Written Testimony
by

Terry Dillon
President,
National Utility Contractors Association
&
Owner, Atlas Excavating Inc.
(West Lafayette, Indiana)

before the

House Committee on Transportation and Infrastructure

addressing

"Investing in Infrastructure: The Road to Recovery"

October 29, 2008

Chairman Oberstar, Ranking Member Mica, and Honorable Members of the Committee, my name is Terry Dillon. I am the owner of Atlas Excavating Inc. in West Lafayette, Indiana. We have 150 employees who work on sewer and water construction and highway and road reconstruction projects throughout the state. I appreciate the opportunity to participate in this hearing on behalf of the National Utility Contractors Association (NUCA), which supports the inclusion of water infrastructure investment as part of congressional efforts to advance economic recovery legislation.

NUCA is a family of nearly 1,700 companies from across the nation that build, repair and maintain underground water, wastewater, gas, electric and telecommunications systems. NUCA also serves as chair of the Clean Water Council (CWC), a coalition of 34 national organizations representing underground construction contractors, design professionals, manufacturers and suppliers, labor representatives and others committed to ensuring a high quality of life through sound environmental infrastructure. These industries work collectively to improve critical underground systems that unquestionably enhance America's quality of life. For your reference, a list of CWC members is attached to this testimony.

NUCA and the CWC commend and support your past efforts to make infrastructure part of economic stimulus legislation, and we encourage you to include $10 billion toward water and wastewater infrastructure projects as part of the committee's economic recovery proposal.

MARKET IN TURMOIL

The water infrastructure market has gone from bad to worse in recent years. In addition to the ongoing cuts in federal funding to refurbish these systems, state budgets have been hit hard because of the downturn in the housing market, which in turn has lowered revenues from property taxes. Today's financial crisis has hampered states' ability to borrow in the short term, which has delayed or eliminated scores of underground infrastructure improvement projects. The current turmoil in the municipal bond market only exacerbates the situation. Insurers of municipal bonds, many of whom have lost their top-tier credit rating because of the sub-prime mortgage crisis, are being avoided by local governments who traditionally have depended on these bonds. Because of all of these factors, it's safe to say that billions of dollars of new infrastructure projects have been delayed or terminated because of America's current financial woes.

To make matters worse, the rising cost of construction materials and labor has reduced the purchasing power of public works dollars. Fewer contracts are going out to bid, which only increases the number of bids competing for limited projects. The inevitable result is less work on this deteriorating infrastructure and fewer jobs for those who do this critical work.

Consider the following example in Minnesota: just recently, a publicly-financed project drew over 50 contractors to bid on a project that was worth approximately $150,000. In the end it went for approximately $80,000 - not even enough to cover employment costs. The bottom line is that right now contractors are virtually bidding on any job at any amount to stay alive.

ECONOMIC BENEFITS OF INFRASTRUCTURE INVESTMENT

Underground water and wastewater projects are generally recognized for their effectiveness in enhancing public health and environmental protection. Often overlooked, however, are the *economic* benefits that result from this work. It is not an exaggeration to say that clean water projects go hand-in-hand with a healthy economy in that they create jobs, expand local tax bases and improve our overall quality of life.

Let's look at some numbers. Depending on which estimate you read, 40,000 – 47,000 jobs are created with every $1 billion invested in funding for this infrastructure. These are quality, high-paying jobs in

both the short and long term. Importantly, the job creation and increased economic activity that comes with it enhances local economies and provides disadvantaged communities with opportunities to revitalize and empower themselves.

It is important to highlight three important types of economic impacts that are associated with water and wastewater infrastructure projects. There are:

- direct impacts through job creation and the purchase of materials and supplies related to the operation of the project;
- indirect impacts through jobs and the purchase of materials and supplies by vendors indirectly related to the operation of the project; and
- induced impacts, which are supported by the spending and re-spending of the income earned by workers. (Induced economic impact is often referred to as the "multiplier effect.")

Another essential point is that the jobs offered in this industry are jobs that are provided right here in America. These are not jobs that can be shipped overseas.

One need look no further than the stakeholders represented in the Clean Water Council to see the direct and indirect jobs that are created with SRF funding. Contractors and subcontractors, engineers, suppliers and manufacturers, as well as countless construction laborers, all benefit from work that impacts virtually all sectors of our society.

And, the economic benefits resulting from these projects don't stop with the construction industry. Clean water enhances individual productivity through reduced sickness and missed work opportunities, as well as increases community productivity through the influx of new residents and businesses resulting from revitalized neighborhoods. In times of economic difficulty, the funding of construction projects is therefore an effective way to stimulate growth and development far beyond the construction industry as the economic benefits ripple through local economies.

SCORES OF PROJECTS READY TO GO

Whenever legislation intended to stimulate the economy is debated, it is regularly said that the infrastructure projects included must be targeted, timely and temporary. Although the average infrastructure project takes years to complete in terms of planning, design, environmental review and construction, there exist right now scores of water infrastructure projects that are "ready to go." As recent data shows, investment in these projects would generate hundreds of thousands of well-paying construction jobs across the country in a matter of months.

Again, let's look at the numbers. The National Association of Clean Water Agencies (NACWA), which represents the nation's publicly owned wastewater treatment agencies, recently surveyed its members to find out just how many projects are out there "ready-to-go," meaning construction could begin within 90 days. Responses from 22 states, Puerto Rico and the District of Columbia indicated that approximately $3 billion in wastewater infrastructure projects could move to construction within 90 days if the funding were available. In fact, many of these projects could go to construction phase in as little as 30 days. From a national perspective, NACWA contends, and NUCA agrees, that there are at least $10 billion in ready-to-go projects across the country.

Additionally, the Council of Infrastructure Financing Authorities (CIFA) and the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) recently compiled a list of wastewater infrastructure projects valued at $9.5 billion dollars that could most likely begin within a matter of months if funding were provided. This finding was based on a survey sent to state infrastructure financing programs across the country, with 25 states responding. Although it is not clear if planning, design and environmental review is complete for all of these projects in the CIFA/ASIWPCA survey, it is reasonable to predict that if states acted aggressively working with EPA, as well as the contractors performing the work, a significant number of these projects could move to construction phase within 120 days. This, coupled with the fact that $9.5 billion in projects was compiled with only half the states participating, also supports the request for a $10 billion water infrastructure provision in economic recovery legislation.

