our employee count is more project-based, and it is a little hard to connect the dots between an extension versus the full authorization. But from a capital expenditure perspective, I can say that 12 months or 18 months doesn't do it for us in terms of capital expenditures. The service life of the equipment that we buy is between 5 and maybe 12 years, somewhere in that range, and so we are definitely not in the mode of buying equipment when we don't have a long-term funding plan in place.

Ms. FALLIN. Makes sense to me.

Mr. Chairman, I also have a request, if I can. I ask unanimous consent to leave the record open for 5 days in order for other interested parties to have access to putting testimony into the record.

Chairman ALTMIRE. Without objection.

Chairman ALTMIRE. Again, thank you to each of you. You have made a big difference by being here. We appreciate your taking the time to join us today.

Thanks to Congressman Shuster for joining us as well.

This hearing has now adjourned.

[Whereupon, at 11:28 a.m., the Subcommittee was adjourned.]

JASON ALTMIRE, PENNSYLVANIA
CHAIRMAN

MARY FALLIN, OKLAHOMA
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
Subcommittee on Investigations and Oversight
2361 Rayburn House Office Building
Washington, DC 20515-0515

STATEMENT
Of The Honorable Jason Altmire, Chair
Subcommittee on Investigations and Oversight
U.S. House Committee on Small Business
"Highway Reauthorization: Meeting the Needs of Small Businesses"
Thursday, July 16, 2009

In the decades since the first interstate was poured in the 1950s, our highways and bridges have become critical arteries of commerce. Much of this infrastructure was built through the ingenuity and hard work of our nation's small businesses.

Given the role that entrepreneurs have played in the creation of our highway system, it only makes sense that, as Congress begins work to reauthorize the Federal Highway Bill, we take small business priorities into account. Today's hearing will examine whether our transportation system is meeting the needs of our entrepreneurs. We are also going to look for ways to ensure small firms continue to be the cornerstone of American infrastructure.

The reauthorization of the Highway Bill is not just a matter of building roads and bridges. More importantly, it gives us an opportunity to revive our economy with new job creation. The benefits of this growth would be felt both immediately, and for decades to come.

There are several infrastructure challenges which, if properly addressed, could help our economy grow. Take traffic congestion, for example. Congestion is an issue which touches our lives on a daily basis. Easing congestion would lead to lower shipping costs and improved productivity. Every year, gridlock eats up 4.2 billion hours and wastes 2.8 billion gallons of fuel. These costs are taking $87.2 billion out of our economy each year. Just think what a powerful boost we could give entrepreneurs if we were able to recapture those dollars, and invest them back into small firms.

No other sector of the economy is more uniquely positioned to tackle infrastructure challenges than entrepreneurs. The American Recovery and Reinvestment Act, with nearly 5,500 projects already authorized, is a big step that will go a long way in helping small firms grow. We need to make sure that the Highway Bill builds off of that important initiative, and that it does so in a way that benefits both the entrepreneurs who use our roads and the small contractors who construct them.

Today—as in the era when our highway system was first created—it will be entrepreneurs in fields like architecture, engineering and construction who lead the charge in rebuilding and modernizing our infrastructure. But these projects are not easy solutions—they require long-term planning and investment in a myriad of different areas. Without adequate funding and fair competition, small firms won't be able to offer the innovative systems and cost-efficient techniques that would otherwise benefit communities across the country.

A long-term surface transportation reauthorization has the potential to provide that long-term vision and foundation. It holds the promise of creating jobs that put people back to work improving our national infrastructure. In fact, the Federal Highway Administration estimates that every $1 billion in highway capital leads to 30,000 jobs and $1.1 billion in employment and wages. This multiplies the benefit of each federal dollar spent, growing our economy and leaving our country with lasting economic gains.

We need a transportation system that increases both our economic strength and our competitive edge in the global marketplace. In my district in western Pennsylvania and all across our country, we have roads and bridges that are in critical need of repair. Going forward, the highway reauthorization bill will be a crucial vehicle for our entrepreneurs as they work to improve our infrastructure and rebuild our economy.

U.S. HOUSE OF REPRESENTATIVES

SMALL BUSINESS COMMITTEE REPUBLICANS

REPRESENTATIVE SAM GRAVES, RANKING MEMBER

Opening Statement for Hearing on
*"The Upcoming Highway Bill and
Ensuring it Meets the Needs of Small Businesses."*
Mary Fallin
Ranking Member
Committee on Small Business
Subcommittee on Investigation and Oversight
United States House of Representatives
Washington, DC
July 16, 2009

Good morning and thank you for participating in today's subcommittee hearing highlighting the impact the draft highway reauthorization bill will have on small businesses. I would like to thank Chairman Altmire for holding this hearing.

Government spending has spiraled out of control. Congress recently passed a bailout package that cost taxpayers $700 billion, passed a stimulus package that cost taxpayers $787 billion, passed an omnibus appropriation bill that cost taxpayers $410 billion, and estimates on the recently-passed climate change bill and healthcare proposal suggest more of the same. Now, on top of all that, Congress wants to pass a $500 billion highway reauthorization? When will the spending stop? And what does this all mean for taxpayers and small business owners? I can tell you: higher taxes.

With all the excessive spending, the size of our government is growing dramatically, and the draft highway bill is fueling this trend. Last Wednesday, a front page Washington Post article ran with the headline, "Traffic Eases Nationwide - Except in D.C., Study Finds." Three paragraphs into the story, the coauthor of the study highlights how the "expansion of the government and government services" has contributed to Washington's traffic problems. I find this to be a good snapshot of government spending, creating more problems then it fixes.

The draft highway bill has grown substantially compared to years past when it simply provided funding to build roads and bridges. Now, the bill has expanded to include the creation of a National Infrastructure Bank, an Office of Public Benefit, an Office of Livability, and a U.S. Bicycle System, to name a few. We need to be better stewards of taxpayer dollars, make tough decisions and get back to the basics when it comes to transportation spending.

Our country's infrastructure is critical to this economy and improvements are desperately needed. I believe that small businesses will benefit from efficient infrastructure spending. However, we must be careful about how we move forward. Raising taxes to pay for this bill in a time when gas prices and unemployment are rising will be counterproductive. Simply raising taxes in order to throw money at our current infrastructure problems whether that is a gas tax, millage tax, or any other tax will harm small businesses and families across the nation. On top of that, an expansion of Davis-Bacon or prevailing wage rates will equally devastate the very small businesses that could benefit from increased infrastructure spending.

Congress must work together to find a responsible and cost efficient way to sustain our national transportation needs. Promoting measures that allow projects to be completed with less government interference will allow projects to be completed in a more time efficient manner and at a lower cost. I strongly believe that by focusing on ways to reduce costs we can fund more projects which will allow small businesses more opportunities without adding new burdens and expenses to operate.

Again, thank you to all our witnesses for coming in today. I look forward to hearing about how we can make this highway bill better for taxpayers and small business owners.

Statement of

John M. Mills
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Plum Contracting, Inc.
Greensburg, Pennsylvania

on behalf of

The Associated General Contractors of America

presented to the

Subcommittee on Investigations and Oversight
Committee on Small Business
U.S. House of Representatives

on the topic of

The Upcoming Highway Bill and Ensuring it Meets the Needs of Small Businesses

July 16, 2009

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. More than 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at www.agc.org.

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Thank you, Chairman Altmire, Ranking Member Fallin, and members of the Small Business Subcommittee on Investigations and Oversight for the opportunity on behalf of the Associated General Contractors of America (AGC) to participate at today's hearing entitled "The Upcoming Highway Bill and Ensuring it Meets the Needs of Small Businesses."

My name is Jack Mills. I am Owner and President of Plum Contracting, Inc., located near Delmont in Westmoreland County, Pennsylvania, and I reside in Plum Borough in Allegheny County, Pennsylvania. Incorporated in 1980, Plum Contracting started doing business with nine employees as a subcontractor installing edgedrains, which is a type of subsurface drainage system that dewaters areas directly beneath roadway pavements, and erosion control on roads and highways throughout Pennsylvania. In 1999, Plum diversified into road and bridge building and, today, is a prime contractor for projects up to $10 million and has annual revenues of around $30 million for work done primarily in western and central Pennsylvania. Plum is also one of the largest installers of highway edgedrains in nine states: Pennsylvania, West Virginia, Virginia, Maryland, New York, Delaware, Ohio, Kentucky, and North Carolina. Plum has an office staff of nine professionals and 40 full-time field employees, and is a union contractor signatory. We operate a fleet of 80 licensed vehicles and about 100 pieces of construction equipment.

Plum is a small business in the highway and bridge construction industry and we have built projects that have had a positive impact on economic opportunities in western Pennsylvania. We recently completed a $8.5 million project to widen Center Avenue in New Stanton Borough in Westmoreland County from Interstate 70 to the UPS Terminal and added a new bridge over the mainline Pennsylvania Turnpike to Pennsylvania Route 66 Toll Road. This project has reduced traffic congestion in New Stanton and has allowed direct truck traffic to UPS and other businesses parks in the area.

In addition, Plum is currently working with the Pennsylvania Department of Transportation and the Westmoreland County Redevelopment Authority on a $7.5 million project to widen Finley Road in Westmoreland County. The project consists of adding turn lanes and other safety improvements that will allow unrestricted traffic flow to new retail shopping and commercial developments. As the road progresses, new stores are being constructed and businesses are relocating to a previously vacated grocery warehouse.

Currently, as much as 95 percent of Plum's work is with the State Department of Transportation, with the balance being municipal or airport work. Due to the downturn in highway and bridge funding, Plum's revenues have decreased by 35 percent since 2007, and our weekly payrolls have decreased approximately 37 percent from 165 employees in July 2007 to 110 in July 2008 to slightly less than 105 as of June 2009. Last summer, in an effort to bring revenues up for 2009, Plum expanded our bridge division and was successful in being the low bidder on six bridge projects. Although we currently have a backlog, we expect our profit margins to be down this year due to increased competition for work in the industry.

As a result, Plum Contracting has a vested interest in the upcoming multi-year surface transportation reauthorization bill, which we hope will substantially increase federal funding for highway and bridge work, as well as the immediate crisis facing the balance of the Highway Account of the Highway Trust Fund.

Introduction

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. Over 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects, site preparation/utilities installation for housing development, and more.

Surface transportation in the United States is at a crossroads. Since the enactment of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU) in August 2005, the interstate highway system celebrated its 50th anniversary. It was a celebration of the world's biggest public works program responsible for providing unprecedented mobility and economic opportunities for Americans. This legacy is our duty to maintain, as it is also our duty to meet the mobility demands of the 21st century to compete in the global marketplace and provide the best quality of life possible for all citizens. Our charge is crowded and crumbling; our country is growing and demanding. The challenges are great: resources are scarcer; energy costs are climbing; construction costs are escalating; and the public's confidence in its policy makers to address these issues is diminishing. This is what we confront at this crossroads.

AGC believes the transportation challenges facing the United States are significant and must be addressed in a prompt and responsible manner. All levels of government, including the federal government, must renew their commitment to the nation's transportation system. To this end, increased investment at all levels of government is vital and all options should be considered.

The National Surface Transportation Policy and Revenue Study Commission created under SAFETEA-LU called for a national vision to "Create and sustain the pre-eminent transportation system in the world." The federal government must soon address the crises facing the nation's transportation system not only as the expiration of SAFETEA-LU approaches in September, but also as balance of the Highway Account of the Highway Trust Fund depletes in August. AGC and our members across the country firmly believe that a decision not to provide the vision and resources necessary to face our transportation crisis is choosing to accept a diminished role for the United States in international trade and a lower standard of living for all Americans. This is not the choice our national leaders want to make or what most Americans would choose.

Highway Trust Fund

The U.S. Department of Transportation (U.S. DOT) and others have found that the Highway Trust Fund will fall below the minimum cash level to make daily payments by the end August. Once this happens, U.S. DOT will be required to drastically slow down state reimbursements. With the financial crisis hitting the states particularly badly (most states are constitutionally required to have balanced budgets, and they are thus scrambling to make cuts), the states are already out on a financial limb. Action is needed immediately to fix this problem. To do otherwise would leave the states with the need to float millions of dollars and incur substantial borrowing costs to meet their contractual obligations.

In the contracting process, the contractors typically do the work and incur the costs, and then submit payment requests to the state. The state would typically pay the contractor out of coffers supplied by federal funds. However in a payment slow-down or stoppage situation, the repayment is delayed, meaning the contractor is the one who suffers a cash flow crunch. This is exceptionally problematic for small business contractors, who rely more on timely repayments to stay afloat. This problem is particularly exacerbated by the hostile economic conditions which mean that any crisis in cash flow could result in a business folding completely.

Congress must take steps to avoid sending signals of uncertainty in the program. The construction industry makes decisions about investments in new equipment and in retaining and training a workforce based on its best projection about where the market will be over the long term. Without the knowledge that a continuous and growing market is on the horizon, contractors will not make the investment necessary to carry out this program's objectives. This is particularly true for small businesses, which typically have less operating capital to invest, thus are more risk-adverse with their capital. This trait is also magnified by the economic conditions, which make risk reduction a company's top priority. This hurts the program as much as it does the industry. Efficiency and productivity increases when contractors can project a steady future market in which to work. This helps lower costs, and allows for a better constructed project because new equipment and improved technology improves the final project.

For these reasons, program continuity must be a priority. Ensuring that the program is not disrupted based on the legislative clock will help keep our state transportation plans on track and transportation contractors working. Sending signals of uncertainty could cause the states to begin slowing down or withholding payments in anticipation of a funding shortfall. With the Recovery Act funding starting to put people back to work, it would be counterproductive to cause market disruption by not acting in a timely fashion. This will require congress to address the infrastructure funding crisis by September 30, 2009. A well funded multi-year program is vital to economic stability, market predictability, and picking up where the Recovery Act left off.

Recovery Act

Continuing the momentum of the stimulus is particularly important. AGC studied the economic impact of infrastructure investment on job creation. AGC's analysis, in partnership with George Mason University, showed that investment in nonresidential construction adds significantly to jobs, personal income, and GDP—far beyond the hiring that takes place in the construction industry itself. AGC found that $1 billion in nonresidential construction spending would add about $2.6 billion to the state's Gross Domestic Product (GDP), about $780 million to personal earnings and create or sustain 22,000 jobs. In my state of Pennsylvania, a total of 453,000 jobs were supported by the direct and indirect expenditures associated with the state's nonresidential construction spending, in 2007. The Recovery Act is already going a long way towards creating or saving these jobs. But, national construction unemployment is still at 17.4 percent (not seasonally adjusted), compared with the total private unemployment rate of 9.7 percent. We are in a critical, vulnerable stage in economic recovery, maintaining program continuity is key to "staying the course" set by the Recovery Act. This is particularly true for small businesses. Pennsylvania had 30,000 construction firms in 2006, of which 91 percent were small businesses employing fewer than 20 workers. For the reasons described above, these businesses are extremely sensitive to changes in long range planning. Solving the trust fund crisis and maintaining the existing programs is the only way to keep the workers on the job and finish the job that the Recovery Act started.

