

STATEMENT OF

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ON BEHALF OF

**THE NATIONAL STONE, SAND & GRAVEL
ASSOCIATION**

BEFORE THE HOUSE SMALL BUSINESS COMMITTEE

HEARING ON

**“THE ROAD AHEAD: SMALL BUSINESSES AND THE NEED
FOR A LONG-TERM SURFACE TRANSPORTATION
REAUTHORIZATION”**

June 3, 2015

Thank you, Chairman Chabot and Ranking Member Velazquez, for the opportunity to testify today on behalf of the National Stone, Sand and Gravel Association (NSSGA) about the importance of the nation's surface transportation system to small businesses, and particularly small aggregates companies. I am Bill Schmitz, Vice President of Dan Gernatt Gravel Products, Inc.

Since 1946, the Gernatt family and their companies have been proud to serve all of western New York. Comprised of Gernatt Asphalt Products; Dan Gernatt Gravel Products, Inc.; and Country Side Sand and Gravel, Inc., our companies provide sand, gravel, stone, landscape aggregate, hot mix asphalt products and trucking to Buffalo, N.Y., western New York and northwest Pennsylvania.

NSSGA is the leading voice and advocate for the aggregates industry. Its members – stone, sand and gravel producers and the equipment manufacturers and service providers who support them – produce the essential raw materials found in homes, buildings, roads, bridges and public works projects. During 2014, NSSGA member companies represented more than 90 percent of the crushed stone and 70 percent of the sand and gravel consumed annually in the U.S., and there are more than 10,000 aggregates operations across the United States. Nearly every congressional district is home to an aggregate facility. Production of aggregates in the U.S. in 2014 totaled 2.39 billion tons at a value of \$20.3 billion.

Seventy percent of NSSGA members are small businesses. Failure of Congress to enact a highway bill, changes in the regulatory environment governing aggregates extraction or their use have huge impacts on small business. I know, because I come from a small business.

The first of our sites was in Collins, N.Y., on the Gernatt family dairy farm. In 1955 Dan Gernatt mortgaged his farm to put up a sand and gravel plant when Interstate 90 was first constructed 12 miles from the farm. The dairy herd was milked daily while the gravel plant ran in the barnyard. This first operation was run by Dan Sr., Dan Jr. and two employees. The cows were eventually sold as they added a concrete plant and an asphalt plant to the Collins location. Since our founding, we have expanded to have eight sand and gravel processing plants, six hot mix asphalt plants, one contractor supply outlet, a rock salt terminal and numerous sand and gravel excavation sites.

Our locations are spread over three western N.Y. counties in rural areas where people struggle to find good paying jobs. The Gernatt organization considers its 175 loyal employees as family and we want to provide them the well-paying, stable employment they deserve. The business has grown because of the hard work by the Gernatts and their employees. We are an open shop operation where everyone works together for the common goal of making the company's successful. The Gernatts share their faith-based values and are strong supporters of the local businesses and community efforts where we operate. It is important to us that the local repair shops, auto dealers, tire shops, welders, painters and all other support businesses benefit from our success. We are an integral part of the western New York community and we do this because it is the right thing to do.

Aggregates are the foundation of our business and an essential American industry that serves as a barometer for the rest of the U.S. economy. Without it we cannot make hot mix asphalt, concrete, landscape stone or winter road sand. Stone, sand and gravel are essential to any construction project – public and private. When the demand for our products is high, the nation is growing, jobs are being created and essential national assets are being built. If the aggregates industry is doing well, America is doing well and so are Gernatt companies.

Aggregates are used in nearly all residential, commercial, and industrial building construction. They are also used for many environmental purposes, including pervious pavements and other LEED building practices, the treatment of drinking water and sewage, erosion control on construction sites, and the treatment of air emissions from power plants. While Americans take for granted this essential natural material, it is imperative for the construction of our infrastructure and homes and for positive growth in our communities.

We in the aggregates industry remove materials from the ground, then crush and process them for various uses. Hazardous chemicals are not used or discharged during removal or processing of aggregates. When aggregates producers are finished excavating the stone, sand or gravel in an area, they pay to return the land to other productive uses, such as residential and business communities, farm land, parks, lakes or nature preserves.

While stone, sand and gravel resources may seem to be ubiquitous, construction materials must meet strict quality and technical guidelines to make durable roads and other public works projects. There is no shortage of aggregates; however the availability of future sources of high quality aggregates could become a significant problem in many areas of the country if proposed regulatory changes, like the recently issued EPA waters of the U.S. rule, are implemented.

