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On Behalf of
The America Road & Transportation Builders Association

Hearing:
Recovery Act: 120-Day Progress Report
For Transportation Programs

House Committee on Transportation and Infrastructure
June 25, 2009

Chairman Oberstar, Ranking Member Mica and Members of the Committee:

Thank you for holding this hearing to assess the progress of the American Recovery and Reinvestment Act (ARRA) that was enacted four months ago. I am John Keating, President and Chief Operating Officer for Oldcastle Materials, Inc. East Region. I am here today representing the American Road and Transportation Builders Association (ARTBA). ARTBA and Oldcastle Materials applaud this committee's support for transportation programs in the Recovery Act and for your steadfast advocacy for continued significant infrastructure investment in this country's surface transportation network.

ARTBA is the oldest national transportation construction association. The Association is a federation whose primary goal is to aggressively grow and protect federal transportation infrastructure investment to meet the public and business demand for safe and efficient travel. ARTBA provides programs and services designed to give its more than 5,000 public and private sector members a global competitive edge.

Oldcastle Materials, Inc, an ARTBA member, is the leading vertically integrated supplier of asphalt, aggregates, ready-mix concrete and paving services in the United States. We are the largest asphalt producer, the third largest aggregates producer and the fifth largest ready-mix concrete producer in the country. Our federation of companies currently employs on average 20,000 people at more than 1,300 locations in the United States.

Oldcastle Materials' companies operate in 44 states using their local names: from APAC First Coast in Florida to Southern Minnesota Construction in Mankato, Minnesota. From the PJ Keating Company in Massachusetts, to the Staker &

Parson Companies in Utah, to Des Moines Asphalt in Iowa, we supply construction materials and pave roads to maintain and improve the quality of our nation's surface transportation system.

ARTBA Vice President of Economics & Research William Buechner, Ph.D., and my CEO, Doug Black, testified before the Committee last October on the crucial need for investment in our surface transportation infrastructure as part of an economic stimulus package. They testified the transportation construction industry was ready and able to provide the needed services, materials and workers to deliver the promised economic benefits of increased transportation investment. I want to take a few minutes to tell you how our industry is doing on fulfilling that commitment.

The American Recovery and Reinvestment Act

The ARRA provides $48 billion in transportation infrastructure investments: $27.5 billion for highways; $8.4 billion for public transportation; $9.3 billion for passenger rail; and $1.3 billion for airport infrastructure. As there are other panelists that will focus on the public transportation and aviation investments, I will focus primarily on the recovery act's highway investments. Of the bill's highway funds, roughly $18 billion is provided directly to states and half of these funds must be obligated in 120 days. The remaining $9 billion of state funds, and the $8 billion allocated to local governments must be obligated within one year of the bill's enactment. States and localities that do not meet these deadlines will have their funds redistributed to other states.

The recovery act establishes timelines significantly more aggressive than the traditional federal highway program to ensure the funds begin producing economic and job creation/preservation benefits as fast as possible.

How the Transportation Construction Industry is Responding

During the Recovery Act debate earlier this year, it was suggested infrastructure investment cannot be a short-term stimulus to the economy since projects take too long to get started and to complete. Dr. Buechner and Mr. Black disagreed with that assessment back in October. All infrastructure projects are not the same. Clearly, as important as they are, building new highways, bridges, light rail lines, runways, and sewer systems can take years to complete. On the other hand, most highway maintenance and repair projects can be advertised, bid, let and completed in a short period of time. This is particularly true of projects already existing that state and local governments have ready-to-go if funding were available.

The American Association of State Highway and Transportation Officials (AASHTO) has reported on several occasions there were, and still are, billions of dollars worth of ready-to-go projects which could be let within weeks of funding being available. Many of these projects can be bid, let and work started in very short order. Doug Black provided the Committee at that time with a number of examples from our company which showed this to be the case. As the recovery act has been implemented, many states have turned to their list of ready-to-go projects to get recovery act funds out the door quickly and projects underway. Many of these projects are and will be completed in a matter of days or a few months. As we promised, our industry has responded to the challenge and is indeed hiring workers and getting these projects done as we speak.