Surface Transportation Reauthorization

The current multi-year authorization of the surface transportation program—SAFETEA-LU—is set to expire on September 30, 2009. The reauthorization provides an historic opportunity to establish a national vision and mission that delivers 21st Century transportation solutions that strengthen the U.S. economy, enhance the quality of life for all Americans, and protects our natural environment. AGC urges Congress to move expeditiously to enact multi-year reauthorization legislation that accomplishes the following principles:

Strong Federal Leadership – Enhance federal leadership and resources to ensure that the U.S. surface transportation network operates as a seamless, interconnected system to achieve optimal performance.

Protect Existing Assets – Provide sufficient revenue to ensure that the U.S. network of highways, bridges, and public transportation facilities are properly maintained and enhanced for continued productivity and safety.

Expand System Capacity – Expand highway, bridge, and public transportation capacity to accommodate the 30 percent increase in U.S. population and the over 100 percent increase in demand on the U.S. transportation system since 1982. Over this time period, highway and bridge capacity (measured in new lane miles) has only increased by six percent.

User Fee Financing to Increase Investment – Maintain and enhance the highly successful user fee financing method for supporting transportation improvements.

Improve Project Delivery Process – Reform the environmental review and approval process for transportation projects, without diluting environmental protections, to reduce the 13 years it takes on average to complete a transportation improvement project.

Enhance Infrastructure Safety – Improve roadway conditions that are a contributing factor in nearly 50 percent of U.S. vehicular crashes that result in over 40,000 fatalities and impose $217 billion in economic costs every year.

AGC urges Congress to consider the following recommendations to achieve the principles stated above:

Short-term Financing – New revenue must be generated to prevent significant cuts in federal highway and public transportation investment. AGC recommends the following:

- The most reliable and efficient method to finance surface transportation improvements in the short-term is the federal motor fuels tax. A fuels tax increase should form the foundation of the 2009 reauthorization bill's financing.
- The remaining highway user fees (excise taxes on truck tires, truck and trailer sales, and heavy vehicle use tax) should also be increased.
- To maintain purchasing power, the federal motor fuels tax should be indexed to the Consumer Price Index or, ideally, to a measure of highway construction materials costs (e.g., Producer Price Index).
- Efforts to eliminate the illegal evasion of user fee payments should be increased. Congress should consider moving the taxation of fuel from the rack to the refinery, for example.
- Bond financing mechanisms (e.g., Build America Bonds) should be developed to finance significant transportation capital improvement projects.
- Use of toll financing, congestion pricing, public-private partnerships, and other alternative financing practices should be expanded.

User Fee Rate Commission – Create a new entity, modeled after the U.S. Postal Rate Commission, to adjust federal highway user fee rates outside the political process to ensure transportation investments keep pace with system needs and inflation.

Future Financing – Begin transitioning to a non-fuel based financing mechanism, such as a vehicle miles tax, to ensure that highway users are paying their fair share in support of transportation infrastructure.

New Freight Program – Enact a program to develop the additional system capacity necessary to accommodate the dramatic projected growth in U.S. freight shipments, funded outside the Highway Trust Fund with freight-based user fees or other appropriate revenue sources.

Budget Firewalls – Retain the existing separate budget categories for highway and mass transit in the Highway Trust Fund and continue the link between transportation investments and trust fund receipts.

Accountability – Establish a set of specific performance standards in the areas of congestion relief, asset protection, safety, and financial stewardship and impose tangible enforcement mechanisms to ensure these standards are achieved to ensure program accountability.

Timely Enactment – Enact a multi-year reauthorization of SAFETEA-LU by October 1, 2009, to minimize disruption to transportation programs.

Environmental Review Process – Reform the transportation project environmental review and approval process by:

- Delegating NEPA responsibilities to all interested states
- Implementing alternative dispute resolution processes
- Integrating transportation and environmental planning
- Strengthen "Lead Agency" status for the U.S. Department of Transportation
- Establish expedited process for projects with no significant impact
- Use time limits for environmental reviews

Infrastructure Safety – Strengthen the federal role in infrastructure safety, through the Highway Safety Improvement Program and other initiatives, with increased investment and continued programmatic independence. Enhance efforts to improve the safety of high risk rural roads and accommodate the needs of older drivers.

User Fee Integrity – Avoid new initiatives to finance non-transportation infrastructure activities with Highway Trust Fund revenues. Funds allocated to the respective Highway and Mass Transit Accounts of the Highway Trust Fund should be dedicated exclusively for those purposes and not "flexed" between the two accounts.

Research – Retain and increase funding to existing asphalt, concrete, and aggregates research programs to achieve longer lasting, environmentally friendly highway pavements. Provide funding for research initiatives focused on roadway safety features and devices.

Work Zone Safety

Another area where Congress can help small businesses in the highway and bridge construction industry is in the area of work zone safety. Congress enacted provisions in SAFETEA-LU (Section 1110) that directed the Federal Highway Administration (FHWA) to develop regulations establishing the conditions for the appropriate use of, among other things, "positive protective measures between workers and motorized traffic." Congress took this action out of concern for the increasing number of deaths to construction workers and motorists in highway work zones. Including positive barriers as a part of the safety features of a construction project does increase the cost of construction, but the law was intended to clarify that cost should not be a consideration when determining the safest methods for protecting workers and motorists. Smaller contractors have a harder time bidding for projects that require these measures because of their cost and the difficulty of including these costs in their overhead.

In 2007, FHWA issued final rules implementing section 1110 but watered down their own proposed rules and instead issued final rules that do not establish any minimum standard for use of positive protection measures. FHWA's rules also include a list of conditions that should be considered by states when making decisions about the use of positive protection measures, including the cost. Statistics show that 23 percent of all worker fatalities in highway work zones are due to workers on foot being struck during a work zone space intrusion. Crash statistics from the New York DOT indicate that the use of positive protection strategies there led to a 20 percent reduction in fatal work zone crashes. Congress should enact provisions in the upcoming surface transportation reauthorization that adopts the intent of section 1110 of SAFETEA-LU, including the minimum conditions requiring the use of positive protection measures. These are the same minimum standards that were developed by FHWA in its original rulemaking.

Constructing a Green Transportation Policy

Given a focus of this Congress on green jobs and reducing greenhouse gas emissions and fossil fuel consumption, AGC would like to take this opportunity to describe briefly how the construction industry is leading the way towards building a cleaner, healthier, and safer environment. As important as providing the needed infrastructure improvements, is the way in which these improvements are made.

The industry has had a long history of developing construction techniques and practices that enhance our environment and continue to do so. For example, AGC is committed to facilitating our members' efforts to recycle or reuse construction and demolition debris, which is, in many cases, cost-effective and energy efficient. Recycling and reuse of construction and demolition debris can decrease the amount of waste sent to landfills, reduce transportation costs, lower energy use, and reduce related greenhouse gas (GHG) emissions.

In addition, AGC members are making efforts to reduce the impact of off-road diesel-powered construction equipment on the environment. It is important to note, however, that according to U.S. Environmental Protection Agency (EPA) estimates, equipment used in construction generates only 0.86 percent of total U.S. GHG emissions, due to the combustion of fossil fuel. Despite the industry itself not being a large contributor of GHG emissions, many construction companies are taking steps voluntarily to decrease their fuel consumption and "carbon footprint" through reduced equipment idling, equipment maintenance, and operator training. Construction companies are also retrofitting their equipment by, among other things, installing diesel particulate filters on diesel engines, which can reduce diesel particulate and black carbon emissions, a pollutant attributed second only to carbon dioxide (CO_2) in causing global warming.

However, for the construction industry, the costs of retrofitting equipment are prohibitive without financial assistance. AGC urges Congress to provide financial and technical assistance to construction equipment owners and operators to encourage these firms to install emissions control technologies on their diesel engines or, in some cases, to offset the cost of a replacement engine or an entirely new piece of equipment. Congress can provide this assistance by fully funding EPA's Diesel Emissions Reduction Program and by enacting provisions in the surface transportation reauthorization bill that would provide federal funding to contractors engaged in federal-aid highway and transit projects for diesel retrofit activities. AGC also urges Congress to enact a tax credit to construction equipment owners, as well as manufacturers, to spur investment in cleaner, more fuel efficient off-road diesel-powered construction equipment.

AGC would also like to point out that construction can assist in reducing GHG emissions by improving the transportation system so that it operates efficiently. One of the leading causes of GHG emissions is not transportation itself, but congestion. A transportation system that runs smoothly is the cleanest, most energy efficient way for people—and small businesses—to conduct their daily lives. In 2004, a study of the nation's most severely congested highways highlighted the fact that significant reductions in emissions require a reduction in vehicle time traveled, not vehicles miles traveled. The study concluded that modest improvements to traffic flow at 233 bottlenecks would reduce CO_2 emissions by as much as 77 percent and conserve more than 40 billion gallons of fuels over a 20-year period. Restricting transportation improvements that significantly reduce congestion would impair our country's ability to cut both harmful emissions and save billions of gallons of wasted motor fuels caused by congestion. AGC urges Congress to ensure that congestion relief projects that add both transit and highway capacity bill be encouraged in any multi-year surface transportation authorization or climate change legislation.

Conclusion

The United States has been under investing in our transportation systems for far too long and the impact is now being felt in every state and in most towns. This underinvestment is costing U.S. business—small and large—and the traveling public time and money.

Congress must address the immediate short-fall facing the Highway Trust Fund before it breaks for the August recess and it must continue efforts to enact a multi-year surface transportation authorization that increases investment and provides construction companies with the continuity that allows them to thrive and contribute to the nation's economic well-being. Again, AGC believes that the traditional motor fuels tax is the most efficient financing mechanism for increasing revenue for surface transportation in the short-term and should be adjusted appropriately to account for inflation and investment needs. Supplemental financing mechanisms should also be considered.

On behalf of AGC, I appreciate the opportunity to provide testimony to the Subcommittee this morning and look forward to your questions.
Thank you.

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THE IMPACT OF THE FEDERAL HIGHWAY REAUTHORIZATION AND TRANSPORTATION INFRASTRUCTURE INVESTMENT ON CONSTRUCTION EQUIPMENT INDUSTRY SMALL BUSINESSES

STATEMENT OF THOMAS KIRCHHOFF, EXECUTIVE VICE PRESIDENT AND COO, CLEVELAND BROTHERS EQUIPMENT CO., INC., HARRISBURG, PENNSYLVANIA ON BEHALF OF THE ASSOCIATED EQUIPMENT DISTRIBUTORS BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT

JULY 16, 2009

Executive Summary:

- **The failure to make adequate surface transportation infrastructure investments at all levels of government has severe economic and safety consequences.**
- **Existing federal funding streams are inadequate to address the nation's unprecedented infrastructure crisis.**
- **The equipment industry is highly attuned to the challenges facing the highway program because it has such a substantial impact on equipment distributors. Each dollar invested by government in highways creates 6.4 cents in equipment market opportunity and each dollar spent at an equipment dealership yields $3.19 in economic activity as the money is re-spent in the local economy.**
- **The uncertainty surrounding the solvency of the Highway Trust Fund (HTF) and reauthorization of the federal highway program is adding to the construction industry's woes.**
- **Congress should quickly shore up the HTF and reauthorize the highway program to dramatically increase investment levels and create new user fee revenue streams to ensure the HTF's long-term integrity.**

Good morning Chairman Altmire, Ranking Member Fallin, and other distinguished members of the House Small Business Committee's investigations and oversight subcommittee. My name is Tom Kirchhoff and it is my pleasure to come before you today both in my capacity as a small business owner and as a spokesman for my industry.

I am the vice president and COO of Cleveland Brothers Equipment Co., Inc., a family-owned company headquartered in Harrisburg, Pennsylvania. Cleveland Brothers is the authorized Caterpillar construction equipment distributor for 59 Pennsylvania counties in an area that stretches from the northeast corner of the state throughout all of central and western Pennsylvania, including Pennsylvania's fourth congressional district. Our territory also includes 17 counties in northern West Virginia and two in western Maryland. Cleveland Brothers has 28 locations and 1058 employees.

I am testifying today on behalf of the Associated Equipment Distributors (AED), the national trade association representing authorized, independent distributors of construction, mining, forestry, and agricultural equipment. Cleveland Brothers has been an

AED member since 1948 and we are a founding member of AED's Highway Infrastructure Taskforce. AED has more than 1,000 members, the overwhelming majority of which are small businesses. Approximately 48 percent of the association's distributor members report annual revenues of $10 million or less.

AED members supply the equipment that builds America's highways, bridges, airports, sewer, and drinking water systems and AED has a longstanding commitment to strong federal infrastructure programs. It is no surprise that the pending highway reauthorization is therefore among our top legislative priorities for the 111th Congress. AED is a member of the management committee of the Americans for Transportation Mobility (ATM) coalition and of the Transportation Construction Coalition (TCC), the two leading coalitions working on highway issues.

I appreciate the opportunity to come before the Committee to discuss how equipment distributors and other small companies are affected by the federal highway program and the pending highway reauthorization.

Confronting the Nation's Infrastructure Crisis

America's surface transportation policy is at a critical crossroads. Numerous private and government studies have concluded that America's crumbling infrastructure threatens our economic vitality and public safety, and that transportation infrastructure investment should be increased at all levels of government. For example:

- The Texas Transportation Institute (TTI) reported last week that traffic congestion, resulting in large part from inadequate road capacity, costs the country $87.2 billion per year in wasted time and fuel. According to TTI, "The total amount of wasted fuel topped 2.8 billion gallons – three weeks' worth of gas for every traveler. The amount of wasted time totaled 4.2 billion hours – nearly one full work week (or vacation week) for every traveler."[1]

- A study released earlier this month by the TCC found that more than half of all highway fatalities are related to deficient roadway conditions. Poor road conditions are the single most lethal contributing factor to motor vehicle crashes – greater than speeding, alcohol or non-use of seat belts, contributing to 22,000 highway fatalities each year, or more than half (53 percent) of all deaths on our roads. These crashes cost the United States more than $217 billion each year.[2]

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1 David Schrank and Tim Lomax, Texas Transportation Institute, *2009 Urban Mobility Report* (2009) <http://tti.tamu.edu/documents/mobility_report_2009_wappx.pdf>.

2 Ted R. Miller and Eduard Zaloshnja, The Pacific Institute for Research and Evaluation and the Transportation Construction Coalition, *On a Crash Course: The Dangers and Health Costs of Deficient Highways* (2009) <http://www.aednet.org/government/pdf-2009/AED-TCCSafetyStudy-20090701.pdf>.

