Testimony of

William G. Cox
President
Corman Construction, Inc.

Submitted to:
Committee on Transportation and Infrastructure
U.S. House of Representatives

Hearing:
Recovery Act Transportation and Infrastructure Projects: Impacts on Local Communities and Businesses

September 29, 2010

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Chairman Oberstar, Ranking Member Mica, members of the Committee—My name is Bill Cox and I appreciate the opportunity to testify on the impact of the American Recovery and Reinvestment Act (ARRA) transportation projects on local communities and businesses. I am the president of Corman Construction, Inc., a heavy civil construction firm based in Annapolis Junction, Maryland. I am also the incoming chairman of the American Road and Transportation Builders Association.

Corman Construction is one of the Mid-Atlantic's largest contractors. We specialize in highway construction, bridge construction and repair, underground utility work, tunnel construction, marine construction and more. Some of our more prominent projects in this area include the Woodrow Wilson Bridge, rehabilitation of the Frederick Douglas Bridge over the Anacostia, and the Intercounty Connector in Maryland. We also worked on the Capitol Visitor Center.

There are three points I want to make today.

First, the Recovery Act was critical in supporting construction activity and jobs in the transportation and infrastructure sector. This is virtually the only construction activity that did not suffer a downturn during the recent recession, almost solely because of the transportation investments made by the Recovery Act. This Committee can be proud of its foresight to focus Recovery Act funding on transportation construction and the nation's transportation infrastructure, and we thank you for what you accomplished in that law.

But now it is time to follow up. The Recovery Act provided a critical one-time injection of federal investment into transportation improvements. In so doing, it preserved thousands of jobs that would otherwise have disappeared and the improvements resulting from the 14,000 Recovery Act construction projects will benefit communities and businesses for years to come. But the full potential of the Act was undermined by the collapse of private sector construction activity and cuts in state and local transportation construction investment over the last two years. In fact, states are still facing extremely challenging economic conditions and 22 states reduced their highway contract awards in the last state fiscal year.

Specifically, these other problems blunted the ability of the Recovery Act to create an incentive for contractors to purchase new equipment or hire new staff. Furthermore, a one-time injection of funds through the Recovery Act provided little incentive for state and local transportation agencies to plan, design or get permits for the improvements needed in the years ahead. When the 2010 construction season winds down and most Recovery Act funds have been spent, there is currently nothing in the wings to fill the gap next year or into the future, which means many current highway construction jobs saved by the Recovery Act are once again in jeopardy.

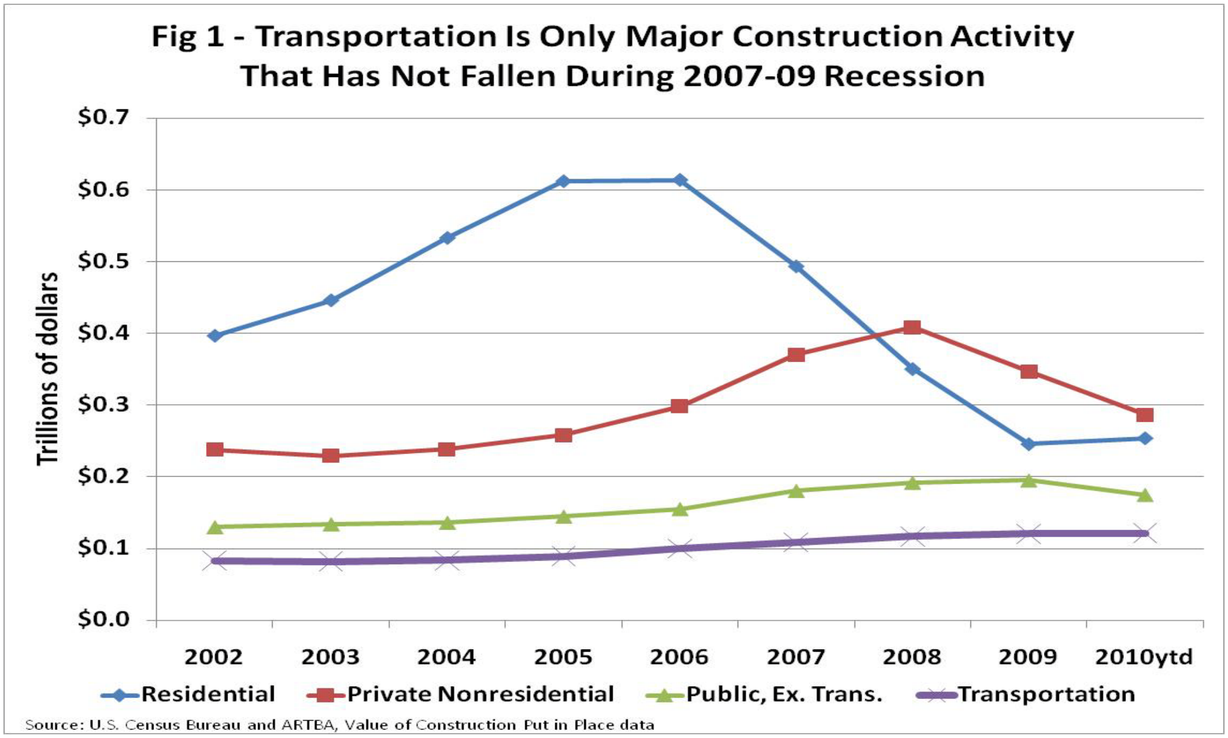
It is thus critical that Congress enact a multi-year, well-funded surface transportation authorization act as soon as possible. Enactment of that bill, which will provide state and local transportation agencies and highway contractors a six-year window on federal highway and transit investment intentions, will touch off a spate of design activity, equipment purchases and new hires that will boost the industry and the economy even more powerfully than the Recovery Act. This Committee has demonstrated its commitment to moving the reauthorization process along by releasing its draft legislation. We hope the administration and the Senate will follow suit in short order.

