

NATIONAL STONE, SAND & GRAVEL ASSOCIATION



Natural building blocks for quality of life

**STATEMENT OF
WILLIAM (BILL) SCHNEIDER, PRESIDENT
KNIFE RIVER CORPORATION**

**ON BEHALF OF
THE NATIONAL STONE, SAND & GRAVEL
ASSOCIATION**

**REGARDING
RECOVERY ACT: PROGRESS REPORT FOR
TRANSPORTATION INFRASTRUCTURE
INVESTMENTS**

**BEFORE THE
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE**

U.S. HOUSE OF REPRESENTATIVES

July 27, 2010

Good morning Chairman Oberstar, Ranking Member Mica and Members of the Committee:

My name is Bill Schneider and I am president and CEO of the Knife River Corporation based in Bismarck, North Dakota, a subsidiary of MDU Resources Group, Inc., a Fortune 500 company and member of the S&P MidCap 400 index. Currently, I serve as Chairman of the National Stone, Sand & Gravel Association. I thank you for the opportunity to appear before the committee today and to discuss the status of the American Recovery and Reinvestment Act (ARRA) and its impact on the aggregates industry.

By way of background, Knife River Corporation is one of the Top 10 Aggregate Producers in America and is one of only three companies with that distinction that remains U.S.-owned and operated. Built on a foundation of more than 1.1 billion tons of aggregate reserves, Knife River's operating companies provide aggregate, asphalt, building materials, construction services, liquid asphalt and ready-mix concrete to public and private sector clients. We provide well-paying American jobs.

By construction "aggregates" I mean that we mine, process and sell crushed stone, sand and gravel for use in the construction of highways and other infrastructure projects, as well as in the domestic commercial and residential construction industries. Aggregates products are also used in the railroad, environmental and agricultural sectors. Knife River companies are physically located in 14 states but operate in 17 states in the central, western and southern United States, and in Alaska and Hawaii. At each location we are committed to providing our customers with local, personalized solutions for their construction materials and contracting needs.

I am testifying today in my capacity as Chairman of the National Stone, Sand & Gravel Association (often referred to as "NSSGA" or "the association"), which represents the aggregate industry. According to the U.S. Geological Survey (USGS), NSSGA is the largest mining association by product volume in the world. Our association member companies produce more than 90% of the crushed stone and more than 70% of the sand and gravel consumed annually in the United States. There are more than 10,000 construction aggregate operations nationwide. Almost every congressional district is home to a crushed stone, sand or gravel operation. Due to high product transportation costs, proximity to market is critical; thus, 70 % of our nation's counties include an aggregates operation.

Nearly 100% of the aggregates consumed in the U.S. are produced here by American workers. These workers are hired for good-paying jobs, are extensively trained for safe and healthful production and to assume environmental and community responsibility. For more than 100 years, our association has represented the industry that provides the natural building blocs for the foundation of American life. We supply the core material that is 80% of concrete and 94% of asphalt. Larger rocks are used for erosion control; smaller rocks used for street as well as rail base – rock without which Americans could not enjoy sturdy, long-standing homes, roads, schools, airports, offices, water treatment plants, bridges or hospitals. Through innovation and automation over more than a century, our industry has provided the materials for a quality of life unparalleled in the world.

Large amounts of stone, sand and gravel are used to construct the built environment. For example, about 400 tons are used in an average home (not counting the required subdivision work), 15,000 tons are used in an average school and 38,000 tons are used to construct one mile of highway. Accordingly, while largely invisible to the individual end-user, aggregates are an absolutely essential product making an important and lasting contribution to the nation's economic well-being. Despite the large amounts of aggregates used for all sorts of construction, I am here to report that the industry is facing yet another year of economic uncertainty and difficulty.

According to the USGS, nearly two billion metric tons of aggregates were produced in 2009 at a value of approximately \$17.2 billion, contributing \$40 billion to the GDP of the United States. This marks the third consecutive year of decline in the production of U.S. aggregates from its market height of over three billion metric tons in 2006 valued at \$21 billion – a nearly \$4 billion decrease.

The aggregates industry in the United States has seen an average 20% decline in business; in some regions the decline has been as much as 60%. Without the stimulus, which we supported and believe, like you, should have had more funding devoted to transportation infrastructure for real job creation, the decline in our industry would have been far greater. Nevertheless, all of this is offered against a backdrop in which our industry's percentage volume decline has been more pronounced than during any economic period since the Great Depression.

Despite the sustained downturn that our industry has seen, there is evidence to suggest that the American Recovery & Reinvestment Act (ARRA) helped keep the floor from dropping out from beneath the market. Furthermore, the efforts of this committee and the oversight that it provided helped ensure that states by and large did not simply swap their infrastructure funds with ARRA funds.

On July 1, the Bureau of Labor Statistics reported that the producer price index (PPI) for finished goods fell 0.6% in June, but rose 2.8% compared to June 2009. The PPI for inputs to construction industries, a weighted average of prices for materials used in all types of construction plus items consumed by contractors (such as diesel fuel), dropped 0.9% for the month but was 4.2% higher year-over-year. Several key materials had one-month decreases and 12-month increases, including asphalt paving mixtures and blocks, which saw a 0.5% decline for the month, but a 7.4% increase year over year. The PPI for concrete products, however, shrank 0.4% for the month and 2.1% for the year.