- The Surface Transportation Revenue and Study Commission, which was established by Congress to examine the infrastructure crisis, said last year that the United States must invest at least $225 billion annually from all sources for the next 50 years to upgrade our existing surface transportation system to a state of good repair and create a more modern system to sustain and ensure strong economic growth. The same report said we are spending less than 40 percent of this amount today. The Commission recommended new revenue strategies to support federal investment, including increasing the federal gas tax between 25 to 40 cents (five to eight cents per gallon, per year), with the rate increase indexed and phased in over time.[3]

The most recent federal surface transportation authorization law (called the Safe, Accountable, Flexible, Efficient Transportation Equity Act – Logistics Unlimited (SAFETEA-LU)) expires on Sept. 30, 2009. The reauthorization of highway and transit programs provides an excellent opportunity to address the infrastructure crisis. However, at the same time the nation is waking up to its transportation challenges, the federal government has run out of money to increase infrastructure investment.

When SAFETEA-LU was enacted in 2005, its drafters guaranteed a minimum of $223 billion for federal highway investments through FY 2009. However, SAFETEA-LU's authorization levels were based on estimates of user fee revenues that would be collected by the Highway Trust Fund's (HTF) Highway Account through the end of FY 2009. Because of the slowing economy, increased used of more fuel efficient vehicles, and other factors, HTF Highway Account revenues have fallen well short of what is needed to support the guaranteed spending level. As a result, if Congress fails to address the shortfall by the end of next month, highway spending may need to be reduced by as much as 50 percent this year.

For all the foregoing reasons, AED has urged lawmakers to make highway issues – shoring up the HTF, increasing investment, and finding new revenue streams - a top priority. Regrettably, however, congressional leaders have chosen to focus on other issues. As a result, with just 76 days to go before SAFETEA-LU expires, none of the congressional committees in either the House or Senate with jurisdiction over surface transportation have reported a reauthorization bill and the bill recently marked up by the House highways and transit subcommittee lacks specificity with regard to funding levels and sources of new revenue.

Impact of Highway Investment on the Construction Equipment Industry
AED's heightened awareness of America's infrastructure crisis and the challenges facing the highway program is a reflection of the fact that AED's members are significantly impacted by highway investment. However, while the link between equipment markets and highway

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3 National Surface Transportation Policy and Revenue Study Commission, *Transportation for Tomorrow: Report of the National Surface Transportation Policy and Revenue Study Commission* (2008) <http://transportationfortomorrow.org/final_report/>.

investment is likely clear to anyone who has ever seen a highway project underway, the exact relationship was not known until fairly recently.

In the spring of 2008, AED initiated research to quantify the market impact of highway infrastructure investment on the construction equipment industry and the impact of spending on construction equipment on the overall economy. The study was conducted by Stephen Fuller, Ph.D., Dwight Shar faculty chair at George Mason University (GMU) in Fairfax, Virginia and director of GMU's Center for Regional Analysis.[4] Dr. Fuller determined that:

- On average, 6.4 cents of each dollar spent on highway construction is spent to buy and lease new equipment, and on major repair and maintenance outlays.

- In 2007, $10.2 billion was spent to purchase equipment for power, highways and streets, sewage and waste disposal, water supply, conservation and development projects. This estimate was derived by multiplying the total value of public and private non-building construction spending in 2007 – $159.8 billion – by .064.

- Every dollar of direct spending for the purchase of heavy construction equipment generates a total of $3.19 in economic impact – one dollar of direct spending and $2.19 in indirect and induced economic activity from the re-spending in other sectors of the national economy the monies paid to equipment distributors.

- The total economic impact of non-building construction-related equipment spending in United States in 2007 was approximately $32.5 billion.

- In 2007, the $10.2 billion in direct spending for the purchase of heavy construction equipment generated an estimated $9.2 billion in personal earnings ($903,200 per $1 million in direct equipment outlays) and supported more than 265,000 jobs (26 jobs per $1 million in direct equipment outlays).

Dr. Fuller's research confirms that highway spending at all levels of government has a major impact on equipment distributors. His research also confirms that, in addition to the long-term societal benefits of infrastructure investment, the related spending on construction equipment and service has important economic benefits for communities throughout the nation where AED members do business and their employees live and work.

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[4] Stephen Fuller, PhD., Associated Equipment Distributors, *Sales of Heavy Construction Equipment as a Percentage of Construction Spending and Related Economic Impacts* (2008) <http://www.aednet.org/government/pdf-2008/Fuller-Report.pdf>.

The Impact of Current Highway Program Uncertainty on Equipment Markets

The economic downturn has hit the construction industry particularly hard. Home purchasing has fallen for 13 consecutive quarters[5], which has led to significant decline in new home construction.[6] The Census Bureau reported on July 1 that construction spending in the first five months of 2009 was more than 11 percent below the already anemic amount spent during the same period in 2008.[7] This downturn in construction activity has hit construction companies and their employees hard. The Bureau of Labor Statistics reported on July 2 that in June employment in construction fell by 79,000 and that since the start of the recession, construction employment has fallen by 1.3 million.[8] The construction industry unemployment rate is above 17 percent, higher than in any other sector of the economy.[9]

The uncertainty surrounding federal transportation programs is only contributing to the construction industry's woes. Despite the $27.5 billion over two years provided for highways in the American Recovery and Reinvestment Act, the looming bankruptcy of the HTF and the fact that it seems less and less likely that Congress will complete the highway reauthorization on time, have combined to create enormous uncertainty in construction markets. At the same time, the economic crisis has strained state budgets, meaning that less money is available for infrastructure at the local level. According to reports from AED members around the country, this has significantly hurt demand for construction equipment and caused other problems:

- **Contractors refraining from purchasing due to market uncertainty.** For example, one AED member in Tennessee reports that, "if our markets had any confidence that there would be a road program with a viable, long-term funding mechanism in an amount sufficient enough to put people to work for any amount of time, these contractors would be acquiring the capital equipment needed to do the work. Absent the above, they will do nothing and the very limited opportunities of our current market reality continue. There is clearly pent-up demand for replacement equipment ... but no reason to do anything now with little prospect for future work. Contractors have most of their own equipment idle and gobs of excess equipment ... yet to be absorbed by the market." Another equipment distributor in Pennsylvania (not Cleveland Brothers) reports that, "Without the reauthorization of the highway bill, our customers lack the long-term confidence to purchase equipment. Instead they are renting or renting with an option to purchase. This event, growing at unprecedented percentages, has put a huge financial strain on our company as we carry the equipment debt. Our current inventory is up 20 percent from last year, driven by weak consumer

5 Bureau of Economic Analysis, *Gross Domestic Product: First Quarter 2009 (Final)*, June 25, 2009 <http://www.bea.gov/newsreleases/national/gdp/2009/pdf/gdp109f.pdf>.

6 U.S. Census Bureau, May 2009 Construction at $964.0 Billion Annual Rate, July 1, 2009 <http://www.census.gov/const/C30/release.pdf>.

7 *Id.*

8 Bureau of Labor Statistics, *The Employment Situation: June 2009*, July 2, 2009 <http://www.bls.gov/news.release/pdf/empsit.pdf >.

9 *Id.*

confidence. This is compounded with a weak economy. Americans need a long-term plan to provide optimism for the future ... If we are going to remain a superpower nation, provide the financial opportunities and strength for our citizens, and transportation safety, we need the highway bill not only authorized, we need a real investment."

- **The uneven level of funding provided for infrastructure by government is also causing market inefficiencies as projects are started and stopped depending on the availability of money.** One AED member in New York reports that, "As far as our contractors go the lack of a long term spending highway investment plan has made contractors wary of investing in equipment beyond the project they have in front of them right now. It also creates gaps in the completion of projects when they are broken into several components. For instance, a section of highway that is being widened from two lanes to three lanes may be broken into three to ten mile sections. The first portion may get completed, but the second and third portion may remain as is for years waiting for funding."

- **Inaction at the federal level is affecting state infrastructure programs and related equipment demand.** An AED member in Kansas reports that, "Contractors absolutely are hesitant to make major purchases with the uncertainty of infrastructure funding. It is compounded in Kansas, particularly, because our 10-year state program of 2000 is ending this year and there is no 'system enhancement' money in the future KDOT budgets until we get a new program passed in the legislature. They have a problem knowing what Kansas should do when they do not know what the federal government will do." An AED member in West Virginia reports that, "My largest customer for construction equipment is the West Virginia Division of Highways (WVDOH). The WVDOH had an equipment purchase budget of $20,000,000 for the new fiscal year, but it was cut in half due to reduced federal and state funding. That means that my sales to the WVDOH will be cut in half this year. The uncertainty of federal and state funding for next year and the years after that can and probably will result in fewer sales and even less effective planning capabilities for future hiring and expansion projects. This uncertainty has put new equipment purchase plans on hold for the asphalt contractors who depend on a certain amount of WVDOH paving business."

- **The construction downturn is forcing small construction firms to compete against big companies for limited projects.** Because of the lack of construction work, big highway contracting companies are bidding on smaller jobs traditionally taken by smaller companies. For example, on AED member reports that in Ohio, "Our smaller paving contractors are seeing the 'Big Boys' who usually are busy doing highway work this time of year bidding on small jobs. One smaller paving contractor told me that one of the largest paving contractors in Ohio came in second on a $20,000 parking lot repair job (my customer was first.)."

A multi-year highway bill with increased investment is needed to give the contractors and the dealers the long-range view to be able to plan appropriately and invest for the future.

Impact of Inadequate Infrastructure on Equipment Distributors in Urban and Rural Areas
Finally, it should be noted that AED members are affected by the macro consequences of underinvestment in infrastructure in the same way as other small businesses and the public at large. Congestion resulting from inadequate capacity takes a toll on equipment distributors and their employees, driving up costs of doing business and taking time and money away from working Americans. An AED member with operations in New York City reports that:

> The NYC road system needs dramatic investment. Our service department can easily spend two hours trying to get a field mechanic from our service shop in the Bronx to a customer in Brooklyn. This is all within the New York City limits. Traffic jams create so much inefficiency in the business transactions, and create a huge issue for those trying to commute to locations that are not accessible by mass transit. An employee can live 30 miles from our branch - but the ride at rush hour can be two hours or more.

At the same time, companies and employees in rural areas face logistical challenges and increased safety risks as a result of inadequate transportation capacity. These same companies and workers would derive enormous benefits from increased infrastructure investment. According to the U.S. Department of Transportation[10] increased infrastructure investment in rural areas has the following benefits:

- Highway deaths and injuries decrease, rail-highway crossings are upgraded, roads are upgraded to reduce run-off-the-road incidents, and medical response time is shortened;

- Efficient transport of passengers and freight through rural areas and small communities allows these communities to compete for the business created by the provision of new and different transportation services;

- Rural residents have better access to jobs and services;

- Customers and businesses are better able to access one another;

- Travel time for motorists is reduced, resulting in lower vehicle operating costs;

- Goods and services become more competitively priced;

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10 U.S. Department of Transportation, *Planning for Transportation in Rural Areas: Our Rural Transportation System* (2001) <http://www.fhwa.dot.gov/Planning/rural/planningfortrans/ruralguide.pdf>.

- New economic development can bring higher wages for workers and higher net income for business owners; and

- Rural air and water as well as culture, historic, scenic and natural resources are protected and transportation does not have an adverse affect on land use in rural areas and small communities.

AED Reauthorization Recommendations
With the foregoing in mind, AED urges Congress to act immediately to shore up the HTF and to pass long-term highway reauthorization legislation that achieves the following objectives:

- **Maintain a Strong Federal Role.** Given the critical nexus between the interstate highway program and interstate commerce, international trade, personal interstate travel, emergency preparedness, national defense and global competitiveness, as Congress works to reauthorize the federal highway program, lawmakers should maintain the strong federal role in surface transportation policy.

- **Increase Investment to Maintain, Modernize, and Expand the Nation's Surface Transportation Infrastructure.** Given decades of underinvestment in the nation's surface transportation system, Congress must dedicate new resources to improving existing transportation facilities. Highway, transit, and intermodal assets identified as being in the national interest should be brought into a state of good repair and modernized. In addition, considerable new capacity must be added to ensure that the transportation system serves both current and future needs. Federal policy and programs should support congestion mitigation and improved mobility in urban areas by supporting increased highway capacity and public transportation where appropriate. New capacity must also be added in rural areas to support economic development and ensure greater connectivity to major economic and population centers.

- **Identify New Fiscally-Responsible User Fee Revenue Streams and Investment Resources.** Current revenue streams are not sufficient to maintain federal-aid highway and transit programs at existing service levels, nor will they be sufficient to meet projected future highway and transit needs. Congress must therefore act boldly to identify new user fees to support a substantial increase in federal surface transportation infrastructure investment. Congress should develop a road map for a sustainable revenue model that maintains an equitable distribution across all system users, provides adequate and predictable revenue, and is administrable with minimal overhead. While we transition to highway user fee revenue streams that are more closely tied to vehicle miles traveled, Congress should increase the gas tax by at least ten cents to ensure sufficient investment resources in the immediate term. New revenue mechanisms should be structured to ensure that the purchasing power of revenue sources keeps pace with inflation. The federal government should encourage responsible project financing and delivery approaches that attract private investment within an appropriate federal framework.

- **Maintain the HTF and Budget Treatment.** A user fee-based Highway HTF, protected by budgetary firewalls, should be the backbone of federal highway and public transportation investment. Congress should not allow unobligated revenues to accumulate in the HTF beyond amounts necessary to meet cash flow requirements. Congress should continue funding guarantees, which allow for stable, long-term capital planning.

- **Ensure Fairness, Transparency, and Accountability.** HTF monies should be used only for transportation purposes. Project approval and funding should be linked to economic benefits (e.g., reducing congestion, enhancing freight mobility, etc.) and performance-based outcomes. States and localities should be allowed to pursue solutions that work best locally to meet their unique transportation needs. If those solutions are implemented with federal funding, they should measurably contribute to addressing national interests. Safety should be a key objective of federal programs and Congress should develop national safety goals, performance metrics, and complementary plans to guide investment. Earmarks in transportation legislation that do not further the goals of federal transportation policy and serve no national benefit undermine public confidence in the highway program. Any directed spending should be subject to public disclosure and transparency.

- **Improve Project Delivery.** The federal government must shorten the time it takes to complete environmental reviews and must support other measures to speed project delivery once they clear environmental review.

- **Use Transportation Policy to Advance Environmental and Energy Objectives.** Federal policy and programs should advance key energy and environmental objectives, such as reducing carbon emissions and fuel consumption and improving air quality, by reducing congestion and increasing multi-modal transportation capacity.

Conclusions

In sum, our nation faces an unparalleled infrastructure crisis. Immediate and aggressive congressional action is necessary to ensure that our transportation system does not deteriorate further and that the federal government has the resources it needs to address the crisis. The small business-dominated construction equipment industry is directly impacted by federal infrastructure spending and thousands of jobs are affected by this federal program. The current uncertainty surrounding federal infrastructure programs is contributing to volatility in equipment markets. At the same time, equipment distributors and their employees suffer the consequences of under-investment in infrastructure along with other businesses and the general public. In urban areas this means dealing with the constant challenges of congestion; in rural areas, it means, among other things, that roads that are less safe and access to customers and jobs are reduced.