Sales of natural aggregates generate over \$40 billion annually for the U.S. economy. When combined with related industries, such as cement, concrete, asphalt and construction equipment and supplies, the transportation construction industry generates more than \$200 billion in economic activity every year and employs more than two million people.

Through its economic, social and environmental contributions, aggregates production helps to create sustainable communities and is essential to the quality of life Americans enjoy. Aggregates are a high-volume, low-cost product. Due to high product transportation costs, proximity to market is critical; unlike many other businesses, we cannot simply choose where we operate. We are limited to where natural forces have deposited the materials we mine. There are also competing land uses that can affect the feasibility of any project. Generally, once aggregates are transported outside a 25-mile limit, the cost of the material can increase 30 to 100 percent. Because so much of our material is used in public projects, any cost increases are ultimately borne by the taxpayer. Since we operate near areas of limited quality reserves we ship up to 200

miles via truck and rail to meet the demand where quality aggregates are not locally available. This is only possible using adequately maintained highways and railways.

Over the past eight years, the aggregates industry, like many others, has experienced the most severe recession in its history with the federal regulatory tsunami causing further harm to an industry that has seen production drop by 39 percent since 2006. During that time, when the commercial and residential construction markets slowed to a crawl, we were forced to scuttle expansions, lay off employees and alter our business plans.

Our highway system infrastructure continues to deteriorate at a rate much faster than we are making repairs. Our local towns, counties and New York State DOT struggle to maintain adequate conditions, say nothing of reconstructing roads that have exceeded design life or design capacity. With federal funding in a continual state of limbo, states are unable to adequately plan for long term infrastructure repair and maintenance. With all this uncertainty small businesses, like ours, struggle to plan our futures. Our equipment is extremely expensive, so making huge capital equipment investments without a clear vision is difficult at best. Many things need to fall into place to do a project in the shortened construction seasons of the northern U.S. While it may not seem like long time, a four-week delay in funding or awarding contracts will cause a project to lose a complete construction season and add to its cost. This causes a ripple effect, affecting many businesses along the supply chain resulting in a great deal of economic distress.

The business of successfully building and maintaining our national surface transportation infrastructure depends in large measure on funding stability and year-over-year predictability provided by the surface transportation authorization. The extension of the current law, MAP-21, expired on May 31.

Congress passed a two-month extension of the program to July 31, which continues authorization of the program and allows continued expenditures from the Highway Trust Fund. It was the 33rd short-term extension of the program over the past six years. At the end of July, the Highway Trust Fund is expected have a balance of \$3.5 billion.

Congress needs to do what they were elected to do and stop kicking the can down the road by addressing the long-term funding of our nation's surface transportation infrastructure. No more short-term extensions. Reauthorization is critical to NSSGA's many small aggregates producers like us.

We are active in our community organizations, within our state trade associations and with other national trade associations including the National Asphalt Pavement Association. Regardless of which organization I am participating in, the conversation is the same. When are we going to fix our highways and infrastructure? Elected officials on every level recognize the need for sustainable, stable, adequate funding to maintain AND improve our highway system. Our employees ask, "When are we fixing the roads and bridges we drive on every day?" New York State DOT personnel open each meeting with a plea for us to call our congressmen and get the state DOT a stable

program so they can plan for our future needs. We can no longer ignore the elephant in the room.

In the absence of a long-term plan, my customers are telling me they are not sure what the next years are going to bring to them, thereby causing me to withhold investment in plants and new machinery for the foreseeable future. It is increasingly difficult to do long range workforce planning due to uncertain demand.

Last increased in 1993, the transportation user fee has outgrown its current buying power. The cost of materials and labor has gone up dramatically since then, as well as increased fuel efficiency. In order to keep up with the twenty-first century, two commissions, created by the last multi-year surface transportation reauthorization law, recommended a simple, straightforward, effective solution -- to increase the fuel user fee coupled with indexing it to inflation. The commissions' reports suggested other potential revenue sources; so too, have reports from a host of organizations. Revenue options are not the problem.

Continued patches and temporary fixes hurt future and existing projects as states and localities are hesitant to move forward out of fear the federal government will not meet its funding obligations.