For a local perspective, let's look again at your state, Mr. Chairman. The Minnesota Utility Contractors Association indicates that the State of Minnesota has $406 million in Clean Water projects that have gone through the bidding process and, if funded, could move to construction within four months.

Clearly, investing in our underground infrastructure can provide a sharp economic kick start. We can put people to work right now and begin the road to recovery if Congress steps up to the plate.

A BALANCED APPROACH TO ECONOMIC RECOVERY

Many in Congress believe that simply cutting taxes and providing tax incentives is the way to go in terms of providing economic stimulus. In 2002, and again earlier this year, Congress passed and the president signed stimulus legislation that in part included tax incentives intended to spur equipment purchases by companies that could write off new equipment that was bought and put in service in a short amount of time. These provisions are sure to be debated again in economic recovery legislation.

In 2003, NUCA teamed up with its colleagues at the Associated Equipment Distributors (AED) to survey NUCA contractors to determine what impacts the depreciation tax bonus and small business expensing levels contained in the 2002 stimulus package had on the purchasing habits of utility contractors. NUCA and AED recently conducted a similar survey, but with very different results. The 2008 survey report, titled "*Economic Stimulus Act Having Positive Effect, but Additional Stimulus Needed*," (July 30, 2008) is attached to this testimony for your reference.

The biggest difference between the 2003 and 2008 surveys was the dramatic drop in the number of respondents who said they were buying new equipment to take advantage of stimulus legislation. In 2008, 34 percent of the respondents indicated they were buying new equipment because of the capital investment provisions this year—that's half the number of respondents in the 2003 survey.

This year's survey also included numbers that supported infrastructure investment as an economic stimulus. More than 70 percent of respondents indicated that they would be more likely to hire additional employees, add positions and buy new equipment this year if Congress enacted legislation that would increase federal investment in water infrastructure.

Perhaps the most powerful argument in the study report for such investment is found in the comments provided to the following question: "If you haven't bought equipment to take advantage of the capital investment incentives in the Economic Stimulus Act, why not?" The vast majority of the responses made reference to the fact that there simply was not enough work available to justify new equipment purchases, regardless of any tax incentives.

The message here is simple, and it's one that NUCA has advocated for years. Tax incentives only work when there's enough work out there to provide an incentive to buy. A truly effective stimulus proposal would therefore couple significant investment in America's suffering underground infrastructure market with tax incentives to encourage equipment purchases needed to do the work.

NEW ECONOMIC IMPACT STUDY UNDERWAY

Because the data currently used to *quantify* the economic impacts of investment in our underground environmental infrastructure is seriously outdated, the Clean Water Council is currently conducting a new study that will be used to educate the general public, media, industry and policymakers for many years to come.

Specifically, it will provide fresh answers to a number of important questions: How many jobs are created by a typical water or sewer construction project? What are these jobs? How much do they pay? How much additional income accrues because vendors and suppliers experience greater demand for their services? To what extent do benefits—such as jobs, personal income, capital expenditures—impact local economies?

Taking a case study approach, final report will contain detailed data from recently completed water and wastewater construction projects from diverse communities across the country. Projects of varying sizes in urban, suburban and rural areas will be evaluated, and the type of construction (new vs. replacement, open cut vs. trenchless, pipeline vs. treatment plant), as well as factors that affect labor and supply costs, will be considered. The report will also provide a detailed analysis of the economic impact of each job, with particular attention paid to the local economic impacts.

NUCA will provide the Chairman and the Committee with copies of the final study report as soon as it is released, and be available to answer any questions that you might have.

NATIONWIDE NEEDS SUPPORT THE FUNDING

NUCA is often asked to testify before this committee and others on the overwhelming needs facing America's water/wastewater infrastructure. While that is not the focus of this hearing, it is important to remember that there are other reasons besides the current *economic* crisis why increased funding is absolutely critical; the avoidance of an *environmental* crisis is at the top of that list.

The EPA's own needs estimates are nothing short of staggering. The agency's 2002 *Clean Water and Drinking Water Infrastructure Gap Analysis* forecasted a $534 billion gap between current investment and projected needs over 20 years for water and wastewater infrastructure if federal funding was not increased. Two years later, the EPA's 2004 *Clean Watersheds Needs Survey* documented existing nationwide wastewater infrastructure needs at $202.5 billion. Considering the fact that annual funding for this infrastructure has been virtually cut in half, not increased, it's clear that much needs to be done to even begin to address this dilemma.

Additionally, the American Society of Civil Engineers (ASCE), an active member of the CWC, evaluates the nation's infrastructure and reports on the status of it every few years. For the past several years, America's wastewater infrastructure has been graded a "D minus" in the ASCE's *Report Card for America's Infrastructure*. Clearly, there is a consensus among both government and industry professionals that the state of this infrastructure is quickly going from bad to worse.

The long road to refurbish this long neglected infrastructure will entail construction projects to repair and rebuild it. What better way to start than to provide significant and immediate resources to kick-start this

economy by putting people to work in the short term to take the needed first steps that will lead to a long-term solution?

CONCLUSION

On September 26, the House passed the Job Creation and Unemployment Act of 2008 (HR 7110), which included billions of dollars for a wide range of water infrastructure projects. Specifically, this included: $6.5 billion for the Clean Water SRF; $1 billion for the Drinking Water SRF; and $300 million for water, wastewater, and reclamation projects. Unfortunately, the Senate was unable to pass similar legislation.

While NUCA supported the House bill, we believe that given the number of ready-to-go projects, and the demonstrated economic benefits to local communities of increased investment, higher funding levels are justified. NUCA, the Clean Water Council and several other interested organizations all agree that providing $10 billion for America's underground environmental infrastructure would serve two very important purposes—the revitalization of local communities through job creation, increased economic activity and expanded local tax bases and the prevention of future catastrophic infrastructure failure.

