

NATIONAL STONE, SAND & GRAVEL ASSOCIATION



Natural building blocks for quality of life

**STATEMENT OF
C. HOWARD (WARD) NYE, PRESIDENT
MARTIN MARIETTA MATERIALS, INC.**

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

**REGARDING
THE AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009: 225-DAY
PROGRESS REPORT FOR TRANSPORTATION &
INFRASTRUCTURE INVESTMENT**

**BEFORE THE
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE**

U.S. HOUSE OF REPRESENTATIVES

October 1, 2009

Good morning Chairman Oberstar and Ranking Member Mica:

My name is Ward Nye and I am president of Raleigh, N.C.-based Martin Marietta Materials, Inc., one of the nation's leading producers of construction aggregates. I thank you for the opportunity to appear before the committee today and to present to you the industry's perspective of the American Recovery and Reinvestment Act (ARRA) and to discuss its impact on our industry.

By way of background, Martin Marietta is listed on the New York Stock Exchange and in 2008 had sales revenues in excess of two billion dollars. We engage principally in the construction aggregates business. We have been in the aggregates business through our predecessor companies since 1939. 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. These aggregates products, along with asphalt products, ready mixed concrete and road paving materials, are sold and shipped from Martin Marietta's network of over 288 quarries, distribution facilities and plants to customers in 29 states, Canada, the Bahamas and the Caribbean Islands.

That said, I am testifying today on behalf of the National Stone, Sand & Gravel Association (often referred to as "NSSGA" or "the association"), which represents the aggregates 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 percent of the crushed stone and more than 70 percent 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 percent of our nation's counties include an aggregates operation.

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. Yet, despite the large amounts of aggregates used for all sorts of construction, I am here to report that the industry is facing another year of economic turmoil and difficulty.

According to the USGS, an estimated 492 metric tons of total aggregates were produced and shipped for consumption in the United States in the second quarter of 2009, a decrease of 28 percent compared with that of the same period in 2008. The estimated production for consumption in the first six months of 2009 was 831 metric tons, a 27 percent decrease over the same period in 2008. This decreased usage of aggregates in 2009 was on top of previous declines in 2008 and 2007.

Despite the downturn, there is evidence to suggest that the American Recovery & Reinvestment Act helped maintain the market, even if it was not entirely visible. While there was an intense effort to make sure states did not simply swap their infrastructure funds with ARRA funds, anecdotal evidence suggests some states did. I commend this committee for its efforts to ensure that this did not happen as well as the continued oversight of the expenditure of ARRA funds. Further, I applaud the chairman for wanting to know the details – good, bad and otherwise.

Early this year, as the likelihood that Congress would pass an economic stimulus grew, optimism across the industry that an infusion of infrastructure funding would be forthcoming also increased. In some instances, companies geared up for the year by investing in new equipment and rehiring employees in anticipation of a high level of construction activity in the year ahead.

One NSSGA member company located in the Northeast is a good example of a business that has had identifiable success with the ARRA funds. This past August, the company paved New Hampshire Route 4 with ARRA funds, which required new equipment purchases and through the process hired numerous subcontractors. This type of activity is exactly what the stimulus funds were meant to do. The trickle down effect worked.

In California, another construction aggregates company secured 10 projects worth nearly 25 million dollars. These projects are estimated to have saved 12 salaried and 230 craft positions. Their experience in Nevada was similar after securing four projects worth nearly 18 million dollars. This work saved 30 salaried and 85 craft positions. These numbers are preliminary approximations but provide an anecdotal estimate of the domino-impact of new projects on many segments of the economy.

Similarly, in Martin Marietta's second quarter 2009 earnings call, we reported having received purchase orders for stimulus-financed jobs in virtually every state in which we operate. We noted stimulus jobs in North Carolina and Iowa with project-specific aggregates tonnages in excess of 150,000 tons with 80 percent of those volumes moving in 2009. However, we also stated that such timing was an anomaly as the aggregate shipping on those cited jobs were moving more quickly than we have otherwise experienced.

While the stimulus funds have had a positive impact on state transportation budgets, our members report that, at the same time, many states have reduced their transportation budgets—in some cases severely as they grapple with reduced tax revenues. Next year looks even worse for most state transportation programs.

In preparation for this hearing, NSSGA disseminated a quick survey to its producer members. The results revealed some relevant facts. More than 90 percent of respondents say they have not seen a noticeable increase in sales over the last three months. For those who did see an increase, it was between one percent and 10 percent.

