

09-1-4
Bill Davis



Comments to the California Air Resources Board

January 22, 2009

Re: Amendments to the off-road heavy duty diesel regulation

By:

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Good Morning Chair Nichols and Members of the Board



In 1516, Sir Thomas More took quill to paper and penned a small book called *Utopia*.

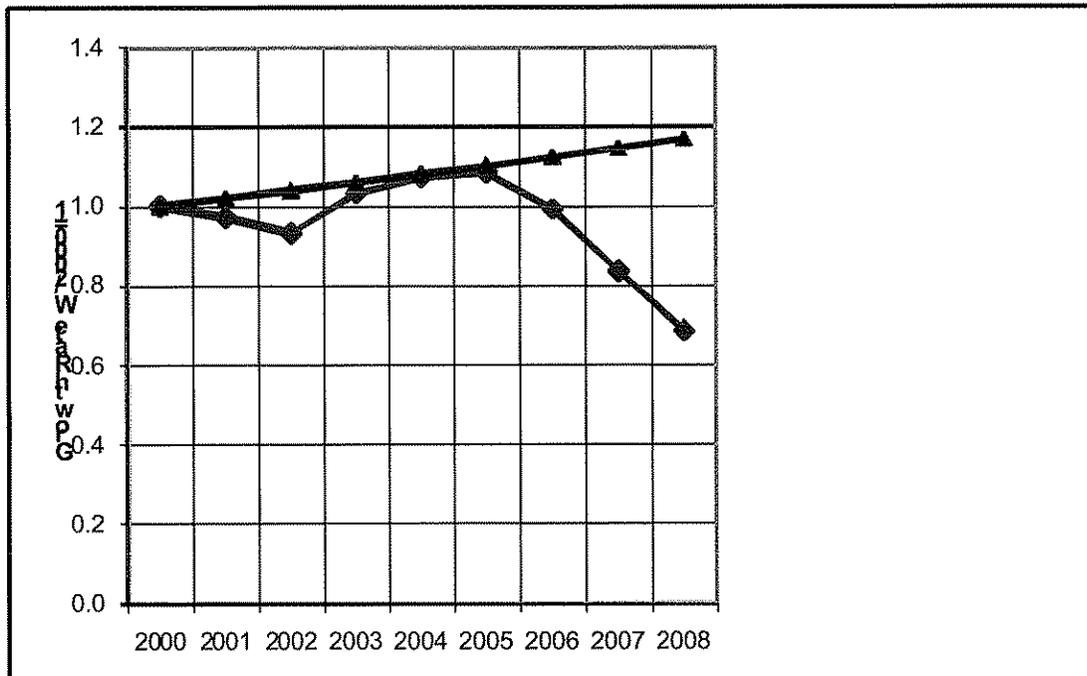
In the book, More described a fictional island where all was as near perfection as humanly possible...the residents were all employed and there were no lawyers. More's work is generally described as a satire poking fun at the plague of evils including lawyers, that had descended on England during his time.

When he was later chancellor to King Henry III, More lost his head for daring to tell the sovereign the truth. More was later canonized as a Saint in the Roman Catholic Church—today he is the patron saint of public servants, among other groups in need of his example.

More's life and satire made plain that nothing created by man can be perfect.

And so it is that we come before you today to make the case for additional amendments to the off-road diesel regulation, which is far from perfect.

First among its flaws was the ludicrous economic analysis that showed how the construction industry could easily afford to replace all of its equipment over the next ten years. Below is a chart that illustrates the laughable (if it weren't so deadly serious) economic projections...and the terrible reality that all in our industry currently face.



The purple line illustrates the ARB economic projection....which continues up in a straight line forever.

The red line is the real economic activity of our industry...and it will go down more before it goes up.

A second major error in the off-road diesel regulation is its over-reliance on promises of the VDECS suppliers that there would be adequate supplies of these devices to meet the requirements of the rule. Now, with reality staring us in the face we know that there are perhaps six suppliers who can cover less than 20 percent of the fleet.

We support the amendments before you today, but we also petition the Board to consider CIAQC's proposal to revisit this flawed regulation and get it right before implementation and enforcement. To do otherwise is to compound the flaws and watch the rule fail to meet its objectives of cleaning up emissions from the construction fleet.

Additional, factual material regarding construction industry economics.

Construction Industry Research Board report—Heavy Construction—January 22, 2009

OVERVIEW

This report summarizes California construction trends and forecasts for the state as a whole for all categories of construction and a more detailed update of the *public-works* construction sectors: public buildings (government owned) and heavy (civil works) construction.

In **DECEMBER 2008** public works construction totals \$1.219 billion, down 12.5% from November and down 23.0% from December 2007. Public-buildings construction is down 12.6% from November and down 28.5% from December 2007. Heavy construction is down 12.4% from November and down 17.2% from December 2007. (See Table 1, page 4.)