Thank you, Mr. Chairman, for the opportunity to testify before the committee. I look forward to answering any questions you might have.

Clean Water Council

- American Concrete Pavement Association
- American Concrete Pipe Association
- American Concrete Pressure Pipe Association
- American Council of Engineering Companies
- American Rental Association
- American Road and Transportation Builders Association
- American Society of Civil Engineers
- American Subcontractors Association
- American Supply Association
- Associated Equipment Distributors
- Associated General Contractors of America
- Association of Equipment Manufacturers
- Construction Management Association of America
- Ductile Iron Pipe Research Association
- Interlocking Concrete Pavement Institute
- International Union of Operating Engineers
- Laborers-Employers Cooperation and Education Trust
- Laborers' International Union of North America
- Mason Contractors Association of America
- National Association of Industrial Office Properties
- National Association of Sewer Service Companies
- National Association of Women in Construction
- National Precast Concrete Association
- National Ready Mixed Concrete Association
- National Society of Professional Engineers
- National Stone, Sand and Gravel Association
- National Utility Contractors Association
- Plastics Pipe Institute
- Portland Cement Association
- Plumbing-Heating-Cooling Contractors Association
- The Vinyl Institute
- Uni-Bell PVC Pipe Association
- Water and Sewer Distributors of America
- Water and Wastewater Equipment Manufacturers Association

Economic Stimulus Act Having Positive Effect, But Additional Stimulus Needed

A Study of the Impact of Capital Investment Incentives and Infrastructure Spending on Utility Contractors

July 30, 2008

Associated Equipment Distributors Washington Office
121 North Henry Street Alexandria, VA 22314
Telephone 703.739.9513 Facsimile 703.739.9488
Electronic Mail aeddc@aednet.org

Economic Stimulus Act Having Positive Effect, But Additional Stimulus Needed: A Study of the Impact of Capital Investment Incentives and Infrastructure Spending on Utility Contractors

By Christian A. Klein[1]

I. Executive Summary

In July 2008, the National Utility Contractors Association[2] (NUCA) and Associated Equipment Distributors[3] (AED) collaborated to conduct a survey of utility contractors that examined economic stimulus issues. The survey sought to determine:

- What impact the capital investment incentives (50 percent depreciation bonus and increased Section 179 expensing levels), enacted as part of the Economic Stimulus Act (ESA) of 2008,[4] have had on utility contractor equipment purchasing in the first half of the year;
- What impact the ESA capital investment incentives were likely to have on equipment purchasing in the second half of 2008;
- What impact additional economic stimulus - specifically, extending the ESA's capital investment incentives and enacting water infrastructure legislation - would have on contractor equipment purchasing and hiring in the last half of 2008;
- What impact the downturn in the housing market has had on utility contractors; and
- The flow-down impact of government water infrastructure investment on the equipment distribution companies from which utility contractors buy, rent, and lease construction equipment.

Generally, the survey determined that the ESA's capital investment incentives have had a positive impact on utility contractor equipment purchasing. However, overall economic uncertainty and the housing market downturn (and a related slowdown in construction activity) are causing the majority of contractors to forego new purchases. The survey results also strongly suggest that enacting legislation to increase investment in water infrastructure would have an immediate and positive impact on contractor equipment purchasing and hiring decisions. Further, extending the ESA's capital investment incentives for an additional year would encourage contractor capital investment in 2009, particularly if the economy is showing signs of

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1 The author is a managing member of Obadal, Filler, MacLeod & Klein, PLC., an Alexandria, Virginia law firm that provides management, government affairs, and legal services to trade associations. In that capacity, Klein serves as vice president of government affairs and Washington Counsel for the Associated Equipment Distributors. He is also a member of the adjunct faculty at the University of Virginia.

2 NUCA is a national trade association of more than 1,700 underground utility construction contractors and industry suppliers throughout the United States. The association represents the underground contractors who provide the materials and workforce to build and maintain the nation's network of water, sewer, gas, telecommunications, and other utility systems. More information about NUCA is available at http://www.nuca.com.

3 AED is a national trade association of 1,200 independent distributors, manufacturers, and other organizations involved in the distribution of construction, mining, forestry, and agricultural equipment, and related products and services in North America and throughout the world. More information about AED is available at http://www.aednet.org.

4 Pub. L. No. 110-185 (2008).

improvement. Finally, the survey determined that water infrastructure construction activity has a major impact on equipment distributors who do business with utility contractors.

The AED-NUCA survey's major findings were as follows:

- **The ESA's capital investment incentives have had a positive impact on utility contractor equipment purchasing.** Approximately one-third of the survey respondents said that they had purchased equipment in the first half of 2008 to take advantage of the depreciation bonus (35 percent) and/or the increased Section 179 expensing levels (32 percent). The reason cited most often by survey respondents for why their companies had not taken advantage of the ESA was that the economic slowdown had led to a considerable drop in utility construction work (and need for additional equipment) and that the ESA provides no buying incentive for companies that are not profitable.

- **The ESA will continue to have a positive impact on construction equipment purchasing activity through the end of 2008.** Approximately one-quarter of respondents said they planned to purchase equipment in the second half of 2008 to take advantage of the depreciation bonus (27 percent) and/or increased Section 179 expensing levels (26 percent).

- **Extending the depreciation bonus and increased Section 179 expensing levels through the end of 2009 would provide additional economic stimulus next year.** More than three-quarters of survey respondents said that if the ESA's capital investment incentives were extended they would be more likely to buy additional equipment in 2009. Seventy-six percent said they would be more likely to buy equipment next year if the depreciation bonus was extended and 77 percent said the same about the increased Section 179 expensing levels.

- **Utility contractors have been hit hard by the downturn in the housing market.** Ninety percent of survey respondents said that the downturn in the housing market has had an impact on their companies, with 64 percent saying that the impact of the downturn had been "major". As indicated above, the housing downturn is apparently a major reason that many utility contractors have not bought equipment this year.