Success of the Recovery Act

The Recovery Act provided $48 billion for investment in shovel-ready improvements to the nation's highways, bridges, airports and transit systems. This included $27.5 billion for highway and bridge improvements, $1.1 billion for airport improvements, $8.4 billion for public transportation, $8 billion for high speed rail and $1.5 billion of discretionary funds for large transportation projects or TIGER Grants.

These funds supported 363 grants by the Federal Aviation Administration for airport improvements and almost 13,200 grants by the Federal Highway Administration for highway and bridge construction projects, including almost 4,300 that have been completed and are benefiting highway users. Currently, there are almost 7,400 highway and bridge projects under construction and another 1,500 that should begin construction in the near future. The Federal Transit Administration made almost 1,000 grants to local transit agencies, including 11 New Start grants worth $742 million and 51 grants for fixed guideway improvements also worth $742 million.

As a result, transportation construction is the only major construction activity that did not decline during the 2007-09 recession. As Figure 1 shows, the value of construction work put in place on new homes in the U.S. declined more than 60 percent from its 2006 pre-recession peak. Private non-residential construction—that is, construction on shopping centers, office buildings, factories, hospitals and similar projects—declined in 2009 and continues downward this year. And public construction other than transportation began declining this year and is now down 10 percent from last year's pace.



The only major construction activity that showed no decline at any time during the recession is transportation, the purple line in the chart. This year, more than $121 billion of construction work will be put in place on transportation and transportation-related construction projects, accounting for more than 15 percent of all construction work performed in the United States. Transportation's share of construction activity will be almost twice as large as in 2005.

Although we perform work throughout the Mid-Atlantic, our home state of Maryland is experiencing a severe budget crisis; the Recovery Act has supported more than 172 highway and bridge construction projects, pumping more than $430 million into our highway construction market. Our contractors have been able to preserve hundreds of jobs that would otherwise have disappeared without these projects.

Mr. Chairman, I am a somewhat atypical witness extolling the virtue of the Recovery Act in that my firm received no ARRA-supported transportation work. We are pleased, however, to have received two National Park Service Recovery Act projects to replace and renovate the Reflecting Pool on the National Mall, and rehabilitate the Catoctin Aqueduct in the Chesapeake and Ohio Canal National Historic Park. While we may not have received any direct ARRA work, I can guarantee the markets in which we operate would have been devastated without this infusion of revenues.