AED therefore urges Congress to quickly resolve the near-term uncertainty surrounding the HTF and to enact a long-term highway reauthorization bill that dramatically increases highway capacity in urban and rural areas and creates new revenue streams to support infrastructure investment. The longer Congress delays action in this area, the more costly it will be in the long-term.

We look forward to working with the members of this subcommittee and with all your House and Senate colleagues in a bipartisan manner to achieve these goals.

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AIA

THE AMERICAN INSTITUTE OF ARCHITECTS

STATEMENT OF
ROB ROBINSON, AIA

"The Upcoming Highway Bill and Ensuring it Meets the Needs of Small Businesses"

House Committee on Small Business
Subcommittee on Investigations and Oversight

-

July 16, 2009
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Introduction

Chairman Altmire, Ranking Member Fallin, and members of the Subcommittee — good morning. I am Rob Robinson, AIA, an architect from Glenshaw, Pennsylvania, and the Chairman of Urban Design Associates, a small architecture and planning firm in Pittsburgh. Thank you for this opportunity to appear before you to discuss federal transportation policy and its impact on small businesses.

At Urban Design Associates we design cities, towns, and neighborhoods with an eye for what makes vibrant places for the people who live, work and play there. We employ a participatory process in which we bring together citizens, economists, engineers, architects, developers, policy makers, government officials, and builders to construct positive, achievable visions for the future. Through our projects, which range from planning mixed-income neighborhoods to designing transit-oriented developments to reviving historic downtowns, we see how transportation systems help connect people to jobs, to opportunities, and to each other, creating livable, sustainable and prosperous places.

I am also pleased to represent the American Institute of Architects (AIA) at today's hearing. The AIA is comprised of more than 83,000 licensed architects, architects-in-training and allied professionals across the country who are committed to the planning and design of safe and sustainable buildings and communities.

The AIA and its members have a long history in supporting communities struggling with transportation challenges. Through our nearly 40-year old Design Assistance Team (DAT) program, AIA architects and other design professionals have provided *pro bono* design services to scores of communities from coast to coast. These teams recommend changes to the communities' comprehensive master plans, offer suggestions on urban design issues, and educate and engage the community in a dialogue about the options available to strengthen their cities and towns. Through these volunteer efforts over the years, architects and urban designers have increasingly occupied a central role in the integration of transportation facilities within existing and planned communities.

In 2005, Congress recognized the critical importance of architects to transportation policy by authorizing a study in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) (P.L. 109-59) to explore how well-designed transportation projects benefit communities in terms of economic development, sustainability, civic engagement, safety and livability. The study, *Moving Communities Forward*, which was released in 2008, shows that how transportation systems are designed can make the difference between communities that prosper and those that founder.[1]

Today, thousands of AIA architects are designing the transportation systems, transit facilities, roadway amenities and master transportation plans that foster not just mobility and access, but also create sustainable, smart communities. Many of those architects work for small firms, like my own, or are sole practitioners. In fact, according to the AIA's most recent *Firm Survey*, 96 percent of architecture firms in this country have 50 or fewer employees, and those firms account for nearly six in ten of the nearly 200,000 workers who are employed by architecture companies nationwide.[2] When you consider that the design and construction industry accounts for nearly one in ten dollars of gross domestic product,[3] the critical role that small firms play to economic growth becomes clear. As with the rest of the American economy, small design firms are the engines that drive prosperity.

However, as all of you are no doubt aware, the current economic crisis has been devastating to the architecture profession and the larger design and construction industry. Every architect I know has seen layoffs and cutbacks in his or her firm; smaller firms, which have tighter cash flow and smaller profit margins even in good times, are particularly hard-hit. Metropolitan regions, cities, transit authorities and towns have all but stopped planning for the future, or re-thinking outdated infrastructure and the demands of a growing urban market for redevelopment, because of budget shortfalls and a fractured real estate market.

[1] http://www.movingcommunitiesforward.org
[2] http://www.aia.org/components/AIAB028868
[3] http://www.aia.org/aiaucmp/groups/aia/documents/pdf/aias075500.pdf

Unfortunately, things do not appear as if they are going to get better soon. Just this week, the AIA released its semi-annual *Consensus Construction Forecast*, a survey of the nation's leading construction forecasters. It found that nonresidential construction spending is expected to decrease by 16 percent in 2009 and drop by another almost 12 percent in 2010 in inflation adjusted terms.[4]

The challenges our nation faces are not just confined to the economy. The fragile state of our infrastructure is challenging our nation's ability to recover and prosper. Consider these ominous facts:

- The U.S. population is expected to grow by 50 percent by 2050[5], much of that growth centered in big metropolitan areas, where traffic congestion already costs our economy $80 billion a year and where water and power systems are falling apart.

- More people equals more energy consumption. But oil and gas prices are escalating. That, plus the specter of climate change, means the way we power our cars, buildings and factories must change.

- Our infrastructure -- the buildings, roads, bridges, power lines and plumbing that make our country run -- is aging rapidly. It has been estimated that it will take $2.2 trillion dollars to make the requisite fixes -- and that's just for what's already in place.[6] Without more funding, falling bridges and failing levees may become far more common.

This "perfect storm" of crises threatens not only our economic well-being, but our national security as well. We simply cannot expect to remain competitive in the global economy when the basic systems we need to prosper are underfunded and underperforming.

[4] http://info.aia.org/aiarchitect/thisweek09/0710/0710b_consensus.cfm
[5] http://pewresearch.org/pubs/729/united-states-population-projections
[6] http://www.infrastructurereportcard.org/

That is why I believe that it is vital for Congress to pass comprehensive transportation legislation this year. Waiting simply does not make sense when you consider both our nation's enormous challenges and the great opportunity that this legislation presents to provide a broad base of local support and job creation to build communities for the future.

Impacts on Job Creation

The Surface Transportation Authorization Act of 2009 (SFAA), currently before the House Transportation and Infrastructure Committee, could not come at a better time. It recognizes what the AIA reported to Congress in its study, *Moving Communities Forward*, that well planned and designed transportation projects create more prosperous, sustainable and livable communities. This legislation will help rebuild our infrastructure, reduce the congestion that is choking our communities, and reduce greenhouse gas emissions.

Most importantly, it will create jobs. Jobs for architects and planners. Jobs for engineers and builders. Jobs for operators and maintenance personnel. It also will help foster prosperous communities that are the foundation of small businesses and the jobs they create.

The impact of passing a transportation bill on job creation and retention is enormous. The Transportation and Infrastructure Committee's estimate that this legislation would create or save six million jobs is borne out by other studies that show the job-creation impacts of infrastructure investments. The Committee bases its figure on a Federal Highway Administration estimate that $1 billion of federal investment creates or sustains 34,799 jobs.[7] The Center for Regional Analysis at George Mason University in Fairfax, VA, meanwhile, found that every $1 billion invested in construction, including transportation-related facility construction, creates 28,500 jobs.[8] It is important to note that these jobs

[7] http://transportation.house.gov/Media/file/Highways/HPP/Surface%20Transportation%20Blueprint%20Executive%20Summary.pdf

[8] http://www.naiop.org/foundation/2008contdev.pdf

are not merely direct employment, but also include direct and indirect jobs with construction supply materials and services companies, as well jobs created or saved when construction, supplier and service providers spend their incomes. I also would point out that these are private-sector jobs.

In the architecture profession alone, the AIA has estimated that every $1 billion in investments in design and construction on buildings and facilities creates or preserves 270 architect jobs,[9] and many more indirect jobs for support staff, suppliers and consultants down the line.

At a time when the unemployment rate is nearing ten percent, it makes no sense to delay action on legislation that will create so many well-paying jobs across the economy.

Impacts on the Economy

The impact of the transportation bill on job creation is not limited to the direct creation of employment though investments in transportation design and construction. When government at all levels invests in a 21st Century transportation system, the results on the small business community can be significant.

First, well-designed transportation projects help create attractive and accessible business districts where small businesses can flourish. The AIA's *Moving Communities Forward* study found communities that have invested in transportation upgrades – everything from new intermodal facilities and transit-oriented development to simple design elements like bus shelters and landscaping – have seen increased commercial activity follow. This is particularly true for older, historic main streets and central business districts. These backbones of the American economy have for too long been neglected and even harmed by transportation projects that pass them by in favor of inefficient and short-term single land use patterns spread out over the landscape. Transportation improvements that bring consumers off the interstate and into diverse, mixed-use communities with walkable main streets and affordable neighborhoods create a market for start-up businesses. As we

[9] http://www.aia.org/aiaucmp/groups/aia/documents/pdf/aias078714.pdf

track the choices of our current generation of citizens looking for places to live and work, we see an overwhelming attraction to diverse and sustainable communities that have transit, walkable and bikable neighborhoods with easy access to services and amenities. This market creates a remarkable opportunity for our older towns and cities to regenerate themselves in ways that will be attractive to this growing market. Investment in infrastructure and transportation systems will be key to their survival and prosperity.

Second, a 21st Century transportation system will help people live near where they work, expanding job opportunities. This will become an even more pressing need as sprawl continues to force people to live further away from where the jobs are. Numerous opinion polls taken at the height of gas prices last year showed more Americans making choices about where to work based on the length of their commutes. As the financial and emotional costs of congestion and energy prices continue to weigh down the workforce, the ability of small businesses that cannot easily relocate to attract top talent will decrease markedly. There also is now a considerable body of research that connects the health and well-being of citizens, especially children, to their environment. Clean, walkable communities with integrated uses, open space and park networks with trails, sidewalks and public spaces foster more physical activity and social interaction and can reduce health care costs.[10]

Third, a 21st Century transportation system will reduce congestion and improve the safety and reliability of the transportation network. Every minute stuck in traffic, and every axle damaged by potholes, is money off the bottom line. Small businesses, with their thinner profit margins and tighter cash flows, simply cannot depend upon an unreliable transportation system to move their goods and services from place to place. For these reasons, I believe that Congress simply cannot afford to wait 18 months or longer to pass a new transportation bill; it must act now.

[10] http://aappolicy.aappublications.org/cgi/content/abstract/pediatrics;123/6/1591?rss=1

Recommendations for Reform

My fellow architects and the AIA have worked closely with the House Transportation and Infrastructure Committee and its Senate counterparts to ensure that the transportation bill helps small architecture firms plan and design transportation systems that will strengthen our country. As this Subcommittee explores this issue and provides recommendations to the Transportation and Infrastructure Committee, I would like to express my support for several principles that I believe should be a part of the bill.

- The legislation should provide ample opportunities for small businesses to take part in the design and construction of the new transportation infrastructure. For small architecture firms, that means investing in transit and intermodal facilities designed to foster compact, mixed-use development and redevelopment opportunities. We support Sec. 3007 of the STAA that crates a new "Intermodal and Energy Efficient Transit Facilities Grant" program. We also urge the committee to include provisions that support the use of public participation processes, including interactive workshops led by planning and design professionals, to help communities plan their futures. These, too, create jobs for small design and planning companies.

- The legislation should ensure that small firms have the ability to compete for contracts under the bill. In recent years, the phenomenon of "bundling," where multiple tasks are combined into a single request for qualifications (RFQ) has made it difficult for small firms, which typically do not have the capacity to handle such large contracts, to compete. Although there are times that bundling may make sense, the legislation should work to ensure that small firms have a chance to compete for – and win – contracts. Otherwise these become the exclusive domain of large, multi-national companies with little or no connection to local communities and local small businesses.

- The legislation should preserve and protect provisions in the current law (23 USC 112b) that require funds to be awarded to architecture and engineering (A/E) firms through qualifications-based selection (QBS) procedures. The Brooks Act

(Public Law 92-582) established the procurement process by which architects and engineers are selected for design contracts with federal design and construction agencies.

Under the Brooks Act, A/Es are selected on the basis of demonstrated competence and qualification for the type of professional services required *before* reasonable and fair fees are negotiated. With QBS, price quotations are not a consideration in the selection process. The QBS process has also been adopted by 46 out of 50 states because it ensures that the architects and engineers who design public infrastructure projects are the most qualified to perform the work, ensuring the safety, reliability and efficiency of the nation's infrastructure. It also enables smaller firms and emerging talent to have an opportunity to compete for work, since awards are not based on who has the lowest overhead and therefore can do the work the most cheaply. We strongly believe that QBS must be preserved in the new transportation law to protect the health and safety of the public and to expand the playing field for design firms of all sizes.

Thank you for the opportunity to provide testimony on this important issue. We look forward to working with the Committee to help America's small businesses compete and thrive with a 21st Century transportation system. I am happy to answer any questions the Committee may have.

NATIONAL STONE, SAND & GRAVEL ASSOCIATION

Natural building blocks for quality of life

TESTIMONY OF
ROD MARTIN
VICE PRESIDENT, MARTIN STONE QUARRIES, INC.

HEARING ON
"THE UPCOMING HIGHWAY BILL AND ENSURING IT MEETS THE NEEDS OF SMALL BUSINESS"

Submitted to
House Small Business Committee
Subcommittee on Oversight and Investigations
July 16, 2009

Thank you Chairman Altmire, ranking member Fallin, and members of the Subcommittee for inviting me to testify on behalf of the National Stone, Sand & Gravel Association (NSSGA) on the importance of reauthorization of our nation's surface transportation law to the aggregates industry, particularly its small business members. I am Rod Martin, Vice President of Martin Stone Quarries, Inc., located in Bechtelsville, Pennsylvania.

The National Stone, Stand & Gravel Association represents the crushed stone, sand and gravel – or construction aggregates – industries. Its member companies produce more than 90 percent of the crushed stone and 70 percent of the sand and gravel consumed annually in the United States. There are more than 10,000 construction aggregate operations nationwide. Almost every congressional district is home to a crushed stone, sand or gravel operation. Proximity to market is critical due to high transportation costs, so 70 percent of our nation's counties include an aggregates operation. Of particular relevance to this hearing, 70 percent of NSSGA members are considered small businesses.

Martin Stone Quarries was founded in 1953 by Henry Martin, my grandfather. We operate two granite gneiss quarries in Bechtelsville, Pennsylvania. People have quarried at the site since the late 1800s. I run the business with two other third generation owners. We currently employ 58 which is down 20 percent from 2006 levels.

In addition to providing quality materials and services to our customers, we at Martin Stone Quarries are committed to being a responsible corporate member of our surrounding communities. Our time, materials, and financial resources have been routinely donated to the construction and restoration of many local parks, recreational areas, and churches. Educational field trips, offered to any interested school districts, serve to inform local students about the unique nature of the mining industry. Martin Stone Quarries has also opened its gates to local fire companies, allowing them to perform mock rescue drills inside the quarry.

While we are proud of the accomplishments achieved by Martin Stone Quarries in the past, we are always looking for ways to better our company, employees, and local communities. Martin Stone Quarries will continue to provide quality products and maintain its position as a valued member of the many communities of which we are a part.

Sales of natural aggregates generate nearly $40 billion annually for the U.S. economy. When combined with related industries, such as cement, concrete, and construction equipment and supplies, the transportation construction industry generates more than $200 billion in economic activity every year and employs more than 2 million people. During 2007, more than three billion tons of crushed stone, sand and gravel (or 2.56 billion metric tons) valued at approximately $21.5 billion were produced in the U.S.