In all of 2008 public-works construction as a whole totals \$20.722 billion (preliminary), down 6.2% from 2007, not adjusted for inflation. The public-buildings sector is up 1.7% for the year but the heavy construction sector is down 13.0%. Very large projects can distort month-over-month comparisons. (See Table 1, page 4, including major-project notes.) See Tables 3 through 8, pages 6 through 11, for data by county and for years 2005 through 2007 and to date 2008.

YEAR-TO-DATE COMPARISONS, ALL CONTRACTS OR PROJECTS (IN \$1,000s)

<u>SECTOR</u>	<u>12 MOS 2008</u>	<u>12 MOS 2007</u>	<u>% CHANGE</u>
PUBLIC BUILDINGS	\$10,323,283	\$ 10,152,851	+ 1.7%
HEAVY CONSTRUCTION	<u>10,399,055</u>	<u>11,948,324</u>	- 13.0%
TOTAL ALL PUB WORKS	\$20,722,338	\$22,101,175	- 6.2%

When projects and contracts less than \$10 million in size are compared, the public works total is down 13.4% in 2008 with an 11.1% decrease in public-buildings construction and a 14.8% decrease in heavy construction. (Not adjusted for inflation.)

PROJECTS & CONTRACTS LESS THAN \$10 MILLION (IN \$1,000s)

<u>SECTOR</u>	<u>12 MOS 2008</u>	<u>12 MOS 2007</u>	<u>% CHANGE</u>
PUBLIC BUILDINGS	\$ 3,200,080	\$ 3,599,125	- 11.1%
HEAVY CONSTRUCTION	<u>4,877,668</u>	<u>5,723,828</u>	- 14.8%
TOTAL UNDER \$10 MIL.	\$ 8,077,748	\$ 9,322,953	- 13.4%
(% OF ALL PUB WRKS)	(39.0%)	(42.2%)	

Table 2, page 5, summarizes historical and forecast dollar volumes of construction, including private building and public works, adjusted for inflation and stated in billions of constant *year-2008* dollars. Private and public works construction combined totals \$58.03 billion in 2008 (preliminary) down 22.7% from 2007 and is forecast at \$51.45 billion in 2009, down 11.3% from 2008.

Adjusted for inflation (stated in 2008 dollars) the preliminary *public works* construction total of \$20.72 billion in 2008 is down 8.7% from 2007's \$22.70 billion and is forecast at \$18.64 billion in 2009, down 10.0% from 2008. (Table 2, page 5) The forecasts include some allowance for revenue increases from the passage of infrastructure-related measures and attempts to take into account current economic and budgetary constraints.

PUBLIC BUILDINGS CONSTRUCTION

Public-buildings construction (government-owned) totals \$578.7 million in **DECEMBER 2008**, down 12.6% from November and down 28.5% from December 2007. The *schools and community colleges* part of public building totals \$305.0 million in December 2008, up 42.7% from November but down 23.8% from December 2007. The *balance of public buildings* totals \$273.7 million in December, down 38.9% from November and down 33.2% from December 2007. (See Table 1, page 4, including major-project notes.)

In all of 2008, public buildings-construction totals \$10.323 billion (preliminary), up 1.7% from 2007, not adjusted for inflation. The dollar volume of contracts or starts for school construction totals \$4.674 billion in 2008, down 9.0% from 2007. The dollar volume for the balance of public-buildings construction totals \$5.649 billion in 2008, up 12.6% from 2007. (See Tables 3, 4 and 5 for data by county.)

PUBLIC BUILDINGS – YEAR-TO-DATE COMPARISONS (IN 1000s)

<u>PUBLIC BLDGS CATEGORIES</u>	<u>12 MOS 2008</u>	<u>12 MOS 2007</u>	<u>% CHANGE</u>
SCHOOLS & COMM COLLEGES	\$ 4,674,083	\$ 5,135,376	- 9.0%
BALANCE OF PUBL, BLDS	<u>5,649,200</u>	<u>5,017,475</u>	+ 12.6%
TOTAL PUBLIC BLDGS.	\$10,323,283	\$10,152,851	+ 1.7%

State universities and colleges (academic, medical and related) is a major category in *balance of public buildings*. In all of 2008 the category totals \$1.258 billion, down 8.2% from \$1.370 billion in 2007. The 2007 total was down 18.4% from 2006.

When projects and contracts less than \$10 million in size are compared, the 2008 public-buildings total is down 11.1% from 2007 with a 19.7% decrease in schools and community colleges but a 0.2% increase in the balance of public-buildings categories.

