

February 20, 2002

**TESTIMONY OF PAUL W. DIEDERICH
BEFORE THE SENATE COMMITTEE ON THE BUDGET.**

Thank you for inviting me to submit testimony on the critical issue of how the President's proposed reduction in federal-aid highway funding for Fiscal Year 2003 will hurt the nation's economy, the construction industry, the people of the State of North Dakota, and my company.

My name is Paul Diederich. I am President of Industrial Builders, Inc., a second-generation family-owned construction company that specializes in diversity. Approximately 40 to 55 % of our annual contract dollar volume is generated in the highway transportation field. This percentage goes up and down depending on which markets are investing in construction. We also build dams, water intakes, and buildings, as well as performing marine construction, flood-control work, deep foundations and horizontal ground water interceptor systems. Last month we sent out 334 W2's and last week my sister signed 97 paychecks.

I am also the Vice Chair of the Associated General Contractors of America's (AGC) Highway Division, and Chair of the Highway Reauthorization Task Force. Last week, the Task Force published "Securing America's Future," our recommendations for reauthorization of the Transportation Equity Act for the 21st Century (TEA-21). I would like to submit a copy with this testimony.

The President's FY 2003 budget proposal arrived at its recommended level by applying the revenue aligned budget authority (RABA) adjustment to the \$27.57 billion in obligation authority for FY 2003 established in TEA-21. This budget proposal establishes funding at the \$23.2 billion floor. At a time when the economy is sluggish the floor is not a good place to be. I believe that there will be a staggering economic effect caused by a decline from the \$31.8 billion spending level of 2002 to the \$23.2 billion level proposed in the President's 2003 budget.

A quotation contained in the February 11, 2002 issue of Engineering News-Record quotes Mr. Mitchell Daniels, Director of the Office of Management and Budget as saying "We have no discretion in this area. We simply follow the formula." He further stated: "I don't have a lot of sympathy for people who sort of love this formula when it overpays and don't like this formula when it corrects itself." I guess that I am one of those people he doesn't feel sorry for. While he claims to lack discretion to increase spending above the statutory minimum, the Congress certainly can increase funding for highways.

The roads and bridges of North Dakota have been improved as a result of the additional money invested in them through TEA-21 and the RABA adjustments. But we still have a lot of work to do in order to get them to the level that our citizens demand. The employment levels at Industrial Builders, Inc. have remained steady because we have been able to shift our forces into transportation – related construction when we found that the food processing industry in the Red River Valley was cutting way back on their construction spending.

The beauty of TEA-21 is the fact that it increased my ability to plan for the future. Knowing how much money will be spent on transportation infrastructure over a longer time horizon allows us to invest in equipment and hire people based on long-term programs.

The NDDOT periodically updates its' Statewide Transportation Improvement Program (STIP). The construction projects listed in the STIP for 2003 add up to \$189 million, \$195 million in 2004. With TEA-21 reauthorization coming up next year, the NDDOT will obviously need to adjust its projections for 2004 and beyond based upon the new legislation. The contracting community will then adjust its' business plan to accommodate the new STIP.

The recommended cut in funding would be devastating to state Departments of Transportation across the nation. If funding is cut to the 2003 level proposed in the President's budget, the result would be the loss of somewhere around 361,000 jobs nationwide.

In North Dakota, our State Department of Transportation (NDDOT) would experience a reduction of approximately \$45 million for FY 2003. Construction of new, vital highway projects will be the first to be cut. The Road Information Program's (TRIP) analysis states that North Dakota would lose 1866 jobs just from the federal cut. Additional jobs will be lost if North Dakota cuts its state highway funding as well. TRIP's report states that the cut in funding could result in the loss of \$253 million in economic benefits in North Dakota. These lost economic benefits are based on the USDOT's estimate that each \$1 invested in transportation funding results in \$5.70 in economic benefits that improve safety, reduce traffic congestion, and reduce vehicle-operating costs paid by motorists.

It is very difficult to do accurate business planning when a lot of projects suddenly disappear from the STIP. Our industry is extremely competitive. Constructors invest in very costly new equipment when it will increase their productivity and lower their unit costs. I recently committed Industrial Builders, Inc. to an 84-month lease on a million dollar crane. If the work that was projected to be there does not get built, payments on that equipment continue nonetheless. Constructors are then faced with the need to sell the equipment, or continue to make payments with no offsetting income. If the President's budget numbers are the basis of FY 2003 spending, the used equipment market will become saturated, causing equipment values to plunge, and jeopardizing the financial stability of some constructors. This problem will probably be felt more severely in Disadvantaged Business Enterprises and other new and emerging small businesses.

I don't want to jeopardize our nation's ability to vigorously pursue the forces of evil that have shown their disdain for our people and property through their terrorist acts. If highway funding must decline in order to pay for the protection of our homeland – so be it. The safety of our people must take precedence over investment in our infrastructure. But I believe that we can afford both.

According to figures provided to me by the AGC, the Highway Account of the Highway Trust Fund has a cash balance of more than \$18.5 billion. AGC believes that we can spend a portion of this Trust Fund money in order to level out the investment in infrastructure spending.

As a good starting point, I strongly support S. 1917, the Highway Restoration Act and the companion legislation, H.R. 3694. These bills call for increasing obligations for the federal-aid highway program by \$4.4 billion over the President's budget request. If included in this year's Transportation Appropriations (FY 2003), it would fund the highway program at \$27.57 billion in obligation authority, which is the minimum funding level included in TEA-21. While supportive of this legislation, I believe it makes economic sense to increase funding to the level authorized in this year's FY 2002 appropriations bill, an obligation limitation of at least \$31.8 billion.

From a common-sense standpoint, it seems to me that if we are supposed to be spending the money generated as a user fee for the benefit of transportation infrastructure improvements, then the Trust Fund cash balance should only grow to the level necessary to sustain positive cash flow. The mere fact that the Trust Fund has grown to nearly \$20 billion tells me that RABA adjustments are not allowing us to spend all of the income that the user fees are generating.

The user fee concept, combined with dedicated Trust Funds earmarked for use within the system that generates the money, is sound policy. AGC supports the "firewalls" established in TEA-21. When the Senate begins to discuss Reauthorization, we urge you to maintain them. One possible revision to the RABA adjustment we believe could work, is to eliminate the estimated future income element of the adjustment, and just adjust the future spending by the amount of the actual increase or decrease in income from the baseline established for the previous fiscal year.

Mr. Chairman, I sincerely appreciate the opportunity you have provided me to comment on how the President's 2003 Budget Request will affect the highway transportation industry. On behalf of the AGC and the people of Industrial Builders, Inc., we hope that you can find a way to restore the funding to the level achieved in FY 2002. If there is anything we can do to help you accomplish this, please let me know.

Thank You.