

**Testimony of Clifford Ursich, Executive Director, Flexible Pavements of Ohio, to the House Finance Committee, Tuesday, March 5<sup>th</sup>, 2019.**

Chairman Oelslager and members of the Finance Committee, Flexible Pavements of Ohio is writing in support of House Bill 62. This legislation as proposed by Governor DeWine's Administration will add 18 cents to Ohio's motor fuel use tax for the express purpose of ensuring Ohio's roads are restored to a condition such that the safe and efficient movement of people and goods may continue.

**About Flexible Pavements of Ohio**

Flexible Pavements (FPO) is the trade association for the asphalt paving industry in Ohio. Founded in 1962, the 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.

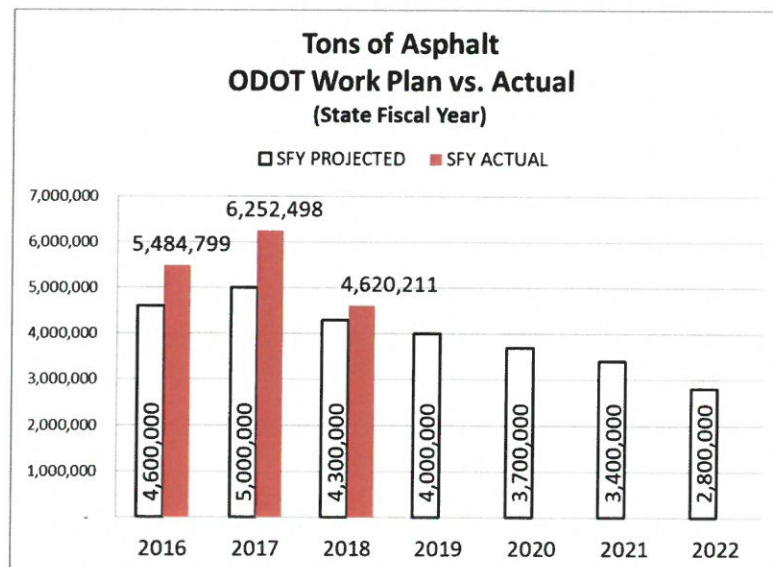
### **Economic Impact to the Asphalt Paving Industry of the 18¢ Increase**

First, the asphalt industry affirms the exemplary job ODOT has done in putting out record breaking billion dollar construction programs. The asphalt industry is among many that benefited through ODOT being true to their mission; that is, to provide easy movement of people and goods, take care of the system, and make the roadway system work better.

Our understanding is the proposed 18¢ increase brings ODOT funding to a level commensurate to the previous biennium. Unknown to us is how the debt service will impact ODOT’s construction program. Should the debt service not impact the construction program we predict asphalt use by ODOT will be similar to the previous bienium. The 18¢ increase maintains status quo. It will allow our members to retain a skilled workforce to continue participating in the ODOT mission to improve Ohio’s roadway system.

### **Economic Impact to the Asphalt Paving Industry If No Increase**

The graph 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 materials 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.