A great example of this response is a significant project Oldcastle's company in Maine was recently awarded. Last year, we completed rebuilding a section of I-295 in Maine, but only the southbound lanes. The Maine Department of Transportation (DOT) was not expecting to have the funds to complete the northbound section, but the recovery act's enactment enabled them to put the project out to bid. We won the $33 million project, mobilized our crews, and will complete the rubbelization of the old pavement and rebuilding 23 miles of the road with 320,000 tons of asphalt by early August, a total of 120 days. This stimulus funded project is supporting 345 jobs in Maine. But for the stimulus, this project would not have been completed this year.

Obligation of ARRA Funds for Highway Construction Projects

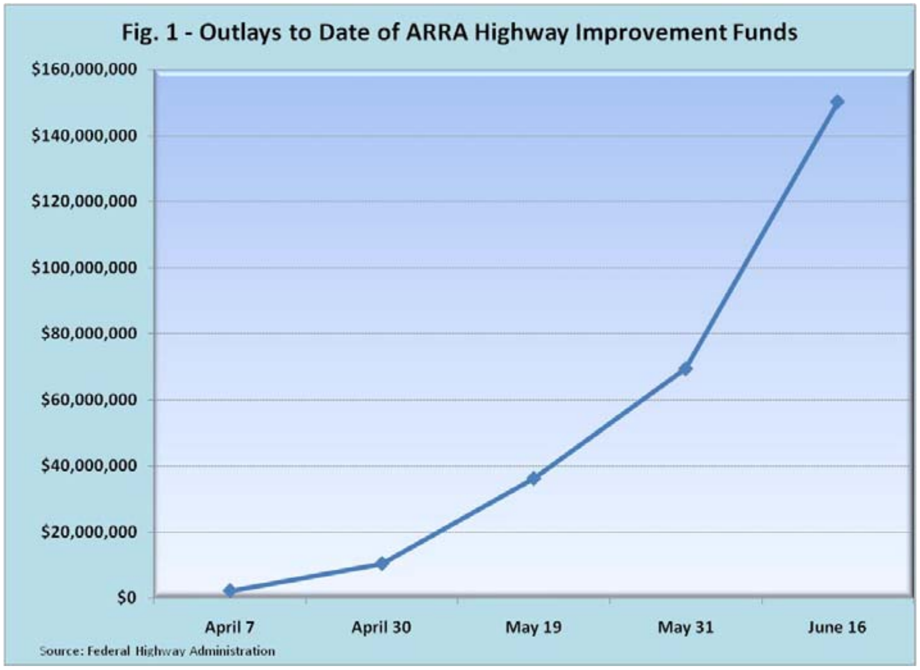
The economic data ARTBA regularly tracks indicate that the $27.5 billion of highway improvement funds in the ARRA are stimulating highway and bridge construction and supporting jobs throughout the American economy.

Let me start with the pace at which state and local transportation agencies have been obligating ARRA highway funds for construction projects. Twice each month, ARTBA issues a report tracking these funds by state and here are the major findings from our June 16 report:

As of June 16, $14.7 billion of the $26.8 billion that was apportioned among the states and U.S. territories has been obligated for highway, bridge or other construction projects authorized by ARRA. This means 55 percent of the total apportioned has been obligated within the first 3½ months. This is a far more rapid pace than occurs with regular highway program funds.

Every state plus the District of Columbia and four U.S. territories have obligated ARRA highway funds for highway or other eligible projects. Leading the pace is Utah where state and local transportation agencies have already obligated 93 percent of the state's ARRA funds, followed by Wyoming at 90 percent and Iowa at 85 percent. To date, eleven states have obligated at least 75 percent of their ARRA highway stimulus funds, and no state has obligated less than 30 percent.

The $14.7 billion obligated to date is about $5.4 billion more than the ARRA requires the states to obligate within 120 days of apportionment, which would make the deadline June 30, 2009. All but 2 states have by now obligated at least their 120-day target, so we anticipate that no state will have to turn back funds to FHWA when the June 30 deadline arrives.



All but seven states have made payments to contractors for construction work performed, with outlays through June 16 totaling $150.2 million. This is more than double the May 31 total of $69.3 million, indicating that construction work on ARRA-financed projects is increasing rapidly. Outlays are a lagging indicator of highway construction because the federal highway program operates on a reimbursement mode, so the June 16 number represents only a fraction of the amount of highway construction that is now underway with ARRA funds. We are getting into the prime highway construction season, so outlays should accelerate rapidly throughout the summer months.

Eleven states have obligated $96.8 million of ARRA highway funds for non-highway investments, including $51.3 million for transit and $45.5 million for freight, passenger rail or port infrastructure projects, as is allowed in the bill.

