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THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

Quality People. Quality Projects.

Testimony of

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on behalf of
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Presented to the

Committee on
Environment and Public Works
United States Senate

on the topic of

The Importance of Transportation Investments to the National Economy and Jobs

March 3, 2010

The Associated General Contractors of America (AGC) is the leading association for the construction industry. 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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Madame Chairman and Members of the Committee thank you for the opportunity to present testimony on the Importance of Transportation Investments to the National Economy and Jobs. I am Tom Foss, President of Griffith Co, Brea, California. Founded in 1902, Griffith is an engineering contractor operating in southern California that specializes in constructing and maintaining streets, highways, airports and other types of infrastructure projects. I am here today representing the Associated General Contractors of America.

AGC is the leading association for the construction industry. Founded in 1918 at the express request of President Woodrow Wilson, AGC now represents more than 33,000 firms in nearly 100 chapters throughout the United States. Among the association's members are approximately 7,500 of the nation's leading general contractors, more than 12,500 specialty contractors, and more than 13,000 material suppliers and service providers to the construction industry. These firms build all forms of infrastructure, including: highways, bridges, transit systems, railways, airport terminals and runways, water and wastewater treatment facilities, underground utilities, public buildings, multi-family housing, office buildings, military facilities, water resource projects, energy production and conservation, and the many other structures that are the backbone of the US economy and provide and ensure US citizens' quality of life. Most are small and closely-held businesses. Unlike many associations in the industry, AGC proudly represents both union and open-shop construction contractors.

I will talk today about the impact of transportation investment on the economy and on my company in particular. I will talk about how companies like mine rely on the nation's transportation system for their livelihoods. I will talk about the need to reauthorize the nation's surface transportation programs and I will have a few recommendations for the reauthorization.

We have a successful transportation system in this country that interconnects major cities and major transportation hubs. It unites road, rail, air and sea going commerce into a nationwide network that connects customers to manufacturers who are often on different sides of the globe. Access to the transportation system is a key factor in sighting manufacturing or other employment centers. The federal investments in transportation programs have largely been administered by states that establish priorities and administer the program as an agent of the federal government. The program has been successful in establishing the best infrastructure system in the world.

An example of the successful operation of this system was the American Reinvestment and Recovery Act (ARRA). AGC called for the inclusion of transportation and other infrastructure investment as part of last year's ARRA legislation. As it turns out, the stimulus spending is one of the very few bright spots the construction industry experienced last year and is one of the few hopes keeping it going in 2010. Stimulus funding is saving construction jobs, driving demand for new equipment and delivering better and more efficient infrastructure for our economy. U.S. Department of Transportation reports show that the $20.6 billion dollars worth of stimulus supported highway projects initiated over the past twelve months have saved or created nearly

280,000 direct construction jobs. That amounts to 15,000 jobs per billion dollars invested, well above pre-stimulus estimates that every billion invested in infrastructure projects would create 9,700 direct construction jobs. Highway and road construction was the only construction segment to see an increase in spending last year even as total construction spending fell by $100 billion.

The efficiency of the Nation's transportation system, particularly its highways, is critical to the health of the nation's economy. Businesses are increasingly reliant on an efficient and reliable transportation system to move products and services. A key component in business efficiency and success is the level and ease of access to customers, markets and materials. Efficient transportation plays a key role in business productivity, product costs, quality of life, global competitiveness and jobs.

We see this first hand. The construction industry is a major user of our Nation's transportation system. In 2009, private and public construction spending totaled $939 billion or 6.5 percent of U.S. gross domestic product. Construction materials and supplies accounted for one out of every 10 U.S. manufacturing shipments totaling $450 billion. One out of every 16 machinery shipments was related to the construction industry totaling $18 billion in new equipment shipments in 2009. In California, construction's percent of the state's GDP is estimated at $125 billion or 6.8% of the total. While construction spending is down significantly from 2008 when it totaled $1.072 trillion, or 7.5% of GDP it nevertheless remains a significant segment of the National and state economies and is directly impacted by transportation access.