In the search for quantifiable jobs created or saved and, people seem to have overlooked that interconnectedness of the entire U.S. transportation construction market. There are certainly different types of contractors, and the ARRA opportunities available to my firm in our markets were not as prevalent as for firms that focus on pavements. It would, however, be a gross misunderstanding of our sector if one were to assume that just because we have not been awarded ARRA transportation work that we have not benefited. First of all, Recovery Act work kept many of our suppliers, without whom we could not operate, in business. Secondly, the Recovery Act kept the state project pipeline flowing and, as a result, we are now starting to see a more diverse projects being bid that represent opportunities for my firm.

As such, the effectiveness of the Recovery Act cannot be analyzed in a vacuum. I can tell you, however, as a contractor operating in multiple states, that many transportation construction firms would likely have closed their doors without the Recovery Act's transportation investments.

Economic Impact of the Recovery Act

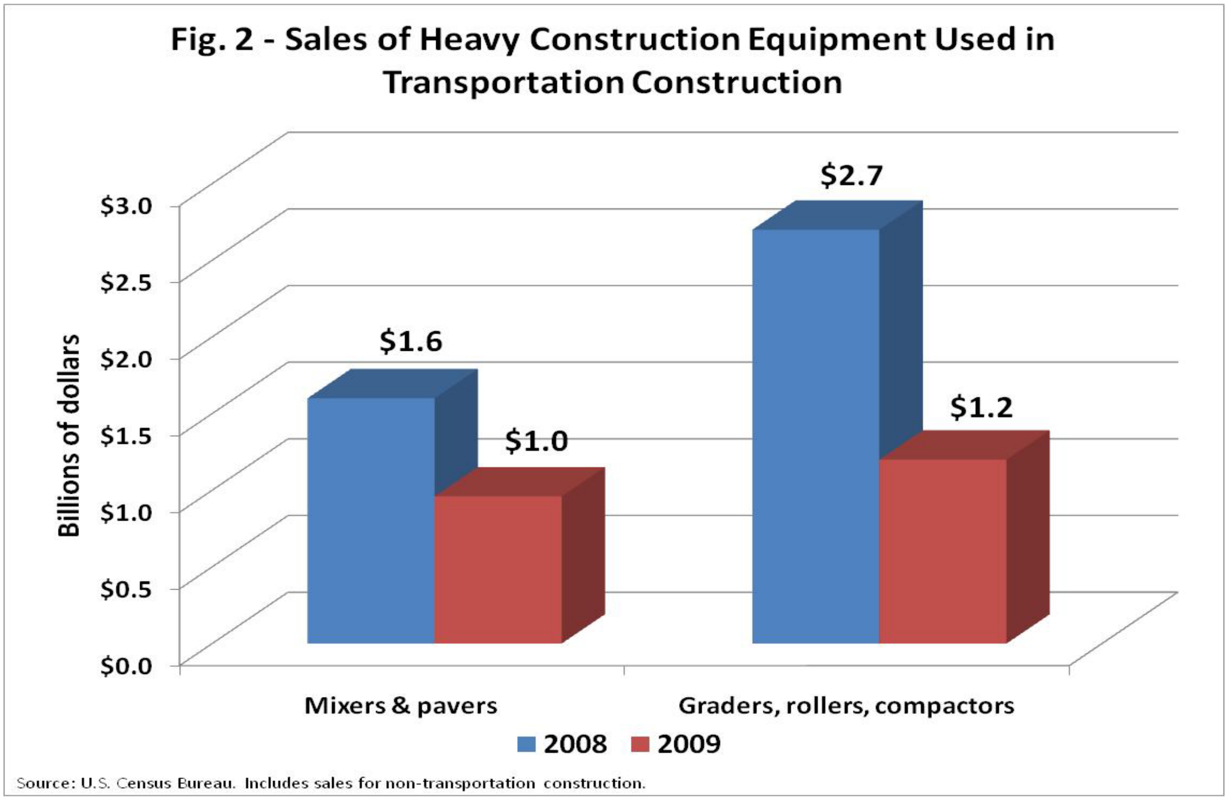
The Recovery Act succeeded in supporting the level of construction activity in the transportation sector but it has not had the strong spillover effects we had hoped. In particular, the fact that it was a one-time injection gave highway and bridge construction contractors little incentive to make major investments in construction machinery or to invest in the hiring and training of new employees.

