



Vermeer[®]

Testimony

of Mary Andringa
Chair of the Board
Vermeer Corporation

Before the U.S. House Transportation and Infrastructure Committee
115th Congress

In Support of Building a 21st-Century Infrastructure for America

February 1, 2017

**TESTIMONY OF MARY ANDRINGA, CHAIR OF THE BOARD, VERMEER CORPORATION
ON BEHALF OF VERMEER CORPORATION
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FEBRUARY 1, 2017

Chairman Shuster, Ranking Member DeFazio and members of the House Transportation and Infrastructure Committee, thank you for the opportunity to testify today on the impact of infrastructure investment to manufacturers and the American economy.

Nearly seven decades ago in Pella, Iowa, my father Gary Vermeer founded Vermeer Corporation by finding a need and filling that need with a new product built to last. Today, we are still a family-owned and -operated company that is proud to make industrial, agricultural, environmental and mining equipment here in America. Vermeer machines are used across the country but also can be seen in more than 100 countries, in places like Chile, Australia and Mongolia, to improve infrastructure, work farms and ranches and manage natural resources.

As chair of the board and former president and CEO of Vermeer Corporation, I served as chair of the National Association of Manufacturers (NAM), the largest manufacturing association in the United States, representing more than 12 million men and women. I also served as one of 18 private-sector

CEOs on President Obama's Export Council. In these capacities, I had a unique opportunity to work with American companies and the federal government to make America the best place in the world to manufacture goods. Unfortunately, while manufacturers have been minimizing costs and investing in training, process improvement and technology, shortsighted government policies are challenging U.S. competitiveness. This is especially evident in the area of infrastructure.

At Vermeer, we have been on a continuous improvement journey to attack waste in any process to increase the value delivered to the customer. Internally, we eliminate excess inventory to save shop floor space and reduce waste, and externally, we rely on timely and frequent deliveries. Our manufacturing is dependent on a robust supply chain, and our supply chain is dependent on healthy infrastructure systems. Raw materials are received daily to be processed, while purchased items, such as engines, hydraulic pumps, wire harnesses and other components, need to arrive shortly before they are consumed on the shop floor. Every day, 50 semi-loads arrive to our Pella, Iowa, facility to deliver raw materials and components. If ports are clogged, trucks are delayed, power is down or the internet has a lapse, productivity and customer service are impacted. This is not just my story. Across the manufacturing sector, transportation logistics matter, and congestion—whether at a port or on a crowded highway—is waste that drives the consumer's cost up like a hidden tax.

To further explain how essential infrastructure is to American manufacturing, I need to explain how manufacturing has evolved in this country

over the past 25 years and how Lean—the most important strategy to keep manufacturing in the United States competitive—depends on infrastructure. I led Vermeer’s path in applying the philosophies and principles from the Toyota Production System (often just called “Lean”), enabling manufacturers to produce high-quality products at lower cost. The core philosophy of Lean is to reduce waste, which is often done by reducing inventory levels. One critical Lean strategy for reducing inventory is to produce things when and where they are needed or in a just-in-time fashion. The state and quality of infrastructure has a direct impact on inventory levels a firm must hold. Insufficient and/or inefficient infrastructure can lead firms to pay higher transportation costs. Higher transportation costs can, in turn, lead to higher inventory levels as organizations will minimize the number of deliveries they place and receive by ordering in larger quantities. Conversely, investments in transportation infrastructure that positively impact connectivity, capacity, performance and flexibility can help manufacturers support and fuel a growing economy.

Vermeer constantly reviews key performance indicators to determine where waste is and where the manufacturing process can be improved. Metrics are as essential in manufacturing for analysis and decision making as they are at a port. For example, measuring the time a container waits to be picked up for transport to its destination can be used to improve the overall operations of the port. As the federal government approaches infrastructure investment, better metrics are required. As an example, the Port Performance Freight Working Group issued its first report to Congress this past December, and while this

report was a good and important first step, it did not address factors, such as truck availability, that contribute significantly to port performance but are outside the port's control.

Vermeer's single-largest infrastructure disruption—both getting supplies in and sending finished goods out—was the West Coast ports slowdown two years ago. This caused production stoppages, lost orders and, in many cases, airfreighting large components and machines to save orders or to maintain production. Regardless of the reason, if ports shut down, the impact ripples beyond the shop floor to our dealers, employees and their families. This speaks to the importance of both the physical aspects of infrastructure and the men and women who are a part of the U.S. infrastructure system.

A good percentage of products we manufacture in Iowa are sold to overseas customers. Finished machines are loaded into a container or on a flatbed trailer, then at times transferred to rail, then delivered to a port for export. In our area, we don't have a close rail spur or intermodal facility, so we truck our products 200 to 400 miles sometimes to an intermodal facility.

