Testimony of Clifford Ursich, Executive Director, Flexible Pavements of Ohio, to the Ohio Senate Transportation, Commerce and Workforce Committee.

Chairman McColley and members of the Ohio Senate Transportation, Commerce and Workforce Committee. I am Clifford Ursich, Executive Director of Flexible Pavements of Ohio. Flexible Pavements (FPO) is the trade association for the asphalt paving industry in our state. We support the executive budget proposal for an 18 cent gas tax as originally proposed in House Bill 62.

About Flexible Pavements of Ohio

Founded in 1962, our association is a not-for-profit with the mission to develop, improve and advance quality asphalt pavement construction. Our advocacy largely takes the form of education on how to successfully specify and construct asphalt pavements.

The FPO membership is comprised of asphalt mix manufacturers, contractors that construct asphalt pavements, material suppliers, equipment vendors, architectural and engineering firms, cities and counties – all with the common mission of providing high quality asphalt pavements to our various customers and constituents.

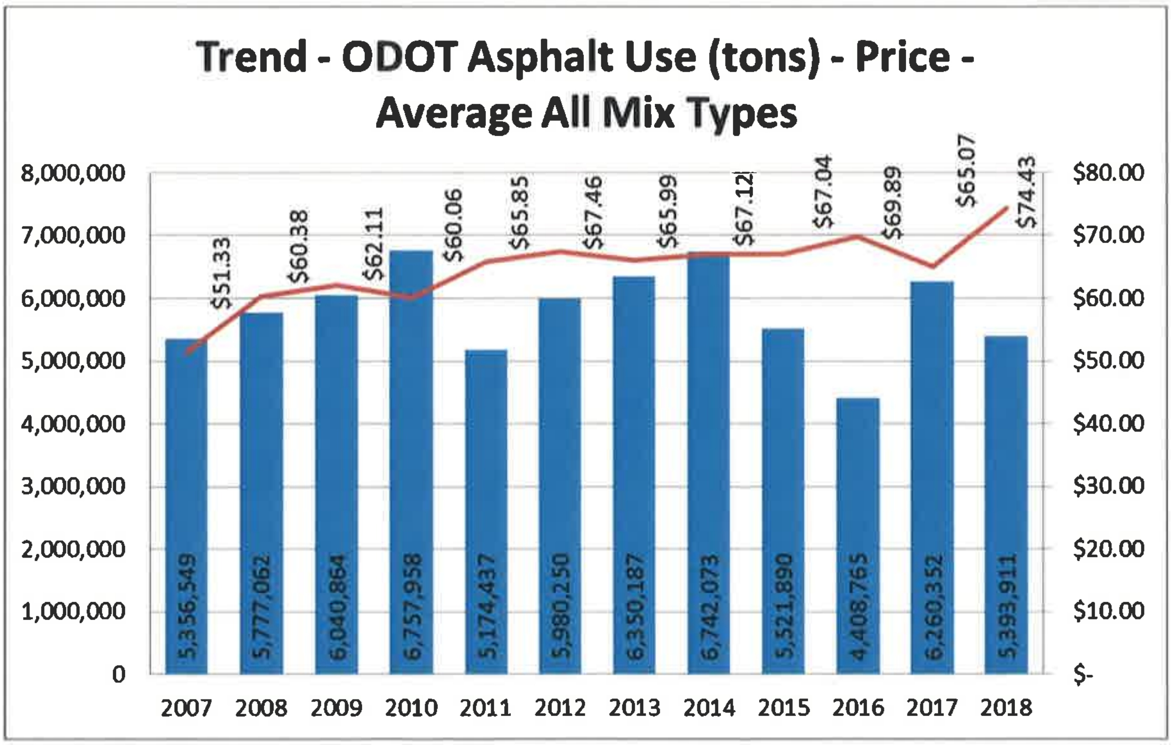
There are 46 companies in Ohio that manufacture asphalt mix. Though most of these also pave roads, there are a myriad of contractors whose only business is to pave. Asphalt manufacturing companies in Ohio range from single-plant family-owned businesses to multi-plant internationally owned companies. By last count, they comprise approximately 163 asphalt mixing plants located throughout Ohio.

Asphalt Industry's Economic Impact on Ohio

In 2014 Flexible Pavements released an economic study of our industry. The asphalt industry adds to Ohio's wealth, with investment in mixing plants, paving equipment, quality control infrastructure, rolling stock, and related facilities amounting to approximately $660 million dollars. At the peak of the construction season asphalt contractors provide approximately 4,700 jobs with an annual payroll exceeding $230 million. In addition, more than 1,300 truckers are hired each year with a payroll of $106 million. Expenditures for raw materials and utilities exceed $750 million, and taxes paid amount to $24 million dollars.