<u>Construction machinery</u>. Last year, despite the $48 billion of Recovery Act support for transportation construction, the market for construction equipment weakened significantly. Throughout 2009, the Association of Equipment Manufacturers (AEM) was reporting in its Quarterly Market Conditions Survey that as many as 75 percent of manufacturers were experiencing declining demand for construction equipment. The downturn was the worst since the AEM began surveying its members in 1997. AEM is reporting a slight upturn in demand for equipment so far this year but demand is still well below its pre-recession level.

According to the U.S. Census Bureau, which tracks manufacturing output and sales, sales of mixers and pavers (which are heavily used in highway construction) fell from 77,800 units worth $1.6 billion in 2008 to 46,000 units worth $960 million in 2009[1], as shown in Figure 2. Sales of motor graders, rollers, compactors and similar machinery fell from 33,000 units worth $2.7 billion in 2008 to 12,500 units worth $1.2 billion in 2009.

<u>Employment</u>. Between 2007 and 2009, the number of employees on the payrolls of highway and bridge construction contractors fell by almost 60,000 or 15 percent, as state and local governments cut back on highway construction and maintenance to help balance their budgets. But without the Recovery Act, the layoffs would have been much more severe. The 14,000 airport, highway, bridge and transit construction projects financed by the Recovery Act supported tens of thousands of jobs in construction and supplier industries that would have been lost if Congress had not acted. But the industry is not yet adding new jobs. This construction season, we continued to see a decline in employment by highway and bridge contractors but the cuts were much smaller than last year.

[1] U.S. Bureau of the Census. *Current Industrial Reports: MA333D – Construction Equipment*. 2009 Annual.



What put a brake on the willingness of highway construction contractors to purchase new equipment or hire new workers was the fact that the Recovery Act was a one-time injection of funds for construction projects with no evidence that Congress would follow any time soon with a multi-year surface transportation authorization bill.

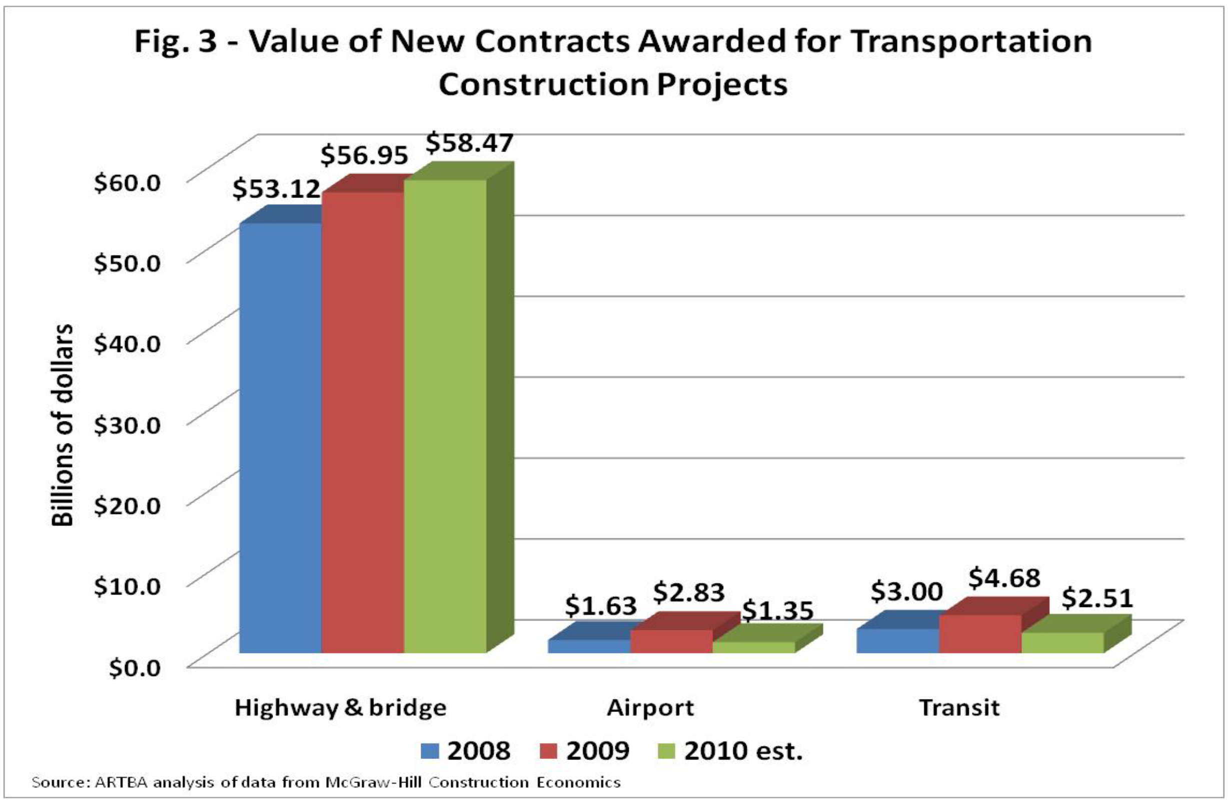
Transportation construction is the most capital-intensive type of construction. Many types of equipment used by highway, bridge, airport and transit construction contractors come with price tags of hundreds of thousands of dollars. In a typical year, the average transportation construction contractor will spend more than half a million dollars to purchase or lease equipment. By contrast the typical homebuilder spends less than $15,000. Furthermore, most contractors must finance purchases of heavy construction equipment with bank loans.

