Testimony of

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Hearing on
Impact of Highway Trust Fund Insolvency

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Mr. James: Thank you, Chairman Boxer and Ranking Member Inhofe, for inviting me to testify today before the Environment and Public Works Committee. I am Don James, Chairman and Chief Executive Officer of Vulcan Materials Company.

My goal here with you today is straightforward – to bring the point of view of the business I run and that of our employees and customers to bear on the issue of the importance of the highway trust fund and of sustained, significant funding for America's transportation infrastructure.

We are the largest producer of construction aggregates in the nation, primarily crushed stone, sand and gravel used in all forms of construction. In particular, large quantities of aggregates are used to build highways, roads and bridges, as well as for use in other large infrastructure projects such as buildings, public works, erosion control and water treatment plants, all of which constitute the built environment.

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

Vulcan Materials is also a major producer of other construction materials, including asphalt and ready-mixed concrete and a leading producer of cement in Florida. We have been publicly traded on the New York Stock Exchange since our founding as a public company more than 50 years ago. We are an S&P 500 Index company. Vulcan employees and our more than 350 operations serve customers in the District of Columbia and 23 states, including California, our largest state by revenue, as well as Tennessee, Louisiana, New Mexico, Pennsylvania, and Maryland.

In 2008 and for the eighth year, Vulcan was named to *Fortune* magazine's list of the World's Most Admired Companies. Over the past seven years, Vulcan has also been recognized twice as one of the Top 10 of all Fortune 1000 companies for Social Responsibility. During the same period, Vulcan has been named to Fortune's Top 10 list in two other categories, "Use of Corporate Assets" and "Long-Term Investment".

We are active members in a number of our industry trade associations including the National Stone, Sand and Gravel Association, the American Road and Transportation Builders Association, the National Asphalt Pavement Association, the National Ready-Mix Concrete Association, and others. We strongly supported this Committee's efforts during the Congress' consideration of the

American Recovery and Reinvestment Act. We and our associations stand ready to assist the Committee in its vital effort to support transportation infrastructure investment – investment that needs to be sustained and significant to meet the great, and ever-growing, transportation infrastructure needs of the United States.

According to the American Society of Civil Engineers, America's infrastructure is graded overall a "D". This is not the kind of foundation upon which the restoration of economic growth can be built. Our nation's success in the 21st century will depend in large measure on our ability to compete, globally, in getting our goods to market and our growing population of citizens to their destinations efficiently and safely. This is no small challenge, but it is as fundamental as gathering our resolve to invest in our country again.

Aggregate sales in the U.S. are valued at approximately $20 billion annually. When combined with other related industries, such as cement, concrete, asphalt 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. The business of successfully building and maintaining our national surface transportation infrastructure depends in large measure on the funding stability and year-over-year predictability of the federal-aid highway programs funded by the Highway Trust Fund.

This stability and year-over-year predictability has been achieved by means of multi-year federal-aid highway authorizations such as TEA 21 and SAFETEA LU. These multi-year authorizations provide an important continuity that my company, our employees and our customers rely upon in order to meet the significant and growing needs of local, state and federal transportation programs.

These multi-year bills are particularly vital for the funding visibility and related 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 clearly 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 the loss of jobs in the construction and related support industries. As a result of the recession, and with the prevailing uncertainty regarding highway funding projects, we have, to date, laid off approximately 14 percent of our workforce. A large number of those who remain are working significantly reduced hours.

Overall, the unemployment rate among the construction trades in the United States is two times higher than the unemployment rate in the US economy generally.

As a materials supplier to highway contractors for these projects, we are the first to feel the impact of slowing rates of contract awards. The production of our products, and the private sector jobs that are created, precede by many months a state's request for federal reimbursement of its state funds used to pay for the construction. This means that well in advance of any technical definition of insolvency for the Highway Trust Fund, at the point when the perception of a lack of future federal funds occurs, the lack of confidence impacts our employees and customers. Our slowdown occurs at the first doubts about what Congress will do and when it will do it. A perceived lack of consensus in Congress on what course it will take with regard to the Trust Fund and the federal-aid highway programs has been building for some time now.

Today, we are already feeling the impact of these doubts about what Congress will do and the timing for doing it. And with the end of the current multi-year authorization coinciding with a predicted shortfall of at least $5 billion in revenue just to cover Fiscal Year 2009 budget authority, anxiety and doubt about the future of the Trust Fund continues to grow.

This multi-billion dollar Fiscal Year 2009 shortfall fosters doubt in the marketplace about the Trust Fund's stability. When the issue of Fiscal Year 2010 is added to the equation, there is even more negative speculation and the perception of unpredictability for the Highway Trust Fund is further reinforced.

In describing the impact that the Highway Trust Fund insolvency debate can have on our employees and customers, I would like to emphasize a basic Congressional dynamic that contributes to the perception of Trust Fund stability – timely, bipartisan action.

