American Road & Transportation Builders Association

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On behalf of the American Road & Transportation Builders Association

Hearing: "Bonus Depreciation: What It Means for Small Business"

House Committee on Small Business
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Chairman Velazquez and members of the committee, I am very pleased to be here to testify on behalf of the American Road and Transportation Builders Association (ARTBA), the consensus voice of the transportation construction industry. My name is Jack Sanford, president of Faulconer Construction Company, based in Charlottesville, Virginia.

ARTBA, which celebrated its 100th anniversary in 2002, has over 5,000 member firms and member public agencies from across the nation. They belong to ARTBA because they support strong federal investment in transportation improvement programs to meet the needs and demands of the American public and business community. The industry we represent generates more than $200 billion annually in U.S. economic activity and sustains 2.5 million American jobs.

Faulconer, my company, traces its roots back to the 1880's. The current incarnation of our company was founded in 1946 and I am the third generation in my family to own and manage it. We are a site development and heavy/highway contractor operating in Virginia and North Carolina. We currently have about 260 employees.

We typically perform work for both public and private owners, including the Virginia Department of Transportation, the U.S. military, universities and railroads. The "mix" has usually been about 70 percent public and 30 percent private work at any given time. However, during the current recession, opportunities for private work have declined and, with occasional exceptions, almost all of our work has been for public entities. Therefore, our company has a very keen interest in the status of our federal and state transportation infrastructure programs, as they are the source of much potential work for us.

Thank you for the opportunity to appear before this hearing of the Small Business Committee to discuss "Bonus Depreciation: What It Means for Small Business."

Transportation Infrastructure & Small Businesses

I represent the transportation construction industry, the industry that builds and preserves the nation's roads, bridges, transit systems, airports, railroads and water ports. Each year, more than 10 percent of all the construction work put in place in the United States is on transportation and transportation-related projects.

According to the latest economic census conducted by the U.S. Bureau of the Census, there are just over 11,000 business establishments that are involved in transportation construction. Most are small businesses. More than 90 percent have less than 100 employees, and the average is less than 40.

But it is a very capital intensive industry. The average establishment buys or leases almost $500 thousand dollars of heavy equipment each year, versus $20 thousand for the average residential construction company. As a result, long-term predictability of federal, state and local highway investment is very important to businesses in the transportation construction industry.

While my industry is basically an industry of small businesses and the federal highway program is of critical interest to us, it is important to recognize the importance of federal highway investment to a broad range of small businesses in our economy.

In virtually every industry, small businesses depend on the nation's transportation network to move people and products around town and around the country. Retailers need reliable transportation to get seasonal products from ports to their stores. Service providers need reliable roads to get service trucks and workers to customers. Virtually every manufacturer depends on the just in time delivery system as a way to control inventory costs.

Highway congestion has become a major drain on the energy and vitality of American small businesses. It negatively affects small businesses in three significant ways:

- When employees are paid by the hour, time lost waiting in traffic or waiting for a delivery means higher costs.
- When businesses are paid by the job, by the trip or by the call, traffic congestion that reduces the number per day means lower incomes.
- Most important, when the day is spent dealing with the fall-out of highway congestion—scheduling, routing, late deliveries, missed appointments, unhappy customers—this takes time away from planning and growing the business.

Depreciation Bonus

The economic difficulties our nation has suffered since 2008 have hit the U.S. construction industry particularly hard. Our sector continues to be plagued by unemployment levels in excess of 20 percent—more than twice the national average. At the same time, state budget challenges are forcing many states to scale back their transportation programs. Compounding this situation has been the virtual disappearance of private sector transportation infrastructure projects which I mentioned previously. As a result, the U.S. transportation construction industry is not seeing the type of recovery that some other segments of our economy are beginning to experience.

Certainly, the transportation infrastructure investments provided in the American Recovery and Reinvestment Act of 2009 have been a lifeboat for our sector and state departments of transportation. The measure's $27.5 billion in highway investments, $8.4 billion for public transportation improvements, and $1 billion for airport construction have prevented many states from making major cutbacks in transportation investments and in some areas have led to market expansion. The bottom line is that while our industry still has a long way to go, we would be in a much deeper hole without the recovery act's transportation investments.

In addition to the ARRA's boost to U.S. infrastructure improvements, the act included a critical one-year extension of the 50 percent depreciation bonus enacted in 2008. Allowing firms to accelerate the depreciation of equipment purchases has a proven track record of stabilizing companies and providing new opportunities for equipment manufacturers.

