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REMARKS FOR CARB MEDIA CONFERENCE CALL
Comments from Mike Kennedy & Ken Simonson
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Mike Kennedy

Good afternoon everyone and thank you for dialing in today. As you likely know, California's Air Resources Board, or CARB for short, begins two days of meeting tomorrow about, among other things, its "off-road diesel retrofit" rule that would force contractors to replace existing construction equipment.

Indeed, new data we are releasing today makes clear that California does not need its current off-road emissions rule to meet its ambitious and admirable environmental goals for years to come.

The new data, which was provided to the Associated General Contractors by the state's air resources board, was compiled as part of an exhaustive inventory conducted this year of construction equipment in use in the state today. Its conclusions show a very different picture than the earlier assumptions and estimates used by the Board when it first started crafting its rule in 2000.

As the compliance deadline has approached and the state's economy has taken a dramatic turn for the worse, California's construction contractors have reduced emissions from their off-road equipment far faster than the board originally anticipated. The new inventory found, for example, that the Board's original 2000 estimate overstated the levels of nitrogen oxide and particulate matter emissions from the state's off-road diesel engines in 2009 by close to 40 percent.

Based on these original estimates, staff with the air resources board estimated that construction companies would need to retrofit, repower and replace thousands of pieces of construction equipment to meet new target levels for nitrogen oxides and particulate matter emissions.

The state's new data shows, however, that builders and contractors won't have to retrofit, repower or replace a single piece of functional, modern and paid-for construction equipment to meet the state's emissions targets for years to come.

For example, the board expected the state's off road diesel equipment operators would have to cut nitrogen oxide emissions by 5,200 tons per in 2010. And by 2025, they expected operators to cut emissions by 182,200 tons.

However, the state's new data shows that nitrogen oxide emissions from off-road diesel equipment will be 58,400 tons below the state's target levels for 2010. Off-road diesel equipment operators will remain below the state's target level every year after that through 2025, when they will actually be 173,000 tons below the state's targeted level.

Similarly, the state originally estimated that off road diesel equipment operators would need to cut emissions of particulate matter by 910 tons in 2010 and 29,530 tons by 2025. The state's inventory data now shows that off road diesel equipment will be 2,480 tons below target levels in 2010 and stay below target levels in 2011, 2012 and 2013.

After that, the industry will need to make far smaller cuts than originally estimated. For example, in 2025 operators will only need to cut 11,560 tons of PM, less than half as deep a cut as previously estimated.

Turns out the state's contractors, with help from the economy, are far more effective at cutting emissions than state officials ever anticipated.

This new data raises an important question, will California's Air Resources Board let the data drive its final decision, or simply drive the data to conform to its earlier conclusions? The answer should be clear, state officials must rethink their current approach to regulating off-road diesel emissions.

If CARB acts wisely, the state's construction industry won't have to bankrupt itself to deliver the safer air residents deserve. And given how difficult current and future economic conditions are, that's something that will allow all of us to breathe a lot easier.

I'll let our chief economist, Ken Simonson walk you through the economic scenario...Ken....

Ken Simonson

Thanks Mike, and you are right, the economy has taken a tremendous toll on the state's construction industry. In crafting its rule, CARB estimated the industry would add 8,000 jobs per year between 2006 and 2014. In reality, seasonally adjusted construction employment peaked at 944,000 in June 2006 and has shrunk by 330,000, or 35 percent, since then to just 614,000 workers in October 2009. That is the lowest total since 1998.

Shrinking demand and growing construction unemployment has caused the industry to contract significantly. California officials estimated that construction valuation would increase over 10 billion dollars between 2007 and 2009 when they wrote their diesel retrofit rule. In reality, real GDP originating in California's construction industry dropped by 13 billion dollars since 2006.

Unfortunately, every indication is that 2010 will be equally as devastating for the state's construction industry. A new Transportation Construction Coalition analysis of hiring and purchasing trends found over 68 percent of California's highway and transit builders expect the state's construction market to decline in 2010.

Worse, over 44 percent of the state's transportation construction companies plan to lay off non-seasonal employees next year. While it is not unusual to see construction companies laying off seasonal employees when the weather turns cold or snowy, it is a sign of how difficult conditions are that companies are considering laying off permanent employees.

Significant to diesel emissions from construction equipment, fewer than one third of the state's transportation construction companies say they expect to have the funds available to purchase new construction equipment next year.

Given that 56 percent of companies participating in the analysis report having won stimulus-funded work, it is safe to assume transportation construction companies are in relatively better shape than other types of construction firms statewide. That so few say they will be able to afford new equipment next year shows just how devastating the state's "diesel retrofit" rule would be to an already crippled construction industry.

Looking at the economic picture, it is clear that the state's construction industry has little capacity to absorb the cost of replacing otherwise fully functional construction equipment. Just because the economy is doing CARB's work in cutting diesel emissions doesn't mean the state needs to do the economy's work in cutting construction employment.

Now before we open things up to questions, I'd like to ask our other participants on the call, Tom Foss, president and COO of the Brea-based construction firm Griffith Company; Mike Shaw, president of El Cajon-based Perry & Shaw construction and Tom Holsman, the chief executive officer of the Associated General Contractors of California, the opportunity to provide a few observations....

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