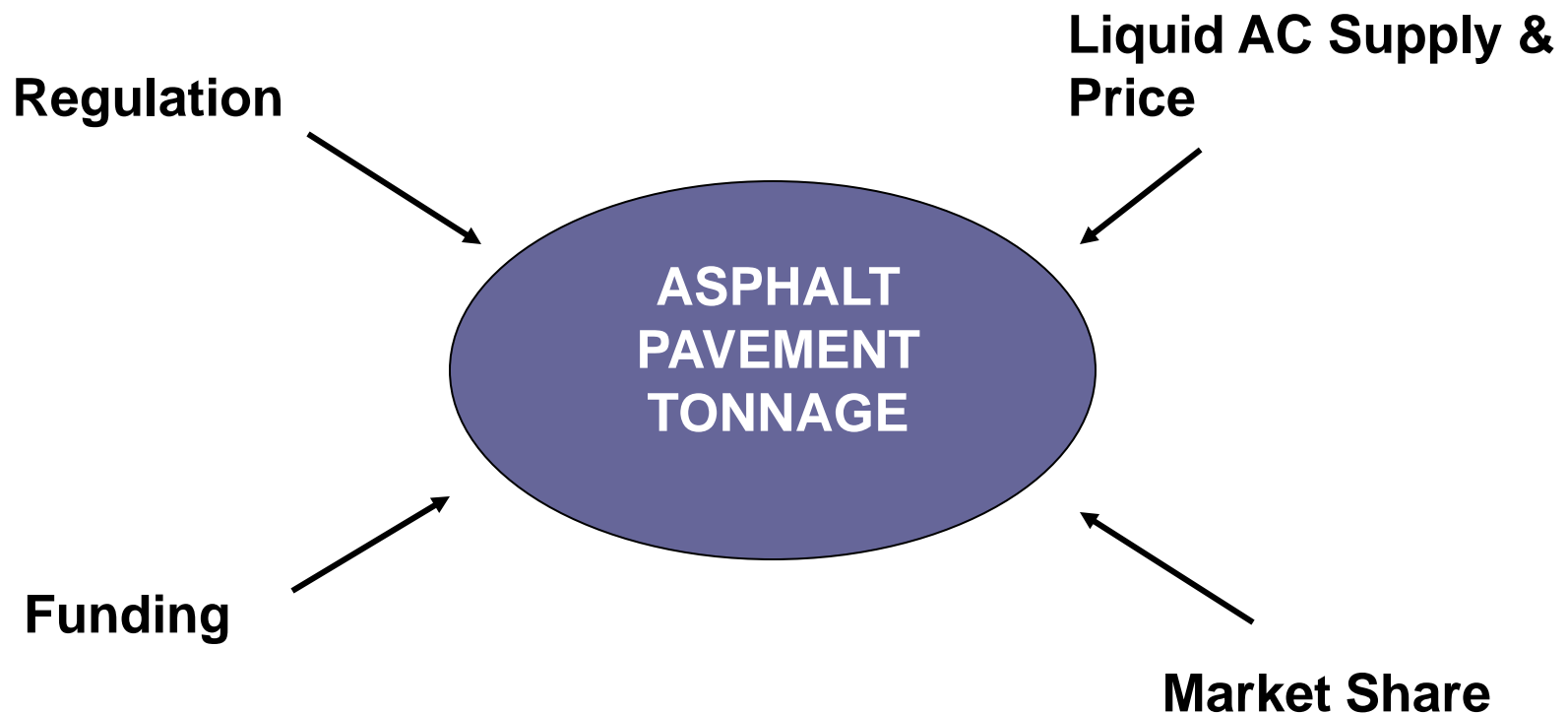


2010 Highway Construction Season in *Jeopardy!*

Jay Hansen

Vice President – Government Affairs

PRIMARY FACTORS IMPACTING TONNAGE



Objectives

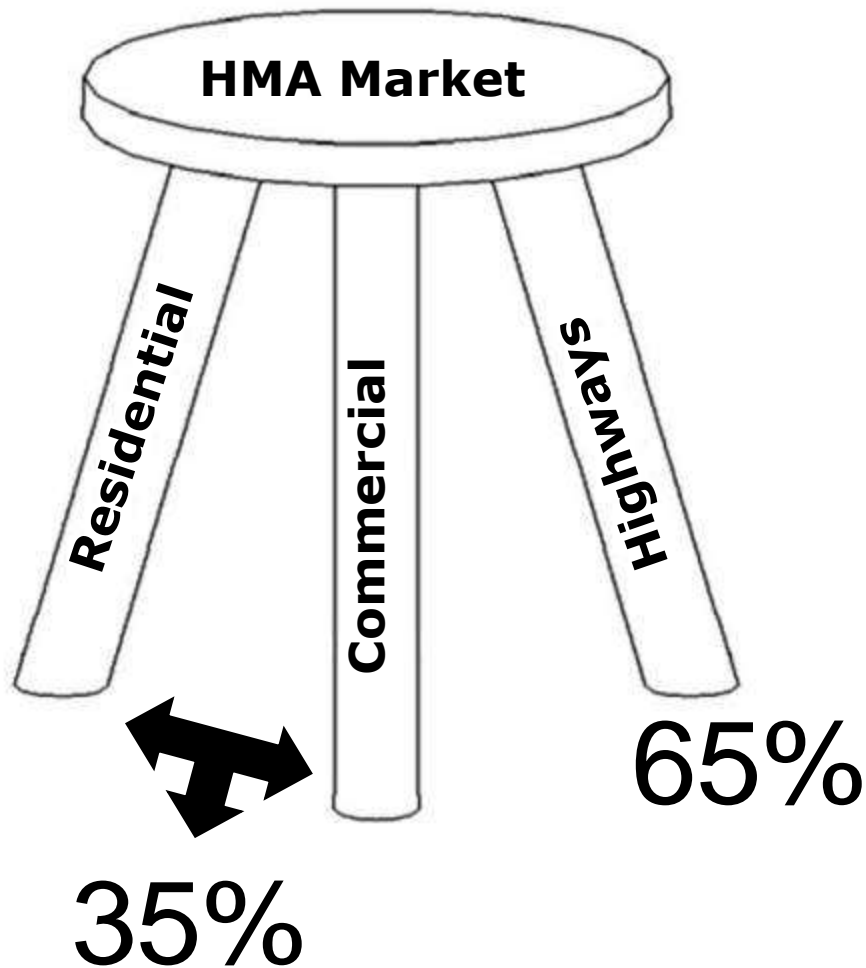
- Big picture
- Asphalt pavement market in 2010
- What can you do?



Recent Indicators

- Construction spending dropped by over \$137 billion in November, a 6-year low.
- Construction unemployment at 22.7%.
- Annual federal budget deficit at \$1.4 trillion.
- US auto fleet shrank 2% in 2009.
- Double-digit decline in state tax revenues in 2009.

End-Use Markets



Residential

- Down 19%.
- Long, slow recovery.
- Home sales stabilized.
- Threat of more foreclosures will keep home-building recovery muted.
- Applications for building permits down.
- Recovery in 2010 but from low base.

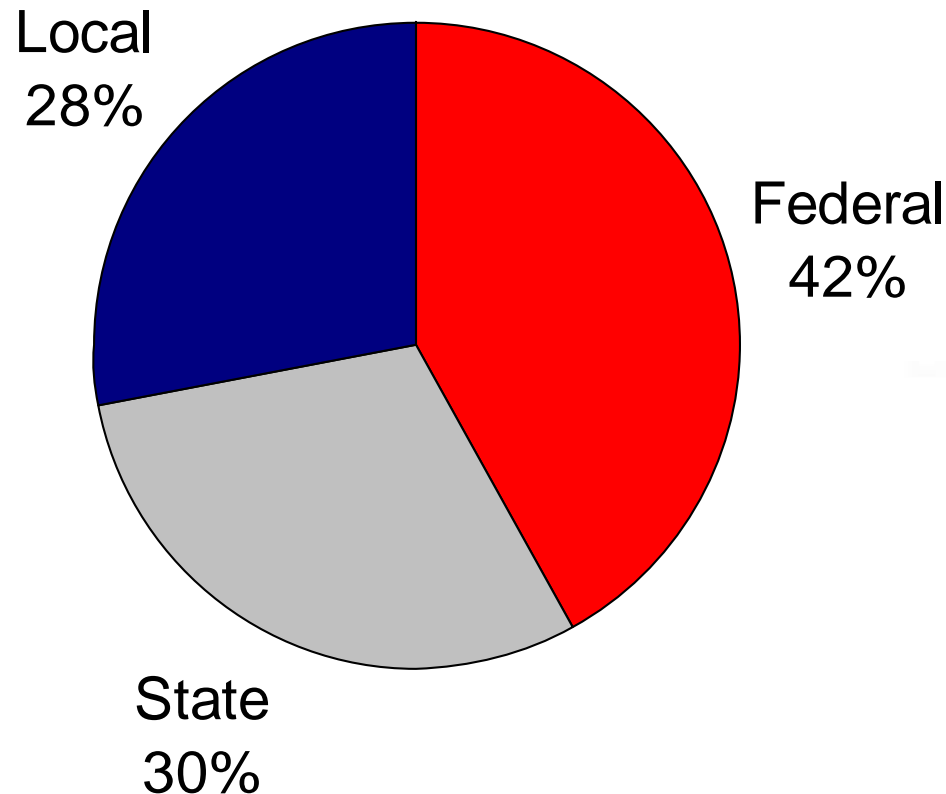


Commercial



- Private office investment down 41%.
- Nonresidential construction contracting.
 - High vacancy rates, falling rents, tight credit will persist.
- Nonresidential building construction will continue to decline into 2010.

