

Testimony of

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on behalf of

The Associated General Contractors of America

presented to the

Committee on Transportation and Infrastructure
U.S. House of Representatives

for a hearing on

Investing in Infrastructure: The Road to Recovery

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The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. 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.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

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Thank you, Mr. Chairman, Ranking Member Mica and the distinguished members of the Committee for inviting me to participate in today's important hearing on how infrastructure investment will lead our economy down the road to recovery.

My name is Brian Burgett. I am President and CEO of the Kokosing Construction Company located in Fredericktown, Ohio, and I am here today testifying on behalf of the Associated General Contractors of America (AGC). Kokosing Construction Co., Inc. headquartered in Fredericktown, Ohio, is a multi-million dollar, regional general contractor committed to delivering the highest level of quality and superior service to valued clients around the Midwest and is proud to be listed as number 78 on the *Engineering News Record's* Top 400 General Contractors list. Our purpose is to construct superior results—great leaders, great products, and great relationships.

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AGC is also a founding member and Co-Chair of the Water Resources Coalition, which was established in 2007 to promote the development, implementation, and funding of a comprehensive national water resources policy. Our member organizations represent state and local governments; conservation, engineering, and construction; and ports, waterways, and transportation services. The Coalition works to ensure that a comprehensive national water-resources policy is developed, implemented, and funded to provide a sustainable, productive economy; a healthy aquatic ecology; and public health and safety.

On behalf of AGC, I urge this Committee to recommend to the full House economic stimulus activities that would have an immediate positive impact on economic activity. Specifically, I strongly encourage you to make recommendations on provisions that would immediately boost construction activity. The construction industry employs more than 7 million people and represents more than \$1 trillion annually in economic activity, including \$500 billion in materials and \$36 billion in new equipment. We have excess capacity at Kokosing and throughout the construction industry, and we need the investments to create jobs in the Midwest and throughout the country.

State of the Economy

When budgets are tight, private investment and public investment at all levels is cut. At the state and local level, budgets have declined significantly because of the decline in home values, resulting in lower property tax collections. The recent financial crisis has also hampered the ability of state and local governments and public agencies to borrow short term, delaying or eliminating various infrastructure improvement projects. According to Municipal Market Advisors, a consulting firm that specializes in municipal bonds, \$100 billion of new infrastructure projects have been delayed because of the constricted credit markets. In addition, volatility in construction materials prices, driven by inflation, has reduced the purchasing power of public works dollars. As a result, fewer contracts are going out to bid, which means less work for contractors and fewer jobs for their employees.

Construction Inflation Data

Construction materials continue to drive up the cost of our product. AGC's economic research shows that the Producer Price Index (PPI) for construction rose 45 percent from December 2003 to September 2008. This compares to a 19 percent increase in the Consumer Price Index (CPI). Indexes for

highway and street construction and other heavy construction—activities under the jurisdiction of this Committee—are more dramatic. They rose 76 percent and 60 percent, respectively, over the same period. The PPI reflects the increase in the cost of basic building materials including steel, cement, asphalt, aggregate, and other materials. Diesel fuel price increases also impact this cost as construction activity is energy intensive.

Impact on Employment

The impact of fewer contracts being bid is reflected in shrinking nationwide unemployment numbers. Heavy and civil engineering construction employment peaked in June 2007 and has steadily decreased over the past 16 months. There was more than a 5 percent decrease in these jobs over that period, which equates to 52,000 construction employees now out of work. This worrisome trend should be stopped now.

My company has already seen a significant down turn in the various construction markets in which it operates. The sharpest decline has been in the commercial and retail sector where five major projects valued at over \$50 million were just recently cancelled. There has also been a major decline in highway construction, utility and sewer line work, as well as water treatment plants. In addition, our aggregate business has declined by 30 percent over the past year.

Kokosing's experience reflects what the economists are telling us could be true about the future market. AGC's Chief Economist is projecting a decline of as much as 9 percent in non-residential construction activity in 2009, which is in line with the 10 percent decline projected by McGraw-Hill Construction economists. Kokosing employs approximately 3000 workers and the consequence of this decline in construction activity is the anticipated reduction of our work force by 15 to 20 percent in the coming year. That translates to 450-600 good, skilled, and safe workers who will lose their jobs because of these market conditions. AGC's economist reports that an additional loss of 10-15 percent nationwide is possible if the economy does not turn around. That could add another 100,000 or more lost jobs to the 52,000 lost over the last 12 months.