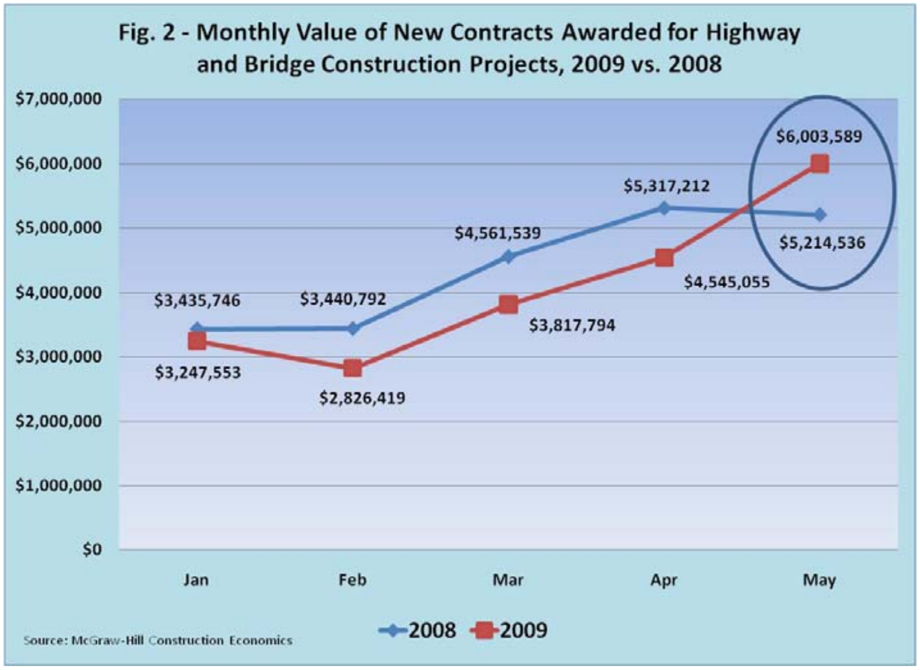
In the fiscal year 2010 Budget of the U.S. Government, the Administration projected that $20.6 billion of ARRA highway improvement funds would be obligated by the end of FY 2009, and with $14.7 billion obligated to date the FY total is likely to be that or more.

The pace of obligation is the only benchmark Congress set in the ARRA to track the use the highway stimulus funds by state and local transportation agencies. And by that indicator, they are performing very well.

But ARTBA tracks a number of other indicators that are also showing a positive impact from the ARRA highway stimulus funds.

New Contract Awards

The first is ARTBA's monthly report on the value of new contracts awarded in each state for highway and bridge construction projects. As Figure 2 shows, during each of the first four months of 2009, the value of new contract awards for highway and bridge projects was far below the same months of 2008 as the recession decimated the revenues used by state and local government to finance highway improvements. This is very likely what the whole year would have looked like without the ARRA highway funds. But there was a dramatic turnaround in May, when $6 billion of new projects were awarded compared to $5.2 billion in May 2008. This is exactly what we were hoping to see as state and local transportation agencies started letting and awarding ARRA-financed highway construction projects. Construction is now starting on these projects and they will be supporting thousands of jobs this construction season.



In addition, we have seen a significant increase over the last 30-60 days in the job advertising/bid award process in many states. Work is really beginning to flow through the competitive process. We expect to see a continuing increase in the number of contracts awarded and significant work will be underway by the end of the summer. The latest projections from the Administration indicate that $5.5 billion will be paid to contractors by September 30.

