Testimony of

Doug Black
CEO, Oldcastle Materials Inc.

Hearing on
Investing in Infrastructure: The Road to Recovery

Submitted to
Committee on Transportation and Infrastructure
United States House of Representatives

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

Thank you for holding this important hearing to address how investing in our nation's infrastructure is a fundamental key to economic stability and prosperity. I applaud your support for including significant infrastructure spending in any economic stimulus package the Congress considers.

I am Doug Black, CEO of Oldcastle Materials Inc. Oldcastle Materials 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 employ on average 20,000 people at more than 1300 locations in the United States.

Oldcastle Materials' companies operate in 44 states, using their local names: from APAC Central Florida to Southern Minnesota Construction in Mankato, Minnesota. From Pike Industries in southern Maine, to Central Pre-Mix in eastern Washington State, to the United Companies on the western slope of Colorado, we supply construction materials and pave roads to maintain and improve the quality of our nation's surface transportation system.

We are significant and active members in a number of our industry trade associations including the Associated General Contractors, the American Road and Transportation Builders Association, the National Asphalt Pavement Association, the National Stone Sand and Gravel Association and the National Ready Mixed Concrete Association. We are members of the U.S. Chamber of Commerce and the National Association of Manufacturers. Oldcastle Materials and our associations stand ready to assist the Committee in its effort to increase investment in our country's surface transportation infrastructure.

Since our primary business is providing road and highway construction materials and paving services, I will comment specifically on infrastructure spending and investment in our nation's surface transportation system, particularly our highways.

The Transportation Construction Industry

There are more than 2.6 million miles of paved roads in the United States today, 94% of them surfaced with asphalt. Almost 500 million tons of asphalt pavement are produced annually valued at $35 billion. Asphalt pavement is 94% aggregates (crushed stone, gravel and sand) and concrete is 80% aggregates. Aggregates sales in the U.S. are valued at approximately $20 billion annually. When combined with other 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 in the United States and directly employs more than 2 million Americans. As has been widely reported, every $1 billion spent on transportation infrastructure investment supports approximately 35,000 jobs.

Our Surface Transportation System

The National Surface Transportation Policy and Revenue Study Commission, in its report released in January 2008, stated that "A modern, smooth-functioning national surface transportation system is essential for economic success in the global economy and is also a key determinant of the quality of life enjoyed by citizens throughout America." I couldn't agree more. Americans rely overwhelmingly on the nation's roadways for mobility and the movement of goods and services. Almost 90% of the $8.4 trillion worth of commodities moved annually within the U.S. is transported in whole or in part over the nation's highways.

Despite its importance to our nation, our surface transportation infrastructure is in crisis today. Conditions on America's roadways are deteriorating and have been for many years. The system itself is aging and large portions are in poor condition. In fact, the American Society of Civil Engineers (ASCE), in 2005, gave a "Poor" rating to key transportation-related sectors including bridges, roads and railways, and The Road Information Program (TRIP) recently estimated that 35% of America's major roads are in poor or mediocre condition and 36% of major urban highways are congested.

Traffic congestion and gridlock, which imposes a $78 billion hidden tax on the American economy, are made worse by poor road conditions, inadequate new capacity, and unsatisfactory planning for future needs. More than 4 billion hours are wasted annually due to travel delay and almost 3 billion gallons of fuel are consumed as a result of these delays. Since 1982, car and truck traffic in this country has almost doubled while new highway capacity has grown less than 7%. On top of this under-investment in capacity, we have similarly dramatically under-invested in the maintenance of the existing surface transportation system.
As our system continues to deteriorate, our new global competitors, China, India and the European Union, are all making major investments in their highway and surface transportation networks. The EU is planning to construct almost three

times the number of "interstate" lane miles than the United States before 2020 and while the United States is spending about 1% of its GDP on infrastructure, India is spending 3.5%, the EU 5% and China is investing an astounding 9% of its GDP on infrastructure. Chairman Oberstar and other Members of the Committee have seen first-hand China's commitment to infrastructure investment and that country's dramatic effort to ensure its place in the global economy. It is clear that countries that can move their goods cost-effectively will enjoy a decisive competitive advantage over the United States. This can't continue.

On top of the economic consequences of poor roads, safety for highway users must be a top priority when determining how much to invest in our infrastructure. Travel on our nation's roads is far too dangerous. In 2006, more than 42,000 people lost their lives on American highways and almost 2.6 million were injured. Poor road conditions are a factor in one third of these fatalities. Deteriorating pavement conditions, inadequate driving and turn lanes, and a lack of shoulders, all contribute to these accidents. We must address maintenance and the condition of our nation's roads immediately and ensure an appropriate and growing stream of funds to maintain our current system of roads and highways.