Broader Economic Impact

This decline in the construction market also has broader implications for the economy. For example, our company has been forced to shelve or trim down plans for expansion and reduce our usual annual investment in equipment. Each year we typically replace 10 percent of our equipment fleet and in a growing market we would also be purchasing additional equipment. The cost of this investment over the past few years has averaged \$30-45 million per year. We have already canceled some planned purchases for next year and are putting many others on hold until we see what funding is going to be available for new work. An investment in equipment of this magnitude next year is highly unlikely.

Leading Economists Support Infrastructure Investment

An infusion of federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work and many leading economists agree that infrastructure investment does have a powerful stimulating effect on the U.S. economy.

Mark Zandi, Chief Economist for Moody's Economy.com has found that the "boost to GDP from a dollar spent on building new bridges and schools is estimated to be a large \$1.59." He argues that "if infrastructure projects can be identified that could be started quickly then this could prove to be an efficacious form of fiscal stimulus."

Lawrence Summers, former Secretary of the Treasury, further argues that "there is reason to believe today that a significant amount of stimulus can be delivered with reasonable rapidity...If one looks at the several hundred million dollar infrastructure commitment that was made after the bridge collapse in

Minneapolis about a year ago, 86 percent of the money had not just been obligated, but had been spent within a 9 month interval. The sense that there is a backlog that can be moved rapidly is reinforced by the extensive anecdotal evidence of projects [that] have been slowed partially through the process of construction, or that are ready to let, but have been held back for budget reasons...”

Water Resources Infrastructure: Another Road to Recovery

While Kokosing Construction Company and the 33,000 members of AGC are engaged in all aspects of public infrastructure construction, I will focus the remainder of my remarks on the opportunities water resources investment would create for our economy. Nonetheless, I encourage the Committee to give all due consideration to the comments of the other organizations represented today in any recommendation the Committee makes to the full House on a broad-based infrastructure component that would be included in an economic recovery package.

Both the U.S. Army Corps of Engineers and Bureau of Reclamation have construction and operations and maintenance backlogs for which additional funding would create immediate construction employment opportunities. With additional funding, the U.S Army Corps of Engineers would fully fund, through design-build contracting, major waterways and dam safety projects. According to the Corps, it would take about 9 months for the Corps to go through the entire contractor selection process and award a best value contract. While the time it would take for the contractor to ramp up would vary depending on the project, the good news is that the stimulus would continue for several years, particularly for a very large construction project. However, expenditures—and thus, job creation—for on-going and smaller construction projects, including dredging and operations and maintenance work, would be higher up front.

Our company has worked extensively on Corps of Engineers Civil Works projects over the past several years and we hope to continue in the future. In the Great Lakes District, where we primarily operate, we understand that there are several projects that are ready to go to bid within 30 days if funding were provided. Other larger projects would be ready to go to construction with 6 to 8 months.

The Corps estimates that \$5 billion invested in water resource projects would create over 140,000 new jobs. Of this total, almost 40,000 would be new private sector jobs with average salaries ranging from \$38,000 to \$42,500. Over 100,000 additional new jobs would be created in industries supplying the water resource projects funded by the stimulus and the goods and services needed by the workers and their families.

There are several other important benefits to stimulus funds for water resources projects identified by the Corps of Engineers. Such funding would:

- Substantially reduce the backlog of critical maintenance and repairs at approximately 360 multiple purpose flood control, hydropower, recreation, water supply, and navigation projects.
- Repair several high risk dam safety projects.
- Rehabilitate and upgrade hydropower plants to achieve an industry standard 98 percent availability.
- Recapitalize the oldest and most at-risk projects on our inland waterways system.
- Fully dredge to authorized depth the nation's 296 highest use, deep draft, commercial ports.
- Fully dredge our inland waterways to authorized depth and width.
- Repair and upgrade critical coastal protection projects that serve as defense to key population centers.

The nation's Marine Transportation System contributes 30 percent of the nation's Gross Domestic Product through the movement of petroleum, coal, and other energy products to power plants and consumers and through the export of agricultural and other products to global trade partners improving the nation's balance of trade. Approximately 2.6 billion tons, or 94 percent, of the nation's commercial

import and export commerce, valued at over \$620 billion, is moved on the channels and waterways. Failure to maintain channels creates a drag on the economy and may slow economic growth. Additional investment in our nation's waterways would be used to improve channel availability of our coastal ports from 32 percent to 95 percent, and would improve inland waterway lock and channel reliability and availability by reducing lock closures due to mechanical failures from 27,000 hours to 10,000 hours per year.

