Federalism

Today states get back, by law, about 90% of every gas tax dollar they send to Washington, D.C. Some donor states want to raise this requirement to 95%. Wouldn't it be more efficient for the states to just send the 5% to Wash. D.C. and keep the rest? I ask this question because funding for the material industry depends so heavily on the Federal Highway Bill and this source of funding will probably remain flat to down for another decade.

The collision between infrastructure needs and debt reduction is here. Both are real and both are important but debt reduction is going to roll over everything else during the next few years. Finding support for new infrastructure spending in Washington D.C. is going to be very difficult for a very long time. Since infrastructure needs are valid and productive, new sources of funds must be found. Two revenue sources come to mind; states and public-private partnerships. Neither is new and neither source is ready to spend right now. Even so, these funding sources have a better chance of increases than Washington.

If the industry does focus more on states and public-private partnerships it makes marketing more difficult and diverse. Some states are not going to have the funds for higher infrastructure spending for many years and if funding from Washington decreases, business opportunities in these states will be poor. With limited marketing resources you are going to need to be more selective on where you spend acquisition and operation dollars. It is clear that resources should be concentrated in growing, high income states with high infrastructure needs. Does Texas come to anyone's mind? There are maybe a handful of attractive states and a bunch of states to avoid during the next ten years.

Because of the focus on debt and a slow growing economy, it means materials demand will not rebound very much for another few years. Demand in 2013 will be close to today's volume and significant growth will not occur without major U.S. policy changes. The most important task for the U.S. is rapid growth. Whatever sacrifices are necessary to achieve rapid growth are worth it because rapid growth means hundreds of billions of new tax revenues. Without rapid growth we all fight over scraps.

The DCG, Inc. aggregates forecast is predicated on slow growth until there are major policy changes. While none of us know if and when this will occur, our long run model assumes these policy changes occur near 2013. Materials demand begins to grow in 2014 and grows rapidly during the 2014-18 period as U.S. GDP begins to grow at a 4+%/yr. pace. Until we get policy changes, no materials growth.

DCG, Inc. Aggregates Forecast, 2011-14 in Billions of MTons

2008	**2009**	**2010**	*2011*	*2012*	*2013*	*2014*
2.4	**1.9**	**2.0**	*1.9*	*1.9*	*1.8*	*2.1*

June 2011, David Chereb, Ph.D.