Nearly two-thirds of the non-fuel minerals mined each year in the U.S. are aggregates. Construction aggregates are used primarily in asphalt and concrete. Ninety-four percent of asphalt pavement is aggregate; 80 percent of concrete is aggregate. About 10 tons of aggregates per person are used annually in America, Every mile of interstate contains 38,000 tons of aggregates; about 400 tons of aggregates are used in construction of the average home.

Aggregates are used in nearly all residential, commercial and industrial building construction and in most public works projects such as roads, highways, bridges, railroad beds, dams, airports, water sewage treatment plants and tunnels. Although Americans pay little attention to these natural materials they also go into the manufacture of glass, paper, paints, pharmaceuticals, cosmetics, chewing gum, household cleaners, and many other consumer goods.

Through its economic, social and environmental contributions, aggregates production helps create sustainable communities and is essential to the quality of life Americans enjoy.

The business of successfully building and maintaining our national surface transportation infrastructure depends in large measure on funding stability and year-over-year predictability provided by the surface transportation reauthorization. The current law, the Safe, Affordable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), expires on September 30. It is imperative that Congress act to reauthorize the law now or lose the benefits of the economic stimulus that are just beginning to be felt by the construction aggregates sector.

Reauthorization is critical to NSSGA's many small aggregates producers. Sixty percent of Martin Quarries business comes directly from road construction in sales to asphalt plants and other highway contractors.

Multi-year reauthorizations provide an important continuity that my company, our employees, and customers rely upon in order to meet the significant and growing needs of local, state and federal transportation programs.

Multi-year highway reauthorizations are particularly vital for the funding confidence they instill in state Departments of Transportation. When state Departments of Transportation know that the Federal-aid Highway program will apportion to them their federal funding year-over-year in the amount authorized, they have confidence that their state expenditures will be reimbursed. The states then award contracts, and the process of building and maintaining our transportation infrastructure can proceed smoothly. Confidence in the stability of the program is a critical factor in ensuring its success.

When there are doubts, as there are today, awards for construction projects slow because states are not sure there will be funding for reimbursement. When states wait to see what Congress will do and when it will do it, the pipeline of project awards slows. This inevitably leads to a loss of jobs in the construction and related industries. If Congress fails to act to reauthorize the nation's surface transportation law by expiration of the current law at the end of September, highway funding will be cut almost in half. To Pennsylvania a failure to act will mean a funding reduction of $756 million.

In the absence of a long-term plan, my customers are telling me they are not sure what the next years are going to bring to them, thereby causing me to withhold investing in plants and new machinery for the foreseeable future. It is increasingly difficult to do long range workforce planning due to uncertain demand. We are looking at a round of layoffs that will take my workforce down by another five percent if there is no improvement and Congress fails to pass a multi-year reauthorization bill.

NSSGA supports development of a new vision for our nation's surface transportation system. President Eisenhower signed the law creating the National Interstate Highway System over fifty years ago. It was designed to last 25 years. We are 25 years beyond the original life of the system.

Just last week the Texas Transportation Institute released its annual mobility report. The report found that nationally congestion is costing $87.2 billion annually, with 2.8 billion gallons of gas wasted, and 4.2 billion hours spent sitting in traffic. The report used Federal Highway Administration data that included information gathered through 24-hour monitoring of highway systems. The five most congested areas in order are Los Angeles/Long Beach/Santa Ana; the Washington, D.C. region; Atlanta; Houston; and, San Francisco-Oakland.

The least expensive way not to waste fuel and to improve environmental impact is to improve the capacity of our roads and bridges and alleviate congestion. A U.S. DOT study states every dollar invested in the nation's highway system yields $5.40 in economic benefits in reduced delays, improved safety and lower vehicle operating costs.

More than 70 percent of the nation's goods by dollar value are transported on our roads and highways. We support critical corridors of commerce to assure that our trucks can get goods to market in a competitive world.

Improved safety is another important reason to pass a multi-year highway reauthorize bill now. Over 41,000 people die on highways in the United States. A July first safety study by the Pacific Institute for Research and Evaluation, *On a Crash Course*, commissioned by the Transportation Construction Coalition found that deficient road conditions are a factor in more than half of the fatal crashes in the United States, contributing to more deaths than speeding, drunken driving or failure to use seat belts. Road-related conditions were a factor in 22,000 fatalities and cost $217.5 billion each year the study concludes.

We can do better. Safety must come first to ensure that you and I and our families, friends, and employees get to and from their daily activities safely.

Martin Stone is passionately committed to the safety of its most precious resource, our employees. The company uses all possible means – be they administrative or sophisticated engineering controls – to protect employees.

Furthermore we look out for the whole individual who works for us, through such programs as Employee Assistance Plans (or EAPs), as well as counseling on such things as personal finances, legal matters, and other issues.

We are proud that our protections seem to be working at Martin Stone. In fact, for the past several years we have maintained a total injury incidence rate of just .014 injuries for every 200,000 hours worked. This is substantially below the national average for our industry.

NSSGA supports development of a new vision for our nation's surface transportation system. Developing a new vision of transportation is non-negotiable – it is a matter of life and death; economic growth through job creation; national security; and, global competitiveness.

NSSGA will actively support passage of a new highway reauthorization bill that includes core recommendations developed by association members. NSSGA recommends that Congress adopt a new-multi-year reauthorization that preserves the mobility Americans are accustomed to, along with a funding mechanism sufficient for preserving and improving our nation's roads and highways – long-term national assets.

The next multi-year reauthorization bill should allow adequate time to transition to a vehicle miles traveled (VMT) user fee. We understand the privacy concerns attendant to a VMT and the concerns of rural residents who must travel long distances to commute to work or school or run errands. Nevertheless, Americans have demonstrated time and time again unlimited innovativeness and we firmly believe the people who have put a man on the moon and developed the I-Phone can certainly conceive of solutions to these legitimate concerns.

As Martin Stone, NSSGA and our coalition partners have said, all funding options for increasing revenues into the Highway Trust Fund to provide sustainable long-term funding for the nation's surface transportation network must be on the table.

Additionally, NSSGA recommends that a multi-year surface transportation reauthorization ensure the integrity of the program by resisting unrelated earmarks, preserving the budget firewalls that ensure all gasoline user fees are directed back into the highway system, and allowing innovative funding mechanisms to pay for transportation projects. To protect taxpayer money further, Congress should fund research essential to the development of the most technically advanced, economic and long-lasting pavements.

Thank you, Mr. Chairman, for this opportunity to testify today on the importance of Congressional action on a multi-year surface transportation reauthorization. Martin Stone and the members of the National Stone, Sand & Gravel Association look forward to working with Congress in developing a reauthorization bill that will spur economic revitalization by creating jobs (small business generates 60 to 80 percent of new jobs), while simultaneously building the surface transportation network of the 21st Century.

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Testimony of Chairman Henry A. Ross, American Traffic Safety Services Association
Committee on Small Business, Subcommittee on Investigations and Oversight
Hearing: *The Upcoming Highway Bill and Ensuring it Meets the Needs of Small Businesses*
United States House of Representatives
Thursday, July 16, 2009

Chairman Altmire, Ranking Member Fallin, Members of the Subcommittee. Thank you very much for giving me the opportunity today to discuss the transportation authorization and its effects on small businesses and the nation as a whole.

My name is Henry Ross, and I am the Chairman of the Board of Directors for the American Traffic Safety Services Association, ATSSA. In addition, I am employed by USA-SIGN, a small sign manufacturing company in Elmira, New York where I serve as Director of Sales and Marketing.

The American Traffic Safety Services Association, an international trade association, is located in Fredericksburg, Va. Since 1969, ATSSA has represented companies and individuals in the traffic control and roadway safety industry. Over 1,600 ATSSA members provide the majority of features, services and devices used to make our nation's roadways safer. These include pavement markings, road signs, work zone traffic control devices, guardrail, and other roadside safety features. Many of ATSSA's members who focus on roadway safety infrastructure are small business owners. For example, temporary traffic control operations are more often than not performed by small businesses that act as subcontractors in work zones.

Late last month, House Transportation and Infrastructure Chairman James Oberstar and Ranking Member John Mica introduced the Surface Transportation Authorization Act of 2009, a 775-page draft for a new, comprehensive six-year transportation bill. This draft truly highlights the nation's needs for increased roadway safety. Last year, a little more than 37,000 men, women, and children perished on America's roadways. ATSSA, through its Toward Zero Deaths vision plan, is committed to reducing these tragically high numbers through a targeted investment in roadway safety infrastructure. The House Transportation and Infrastructure Committee's bill is committed to reducing these deaths through new performance measures, and ATSSA commends them for that.

One concern for our members is timely payment. Small businesses rely on timely payment due to limited cash flow. While subcontractors are often first on and last off the work site (putting down cones and picking them back up), they are the last to be paid. These small businesses rely on projects created through the transportation authorization to keep their businesses running, to hire and maintain existing employees and to buy new equipment. For example, one of our California members who owns a pavement marking company mentioned his frustration to ATSSA staff just yesterday regarding timely payment to subcontractors. California prompt pay statutes require all payments to be made to subcontractors within ten days. The reality is that sometimes the payments don't get doled out for thirty days and sometimes it is over six months. Even public agencies have been known not to pay within the ten day required period. ATSSA would like to recommend that the Committee consider directing the Secretary of Transportation to undertake a study of payment practices to small businesses that are receiving funds for Federal Aid highway projects and report back to Congress their findings on these payment practices within a year of passage of the transportation authorization. It is unfair for small businesses to struggle to stay afloat due to delayed payments. The results from such a study could be utilized as a basis for further action.

There truly is a ripple effect throughout the construction industry with each new authorization bill that is enacted. Unfortunately, without a timely new transportation authorization focused on expanding investment in our nation's transportation safety infrastructure, these small businesses will indeed suffer.

Many argue that with the recent passage of the American Recovery and Reinvestment Act (ARRA), there is no need for a reauthorized transportation bill. In our opinion, this is exactly the right time to continue to invest in our nation's transportation infrastructure. These small businesses are beginning to feel the positive effects of the stimulus package and have started to rehire previously laid-off employees. To halt any forward momentum at this time would be devastating. If the transportation authorization is delayed past the September 30 expiration of SAFETEA-LU, then many of these small businesses will have to begin to cut back on employees, new hires, and equipment and materials purchases.

The Federal Highway programs authorized under the transportation authorization account for up to 40-45% of the total roadway dollars spent annually in the United States. In addition, many of the contracts that our member companies work on stem from the Highway Safety Improvement Program (HSIP). ATSSA continues to advocate that these HSIP funds not be transferrable out of HSIP to other programs. According to the Federal Highway Administration (FHWA), seven states have transferred their dollars out of their HSIP funds. With these transfers, funding flows away from these safety specific subcontractors and our small businesses that work on these vital safety projects and save lives. There should be an end to transferring infrastructure safety dollars out of the HSIP due to the continuing death toll on our nation's roadways.

Chairman Altmire, Ranking Member Fallin, members of the Subcommittee, there is great urgency and anxiety throughout our member companies, especially within those which are small businesses that rely on the authorization projects to continue their day-to-day operations and their prosperity. America truly is the land of opportunity. ATSSA's small business members bring needed services, safety devices, and jobs to communities throughout the country. Many of us can agree that the United States is still facing troubling economic times. Let's all work together – small businesses, local, state, and federal governments, and hard working men and women – to better our roads and make them safer, boost our economy, and most importantly – save lives on our roadways. ATSSA and its small business member companies are eager, willing, and capable, and with an authorized transportation bill, we can all work together over the next six years to do just that.

There is no time for a 12 month or 18 month extension for that matter. Our small businesses across the country cannot afford this kind of delay.

Thank you very much for the opportunity to testify today – it is an honor and privilege to do so. I am happy to address any questions that you may have.

American Traffic Safety Services Association
Top Priorities Transportation Authorization
07/16/09

A. **Policy Priorities**

1. Funding for the HSIP should be reserved exclusively for saving lives and should not be transferable to other programs.

2. Increase funding in the Highway Safety Improvement Program, with a target of 10 percent of overall funding.

3. Require states to establish a process by which local government entities will receive federal and/or state financial assistance to meet with obligations, if any, arising under a federal rule establishing a national standard for maintained minimum levels of retroreflectivity for traffic signs or pavement markings.

4. Increase funding for the HRRR Program to at least $1 billion annually and target that funding at cost effective improvements for maximum return on investment.

5. Establish a separate obligation limit for the Highway Safety Improvement Program.

6. Authorize $500 million annually in funding for the Older Driver section of the authorization bill Section 1405. These funds would help states improve roadway safety infrastructure for Older Americans.

B. **Grants**

1. **Work Zone Safety Grant**

In September 2006, ATSSA was awarded a four-year, $11.9 million grant from the Federal Highway Administration (FHWA) to provide high-quality roadway safety training nationwide for workers and others who make their livelihood on our roadways. Three other organizations – the American Road and Transportation Builders Association (ARTBA/Laborers), Wayne State University, and the Illinois Institute of Technology – were also recipients of portions of the FHWA grant. **Since being awarded the grant, ATSSA has trained over 7,000 people** from coast-to-coast.

Work zones impact the safety and mobility of the motoring public daily. Unsafe work zones, usually due to a lack of appropriate safety training, can result in the loss of mobility, but more important – the loss of life. Although roadway fatality statistics have started to show a recent downward trend, too many people continue to die on America's roadways. Since work zones exist from coast-to-coast, universal, quality training should be afforded to all roadway workers.

The proposed $6 million-per-year grant for the next six years would focus entirely on *work zone worker safety training and guidelines development.* Total: $36 million

2. Roadway Safety Training Institute

Develop a Roadway Safety Training Institute with various partners that will lead in the development and delivery of comprehensive and uniform roadway safety training to: incident responders (law enforcement, fire, rescue towing), law enforcement officers assigned to work zones, utility workers, guardrail installers and inspectors, and other workers that may be identified but are currently not seen as the average "temporary traffic control" worker. The Institute would also sponsor ADA demonstrations throughout the country. The development of more accessible features could be accelerated through a series of demonstration projects that bring together local government, manufacturers and disabled users to determine their effectiveness and safety benefits. In turn, work zones across the country will be able to implement the utilization of these devices and make these areas safer for everyone.