PROJECTS & CONTRACTS LESS THAN \$10 MILLION (IN \$1,000s)

<u>PUBLIC BLDGS CATEGORIES</u>	<u>12 MOS 2008</u>	<u>12 MOS 2007</u>	<u>% CHANGE</u>
SCHOOLS & COMM COLLEGES	\$1,645,241	\$2,047,809	- 19.7%
BALANCE OF PUBL, BLDS	<u>1,554,839</u>	<u>1,551,316</u>	+ <u>0.2%</u>
TOTAL UNDER \$10 MIL.	\$3,200,080	\$3,599,125	- 11.1%
(% OF ALL PUBLIC BLDGS)	(31.0%)	(35.4%)	

Adjusted for inflation (stated in 2008 dollars) the public-buildings-construction preliminary 2008 total of \$10.32 billion, is down 2.3% from 2007's \$10.56 billion and is forecast at \$9.38 billion in 2009, down 9.1% from 2008. (See Table 2, page 5.) The schools-and-community-colleges 2008 total of \$4.67 billion is down 12.5% from 2007 and is forecast at \$4.21 billion in 2009, down 9.9% from 2008. The 2008 balance-of-public-buildings construction total of \$5.65 billion is up 8.2% from 2007 and is forecast at \$5.17 billion in 2009, down 8.5% from 2008. Forecasts include some allowance for revenues from the passage of infrastructure ballot measures and attempts to take into account current economic and budgetary constraints.

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HEAVY CONSTRUCTION

Heavy construction totals \$640.3 million in **DECEMBER 2008**, down 12.4% from November and down 17.2% from December 2007. (Table 1, page 4) The *roads and bridges* category totals \$342.0 million in December 2008, up 46.9% from November and up 18.9% from December 2007. The *balance of heavy* construction totals \$298.3 million in December, down 40.1% from November and down 38.5% from December 2007. (See Table 1, page 4, including major-project notes.)

In all of 2008, heavy construction totals \$10.399 billion (preliminary), down 13.0% from 2007. The roads-and-bridges category totals \$4.389 billion in 2008, down 1.2%. The balance of heavy construction totals \$6.009 billion in 2008, down 19.9%. See Tables 6, 7 and 8 for data by county.

After roads and bridges the largest heavy construction category is *water-and-sewer-works* construction (counted in *balance of heavy*). In all of 2008 this category totals \$3.024 billion, down 28.2% from \$4.210 billion in 2007. The 2007 total of \$4.210 billion for this category was up 31.4% from \$3.203 billion in 2006. The 2006 total was down 3.6% from 2005.

HEAVY CONSTRUCTION – YEAR-TO-DATE COMPARISONS (\$1,000s)

<u>HEAVY CONSTR CATEGORIES</u>	<u>12 MOS 2008</u>	<u>12 MOS 2007</u>	<u>% CHANGE</u>
ROADS & BRIDGES	\$ 4,389,617	\$ 4,443,460	- 1.2%
BALANCE OF HEAVY	<u>6,009,438</u>	<u>7,504,864</u>	- <u>19.9%</u>
TOTAL HEAVY CONSTR.	\$10,399,055	\$11,948,324	- 13.0%

When projects and contracts less than \$10 million in size are compared the 2008 heavy-construction

total is down 14.8% from 2007 with a 5.5% decrease in roads and bridges and a 19.8% decrease in the balance of heavy construction.

PROJECTS & CONTRACTS LESS THAN \$10 MILLION (IN \$1,000s)

<u>HEAVY CONSTR CATEGORIES</u>	<u>12 MOS 2008</u>	<u>12 MOS 2007</u>	<u>% CHANGE</u>
ROADS & BRIDGES	\$ 1,899,115	\$2,010,480	- 5.5%
BALANCE OF HEAVY	<u>2,978,553</u>	<u>3,713,348</u>	<u>- 19.8%</u>
TOTAL UNDER \$10 MIL.	\$4,877,668	\$5,723,828	- 14.8%
(% OF ALL HEAVY CONSTR)	(46.9%)	(47.9%)	

Adjusted for inflation (stated in 2008 dollars) the heavy construction 2008 preliminary total of \$10.40 billion is down 14.3% from 2007 and is forecast at \$9.26 billion in 2009, down 11.0% from 2008. (Table 2, page 5) The roads-and-bridges construction total of \$4.39 billion in 2008 is down 1.1% from 2007 and is forecast at \$3.79 billion in 2009, down 13.7% from 2008. The balance-of-heavy-construction total of \$6.01 billion in 2008 is down 21.9% from 2007 and is forecast at \$5.47 billion in 2009, down 9.0% from 2008. Forecasts include some allowance for revenues from infrastructure ballot measures and attempts to take into account current economic and budgetary constraints.

Fourth Year of Decline for California Construction Expected in 2009
State fiscal crisis compounds workforce and construction issues in California

New York – January 21, 2009 – McGraw-Hill Construction, part of The McGraw-Hill Companies (NYSE: MHP), has released the 2009 California Construction Outlook. “For the fourth consecutive year, total contracting in California will fall,” the report says, “but that drop will be a mild 4%, far better than the 7% to 20% declines that occurred during 2006-08.”

Highlights of the report conclude:

- Single family starts are expected to fall 6%, and multifamily starts will decline 3% in 2009, but both residential building sectors are stabilizing after three years of steep declines.
- Commercial construction is set to drop 14% in 2009, reflecting higher vacancies and weaker rents.
- Contracting for institutional building projects is expected to slip 6% in 2009, due to pressures on state and local tax revenues.
- Public works projects will benefit from the federal stimulus package and the Proposition 1 bond referenda approved by voters in 2006, slipping only 4% in 2009 despite the state’s on-going fiscal crisis.