

Statement of

The Associated General Contractors of America

presented to the

Committee on Steering and Policy
U.S. House of Representatives

For a hearing on

**The State of the Economy and the Need for A Comprehensive Jobs
and Economic Recovery Package**

January 7, 2009



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 7,000 of America's leading general contractors, and over 12,000 specialty-contracting firms. Over 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects, site preparation/utilities installation for housing development, and more.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

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The Associated General Contractors of America (AGC) is submitting these comments to contribute to the hearing on the state of the economy and the need for a comprehensive jobs and economic recovery package. AGC would like to express its appreciation to the Committee for conducting this important hearing. AGC believes that investing in America's infrastructure will create jobs and lead to economic recovery.

AGC is the largest and oldest national construction trade association in the United States. We represent 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. AGC members are a diverse group of contractors engaged in the major commercial construction markets. In a strong economy, 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. Today, however, there is excess capacity throughout the construction industry. With additional investment, the industry will create jobs, contribute to economic recovery, and build a world class infrastructure to improve the nation's overall quality of life, provide long term economic stability, and maintain U.S. competitiveness.

The Associated General Contractors of America (AGC) has long advocated for infrastructure investment to improve our nation's quality of life. As our nation faces challenging economic times, we reiterate the call for significant investment in our nation's infrastructure as a means of providing an immediate and lasting impact on our economy. We are proud to associate ourselves with the growing national consensus that a significant boost to construction, in the form of increased infrastructure investment and targeted tax provisions, will increase employment as well as capital spending and improve efficiency.

State of the Economy

The country needs swift action. When budgets are tight, private and public investment at all levels is cut. When investment is cut, optimism suffers and companies struggle to stay in business and keep good people working. The recent financial crisis has hampered the ability of state and local governments and public agencies to borrow short term, delaying or eliminating various infrastructure improvement projects. This is a nationwide and likely a global problem. According to Municipal Market Advisors, a consulting firm that specializes in municipal bonds, at least \$100 billion of new infrastructure projects have been delayed because of the constricted credit markets. As a result, fewer contracts are going out to bid, which means less work for contractors and fewer jobs for their employees.

The industry would benefit from increased infrastructure investment by adding workers and rehiring previously laid off workers. Additionally, the increased investment in equipment would benefit manufacturing and the economy as a whole as those dollars are spread throughout many other sectors of the economy. Once projects are awarded, firms are able to begin work quickly and begin hiring and improving our infrastructure almost immediately. Projects that benefit all Americans and can be completed within a year include easing congestion, improving safety of motorists on highways and bridges, building and remodeling schools, easing aviation congestion by building runways and improving terminals, improving the environment through clean water and waste disposal, improving our national security by upgrading our military bases, as well as protecting our shorelines from erosion.

AGC's Chief Economist reports that the construction industry can expect further contraction in the next year. A survey of AGC members late last year showed that every type of construction

market has seen a downturn:

- 72 percent of respondents have laid employees off in the past 6 to 12 months;
- 65 percent of respondents anticipate laying off workers in the next 6 to 12 months, and;
- 85 percent of respondents would defer layoffs or hire additional workers if states received federal stimulus.

Our survey also shows that contractors could put the stimulus program to work quickly with many projects completed in less than one year:

- 85 percent of respondents would begin work within a month after a contract award, 30 percent within days;
- 73 percent of respondents would purchase new equipment if markets improved;
- Over the past two years, 97 percent of respondents had completed projects that lasted less than 12 months, and;
- Projects completed within 12 months included all types of infrastructure including building, highway, and water resources projects ranging in size from the \$100's of thousands to over \$100 million.

To maximize the impact of these funds, projects that are ready-to-go should be allowed to proceed despite how the original design or preconstruction work was procured.

Broader Economic Impact

This economic decline in the construction market also has broader implications for the economy through equipment manufacturers and dealers, materials suppliers, and service providers. AGC member companies have been forced to shelve or trim down plans for expansion and reduce their usual annual investment in equipment. Companies have already canceled some planned purchases for the upcoming year and are putting many others on hold until they see what funding is going to be available for new work. In fact, the Census Bureau reported on November 4, 2008 that factory orders fell 2.5 percent, seasonally adjusted, in September and 4.3 percent in August. This suggests that economic uncertainty is causing businesses to refrain from making new purchases.

Impact on Employment

The impact of fewer contracts being bid is reflected in increasing nationwide unemployment numbers. Non-residential construction employment peaked in January 2007 and has steadily decreased over the past 24 months. There was more than a four percent decrease in these jobs over that period, which equates to 180,000 construction employees. AGC's Chief Economist reports that an additional loss of 10 to 15 percent nationwide is possible if the economy does not turn around. That could add another 27,000 more lost jobs to the 180,000 lost over the last 22 months. If we add in the residential employment figures, the number of jobs lost in construction totals nearly 780,000.

