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## PUTTING AMERICA BACK TO WORK THROUGH CLEAN WATER INFRASTRUCTURE INVESTMENT

### STATEMENT OF DENNIS VANDER MOLEN, PRESIDENT AND GENERAL MANAGER, VERMEER MIDSOUTH, INC., JACKSON, MISSISSIPPI ON BEHALF OF THE ASSOCIATED EQUIPMENT DISTRIBUTORS BEFORE THE U.S. HOUSE OF REPRESENTATIVES TRANSPORTATION & INFRASTRUCTURE COMMITTEE'S WATER RESOURCES AND ENVIRONMENT SUBCOMMITTEE

July 15, 2010

Chairwoman Johnson, Ranking Member Boozman, and other distinguished members of this subcommittee, my name is Dennis Vander Molen and it is my pleasure to appear before you today both as a small business owner directly affected by water infrastructure investment and in my capacity as the 2010 chairman of the Associated Equipment Distributors (AED).

#### Executive Summary:

- The failure to make adequate water infrastructure investments at all levels of government has severe economic, safety, health, and national security consequences.
- The construction equipment industry is highly sensitive to the challenges facing our nation's water infrastructure because it has such a substantial impact on equipment distributors. Each dollar invested by government in water projects creates 12 cents in equipment market opportunity.
- The job creation potential of substantial water infrastructure investment is unequalled. A \$1 billion investment in water and wastewater infrastructure could create up to 26,669 jobs.
- Congress should quickly reauthorize the Clean Water and Drinking Water SRF programs to dramatically increase investment levels and search for a more long-term solution to our nation's water needs, including through a clean water trust fund.

I am the president and general manager of Vermeer MidSouth, a family-owned company headquartered in Memphis, Tennessee that sells, rents, and services Vermeer construction equipment. We have seven locations in Mississippi, Tennessee, Louisiana, and Arkansas, including a facility in Representative Boozman's district in Springdale. Vermeer MidSouth has 50 employees, down from over 70 prior to the economic downturn.

AED is the national trade association representing authorized, independent distributors of construction, mining, forestry, and agricultural equipment. AED has more than 700 members, the overwhelming majority of which are small businesses. Approximately 48 percent of the association's distributor members report annual revenues of \$10 million or less.

AED members supply the equipment that builds America's highways, bridges, airports, sewers, and drinking water systems, and AED has a longstanding commitment to strong federal infrastructure programs. It is no surprise that water infrastructure investment is therefore among our top legislative priorities.

I appreciate the opportunity to come before the Committee to discuss how equipment distributors and other small companies are affected by the State Revolving Fund (SRF) programs and other water infrastructure funding sources.

***The National Recession Has Been a Construction Equipment Industry Depression***

The construction equipment industry has been affected as much as any other by the recent economic downturn. For us, the recession has been nothing short of a depression. A study conducted last year by IHS Global Insight for AED and the Association of Equipment Manufacturers (AEM) painted a grim picture of equipment industry economic conditions.<sup>1</sup> The study found that from 2007 to 2009, spending on construction equipment fell 50.1 percent. The drop in demand for new equipment has had devastating employment consequences. Over the last three years, the construction equipment industry – manufacturers, distributors, and maintenance providers - shed 257,700 jobs or 37 percent of its work force.

The effects of the downturn in our industry have been felt well beyond our dealer yards and manufacturing plants. IHS Global Insight estimated that the equipment industry depression cost an additional 274,700 jobs in the broader economy. Suppliers to equipment manufacturers have been hit particularly hard, losing 134,000 positions. Taken together, the downturn in the equipment industry cost the U.S. economy 550,000 jobs on a peak to trough basis. Put another way, as of September 2009 the U.S. economy had lost 6.9 million jobs in the recession. Of that total, eight percent, or two out of every 25 jobs lost, can be linked to the downturn in construction equipment purchasing.

AED's own internal surveying supports IHS Global Insight's findings. An AED member survey conducted in April 2010 confirms the dismal condition of the construction equipment industry. Since January 2007, AED members have taken difficult and painful steps to keep their companies in business:

- 75 percent of AED members have laid off workers
- 68 percent have eliminated positions through attrition
- 64 percent have reduced salaries and wages
- 64 percent have sold equipment from their rental fleets at a loss
- 36 percent have reduced health insurance benefits
- 32 percent have suspended participation in a workforce development program (e.g., training partnership with a local community college)
- 21 percent have cancelled the opening of a new facility
- 17 percent have closed one or more facilities

Fundamentally, the AED survey results reinforced IHS Global Insight's original determination that the economic downturn has taken a devastating toll on equipment distributors and their employees.