Publicly Funded Highways - 2007



Highway Program

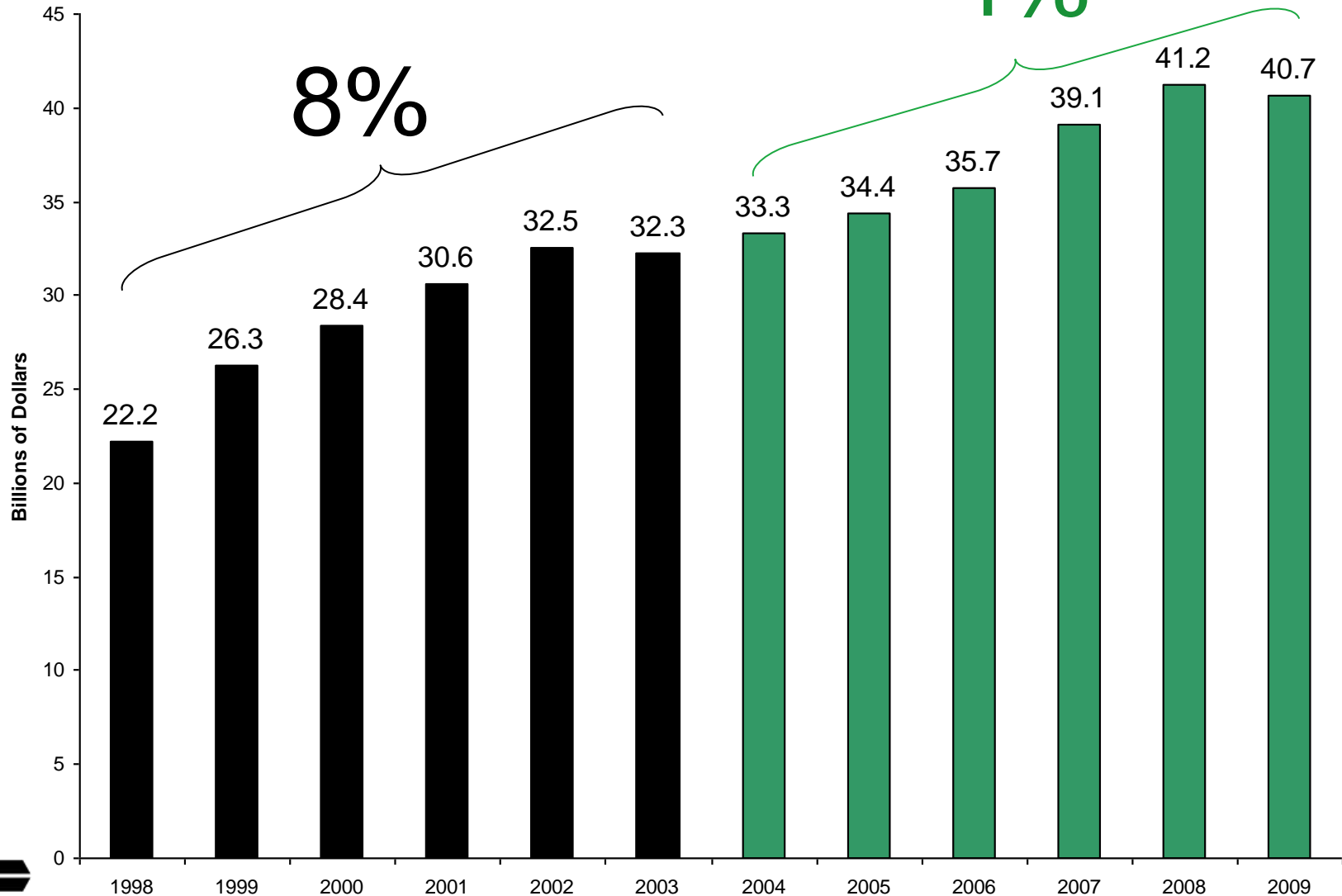
- Total highway spending = \$78B.
 - Every \$1B = 4-5 million tons asphalt pavement.
- System rehabilitation $\geq 50\%$.
- Important market for industry.
- Drives state and local spending.