AGC's chief economist estimates that every \$1 billion invested in infrastructure projects would create or sustain over 28,500 new direct and indirect jobs. Each billion invested would add about \$3.4 billion to the Gross Domestic Product (GDP) as it ripples through the economy and about \$1.1 billion to personal earnings. 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.

We have included a copy of AGC's national economic impact estimate for infrastructure investment at the end of this statement and would be pleased to provide copies of specific state economic impact estimates for each of the 50 states.

Infrastructure Investment Opportunities

An infusion of federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work. There is an estimated \$1.6 trillion needed to improve our nation's infrastructure over the next five years. Without continuous investment in infrastructure, our economy will fail to grow. In an increasingly connected world, our decaying infrastructure threatens the competitiveness of American employers, from our multinational manufacturers to the small businesses that are the bedrock of our communities. Infrastructure stimulus legislation would begin to address these challenges to America's global competitiveness and provide a solid foundation for the U.S. economy to flourish in the years ahead.

Building Infrastructure

The federal government has not invested in its physical infrastructure. The federal government must invest in its own physical infrastructure to care for our military personnel, improve employee retention, and overall performance. Federal construction agencies that perform such work include the Army Corps of Engineers, General Services Administration, the Departments of Defense, Housing and Urban Development, Veterans Affairs, Justice, Agriculture, and the Interior. All have construction backlogs for which additional funding would create immediate construction employment opportunities.

According to the General Services Administration (GSA), if additional federal funds were made available, the types of projects that would be ready-to-go include major repairs and alteration projects to modernize and upgrade aging federal facilities nationwide - including federal office buildings, courthouses, and border stations. For example, we estimate that the GSA requires approximately \$2.2 billion in funding for 34 major renovation projects, 500 small renovation projects, and 4 border stations that can be obligated between 90 to 180 days from enactment of federal stimulus legislation. AGC's economic analysis indicates that this investment would create or sustain nearly 50,000 direct and indirect jobs. Other federal facilities that require substantial investment include military housing, prisons, embassies, and other structures.

State and local agencies that receive federal infrastructure grant funding should also be included. According to the US Conference of Mayors, there is substantial opportunity for investment in upgrading and improving the unmet immediate need for school construction and renovation, which is estimated to be \$3.7 billion. Our nation's schools could use many billions more in critical improvements. The average age of a public school building is estimated to be over 40 years old, the same age that schools have been documented to deteriorate.

Highways and Transportation

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 December 2008 by the American Association of State Highway and Transportation Officials (AASHTO) identified more than 5,000 highway projects totaling approximately \$64 billion that could be awarded and could start construction within 180 days from enactment of federal stimulus legislation. Because of significant reductions in highway

contracting opportunities at the federal, state, and local levels, many of our members are laying off significant portions of their workforce and holding off on equipment purchases. Enacting an economic recovery package as soon as possible would provide a clear signal that this money is coming, encouraging states to let contracts in order to keep companies in business and workers employed.

Water Infrastructure

Another public works area with billions of dollars of immediate needs is water resources infrastructure, drinking water, and wastewater infrastructure. Given these needs, the stimulus effect of increased investment in water infrastructure would be significant. The Army Corps of Engineers is estimated to have upwards of \$12 billion in water resource project needs that would create or sustain over 300,000 new jobs. The National Association of Clean Water Agencies (NACWA) estimates that there is at least \$20 billion in ready-to-go wastewater projects nationwide. The American Water Works Association has also estimated that there is a \$10 billion additional need in drinking water projects.

Tax Incentives to Stimulate the Economy, Improve Energy Efficiency, and Create Job Opportunities

Tax provisions should be a considerable part of this debate. As a country we often use the tax code to encourage behavior. In this case we believe Congress should extend expensing, depreciation, energy efficiency and worker training tax policies to create additional incentives to invest here in America.

Depreciation Bonus and Section 179 Expensing Levels – We support an extension of the Economic Stimulus Act's capital investment incentives, including the depreciation bonus and increased Section 179 expensing levels. The Economic Stimulus Act enacted in February 2008 created a 50 percent depreciation bonus and increased the amount that small business can expense to \$250,000. These provisions were designed to incentivize business capital investment this year; however, the depreciation bonus expires at the end of 2008 and the higher Section 179 levels apply only to 2008 tax years. We support an extension of these incentives for at least one year and a modification to the provision that allows companies to utilize these incentives for all purchases during the covered year regardless of the company's fiscal year.

