Testimony of

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On behalf of

The Associated General Contractors of America

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Committee on Small Business
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The State of the Small Business Economy and Identifying Policies to Promote an Economic Recovery

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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.

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Thank you Chairwoman Velázquez and Ranking Member Graves for this opportunity to testify on the economic recovery plan for our nation. I am testifying on behalf of the Associated General Contractors of America (AGC), a national trade association representing more than 33,000 companies, including 7,000 of America's leading general contractors, 12,000 specialty contractors, and 13,000 service providers and suppliers. AGC is the voice of the construction industry. We strongly believe that investing in America's infrastructure will create jobs and revitalize small businesses.

My name is Steve L. Massie and I am the Chief Executive Officer of Jack L. Massie Contractor, Inc. of Williamsburg, Virginia. We are a full service construction firm that specializes in site development, roadway construction, and utility installation. I am also the immediate past President of the Associated General Contractors of America (AGC).

AGC's members are comprised of 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, construction companies and our employees are suffering as private companies cut back construction spending and state and local governments reduce construction spending as the economy shrinks. Contractors in my area are laying people off. At my company, we are attempting to keep on good workers at all costs. We have already reduced work hours by about one-third. Further reductions could come soon, and the final step unfortunately will be layoffs. We do everything we can to try to avoid layoffs because they significantly impair your relationship with your employees.

AGC supports construction as an economic stimulus both through enhanced construction spending and through construction tax incentives. Infrastructure investment directly puts people to work in engineering, design and construction. Manufacturing jobs provide materials and equipment. Construction improvements increase efficiency and lay the groundwork for sustained economic growth. Non-residential construction stands ready to add jobs in America after shedding 306,000 since January 2007. Construction provides a buying opportunity. After five years of unprecedented growth in demand and price, both supplies and prices for construction materials have stabilized. With material capacity, ready labor, and a backlog of deferred projects, the construction industry stands ready to build now for the future.

Infrastructure Investment Creates Jobs

The impact of fewer contracts being bid is reflected in increasing nationwide unemployment numbers. Non-residential construction employment peaked in January 2007 and has decreased by seven percent, or 306,000 workers, over the past 24 months.

Research conducted for AGC by Stephen Fuller of George Mason University estimates that every $1 billion invested in infrastructure projects would create 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. We have attached both AGC's national economic impact estimate for infrastructure investment along with copies of specific state economic impact estimates for each of the 50 states.

An infusion of federal infrastructure funding would have a direct stimulus effect by providing opportunities for contractors like my company to compete for work. Based on my personal experience and on what I know about the market needs in Virginia, once projects are awarded, firms will be able to begin work within 30 to 60 days and begin hiring, buying materials and improving our infrastructure. I can tell you that under that scenario, I would be able to avoid layoffs at my company, begin purchasing materials, and personnel could begin to get back to full employment within 30 days of contracts being awarded.

Depending on the size of the stimulus, its duration, and the types and sizes of contracts that we are awarded, the Jack L. Massie Company may even need to expand the scheduled replacement of older inefficient equipment with newer, more environmentally friendly equipment. Census Bureau data show that U.S. manufacturers shipped more than $500 billion worth of construction materials and nearly $30 billion worth of construction equipment in 2008. Therefore, 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.

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, 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.

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 that respondents had 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.

I know these statistics hold true for our company. We have faced difficult choices such as reducing the renewal of our equipment fleet, cutting back employee work hours, and considering significant layoffs if the economy does not turn around. But it also shows that there is workforce capacity and that we can get projects done within a 12 month window and that once the money begins to flow good workers will quickly be put to work.

Infrastructure Investment Opportunities

Additional federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work. It also improves economic efficiency, and makes our country more competitive long term. There is an estimated $1.6 trillion needed to improve our nation's infrastructure over the next five years. 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 runaways and improving terminals, improving the environment through clean water and waste disposal, improving our national security by upgrading our military bases infrastructure, as well as protecting our shorelines from erosion.

In Virginia, where I am from, at least 40 transportation projects valued at approximately $680 million could be under contract within 180 days if additional federal funds were made available. All totaled, Governor Tim Kaine has said that Virginia has "more than a billion dollars in ready-to-go bridge, highway, rail, transit, port and airport projects that have been through appropriate local, regional and state planning processes and that can be under contract within 180 days."

Three Percent Withholding Tax

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. We as an industry work on tight margins especially in tough times. So, one provision that is of particular concern to AGC is the repeal of the three percent withholding on federal, state, and local contracts.

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 that construction contractors would make on government jobs. The challenges of living with this new requirement could not have come at a worse time. States and localities are cutting every place they can and should not be faced with creating and administering a federal withholding program when they cannot balance their budgets.

A majority of AGC contractors work on some kind of government contract every year, and this three percent withholding will have a severe impact on the construction industry. The provision is unnecessary because the performance bonds required for federal work ensure tax compliance. The three percent withholding exceeds the average net revenue on construction projects. We ask for your help to repeal this unfair, burdensome, and overly-complicated law. AGC urges Congress to include a repeal of the three percent tax withholding law in the upcoming economic recovery package.

Net Operating Loss Carrybacks

One important tax change that would help established construction companies survive the current economic downturn is to extend the carryback period for net operating losses (NOLs). Currently, businesses that incur NOLs can "carry them" back to offset the previous year's net income and receive a refund of taxes paid in the prior year. Provisions now in Congress (and previously included in law) would allow NOLs to be carried back to two or more prior taxable years. This change would provide cash flow to formerly profitable companies that now are experiencing diminished revenue. In many cases, these contractors would have to lay off workers or even liquidate in the absence of the refunds provided by NOL carrybacks.

Concluding Remarks

The country needs your help and the country needs our help. The current shortfall in infrastructure investment provides a unique opportunity. With material capacity, ready labor, and a backlog of deferred projects, the construction industry stands ready to build now for the future. Construction has always been an engine of economic stimulus and can play that role once again. Increases in infrastructure investment can be put to work quickly and will have a direct, immediate, and dramatic impact on the economy. AGC estimates that $1 billion invested in transportation infrastructure creates 28,500 jobs throughout 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.

Again, thank you for the opportunity to testify today on behalf of AGC. We stand ready to be part of an American recovery and reinvestment plan that will create jobs and long-term economic growth. Nothing is more important to our 33,000 members than enacting legislation that will increase investment in America's infrastructure. I look forward to your questions.