Funding for Highways

4%

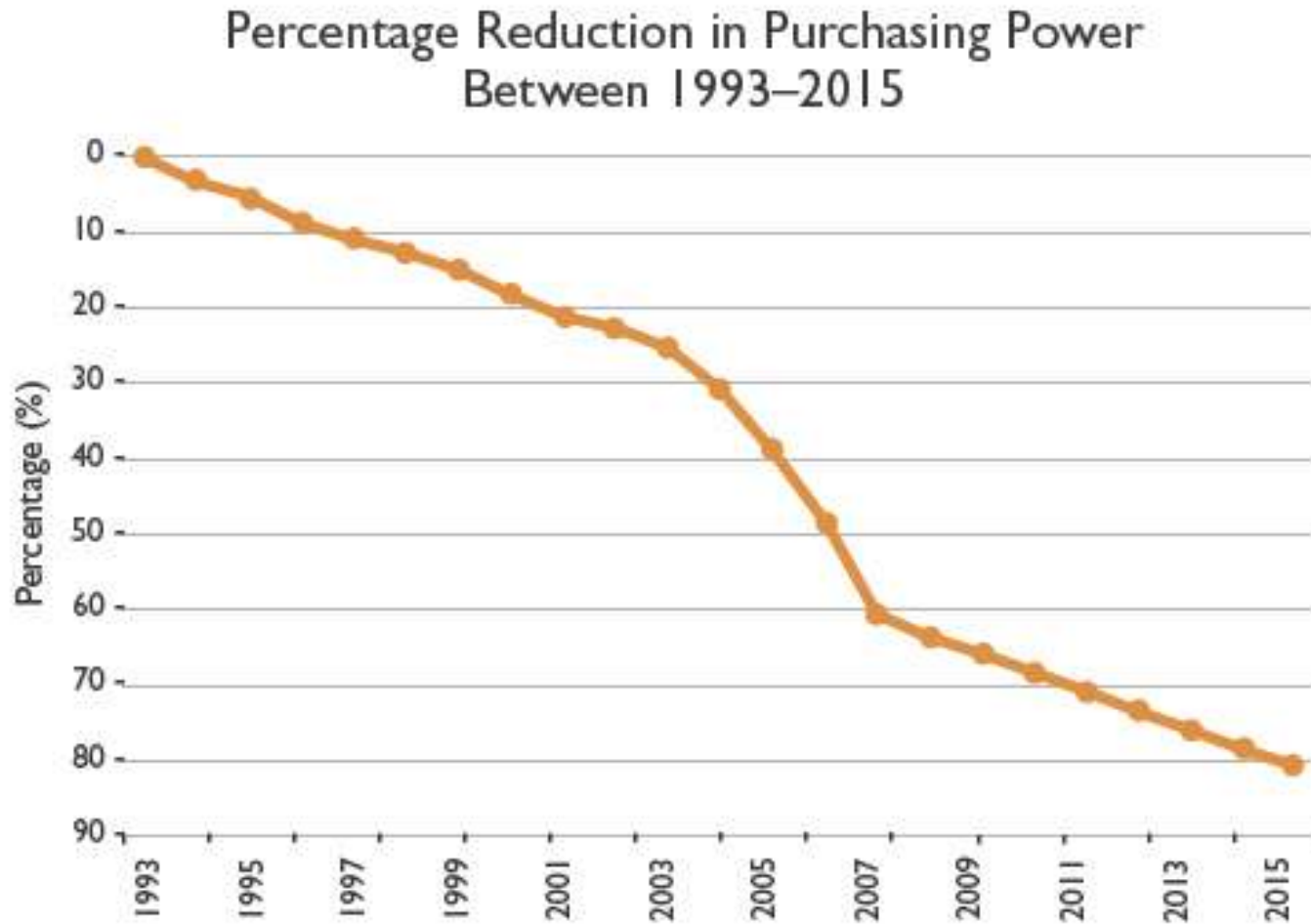
8%



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18.3¢ Does Not Buy As Much



States in Crisis

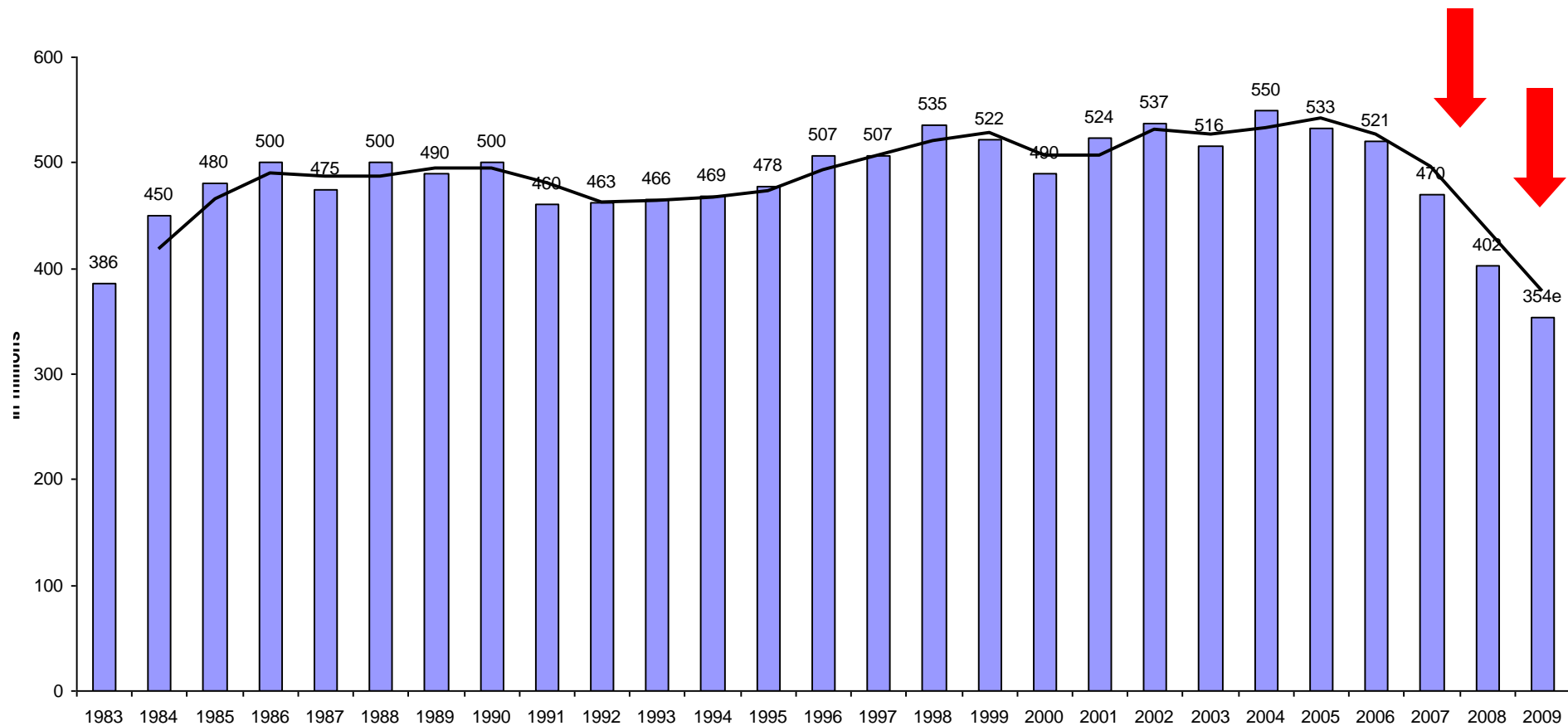
- \$174B budget gap in 2010.
- Revenues will not return until 2013.



States Reducing Highway Construction Programs

FY 2009		FY 2010	
Arizona	North Carolina	Arizona	Minnesota
California	Oregon	California	New Jersey
Georgia	Pennsylvania	Delaware	New York
Louisiana	South Carolina	Georgia	North Carolina
Massachusetts	Utah	Idaho	South Carolina
Michigan	Virginia	Illinois	Utah
Mississippi	Washington	Louisiana	Virginia
New Jersey		Maine	West Virginia
		Massachusetts	Washington
		Michigan	