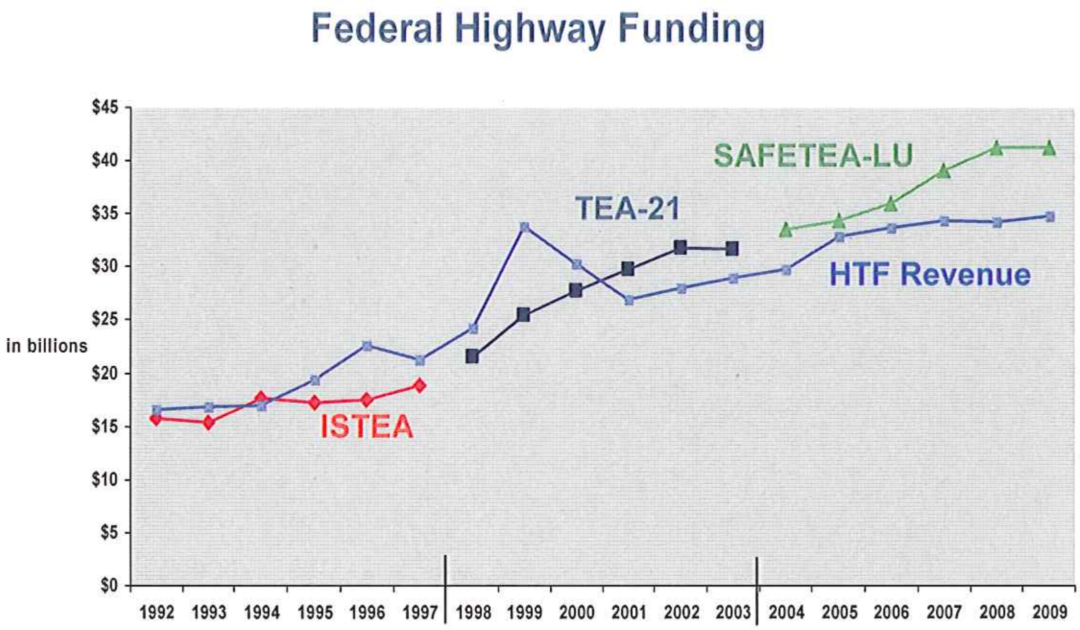
Near-Term Challenges

One of the biggest challenges our company and industry are facing near-term, is uncertainty related to the availability of funding for road and highway projects. The recently resolved Highway Trust Fund (HTF) shortfall issue has caused a significant level of uncertainty among our state DOT and local government customers. Many chose to suspend, postpone or altogether cancel expected construction and maintenance projects leading to corresponding job losses.

One of our companies in Pennsylvania was recently awarded a $1.2 million highway resurfacing contract following a competitive bid. The Pennsylvania Department of Transportation cancelled this project stating, "The termination of this contract is based on future funding projections indicating that sufficient funds will not be available to complete the contract." The Commonwealth of Virginia recently suggested it will consider postponing $1.1 billion worth of transportation projects as it addresses a lack of funding. Jobs and projects like these are perfect for a short-term fiscal stimulus since they are ready-to-go and work could begin as soon as funding becomes available.

We are certainly very pleased that the HTF fix (P.L. 110-318) was enacted. The temporary shoring up the HTF for FY2009 was critical, and I want to especially thank the Committee for its leadership in ensuring that the HTF fix became law. Unfortunately, if vehicle miles driven continue to fall, we will face even more dramatic challenges next year. The need to authorize a sufficiently funded replacement for SAFETEA LU should be the number one priority next year.