Timely action to stabilize the Highway Trust Fund may be considered a rather simple course of action for people unfamiliar with the difficulties involved in prompt Congressional action. I know that here in Congress timely action is a more complicated course to chart –that there are trade-offs that must be made about how and when to proceed.

Some in Congress consider the expected Fiscal Year 2009 shortfall in highway trust fund revenue as a deadline of sorts that should drive "timely" action on a multi-year bill. Others believe the expected Fiscal Year 2009 shortfall is also a Fiscal Year 2010 funding problem and that work on a multi-year bill must yield to a "timely" concerted focus on the more immediate problem.

The very existence of these two perspectives fosters concern outside the Beltway over what Congress will do and when. The perception produced is one of internal disagreement in Congress over its stewardship of the Trust Fund, thus stalling timely action that will benefit the citizens of all of our states. Not only is the multi-year bill caught up in the question of sufficient revenue flow into the Trust Fund for the remainder of fiscal year 2009, there are also multiple ideas within Congress regarding what to do about it.

Moreover, the current lack of a bicameral, bipartisan consensus on the content of a multi-year authorization only compounds such concerns. Bipartisanship and bicameralism have been hallmarks of multi-year authorization successes for many years. Industry, labor and state DOTs keep a close eye on these factors in gauging Congress' future actions and their timing. Transportation infrastructure investments that are stranded in mid-course, and needed investments that are not made at all in the absence of consistent multi-year funding, put a tremendous strain on industry, labor and the state DOTs, even as they serve to further slow overall economic growth.

The crowded agenda of this session of Congress also poses challenges. The perception is that neither a multi-year authorization nor an extension is currently on the Leaderships' agenda in either Chamber. Leadership support of transportation legislation has always been an additional critical factor in driving a consensus when one is not otherwise present. This is not to say that Congress' current agenda isn't full of important issues to the nation – just that the Trust Fund's stability and the related consequences to employment are also important to the nation and aren't perceived to be on the agenda. And with multiple proposals on how to proceed, there is no sign yet that Leadership is making an effort to develop a bipartisan, bicameral consensus on the next step.

We do know that the Administration prefers an extension of 18 months, but there are aspects of its approach that are not understood – such as what changes to current law might be suggested by the Administration in its extension proposal. If an extension is how Congress proceeds, a variety of stakeholders prefer a clean extension, although timely passage of a multi-year bill is obviously far more efficient than an extension.

Taken together, these Congressional realities produce negative perceptions, which have a direct impact on the transportation planning and construction activities of the states. With multiple ideas on what to do and when to do it coming from both Chambers – sometimes on a daily basis – it is not clear when and how Congress will act, nor that the Trust Fund will be able to cover its FY09 obligations.

These perceptions will fade when Congress acts in a bipartisan manner to restore stability and predictability to the Highway Trust Fund, before the end of fiscal year 2009. When Congress acts in a bipartisan and timely manner, confidence in the Trust Fund is restored. When Congress passes authorization legislation that is bipartisan, resulting in balanced transportation policy, it reinforces the perception of program continuity among the state DOTs.

I am hopeful that Congress will pass legislation that brings financial stability to the Trust Fund for the remainder of Fiscal Year 2009 and for Fiscal Year 2010 – while also working on a multi-year bill – prior to Highway Trust Fund insolvency. But this won't mean that our company, our employees and our customers will have avoided the impact of the current perception that the Trust Fund might become insolvent without remedy, or that a new multi-year bill might be delayed.

At the end of Fiscal Year 2008, one of the biggest challenges our company and industry faced near-term was uncertainty related to the availability of funding for road and highway projects. Congress did resolve the Fiscal Year 2008 Highway Trust Fund shortfall – but the debate about the shortfall and questions about how and when Congress would act caused a significant level of uncertainty among our state DOT and local government customers. This led many state DOTs and local governments to suspend, postpone or altogether cancel expected construction and maintenance work – with corresponding work curtailments and job losses.

The State of Virginia suggested it would consider postponing $1.1 billion worth of transportation projects as a result of its need to address a lack of funding brought about by concern over the Highway Trust Fund. Another example from last summer was in Pennsylvania, where a $1.2 million highway resurfacing contract was cancelled by the Pennsylvania DOT, which stated that, "The termination of this contract is based on future funding projections indicating that sufficient funds will not be available to complete the contract." This was not an isolated event last year and examples of this impact are present this year. The statements that follow, describing the adverse impacts on state transportation programs, were made during the previous Trust Fund crisis of 2008. They vividly demonstrate the difficulties the states face in the absence of consistent funding.