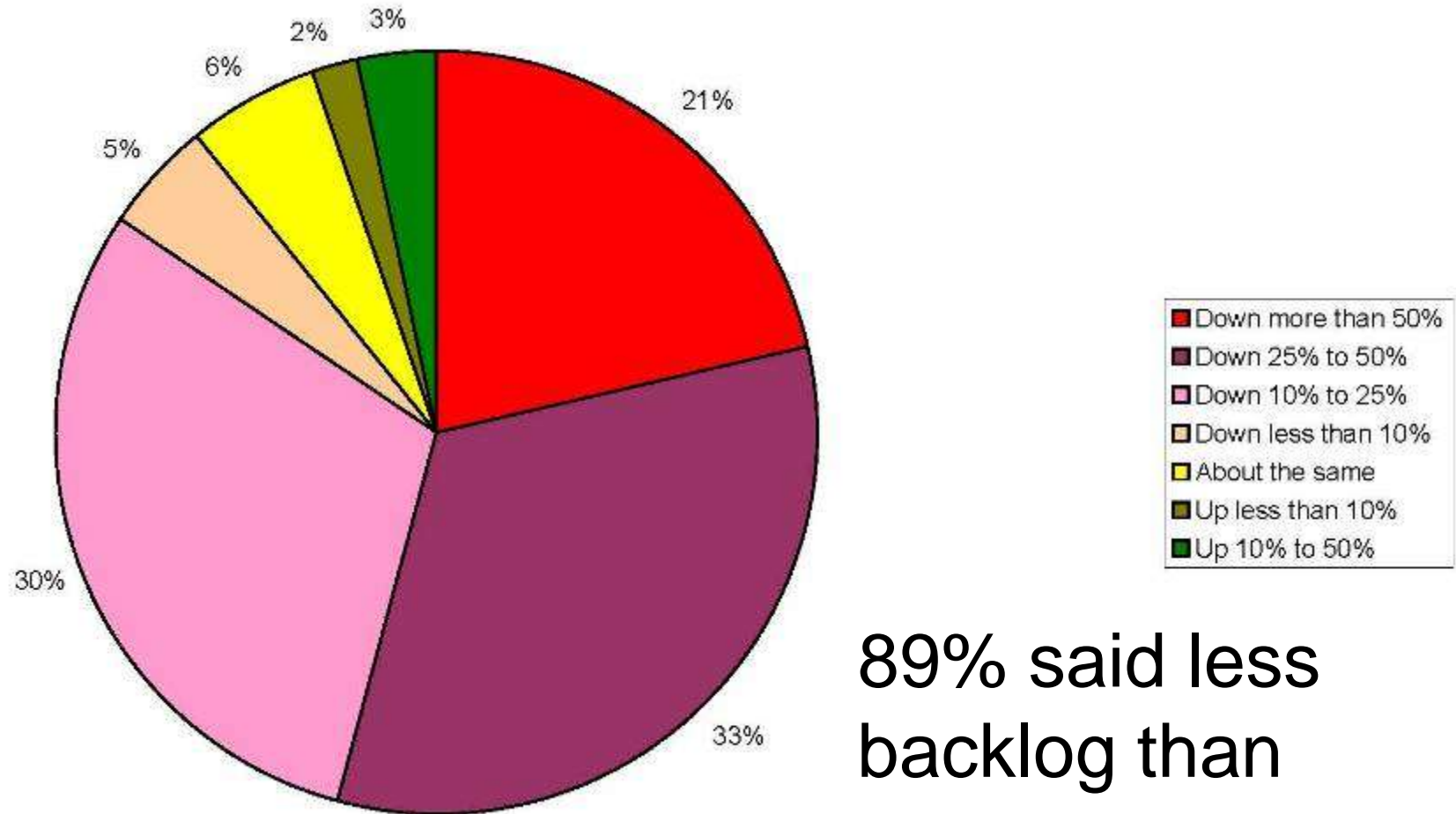
HMA Tons Produced in US



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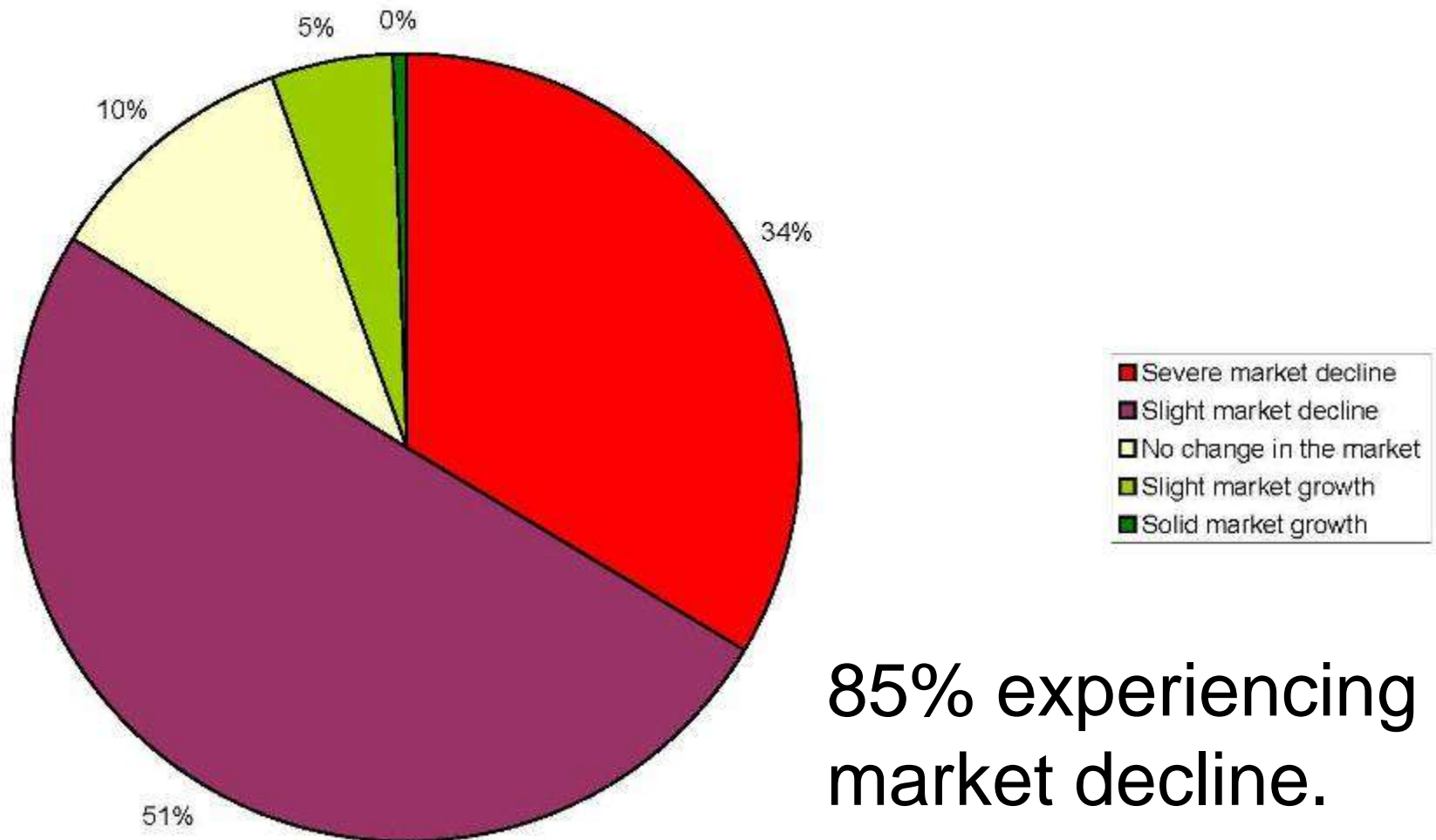

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Backlog of Work - Asphalt



89% said less backlog than year ago.

Market Outlook - Asphalt

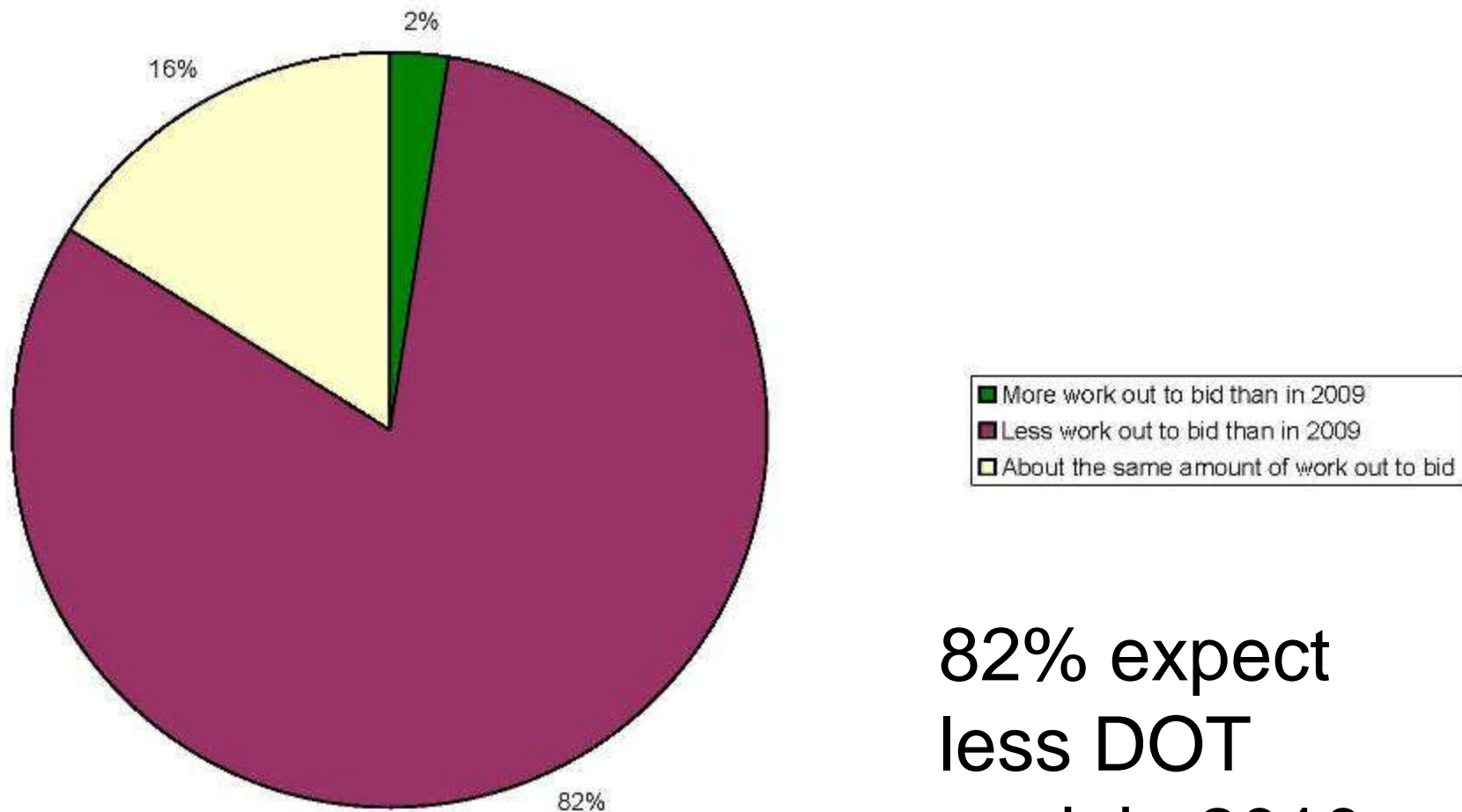


85% experiencing market decline.

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DOT Work in 2010



82% expect
less DOT
work in 2010.

2010 Legislative Agenda

- Economy
 - Jobs, Housing, Finance
- War/Terrorism
- Haiti Crisis
- Health Care Reform
- Climate Change
- Deficits
- Transportation Reauthorization Bill
 - Washington is not engaged.