- **Enacting legislation to increase federal investment in water infrastructure would (in addition to other economic, environmental, and public health benefits) have an immediate and positive impact on the economy and enhance the ESA's effectiveness.** Seventy-one percent of survey respondents said they would be more likely to hire additional employees and/or add positions this year if Congress enacted legislation increasing federal investment in water infrastructure. Seventy-two percent said increased water infrastructure funding would make them more likely to buy equipment and take advantage of the depreciation bonus and/or higher Section 179 expensing levels this year.

- **Water utility work is equipment-intensive and a significant portion of the average water project bid is attributable to equipment costs.** Survey respondents report that, on average, when preparing a bid on a water utility project, at least 12 percent of the bid is attributable to the purchase, rental, and leasing of construction equipment, and to the cost of dealer-performed equipment repairs. Federal water infrastructure investment therefore has important flow-down

consequences for equipment companies doing business with utility contractors and equipment distributors have an important stake in the outcome of the political debate over water infrastructure funding.

II. Background

On Feb. 13, 2008 President Bush signed the ESA into law. It included two temporary incentives to encourage business capital investment in 2008.[5] Both were designed to help companies that buy equipment this year reduce their tax bills.

First, the ESA created a temporary depreciation bonus that allows companies that buy equipment to depreciate an additional 50 percent of the cost of eligible equipment placed in service this year. The ESA also significantly increased Section 179 expensing levels for 2008. Under prior law, the Section 179 small business expensing limit for tax years beginning in 2008 would have been $128,000 with a $510,000 phase-out threshold. However, the ESA temporarily increased the expensing limit to $250,000 and the phase-out threshold to $800,000. Thus, for tax years beginning in 2008, a business can expense up to $250,000 as long as its qualified equipment purchases do not exceed $800,000. For each dollar that total equipment purchases exceed $800,000, the amount that can be expensed decreases by one dollar, so that a company that makes $1,050,000 in total purchases will not be able to expense anything (but could still claim the depreciation bonus). For purposes of Section 179, qualifying property is generally depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Unlike the depreciation bonus, both new and used equipment is eligible for Section 179 expensing. Companies eligible to take advantage of Section 179 can combine it with the depreciation bonus for added tax savings.

As this report is being written, Congress is debating further economic stimulus, including a home purchase tax credit and water infrastructure legislation. The purpose of the AED-NUCA survey was therefore to provide lawmakers with insights about what legislative proposals are likely to have the most positive impact on the construction industry and economy as a whole.

III. Survey Methodology and Respondent Profile

The AED-NUCA survey of utility contractors was conducted online over a three week period (from July 7 through 24) using the SDI Weblink online survey tool. Requests for participation in the survey were emailed and faxed to NUCA members (both directly and through NUCA chapters), and were included in NUCA online publications. The survey system was configured to prevent multiple responses from a single individual. Additionally, in order to ensure that respondents were in fact utility contractors, they were asked to indicate the revenues their company derived from utility construction projects in 2007. Respondents who did not report revenues from utility construction projects had their survey answers deleted. Ultimately 78 utility contractors provided responses to the survey. Based upon NUCA's membership of approximately 1,350 utility contractors, the survey margin of error is less than 11 percent.

The respondents to the NUCA-AED survey were diverse both in terms of company size and geography.[6] A plurality (44 percent) reported that they had earned revenues of $10 million or more from utility construction projects in 2007. Twenty-four percent reported revenues between $5 million and $10 million, 14 percent reported revenues between $2 million and $5 million, and 18 percent reported revenues of $2 million or less. Contractors from all regions of the country responded to the survey; however, the Southeast was

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5 More information about the ESA's capital investment incentives is available at http://www.depreciationbonus.org.

6 See responses to survey questions one and two in Appendix A.

slightly over-represented (45 percent of respondents), while the South Central and Rocky Mountain regions were under-represented (three percent and one percent of respondents respectively).

The survey has been designed and executed with antitrust best practices and relevant legal precedent in mind.[7] The survey was voluntary and was conducted for pro-competitive purposes (i.e., to provide data to lawmakers about the impact of economic stimulus legislation and water infrastructure funding on important segments of the economy). The survey focused primarily on historical data (questions about future behavior were speculative and focused on motivations, not specific intended behavior).[8] Additionally, the survey did not collect price information, it was anonymous, individual responses are being kept confidential, and the survey results will be widely distributed in the relevant industries, in the media, and on Capitol Hill.

IV. Major Survey Findings

A. Utility Contractors Have High Familiarity with the ESA's Capital Investment Incentives

The survey asked respondents whether they were familiar with the ESA capital investment incentives and how they had first learned about the new law.[9] The overwhelming majority (85 percent) knew about the law; a plurality (33 percent) had learned about it through general news coverage. NUCA-produced publications and other construction industry media were also important sources of information about the ESA for utility contractors.

B. ESA's Capital Investment Incentives Prompted One-Third of Survey Respondents to Buy Equipment in the First Half of 2008

The survey results suggest a clear connection between the ESA's capital investment incentives and contractor equipment purchasing. Thirty-five percent of the all the survey respondents said that they had bought new equipment this year to take advantage of the depreciation bonus and 32 percent said they had bought equipment to take advantage of the temporarily increased Section 179 expensing levels.[10]

Not surprising, contractors who were aware of the ESA's capital investment incentives were slightly more likely than the general population of survey respondents to have been prompted to buy equipment by the stimulus law. Thirty-nine percent of survey respondents who said they were aware of the ESA said they had purchased equipment to take advantage of the depreciation bonus; 38 percent of those aware of the ESA had bought equipment to take advantage of the increased Section 179 expensing levels.

C. ESA Will Continue to Motivate Equipment Buying Through the Second Half of 2008

Utility contractors plan to take advantage of the ESA's capital investment incentives in the second half of 2008, though in lower percentages than they have in the first half of the year.[11] Twenty-seven percent of all the survey respondents said that that they plan to buy equipment in the second half of 2008 to take advantage of the depreciation bonus and 26 percent said they are planning purchases to take advantage of the increased Section 179 expensing levels.