For a company like Griffith, transportation is also important to our business because of its impact on the movement and delivery of products to our jobs. Traffic congestion causes contractors to schedule deliveries at times that may not be the most cost effective or efficient. Managing construction start and finish times are impacted by the ability of workers to get to the job site.

According to a recent National Chamber Foundation study, transportation infrastructure is also vital to the success of the five major economic sectors that account for 84% of the U.S. economy: services, manufacturing, retail, agriculture and natural resources, and transportation providers.

U.S. industries in all sectors manage lean, on-demand supply chains that stretch around the globe. The local truck that delivers goods to a neighborhood store is often the last link in a supply chain that spans half the world, with the final retail price of those goods reflecting thousands of miles of hard-gained freight transportation efficiencies within that chain. The economy strains the existing system and the load is continuing to grow.

Of all the modes that move freight throughout our country, trucking is by far the largest. According to the 2007 Commodity Flow Survey (CFS) - a survey of shippers sponsored by the Bureau of Transportation Statistics in partnership with U.S. Census Bureau – about $8.4 trillion and 9.0 billion tons of goods moved via U.S. highway shipments.

These numbers are a significant increase from the 2002 CFS survey and show the continued strain on our transportation infrastructure. With trucks carrying nearly 70 percent of the total freight tonnage moved throughout the country on our roads and bridges, which in many cases are in poor or mediocre condition, will continue to be overburdened causing greater disrepair and increased congestion.

Approximately $924 billion in goods are shipped annually from sites in California and another $894 billion in goods are shipped annually to sites in California, mostly by commercial trucks on the state's highways. Sixty-eight percent of the goods shipped annually from sites in California are carried by trucks and another 19 percent are carried by courier services, which use trucks for part of their deliveries.

Increasingly, companies are looking at the quality of a region's transportation system when deciding where to relocate or expand. Regions with congested or poorly maintained roads see businesses relocate to areas with less congested and better maintained transportation systems.

For a lot of people transportation investment is more than just a means for shipping goods or commuting. For the construction industry the transportation program also represents the market in which we work. Companies like Griffith rely on transportation construction for job opportunities and the livelihood of the 485 workers we employ and the families they represent. Our company is structured with 10-12 individuals in upper management and 364 craft workers made up of laborers, operating engineers, teamsters, carpenters and cement masons. The remaining are middle management or office staff. We provide a good living for our employees.

Construction investment is a significant driver of economic activity. In 2008, AGC hired Professor Stephen Fuller, George Mason University to ascertain the impact of nonresidential construction on the economy. Professor Fuller found that every $1 billion invested in nonresidential construction supports over 28,000 jobs, boosts gross domestic product by $3.4 billion and raises personal earnings by $1.1 billion. About 34% of the jobs are directly in construction. About 16% of the jobs are indirect such as jobs in manufacturing or quarries and about 50% are induced by the increased earnings in the other two categories.

As was already mentioned, the total construction market contracted by more than $100 billion in 2009 from 2008 that includes residential construction and private construction in addition to public construction. While the nation is showing signs of recovering from the recession, the construction industry suffers depression-like conditions. Construction unemployment has been increasing steadily for the past two years and currently stands at nearly 25 percent. Construction employment in California has dropped 37% in the past four years, from a high of 948,500, seasonally adjusted, in February 2006, to 608,000 in December 2009, the lowest level since 1998.

Only 4 out of the nation's 337 largest communities have seen an increase in construction employment over the last year. Since the peak in construction employment in January

2007, 1.7 million construction jobs have been lost. Job loss in the construction industry has accelerated significantly over the past twelve months when two-thirds of the job loss has occurred.