Federal Highway Market

- 2009
 - ☐ Recovery Act
 - ☐ Rescission
- 2010 and Beyond
 - ☐ Extension
 - ☐ Recovery Act
 - ☐ Authorization



2009 Construction Season

	FY 2008	FY 2009 Omnibus	Stimulus	FY 2009 Total
Federal-Aid Highways	<u>\$41.9b</u>	<u>\$40.7b</u>	<u>\$27.5b</u>	<u><u>\$68.2b</u></u>

Economic Recovery Act

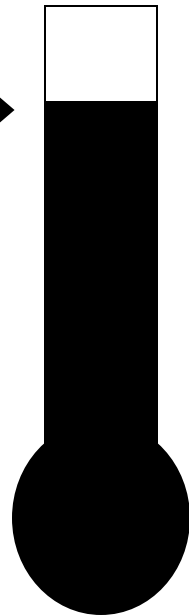
- \$27.5 billion for highways
 - \$26.8 billion for States
 - 100% Federal share
 - Maintenance-of-effort requirement
- 150 million tons of HMA



Highway Apportionments

86% Obligated

\$23.2b



\$26.8b
Total



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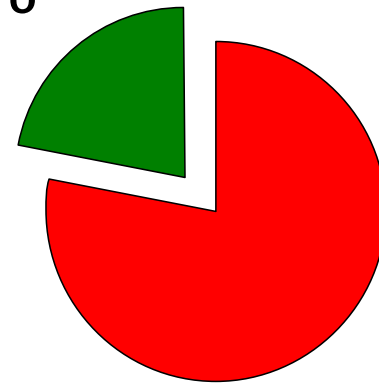


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Recovery Act Reimbursements

- 7,047 projects underway
- Onset of Winter
- Most spent in 2010

\$5.9b
Spent
22%

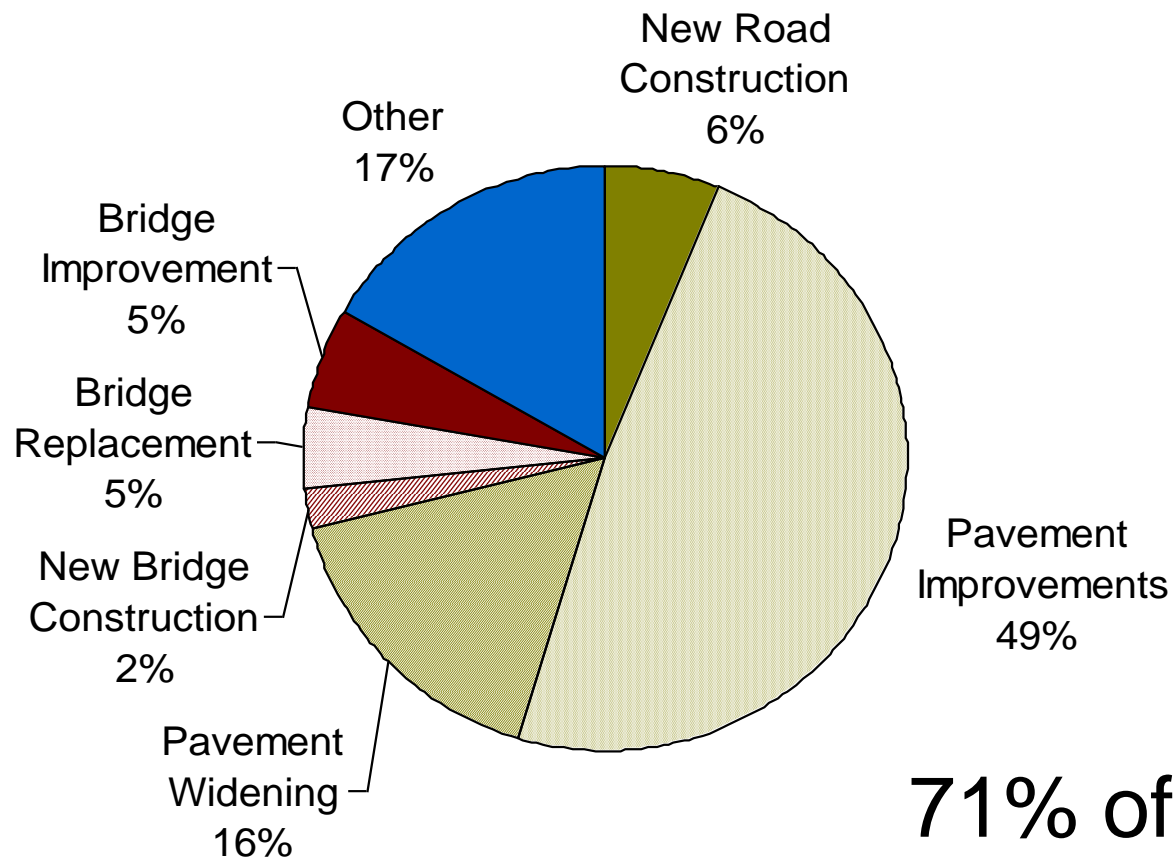


\$20.9b
Not Spent
78%



Highway Obligations by Type

10,654 Projects



71% of funding for paving projects.

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Rescissions Impact

- Two federal rescissions in 2009
 - \$3.5b in March
 - \$8.7b in September
- Many states did not expect 2nd rescission
- Impacts highway extensions
 - Funded at \$30 billion rate, not \$42 billion.
- Impacts future funding baseline.
- Will require offsets to restore \$12 billion after March 1.
- Some states face real cuts.

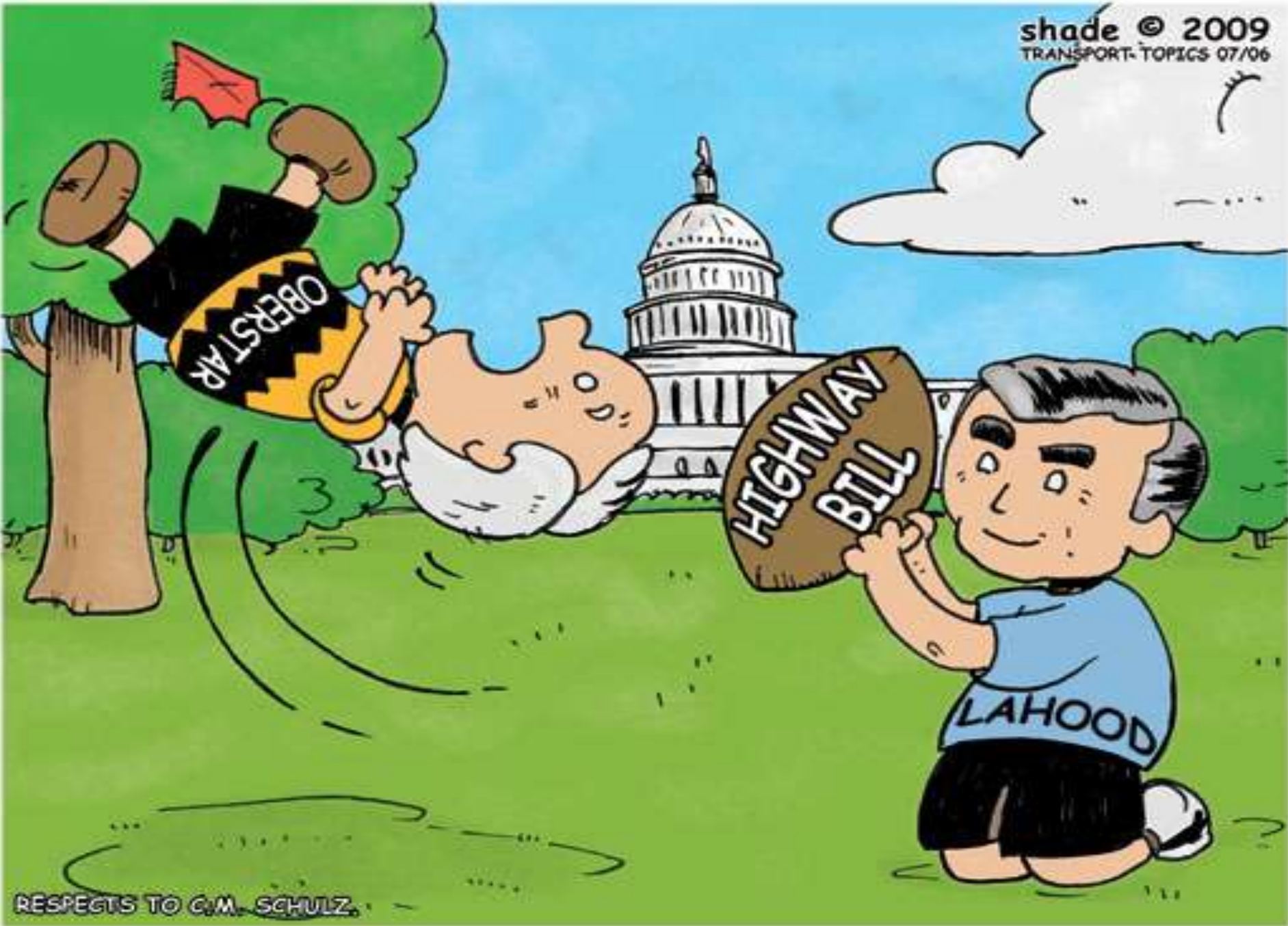
Real Highway Money Lost 9/30

"REAL MONEY" HIGHWAY APPORTIONMENTS LOST BY STATES IN THE 9-30-09 RESCISSION

Represents rescinded amounts of mandatory and special (no-year) equity bonus contract authority which had corresponding dollars of obligation authority (in the case of the special money) attached or which were not subject to limitation at all (the mandatory money).