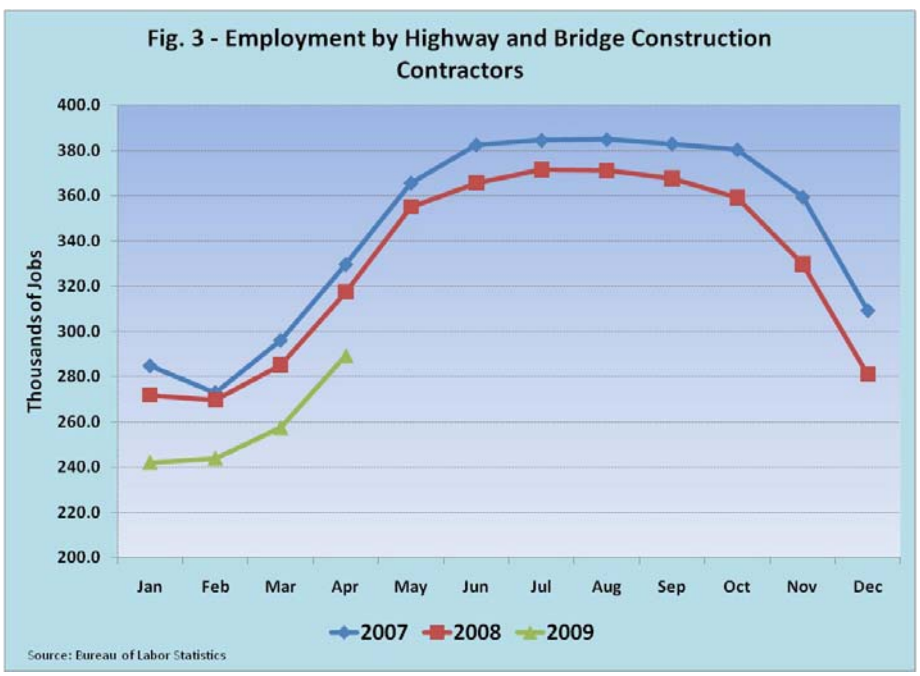
Many states are reporting, and our industry is experiencing, a dramatically more competitive bid environment for these projects. As has been widely reported, the construction industry has one of the highest unemployment rates in the country and construction firms and materials suppliers are eager to bid and win work.

We have seen significantly more bidders generally and this has resulted in lower than anticipated contract award amounts, often lower than the DOT's estimated. This has saved our customers—and the taxpayer—significant amounts of money. Together with recent downward trends in energy related costs such as diesel, liquid asphalt and natural gas, state DOTs and others should be able to turn these savings into even more work being bid and awarded over time.

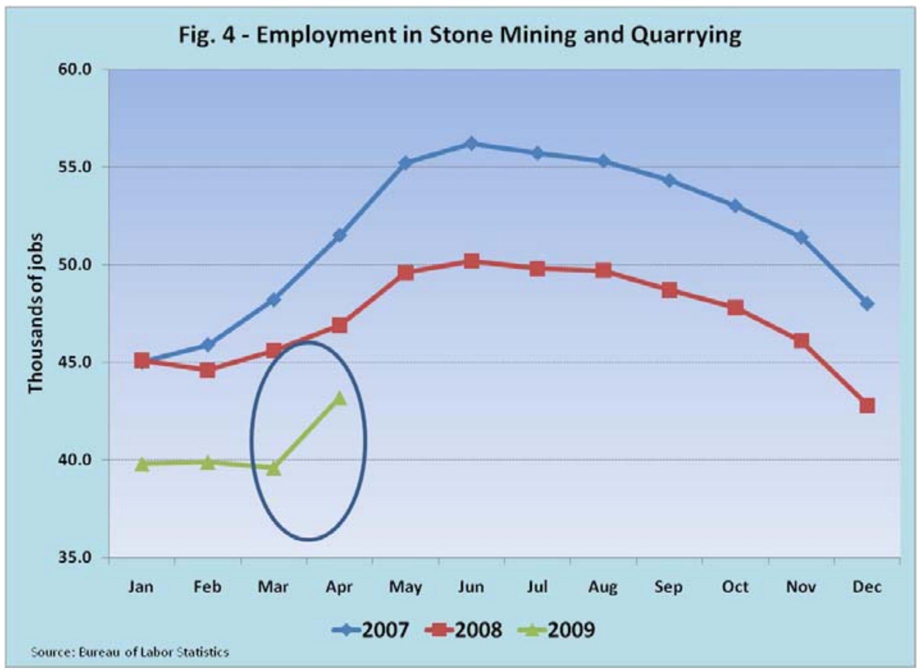
We are seeing many states responding by getting projects out the door more quickly than normal. This is reflected in the new contracts award data I mentioned above. For example in Alabama, the state normally has a completion date target for road projects and the contractor has flexibility when to start. The Alabama DOT is letting all of their stimulus projects in one of two ways: they are either ten-day quick awards with a 15 day start; or a 30-day award with a 45-day start. There will be no delayed start times and the projects must be completed within the allotted time with no exceptions. This process is getting projects underway sooner and people back to work.

Employment

One of the significant goals of the Recovery Act was to create and save jobs. This was the Administration's stated objective. Quantifying job creation is challenging, but it appears thus far that the most significant impact of the Recovery Act on our industry is that these stimulus funds and the work generated have allowed many companies in our industry to discontinue the layoffs projected. This represents a significant "job saving" impact.