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7 E.g., the line of cases emanating from *Maple Flooring Mfrs. Ass'n v. US*, 268 US 563 (1925).

8 *E.g.*, the survey inquired not whether respondents intended to buy equipment in the second half of the year, but rather whether they intended to do so to take advantage of the ESA's capital investment incentives.

9 See responses to survey questions three, four, and five in Appendix A.

10 See responses to survey questions six and seven in Appendix A.

11 See responses to survey questions eight and nine in Appendix A.

D. Insufficient Work, Declining Profits Cited as Top Reasons for Not Taking Advantage of ESA
The survey included an open-ended question that asked participants who had not taken advantage of the ESA to explain their decision.[12] Of the 44 who responded to the question, the overwhelming majority (33 out of 44) said their decision not to buy equipment was motivated by the lack of work and poor economic conditions. The following are representative of the comments received on this issue:[13]

- From a respondent in the Southeast reporting between $2 million and $5 million in 2007 revenues from utility projects: "The stimulus is nice if there is an actual upturn in sight. The construction market will be bleak for at least two years and you must have revenue to justify taking on greater debt regardless of increased expensing opportunities."

- From a respondent in the Upper Midwest reporting more than $10 million in 2007 revenues: "There is no advantage in getting a 'tax break' if the current economic and bidding conditions are such that you have no taxable income to be able to use the additional depreciation or Section 179 deduction."

- From a respondent on the West Coast reporting between $5 million and $10 million in 2007 revenues: "Backlog is weak. Struggling to make a profit. If no profit, what good are the incentives?"

- From a respondent on the West Coast reporting less than $2 million in 2007 revenues: "Revenue has been down 50 percent and no need for additional equipment."

- From a respondent in the Southeast reporting more than $10 million in 2007 revenues: "Due to the housing slump and the overall unstable economy, we do not have any backlog of work to warrant the purchase of new equipment."

- From a respondent in the Southeast reporting more than $10 million in 2007 revenues: "A stimulus that helps the purchase of equipment in a down market does nothing to help the down market as a whole. We need to stimulate the infrastructure economy and the government should be spending the money in infrastructure, not giving a tax deduction to the few companies that have work and already have all the equipment they need. They should focus on funding projects so the companies that don't have any work would have an incentive to buy equipment if they had projects to build in the first place. These types of incentives will not keep my company in business. Projects first, then incentives, not the other way around. In fact, if the economy is doing well, we don't need incentives."

- From a respondent in the Upper Midwest reporting more than $10 million in 2007 revenues: "There isn't enough work out there to pay for the new equipment! We will be lucky to be able to keep the equipment busy that we have."

- From a respondent in the Southeast reporting between $5 million and $10 million in 2007 revenues: "The economy is in terrible shape and there is not enough work available to support new equipment purchases."

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12 See responses to survey question 12 in Appendix A.

13 Comments have been edited for grammar, punctuation, and spelling.

- From a respondent from the Upper Midwest reporting between $5 million and $10 million in 2007 revenues: "It takes money to spend money. Our company is in no position to update our equipment fleet at this time. Our volume is down 30 percent, we have not brought back 12 employees for this construction season, and we have several pieces of equipment parked because of the lack of work available. We cannot justify the expenditure with the limited work we have."

- From a respondent from the Southeast reporting less than $2 million in 2007 revenues: "Work very slow. Worst in our 10 years of business. We'll be grateful if we are able to keep paying for what we have."

- From a respondent from the Upper Midwest reporting between $5 million and $10 million in 2007 revenues: "We still have approximately 25 percent of our existing equipment fleet sitting idle because of the lack of construction projects. It would make no sense to buy more equipment regardless of how great the incentives are if we are unable to put it to use."

- From a respondent on the West Coast reporting more than $10 million in 2007 revenues: "Business has fallen so far off that it doesn't make sense to spend any money at all. I am more worried about the survival of my business than the profitability after taxes."

E. Utility contractors have been hit hard by the downturn in the housing market

As suggested by the comments above, the downturn in the residential real estate market has had a dramatic impact on utility contractors. Ninety percent of survey respondents said that the downturn in the housing market had an impact on their companies, with 64 percent saying that the impact of the downturn had been "major".[14] These findings underscore the importance of the work that AED and NUCA have done to enact a home purchase tax credit to revitalize home purchasing and the need for the president to quickly sign the housing stimulus legislation recently approved by Congress.[15]

F. Extending the ESA Capital Investment Incentives Would Likely Boost Equipment Purchasing Next Year

While the majority of survey respondents have been reluctant to take advantage of the ESA capital investment incentives given current economic conditions, the survey results suggest that extending the depreciation bonus and increased Section 179 expensing levels for one year would have a positive impact on equipment purchasing in 2009. Seventy-six percentage of survey respondents said that they would be more likely to buy additional equipment next year if Congress were to extend the depreciation bonus through the end of 2009 and 77 percent said they would be more likely to buy additional equipment next year if the increased Section 179 expensing levels were extended for tax years beginning in 2009.[16]

G. Increased Federal Water Infrastructure Investment Would Provide Immediate Economic Stimulus

The survey results suggest that Congress could give the economy (and particularly the construction industry) an immediate shot in the arm and enhance the effectiveness of the ESA by increasing spending on water infrastructure. Seventy-two percent of survey respondents said they would be more likely to buy equipment and take advantage of the ESA this year if Congress enacted legislation increasing federal investment in water infrastructure. Seventy-one percent said they would be more likely to hire additional

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14 See response to survey question 16 in Appendix A.