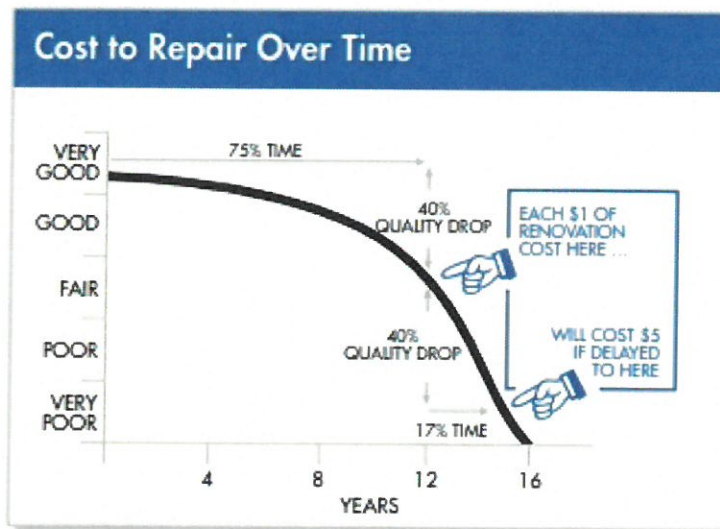


It's reasonable to infer from the chart that perhaps ODOT just doesn't need as much asphalt in the future years. The reality is that the funding shortfall is pushing ODOT into using less robust treatments. Case in point, in 2018 ODOT changed their criteria for using chip seals such that 55 percent of ODOT's General System centerline miles are now eligible for this roadway treatment! It's a short term fix. The asphalt industry has been doing its part in helping ODOT through its funding pinch by developing a Thinlay asphalt so ODOT can cover more miles at a lesser cost. Eventually, the roadway system will demand more robust treatments to restore pavement strength lost to fatigue from truck traffic and freeze-thaw.

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

The proposed 18¢ increase will ensure ODOT 's pavements are maintained in a timely fashion. The unfavorable condition in which we find 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.



### **Capacity of Asphalt Industry to Supply an Invigorated Construction Program**

An 18¢ increase in the tax restores ODOT's funding to levels similar to its previous biennium. By virtue of that fact there would be no need for increased asphalt mix production capacity. The industry was able to handle the capacity then and we see no obstacle to meeting the same demand.

### **Cost of Asphalt**

During testimony we took note of comments regarding the cost of asphalt. County engineers expressed concern that asphalt prices increased of late. We take their concern in context of the price to furnish, pave, and compact. Roughly half of the unit price for such construction is represented by the asphalt mixture cost, and the mix component contributing the greatest expense is the asphalt binder.

Oil refineries produce asphalt binder and determine its price. Unlike commodities that trade on NYMEX or CBOT, asphalt binder purchases cannot be made in a futures market. Asphalt producers have to deal with this volatility.

### **Keeping Asphalt Binder Prices Affordable – Managing Volatility**

Asphalt producers have instituted practices to manage asphalt binder cost – keeping mix affordable.

- Tanking – In the last decade asphalt producers have invested substantially in storage tanks to hedge against price increases. Producers are vigilant to find binder buying opportunities. These can amount to the single greatest yearly purchase for an asphalt producer. Tanking asphalt is in many respects similar to ODOT building salt barns and filling them when salt prices appear most reasonable.
- Savings Through Recycling Old Asphalt into New – Asphalt mixtures continue to increase in recycle content. Virtually 90 percent of asphalt is reclaimed and reused as a component of new asphalt mix. ODOT specifications allow 20 to 40 percent reclaimed asphalt pavement (RAP) in each ton of mix purchased. Higher RAP contents can be achieved with additives or specialized asphalt plants. Using RAP reduces the need for new asphalt thereby reducing mix cost. ODOT is a significant user of RAP. Unfortunately, many local governments do not avail themselves of this potential savings. The Ohio Research Initiative for Local Governments (ORIL) has taken on a project to encourage local governments to give RAP a try.
- Asphalt Manufacturing Equipment – Equipment efficiencies have reduced energy consumption associated with asphalt mix manufacturing.

### **Guarantees Against the 18¢ Increase Being Absorbed by Inflation**

A question was asked during testimony regarding guarantees against monies generated from the 18¢ increase being absorbed by inflation. The issue is bigger than us. History has shown there are no guarantees against construction inflation. Whether it's the costs associated with labor, impacts from regulation, asphalt volatility, reducing cement carbon emissions, tariffs on structural steel, fuel to move earthwork equipment, costs associated with the OSHA silica rule, or the GREEN NEW DEAL – it's all bigger than us.

However, we have tools to control construction inflation. The Federal Highway Administration has provided technical guidance and contract mechanisms that reduce risk and suppress bid inflation. ODOT has adopted these as part of the ODOT Construction & Materials Specifications.

**Concluding Remarks**

Flexible Pavements of Ohio fully supports the 18¢ increase in the motor fuels tax as proposed by Governor DeWine. Testimony by the Ohio Department of Transportation fully demonstrates the need for increased funding. Reduced or delayed funding will result in deferred maintenance to Ohio's roads and more costly roadway rehabilitation.