Multi-year surface transportation reauthorizations are particularly vital for the funding confidence they instill in state departments of transportation. When they know that the Federal Highway Administration will apportion their funding year after year, in the amount authorized, they have confidence that their state expenditures will be reimbursed. The states then award contracts, and the process of building and maintaining our transportation infrastructure can proceed smoothly. Confidence in the stability of the program is a critical factor in ensuring success, particularly for small businesses.

When there are doubts, as there are today, awards for construction slow. Already Arkansas, Georgia, Tennessee, Wyoming Montana, Nevada, Utah, Colorado, Nebraska, Mississippi, Pennsylvania, West Virginia, Connecticut, Vermont and Maryland have either delayed or cancelled highway, bridge or transit capital projects this year or are considering doing so because of uncertainty over future federal funding. Congressional highway program extensions have affected \$1.3 billion in transportation improvement projects.

The aggregates industry alone employs approximately 100,000 highly-skilled men and women. Nearly 700,000 jobs rely on federal transportation spending. At its core, surface transportation reauthorization is a jobs bill that results in long-term national assets.

A recent Transit Labs report on the best and worst bridges found that 430 of 435 congressional districts have at least one structurally deficient bridge. What makes a bridge structurally deficient? Federal law requires states to inspect their 20+ft. bridges every two years. Bridges are rated from 0-9 with 9 being the best. Federal guidelines

classify bridges as “structurally deficient” if one of the three components holding up the bridge (deck, superstructure or substructure) is given a 4 or less.

According to the report, 11 percent of congressional districts account for over half of our nation’s deficient bridges. If you break it down, there are more than 300 deficient bridges per district and more than 32,000 structurally deficient bridges in total. In many states – Iowa, Illinois, Indiana, Kansas, Missouri, Mississippi, New York, Oklahoma, and Pennsylvania there are at least 3 districts with more than 300 deficient bridges. The Memorial Bridge that links Arlington National Cemetery with the nation’s Capital City was deemed structurally deficient and restricted to a single lane of passenger vehicles in each direction. The crisis is nationwide.

We recognize the difficulty in finding long-term funding for the highway program. NSSGA supports an all-the-above approach to fund our nation’s infrastructure projects. We also understand that no one funding mechanism is a panacea. In the absence of action, the costs to maintain and improve our nation’s vascular system only increase. Meanwhile, Americans are becoming more and more frustrated with the growing number of potholes, cracked roads and traffic jams plaguing our roads, highways, and bridges. According to the Texas Transportation Institute Americans spend 38 hours and \$121 billion in wasted fuel sitting in the congestion plague our urban areas. Extra vehicle repairs and operating costs are costing \$94 billion a year billion -- \$444 per motorist.

President Eisenhower signed the law creating the National Interstate Highway System nearly sixty years ago. It was designed to last 25 years. We are 34 years beyond its useful life. Is it any wonder that it is deteriorating?

The least expensive way not to waste fuel and to improve air quality is to increase the capacity of our roads and bridges and alleviate congestion. The Federal Highway Administration estimates that each dollar spent on road, highway and bridge improvements results in an average benefit of \$5.20 in the form of reduced vehicle maintenance costs, reduced delays, reduced fuel consumption, improved safety, reduced road and bridge maintenance costs and reduced emissions as a result of improved traffic flow.

Improved safety is another important reason to pass a multiyear highway reauthorization bill now. There were 32,719 traffic fatalities in 2013 in the U.S. A total of 165,340 people died on U.S. highways from 2009 through 2013. The fatality rate on the nation’s rural roads is disproportionately higher than that on all other roads. There were 1,199 traffic fatalities in 2013 in New York. Motor vehicle crashes cost New York \$19.5 billion per year, \$1,027 for each resident, in medical costs, lost productivity, travel delays, workplace costs, insurance costs and legal costs.

We can do better. Safety must come first to ensure that you and I and our families, friends, and employees get to and from their daily activities safely. Gernatt Companies are committed to the safety of its most precious resource – our employees. The company uses all possible means, be they administrative or engineering controls – to protect employees. While our industry is based around large equipment, conveyors,

crushers, off road equipment and lots of dump trucks, we pride ourselves on our safety record. Our small company devotes numerous personal and monetary resources to maintaining our safety program. While we all must comply with the federal regulations enforced by Mine Safety and Health Administration and Occupational Safety and Health Administration, we are part of a captive self-insured group that requires safety programs to exceed any federal regulations. We hold annual safety refresher courses, maintain our own safety committee and send a cross-section of employees to our captive safety meetings. We also utilize an employee wellness program through our health insurance captive as commercial health insurance has become cost prohibitive.