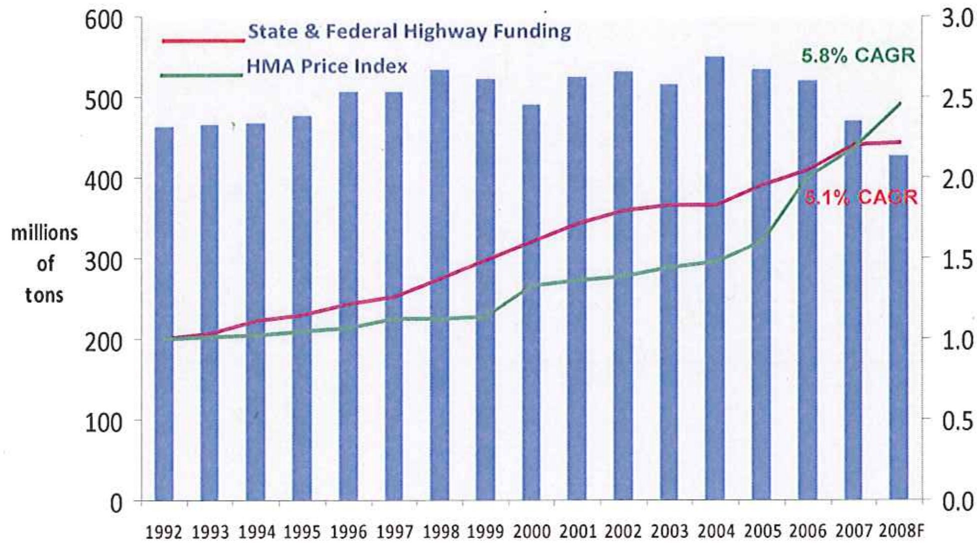
In recent years more money has flowed out of the HTF than has been coming into the HTF. The following chart illustrates the overall federal funding situation which led to the HTF shortfall issue. The funding pattern illustrated below cannot continue in the next highway authorization legislation.



Source: ARTBA

In addition to the federal funding 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 and a significant decrease in Oldcastle Materials' backlog of work. Road and highway funding has 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 hot mix asphalt market compared to road and highway funding. The following chart illuminates the problem.

Tons of Hot Mix Asphalt Produced in USA with Indexed Price & Funding



Source: NAPA and ARTBA (2008 HMA tons estimated)

The tonnage of hot mix asphalt (HMA) produced in the United States (the blue bar graph) has declined from a high of 550 million tons in 2004 to 470 million tons last year. This decline has continued in 2008 and will likely continue in 2009 under current state and federal funding programs. Recall that about 94% 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.

This decline is not hard to explain. State and federal funding levels (red line graph) have grown evenly over the past 25 years at about 5% per year. Revenue to support this funding, as previously noted, has been flat or declining over the past several years due to fixed user fees and fewer vehicle miles travelled. At the same time, the HMA price index has risen significantly in the past three years. Road construction costs overall (including asphalt, steel, cement, fuel, etc.) have increased much faster than inflation due primarily to rising energy costs. As a result, the amount of paving being achieved to maintain our roads has been in constant decline since 2004, leading to further deterioration of road conditions and safety.

<u>Oldcastle Materials' Challenges</u>

As one of the largest highway construction and materials companies in the United States, our recent experience is representative of the problems facing our industry. During 2007, in our core business, we employed an average of 22,500 people. This year, our average employment is down 10%, to about 20,000. We have seen an increase of over $500 million (40%) in our liquid asphalt, fuel and other energy related costs. To prevent significant erosion in our profit margins, we have been forced to increase prices, resulting in our state and local customers doing less against relatively fixed budgets. As our customers complete fewer and fewer paving jobs, our volumes drop and we must reduce our workforce, sell equipment, cancel or defer investment in new plant and equipment, and close production facilities. Critical road maintenance is put off to the next year, employees lose their jobs, and we cut back our spending in the local economy.

In 2007 Oldcastle Materials' asphalt volumes declined 13%, aggregates volume dropped 7% and ready-mix concrete fell 13%. We've experienced further declines in 2008 and, under current funding programs, expect continued decline for 2009. Approximately 50% of our asphalt production is used by our own Oldcastle paving crews; the rest is sold to local small to mid-sized paving businesses. We have seen the same rates of decline from the local paving customers. Thousands of employees across our industry continue to lose jobs in the current environment.

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. 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. Our employment declines reflect this. As mentioned, without a boost in funding, we will bring back even less employees next year.

The bottom line is that our industry is shrinking at a time when our nation's infrastructure needs are growing. Jobs in the United States today are issue number one. I can't think of a better, more robust way to add jobs, good paying American jobs, than to invest in infrastructure. I ask the Congress to pass a short-term stimulus bill that will allow us to keep our workforce, add jobs and help preserve our nation's highway system.

<u>Infrastructure Investment as Economic Stimulus</u>

The Committee and the Congress may soon consider an additional Economic Stimulus package. I urge you to include the largest possible infrastructure investment component, particularly investment in highway funding distributed to the states. The most effective infusion of investment would be 100% federal funds without requiring a state match. Many states where we operate have significant budget issues that could make it difficult to match federal funds. I believe there are a significant number of ready-to-go projects that are only awaiting funding.

Some have suggested that infrastructure investment cannot be a short-term stimulus to the economy since projects take too long to get started and to complete. I respectfully disagree with that assessment in the strongest possible terms. Quite simply, all infrastructure projects are not the same. Certainly, 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.

