October 31, 2013

The Honorable Paul Ryan  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Patty Murray  
United States Senate  
Washington, DC 20510

Dear Chairmen Ryan and Murray:

On behalf of the nearly 30,000 members of the Associated General Contractors of America (AGC), I commend you for your work on the budget conference committee and ask you to ensure that any reforms to tax and spending policy promote long-term economic growth, simplify and stabilize the tax code, promote investment in our nation’s infrastructure, and extend the solvency of Medicare and Social Security for multiple generations. AGC members are concerned that failure to act on these important issues will have negative consequences for the construction industry and our entire economy.

Understanding that the priority of the conference committee is to resolve top-line discretionary spending levels that were passed in your respective fiscal year 2014 budgets and address the next round of sequestration cuts, AGC encourages conferees to take this opportunity to return to regular order to establish real spending priorities rather than relying on the across-the-board indiscriminate cuts for budget savings.

As you decide on difficult spending decisions – including the question of continuing indiscriminate, automatic cuts through sequestration – it is important to remember that America’s infrastructure is one of our greatest economic assets. Investments in transportation, water treatment facilities, military housing, veterans’ hospitals, and other federal facilities are required to maintain existing systems, expand job opportunities, and grow our economy. Congress cannot ignore or forego critical investments in our country that are necessary for economic growth and international competitiveness. For example, without sustained investment in our surface transportation infrastructure, U.S. businesses will pay an added $430 billion in transportation costs, household incomes will fall by more than $7,000, and our exports will fall by $28 billion come 2020. In addition, failure to invest in aging drinking water and wastewater infrastructure systems will reduce U.S. GDP by about $36 billion annually over the next ten years. The cost of not addressing these and other infrastructure needs is a hidden tax sucking billions out of productive use and making the country less efficient and less attractive to foreign investment.

As you know, the last time the House and Senate produced a budget conference report was for fiscal year 2010. The reasons for this lack of action are irrelevant. The fact is that our members and our industry have suffered from the uncertainty created by our leaders in Washington refusing to make tough decisions on discretionary and mandatory spending, tax policies and how to handle the debt limit. This uncertainty saps enthusiasm for the capital investments that fuel our industry and in turn fuel the demand for capital
equipment that our industry purchases. A long-term deal that keeps the country from being perpetually perched on a cliff of one type or another will provide the certainty that our industry needs to grow.

The failure of Congress to responsibly deal with the drivers of our debt and deficit resulted in the sequester that went into effect in March 2013. The cuts to federal construction programs, as a result of sequestration, have had a direct impact on our members. According to an AGC report, “Sequestration and Its Possible Impacts on Construction,” we estimate that the cuts from the initial round of sequestration cuts for fiscal year 2013 could amount to over $4 billion in cuts to federal construction accounts. The impact of these cuts combined with the discretionary spending caps set by the Budget Control Act of 2011 (BCA) is real, considering construction programs make up about 10 percent of the total federal discretionary budget.

In January 2014, as required by the BCA - absent a budget agreement that modifies or replaces the law - any excess discretionary spending above the BCA’s spending caps will trigger a second round of sequestration cuts to bring spending in compliance with the budget caps. AGC urges the conference committee to consider the impacts of continued cuts to federal construction spending and come to an agreement on an overall discretionary spending level for fiscal year 2014 that will avoid another round of sequestration, estimated to be $20 billion.

AGC also encourages conferees to address the long-term solvency of the Highway Trust Fund (HTF) in any conference agreement. The latest projections from the Congressional Budget Office (CBO) estimate that the HTF will not be able to fund any new obligations in fiscal year 2015 without addressing the nearly $15 billion gap between incoming revenue and the obligations of the HTF. Both House- and Senate-passed budgets assumed Moving Ahead for Progress in the 21st Century (MAP-21) levels in fiscal year 2014 for federal highway and transit programs. However, neither addresses the HTF revenue shortfall. We ask conferees to consider all available options to fill the revenue gap in fiscal year 2015 and beyond, including giving serious consideration to increasing or finding a suitable replacement for the federal excise tax on motor fuels.

As both chambers’ budget resolutions included instructions on approaches to tax reform earlier this year, AGC strongly urges you to include language that ensures a path for tax policy that promotes long-term economic growth; simplifies and instills certainty in the tax code that allows contractors to build with the greater confidence that comes from cost predictability; promotes investment in our nation’s critical infrastructure; includes a dependable capital cost recovery system; and induces the creation of jobs in an industry that is continuing to rebuild.

Congress must not pick winners and losers on this issue; more than 70 percent of AGC members are organized as pass-through entities. Therefore, any permanent corporate tax reform must address all types of C-corporations and flow-through entities simultaneously. Furthermore, the construction industry is burdened with one of the highest average effective rates of any industry at 31 percent. If Congress can substantially reduce the effective tax rates of our members’ companies, AGC could support giving up select tax provisions. If Congress cannot deliver on reducing rates for contractors, AGC would advocate to retain and/or modify a number of tax policies that affect the business operations of our members.
We look forward to working with you to ensure that our country continues to make the necessary investments in our vital infrastructure as you consider making necessary reforms to our tax and spending policies.

Sincerely,

Stephen E. Sandherr

cc: Senator Ron Wyden (Ore.)
    Senator Bill Nelson (Fla.)
    Senator Debbie Stabenow (Mich.)
    Senator Bernie Sanders (I-Vt.)
    Senator Sheldon Whitehouse (R.I.)
    Senator Mark Warner (Va.)
    Senator Jeff Merkley (Ore.)
    Senator Chris Coons (Del.)
    Senator Tammy Baldwin (Wis.)
    Senator Tim Kaine (Va.)
    Senator Angus King (Maine)
    Senator Jeff Sessions (Ala.)
    Senator Chuck Grassley (Iowa)
    Senator Mike Enzi (Wyo.)
    Senator Mike Crapo (Idaho)
    Senator Lindsey Graham (S.C.)
    Senator Rob Portman (Ohio)
    Senator Pat Toomey (Pa.)
    Senator Ron Johnson (Wis.)
    Senator Roger Wicker (Miss.)
    Senator Kelly Ayotte (N.H.)
    Representative Tom Cole (Oklahoma)
    Representative Tom Price (Ga.)
    Representative Diane Black (Tenn.)
    Representative Chris Van Hollen (Md.)
    Representative James Clyburn (S.C.)
    Representative Nita Lowey (N.Y.)