There are those that say we should devolve the program to the states in order to return maximum discretionary authority and fiscal responsibility to them for all elements of the national surface transportation systems. It is critical to remember that the federal government's role in maintaining the national road network, which carries more than 73 percent of the 48 million tons of goods transportation across the country daily, is a constitutional one. Article 1, Section 8, directs the federal government "To establish Post Offices and post Roads," or the forerunner of our national highway system. Devolution of the program would saddle the states with 90 percent of the fiscal responsibility for supporting highways that the federal government has an obligation to establish. In order to make up lost federal monies, New York would have to raise the gas user fee 20.7 cents and the diesel fuel user fee 19.3 cents.

A better approach is to reform the system, not risk the nation's economic future by disinvesting in a highway system that is already under-funded.

Mr. Chairman, again thank you for the opportunity to testify today. Let me reiterate the importance to the aggregates industry and all small businesses of Congressional action on a multi-year surface transportation reauthorization, one that increases investment in the nation's roads, bridges, and highways. Our industry, like most businesses, requires certainty to make sound capital investment decisions. Reverting to short-term extensions will only create havoc in resource development decisions and construction projects.

Attached to my statement are two infographics that NSSGA put together. "Small Change" calculates the real costs to the average American of the Corker-Murphy proposal to increase the fuel user fee \$12 cents. The second infographic shows visually the costs of doing nothing.

We look forward to continuing to work with you in doing what is right for America. If we ignore the maintenance and improvement of our nation's road and highway network – the circulatory system of America, it is at our own peril, we risk the loss of economic growth, improved safety, cleaner air, and jeopardize the freedom of mobility we all take for granted.

Attachments

SMALL CHANGE

American drivers pay an average \$94 a year to access over 11,618 miles of highways, roads and bridges. These funds come from a modest 18.4¢ per gallon tax on each gallon of gasoline. Since the gas tax hasn't changed since 1993 and the cost of building and maintaining roads has risen, the Highway Trust fund is slowly going in the red. With a growing number of potholes, cracked roads and traffic jams plaguing America, we need a common-sense and responsible way to pay for improving our infrastructure.

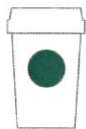


AVERAGE ANNUAL FUEL TAXES PAID BY PASSENGER VEHICLES



HYBRID @ 40MPG

WHICH IS EQUAL TO



ONE 20 OUNCE
HALF-CAF SOY LATTÉ
PER MONTH



SEDAN @ 22MPG

WHICH IS EQUAL TO



ONE HAMBURGER
AND COLA
PER MONTH



SUV @ 16 MPG

WHICH IS EQUAL TO



HALF OF A
PORTERHOUSE
PER MONTH

HOW WILL A 12¢ INCREASE IN THE GAS TAX IMPACT DRIVERS?

ADDITIONAL



PER YEAR FOR HYBRIDS

WHICH IS EQUAL TO



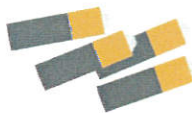
16 OUNCE BAG
OF TORTILLA CHIPS
PER MONTH

ADDITIONAL



PER YEAR FOR SEDANS

WHICH IS EQUAL TO



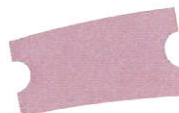
FOUR AA
BATTERIES
PER MONTH

ADDITIONAL



PER YEAR FOR SUVs

WHICH IS EQUAL TO



ONE MOVIE
TICKET
PER MONTH

The Murphy-Corker Proposal:
an effective and responsible way
to save the Highway Trust Fund

NSSGA

NATIONAL STONE, SAND
& GRAVEL ASSOCIATION

*Source: Government Accountability Office (GAO)

FIX THE HIGHWAY TRUST FUND NOW!
THE HIGH COST OF DOING NOTHING

THE AVERAGE DRIVER SPENDS **38** HOURS PER YEAR
STUCK IN TRAFFIC



DRIVING ON ROADS
IN NEED OF REPAIR
COSTS U.S. MOTORISTS
\$94 BILLION
A YEAR IN EXTRA REPAIRS
AND OPERATING COSTS ...

\$444
PER MOTORIST
PER YEAR

SOURCE: TRIP, www.tripnet.org

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& GRAVEL ASSOCIATION