As Figure 3 shows, employment by highway and bridge construction contractors deteriorated throughout 2008. Highway construction is a seasonal industry where there is a natural increase in the number of jobs during the spring and summer months and a decline throughout the autumn and winter as the construction season comes to an end in the northern and middle states. Each month during 2008, we saw a larger and larger gap compared to the number employed during the same months of 2007 as the recession and high materials costs took their toll on the ability of state and local governments to finance highway construction. By the end of 2008, there were almost 30,000 fewer jobs in highway construction than at the end of 2007. So far this year, employment is showing its normal seasonal growth but the number of jobs is still about 30,000 less than last year. We only have job data through April and, as the previous chart shows, that is before state and local transportation agencies started letting and awarding a significant number of contracts for highway construction projects. As ARRA projects get underway, the jobs lost in 2008 should be restored and new jobs created.



We are also seeing some encouraging signs of job growth in our quarries that produce crushed stone. Crushed stone is the primary material used in highway construction projects, and 30 percent of the output of this industry goes into highway construction. As Figure 4 shows, this industry is also seasonal but about two or three months ahead of highway construction because the quarry industry has to have the crushed stone on hand when it is needed by highway construction projects. As the chart shows, this industry lost jobs in 2008 but what is encouraging is that the job growth in April was stronger than normal. This is just what would be expected in an industry that has to gear up its own production before the construction projects get underway. This is probably happening in other industries that provide materials and services used in highway and bridge construction projects.

Doug Black testified in October that our production volumes were down significantly in 2007 and 2008. That downward trend continues in 2009. Employment in our industry is down significantly over those two years as well. Oldcastle Materials' employment was down 10 percent in 2007, 10 percent in

2008 and our early year projections for 2009 indicated a continuing decline of 15 percent this year. Our business is very seasonal, particularly in a number of colder climate states where the construction season is relatively short. We routinely increase employment and operations leading up to and through the construction season in the spring, summer and fall, and then reduce employment and operations as colder weather approaches. In 2007, 2008, and early this year, we simply did not bring back as many paving crews, quarry and plant operators, drivers, mechanics, dispatchers, sales people and administrative personnel as we normally do during the spring leading up to the construction season. Our employment and product volume declines reflect this.

Enactment of the recovery act, however, has positively impacted our industry and Oldcastle. Many of our companies report they have won stimulus contracts which will allow them to stem the projected decline in employment. For example, our company in Michigan was projecting having only 13 crews working this year (down from 18), but with the stimulus projects they have won the number of crews will increase to 15 or 16 in 2009. And Oldcastle's company in West Virginia has seen the stimulus impact offset reductions in other state and local spending to help preserve what could have been a 30 percent employment decline this year. Our product volumes should be similarly affected as the year progresses and more projects are awarded and get underway. What we are seeing in many states, however, is a significant overall decline in the amount of work they have available and that stimulus funding is offsetting this to some extent. We are certainly hopeful that states will continue to bid work in addition to stimulus projects during the rest of this year. The bottom line is the recovery act projects are allowing our company and the industry to save jobs.

Pike Industries, our company in Maine, New Hampshire and Vermont, has a very positive story to tell. The states in Pike's area have been particularly effective in getting work out to bid and Pike has been fortunate to win some of this work. To date Pike has been awarded $105 million in projects in its three states. Much of this work is underway or will begin soon. After Pike won some early jobs in New Hampshire, they held a job fair in Concord, N.H., advertising up to 50 jobs. Of the over 400 people who showed up, many were out of work construction workers from all over New England. Pike filled those positions and is expecting its stimulus work in all three states to allow it to save or create as many as 250 jobs. Out of a total workforce of 1,200, this 25 percent swing in employment makes a difference.

ARTBA members in virtually every state report similar experiences that we anticipate will be even more robust as more of the recovery bill's funds make it into the pipeline. The state of Ohio has awarded 36 contracts to 16 firms, all of whom have preserved jobs as a result, and one Ohio firm reports it has added jobs due to stimulus project. Approximately 50 ARTBA members in Alabama report adding jobs thanks to the recovery act. Austin Bridge and Road, in Irving, Texas, was awarded one recovery act project for $31 million that will support 60 jobs—this project and its benefits have been highlighted by Transportation Secretary LaHood. These are just some of the real world success stories of the ARRA's transportation investments.