15 The American Housing Rescue and Foreclosure Prevention Act, H.R. 3221, 110th Cong., 2nd Sess. (2008).

16 See responses to survey questions 10 and 11 in Appendix A.

employees or add positions at their companies this year if federal water infrastructure spending increased.[17]

H. Water Utility Work is Equipment-Intensive and a Sizeable Portion of the Average Water Project Bid is Attributable to Equipment Costs

Survey respondents reported that, on average, when preparing a bid on a water utility project, at least 12 percent of the bid is attributable to the purchase, rental, and leasing of construction equipment, and to the cost of dealer-performed equipment repairs.[18] Answers to this question ranged from a low of zero percent to a high of 60 percent, with a median response of 10 percent. Additionally, ten survey respondents answered the question with a decimal amount less than one percent that could have been intended to convey a much larger percentage (e.g., ".15" may have been intended as "15 percent"). Thus, the 12 percent national average may actually be a low estimate of the percentage of a water infrastructure bid attributable to equipment costs. These findings show that water infrastructure investment has a significant market impact on the equipment industry and that distributors have an important stake in the outcome of the policy debate over water infrastructure funding.

V. Analysis and Discussion of Survey Findings

In the spring of 2003, NUCA and AED conducted a survey similar to the one described in this report.[19] The purpose of the 2003 survey was analyze the impact of the 30 percent depreciation bonus that Congress had created in early 2002 in response to the economic downturn of 2000 and 2001. The 2003 survey determined that the depreciation bonus had been very effective in stimulating utility contract equipment purchasing over the previous year. Specifically, 67 percent of the survey respondents who were familiar with the depreciation bonus said that it had prompted their companies to invest in new equipment in the prior 12 months. In the current survey, only 39 percent of those familiar with the depreciation bonus had taken advantage of it. This discrepancy is likely attributable to two major factors.

First, the timing of the surveys differed. When the 2003 survey was conducted, the depreciation bonus had been in place for an entire year. Additionally, many contractors probably waited to take advantage of the depreciation bonus until late 2002 when their year-end financial situation was clearer and the benefits of using the depreciation bonus to reduce tax liability were more concrete. In contrast, the present survey was conducted just five months after the depreciation bonus was enacted and well before the end of the year.

The nature of the current economic downturn is likely a second major factor contributing to the lower percentage of utility contractors who have taken advantage of the ESA's capital investment incentives. The 2000-2001 downturn was in large part attributable to a dramatic drop in businesses purchasing. In early 2002, when Congress first created the depreciation bonus, the economy had suffered six consecutive quarters of declining business purchasing (i.e., fixed domestic investment in equipment and software).[20] Thus, stimulus designed to spur business capital investment was appropriate.

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17 See responses to survey questions 14 and 15 in Appendix A.

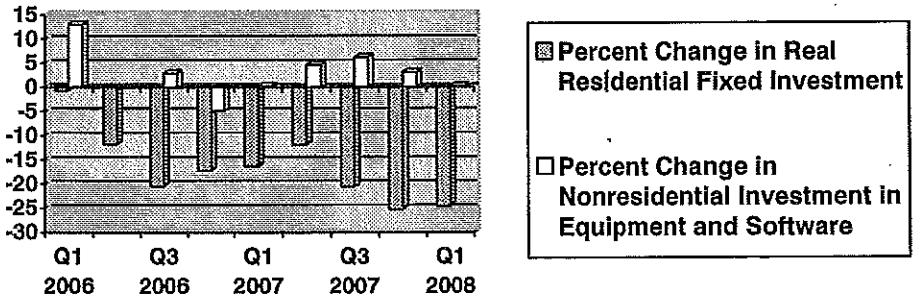
18 See responses to survey question 13 in Appendix A.

19 Christian A. Klein, Capital Investment Incentives Work: A Study of the Past and Future Impact of the Depreciation Bonus and Small Business Expensing Level Increases on Utility Contractor Equipment Purchasing (2003) (report for AED and NUCA) (available at http://www.depreciationbonus.org/pdf/NUCA_AED_Tax_Study.pdf).

20 *Id.* at 3.

The current economic downturn, however, is attributable to different factors. Although the growth in business purchasing has been inconsistent (and far from robust) over the last two years, it has only been negative in two of the last eight quarters.[21] As illustrated by the graph below, at the same time, the U.S. economy has experienced nine consecutive quarters of declining residential real estate investment.[22] This has taken a tremendous toll on the construction industry as evidenced by the current survey and other reports.[23]

Home Purchasing vs. Business Investment 2006-2007
Source: Bureau of Economic Analysis



Given the slowdown in the housing market, it is not surprising that construction companies are reluctant to invest in new equipment. In the words of one respondent to the current AED-NUCA survey: "We still have approximately 25 percent of our existing equipment fleet sitting idle because of a lack of construction projects. It would make no sense to buy more equipment regardless of how great the incentives are if we are unable to put it to use."[24] The comments of another contractor who has not taken advantage of the ESA suggest that broader economic factors are also impacting contractor equipment purchasing decisions: "It is too risky to take advantage of [the ESA] right now. The economic status of our region is shaky at best. While we are busy, we are not making any profit, margins are tight, fuel is killing us, and banking problems scare us to death."[25]

VI. Conclusions

The 2008 AED-NUCA utility contractor survey suggests that although the ESA has had some positive impact, Congress and the president should do more to help put the economy back on firm footing. The significant impact that the downturn in residential real estate market has had on utility contractors suggests that the industry will be helped by the home purchase tax credit included in the recently-enacted housing stimulus bill. However, Congress should consider legislation to extend the ESA's capital investment incentives for an additional year (through the end of calendar year 2009 for the depreciation bonus and through tax years beginning in 2009 for the higher Section 179 expensing levels). Congress should also act

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21 Press Release, Bureau of Economic Analysis, Gross Domestic Product: First Quarter 2008 (Final) (June 26, 2008) (available at http://www.bea.gov/newsreleases/national/gdp/2008/pdf/gdp108f.pdf).

22 *Id.*

23 *See e.g., The Housing Crisis – Identifying Tax Incentives to Stimulate the Economy: Hearing Before the House Comm. on Small Business*, 110th Cong., 2d Sess. (2008) (testimony of Dale Leppo on behalf of AED) (available at http://www.house.gov/smbiz/hearings/hearing-06-05-08-housing/Leppo.pdf).

24 See response number 23 to survey question 12 in Appendix A.

25 *Id.* at response number 36.

quickly to pass legislation significantly increasing federal investment in water infrastructure. In addition to the environmental and public health benefits, the 2008 AED-NUCA survey suggests that increased federal water spending would create construction industry jobs and prompt additional equipment purchasing in the immediate term, thereby enhancing the benefits of the ESA.