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<sup>1</sup> IHS Global Insight, *U.S. Construction Equipment: Powering Jobs and Dollars* (Sept. 2009)  
<<http://www.startusupusa.com/pdf/09-29-09-Global-Insight-Construction-Equipment-Report.pdf>>

Testimony of Dennis Vander Molen/Vermeer MidSouth  
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***New, Multi-Year Water Infrastructure Authorization Laws Are Critical to the Economic Recovery of the Equipment Industry and the Nation***

There is a strong connection between federal infrastructure investment and equipment markets. In fact, a study conducted by AED and the National Utility Contractors Association (NUCA) determined that 12 percent of the cost of the average underground water utility project is attributable to equipment purchases, rentals, and services.<sup>2</sup>

As such, the Water Quality Investment Act (HR 1262), which would authorize \$19.4 billion over the next five years for wastewater infrastructure and water quality-related programs, including \$14 billion over five years for the Clean Water SRF, would greatly aid the equipment industry. The \$14 billion provided for sewer construction alone would create an estimated \$1.68 billion in equipment market opportunity over the next five years. I commend this subcommittee for its leadership on this important legislation, which was approved by the House of Representatives with strong, bipartisan support on March 12, 2009. HR 1262 will put people back to work in well-paying manufacturing, sales, and product support jobs in communities around the country.

In the spring of 2008, AED initiated research to quantify the market impact of infrastructure investment on both the construction equipment industry and the overall economy. The study was conducted by Stephen Fuller, Ph.D., the Dwight Shar faculty chair at George Mason University (GMU) in Fairfax, Virginia and director of GMU's Center for Regional Analysis.<sup>3</sup>

Dr. Fuller determined that every dollar of direct spending for the purchase of heavy construction equipment generates a total of \$3.19 in economic impact. That is one dollar of direct spending, and \$2.19 in indirect and induced economic activity from the re-spending of monies paid to equipment distributors in other sectors of the national economy. In 2007, the \$10.2 billion in direct spending for the purchase and lease of heavy construction equipment generated an estimated \$9.2 billion in personal earnings (\$903,200 per \$1 million in direct equipment outlays) and supported more than 265,000 jobs (26 jobs per \$1 million in direct equipment outlays).

To further illustrate the broad reach of water infrastructure investment throughout all sectors of the economy, in summer 2009 the Clean Water Council (CWC), of which AED is a leading member, announced the results of a highly anticipated study regarding the impact that water and wastewater infrastructure has on the economy.

The study, *Sudden Impact: Assessment of Short-Term Economic Impacts of Water and Wastewater Projects in the United States*, demonstrates the significant economic benefits of water and

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<sup>2</sup> Klein, Christian A., *Economic Stimulus Act Having Positive Effect, But Additional Stimulus Needed: A Study of the Impact of Capital Investment Incentives and Infrastructure Spending on Utility Contractors* (July 2008) <<http://www.aednews.com/aednuca/2008-NUCA-AED-Survey-Report-Final.pdf>>

<sup>3</sup> Stephen Fuller, Ph.D., *Sales of Heavy Construction Equipment as a Percentage of Construction Spending and Related Economic Impacts* (2008) <<http://www.aednet.org/government/pdf-2008/Fuller-Report.pdf>>



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Our wastewater needs are in addition to the \$334.8 billion investment EPA estimates is necessary to repair and rebuild our nation's drinking water infrastructure in the most recent *Drinking Water Infrastructure Needs Survey and Assessment* released in 2009.<sup>7</sup>

The nation's aging water infrastructure is reaching its expected life span and Congress must take the issue seriously and begin to make up for years of neglect by enacting a long-term multi-year reauthorization of the SRF programs with substantial new funding for our economy, national security, health, and welfare.

### ***Conclusions***

Our nation faces an unparalleled infrastructure crisis. Immediate and aggressive congressional action is necessary to ensure that our water infrastructure system does not deteriorate further and that the federal government has the resources it needs to address the crisis. The problem will only be more expensive to solve as time goes on.

The small business-dominated construction equipment industry is directly impacted by federal infrastructure spending and thousands of jobs are affected. 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 consequences of under-investment in infrastructure along with other businesses and the general public. Our communities are constantly dealing with the challenges of water main breaks, contaminated drinking water, and sewer overflows.

AED therefore urges Congress to enact long-term Clean and Drinking Water SRF reauthorization bills that dramatically upgrade our deteriorating water infrastructure in urban and rural areas, and to eventually search for dedicated sources to consistently fund projects at an adequate level.

We look forward to working with the members of this subcommittee and with all your House and Senate colleagues in a bipartisan manner to achieve these goals.

For more information regarding this statement, please contact:

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<sup>7</sup> The United States Environmental Protection Agency, *Drinking Water Infrastructure Needs Survey and Assessment* (2009) < [http://www.epa.gov/safewater/needssurvey/pdfs/2007/report\\_needssurvey\\_2007.pdf](http://www.epa.gov/safewater/needssurvey/pdfs/2007/report_needssurvey_2007.pdf)>