



October 13, 2008

The Honorable Nancy Pelosi
United States House of Representatives
H-232, US Capitol
Washington, DC 20515

Dear Madam Speaker:

On behalf of the Associated General Contractors of America (AGC), we urge you to look for economic stimulus initiatives that will have an immediate positive impact on economic activity, and strongly encourage you to include provisions that will 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 supplies and \$36 billion in new equipment. A significant boost to construction in the form of increased infrastructure investment paired with targeted incentives will increase employment, increase capital spending and improve efficiency.

While economic data show that public investment in infrastructure has remained relatively stable over the past year, these numbers do not tell the full story. State budgets have been significantly impacted by the decline in home values, resulting in lower property tax collections. The recent financial crisis has hampered their ability to borrow short term, delaying or eliminating various infrastructure improvement projects. Municipal Markets Advisors, a consulting firm that specializes in municipal bonds, estimates that \$100 billion of new infrastructure projects have been delayed because of the reduced credit market. In addition, dramatic construction material cost inflation has reduced the purchasing power of public works dollars. Fewer contracts are going out to bid, which results in less work for contractors and fewer jobs for their employees.

For example, many states have dramatically cut back on the number of highway projects going out to bid in the last several years because of the significant increase in highway construction material costs. AGC's economic research shows that the Producer Price Index (PPI) for highway and street construction rose 75 percent from December 2003 to August 2008. This compares to a 19 percent increase in the Consumer Price Index (CPI). The PPI reflects the dramatic 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.

The impact from fewer contracts being bid is reflected in the 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.

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An infusion of federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work. State Departments of Transportation have projects designed and ready to go but do not have sufficient funds for the construction. Results from a survey of all state departments of transportation conducted in January 2008 by the American Association of State Highway and Transportation Officials (AASHTO) identified more than 3,000 highway projects totaling approximately \$18 billion that could be awarded and could start construction within 30 to 90 days from enactment of federal stimulus legislation.

Another public works area with billions of dollars of immediate needs is drinking water and wastewater infrastructure. Given these needs, the stimulus effect of increased investment in water infrastructure would be significant. In January 2008, the National Association of Clean Water Agencies (NACWA) estimated that there is at least \$10 billion in ready-to-go projects nationwide.

Other public works programs administered by other federal construction agencies such as the Corps of Engineers, Department of Defense, General Services Administration, and others also have construction backlogs for which additional funding would create immediate construction employment opportunities. State and local agencies that receive federal infrastructure grant funding should also be included. AGC strongly suggests that any increase in federal infrastructure investment to state and local governments be conditioned on their maintaining the same level of state and local investment that was in place before the additional federal funds were provided.

Construction has always been an engine of economic stimulus and can play that role once again. Increases in infrastructure investment can be quickly put into play and will have a direct, immediate and dramatic impact on the economy. The US Department of Transportation estimates that \$1 billion invested in transportation infrastructure creates 35,000 jobs and up to \$6 billion in additional gross domestic product. Similar employment and GDP benefits result from investment in other infrastructure categories. The long-term economic benefits that will come from these investments are an extra incentive that should not be overlooked. Given the challenges our economy faces, the benefits of increased investment would save jobs that may otherwise be at risk, create job opportunities nationwide, stimulate the economy, and improve the overall state of the nation's infrastructure.

We stand ready to be part of the solution, working with you in the remaining weeks of the 110th Congress to enact legislation to provide an economic stimulus by increasing investment in America's infrastructure.

Thank you for your consideration.

Sincerely,



Stephen E. Sandherr
Chief Executive Officer