To justify investing hundreds of thousands of dollars in new equipment or financing the purchase of new equipment, contractors and their bankers must be able to make an informed judgment about the long-term outlook for transportation construction. While the one-time injection of Recovery Act funds helped utilize existing equipment, it could not alone provide the long term support for transportation construction that would lead to investment in new equipment. Similarly, contractors are not going to hire and train new employees if they are just going to be laid off when the Recovery Act funds run out.

While the Recovery Act provided critical funding for transportation construction in 2009 and 2010, the support will drop off significantly next year and be virtually gone by 2012.

The winding-down process has already begun. Each month, ARTBA receives data under contract from McGraw-Hill Construction Economics on new contracts awarded for transportation construction projects. Figure 3 shows the value of new contracts awarded by all levels of government for transportation projects during 2008, 2009 and an estimate for 2010 based on the data we have so far. As the chart shows, there was a significant increase in new contracts awarded for all three modes—highways & bridge, airports, and mass transit—in 2009 as construction projects financed by the Recovery Act got underway.

But this year is much different. As you can see in the chart, the value of new contracts awarded in 2010 for airport and mass transit projects has declined to the 2008 level; the impact of the Recovery Act in these two modes is clearly winding down. For highways and bridges, the value of new contracts awarded is still rising but at a slower pace than in 2009.



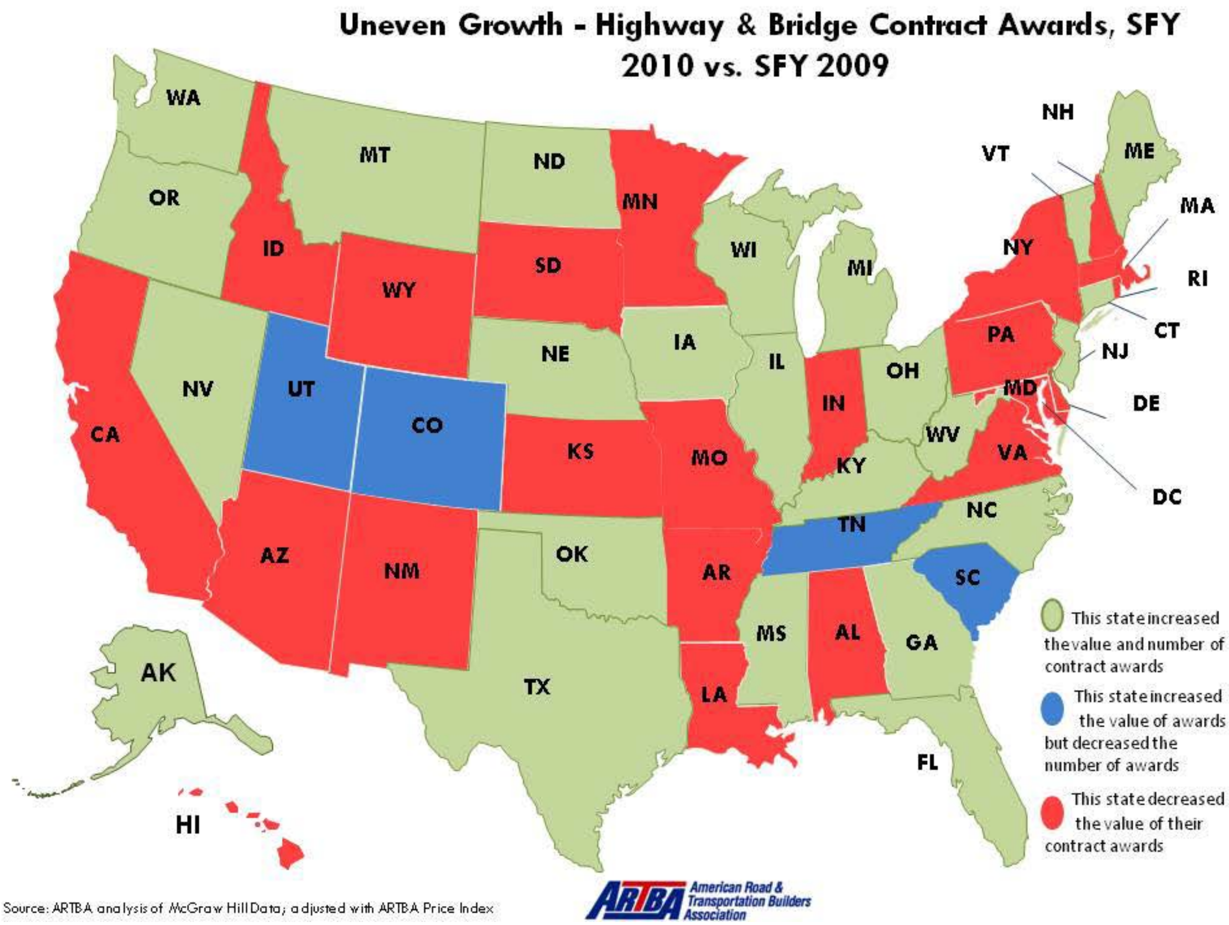
State Transportation Construction Programs