It is important to note that, on average, roads and bridges typically constitute 40% of the industry's market. The remaining 60% is equally divided among residential housing, industrial buildings and public works projects other than transportation. Due to the continued weakness in the residential and industrial markets in 2010, the transportation market has increased in importance to our members. Home building fell by \$60 billion last year and private commercial construction fell by \$88 billion. Public works construction was the only bright spot in 2009, increasing by about \$9 billion. Still, we have an unemployment rate in the construction industry in excess of 20%; more than double the national average.

Due to the changing profile of market demand for our products, it is not possible to conduct an “apples to apples” comparison to assess the effectiveness that ARRA has had in creating jobs in our industry. However, earlier this year one of my employees, Joyce Fisk, a “belly-dump truck” driver, testified before this very committee on what ARRA means to her personally.

Joyce has worked for Knife River since July of 2002 and was asked to tell her story to the Committee after meeting Chairman Oberstar in July 2009 while working on the Interstate 35 project, a project funded by ARRA located near North Branch Minnesota. She and her husband are both Knife River truck drivers who were worried about their jobs when the recession took hold in 2008 and continued in 2009 leading to an unemployment rate in the construction sector that appears to have topped out at 27.1% earlier this year. Joyce told this committee, “My husband and I started to wonder what we were going to do if something didn’t come in soon.” She credits ARRA funding for preserving her and her husband’s jobs.

While jobs like Joyce’s have been retained in the aggregates industry thanks to ARRA, few appear to have actually been created in our industry due to the stimulus bill. Although sales have declined, without the stimulus it would have been worse.

Still, since the vast number of aggregates operations are typically in the open, facilities located in cold climates usually close for the winter. Historically, these employees work extra hours during warmer periods in anticipation of winter layoffs. The extra pay they earn allows them to prepay health care premiums and save money to carry them through until spring. Without the extra hours, many employees would struggle to make ends meet during the winter months. So while some workers have been retained, some of this comes at the cost of reduced hours (regular and overtime) and overall pay throughout the industry.

Joyce’s story is compelling and one that many families across the country know all too well in these tough times. We appreciate that Congress passed an extension of the highway bill to the end of this year. Nevertheless, the gains from the transportation funding boost (about three percent of the economic stimulus law) will be lost if Congress does not act now to pass a robust multi-year surface transportation reauthorization.

Already, many state Departments of Transportation are projecting 30-50% declines in their highway construction budgets for FY 2011. Spending for many DOTs was at record high levels over the past year or so due to the federal stimulus funding provided by ARRA as well as the continued effects from bonding and other state funding initiatives enacted since 2005. Now with the stimulus funds winding down and state budgets being sharply cut to deal with budget deficits, many state DOTs are indicating that their programs will suffer dramatic drops next year. The uncertainty stemming from the lack of a federal surface transportation reauthorization bill is forcing states to refocus their construction programs on maintenance and rehabilitation contract rather than expansion projects.

Late last year, NSSGA surveyed its members and asked them if passage of a well-funded, six year transportation authorization bill would improve the outlook of their business. A strong 93% said it would have a positive impact, while the remaining 7% were unsure. This is important

when considering that 90% thought that a series of extensions would harm their business, while only 7% thought a series of extensions would cause no harm. NSSGA has heard from several of its members that they have made very few capital expenditures due to the lack of a long-term transportation funding bill. It is safe to conclude that across the industry, we are in agreement that a six-year surface transportation authorization bill is necessary and needed.

The aggregates industry, along with other members of the transportation construction sector, are engaging in an all-out effort to take the fight for reauthorization home to build momentum for reauthorization from the grassroots. We recognize that reauthorization will only become a priority if transportation interests, joined by local business leaders, auto dealers, school officials and other users, make it an imperative for lawmakers to act.

Last month, the NSSGA Executive Committee committed to making personal contact with all 535 members of Congress to impress upon them the importance to their businesses of reauthorization. We want to take members of Congress on tours of aggregate operations across the country. We believe seeing is believing and that members of Congress will come away from meetings with our employees and other highway users understanding more clearly the urgency in acting to reauthorize our nation's surface transportation system. Congress must act now or the benefits realized from the ARRA will be lost and the costs of reauthorizing the surface transportation programs will only increase.

Road construction and infrastructure have been a core function of the federal government since its very inception when the Constitution mandated in Article I, Section 8 that Congress establish "post Roads," the precursor of today's interstate system. Our transportation infrastructure is the foundation of America's economic stability and growth, and has fostered its global competitiveness. It is time to make this constitutional duty a congressional priority. I cannot underscore this point enough – without a six-year transportation bill providing predictable future funding, things will get worse.

Simply put, our industry is imploring you to pass a multi-year surface transportation reauthorization bill before the end of this year when the current extension runs out. We believe the momentum generated by ARRA will be lost if Congress fails to act on a well-funded, multi-year surface transportation authorization bill. Only passage of a multi-year bill can alleviate the uncertainty that plagues our industry keeping companies like mine from hiring new employees and purchasing new equipment, prevents state DOTs from undertaking long-term projects and ultimately threatens America's economic recovery and growth. Congress needs to make the long-term health of our nation's transportation infrastructure a priority and we must work together to build the transportation network of the 21st Century.

Again, thank you Mr. Chairman for this opportunity to testify today. I will be happy to respond to any questions.