Finally, investment in this sector will greatly expedite the construction of critical environmental projects, completing projects sooner, returning critical ecosystems to a more natural state. Projects producing beneficial impacts on more than 1 million acres could be expedited. Of these outputs, approximately 90 percent are nationally significant and would contribute greatly to long-term environmental sustainability.

To maximize the economic stimulus benefits of investment in water resources projects, the Corps recommends, and AGC agrees, that a one-time provision be enacted to enable cost-sharing sponsors to repay their share within 5 years. Since most Corps projects are cost-shared, and many local jurisdictions are experiencing budget shortfalls, this provision would allow the Corps to enter into cost-sharing agreements without regard to the availability of the non-federal share and immediately apply funding where it would do the most good.

Additional Considerations

The Harbor Maintenance Trust Fund

The current state of the nation's ports and harbors requires a significantly larger increase in spending. Accordingly, we remain concerned about the current balance in the Harbor Maintenance Trust Fund (HMTF). As of September 30, 2006, the balance in the HMTF was \$3.306 billion, an increase of \$523 million (18.8 percent) over the FY 2005 year-end balance, even after all fund transfers to the Corps. The balance in the HMTF increased to \$3.749 billion in FY 2007 and to an estimated \$4.728 billion in FY 2008. Revenues have substantially exceeded transfers to the Corps for a number of years despite the demonstrated need for harbor improvements. As Congress considers additional opportunities to invest in water resources spending to stimulate the economy, the surplus in the HMTF should not be overlooked as an immediate source of revenue to fund these critical projects. Furthermore, as Congress looks towards long-term investment, AGC strongly recommends enactment of legislation setting the obligation authority each year equal to projected prior-year revenues collected in the HMTF.

Reprogramming and Continuing Contracts

The FY 2008 Omnibus Appropriations Bill granted the Corps additional flexibility to meet existing obligations and unforeseen operations and maintenance needs. This additional flexibility is crucial to help the Corps meet the ever-changing needs of civil works project execution, and it is hoped that Congress will consider extending this courtesy to certain projects in the other accounts as necessary.

In FY 2006, Congress approved making continuing contracts optional rather than mandatory. AGC strongly believes that use of the continuing contract is an important contracting mechanism given the vastly varied scope of projects executed by the Corps of Engineers. Unfortunately, limited resources for long-term Civil Works projects have plagued the immediate benefits water resources projects offer the nation. Take, for example, an O&M contract for a lock and dam project. There is a sort of double inefficiency silently at work when we limit funding for such projects. One is the lost productivity, which is incurred immediately. The other inefficiency is the higher price tag when repairs are finally undertaken. A lock and dam that receives regular maintenance will last at least twice as long as one that does not. The cost of timely maintenance and repair is a tiny fraction of constructing a new lock and dam.

Additional funds to accelerate project execution under continuing contracts should be considered an overall benefit to the nation. There are immediate economic stimulus benefits to be derived from directing additional funds these types of on-going projects. In these instances, contractors are already mobilized and performing work, but the amount of work they can perform is limited by available funds. With additional funding, contractors could hire more workers immediately and complete the project more quickly

Economic Stimulus Legislation

AGC greatly appreciates the action taken by the House in September in passing H.R. 7110, which would provide additional supplemental appropriations for a number of major federal construction programs to stimulate economic recovery through infrastructure investment and direct and indirect job creation. That bill would provide almost \$5.5 billion in additional water resources investment, including \$5 billion for the U.S. Army Corps of Engineers and \$426 million for the Bureau of Reclamation. AGC strongly supports this additional investment, as well as the funding proposed for other federal construction programs provided under H.R. 7110, and urges the Congress to reconsider this or other similar legislation as soon as possible in the upcoming weeks.

Concluding Remarks

Mr. Chairman, we at Kokosing and the members of AGC are ready to build these projects, so we can create and sustain jobs throughout the country. Construction has always been an engine of economic stimulus and can play that role once again. Increases in infrastructure investment can be quickly put to work and will have a direct, immediate, and dramatic impact on the economy. Moreover, since some construction contracts take many years to complete, investment made today will provide economic growth through any prolonged period of economic downturn. Most importantly, however, the long-term economic benefits of infrastructure investment today should not be overlooked. Through additional investment in infrastructure, our nation would be well positioned to emerge from the economic downturn, rebuild our world-class infrastructure system, and ensure our continued economic prosperity well into the future.

Thank you for this opportunity to comment. I look forward to working with the Committee and would be happy to answer any questions.