Create a competitive grant program that would focus on developing and delivering work zone safety training to various categories of roadway workers and host ADA demonstrations throughout the country. Duration: 6 years TOTAL: $16,480,000

3. Center for Roadway Infrastructure Safety

Establish a Center for Roadway Infrastructure Safety (CRIS) that enables practitioners and road owners to successfully share effective practices for making roadways safer and more forgiving of errant human behavior, resulting in a further decline in deaths on America's roadways. The Center would undertake the following programmatic activities in order to advance the cause of roadway infrastructure safety:

1. Develop an electronic Roadway Infrastructure Safety Clearinghouse.
2. Hold an annual educational meeting for practitioners at the state and local level. Full travel scholarships would be provided to 100 participants each year.
3. Develop and deliver a course to train law enforcement officials in every state to identify engineering improvements at crash locations. This course would be based on work already done in a partnership between IL DOT and the IL State Patrol so that development costs can be minimized and outreach and delivery can be maximized.
4. Internal administrative for the Center
   Total Duration: 6 years Total: $6,000,000

ARTBA American Road & Transportation Builders Association

American Road and Transportation Builders Association

Testimony Before the

Subcommittee on Investigations and Oversight
Committee on Small Business
U.S. House of Representatives

Hearing on the Upcoming Highway Bill and Ensuring it Meets the Needs of Small Businesses

July 16, 2009

American Road and Transportation Builders Association
1219 28th Street, NW, Washington, DC 20007
202-289-4434

Testimony of

American Road and Transportation Builders Association

Before the Subcommittee on Investigations and Oversight
Committee on Small Business
U.S. House of Representatives

July 16, 2009

Chairman Altmire and members of the Subcommittee, I am very pleased to be here to testify on behalf of the American Road and Transportation Builders Association (ARTBA), the consensus voice of the transportation construction industry. I am Michael Filipczak, president of Midasco, LLC—a specialty infrastructure contractor based in Elkridge, Maryland.

ARTBA, which celebrated its 100th anniversary in 2002, has over 5,000 member firms and member public agencies from across the nation. They belong to ARTBA because they support strong federal investment in transportation improvement programs to meet the needs and demands of the American public and business community. The industry we represent generates more than $200 billion annually in U.S. economic activity and sustains 2.5 million American jobs.

Thank you for the opportunity to appear before this hearing of the Subcommittee on Investigations and Oversight of the Small Business Committee to discuss "The Upcoming Highway Bill and Ensuring it Meets the Needs of Small Businesses."

I represent the transportation construction industry, the industry that builds and preserves the nation's roads, bridges, transit systems, airports, railroads and water ports. Each year, more than 10 percent of all the construction work put in place in the United States is on transportation and transportation-related projects.

According to the latest economic census conducted by the U.S. Bureau of the Census, there are just over 11,000 business establishments that are involved in transportation construction. Most are small businesses. More than 90 percent have less than 100 employees, and the average is less than 40.

But it is a very capital intensive industry. The average establishment buys or leases almost $500 thousand dollars of heavy equipment each year, versus $20 thousand for the average residential construction company. As a result, long-term predictability of federal, state and local highway investment is very important to businesses in the transportation construction industry.

While my industry is basically an industry of small businesses and the federal highway program is of critical interest to us, it is important to recognize the importance of federal highway investment to a broad range of small businesses in our economy.

In virtually every industry, small businesses depend on the nation's transportation network to move people and products around town and around the country. Retailers need reliable transportation to get seasonal products from ports to their stores. Service providers need reliable roads to get service trucks and workers to customers. Virtually every manufacturer depends on the just in time delivery system as a way to control inventory costs.

Highway congestion has become a major drain on the energy and vitality of American small businesses. It negatively affects small businesses in three significant ways:

When employees are paid by the hour, time lost waiting in traffic or waiting for a delivery means higher costs.

When businesses are paid by the job, by the trip or by the call, traffic congestion that reduces the number per day means lower incomes.

Most important, when the day is spent dealing with the fall-out of highway congestion—scheduling, routing, late deliveries, missed appointments, unhappy customers—this takes time away from planning and growing the business. Attached to this testimony is a 2004 ARTBA report that highlights the impact of transportation inadequacies on small businesses.

Just last week, the Texas Transportation Institute released its 2009 Urban Mobility Report, which tracks highway congestion around the country. Their latest finding, that traffic congestion costs the nation $87 billion per year, is only the tip of the iceberg because it only includes the cost of time spent in traffic and wasted fuel. It doesn't include the lost income to businesses that can't service their customers, it doesn't include the lost productivity when businesses have to wait for deliveries or services, and it doesn't include the cost to the economy when small business owners have to deal with congestion issues rather than strengthening and growing their businesses.

In the crush of distractions that small business owner must deal with every day, most are probably not focusing on reauthorization of the federal highway and public transportation programs. But it is probably one of the most important issues for small businesses that Congress will deal with this congressional session.

SAFETEA-LU expires on September 30. The House Committee on Transportation and Infrastructure has proposed a new six-year authorization of the federal highway and public transportation programs that would be funded at $450 billion over the six-year period. This amount represents the minimum federal investment needed just to maintain current conditions on the nation's highway and transit systems. ARTBA strongly supports enactment of a full six-year bill funded at a level that meets the nation's surface transportation investment needs.

The Obama administration and members of the Senate have proposed an 18-month extension of the current law that would be funded at a level significantly less than needed just to maintain current conditions. For small businesses, this path would just compound the transportation problems they already face.

Before I explain why Congress must enact a six-year surface transportation authorization bill before the end of this year, rather than an 18-month extension of existing law, I want to explain how our industry has been affected by the current recession and how the American Recovery and Reinvestment Act (ARRA) is working.

Our industry has not been hit as hard as homebuilding, but our people are hurting. This is a seasonal industry where employment peaks during the summer months and then declines as the construction season comes to a close in northern states. The number of people on our payrolls got smaller and smaller throughout 2008 when compared to the same month in 2007, and we are now down about 40,000 jobs. The same pattern is true for our subcontractors.

The Recovery Act provided $48 billion for infrastructure improvements, including $27.5 billion for highway projects. According to the Federal Highway Administration, state and local transportation agencies have obligated more than $16.6 billion or 62 percent of the total for projects in just four months. More than 1,700 projects are under construction already and more are getting underway every day. By the end of June, almost $265 million had been paid out to contractors for construction work performed and that figure will also increase rapidly as projects get underway. This has clearly been one of the most successful elements of the Recovery Act.

But Congress must take important steps in the next few weeks to sustain the progress initiated by the Recovery Act.

First, a $5-7 billion injection of new revenues into the Highway Account of the Highway Trust Fund is needed to prevent current highway construction projects from shutting down. Under the federal highway program, contractors are reimbursed for construction work. We don't get paid up front. If the Highway Trust Fund cannot pay its bills, many of us will not have the funds to pay our employees and suppliers. We will have no choice but to stop construction and lay off employees until the Trust Fund can meet its obligations. If Congress does not replenish the Trust Fund, more than 240,000 jobs throughout the economy could be at risk according to calculations by ARTBA's economics staff.

If Congress deals with this issue, and I trust it will, we then come to the most critical legislation for this industry, reauthorization of the federal surface transportation programs. The Transportation and Infrastructure Committee has recently marked up a new transportation bill that would invest a total of $450 billion in highways, highway safety and public transportation during the next six fiscal years.

There are a number of reasons why it is important for Congress to enact this legislation rather than a short-term extension of existing law.

The most important reason by far is that physical conditions and performance on our nation's highway and transit systems are deteriorating because of inadequate investment. This is undermining our economic competitiveness, impairing freight movements within the United States and imposing billions of dollars in unnecessary traffic congestion costs.

Every two years, the U.S. Department of Transportation issues a report on the Conditions and Performance of the Nation's Highways, Bridges and Transit, in which it calculates the annual investment required by all levels of government both to maintain current conditions on U.S. highways as well as to improve conditions. These calculations are not a wish list of all the projects we would like to do if we had the money. They are instead based on an economic comparison of costs and benefits of potential improvements to a sample of more than 100,000 highway segments in the U.S. and are about as objective as possible given current data sources and computational techniques.

The latest report, which was issued in January 2007, provides data on the average annual investment that would be needed between 2004 and 2023 to maintain conditions and improve conditions. When combined with information on recent increases in highway construction costs and the traditional federal share of highway investment, the report shows that funding for the federal highway program in the next surface transportation authorization bill should be in the range of $62 to $69 billion per year just to maintain current highway and bridge conditions. The annual federal investment needed to improve conditions would be even higher.

By contrast, federal highway investment in fiscal year 2009 is $40.7 billion, a shortfall of more than $20 billion.

Looking forward, the gap between resources and needs is daunting. As Chart 1 shows, projected Highway Trust Fund revenues between FY 2010 and FY 2015 are far less than needed to support the current level of federal highway investment, let alone support a program that meets the nation's highway investment requirements.

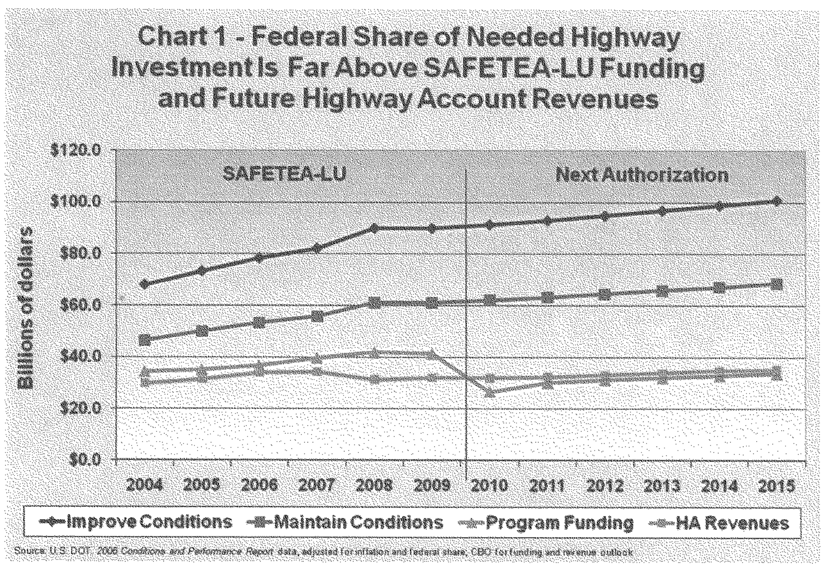

Chart 1 also illustrates the fact that projected Highway Trust Fund revenues are grossly inadequate to meet the nation's highway investment needs. The gap between projected revenues and the annual federal investment required just to maintain current conditions and performance on the nation's highways is just over $31 billion per year between FY 2010 and 2015.

The report also includes data on the cost to maintain and improve the nation's mass transit systems, including both bus and rail-based transit. When combined with data on recent cost increases and traditional federal share, the report indicates that a federal transit program of $12 to $13 billion annually between FY 2010 and 2015 would maintain conditions while $16 to $18 billion would be needed to improve conditions. In FY 2009, total funding for the public transportation program was just over $10 billion. For FY 2010 through 2015, transit account revenues are projected to be just over $5 billion per year, less than half the amount that would be needed just to preserve existing conditions.

The massive gap between federal highway investment and needs is shown on a state by state basis in Table 1. For example, the table shows that Pennsylvania would need an annual federal investment of just over $2.7 billion to provide the federal share of the cost to maintain conditions and performance on the state's highways and bridges[1]. In FY 2009, it received about one-half of that amount. The table also shows that the one-time highway stimulus funds in the American Recovery and Reinvestment Act, while helpful, come nowhere near filling the gap. Most other states are in a similar situation.

The T&I Committee's $450 billion surface transportation authorization bill would substantially meet the nation's highway and transit investment needs during the next six years. An extension of the current law would put the nation further behind in addressing its highway and transit needs.

Another very good reason for enacting the Committee's bill rather than an 18-month extension is that it would create thousands of new jobs in the construction industry and its suppliers and reinforce the highway stimulus in the Recovery Act. According to ARTBA's analysis, the $337 billion for highway improvements in the Committee's bill would generate almost 150,000 new jobs in 2010. About half these jobs would be in the highway construction industry or the industries that supply materials and services used in highway construction, and the rest would be spread throughout the rest of the economy.

Over the six-year period covered by the legislation, the increased highway funding would support an annual average of almost 540,000 more jobs in the U.S. economy than we would have under the current funding level.

Table 2 of my testimony shows the job-creation potential of the Committee's bill by state. In Pennsylvania, the bill would generate almost 6,600 new jobs throughout the state's economy next year and would, over the full six years, support an average of 23,700 more jobs each year than the current level of highway program funding. Other states would see comparable results.

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[1] State investment needs are based on Federal Highway Administration data on the number of highway miles in poor or mediocre condition in each state, the total deck area of deficient bridges in each state, and a measure of highway congestion.

Table 1 - Federal Highway Program Funding versus Federal Share of Highway Investment Needs
(Millions of dollars)

State	Highway Program Formula Funding FY 2009	Federal Share of Annual State Highway Investment Needs, FY 2010 /1 Maintain Conditions	Improve Conditions	ARRA Highway Stimulus Funds /2 FY 2009-10
Alabama	$664.2	$840.7	$1,222.5	$513.7
Alaska	$290.7	$166.8	$236.6	$175.5
Arizona	$672.4	$734.4	$1,126.3	$522.0
Arkansas	$410.8	$1,294.0	$1,824.0	$351.5
California	$3,002.8	$8,217.3	$12,141.4	$2,569.6
Colorado	$451.1	$836.3	$1,266.7	$403.9
Connecticut	$422.8	$627.6	$952.2	$302.1
Delaware	$129.9	$140.8	$214.3	$121.8
Dist. of Col.	$126.8	$165.4	$240.6	$123.5
Florida	$1,690.1	$1,955.8	$3,133.1	$1,346.7
Georgia	$1,143.8	$1,266.9	$1,957.4	$931.6
Hawaii	$136.0	$176.5	$251.0	$125.7
Idaho	$244.8	$697.2	$968.5	$181.9
Illinois	$1,121.7	$2,208.5	$3,240.0	$935.6
Indiana	$852.5	$1,152.7	$1,725.1	$658.0
Iowa	$384.4	$875.1	$1,196.3	$358.2
Kansas	$327.6	$1,672.7	$2,297.2	$347.8
Kentucky	$568.1	$609.8	$940.3	$421.1
Louisiana	$555.6	$1,408.8	$2,005.2	$429.9
Maine	$141.8	$270.8	$365.8	$130.8
Maryland	$518.5	$973.5	$1,437.5	$431.0
Massachusetts	$531.9	$1,047.7	$1,598.8	$437.9
Michigan	$927.0	$2,010.1	$2,899.6	$847.2
Minnesota	$523.4	$1,656.5	$2,449.1	$502.3
Mississippi	$389.2	$966.9	$1,366.6	$356.3
Missouri	$762.0	$2,039.9	$2,906.2	$637.5
Montana	$315.8	$176.1	$238.1	$211.8
Nebraska	$244.6	$406.4	$568.5	$235.6
Nevada	$256.1	$385.7	$603.9	$201.4
New Hampshire	$146.2	$280.3	$421.5	$129.4
New jersey	$859.7	$2,127.0	$3,193.0	$651.8
New Mexico	$310.2	$778.8	$1,103.8	$252.6
New York	$1,450.2	$3,282.3	$4,887.6	$1,120.7
North Carolina	$930.6	$2,062.3	$3,262.1	$735.5
North Dakota	$207.3	$247.0	$338.3	$170.1
Ohio	$1,147.4	$1,254.0	$1,876.3	$935.7
Oklahoma	$504.8	$1,849.5	$2,493.4	$464.7
Oregon	$372.6	$647.9	$974.6	$333.9
Pennsylvania	$1,443.9	$2,722.6	$3,958.7	$1,026.4
Rhode Island	$163.8	$187.7	$269.4	$137.1
South Carolina	$549.0	$589.6	$780.9	$465.1
South Dakota	$217.4	$407.4	$543.1	$183.0
Tennessee	$704.2	$1,087.8	$1,688.8	$572.7
Texas	$2,868.6	$4,664.0	$6,986.8	$2,250.0
Utah	$259.4	$460.0	$730.7	$215.5
Vermont	$134.1	$216.8	$300.0	$125.8
Virginia	$859.5	$850.1	$1,258.7	$694.5
Washington	$556.5	$1,092.3	$1,604.9	$492.2
West Virginia	$350.1	$871.3	$1,260.2	$210.9
Wisconsin	$642.7	$874.9	$1,164.7	$529.1
Wyoming	$215.5	$166.3	$235.8	$157.6
Total	$32,700.1	$61,701.0	$90,706.2	$26,666.1

1/ The "Needs" column shows investment required in FY 2010. The amounts would grow each year with inflation.
2/ ARRA is one-time funding only during FY 2009-10 and thus not available to meet needs in future years.