<u>State</u>	<u>Amount</u>	<u>State</u>	<u>Amount</u>	<u>State</u>	<u>Amount</u>
Texas	-\$102,709,363.57	Delaware	-\$1,998,708.40	Colorado	\$0.00
Illinois	-\$80,845,690.89	Georgia	-\$1,266,488.93	Connecticut	\$0.00
Pennsylvania	-\$21,014,165.61	Louisiana	-\$951,304.69	Idaho	\$0.00
Arizona	-\$19,527,219.86	Hawaii	-\$813,047.38	Indiana	\$0.00
Virginia	-\$17,600,939.62	Dist. of Col.	-\$362,120.83	Iowa	\$0.00
Alaska	-\$15,544,451.17	Vermont	-\$211,058.56	Maine	\$0.00
Tennessee	-\$13,350,493.30	New Hampshire	-\$119,562.75	Minnesota	\$0.00
New Jersey	-\$12,423,685.02	South Dakota	-\$36,367.32	Missouri	\$0.00
Alabama	-\$6,788,901.48	West Virginia	-\$34,811.64	Montana	\$0.00
Kentucky	-\$6,497,927.00	Maryland	-\$29,547.10	Nebraska	\$0.00
New Mexico	-\$6,015,149.99	Michigan	-\$3,899.76	Nevada	\$0.00
Mississippi	-\$4,781,582.37	Kansas	-\$3,250.58	New York	\$0.00
Oklahoma	-\$4,571,525.99	Washington	-\$0.69	North Dakota	\$0.00
Wisconsin	-\$4,566,838.42	California	-\$0.56	Ohio	\$0.00
Utah	-\$4,433,673.65	Wyoming	-\$0.51	Oregon	\$0.00
Arkansas	-\$4,431,949.65	North Carolina	-\$0.33	Rhode Island	\$0.00
Massachusetts	-\$3,398,181.47	Florida	-\$0.04	South Carolina	\$0.00

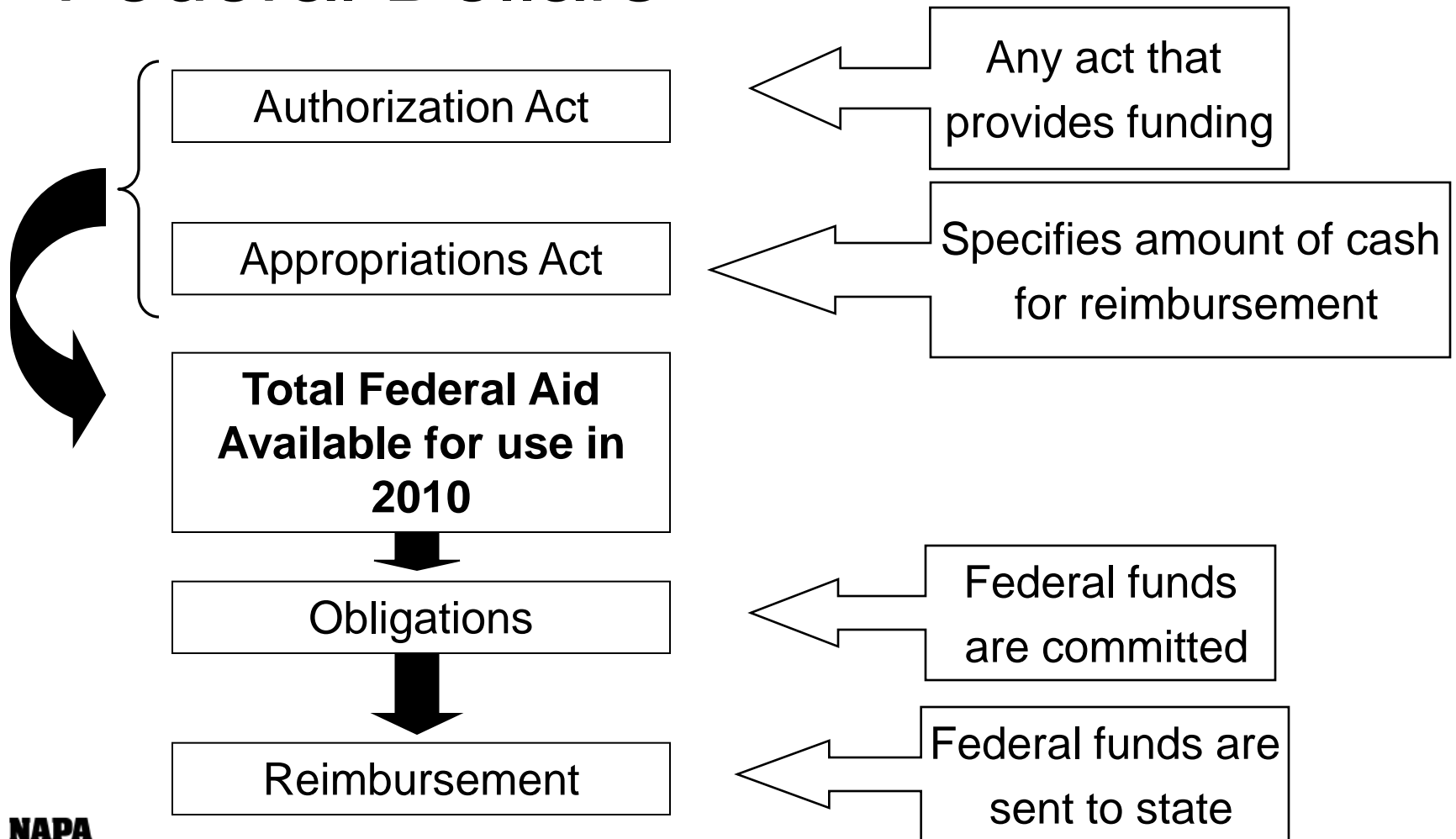
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RESPECTS TO G.M. SCHULZ.

SOME THINGS NEVER CHANGE.

Highway Projects Funded with Federal Dollars



2010 Federal Highway Market

Appropriation ✓

Authorization

HTF Fix

Extension



\$



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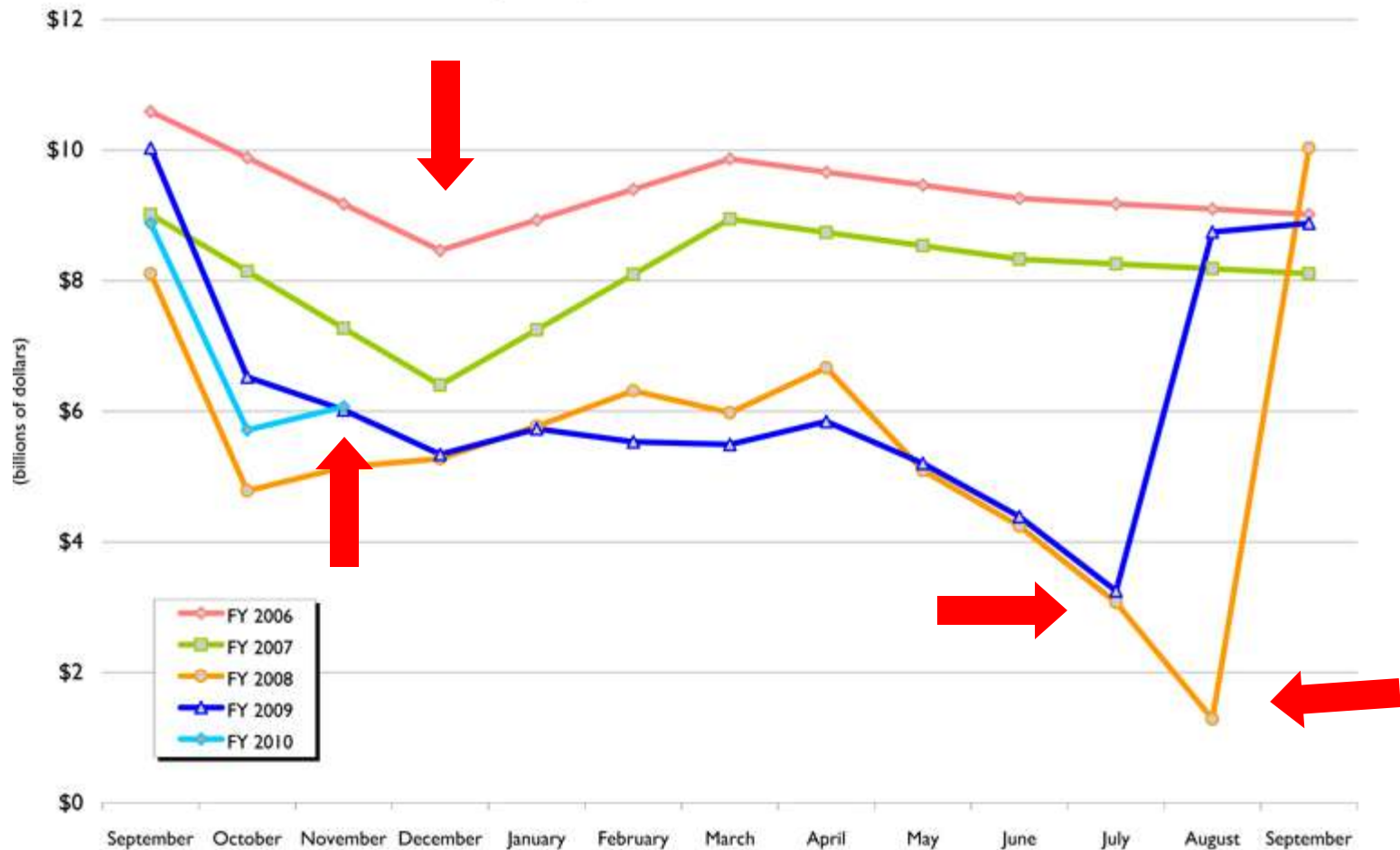
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FY 2010 Appropriations

