MEMORANDUM

Date: November 26, 2013

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **November 22, 2013 *Wall Street Journal* Article Entitled "Highway Builder Driven Off Road"**

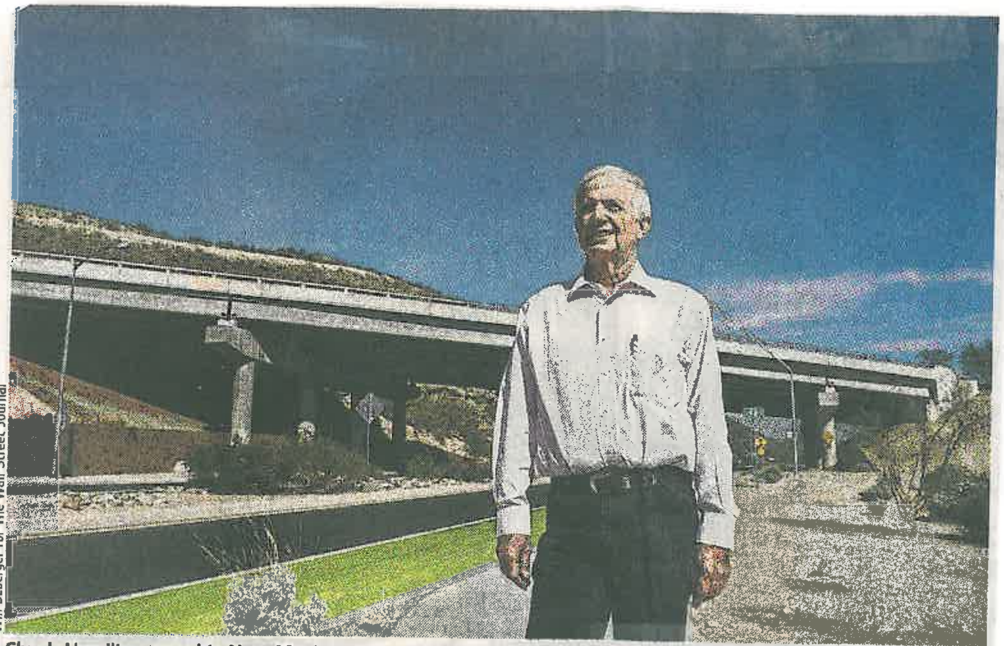
Attached is a copy of a recent article in the *Wall Street Journal* citing significant reductions in construction employment related to highway construction and infrastructure investment. The article points out the continuing disinvestment in infrastructure and its necessity in economic expansion and recovery.

CHH/dr

Attachment

Highway Builders Driven Off Road

By Josh Mitchell



Will Seberger for The Wall Street Journal

Chuck Hamilton says his New Mexico construction company will look for copper mine drilling work.

A steep drop in public infrastructure spending is squeezing the nation's highway contractors, pushing some out of the business and into other fields such as energy exploration.

Road building, like defense, is one of the few industries tied directly to government spending, which has fallen amid federal and state efforts to close budget gaps. Once boosted by the 2009 federal stimulus program, contractors are now scrambling to find work, often competing with eight or more bidders on even small-scale projects such as bridge repairs.

"Basically right now I have no highway work," said Chuck Hamilton, owner of James Hamilton Construction Co. in Silver City, N.M., which employs about 120 people. "At one time we did probably 70-80% of our dollar volume in highway work. We have one contract left, we're finishing it up and we're done."

He said his company will look for drilling work in copper mines and oil fields in the southwest.

The bleak market for highway construction is one reason overall construction employment remains far below its peak more than four years after the recession ended. The industry shed more than two million workers from the start of the recession in December 2007 to reach a low in January 2011. Since then, the industry has recovered 399,000 jobs, but construction employment—at 5.83 million workers in October—remains 22% below prerecession levels.

Total highway-construction spending in the U.S. from January through August of this year was $50.32 billion, down 3.3% compared with the same period a year ago, Commerce Department data show. That contrasts with a 5.9% rise in overall construction spending, driven by the housing market's rebound.