Table 2 - Job Impact of House T&I Committee Highway Program Funding

(Includes effect of 20 percent state match)

State	New Jobs that Would be Created in 2010 by T&I Committee Bill	Average Increase in Jobs During 2010-2015 Supported by T&I Committee Bill
Alabama	3,038	10,926
Alaska	1,330	4,782
Arizona	3,075	11,061
Arkansas	1,879	6,758
California	13,733	49,396
Colorado	2,063	7,420
Connecticut	1,934	6,956
Delaware	594	2,137
Dist. of Col.	580	2,085
Florida	7,729	27,802
Georgia	5,231	18,816
Hawaii	622	2,237
Idaho	1,120	4,028
Illinois	5,130	18,452
Indiana	3,899	14,024
Iowa	1,758	6,324
Kansas	1,498	5,389
Kentucky	2,598	9,345
Louisiana	2,541	9,139
Maine	649	2,333
Maryland	2,371	8,530
Massachusetts	2,433	8,750
Michigan	4,239	15,249
Minnesota	2,394	8,611
Mississippi	1,780	6,403
Missouri	3,485	12,535
Montana	1,444	5,195
Nebraska	1,119	4,023
Nevada	1,171	4,213
New Hampshire	668	2,404
New Jersey	3,932	14,143
New Mexico	1,419	5,103
New York	6,632	23,855
North Carolina	4,256	15,309
North Dakota	948	3,411
Ohio	5,247	18,874
Oklahoma	2,309	8,304
Oregon	1,704	6,129
Pennsylvania	6,604	23,752
Rhode Island	749	2,695
South Carolina	2,511	9,031
South Dakota	994	3,576
Tennessee	3,221	11,584
Texas	13,119	47,188
Utah	1,186	4,268
Vermont	613	2,206
Virginia	3,931	14,139
Washington	2,545	9,154
West Virginia	1,601	5,759
Wisconsin	2,939	10,572
Wyoming	986	3,545
SUBTOTAL	149,550	537,915

Almost every industry in the United States would add jobs as a direct or indirect result of this Committee's bill, according to the latest detailed input-output data for the U.S. economy from the Department of Commerce. Table 3 shows just some of the industries that will add new jobs as a result of the Committee's bill. For example, employment in the aggregates industry would grow by almost 3,000 jobs in 2010, and the average increase in employment during the full six years would exceed 10,500 jobs.

Table 3 - Job Impact of House T&I Committee Highway Program Funding by Industry
(Includes effect of 20 percent state match)

State	New Jobs that Would be Created in 2010 by T&I Committee Bill	Average Increase in Jobs During 2010-2015 Supported by T&I Committee Bill
	(1)	(2)
Highway, bridge and tunnel construction	72,714	261,544
Stone, sand and gravel mining and quarrying	2,929	10,535
Asphalt paving mixtures and coatings	2,775	9,980
Cement and ready-mix concrete	3,281	11,800
Iron and steel industry	1,396	5,021
Petroleum refineries	3,854	13,861
Oil and gas extraction	2,878	10,352
Concrete product manufacturing	1,330	4,784
Structural metal fabrication industries	2,549	9,168
Truck transportation	3,146	11,317
Engineering services industry	3,957	14,234
Accounting and bookkeeping	422	1,516
Machinery & equipment rental industry	2,352	8,461
Real estate and insurance industries	2,783	10,011
Wholesale trade	3,733	13,429
Machinery & vehicle repair shops	2,485	8,939
Lighting fixtures manufacturing	363	1,306
Paint and coatings manufacturing	570	2,050
Plastic pipe and fixture manufacturing	1,428	5,137
Sign manufacturing	226	814
Waste management industry	219	789
Other industries	34,159	122,865
Total	149,550	537,915

Mr. Chairman, there is growing discussion of a second stimulus bill. Congress need look no further than the T&I Committee's surface transportation authorization bill if it wants to generate productive, well-paid jobs in the United States next year.

Another drawback of an 18-month extension of the current surface transportation law is that it will create uncertainty about federal highway funding and disrupt the ability of state and local DOTs to make long-term highway investment plans. And that is especially problematic at a time when state and local governments are struggling with serious financial problems related to the current economic recession.

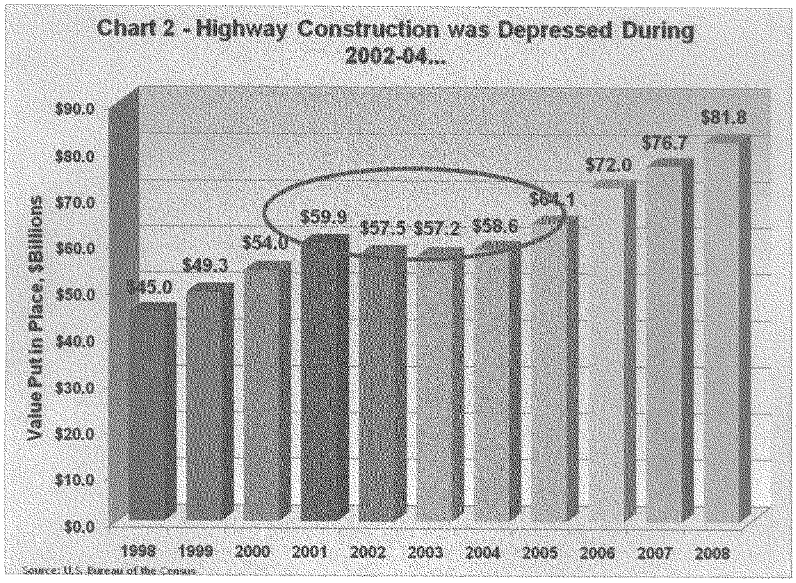


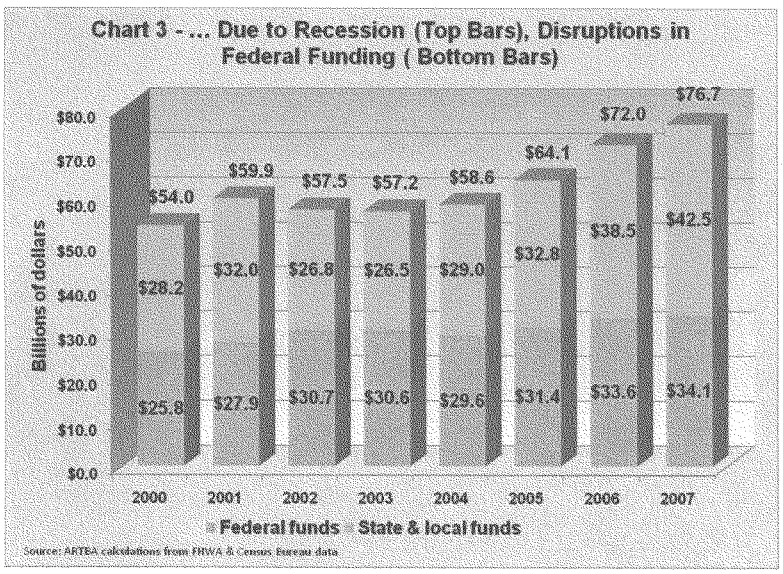
Chart 2 illustrates the potential impact of this combination on the outlook for highway construction and, by implication, the number of jobs supported by highway construction. At the start of this decade, the "perfect storm" of recession plus uncertainty caused by disruptions to federal highway funding caused a three year recession in highway construction, as shown in the chart. Let me review the chronology of events:

- The problem began with a relatively mild recession from March through November 2001, which nonetheless caused serious fiscal difficulties for state governments during their fiscal years 2002, 2003 and 2004. A number of states raided their highway funds to balance their budgets. The current recession is much worse and likely to have an even bigger impact.

- Then, in February 2002, the administration's budget for FY 2003 included an $8 billion negative RABA adjustment slashing federal highway funding from $32 billion in FY 2002 to $24 billion in FY 2003, a 25 percent cut that was completely unanticipated. That issue was not fully resolved until half way through FY 2003, when Congress enacted appropriations legislation maintaining highway funding at its FY 2002 level. Nonetheless, for more than 12 months, state DOTs did not know how much federal highway aid to expect.

- That was followed by the expiration of TEA-21 at the end of September 2003 without any prospects for timely enactment of a multi-year surface transportation authorization bill. Instead, Congress extended TEA-21 thirteen different times, some extensions as short as one month. Between September 2003 and August 2005, when Congress finally enacted SAFETEA-LU, state and local transportation agencies were essentially in the dark about how and when they would receive federal highway funds.

The impact of these two concurrent calamities is made clear in Chart 3. This chart shows the value of construction work performed on highways and bridges each year and how the cost of that work was divided between the federal highway program and state and local funds. The bottom or blue part of each bar shows the actual payment of federal highway funds to state and local government each year. The top or pink part of each bar shows outlays of their own funds by state and local governments.



- Looking at the top bars, state and local spending plunged from $32 billion in 2001 to $26.8 billion in 2002 as a result of the recession and its impact on state and local revenues. Their highway investment did not recover until the economy started to grow again in 2004 and 2005. We are already seeing the same kind of impact of the current recession, as I mentioned earlier in my testimony.

- The story told by the bottom bars is that outlays of federal highway funds also went down at the same time, for the reasons explained above. The uncertainty caused by short-term extensions of TEA-21 led state and local governments to spend fewer federal highway

> funds in 2003 and 2004 than in 2002, and the number in 2005 would have also been down except for emergency highway spending to repair damages caused by hurricanes in 2004 and 2005.

And here we are in the middle of 2009, facing exactly the same set of circumstances – a serious recession combined with a proposal to once again extend the highway program for a short period of time rather than enact a robust well-funded six year authorization.

Mr. Chairman, we have known for years that state and local transportation agencies need long-term funding certainty to plan and implement highway and bridge construction projects. That is why Congress moved from annual authorizations during the 1950s and 1960s to the current practice of enacting six-year authorization. Short-term authorizations are simply too disruptive. It is virtually impossible for a state or local transportation agency to develop an effective highway investment program without a long-term funding horizon.

The lesson learned during the first half of this decade is that a series of very short-term extensions does not work. We need a full six-year surface transportation authorization bill.

Mr. Chairman, I have heard enough political hand-wringing about why now is not the right time to act on a surface transportation bill to make you wonder how some people decide to get out of bed in the morning.

While most of this is nothing more than justifying the urge to procrastinate, I do hear of people in and out of government who want a reauthorization delay to better advance their policy agenda. Narrow constituencies attempting to manipulate this legislation to gain political leverage when over 37,000 workers in the transportation construction industry lost jobs in the last year is incredibly offensive and exactly why so many Americans are soured on this process.

In closing, I would like to share a quote from an editorial by President Obama in last Sunday's Washington Post.

"There are some who say we must wait to meet our greatest challenges. They favor an incremental approach or believe that doing nothing is somehow an answer. But that is exactly the thinking that led us to this predicament. Ignoring big challenges and deferring tough decisions is what Washington has done for decades, and it's exactly what I sought to change by running for president."

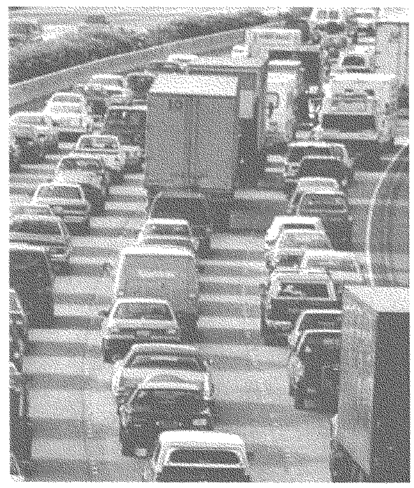
Admittedly, this statement is in a broad context, but I think we would all agree its sentiments are equally applicable to the surface transportation bill. I only hope we are allowed to take on these tough decisions.

Thank you for allowing me to appear before you today and I would be happy to respond to any questions.

Traffic Congestion Slows Down Small Business and Adds Cost

By Arnie Consdorf

Almost everyone who drives faces traffic congestion, including drivers delivering the products and services of millions of small businesses. It all adds up to a lot of lost time and money.



All across America, drivers face a familiar scene—heavier traffic, longer commutes, and, in many places, extended rush hours that are blurring into each other to create never-ending traffic jams. Once reserved for the country's largest metropolitan areas, the realities of traffic congestion are spreading out as more people and more vehicles jockey for limited space on the highways.

It's obvious to anyone who drives to work, to the store, to the doctor; takes kids to school or tries to drive to any of the places that a society built on the expectation of mobility needs to reach. Sitting in traffic. Losing time and spending money on vehicle wear and tear, plus the skyrocketing cost of wasted fuel.

What's not so obvious, but should be more apparent, is that sitting around in the same traffic congestion are drivers from all kinds of small businesses trying to get products and services to people who need them. And that costs a lot of money too.

"Florists really have to run their businesses today thinking about rush hour," says Peter Moran, executive director of the Society of American Florists. "As rush hour stretches out, it makes it harder to make things work. More and more florists are keeping just-in-time inventories. A big order often means calling the distributor. If that order comes later in the day, the florist may have to turn the business down because he can't get the flowers in and still make the delivery. Delivery is what this business is all about."

Just-in-Time Delivery

Growing traffic congestion is tough on businesses that make deliveries as a key part of doing business. But all companies depend on deliveries. And almost all businesses today, large and small, rely on some form of just-in-time (JIT) delivery as a way to control inventory costs. JIT needs predictable and dependable delivery to work. Traffic congestion threatens to turn just-in-time savings into jammed-in-traffic costs, especially for smaller businesses with limited people that cannot adopt other solutions, like late night delivery cycles. Congestion also makes it harder on businesses that have to deliver their people to several different locations during the day, businesses like service organizations and sales rep firms.