- Appropriations provide actual dollars States can spend *if they have contract authority.*

	<u>FY 2009</u>	<u>FY 2010</u>
Highways	\$40.7b	\$41.07b
		+ 650m formula
		+ 240m earmarks
		= \$41.96 billion

Highway Trust Fund Shortfall

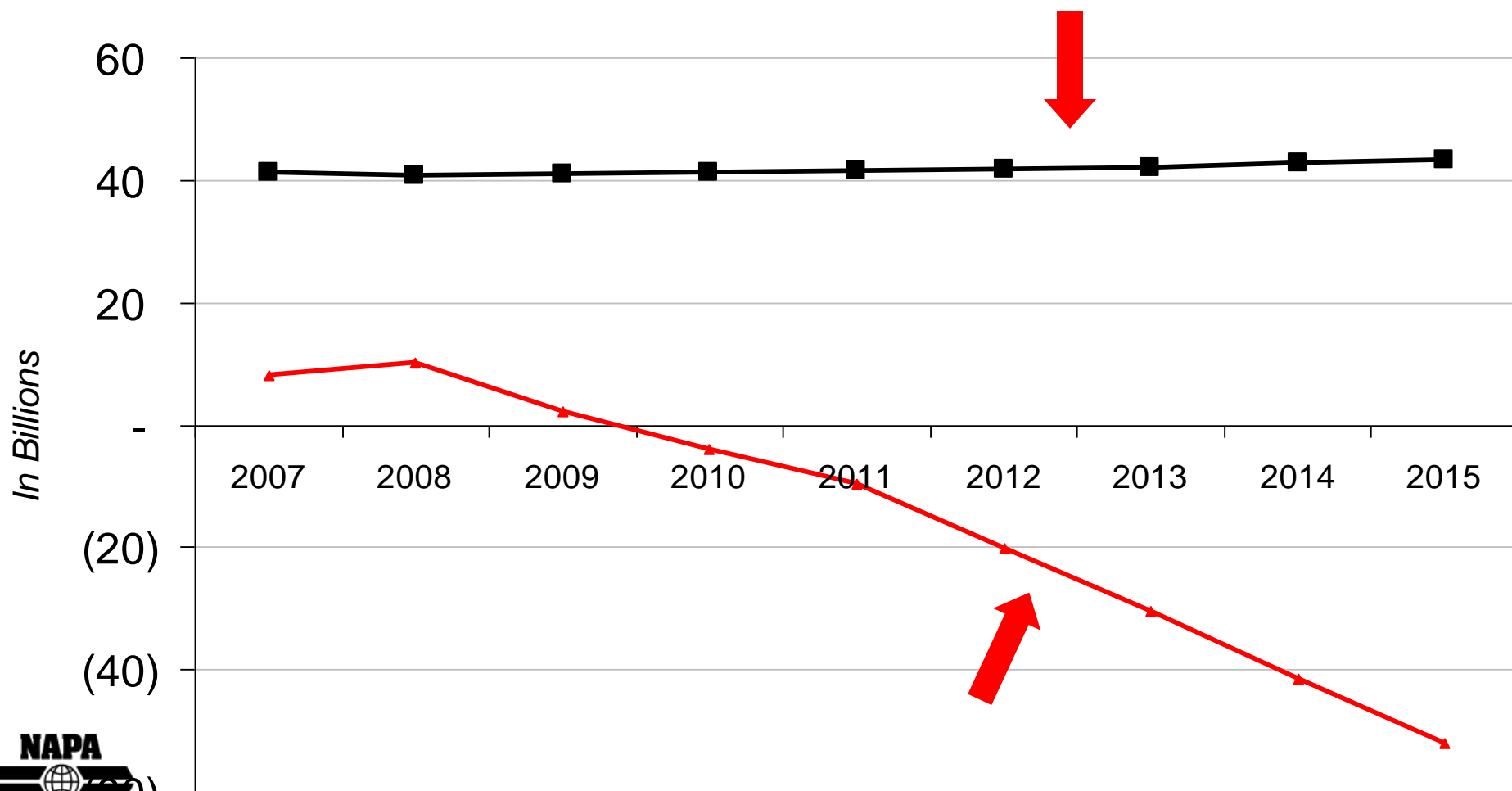


Ending balance for FY 2008 includes \$8.017 billion transferred from the General Fund in September 2008 pursuant to Public Law 110-318.

Ending balance for FY 2009 includes \$7 billion transferred from the General Fund in August pursuant to Public Law 111-46.

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HTF: Short-Term Problem Long-Term Issue



Highway Reauthorization

2010	2011	2012	2013	2014	2015
------	------	------	------	------	------

Funding
Levels

?

?

?

?

?

?



Asphalt
Pavement
Market
Outlook

Political Challenges

- Low priority for Administration
- Congress not engaged
- Opposition to gas tax increase
 - ☐ Politically charged
 - ☐ Poor economy
 - ☐ Cap & Trade's impact on energy cost
- No sense of a common plan



Extensions

- First – 30 days
- Second – 48 days
- Third – 5 days
- Fourth – 67 days
- States are losing \$1 billion per month (33%) due to 2009 rescissions.



Extension Status



- House approved 1-yr extension.
 - Restores gross 2009 baseline funding level.
 - Transfers \$14.7b into Highway Trust Fund.
 - States may opt out of “match” in 2010.
- Extension in Recovery Act II.
 - Jobs for Main Street Act.

Recovery Act II

- \$27.5 billion for Highways.
 - ½ must be under contract in 90 days.
- Politically charged.
 - 38 Democrats voted against.
 - TARP funds used as offset.
 - Job creation challenged.



Emerging Issues in Senate

- Length of Extension
- Shovel-Ready vs. Complex Projects
- Highways vs. Transit
- Maintenance of Effort
 - Supplement vs. supplant
- MPO versus DOT
- Infrastructure Bank



ASPHALT: AGE 13

A recent survey of 50 state Departments of Transportation indicated that asphalt roads need major reconstruction after thirteen years compared to more than twenty-nine years for concrete. With initial and life-cycle costs for concrete now competitive with asphalt, concrete stretches your dollars and keeps drivers moving forward. For more information visit www.think-harder.org.

Senate Vote?

- Sen. Dorgan and Durbin drafting.
- Proposal(s) introduced this week?
- Will have to be reconciled with House bill.
- Emergency Supplemental Appropriations?