The recovery act certainly brings a welcome infusion of investment in our country's infrastructure, but it is only a small down payment on the investment needed long-term. The Recovery Act was intended to be a short-term infusion of investment, but by no means a long-term solution.

Future Challenges

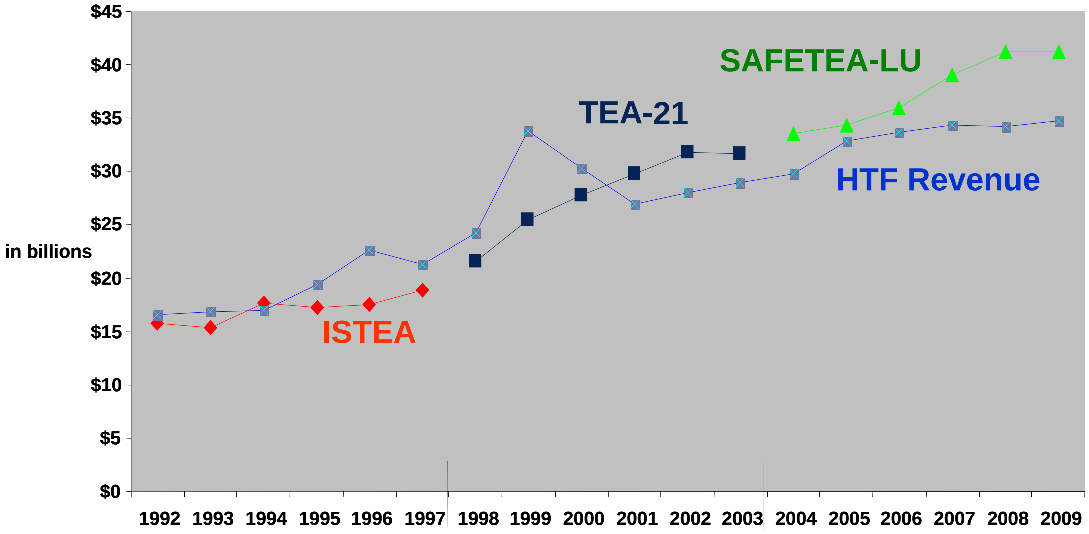
One of the biggest challenges our industry faces is uncertainty related to the availability of funding for road and highway projects. The looming Highway Trust Fund (HTF) Highway Account revenue shortfall has caused a significant level of uncertainty among state DOTs and local governments. In an environment where those entities have federal highway funding commitments jeopardized, many simply choose to suspend, postpone or altogether cancel expected construction and maintenance projects leading to corresponding job losses.

We faced this situation last September with a projected shortfall in HTF revenue. The Congress wisely passed an HTF fix which infused $8 billion from the general fund to prevent the HTF from running out of money. Unfortunately, it appears we will face a similar situation this year with recent projections showing a $5-7 billion infusion will be needed by August.

More importantly is the urgent need to pass a robustly funded multi-year surface transportation authorization bill. The current program, authorized under SAFETEA LU, expires September 30. The next program must address short and long-term revenue needs for surface transportation infrastructure investment in this country. To that end, we commend Chairman Oberstar, Rep. Mica, Chairman DeFazio, and Rep. Duncan for the comprehensive reauthorization blueprint that was unveiled last week.

It's not difficult to understand how we got to where we are currently with the HTF. In recent years, HTF revenues have been held constant, while spending from the trust fund has increased. The result of this unsustainable financing path has been a liquidation of the trust fund's existing balance and revenue shortfalls in 2008 and 2009. Figure 5 illustrates this financing pattern cannot continue in the next highway authorization legislation.