Justifying the Need

Director Marchbanks testified that ODOT has performed a revenue needs analysis and determined $743 million dollars are needed in SFY2019. That amount is "roughly" the dollars that would be received under the executive budget proposal. This is "status quo". Based on ODOT's tracking of construction material pricing gives reason to believe the need will grow based inflation predictions. We concur inflation of construction materials is indeed a reality and reason for indexing a gas tax to ensure long term buying power.



Considering asphalt solely, the price rises and falls largely on the cost associated asphalt binder – a derivative of crude oil refining. Approximately 50 percent of mix price is binder cost. The asphalt industry works to control price volatility associated with fluctuating binder costs. Incorporating reclaimed asphalt from old roads back into new asphalt mix is extensively used, price adjustment contract mechanisms are used to supress risk associated with volatility resulting in bid inflation, and lastly, tankage that buffers against fluctuating price – similar to ODOT's building salt storage to strategically purchase materials when prices are economical.

Pavement Condition Projections Indicat a Trend Toward Poorer Road Conditions

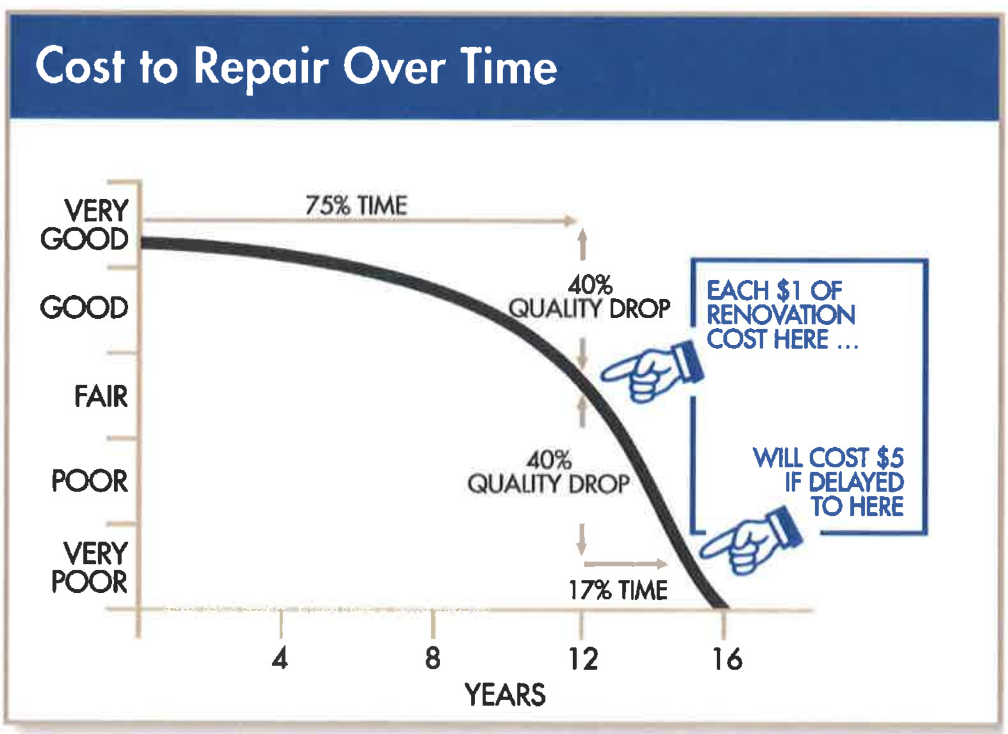
Exhibit A is called a "heat map". It provides a quick visual representation of the historical and projected pavement conditions for each of the ODOT districts. It is the proverbial thirty thousand foot macro view of things – in this case pavement conditions. It provides an indication of what the future holds under the current funding situation. This document was created by ODOT in June of 2017, as such it doesn't reflect pavement conditions as we see them today – but it is an indicator.

If we think pavements are in general looking pretty good today that perception is soon to change. As you look at the map, Green is good, yellow not so much, pink means ouch and red is emergency. The heat map indicates similar pattern on each of the roadway sytem maps; that is, much effort has been given to improving pavement conditions beginning in 2007 which we have enjoyed. However, as immediate as those pavements were constructed they began to deteriorate under the pounding of traffic. Pavement conditions will fall into "fair","poor", and potentially "very poor"condition.