One of ARTBA's affiliated chapters, the General Contractors Association of New York, reports that some of its member-firms did use the bonus depreciation provision in 2009. They include a larger transportation construction company which chose to purchase $10 million of heavy construction equipment last year because of the tax benefits coming from bonus depreciation.

Another, smaller New York company purchased two new pieces of equipment in 2009 from the local Caterpillar dealer—a pay loader and an excavator—rather than waiting until the New York construction market improved. They cited the bonus depreciation provision as the reason.

The Virginia Transportation Construction Alliance, the statewide industry association to which my company belongs, reports that a bridge-building contractor purchased a $1.1 million crane because of the combination of low interest rates and the depreciation bonus that was then in effect. A second Virginia construction firm reports it purchased nearly $650,000 of equipment in 2008 and 2009 because of this provision.

Extending depreciation bonus will encourage both job creation and the purchasing of newer, more environmentally friendly construction equipment. Currently, the Senate is considering such a measure as an amendment to H.R. 5297, the "Small Business Jobs and Credit Act of 2010."

Allowing firms to reduce their tax liability in the first year of an equipment purchase incentivizes companies of all sizes to purchase new equipment. These savings would provide new equipment purchasers the ability to create new and retain existing jobs at a time when the construction industry is under duress from a series of external challenges.

Furthermore, extending the depreciation bonus would help protect the environment, as newer equipment will have more up-to-date environmental controls. Today's heavy construction equipment is far cleaner than what was used a generation ago. In fact, according to the United States Environmental Protection Agency (EPA), emissions from new engines in off-road equipment such as backhoes, excavators and large tractors have been reduced by 85 percent for soot and 70 percent for nitrogen oxides. Extension of the depreciation bonus will allow companies to purchase the newest, cleanest equipment models and help ensure construction emissions continue to decline.

On a much broader scale, it should be noted that incentivizing companies to purchase new equipment has benefits beyond immediate economic activity and employment support. This tax benefit allows companies like mine that pride themselves on building the nation's transportation infrastructure improvements to purchase newer, more efficient equipment. This equipment, in turn, will be utilized to more effectively deliver transportation improvements that all Americans and U.S. firms rely upon daily.

Certainly, ARTBA and I are enthusiastic supporters of the depreciation bonus. As you continue to deliberate on this issue, I would like to offer a modest adjustment that could make the provision even more effective. The current regulations provide a narrow three-month window for firms involved in a lease of new equipment to take advantage of the accelerated depreciation if they chose to purchase that equipment. From personal experience, I can tell you that expanding this window would allow even more firms to take advantage of the depreciation bonus and, at the same time, achieve the objective of facilitating increased purchase of new construction equipment.

I would be happy to provide the Committee with more specifics about this suggestion, but hope you will consider this recommendation as you work on this matter.

Surface Transportation Reauthorization

Madame Chairman, earlier I mentioned the array of challenges currently facing the U.S. transportation construction industry. I would be remiss in not pointing out the most meaningful action Congress could take for our sector and its thousands of small businesses is enactment of a multi-year reauthorization of the federal highway and public transportation programs.

While states are suffering from their own budget challenges, they are also impeded by the uncertainty surrounding the future of federal surface transportation infrastructure investments. The federal government constitutes 40 to 45 percent of the U.S. highway construction market. As such, it is no surprise that states are reluctant to move forward with long-term transportation improvement plans and projects when nearly half of the nation's surface transportation investments are in limbo.

The last federal surface transportation bill expired almost 10 months ago and only the House Transportation & Infrastructure Committee has put forth an attempt to reauthorize these programs. I recognize the purpose of today's hearing is to talk about the depreciation bonus, but members need to understand the interrelationship between this tax benefit and the lack of action on the multi-year surface transportation bill.

As a business owner, the lack of certainty about this legislation—its overall investment levels and when it will be forthcoming—directly impacts my decision to make capital purchases. This creates a situation where two factors are working at cross purposes: the depreciation bonus is an excellent incentive to purchase new equipment, but the lack of a reauthorization bill is an equally powerful disincentive.

In closing, I hope all members will work with your respective leaderships to make passing an extension of the depreciation bonus AND a multi-year highway and public transportation bill a priority in 2010.

Thank you again for the opportunity to appear before you today. I would be happy to answer any questions from the committee.