Fig. 5 – Federal Highway Funding



Source: ARTBA and Federal Highway Administration

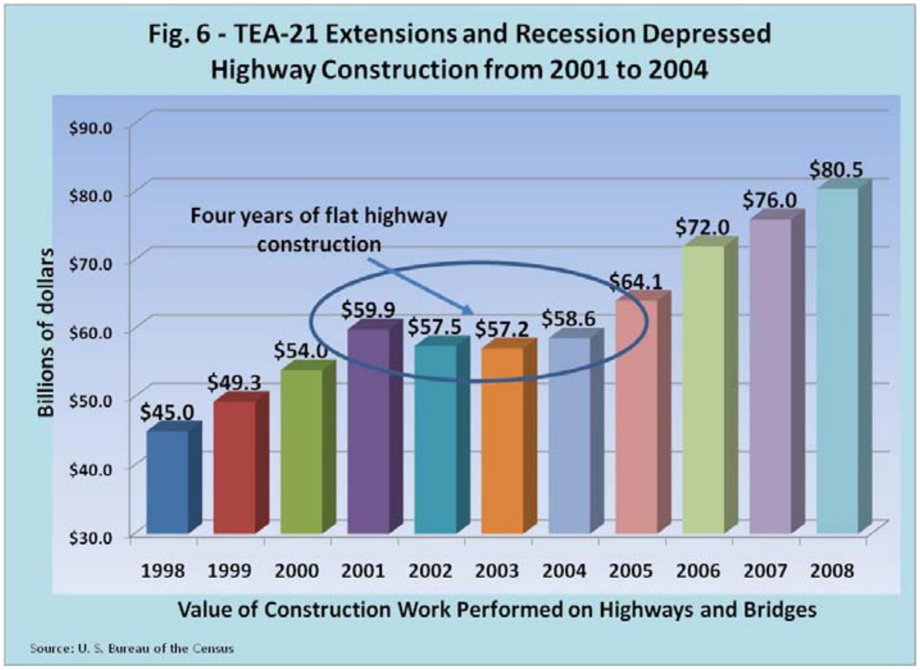
Potential Impact of an 18-Month Extension of SAFETEA-LU

Secretary of Transportation LaHood has recommended Congress extend the current highway and public transportation program's authorization for 18 months rather than enact a full six-year measure. To illustrate why ARTBA and Oldcastle Materials oppose this and vigorously support enactment of a six-year authorization, let me show what happened to the nation's investment in transportation improvements the last time a surface transportation authorization bill was substantially delayed.

TEA-21 expired in September 2003. At that time, the nation's economy was still recovering from the recession that ran from March through November 2001. That was a relatively mild recession, but it still devastated the budgets of state governments, many of which diverted funds from their state highway programs into their general fund budget to meet state balanced budget requirements and finance other programs. Even though it was clear at the time the nation was seriously under investing in transportation infrastructure and that a modest increase in the federal motor fuel tax would allow a level of federal investment in highways and mass transit sufficient to meet our transportation needs, TEA-21 was extended thirteen separate times. The new surface transportation bill was not enacted until August 2005, almost two years after TEA-21 expired.

This hiatus between the expiration of TEA-21 and enactment of SAFETEA-LU severely disrupted the ability of state and local transportation agencies to plan and implement highway, bridge and transit construction projects. The problems involved both uncertainty about the level of funding for the highway and mass transit programs for FY 2004 and FY 2005 and the fact that federal highway and transit funds were distributed piecemeal to state and local governments throughout that period.

There is no question that the combination of recession and funding uncertainty disrupted transportation investment. As Figure 6 shows, the value of construction work put in place on highway and bridge projects stagnated for four years while state and local transportation agencies were trying to deal with these impediments. Not until 2005, when Congress enacted SAFETEA-LU, did investment in the nation's highways and bridges start to grow again.



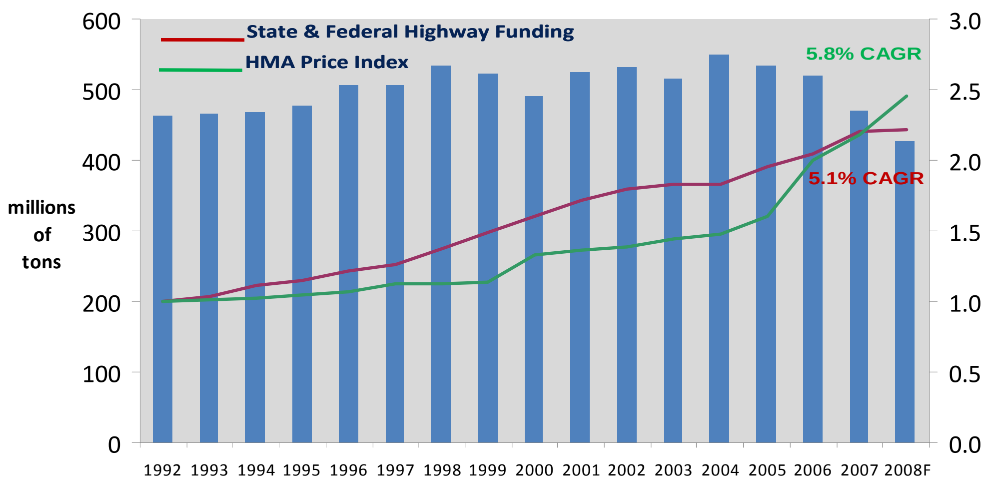
Today, the same thing is happening. SAFETEA-LU is set to expire in three months, a recession is once again battering the budgets of state and local governments, and the administration has called for a reauthorization delay.