This past September, the Iowa Department of Transportation was awarded a competitive FASTLANE grant to build an intermodal facility in Cedar Rapids, Iowa, about 100 miles from our main facility. This project will divert freight away from congested areas like Chicago and Kansas City. The Cedar Rapids Logistics Park competed against 212 other applicants in the first round of FASTLANE grants from the newly created National Highway Freight Program. At the end of the day, I'm glad our state's project moved forward because it will

improve the transportation system for Iowa manufacturers like Archer Daniels Midland Company, Emerson, International Paper, General Mills, Terex, Honeywell, John Deere and more. But, at the same time, 194 important freight projects around the country that would be helpful to other manufacturing clusters and businesses remain in the backlog. The American Society of Civil Engineers estimates that upgrading our surface transportation infrastructure alone will cost more than \$1 trillion.

The Cedar Rapids Logistics Park grant and the transportation efficiencies that will result for companies like Vermeer and others throughout Iowa could not have been realized without the work this committee accomplished in the previous session of Congress to pass the Fixing America's Surface Transportation (FAST) Act in 2015. Beyond the creation of the National Highway Freight Program, which refocused federal money on projects that have a national, system-wide impact on the movement of goods across this country, the FAST Act provided five years of certainty for states and cities planning infrastructure projects and removed red tape to reduce wasted time and money caused by permitting delays.

In addition, I appreciate the work Congress is doing to improve our ports, inland waterways and drinking water and wastewater infrastructure with the passage of the Water Infrastructure Improvements for the Nation (WIIN) Act. Both the WIIN Act and the FAST Act are far superior to the stop-gap approach to funding infrastructure of the past decade. I urge this Congress to complete the unfinished work of last year and move to reauthorize a longer-term Federal Aviation Administration (FAA) reauthorization bill. Upgrading our runways and

airports and reforming the FAA's certification process is important to our economy. While Vermeer is a midsized manufacturer of heavy equipment, we increasingly rely on air transport to operate our business. We air-ship 400 to 500 packages a day to help support our customers across the globe. We also log more than 3,000 commercial flights per year to meet with customers, suppliers and dealers, not including all the incoming airfreight shipments or inbound customers and vendors who visit Vermeer.

As important as these measures are, it is not enough. We need to move well beyond maintaining existing infrastructure and incremental improvements. We need to deploy a 21st-century infrastructure system that is more seamless, smart, efficient and less vulnerable to physical and cyber threats and that keeps pace with today's 21st-century manufacturer. We are eager for a modernized system that truly delivers an improved quality of life for our citizens and increased competitiveness for U.S. businesses. Currently, the United States is ranked behind many of its biggest global competitors at 11th in infrastructure quality and I don't think we should be satisfied with 11th. China is spending more on infrastructure each year than North America and Western Europe combined.ⁱ By some estimates, without significant and timely upgrading of our infrastructure, the United States will lose more than 2.5 million jobs by 2025 and more than 5.8 million by 2040.ⁱⁱ The American Society of Civil Engineers, for example, estimates that a \$3.6 trillion investment will be needed by 2020 to improve the condition of American infrastructure to an acceptable level. This is \$2 trillion over the anticipated funding level.

It's time we invest in our infrastructure. While both presidential candidates campaigned on the promise to upgrade our infrastructure in the weeks leading up to Election Day, the NAM released "Building to Win," an infrastructure blueprint that lays out both the challenges our infrastructure systems face and the types of upgrades manufacturers need to be globally competitive. This call from manufacturers not only urges President Trump to fix persistent challenges plaguing our nation's infrastructure but also provides some fresh thinking and direct actions for Congress to consider in the months ahead. Likewise, the Association of Equipment Manufacturers and the Transportation Center of Northwestern University combined to deliver a report in May 2016, titled "Mobility 2050." As a manufacturer seeking to make the United States the best place to manufacture, I highly recommend both reports.

We can all agree that the nation needs to restore and upgrade our infrastructure systems. We need this committee and our congressional leadership to work with President Trump to keep his promise to fix our broken infrastructure systems and to fulfill a basic federal responsibility to facilitate commerce in the United States. This must start with bold leadership to address the solvency of the Highway Trust Fund. While manufacturers were happy to see a five-year surface transportation bill, we know that when reauthorization of these programs comes up again in 2020, the Highway Trust Fund will need more than a \$100 billion cash infusion to pass a long-term bill just at status-quo levels.

We need to make commonsense fixes to programs like the Harbor Maintenance Trust Fund where the federal government collects a tax for harbor

maintenance but doesn't fully utilize the \$9 billion balance trapped in the Harbor Maintenance Trust Fund on the backlog of harbor maintenance projects.

