



AED Washington Office
121 North Henry Street
Alexandria, VA 22314
Telephone: 703.739.9513
Facsimile: 703.739.9488
E-Mail: aeddc@aednet.org

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

**STATEMENT OF DON SHILLING, PRESIDENT, GENERAL EQUIPMENT & SUPPLIES
FARGO, NORTH DAKOTA**

ON BEHALF OF ASSOCIATED EQUIPMENT DISTRIBUTORS

BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

June 3, 2015

Chairman Chabot, Ranking Member Velázquez, and other distinguished members of the House Small Business Committee, my name is Don Shilling, and it is my pleasure to appear before you today both as an executive at a construction equipment company directly impacted by the uncertainty surrounding federal surface transportation programs and in my capacity as chairman of Associated Equipment Distributors (AED).

I am the president of General Equipment & Supplies, the authorized Komatsu construction equipment dealer for North Dakota and Western Minnesota. In addition to our four North Dakota locations, we have two facilities in Minnesota and one in South Dakota. We also have two Canadian locations. General Equipment & Supplies employs 235 American workers.

AED is the trade association representing distributors of construction, mining, energy, forestry, industrial, and agricultural equipment. AED members supply the equipment that builds America's highways, bridges, airports, sewer, and drinking water systems and the association has a longstanding commitment to strong federal infrastructure programs. AED's members range in size from small dealerships with one location and a handful of employees to larger companies with thousands of employees and dozens of locations across several states. However, the overwhelming majority of AED's members are small, family businesses: AED's average member achieves about \$40 million per year in revenues and employs 80 people.

I appreciate the opportunity to come before the Committee to discuss the nation's infrastructure crisis; the impact the federal highway program's uncertainty has on my company and the broader industry; and what needs to be done immediately to restore confidence in construction markets.

Confronting the Nation's Infrastructure Crisis

America's surface transportation needs are well documented and negatively impact the country's economy, national security, competitiveness, productivity, and environment. In fact, the World Economic Forum ranks the United States quality of roads 16th in the world, behind the likes of China, Japan, Oman, and the United Arab Emirates.

According to the Transportation Road Information Program (TRIP), a nonpartisan organization that researches, evaluates, and distributes economic and technical data on surface transportation issues,

The association of leaders in equipment distribution.

nineteen percent of America's major roads are in poor condition and twenty-four percent of the nation's bridges are structurally deficient or functionally obsolete. Road and highway needs aren't limited to heavily populated areas. TRIP recently released a report concluding America's rural roads and bridges have significant deficiencies. In 2013, 15 percent of the nation's major rural roads were rated in poor condition and another 39 percent were rated in mediocre or fair condition. In 2014, 11 percent of the nation's rural bridges were rated as structurally deficient and 10 percent were functionally obsolete, impacting U.S. agricultural sectors and hampering farmers from delivering goods from farm to market in a timely manner.

As Congress delays addressing the country's drastic needs, the public is paying the price in lost productivity and vehicle repairs. TRIP found that inadequate roads cost U.S. drivers \$109 billion a year in extra vehicle repairs and operating costs. According to the Texas Transportation Institute, traffic congestion (resulting in large part from inadequate capacity) detracts more than \$121 billion per year in wasted fuel and lost productivity from the U.S. economy and costs the average American commuter approximately \$818 annually, threatening the environment and public health.

Few will argue that the time for substantial investment in our nation's surface transportation infrastructure is long overdue. Nonetheless, lawmakers continue to punt the tough decisions about how to pay for robustly funded, long-term surface transportation legislation to restore certainty to the Highway Trust Fund (HTF) and provide certainty to construction markets.

Impact of Highway Investment Uncertainty on General Equipment & Supplies

General Equipment & Supplies and AED members across the nation, operating in every state and congressional district, are ready to supply the heavy equipment needed to rebuild America. The HTF consistently flirts with bankruptcy as gas taxes and other highway user fee revenues are insufficient to support even the current inadequate levels of transportation investment. This is creating enormous uncertainty for transportation planners, contractors, and equipment distributors.

My company is fortunate. The energy boom in North Dakota has allowed General Equipment & Supplies to stay in business despite significant decreases in our equipment sales to road contractors, which account for about 50 percent of our customer base. However, our Minnesota locations, which almost predominately services highway markets, have seen dramatic reductions in sales, due to the uncertainty surrounding federal investment. In fact, between 2013 and 2014 we saw a 34 percent reduction in equipment whole goods retail sales. Even in North Dakota, the state is reluctant to bid long-term, equipment intensive jobs, and recently pulled 30 contracts due to lack of confidence in the HTF.

Historically, General Equipment & Supplies (and most AED members) primarily sold heavy construction equipment. However, we increased rentals by 26 percent between 2013 and 2014 due to the uncertainty surrounding federal investments. While we're grateful for the business, the drop in sales has broad implications, including forcing dealers to continue to carry rental equipment on our balance sheets (along with the associated financial risk) and tying up cash that could be used to hire more workers and invest in the company.

The HTF's precarious situation is also impacting business decisions. My company has considered opening a new location in North Dakota, which means purchasing a 20,000 square foot building and hiring between 12 and 20 new employees. I've been reluctant to expand because of lack of confidence in highway markets, since the new facility would primarily service the road building and agriculture sectors.