North Carolina
Charlotte News & Observer – September 2008
The slowdown in federal reimbursement could cost North Carolina more than $300 million in highway and bridge construction funds this year, state transportation officials said in Raleigh. If the Senate fails to join the House in an $8 billion bailout for the federal Highway Trust Fund, North Carolina will eventually have to cancel or postpone construction projects planned for the coming year. In the past, the federal fund has covered 80 percent of most highway and bridge building costs.

Arkansas
Arkansas Democrat Gazette – September 2008
Uncertainty over federal funding resulted in the Arkansas Highway and Transportation Department deciding Monday to withdraw one project from a list of 12 scheduled for a bid opening today.

The Arkansas agency's move came the same day the Oklahoma Transportation Commission delayed awarding 32 projects worth $80 million on which it opened bids last month. The Oklahoma Department of Transportation also said it could cancel this month's bid letting, delay work orders on projects already awarded, suspend acquiring rights of way and look for ways to stop construction on existing projects while maintaining public safety.

Florida
WFTV Orlando – September 2008
The FHWA estimates that {the Trust Fund running out of money} will amount to a 34 percent cut in federal highway programs in FY 2009. The resulting effect would be an estimated loss of $573 million in federal funds for Florida in fiscal year 2009. The cuts could also cost almost 20,000 Florida jobs.

Arizona
White Mountain Independent – September 2008
While Congress is considering a proposed $8 billion one-year fix to the immediate crisis. . . the Arizona Department of Transportation is immediately placing a hold on new projects budgeted to use federal funding. In the months ahead, as much as $171 million in highway projects could be delayed because of this funding crisis. Gov. Janet Napolitano: "Arizona will be forced to delay vital highway projects at a time when we are facing crippling congestion and a need for economic stimulation."

California
Caltrans Director Will Kempton – September 5, 2008
Today, the U.S. Department of Transportation announced that effective Monday, September 8, the Federal Highway Administration will delay financial reimbursements from the Highway Trust Fund to all states. Here is a statement from California Department of Transportation (Caltrans) Director Will Kempton in response:

"This latest announcement from the U.S. Department of Transportation aggravates an already tight budget problem for California's transportation program. We had projected that the state budget impasse could impact ongoing transportation construction projects by October. However, delays in federal reimbursements could exacerbate this situation. Failure to resolve this issue will have a significant impact on California and the rest of the nation. Unless resolved, this situation could result in delaying, reducing, or canceling transportation projects. The ripple effect could impact the state's economy through loss of revenues, reduced productivity and increased unemployment. In July, I wrote a letter to California's congressional delegation emphasizing the need to resolve this issue at the earliest possible date. We will continue working with Congress and federal transportation officials to secure the passage of legislation that will address the funding shortfall in the Highway Trust Fund."

Some of these factors were temporarily offset by the transportation infrastructure funding included in the American Recovery and Reinvestment Act (ARRA).

ARRA was a step in the right direction, but only a step. The additional federal funding slowed a decline rather than reversed a larger trend. State transportation infrastructure spending – state revenue spent on transportation infrastructure – has in many states declined since ARRA passed. This is occurring because state revenue is in decline due to the economic downturn. The following examples are from two states, Florida and North Carolina, where Vulcan Materials Company has a significant presence. The conditions in these states further illustrate what DOTs are facing across our nation.

According to Florida's Secretary of Transportation, Stephanie C. Kopelousos, that state has made significant project deferrals. Beginning in fiscal year 2006 and through fiscal year 2009, Florida has deferred 566 major capacity construction and right-of-way projects. These projects total $10.6 billion in value. All of these projects had a tentative work program period of between four and five years.

In North Carolina, the situation is much the same. According to representatives of the North Carolina DOT, that state's transportation budget is down by $300 million as compared to last year. Similar or greater budget reductions are projected for each of the next two years. A reduction in or cessation of federal funds would be catastrophic for North Carolina. State officials are concerned that any momentum from the federal stimulus funds will be lost as a result of cuts or work stoppages at the state level due to uncertain revenues. North Carolina's DOT also indicated that uncertainty about the level or duration of the federal revenue stream would compel it to delay the letting of new projects, the majority of which are completed over a three- to four-year period.

We expect these trends to reverse themselves as the economy recovers – but that will not happen overnight. Meanwhile, our transportation infrastructure needs, and unemployment in the construction industry, continue to grow.

Transportation infrastructure investment is an investment in American jobs and the American economy. The Stimulus was intended to save or create jobs in part by putting Americans back to work building and maintaining our transportation infrastructure – thereby creating a real, tangible value for our economy. However, temporary influxes of federal funding are not as helpful in creating and maintaining jobs as are stable, multi-year funding streams. I believe that the Stimulus was needed, and has provided a modest start in providing jobs in the transportation infrastructure sector. The best stimulant to the economy, however, is a robust, multi-year highway bill. To build and sustain economic growth, America needs a long term, well-funded transportation infrastructure bill. Such a bill will be a most important step in putting the United States back on the road to infrastructure, and economic, recovery.