Asked if they expected an increase in orders in the fourth quarter of 2009, 71 percent said no, and only 16 percent responded yes. The remaining 13 percent said they did not know.

Thirty-one percent of respondents think 2010 will bring an increase in sales, but half disagreed and feared there would not be an increase; 19 percent were unsure. When asked about their 2010 state transportation budget, half responded that it is expected to be down, while 38 percent expected it to be level with 2009. The remaining 12 percent were hopeful it would increase.

It is important to note that, on average, roads and bridges constitute 40 percent of the industry's market. The remaining 60 percent is equally divided among residential housing, industrial buildings and public works projects. Due to the continued weakness in the residential and industrial markets in 2009, the transportation market has increased in importance to our members.

For this reason, we cannot draw a straight line conclusion as to the effectiveness of the stimulus bill in creating jobs in our industry. Having said that, large and small companies are reporting that few, if any, jobs have been created. However, some report that employees have been retained or rehired because of the road work stimulated by the ARRA. Unfortunately, about an equal number are saying that people have been let go due to the weakness of the market.

Since the vast number of aggregates operations are typically in the open, facilities located in cold climates usually close for the winter. Historically, 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 to spring. Without the extra hours, many employees will be struggling this winter to make ends meet. So while some workers have been retained, hours (regular and overtime) and overall pay have been reduced.

Here are some specific comments regarding the stimulus from NSSGA producer members that I thought should be shared with you.

One respondent reported:

we haven't seen any stimulus money in our market yet. However, the value I've seen is that the general consumer believes that a stimulus package will be forthcoming and because of that, they have more confidence in the economy and are therefore increasing their spending—at least that's what I see. So, the stimulus package has helped indirectly. We haven't seen an increase in sales, but we haven't lost as much as I think we would have if the stimulus package was not out there.

Another member said:

our business is approaching 2008 volumes. Without the stimulus, we would not be any where near current revenue. We have not increased revenue for 2009 vs. 2008. Also, we have made very few capital expenditures due to no clear transportation fund bill. Without the ability to grow the top line, spending can only go on so long. This is what our government needs to understand.

A third member noted:

we have seen a net decrease in sales over the past three months. In spite of that, we have seen some increase in sales to our asphalt customers as a result in the stimulus bill but the overall market continues to decline. We have seen no new construction jobs in our market area as a result of the stimulus bill.

Drawing from these and other responses, I can tell you that jobs have been retained, but few jobs have been created in our industry due to the stimulus bill. Further, while sales have declined, without the stimulus it would have been worse. Finally, and I cannot underscore this point enough, without a six-year transportation bill providing predictable future funding, things will get worse.

NSSGA also took the opportunity to ask its members if passage of a well-funded, six-year transportation authorization bill would improve the outlook of their business. A strong 93 percent said it would have a positive impact, while the remaining seven percent were unsure. This is important when considering that 90 percent thought that a series of extensions would harm their business, while only seven percent thought a series of extensions would cause no harm. 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.

Mr. Chairman, the aggregates industry in the United States has seen an average 20 percent decline in business; in some regions the decline has been as much as 60 percent. 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 be 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.

Already the construction coalition and those that help fund the system are in agreement that Congress needs to quickly pass a well-funded six-year authorization bill. Just last week four major national associations, the U.S. Chamber of Commerce, American Automobile Association, the American Trucking Association and the National Association of Manufacturers, joined in a joint letter to the president and Congress calling for a robust, multi-year reauthorization bill and endorsed an increase in the user fee on gasoline to ensure the level of funding necessary to meet the needs of the system. I would respectfully ask that the joint letter be inserted in the record of this hearing.

The referenced letter also underscores a clear and well-articulated message of the USGS:

“Infrastructure, such as roads, airports, utilities and many other facilities, is vital to the growth of any populated area. Much of the nation's infrastructure built during the 1950s and 1960s has deteriorated. In many areas of rapid population growth, the infrastructure is becoming inadequate and new roads, streets and sewage systems must be built to meet the increased needs. Maintenance and development of the infrastructure requires large volumes of natural aggregates.”

That volume supply is something the aggregates industry is fully prepared to deliver — for our nation and our stakeholders.

In conclusion let me be clear: the aggregates industry believes any momentum generated by the ARRA will be lost if Congress fails to act, sooner rather than later, on a well-funded, multi-year surface transportation authorization bill. An 18-month extension of the law just kicks the can down the road, so to speak. Our transportation infrastructure is the foundation of America's economic stability and growth and has fostered its global competitiveness. Congress needs to make 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.