Public-private partnerships and private financing are another important option to make critical infrastructure investments. However, these tools are not necessarily suitable for all projects, especially in rural parts of the country. Private financing cannot replace the role of public funding but should be pursued as a tool to upgrade our aging infrastructure. One practical tool to increase private investment and public-private partnerships would be to expand the use of private activity bonds. For years, the NAM and other organizations have supported Rep. John Duncan's effort to eliminate the state volume caps on private activity bonds for drinking water and wastewater projects to multiply the benefit of federal efforts. Water is only seen when it comes out of our faucets, but aging pipes and wastewater systems are failing in dramatic, and increasing, fashion. Without major investment, breakdowns in water supply, treatment and wastewater capacity are projected to cost manufacturers and other businesses \$7.5 trillion in lost sales and \$4.1 trillion in lost GDP from 2011 to 2040.ⁱⁱⁱ

It also must be recognized that continued investment in and modernization of our nation's broadband infrastructure is critical to the success of today's manufacturer. Technology is now embedded in all aspects of production on the shop floor and the final outputs that result. Manufacturing equipment is also becoming increasingly connected to the internet, making shop floors dependent on robust broadband networks. This innovative technology has created a tremendous competitive advantage for manufacturers in the United States. Our

industry already invests a significant amount in the most advanced and secure technology solutions to support our operations and products. If we do not have a regulatory and policy environment that paves the way for additional investment in our nation's broadband and telecommunications infrastructure, we risk losing our innovative lead and the jobs that it creates.

Similarly, for many manufacturers, energy is their largest and most important cost. The renaissance in domestic energy production in all its forms—most notably unconventional gas—has not only kept energy costs low but also driven major new investments in manufacturing sectors. The nation's network of pipelines, the electric grid and other energy infrastructure need to keep pace.

Manufacturers need regulatory and fiscal policies that incentivize continued reinvestment of private capital in these infrastructure systems. Rail, energy and telecommunications infrastructure differs from other infrastructure sectors because it is almost entirely privately owned and operated. For example, private investment in freight rail has grown in recent years, including a record high \$30 billion in 2015. Burdensome regulations that create excessive red tape make project costs unaffordable and discourage private-sector investment in infrastructure, creating a drain on our ability to innovate.

Manufacturers cut costs by continuously improving their systems to be as lean and efficient as possible. At Vermeer, this means we also maintain a focus on total productive maintenance. Our plants need to operate as efficiently as possible, and that means budgeting time and money for maintenance. We cannot afford to allow our equipment to fall into disrepair or use Band-Aid solutions with

the hope that future production capabilities will be assured. We need the federal government and its local and state partners to take the same approach as manufacturers to ensure current and future competitiveness.

Many credible organizations have called for increased investment in infrastructure, yet we are still largely stuck in more rhetoric than results. There is a disconnect in understanding the link between the lofty infrastructure investment discussion about global competitiveness, employment, etc., and the daily experiences of Americans, such as getting to work and the grocery store, or finding the package ordered online yesterday at the doorstep today. The public can be complacent about the condition of infrastructure because, for the most part, it continues to work, while they unknowingly pay for the hidden costs of congestion, increased vehicle maintenance and permitting delays. The use of local, specific examples can better show what insufficient capacity and infrastructure failures mean for the daily travel of individuals, the costs to manufacturing and retail businesses and their effects on consumers and the quality of life in communities.

There is a need to educate people about how publicly owned transportation facilities and services are funded now and how user fees affect the transportation system condition and performance they experience. Honest and objective post-project evaluations can show travel time savings, crash reductions and environmental improvements. The U.S. Department of Transportation's TIGER Grant Program requires both pre- and post-project evaluation, but this mandate applies only to a small fraction of projects, and the quality of evaluations

varies widely. The story of transportation investments must go beyond what is proposed and the ribbon-cutting ceremony. To earn the public trust, the benefits of investment need to become visible and real.

Our infrastructure needs attention. It must keep pace with changing times to be effective, efficient and resilient. The case needs to be made effectively to the public, with transparency of funding and benefits. Proper metrics must be put in place to better measure the performance of the nation's infrastructure. And decades of stop-gap efforts and chronic underinvestment must be reversed to deliver a well-performing system that enhances the quality of life and competitiveness. We, the manufacturing community of the United States, look forward to working together with you to achieve this.

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ⁱ McKinsey Global Institute. "Bridging Global Infrastructure Gaps." June 2016. Retrieved from <http://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/bridging-global-infrastructure-gaps>

ⁱⁱ American Society of Civil Engineers. "Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future." 2016. Retrieved from <http://www.infrastructurereportcard.org/wp-content/uploads/2016/05/2016-FTA-Report-Close-the-Gap.pdf>

ⁱⁱⁱ American Society of Civil Engineers. "Failure to Act: The Economic Impact of Current Investment Trends in Water and Wastewater Treatment Infrastructure." 2011. Retrieved from http://www.asce.org/uploadedFiles/Issues_and_Advocacy/Our_Initiatives/Infrastructure/Content_Pieces/failure-to-act-water-wastewater-report.pdf