Three Percent Withholding Tax – We support a permanent repeal of the three percent tax withholding law. Section 511 of P.L. 109-222 requires a three percent tax withholding on all government payments, which affects all government contracts as well as other payments, such as Medicare, grants, and farm payments. While this requirement is not set to go into effect until January 1, 2011, companies, as well as federal, state, and local governments are expending funds to prepare for implementation now. These are needless preparation expenses, particularly during tough economic times, for a requirement that most believe should never have been enacted and should be repealed. Without action by the 111th Congress, firms that receive contracts with funds derived from the economic recovery package would ultimately face a federal tax withholding requirement that withholds 100 percent or more of the profit construction contractors make on government jobs. The Department of Defense, for instance, estimated that the costs to comply with the three percent withholding requirement will be in excess of \$17 billion over the first five years, which is far more than any estimated revenue gains. Moreover, \$17 billion is only one federal agency's portion of the additional costs with which federal, state, and local governments as well as the private sector will be burdened.

Conversion of Energy-Efficient Buildings Deduction into a Tax Credit– Current law allows taxpayers to deduct the cost of energy-efficient property installed in commercial buildings. The amount of the deduction is up to \$1.80 per square foot of building floor area achieving a 50 percent energy savings target. We appreciate Congress' action last year to extend the deduction for five years, through December 31, 2013. However, we support converting the deduction to a tax credit to stimulate additional energy efficiency improvements during these difficult economic times.

Alternative Minimum Tax on Airport Bonds – We propose that Congress provide the same assistance to private activity bonds for infrastructure projects as was provided to the housing industry in July 2008 in the Housing and Economic Recovery Act of 2008. Effective August 2008, housing bonds are now a special class of non-AMT bonds, where interest is not subject to AMT. We support a provision that would exempt all private activity bonds from the AMT to reduce borrowing costs for airport construction.

15-Year Straight-Line Cost Recovery for Qualified Leasehold, Restaurant, and Retail Improvements – In 2004, Congress shortened the cost recovery of certain leasehold improvements and restaurants from 39 to 15 years. Last year, Congress extended the provision for one year through 2009. Retail owners and new restaurants receive the shortened recovery for 2009 only. We support a change in the law that would allow taxpayers to benefit from the provision if the improvements are *initiated* or placed in service during the eligible tax years, rather than solely requiring the improvements to be placed in service during the applicable tax year. We believe that such a change would incentivize new renovation and improvement projects in 2009.

Expensing of Brownfields Environmental Remediation Costs – Congress recently extended the provision that allows for the expensing of costs associated with cleaning up hazardous sites through 2009 for property placed in service after December 31, 2007. We support changing the law to allow remediation costs incurred through 2009 to be eligible for expensing regardless of whether the property is placed in service prior to the end of 2009.

Temporary Extension of the Carry Back Period – We are proposing an extension of the carry back period for net operating losses from 2 to 5 years through 2009 and waiving the 90 percent limitation for AMT. Businesses with current losses may carry back these losses for 2 years, but if losses exceed profits in these years, they must carry the losses forward to offset future income. Extending the carry back period from 2 to 5 years and temporarily waiving the limitation on use of net operating losses against AMT (as was done in 2002) would enhance liquidity of businesses with current losses and in some cases keep businesses from failing.

Investment Tax Credit – We are proposing an investment tax credit for new investments. First proposed under the Kennedy Administration, an investment tax credit of 10 percent was applied to most equipment purchases by businesses until 1986. This provision would help leverage public spending in infrastructure by encouraging companies with prospects of new work to make needed equipment purchases that may otherwise have been put on hold.

Worker Training Tax Credit for Employers – We are proposing a tax credit that would offset the cost of training provided to new workers in construction. This provision would help companies engaged in building design and construction improve worker skills to meet future labor needs, especially as more work becomes available.

New Clean Renewable Energy Bonds (“CREBs”) – Congress recently approved \$800 million of new clean renewable energy bonds to finance facilities that generate electricity from wind, close-loop biomass, open-loop biomass, geothermal, small irrigation, qualified hydropower, landfill gas, marine renewable and trash combustion facilities. To encourage additional investment in this area, we support increasing the cap above \$800 million.

Qualified Energy Conservation Bonds – Congress recently approved a new category of tax credit bonds to finance state and local government initiatives designed to reduce greenhouse gas emissions. There is a national limitation of \$800 million, allocated to states, municipalities, and tribal governments. To encourage additional investment in this area, we support increasing the cap above \$800 million.

Qualified Zone Academy Bond (QZABs) – The QZAB provision expired on December 31, 2007. Congress recently extended the provision to the end of 2009. Another \$400 million of issuing authority to state and local governments is allowed for 2008 and 2009. To encourage additional investment in school construction and repair, we support increasing the cap above \$400 million, as well as allowing school design and construction to be eligible for the QZAB program.