The recent recession has impacted state transportation construction programs in various ways. The Recovery Act funds have been extremely helpful in supporting state programs, but it has not prevented a downturn in nearly half the country. As the economic crisis has deepened, some states have cut back their spending and either delayed or canceled projects. We have also seen states reduce their General Fund transportation expenditures, use transportation fees to help address budget gaps and cut local transportation programs.

The map below highlights the uneven growth in construction programs over the last year. There were 22 states in State Fiscal Year (SFY) 2010, which ended for most states on June 30, that decreased the value of their contract awards compared to SFY 2009. The value of awards was up in 28 states and the District of Columbia.

There is anecdotal evidence from at least 14 states that have delayed or cut projects in the last year because of budget issues. We also know from the Fiscal Survey of States, published by the National Association of State Budget Officers, that 20 states cut their

General Fund transportation expenditures in SFY 2010, and 11 states plan to do so in SFY 2011. Although General Fund expenditures are a small part of overall transportation spending, it is an indicator of state fiscal challenges. Eleven states used transportation or motor vehicle related fees to reduce their SFY 2010 budget gaps. Ten



states plan to do this in SFY 2011.

Another area of cutbacks is state funding for local highway programs. One such example is in the state of Maryland, where my business is based. In SFY 2010, the Maryland legislature reduced local highway grants by $244.5 million. Additional action transferred nearly $400 million from the state's Highway User Revenue account over SFY 2010 and 2011 to the General Fund. The transportation capital budget for Maryland is expected to decrease by 7.3 percent to $1.5 billion in SFY2011, according to the SFY 2011 Budget, a decrease attributable "to a decline in federal stimulus funds."

Surface Transportation Reauthorization

We were greatly pleased to see President Obama's announcement on Labor Day of his administration's commitment to addressing the nation's serious infrastructure backlog. Unfortunately, the media reports and political jockeying eschewed the President's call for enactment of a six-year reauthorization of the federal highway and public transportation programs to focus on a perceived second stimulus bill. I obviously disagree with these characterizations of the $50 billion component of the President's plan, but I can guarantee you that enactment of a multi-year surface transportation bill would be a true economic stimulus.

While the Recovery Act is having a significant short-term impact on transportation construction, we believe the momentum generated by the ARRA will be lost if Congress fails to act on a well-funded, multi-year surface transportation authorization bill. Passage of a multi-year bill is the best thing Congress can do to alleviate the uncertainty that keeps companies from hiring new employees and purchasing new equipment, prevents state DOTs from undertaking long-term projects and ultimately threatens America's economic recovery and growth. Congress needs to make the long-term health of our nation's transportation infrastructure a priority and we must work together to build the transportation network of the 21st Century.