Earlier this year, Congress provided $27.5 billion in the American Recovery and Reinvestment Act to stimulate job saving and creation while improving our nation's infrastructure through highway and bridge construction projects. That investment will support more than 765,000 job years spread out over the lifetime of the construction projects. As Figure 6 shows, an 18-month extension of SAFETEA-LU puts those jobs in jeopardy. Enactment of a six-year bill, funded at the level proposed by Reps. Oberstar and Mica, would build on the success of the ARRA program and continue to add new jobs throughout the six-year period.

In addition to the federal financing pattern set out above, increasing highway construction and materials costs are exacerbating this already challenging funding environment. These increased costs are leading directly to a slow-down of work in many states and consequently to a significant decrease in Oldcastle

Materials' backlog of work. The recent pause in inflation for construction materials that is stretching recovery act investments helps, but this will not solve the long-term issue since construction costs will continue to inflate long-term. Federal surface transportation investment has simply not kept up with rising costs and, as a consequence, a road dollar that recently paved one mile of road will only pave ¾ of a mile today. This can be illustrated if we look at recent trends in the asphalt market compared to road and highway funding. Figure 7 illuminates the problem.

Fig. 7 - Tons of Hot Mix Asphalt Produced in USA with Indexed Price & Funding



Source: NAPA and ARTBA (2008 HMA tons estimated)

The tonnage of asphalt produced in the United States (the blue bar graph) declined from a high of 550 million tons in 2004 to 470 million tons in 2007. The decline continued in 2008 and will likely continue in 2009 as well, under current state and federal funding programs. Recall that about 94 percent of all paved roads in the U.S. are paved with asphalt and you can see a precipitous and dangerous decline in pavement conditions, new pavements laid, and the general maintenance of our roads and highways. The recovery act will likely offset this expected decline somewhat, but if the longer term financing issue isn't addressed in the next authorization bill, the decline will continue.

The bottom line is the transportation construction industry is shrinking at a time when our nation's infrastructure needs are growing. Jobs in the United States today are issue number one. The recovery act will help stop the decline in the short-term, but we must have a long-term fix. What happens when the ARRA funding is depleted next year? I cannot think of a better way to add jobs, good paying American jobs, than to robustly invest in infrastructure. Projects like the ones we do in our company are the core of the economic pyramid. We support economic activity upstream and down. We quarry aggregates, produce asphalt and ready-mix concrete, purchase and lease equipment and vehicles, engage drivers and operators, buy safety and related equipment and services, and employ thousands of workers, dispatchers, administrative personnel, safety experts, sales people, estimators and finance and accounting professionals. We buy cement, liquid asphalt, fuel, electricity, equipment parts and service and all manner of materials used in the production of our products and providing our paving and construction services. We provide stone, concrete and asphalt paving materials to other local paving and construction contractors as well.

Our work supports American jobs. The people we employ are local; they live and do their work locally in the areas where infrastructure investment money is spent. The companies that we do business with: customers, vendors, suppliers and service providers are mostly local businesses hired by our local companies. The money that flows through us to our employees and these local companies is spent directly in the local economy on home mortgages, food, clothes, capital goods, etc.

Conclusion

The recovery act is having a positive impact on the transportation construction industry and that should continue as the year progresses. Funding provided under the Act is a near-term boost to job creation and preservation. The state DOTs and our industry are doing their part to deliver the promised results, however this does not address longer term issues. Our surface transportation system is in dire need of significant long-term investment to maintain and preserve the existing system as well as expand its capacity as our nation strives to compete in an increasingly global economy. This investment will support significant local jobs, generate economic activity and stimulate local economies while preserving our infrastructure and strengthening the long-term competitiveness of our nation. We look forward to continuing to work with this committee to capitalize on the potential for transportation infrastructure investment to help achieve the nation's short and long-term economic goals.

Thank you for allowing me to present ARTBA and Oldcastle Materials' report on progress under the recovery act and our views on the importance of investment in transportation infrastructure.