In order to maximize the impact of federal transportation investment, we need to a see a structure that allows the federal government and states to plan to maximize the impact of federal investments. Failure to pass a multi-year transportation bill creates significant market uncertainty. The uncertainty makes it difficult to hold onto valued employees. It makes it hard to convince subcontractors to work for us, it makes it hard to convince lenders to invest in us. When there is an inconsistent flow of Federal funding, state agencies hold up the release of projects that are ready to bid and construct. Cal Trans has, for example, a list of projects budgeted at $770,000,000 ready to be built but that are waiting for funding. We need stability and continuity in the program.

In California, the collapse of the housing and commercial markets has lead to an increase in the number of contractors competing in the public sector. A few years ago Cal Trans had an average of 3-4 bidders on their projects. Today that number is between 9 and 10 bidders on each project. Some projects have had 20 or more bidders. In the current bidding climate it is very difficult to be low bidder and even more difficult to make a profit.

One of the largest risks for a company like Griffith Company is the failure of our subcontractors. Beginning mid last year we began to see failures. We are anticipating this trend through the remainder of this year into the beginning of 2011. Both general contractors and subcontractors will have a high failure rate this year.

Given that the vast majority of construction firms are small, local businesses, the strength of the construction industry has a disproportionate impact on countless communities. There were 811,500 construction firms in the US in 2007, of which 91% were small businesses employing fewer than 20 workers. Contractor failures will have long term ramifications for these communities. The long term bill will provide certainty that will help companies survive even in this economic downturn.

As noted, America's surface transportation system is an integral component of our national and international economic competitiveness as well as our quality of life. However, the system has aged and is crumbling and crowded. The US population is growing and its demands on the system will increase. With the expiration of SAFETEA-LU on September 30, 2009 Congress and the Administration have the opportunity to chart a new course for the nation by providing a surface transportation system that will propel the U.S. forward. Now is the time to get it done. Increased investment in our transportation infrastructure is good for the country and for the construction industry in both the short term and the long term.

Federal investment should be focused on programs promoting national goals, including connectivity, freight mobility, congestion relief, and safety. A strong Federal role and a long term funding commitment to surface transportation planning and funding is

important to the nation's economic future. Earmarking and local micromanaging reduces confidence in the federal government's ability to meet national surface transportation needs. Reforms must maximize the effectiveness of the federal investment. Realistic performance goals should measure the program's effectiveness meeting the national goals.

According to the Federal Highway Administration, major highway projects take approximately 13 years to start to finish. Much of this time is due to the environmental review process. Project delays can have a significant impact on the overall cost of a construction project. Delivery of transportation projects takes too long and cost too much. Recent reforms in expediting and streamlining the environmental and permitting process have not been sufficient and should be supplemented. Permit process delays should be reduced by requiring greater coordination among federal agencies reviewing transportation permits, set time limits for review; allow use federal transportation funds to pay for regulatory staff to expedite reviews and compliance deadlines.

While demand outpaces capacity and the performance of the U.S. transportation system erodes, global competitors are investing heavily in their transportation systems—building highways, public transit systems, rail lines, ports, and airports that will soon provide them with transportation capacity and logistics capabilities equal to or exceeding those of the United States. If the United States continues to under invest in its transportation system and fails to meet the transportation needs of its key industry sectors, the U.S. economy will become less productive and less globally competitive.

The bottom-line is that we need to increase revenue into the Highway Trust Fund to help meet growing transportation needs. The highway program represents the ultimate PAY-GO program. System users pay a fee that is deposited into the highway Trust Fund. Those fees are then used to maintain and improve the system so the users get value for their investment. We must not shy away from telling the public what it is they are paying for and the product they get in return.

We have developed the best transportation system in the world. It is our country's economic lifeline. Additional, targeted investment is needed to create jobs, spur economic growth and continue to make our country globally competitive. The multiyear authorization is needed to restore faith in the program, build the system we need to reduce congestion and get our goods to market. It is our responsibility to leave future generations a legacy that will provide them the foundation for future economic growth as solid as the one we inherited. Now is the time to get a multiyear bill done.