"Pay Me Now Or Pay Me Later"... But for a Whole Bunch More

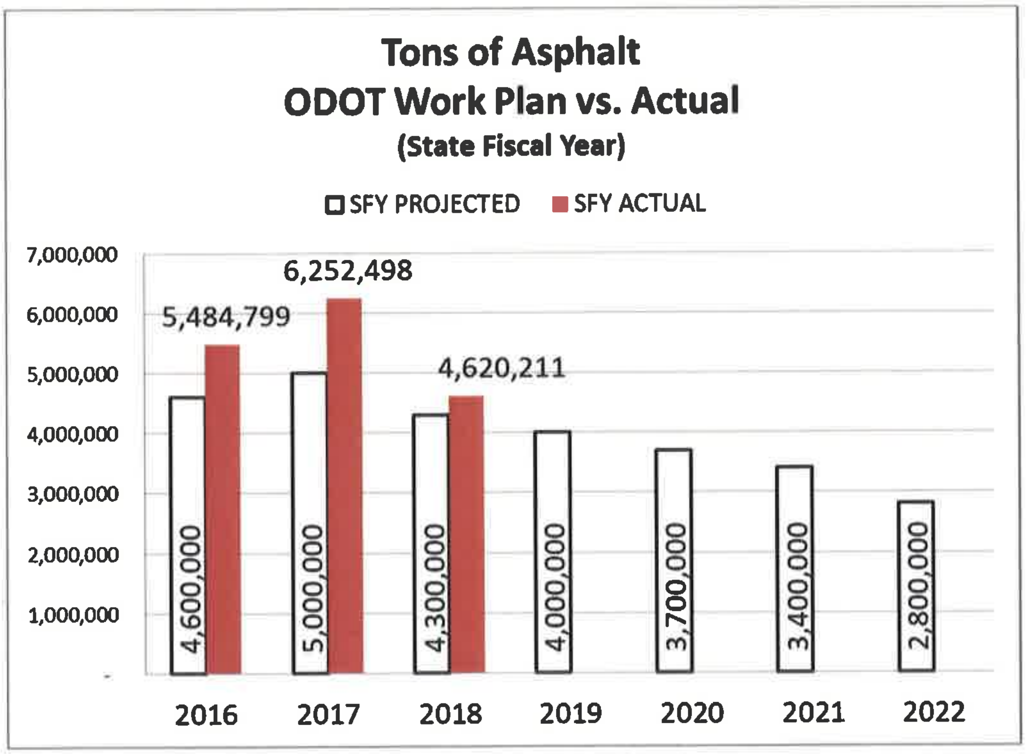
The administration's 18¢ increase will ensure ODOT 's pavements are maintained in a timely fashion. The unfavorable condition in which we find many of Ohio's roads is due to lack of maintenance, which is a consequence of inadequate funding.

Pavements distress more quickly the greater the duration of time between resurfacing cycles. The cost associated with doing preventive pavement maintenance is much less than having to rebuild. As the figure indicates, the deterioration of a road from "VERY GOOD" to a "FAIR" condition rating, consumes 75% of a pavement's life. During that period of time approximately 40% of the pavement's usefulness has been expended (i.e. quality drop). If the owner of a pavement in "FAIR" condition takes action to restore the pavement to "VERY GOOD" condition the cost associated with such will be one-fifth the cost of repairing the pavement had it fallen into "VERY POOR" condition.



Economic Impact to the Asphalt Paving Industry If No Increase

The graph below is the current status of ODOT's predictions for using asphalt. Currently we are in the midst of state fiscal year 2019. If nothing is done to address ODOT's funding shortfall our industry and those who supply it will begin to downsize. One might think that the growth in the private sector would offset any reduction in ODOT's asphalt use. It's a reasonable thought, however, the members of Flexible Pavements are primarily heavy highway contractors with heavy highway equipment; as such offsetting an ODOT market shrinkage by taking on more private work would be muted.



As companies downsize they layoff skilled labor, end equipment purchases, raw materals orders are cancelled, and the cascade effect continues down the supply chain as others follow suit. When funding is restored the buildup begins, however, a company doesn't just pick up from where they left off. Former employees have moved on and so have their skill sets. As a result quality of work suffers, which ultimately increases maintenance costs over the life of a product.

It's reasonable to infer from the chart that perhaps ODOT just doesn't need as much asphalt in the future years. The reality is that the funding shortfall is pushing ODOT into using less robust treatments. Case in point, last Fall ODOT changed their criteria for using chip seals such that 55 percent of ODOT's General System centerline miles are now eligible for this roadway treatment! It's a short term fix. Eventually, the roadway system will demand more robust treatments to restore pavement strength lost to fatigue from truck traffic and freeze-thaw.

Concluding Remarks

Flexible Pavements of Ohio fully supports the 18¢ increase in the motor fuels tax and indexing as proposed in the executive budget proposal. The deteriorating road conditions we see gives testimony to the need for increased funding. Safe roads are predicated on pavements that are maintained in good condition. Smooth roads save fuel and reduce motorists' vehicle costs. And industry viability and retention of a skilled workforce is necessary for ensuring quality construction that provides long lasting economical performance.

Respectfully Submitted,

C. Ursich

Clifford Ursich, PE
President & Executive Director
Flexible Pavements of Ohio