Additionally, it should be noted that AED members' interest in resolving the uncertainty surrounding federal surface transportation programs isn't solely to increase sales. My company services customers in a territory over 100,000 square miles and we are heavily reliant on the interstate highway system. We deliver parts nightly from Minneapolis to Western North Dakota. Also, a majority of our equipment servicing and repairs happen in the field where our service trucks are dispatched daily to remote job site locations. As a small business, delays and costs associated with inadequate highways and congestion significantly increase operating expenses, hindering investment in the company.

The Impact of Highway Investment Uncertainty on Equipment Markets

The detrimental impact of the uncertainty surrounding the HTF isn't unique to General Equipment & Supplies. In fact, by August, without action, economic shockwaves will reverberate throughout the country as the HTF will be unable to support any highway or transit spending, jeopardizing more than \$50 billion in annual investment and threatening \$2.4 billion in equipment market activity (i.e., dealer revenue from sales, rental, and product support) and close to four thousand equipment dealership jobs.

In preparation for this hearing, AED conducted a quick survey of its membership to gauge the federal highway program's impact. Ninety-one percent of respondents said that surface transportation construction either had a significant impact on demand for their companies' products or that it was their most important market. Not surprisingly, the effects of the uncertainty are the same nationwide as they are in my territory. Here's a sampling of some of what our members said about how they and their customers are impacted:

Uncertainty is forcing dealers to cut jobs. "Our company has 25% less employees than we did in 2008, with a \$10 million smaller payroll," said an AED member in Tennessee.

Dealers must carry more risk and divert resources due to the uncertainty. "Contractors have less certainty about their long term future, thus they tend to rent equipment rather than buying. That means we have to borrow more money to have equipment on hand to meet our customer's needs," writes an AED member in Texas.

Congressional inaction is hindering economic growth. An AED member in Connecticut said, "Without a long term plan, contractors are not willing to invest in equipment for future work, thus restricting growth in our business.

Uncertainty is causing contractors to delay investments in heavy equipment. An AED member in New York said, "It has negatively impacted our company due to the lack of longer term planning of

projects/programs. The larger, more impactful projects tend to be delay and postponed - contractors are less likely to invest in equipment due to the uncertainty of future projects." A California-based equipment distributor wrote, "The short-term extensions do not allow construction contractors to make decisions regarding fleet equipment purchases."

While the economic harm being caused by the uncertainty is clear, so is the fact that enacting a new fully-funded, long-term highway bill would have broad economic benefits for our industry and beyond. For example, ninety-one percent of our survey respondents said they would likely add employees if Congress passed a highway bill. Seventy-eight percent would purchase new service trucks and 91 percent would increase inventory levels, all of which would help the manufacturing sector.

A new, long-term highway bill would also create new business activity for construction contractors, even those who don't build roads as evidenced by the fact that 47 percent of our survey respondents, similar to my company, are likely to expand or improve existing facilities and more than a third would open new locations if Congress restores certainty to the program.

The Solution

What's needed is bold, decisive action to restore long-term certainty to the federal highway program. A 2013 study conducted by researchers at William & Mary's Thomas Jefferson Program in Public Policy found that the HTF deficit will amount to \$365.5 billion by 2035. The AED report also proposed bold solutions: increasing the gas tax to 25 cents per gallon and indexing it for future inflation would raise \$167 billion more than current baseline spending requirements over the next two decades.

AED strongly supports a user fee increase in the near-term as Congress develops a more sustainable revenue model (e.g., vehicle miles travelled fee). Nonetheless, all options should be on the table to fully fund the federal highway program well into the future and ensure a strong federal role in surface transportation investment.

Finally, Congress must also keep in mind that funding surface transportation infrastructure isn't government "spending". It's an investment that pays for itself. A 2012 AED study found that as with capital assets bought by a business, over 20 years, each dollar invested in highways and streets returns approximately \$0.35 in tax revenue and for each dollar invested in highways and streets, \$0.23 of tax revenue accrues at the federal level.

Conclusion

In sum, our nation faces an unparalleled infrastructure crisis. Congress can't keep kicking the can down the proverbial road because the road is deteriorating and full of potholes. We need immediate and aggressive congressional action to ensure that our transportation system does not degrade further and that state and federal governments have the resources they need to address the crisis. The small business-dominated construction equipment industry is directly impacted by federal infrastructure spending and thousands of jobs are affected by this federal program.

The current uncertainty surrounding federal infrastructure programs is contributing to volatility in equipment markets. At the same time, equipment distributors and their employees suffer the

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consequences of under-investment in infrastructure along with other businesses and the general public.

AED therefore urges Congress to quickly resolve the near-term uncertainty surrounding the HTF and to enact a long-term highway reauthorization bill that creates new revenue streams to support infrastructure investment. Further delay is inexcusable; the American people deserve bold, decisive leadership. Now is the time for Congress to step up to the plate.

If Congress seizes this historic opportunity to the act, the benefits of new infrastructure investment will be felt immediately and for years to come as America positions itself to compete globally with a stronger economic backbone.