Earlier this year, in response to this Committee's request, the American Association of State Highway and Transportation Officials (AASHTO) did a survey of its members (all 50 states) and determined that there were almost $19 billion in ready-to-go projects, a significant number of which could be let within weeks of funding being available. No doubt the number of these projects has increased during the year. Projects like the one we had cancelled in Pennsylvania are ready to go once funding is available.

Many of these maintenance projects can be bid, let and work started in short order. Let me provide you with a recent Oldcastle Materials' example. Last year our company in Utah completed a two-lane highway mill and fill resurfacing project. This was a $3.5 million job which included milling the old pavement (which is also recyclable) and repaving 4.4 miles of road with 30,000 tons of asphalt. It was completed from bid advertising to substantial completion in 75 days. Interestingly, if you compare this project, which put people to work, with the tax rebate stimulus package earlier in the year, you find that if this paving job had been advertised on March 1, 2008, we would have completed it well before those tax rebates checks hit mailboxes in June. And an almost five-mile stretch of highway in Utah now has a new, smooth, safer pavement surface for many years into the future. We completed another mill and fill and shoulder widening project in Utah this past summer. This $3.8 million job involved five miles and from bid release to completion was 110 days. These aren't long-term projects; they're short-term projects that produce long-term, real value in our economy. Imagine the stimulus from $19 billion worth of those types of short-term, highway maintenance projects.

Investing in the maintenance and preservation of our existing surface transportation system is in my view as important as expanding capacity. If we fail to invest significantly in maintenance, we will see continuing deterioration in existing conditions and increased costs when we get around to the repairs and maintenance vital to an efficient system. A second economic stimulus package, which contains robust investment in transportation infrastructure, particularly a road and highway maintenance component, could be put to use very quickly. We believe that the maintenance backlog that exists in every state is itself a list of ready-to-go projects that lack only adequate funding. Funding for these activities in a stimulus package would provide an immediate economic boost, while also meeting a critical transportation safety and performance need. Oldcastle Materials is prepared to put people to work, spend money with vendors, and help generate economic activity in those places where the money is spent.

Projects like the ones we do and the construction materials we produce are the core of the economic pyramid. Our business supports 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.

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. We all know that one of the primary factors in economic recovery is jobs. Our work produces high-paying, local American jobs that will support our economy. The economic impact of infrastructure investment is significant, local and can be achieved short-term.

Maintenance of Our Surface Transportation System

As mentioned earlier, we are facing a dramatic need near-term and long-term for significant investment in the maintenance of our existing surface transportation system. One-third of our major roads are in poor or mediocre condition. To remain competitive in an increasingly global, competitive economy we simply must stop under-investing in our surface transportation system, particularly in the maintenance of the system.

Our experience has shown in a number of states that maintenance and preservation funding is often neglected or reduced in favor of higher profile projects. Important new projects must be completed, like tunnels, bridges and major interchanges, but often it's the state maintenance budget that takes the hit when there isn't adequate funding to do both. The end result is that highway and road conditions on the existing system suffer. We cannot allow this to continue.

As the Committee considers the current stimulus proposals and into next year as you address the reauthorization of SAFETEA LU, I urge you to consider making maintenance and system preservation a major priority. I ask the Committee to consider not only dedicated, robust maintenance and preservation funding, but ways to incentivize states and local governments to maintain and preserve the system.

Now is the time to consider a system where states adopt a pavement management program which includes a goal of maintaining a minimal level of pavement condition as a requirement for receiving federal funds. This could be achieved by requiring maintenance performance standards or through a system of strong incentives to encourage achieving appropriate maintenance performance standards voluntarily. The end result would be a fully maintained and preserved surface transportation system that is safer, more efficient and indicative of the world-class transportation system required to sustain the United States as the pre-eminent, global economic force.

Conclusion

Our surface transportation system is in dire need of significant 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. Our roads are in bad condition and need to be fixed. Over the past several years, road maintenance work has been in steady decline which makes matters worse. Due to this decline, Oldcastle has experienced significant loss of jobs, plant closures and cutbacks in investment and spending in the local economies across the 44 states in which we do business. Much of this maintenance work is already identified and can be let and completed quickly, efficiently and effectively. This investment will support significant local jobs, increase local incomes, generate economic activity and stimulate local economies while preserving our infrastructure and strengthening the long-term competitiveness of our nation. Robust investment in infrastructure is an excellent way to achieve the short and long-term needs in America.

Thank you for allowing me to present Oldcastle Materials' views on the importance of investment in transportation infrastructure.

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