APPENDIX A:

2008 AED-NUCA UTILITY CONTRACTOR ECONOMIC STIMULUS SURVEY RESULTS

SDI InfoQuest Online Survey System

TOOLBAR FOR CURRENTLY ACTIVE SURVEY

Admin Home | Edit Set-Up Information | Add or Edit Questions | Preview Survey Form | Delete Responses

Survey Results

SURVEY TITLE
NUCA Economic Stimulus Survey

Responses Received: 78

Save Responses To Excel | Normal Print Without no answer | Normal Print With no answer | Simple Print With no answer | Simple Print Without no answer | Cross Validation View

Question 1
In what region of the country is your company located?

Response	Count	Percent	Chart
Northeast (Connecticut, Delaware, Massachusetts, Maine, New Jersey, New York, Pennsylvania, Rhode Island, Vermont)	14	17.95%	
Southeast (Alabama, Florida, Georgia, Maryland, North Carolina, Tennessee, South Carolina, Virginia, West Virginia)	35	44.87%	
Upper Midwest (Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)	16	20.51%	
South Central (Arkansas, Louisiana, Mississippi, Oklahoma, Texas)	2	2.56%	
Rocky Mountain (Arizona, Colorado, Idaho, Montana, New Mexico, Utah, Wyoming)	1	1.28%	
West Coast (Alaska, California, Hawaii, Nevada, Oregon, Washington)	10	12.82%	
Other (e.g., Puerto Rico)	0	0.00%	
Total	**78**	**100.00%**	

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Question 2
What were your company's total annual revenues from utility construction projects in 2007?

Response	Count	Percent	Chart
$2 million or less	14	17.95%	
Between $2 million and $5 million	11	14.10%	
Between $5 million and $10 million	19	24.36%	
$10 million or more	34	43.59%	
Total	**78**	**100.00%**	

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Question 3
Are you familiar with the capital investment incentives (temporary depreciation bonus and temporarily higher Sec. 179 expensing levels) enacted by Congress earlier this year as part of the Economic Stimulus Act?

Response	Count	Percent	Chart
Yes	66	84.62%	
No	12	15.38%	
Total	**78**	**100.00%**	

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Question 4
If so, how did you first learn about the new capital investment incentives?

Response	Count	Percent	Chart
NUCA publication	11	14.10%	
AED/AEM Economic Stimulus Act brochure	1	1.28%	
General news coverage	26	33.33%	
Construction industry publication	10	12.82%	
From a fellow contractor	0	0.00%	
From an equipment distributor	6	7.69%	

Other	13	16.67%	
I am not familiar with the new capital investment incentives	10	12.82%	
No answer	1	1.28%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 6
Have you visited depreciationbonus.org to get more information about the Economic Stimulus Act?

Response	Count	Percent	Chart
Yes	8	10.26%	
No	69	88.46%	
No answer	1	1.28%	
Total	**78**	**100.00%**	

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Question 7
Has your company bought new equipment this year to take advantage of the depreciation bonus?

Response	Count	Percent	Chart
Yes	27	34.62%	
No	50	64.10%	
No answer	1	1.28%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 8
Has your company bought equipment (new or used) this year to take advantage of the higher Sec. 179 expensing levels?

Response	Count	Percent	Chart
Yes	25	32.05%	
No	53	67.95%	
Total	**78**	**100.00%**	

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Question 9
Do you plan to buy equipment in the second half of 2008 to take advantage of the depreciation bonus?

Response	Count	Percent	Chart
Yes	21	26.92%	
No	57	73.08%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 10
Do you plan to buy equipment in the second half of 2008 to take advantage of the higher Sec. 179 expensing levels?

Response	Count	Percent	Chart
Yes	20	25.64%	
No	56	71.79%	
No answer	2	2.56%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 11
If Congress were to extend the depreciation bonus for an additional year (through Dec. 31, 2009) would you be more likely to buy additional equipment next year?

Response	Count	Percent	Chart
Yes	59	75.64%	
No	19	24.36%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 12
If Congress were to extend the higher Sec. 179 expensing levels for an additional year (through tax years beginning in 2009) would you be more likely to buy additional equipment next year?

Response	Count	Percent	Chart
Yes	60	76.92%	
No	18	23.08%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 13
If you haven't bought equipment to take advantage of the capital investment incentives in the Economic Stimulus Act, why not? IF YOU HAVE BOUGHT EQUIPMENT TO TAKE ADVANTAGE OF THE ESA, PLEASE SKIP THIS QUESTION.

Number	Response ID	Response
1	5049	Lack of positive economic forecasts to support adding long term debt. The stimulus is nice if there is an actual upturn in sight. The construction market will be bleak for at least two years and you must have revenue to justify taking on greater debt regardless of increased expensing opportunities.
2	5061	There is no advantage in getting a "tax break" if the current economic and bidding conditions are such that you have no taxable income to be able to use the additional depreciation or Section 179 deduction.
3	5062	Quest 6-7 were answered NO because our purchases were based on need rather than to take advantage because of a stimulus package. Questions 8 and 9 were answered YES because the option of "POSSIBLY" was not available. We are aware of the stimulus and MAY buy equipment if we find a good price and have need, but NOT just because of stimulus package. We buy what we need based on work we have and right now, we need infrastructure funding before stimulus.
4	5063	We have bought equipment and taken advantage of the programs you list, but the programs are not the prime reasons for buying the equipment.
5	5064	Backlog is weak. Struggling to make a profit. If no profit, what good are the incentives?
6	5065	Revenue has been down 50% and no need for additional equipment.
7	5066	NOT NEEDED.
8	5067	WE would only buy equipment if the need for new equipment is there, right now there is not enough work to justify buying new equipment.
9	5068	Due to the housing slump and the overall unstable economy, we do not have any backlog of work to warrant the purchase of new equipment. We purchased two track skiddsteers this year to replace the use of 963 loaders on small projects. There have been no other purchases.
10	5069	Money is tight. Im waiting for Democratic leadership.
11	5070	NO WORK!
		The economy is worse than our industry has seen it since the 1970s. We have been in business here in south florida since the mid 70s and are quite concerned about the future of the