The drop largely reflects states' moves in recent years to steer transportation dollars to other programs, such as education and health care, and to pay interest on debt taken on in prior years to fund big infrastructure projects.

Federal funding, meanwhile, has remained stagnant amid debate between the political parties about how to raise new revenue for a long-term transportation bill. Also, gas-tax revenues—the main source of highway funds—fell during the recession as unemployment spiked and Americans drove less.

In recent days, President Barack Obama has been pushing infrastructure investment, citing its importance to economic growth. In a speech at the Port of New Orleans earlier this month, Mr. Obama said that "rebuilding our transportation and communications networks is one of the fastest ways to create good jobs." He said one in nine of the country's bridges is rated structurally deficient and that more than 40% of major highways in the U.S. are congested.

While Republicans have been resistant to increase spending, funding for roads, bridges and ports is seen as something that could win votes in a budget deal.

Contractors would welcome the move. Increasing competition for fewer projects has driven down prices that states and cities pay for construction, giving taxpayers a bargain but straining industry profits. Bidding prices fell for the third straight quarter in

Off the Road

Construction employment has shrunk amid a drop in public spending.

Source: St. Louis Federal Reserve

The Wall Street Journal

the first three months of 2013—the most recent data available—and were down 1.3% compared with a year earlier, according to the Transportation Department's highway-construction cost index.

With costs for materials and labor rising, many companies are doing work for little or no profit. "Costs are going up in one direction, and revenue is going down in the other," said Dave Krueger, owner of **A.S. Horner** Inc., a road builder in Albuquerque, N.M. "There's continual, pretty torrid competition, which is good for the overall industry but it also ends up sorting out some people."

A.S. Horner, founded by Mr. Krueger's grandfather in 1927, brought in $100 million in revenue in 2007, but now brings in a third of that. After failing to find a buyer for his company, Mr. Krueger is auctioning off his construction equipment and closing the business.

"I'm not as inclined to fight it out another four or five years and then sell the business," said Mr. Krueger, who plans to retire.

Road-building industry officials and executives describe a shift in the past two years, in which many medium-size contractors have left the field, allowing larger players to increase market share. Big companies have fared better mainly because they have bigger cash reserves they can put into projects, and thus can more easily enter into public-private partnerships. Such schemes often involve government guarantees that effectively lower a company's borrowing costs.

Smaller companies are moving into other fields. Hamilton, for example, is selling much of its fleet of bulldozers, motor graders and other equipment as it moves out of the highway-construction business and into fields such as oil exploration. Hamilton's annual revenue has fallen from $90 million in 2010 to about $20 million currently, while its workforce has been cut from 500 to 120 over the past two years.

One problem, Hamilton said, is that states are funding quick, minor repairs to existing roads, rather than expansions, which are more profitable for contractors. That in part reflects states' uncertainty about funding levels in future years.

Pennsylvania is an example of that shift. State spending on transportation projects has fallen from about $2.7 billion in 2009 to $1.6 billion this year. State officials attribute the drop to the end of stimulus funding, falling gasoline-tax revenue and other factors.

The drop in business has led even large companies to reposition themselves.

"I constantly tell our shareholders we're diversifying our work," said James Roberts, chief executive of California-based Granite Construction, among the country's largest road builders. "We set out a strategic plan three years ago to diversify away from transportation, but stay in the transportation business."

As an example, last year, the company bought Kenny Construction Inc., an Illinois firm that repairs pipelines.

Pete Rahn, an executive at HNTB Corp., one of the nation's largest highway-construction engineering firms, said many midsize companies offered to do projects at ultralow prices early in the recovery. Now, those prices are proving "unsustainable," with many companies unable to get by.

"There was no way they could be making a profit at the prices projects were bidding," Mr. Rahn said. "They tried to get through and it lasted longer than they expected, and then finally you just can't make do."