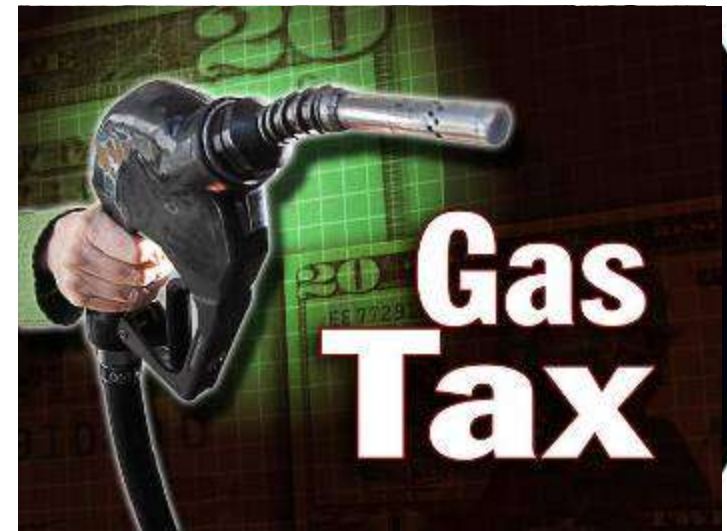
User Fee Concept in Peril

- 2008 – \$8b HTF Bailout
- 2009 – \$27.5b Stimulus
- 2009 – \$7b HTF Bailout
- 2010 – \$15b HTF Bailout needed
- 2010 - \$27.5b Stimulus Proposed
- *Is the gas tax used to finance highways (and transit) no longer viable?*



Funding

- Where will it come from?
- 3 options:
 - Cut the highway program.
 - Deficit spend.
 - Raise a user fee.



My Takeaway



- We are back to 1955
 - Congress proposed tolling & bonding for IHS
 - Failed 2 to 1
 - Compromised created Highway Trust Fund funded with 3¢
- We need to find a compromise that generates the revenue that funds the next highway and transportation program.

Needs

- Urban Areas – Congestion
- Rural Areas – Highways to grow economy
- Intercity High Speed Rail
 - Congress provided \$8b
 - Need \$150b to become reality

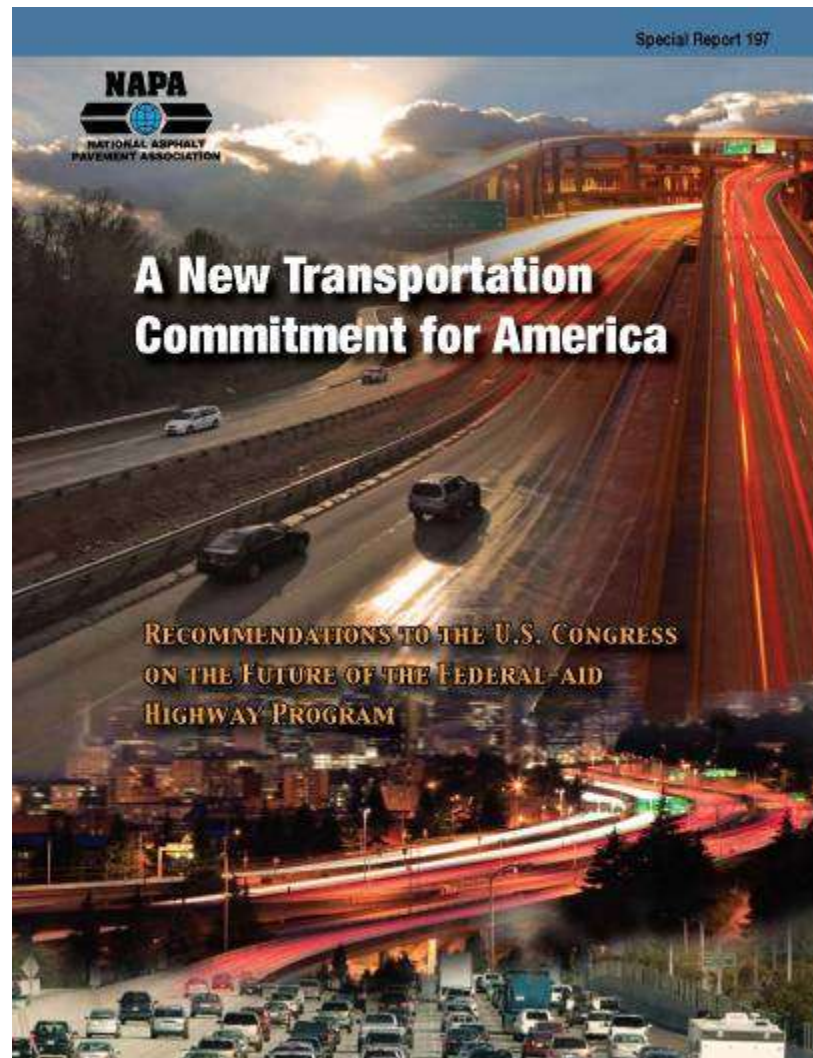


American Principle

- We are in it together.
 - We must all come together to address the transportation needs that impact our nation's competitiveness, quality of life and safety.



NAPA White Paper



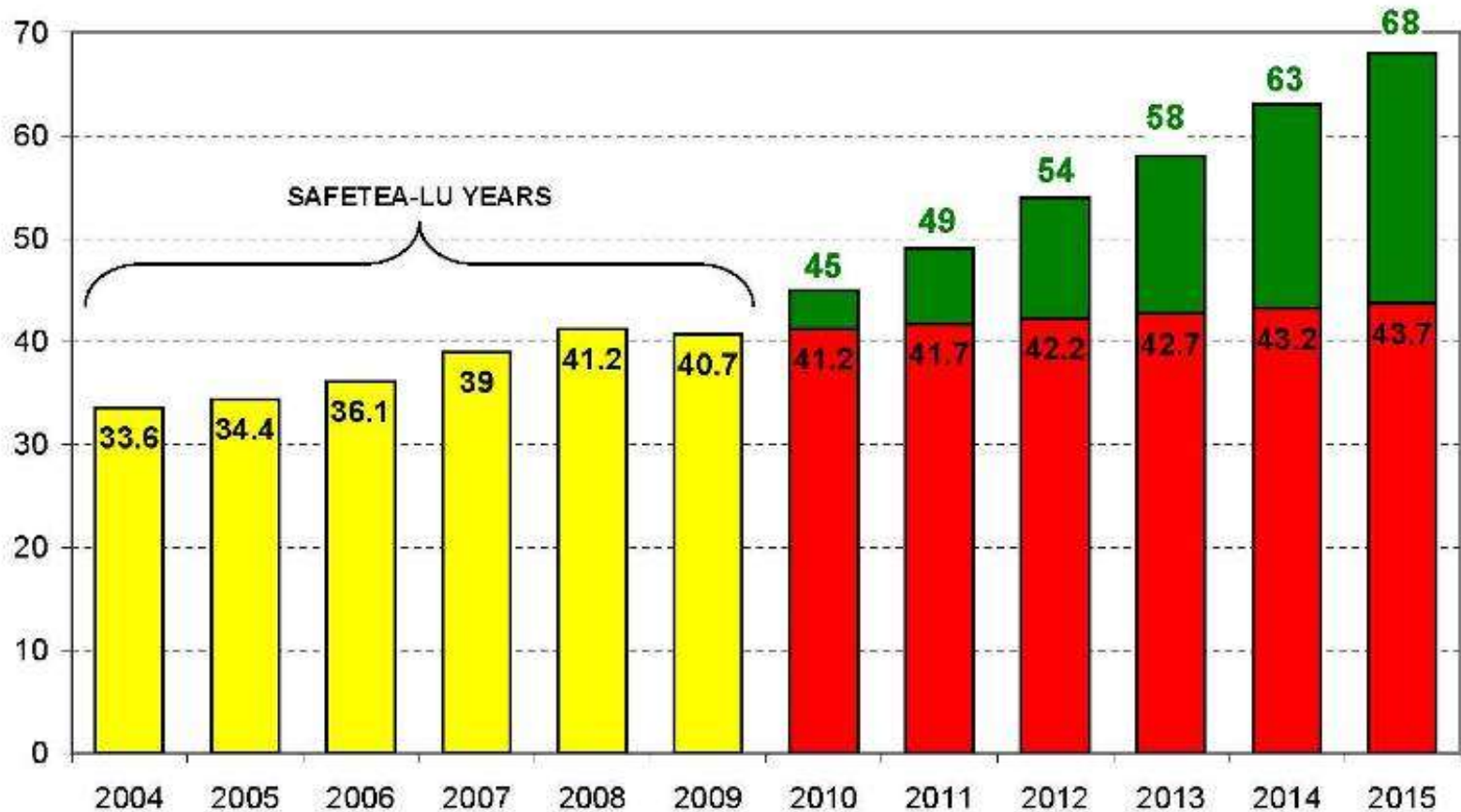
Transportation Summit



“Agreement on Principles” for the next
Transportation Bill.

The Big Picture

Federal Highway Funding
Flat Revenue versus Oberstar Bill
in billions



What can you do?

- Reauthorization will not pass in 2010.
- *Its about 2010 construction season!*
- *We need an extension and stimulus!!*
- Tell the Senate: ***Pass The Jobs Bill Now!***
- Attend the TCC Legislative Fly-In in May
- Together we can make a difference.

Thank You!



Jay Hansen
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Government Affairs
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