12	5072	construction industry right now and dont plan on any capital expenditures in the near future no matter what type of incentives are introduced. Our fuel costs have gone so high its making it very difficult to do business. The industry has come to almost a screeching halt so we are in a downsizing mode until business improves. We are hoping that congress will approve drilling for oil in the states so that it might give us some relief in the price of our fuel which in turn might give us some hope for the future.
13	5073	There is not enough work to justify equipment purchases.
14	5076	During the last few years when utility and excavation work was strong, we bought all the equipment we needed then. Now there is no work so we are selling off our equipment, not buying. A stimulus that helps the purchase of equipment in a down market does nothing to help the down market as a whole. We need to stimulate the infrastructure economy and the government should be spending the money in infrastructure, not giving a tax deduction to the few companies that have work and already have all the equipment they need. They should focus on funding projects so the companies that dont have any work would have an incentive to buy equipment if they had projects to build in the first place. These types of incentives will not keep my company in business. Projects first, then incentives, not the other way around. In fact, if the economy is doing well, we dont need incentives.
15	5077	There isnt enough work out there to pay for the new equipment! We will be lucky to be able to keep the equipment busy that we have.
16	5079	We havent secured sufficient work to warrant the purchase of new equipment
17	5083	The economy is in terrible shape and there is not enough work available to support new equipment purchases.
18	5084	It takes money to spend money. Our company is in no position to update our equipment fleet at this time. Our volume is down 30%, we have not brought back 12 employees for this construction season, and we have several pieces of equipment parked because of the lack of work available. We can not justify the expenditure with the limited work we have.
19	5086	Work very slow, worst in our 10 years of business, well be grateful if we are able to keep paying for what we have.
20	5088	With the poor economy, poor banking, and minimal willingness on behalf of distributors to work through these times with the debts we have I cant forsee adding more or their participation in helping to finance the equipment.
21	5091	Slowing work levels
		I dont need any equipment. I dont forsee the

22	5093	work picking up anytime soon, to spend money now if foolish.
23	5096	We still have approximately 25% of our existing equipment fleet sitting idle because of the lack of Construction Projects. It would make no sense to buy more equipment regardless of how great the incentives are if we are unable to put it to use.
24	5097	I own a sufficient amount of equipment and have no need
25	5098	Lack of jobs.
26	5099	There is insufficient work upcoming to justify purchasing new equipment.
27	5100	We dont have enough work to justify puchasing new equipment.
28	5102	No need
29	5103	Due to the slow down of our industry and the amount of new equipment we already own we have no need for purchases at this time.
30	5104	Dont need any Equipment
31	5105	my company purchases enough equipment that we do not qualify for this tax break
32	5106	We have not been able to generate enough work to justify new equipment purchases.
33	5110	We buy equipment that we need, not just because its "on sale". We buy equipment every year the value of which usually exceeds the limits of whatever tax package is being offered. Once or twice in years past the deprecation did encourage us to update a machine or two.
34	5111	Work is scarce
35	5113	why have it sit in our yard, depreciating. We need a Stimulus package for growth.
36	5114	It is to risky to take advantage of right now. the economic statis or our region is shakey at best. While we are busy, we are not making any profit, magins are tight, fuel is killing us, and banking problems scare us to death.
37	5115	We have all the equipment we need and have not had any new business this year, to have the need for new equipment. The construction market in Ft. Myers, FL is pretty bad right now.
38	5117	In slow economic times when you are having difficulty showing a profit anyway, what is the value in increasing your current year costs? This type of deal will only work when our industry is growing / thriving and the general economy needs a boost.
39	5118	This is simply a way to delay the pain-we are spending over $4,000.00 a week on fuel and we are a small business. That doesnt leave a lot left for payments on equipment. We are doing everything we can to pass on the cost of fuel to

		our customers, but there is a threshold and a lot of irresponsible bidding going on in the industry!
40	5122	Business has fallen so far off that it doesnt make sense to spend any money at all. I am more worried about the survival of my business than the profitability after taxes.
41	5123	No need at this time.
42	5126	DID NOT KNOW ABOUT THIS - MY ACCOUNTING SAID HE WOULD LET ME KNOW ABOUT THIS
43	5127	ECONOMY, WORK LOAD DROPPED OFF 90%
44	5128	As a fiscal year Sub-S corporation, we were unable to get the tax benefit of the higher expensing limitations. This appears to be a "glitch" in the tax law which needs to be addressed.

Question 13
When preparing a bid on a water utility project, approximately what percentage of the bid is attributable to the purchase, rental, and leasing of construction equipment and to the cost of dealer-performed equipment repairs? (Please do not include operating costs or routine maintenance that you perform.)

Average:	**12.08**
Median:	**10.00**
Quartiles:	**Lower: 1.00 Upper: 18.00**

Question 14
Would you be more likely to buy equipment and take advantage of the depreciation bonus and/or higher Sec. 179 expensing levels this year if Congress enacted legislation increasing federal investment in water infrastructure?

Response	Count	Percent	Chart
Yes	56	71.79%	
No	19	24.36%	
No answer	3	3.85%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 15
Would you be more likely to hire additional employees or add positions at your company this year if Congress enacted legislation increasing federal investment in water infrastructure?

Response	Count	Percent	Chart
Yes	55	70.51%	
No	20	25.64%	
No answer	3	3.85%	
Total	**78**	**100.00%**	

Click to view 3-D charts.

Question 18
Please select the statement that most closely reflects the impact the downturn in the housing market has had on your company.

Response	Count	Percent	Chart
The downturn in the housing market has had no impact on my company	5	6.41%	
The downturn in the housing market has had some impact on my company	20	25.64%	
The downturn in the housing market has had a major impact on my company	50	64.10%	
No answer	3	3.85%	
Total	**78**	**100.00%**	

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