"If you lose one call out of four or five in the day because of congestion, it not only diminishes the sales commissions of the agent, but it hurts the company represented and their sales," says Joseph W. Miller, president of the Manufacturers Agents National Association. "It's a real challenge to be a sales person today!"

"Chewing Up Money"

Traffic congestion, unlike the gift that keeps on giving, is the grinder that keeps on taking—chewing up time and money in an ever-widening wave:

- In Atlanta, a pet product distributor finds it hard to make 12 daily stops today compared to as many as 20 stops 10 years ago.
- In Los Angeles, a plumbing company puts an extra technician on the truck to service emergency calls for key accounts not because the work demands the help, but to be able to use expressway diamond lanes (for vehicles with two or more passengers) during heavy traffic periods.
- In Phoenix, a florist won't take across-town orders for delivery after 3 p.m. because it usually costs more to get the flowers there than the order is worth.
- In Chicago, a heating and air conditioning service company sometimes spends as much time getting to a schedule of daily calls as it takes to make the on-site repairs.
- In New York City, a trucking carrier adds a $75 charge for "Congestion Pay" to each load that goes into the city.
- In Seattle, an hourly landscape crew of 10 waits for a delivery of live planting materials that is an hour-and-a-half late due to heavy traffic.

"I once thought our location was great," says the owner of a photo/copier service center in the northern Chicago suburbs. "We had lots of traffic and a growing area. But we still have the same two-lane highways we had ten years ago. With extended rush hours and heavy school traffic to a very large nearby high school, you can't get anywhere from about 7 to 9:30 a.m. in the morning and from 3 to 6:30 p.m. in the afternoon. I think a lot of people simply try to avoid the entire area. I never thought too much traffic would be an issue."

Impact on Small Businesses

Traffic congestion negatively impacts small businesses in two significant ways:

- Employees tend to be paid by the hour—traffic congestion that generates lost time directly by sitting in traffic, or indirectly by waiting for product or materials stuck in traffic means higher costs.
- Many small businesses, especially service related businesses, are paid by the job, the trip, or the call—traffic congestion that reduces the number of jobs, trips or calls means lower income.

"We're very concerned about traffic congestion," says Joseph W. Harrison, president of the American Moving and Storage Association. "We're able to pass along added fuel costs, but it is hard to pass on added windshield time. It's unpredictable—one time it's 20 minutes, the next time it's two hours. It doesn't matter if you're paid by the hour or by the job—added windshield time costs you money either in more out-of-pocket dollars for the time or in lower dollars coming in because of fewer jobs."

Businesses that face potentially higher costs and lower income struggle to survive. But when this convergence is caused by circumstances beyond their control, and traffic congestion is beyond the control of any one business, the struggle becomes more difficult. Add the unexpected—delays caused by bad weather, accidents, construction and maintenance work—and the difficult approaches the insurmountable.

"It's Getting Worse"

"It's getting worse," says Hal Hannibal, an owner of Bailey Plumbing in Los Angeles. "Anytime there's an accident, you get stuck and miss appointments. We charge a flat rate for travel time. If it takes longer than the time included in our charge, we eat that cost. I'm sure it's really costing us now. But we also have to compete for the work!"

Then there are the hidden costs of contending with the fallout from congestion-related problems—scheduling, routing, late deliveries, missed appointments, unhappy customers and frustrated employees. Because small business owners have limited time, time spent dealing with these issues takes time away from planning and growing the business. These time drains may be the most significant cost of all for small businesses.

Why is any of this important? Because small businesses are the heart and soul of the U. S. economy:

- They are the vast majority of business firms—nearly 90 percent of all businesses in 2002 had less than 20 employees.
- They create jobs—two-thirds of all net new jobs in 2002.
- They represent half of the nation's private gross domestic product and 43 percent of total business wealth.
- Women-owned and minority-owned businesses are principally small businesses.
- Small businesses tend to be the innovators that stimulate economic growth.

The overall impact of traffic congestion is well documented. Two well-regarded sources of this documentation are the Texas Transportation Institute (TTI) of The Texas A&M University System and the U. S. Census Bureau.

The Economic Costs

"The problem can be stated simply—congestion has grown everywhere in areas of all sizes," says the 2004 "Urban Mobility Report" from TTI. "Congestion occurs during longer portions of the day and delays more travelers and goods than ever before. There are ways to address congestion problems, but there are not enough solutions being implemented to keep pace with the growing travel demands."

The numbers on congestion in the 85 urban areas studied by TTI are staggering (and growing):

- 3.5 billion hours of delay in 2002 (up from 0.7 billion hours in 1982).
- 5.7 billion gallons of fuel wasted in 2002 (up from 1.2 billion in 1982).
- A $63.2 billion cost of congestion in 2002 (up from $14.2 billion in 1982).

New Census Data

Recently released data in the American Community Survey from the U. S. Census Bureau say we spend, on average, more time commuting each year—100 hours—than most of us get in vacation time—80 hours. As a nation, our average daily one-way commute took 24.3 minutes in 2003, an increase of almost 10 percent from 1990.

The reasons behind these increasingly longer commute times and growing congestion also are fairly straightforward. Since 1980, population in the United States has increased by about 24 percent. The number of licensed drivers grew at better than 30 percent. But growth in registered vehicles was nearly 40 percent over the same period.

More drivers, more vehicles and more miles traveled on about the same highway capacity have led to more congestion.

What is not very clear is the true impact of traffic congestion on smaller businesses. Precious little hard research data exist to document real costs. But if you ask those who represent small business interests, they can give you real life examples.

"The nursery and floral (plant) industry is the third largest cash crop in the agriculture sector," says Robert Dolibois, executive vice president of the American Nursery and Landscape Association. "It's virtually all domestic. Nursery stock from production nurseries has to be handled in a short (seasonal) timeframe. Much of this stock is headed into large metro areas. Hourly work limits on drivers and traffic congestion impairs the ability to deliver perishable product to multiple locations in a timely fashion.

"On the landscape side, it's a fee-for-service business that is conducted during daylight hours," continues Dolibois. "Weather can knock out time. Rising traffic congestion steals time. That makes it really hard when you're paying hourly wages."

One of the only pertinent pieces of research on the subject is the 2001 study on Economic Implications of Congestion from the National Cooperative Highway Research Program. That study says traffic congestion raises business costs and reduces productivity in a number of areas:

- Increased employee travel time and reduced productive working hours.
- Increased scheduling and logistics costs.
- Reduced just-in-time inventory savings.
- Reduced ability to benefit from market scale economics.

The research included case studies of delivery costs in Chicago and Philadelphia and found that customers would switch suppliers if congestion caused delivery costs to rise, which would tend to hurt smaller businesses with only one or two locations.

"If we're going to maintain a cost of goods that is reasonable—and that's an important part of business—then we need a reliable transportation system," says Steven T. King, executive director of the Pet Industry Distributors Association. "You certainly hear that maintenance of highways and bridges seems to have fallen behind, not to mention new roads to relieve congestion in high-growth areas."

Solutions

Proposed solutions for traffic congestion problems are numerous, have been heavily debated and widely publicized recently as part of the Federal highway reauthorization process.

"I don't know what the best solution is," says Greg Judge of Southeast Pet, a distributor with 11 trucks serving Atlanta and seven states out of Austell, GA. "I just know that traffic congestion is dramatically increasing the cost of doing business."

Solutions of any kind require investment.

Some of the fundamental components of coping with congestion are perhaps best summarized in TTI's current mobility report, which calls for a balanced approach that includes:

- More capacity—the growth in travel demand must be met by more road and transportation projects.
- More efficient operation and use of current infrastructure.
- Better management of demand.
- Better land use planning and development patterns.

"We need to recognize a key factor as the American economy continues to shift to a service-based economy," says Dolibois. "What happens when you can't deliver services in a timely fashion at a reasonable cost? What does that mean to our economic future?"

We need to protect our economic future and the mobility on which it depends. Action, and the funding to make it happen, has to start at the Federal level.

"There are some things the government is better at than private industry," says Miller. "One of those happens to be highways, with right of way issues and the whole complex nature of building them. We need to make more Federal funds available to repair highways and focus on easing congestion to improve our ability to get around."

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ACEC

AMERICAN COUNCIL OF ENGINEERING COMPANIES

House Committee on Small Business
Subcommittee on Investigations and Oversight hearing on
"The Upcoming Highway Bill and Ensuring It Meets the Needs of Small Businesses"

July 16, 2009

Chairman Altmire, Ranking Member Fallin, and Members of the Committee:

The American Council of Engineering Companies (ACEC) is the voice of America's engineering industry. ACEC's 5,700 member firms – including thousands of small businesses – employ more than 400,000 engineers, architects, land surveyors, and other professionals, responsible for more than $400 billion of private and public works annually. We appreciate the opportunity to submit testimony for this hearing.

The first and foremost action that this committee and its members can take to support small businesses is to reject calls for an 18-month delay in tackling our nation's transportation infrastructure problems, and to make passage of a full six-year surface transportation bill a priority this year.

America's transportation system is an aging network of highways, bridges, tunnels and transit systems broken down from years of underinvestment. The facts are compelling:

- One out of every four bridges has either significant deterioration or no longer meets current standards for lane width or clearance height.
- One quarter of major roadways have pavements rated in poor condition.
- The average driver loses 36 hours – nearly an average work week – and wastes three weeks worth of gasoline in traffic every year.
- Inadequate transportation infrastructure imposes hundreds of billions of dollars in unnecessary costs on the U.S. economy through wasted fuel, delayed shipments and tragic accidents and injuries.

To meet these challenges, all levels of government must increase their investment and target innovative solutions. Unfortunately, current Highway Trust Fund revenues will not even support existing highway and public transit funding levels, which could force massive cuts in investment that would undermine any gains made through SAFETEA-LU and the American Recovery and Reinvestment Act (ARRA).

While the public perception is that the ARRA was focused primarily on infrastructure, in fact infrastructure was a very small piece of that package. The engineering and construction industry was pleased with the widespread, bipartisan support for infrastructure investment as a means to promote job creation and long-term, sustainable economic growth. Unfortunately, the final totals did not meet our expectations, and I can tell you that so far, the engineering industry has seen very little work out of those funds. Given the heavy emphasis on "shovel ready" projects, states are targeting deferred maintenance and simple reconstruction needs, not advancing larger, more complex projects to reduce congestion, enhance mobility, improve safety and protect the environment.

Early passage of a new six-year transportation program to replace SAFETEA-LU is an essential complement to the investments included in ARRA. While the Recovery Act is moving many projects forward, failure to pass a longer term program will prevent state and local governments from advancing the design and construction of the major transportation infrastructure upgrades that will generate far greater benefits in terms of new jobs and economic activity. Uncertainty and prolonged underinvestment will force the delay or cancellation of projects that would enhance economic competitiveness. No state or local transportation planner is going to pursue many projects outside of the window of projected funding. Any project that requires multiple years of funding commitments will be shelved. Any job creation gains from the Recovery Act will be short-lived.

By contrast, once our state and local clients have the funding guarantees of a new six-year program in place, new engineering and construction contracts will be let, new orders for equipment and construction materials will be placed, and many workers in the industry who have lost their jobs over the last year will be put back to work. Small businesses across the country will see numerous new contracting opportunities. In short, the benefits will be felt very quickly and will continue for years to come.

Unfortunately, the Administration has called on Congress to postpone consideration of the bill and delay these vitally necessary improvements for 18 months. On behalf of all members of ACEC, I urge the members of this subcommittee, and the members of the full committee, to send a strong message rejecting any delay in moving forward with a robust six-year bill. This is an historic opportunity to generate immediate economic benefits and enhance the quality of life in our communities. We must invest now, before it is too late.

Another action the members of this committee can take to protect the interests of small businesses is to promote policies that maximize the use of America's engineering industry and oppose efforts to restrict the ability of state agencies to contract out for engineering services. Engineering firms play an essential role in helping those agencies to deliver critical infrastructure by providing innovation, expertise and cost-savings to the taxpayer.

Agencies that use ACEC members gain access to unique specialties and experience of firms that have been responsible for designing advanced infrastructure and facilities to meet 21st century needs. Small firms are able to compete for work based on their qualifications and ability to deliver on time and on budget. Contracting out also enables public agencies to adapt quickly to economic conditions and fluctuating workloads, ramping up their programs when funds become available and ramping down when funding cycles demand savings.

By contrast, government policies that require the sole use of in-house engineering workforces stifle innovation and competition, dampening economic growth and restricting business opportunities for small firms. Taxpayers are deprived of the innovation, on-time performance and cost-savings that engineering firms deliver.

Finally, we would draw your attention to a looming contract withholding mandate that will have very devastating consequences to small firms working for state DOT clients. Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) is a sweeping new requirement mandating that federal, state, and local governments withhold three percent from payments to engineering firms and other contractors for goods and services. The law, which takes effect in 2012, will cover all payments for products and services made by the federal government and state governments, as well as local governments that have annual expenditures that exceed $100 million.

ACEC is deeply concerned about the impact and unintended consequences of this new requirement on all companies that receive contracts or other forms of government payments. The provision was designed to deter tax evasion, but it will primarily penalize honest taxpayers. In addition, implementing the provision will cost federal agencies and state and local governments billions of dollars. A Department of Defense study estimates that it will cost DOD alone $17 billion in the first five years to comply with this mandate.

The withholding mandate will apply to the total cost of the contract, not to the net revenue generated or the size of the company. Many companies realize a profit margin of less than three percent on a contract, and withholding three percent up front for tax purposes will force them to divert funds needed to complete the contract, creating cash flow problems. As a consequence, government agencies may see the cost for goods and services increase as firms seek to offset the impact of the three percent tax withholding mandate.

The new mandate will have an adverse effect on smaller firms, both in terms of creating cash flow problems as well as affecting the important role they often play as subcontractors on large government contracts. Prime contractors may be compelled to pass the costs associated with the three percent withholding requirement to their subcontractors, or possibly shift from subcontracting work out to performing it internally. The withholding mandate is certain to impact most of the nation's engineering companies and construction contractors, given that so many contract with DOTs and other state and local governments.

The law will also impose significant administrative costs and information reporting requirements on governments and businesses. State DOTs will face enormous administrative cost burdens, diverting precious resources from critical program improvements as they essentially act as tax-collection agents for the IRS. This will also be a serious concern for subchapter S corporations and other pass-through entities because these withholdings will have to be reported to each partner in the partnership and will affect their tax liability.

I urge you to support full repeal of the 3% withholding mandate. ACEC strongly supports legislation introduced in the House by Representatives Kendrick Meek (D-FL) and Wally Herger (R-CA) and in the Senate by Senator Arlen Specter (R-PA) – H.R. 275 and S. 292 respectively – to repeal Section 511. Thank you to those subcommittee members who have already cosponsored this bill: Chairman Altmire, Full Committee Ranking Member Graves, and Congressman Ellsworth.

Mr. Chairman and members of the committee, thank you for your attention to the interests of small firms in the engineering industry. With your support for a robust six-year surface transportation bill, ACEC members can get back to work designing smarter, efficient, innovative solutions to our transportation problems.