Targeted Tax Incentives for Areas of High Unemployment

In addition to the recommendations above, we also suggest enacting tax provisions similar to those included in the Emergency Economic Stabilization Act for natural disaster areas that would apply in areas within the United States with exceptional unemployment. We propose using this model to address economic disasters as Congress has addressed natural disasters in the past. Examples of these provisions modified for “Economic Crisis Zone” (e.g., areas with unemployment rates above 10 percent in any two consecutive months) include the following:

Tax-Exempt Bonds for “Economic Crisis Zone” – We propose the creation of a special class of qualified private activity bonds, called “Economic Crisis Zone Bonds”, outside of the state volume caps that could be used to pay for the acquisition, construction, and renovation of nonresidential real property, qualified low income residential rental housing, and public utility property located in the crisis zone. Interest payments on bonds should not be subject to the AMT. The authority to issue the bonds could extend through December 31, 2010.

Expensing Property – Current law permits certain small businesses to deduct up to \$250,000 of the cost of property used in the business. We propose that the amount be increased to \$350,000 for qualifying expenditures made in the Economic Crisis Zone through December 31, 2011, or December 31, 2012, for nonresidential real property and residential rental property. The provision should apply to property improvements initiated in the crisis zone area after the date of the applicable economic crisis declaration.

Green Construction

The current focus on “green” is changing the way many people think about future development—spanning the location, design, and construction of buildings and other critical infrastructure in the United States. At the forefront of this change, construction professionals are seeking solutions to environmental challenges and educating themselves on advances in green technologies. Contractors have led the way towards implementing greener industry practices and are building structures that use less energy, raw materials, and water. Improvements to existing and future commercial buildings and transportation-related infrastructure can reduce national greenhouse gas emissions related to those sources. We strongly support the call to

modernize our public buildings, including public schools, to make them more energy-efficient and to better serve our communities and enhance environmental benefits.

Diesel Retrofit - A Green Job Opportunity

States and localities are facing new clean air challenges, as new air quality standards are implemented across the nation. Diesel retrofit, and resulting reductions in emissions, can help states and localities achieve air quality goals, but can be prohibitive to contractors without financial and technical assistance. In California, for example, where a new off-road diesel retrofit rule is proposed, the cost of compliance is estimated to reach roughly \$13 billion. The cost for retrofitting equipment can cost thousands of dollars per unit and is not simple. The costs increase for older equipment and few firms can do it without financial aid. Amending the federal tax code to allow for the immediate expensing (write-off) of the costs associated with retrofitting off-road diesel construction equipment would encourage equipment owners to make voluntary air-quality improvements and emissions-control manufacturers to offer and sell more retrofit devices. Further, fully funding federal programs (e.g., grants, low-interest loans, tax breaks) would also aid contractors with the expense of retrofitting and spur manufacturing output in the emissions-control industry.

Concluding Remarks

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. 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 economic recovery. Nothing is more important to our 33,000 members than enacting legislation that will increase investment in America's infrastructure.



The Construction Industry in the United States

The Economic Impact of Stimulus Investment in the United States:

- An additional \$1 billion in nonresidential construction spending would add about \$3.4 billion to the Gross Domestic Product (GDP), about \$1.1 billion to personal earnings and create or sustain 28,500 jobs.
 - 9,700 of these jobs would be on-site construction jobs located in the state of investment.
 - 4,600 of these jobs would be direct and indirect jobs associated with construction supply materials and services. The majority of these jobs would be located within the state of investment, but there would be some out of state jobs supported.
 - 14,300 of these jobs would be created when construction, supplier and service providers spend their incomes. These jobs would be based in the state of investment and throughout the economy.

Construction Employment:

- In 2007, a total of 17.9 million jobs were supported by the direct and indirect outlays associated with nonresidential construction spending.
- The construction industry (residential plus nonresidential) employed 7 million workers in November 2008, a decrease of 780,000 (10.1%) from September 2006 when construction employment in the United States peaked.

Nonresidential Construction Spending:

- Nonresidential construction spending in the United States totaled an estimated \$629.2 billion in 2007.
- This direct construction spending contributed a total of \$1.4 trillion (10%) to the GDP of \$13.7 trillion.
- In 2007, U.S. manufacturers shipped \$500 billion in construction materials and supplies and \$36 billion in new equipment.
- Direct construction spending added \$662 billion in additional personal earnings.

Construction Industry Pay:

- In 2007 annual pay of all construction workers in the United States averaged \$46,800, 5.5% more than the average for all private sector employees.

Small Business:

- The United States had 805,400 construction firms in 2006, of which 90.9% were small businesses employing fewer than 20 workers.