The construction industry workforce today is faced with its worst economic crisis since the Great Depression. This past winter, 23 percent of construction workers were unemployed. In August, the peak of the construction season, the unemployment rate was still 17 percent. Before the recession, the unemployment rate for construction workers was less than 6 percent. According to the Bureau of Labor Statistics, there were 7.7 million workers employed in construction in August 2006. This August, there were only 5.6 million employed, a loss of more than 2.1 million construction jobs. To put this in perspective, almost one-third of all the jobs lost in the United States during the 2007-09 recession were construction jobs.

One factor affecting construction employment is that there is little private work available. During the delay reauthorizing the last surface transportation legislation, from 2003 to 2005, there was an abundance of private work to keep contractors and construction workers employed during the stagnant period. Today, we are facing another prolonged delay in reauthorization with little other work available. This is putting a tremendous amount of pressure on construction employment. Job loss, industry contraction, and delayed transportation projects are much more significant than during the 2003-2005 period.

Contractors have substantial excess capacity to take on more work and employ more people. According to the latest quarterly construction market survey conducted by the American Road and Transportation Builders Association, only three percent of transportation construction firms are currently operating at full capacity, compared to a normal rate of 15 percent. At the other end of the scale, 45 percent of contractors are operating at less than three-quarters of capacity, compared to a normal rate of 10 percent. Even with $20 billion of Recovery Act highway projects underway, the industry could undertake far more construction work than is currently available.

But the most important reason for enacting a fully-funded six-year authorization as soon as possible is that physical conditions and performance on our nation’s highway and transit systems are badly deteriorating because of inadequate investment.

Our outdated transportation system is a major impediment to U.S. competitiveness in the global marketplace. Congestion impairs freight movements within the United States and raises the cost of American-made products. Deficient roadways contribute to 22,000 highway fatalities, costing the nation more than $217 billion each year. And, according to the 2009 Urban Mobility Report issued by the Texas Transportation Institute, traffic congestion costs the nation’s highway users $87 billion each year in wasted time and fuel.

Every two years, the U.S. Department of Transportation issues a report on the *Conditions and Performance of the Nation’s Highways, Bridges and Transit*, in which it calculates the annual investment needed by all levels of government to maintain current conditions and performance on U.S. highways and transit systems as well as to improve conditions.

The latest report, which was issued in January 2009, provides data on the investment needed between 2006 and 2026 to maintain and improve conditions. When combined with information on recent increases in highway construction costs and the traditional federal share of highway investment, the report shows that funding for the federal highway program in the next surface transportation authorization bill should be in the range of $71 to $78 billion per year to maintain conditions. The annual federal investment needed to improve conditions would be even higher.

By contrast, federal highway investment in fiscal year 2010 is $41.1 billion, a shortfall of more than $30 billion from just keeping the status quo.

The massive gap between federal highway investment and needs is shown on a state by state basis in Table 1. For example, the table shows that Minnesota would need an annual federal investment of just under $1.7 billion as the federal share of the cost to

Table 1 - Federal Highway Program Funding versus Federal Share of Highway Investment Needs

(Millions of dollars)

