OBAMA-BIDEN TRANSITION PROJECT

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STEPHEN E. SANDHERR, Chief Executive Officer

AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.

August 22, 2008

The Honorable Barack Obama
United States Senator
Obama for America
Post Office Box 8102
Chicago, Illinois 60680

Dear Senator Obama:

On behalf of the Associated General Contractors of America (AGC), I am writing to express our appreciation for the infrastructure investment aspects of your "Emergency Economic Plan" which would address two critical public infrastructure needs in our country: transportation and school construction and maintenance. Specifically, we applaud your announcement of a $25 billion "Jobs and Growth Fund" to replenish the Highway Trust Fund and fund school repairs. AGC, its chapters and members across the country are keenly aware of our nation's underinvestment in critical public infrastructure, and the inflation and employment costs associated with delayed construction and maintenance.

The Associated General Contractors of America is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 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, highways and bridges, public transportation systems, water and wastewater infrastructure, navigation and flood control structures, federal installations, site preparation and utilities installation for residential and commercial development, and more.

Your Jobs and Growth Fund like proposals now before the Congress would address an immediate crisis facing the nation's highways and bridges: the projected deficit in the Highway Account of the Highway Trust Fund in fiscal year 2009. In February and again last month, the Bush Administration projected a revenue shortfall in the Highway Account, which, if not offset, would require a reduction in states' federal-aid highway funding of about $14 billion or 34 percent below the level guaranteed in SAFETEA-LU for FY 2009. However, given recent government data reporting a historic decline in vehicle miles traveled, due largely to a drop in driving in response to high gas prices, revenues into the Highway Account is eroding even further.

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AGC strongly supports immediate Congressional action to replenish the Highway Trust Fund and prevent dramatic cuts in states' highway funding. Last month, the U.S. House of Representatives overwhelmingly passed H.R. 6532, a bill that would transfer $8 billion from the general fund to the Highway Trust Fund, by a vote of 287-37. These monies were previously taken from the Highway Trust Fund during TEA-21 negotiations in 1998 at a time when its balance was considered too large. Since the $8 billion transfer is intergovernmental, no offsets are required. The U.S. Senate has yet to consider the measure, although Senate Finance Committee Chairman Max Baucus has proposed to include the proposal in legislation before the Senate, including S. 3335, the Jobs, Energy, Families, and Disaster Relief Act of 2008, on which a cloture vote failed in late July.

A 34 percent – or more – drop in federal highway funding would have a devastating impact not only on the safety and mobility of goods and people throughout the country, but also on employment in the highway construction industry. As you aptly explain in your Emergency Growth Plan, the cost of construction has increased dramatically in recent years – more than double the rate of consumer inflation since 2004. AGC's Chief Economist reports that in the last year alone, the producer price index (PPI) for inputs to construction rose 10.4 percent from June 2007 to June 2008, versus 5.0 percent for the consumer price index. However, the PPI for highway and street construction, the most fuel- and asphalt-intensive construction segment, rose 18.9 percent in the last year. One of the consequences of high petroleum costs to the construction industry is shortages of asphalt and polymers. Another is employment.

Due to dramatic construction material price inflation, which you reference in your proposal, states have already been forced to cut back on contracts going to bid, contributing to growing unemployment in the highway construction industry. The impact of these cutbacks is dramatic. Over the 12-month period from June 2007 to June 2008, highway construction employment decreased by 5.0 percent or approximately 50,000 jobs. If states were to loose $14 billion in highway funding in FY 2009, total job loses throughout the economy could total as much as 380,000 jobs. That is why AGC supports your call to replenish the Highway Trust Fund and protect these jobs.

At the same time high gas prices have led to lower vehicle usage, reducing funds to federal and state highway budgets. Consequently, fewer miles can be paved for a given size of budget. That is why AGC also strongly supports your Jobs and Growth Fund's objective to provide additional funding to prevent cutbacks in road and bridge maintenance. With high gas prices eroding the purchasing power of the public works dollar, it becomes necessary to increase our investment levels to meet our infrastructure needs.

Another crisis affecting the country is public school disrepair. Your Jobs and Growth Fund would ensure that schools can undertake key repairs while facing rising energy costs. In its 2005 "Infrastructure Report Card" the American Society of Civil Engineers (ASCE) reported that at least $127 billion, according to available government data, was needed to bring the nation's school facilities into good overall condition. ASCE added that other sources have reported a need as high as $268 billion. While school

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construction and repair is largely considered a state and local financial responsibility, AGC believes the federal funding should be made available to assist states and localities meet these daunting facility needs. Therefore, AGC supports your proposal to put in place a federal commitment towards the physical state of the nation's schools.

AGC believes the infrastructure challenges facing the United States, which are not limited to highways, bridges, or schools, are significant and must be addressed in a prompt and responsible manner. All levels of government, including the federal government, must renew their commitment to the nation's infrastructure. To this end, increased investment is vital and all options should be considered. For instance, AGC supports the concept of a National Infrastructure Bank, which would provide supplemental federal funding for critical infrastructure projects nationwide. We also appreciate your opposition to a gas tax holiday because of its minimal impact on taxpayers this summer but a significant long term impact on the level of infrastructure investment in the country. AGC welcomes the opportunity to work with you to enact legislation as soon as possible to replenish the Highway Trust Fund and achieve the infrastructure investment objectives of your Jobs and Growth Fund, as well as to discuss with you options to renew the federal commitment in infrastructure investment in the United States.

Again, thank you for your commitment to the nation's infrastructure and for your consideration of our views.

Sincerely,

Stephen E. Sandherr
Chief Executive Officer