State	Highway Program Apportionment FY 2010	Federal Share of Annual State Highway Investment Needs, FY 2010 /1 Maintain Conditions	Improve Conditions	ARRA Highway Stimulus Funds /2 FY 2009-10
Alabama	$700.3	$840.7	$1,222.5	$513.7
Alaska	$374.6	$166.8	$236.6	$175.5
Arizona	$685.2	$734.4	$1,126.3	$522.0
Arkansas	$453.8	$1,294.0	$1,824.0	$351.5
California	$3,265.8	$8,217.3	$12,141.4	$2,569.6
Colorado	$487.0	$836.3	$1,266.7	$403.9
Connecticut	$452.1	$627.6	$952.2	$302.1
Delaware	$146.8	$140.8	$214.3	$121.8
Dist. of Col.	$142.8	$165.4	$240.6	$123.5
Florida	$1,750.4	$1,955.8	$3,133.1	$1,346.7
Georgia	$1,191.4	$1,266.9	$1,957.4	$931.6
Hawaii	$151.8	$176.5	$251.0	$125.7
Idaho	$260.7	$697.2	$968.5	$181.9
Illinois	$1,259.8	$2,208.5	$3,240.0	$935.6
Indiana	$881.9	$1,152.7	$1,725.1	$658.0
Iowa	$431.4	$875.1	$1,196.3	$358.2
Kansas	$349.0	$1,672.7	$2,297.2	$347.8
Kentucky	$606.7	$609.8	$940.3	$421.1
Louisiana	$611.0	$1,408.8	$2,005.2	$429.9
Maine	$163.5	$270.8	$365.8	$130.8
Maryland	$551.7	$973.5	$1,437.5	$431.0
Massachusetts	$563.0	$1,047.7	$1,598.8	$437.9
Michigan	$973.7	$2,010.1	$2,899.6	$847.2
Minnesota	$569.9	$1,656.5	$2,449.1	$502.3
Mississippi	$427.0	$966.9	$1,366.6	$356.3
Missouri	$828.0	$2,039.9	$2,906.2	$637.5
Montana	$340.7	$176.1	$238.1	$211.8
Nebraska	$264.0	$406.4	$568.5	$235.6
Nevada	$309.4	$385.7	$603.9	$201.4
New Hampshire	$153.3	$280.3	$421.5	$129.4
New jersey	$911.5	$2,127.0	$3,193.0	$651.8
New Mexico	$328.9	$778.8	$1,103.8	$252.6
New York	$1,539.8	$3,282.3	$4,887.6	$1,120.7
North Carolina	$966.9	$2,062.3	$3,262.1	$735.5
North Dakota	$224.7	$247.0	$338.3	$170.1
Ohio	$1,210.0	$1,254.0	$1,876.3	$935.7
Oklahoma	$565.0	$1,849.5	$2,493.4	$464.7
Oregon	$430.6	$647.9	$974.6	$333.9
Pennsylvania	$1,519.7	$2,722.6	$3,958.7	$1,026.4
Rhode Island	$189.5	$187.7	$269.4	$137.1
South Carolina	$575.8	$589.6	$780.9	$465.1
South Dakota	$244.1	$407.4	$543.1	$183.0
Tennessee	$753.6	$1,087.8	$1,688.8	$572.7
Texas	$2,941.3	$4,664.0	$6,986.8	$2,250.0
Utah	$288.0	$460.0	$730.7	$215.5
Vermont	$168.3	$216.8	$300.0	$125.8
Virginia	$913.4	$850.1	$1,258.7	$694.5
Washington	$599.6	$1,092.3	$1,604.9	$492.2
West Virginia	$384.5	$871.3	$1,260.2	$210.9
Wisconsin	$678.8	$874.9	$1,164.7	$529.1
Wyoming	$226.0	$166.3	$235.8	$157.6
Total	$35,006.9	$61,701.0	$90,706.2	$26,666.1

1/ The "Needs" column shows investment required in FY 2010. The amounts would grow each year with inflation.

2/ ARRA is one-time funding only during FY 2009-10 and thus not available to meet needs in future years.

maintain conditions and performance on the state's highways and bridges[2]. In FY 2010, it received about one-third that amount. Florida also received fewer federal highway funds than needed just to maintain current highway and bridge conditions, as did almost every other state. The table also shows that the one-time highway stimulus funds in the American Recovery and Reconstruction Act, while helpful in the short run, come nowhere near filling the long-term federal highway investment shortfall.

Mr. Chairman, we have known for years that state and local transportation agencies need long-term funding certainty to plan and implement highway and bridge construction projects. That is why Congress moved from annual authorizations during the 1950s and 1960s to the current practice of enacting six-year authorizations. Short-term authorizations are simply too disruptive. It is virtually impossible for a state or local transportation agency to develop an effective highway investment program without a long-term funding horizon. The most important action Congress could take now to strengthen the support provided by the Recovery Act to transportation construction would be to enact a multi-year well-funded surface transportation bill as soon as possible.

Again, thank you Mr. Chairman for this opportunity to testify today. I will be happy to respond to any questions.

[2] State investment needs are based on Federal Highway Administration data on the number of highway miles in poor or mediocre condition in each state, the total deck area of deficient bridges in each state, and a measure of highway congestion.