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Highway Bill: Happy Tax Day – Revenue Gripes, 2-Year Bill Sentiment at Senate Hearing

- Yesterday's Senate EPW hearing reinforced expectations of a two-year Surface Transportation Bill authorization.
- We continue to observe sentiment in favor of a Vehicle Miles Tax being instituted as a replacement for the gas tax, but that won't happen this year.
- Complaints by state governments about onerous environmental review processes highlight that the Highway Bill will be another front in the battle over EPA jurisdiction.
- Affected stocks include **GVA, URS, ACM, KBR, TPC, MLM, VMC, CAT, DE, TEX, and IR**; relevant industries: Construction & Engineering, Industrials & Materials, Electrical Equipment, Construction Machinery, Transportation Infrastructure, and Environmental & Diversified Services.

Senate EPW Hosts Hearing: 'Issues for Surface Transportation Authorization'; Reinforces Two-Year Bill Odds

Yesterday the Senate Environment and Public Works Committee hosted [a hearing](#) ^[1] (video [here](#) ^[2]) featuring five heads of state transportation agencies (VT, RI, OK, WY, AL) as well as a local official from Las Cruces, NM and Fred Smith, Chairman of FedEx.

Sen. Max Baucus (D-MT), the second-ranking senator on the panel in addition to his role as Senate Finance Chairman, served as acting chairman in place of Sen. Barbara Boxer (D-CA). On at least three occasions during the hearing (particularly at 62 minutes into [the video](#) ^[2]), he expressed frustration at the current budget climate possibly plummeting highway spending down to \$28 billion. He suggested that the solution could be to pass a short-term, two-year authorization in hopes of Congress being able to tackle the issue more productively in 2013.

This bolsters our thesis regarding a two-year bill this year. We expect a compromise to emerge between, on the one hand, fiscal conservatives opposed to tax increases and committed to keeping highway spending restricted to revenues generated by the Highway Trust Fund and, on the other hand, infrastructure advocates hoping for a better deal in 2013, but willing to take a two-year deal this year to have at least some measure of certainty for states and businesses for the time being.

Highways Revenue Shortfall Discussed – Happy Tax Day!

The state officials expressed concerns about unfunded federal mandates, while also arguing in favor of greater infrastructure spending and, in a number of cases, endorsing either a hike in the gas tax or a Vehicle Miles Tax. As we have written repeatedly, neither option has a significant chance of happening this year.

Smith also endorsed a VMT, citing the rise in hybrid and electric vehicles as undercutting the gas-tax base.

The Democratically-aligned senators speaking at the hearing – Baucus as well as Sens. Sheldon Whitehouse (D-RI), Bernie Sanders (I-VT), Tom Carper (D-DE) and Jeff Merkley (D-OR) – also seemed to take that position, which essentially could be summarized as: “*We should raise the gas tax. However, what we should really do is institute a Vehicle Miles Tax.*”

Meanwhile, one trade association source we heard from expressed skepticism that this early enthusiasm for a VMT means it will be enacted:

[T]his reauth will at most include some expanded pilot program(s). While privacy concerns are an issue...other issues...will arise if VMT is seriously considered. Among them: the direct impacts on rural Americans vs urban (start counting Senate seats) and the indirect impacts (what does this do to suburban housing prices, etc); the effects on driver behavior and vehicle choice (enviros are going to figure out that a VMT may incentivize people to drive less, but unlike a gas tax it disincentivizes choosing an efficient vehicle)...right now people think it's a good idea mostly because it's NOT a gas tax...we'll see what happens if it starts to get any real traction.

We agree, and think these stumbling blocks make it a tough sell in 2013, as well as an impossible one this year.

Other Issues Mentioned: EPA Oversight, Natural Gas Vehicles, High-Speed Rail

Sen. Jeff Sessions (R-AL) asked his homestate witness, John Cooper (Director of the Alabama Department of Transportation), about EPA stumbling blocks to the timeliness of road construction and repair. Cooper told a story about a 100-yard stretch of highway in need of repair where ALDOT was forced to conduct an environmental impact study on a seven-mile stretch surrounding the smaller stretch. Others at the hearing also expressed concerns about perhaps-overzealous environmental safeguards causing unnecessary delays. We foresee yet another front in the faceoff between congressional Republicans and the EPA.

Natural gas was the focus of an exchange between Sessions and Smith starting at 72 minutes into [the video](#) ^[2], where Sessions asked the FedEx chairman's view of natural gas being used to power vehicles. Smith dismissed the idea of using natural gas to fuel smaller vehicles, but said it could make sense for “centrally-fueled heavy fleets – buses, garbage trucks – things that begin and end at the same point every day.” He also enthusiastically endorsed the idea of using natural gas indirectly to power those smaller vehicles via an electrified transportation sector – indeed, in [his testimony](#) ^[3], he lists it first among seven avenues for supplying that power, ahead of nuclear, coal, hydroelectric, wind, solar, and geothermal. Smith also repeatedly endorsed an effort to reduce U.S. dependence on petroleum.

Cooper used part of his testimony to make comments highly critical of high-speed rail, saying it's not a solution for Alabama and he hopes Congress won't be distracted by it. His comments almost felt like beating a dead horse, coming as they did mere hours before the 3pm ET House passage of the FY11 CR that, among other things, may seal the fate of the HSR program. That measure cuts \$2.5 billion in budgetary authority from the Federal Railroad Administration for that purpose, just months after President Obama floated a plan for \$53 billion in new spending to create a new era of high-speed rail.

Capital Alpha Thesis

Infrastructure spending by the federal government is facing a significant reduction in coming years. A multi-year negotiation between fiscal hawks and infrastructure funding advocates is in the offing, with no additional revenue measures likely to be enacted soon, and little if any general revenue to be used as a patch. We expect a short-term authorization in the range of 24 months to be approved late in 2011 or early in 2012 to punt the issue into 2013, and past next year's election for U.S. President.

This uncertainty is likely to weigh on a number of stocks, including **GVA, URS, ACM, KBR, TPC, MLM,**

VMC, CAT, DE, TEX, and IR. Relevant industries: Construction & Engineering, Industrials & Materials, Electrical Equipment, Construction Machinery, Transportation Infrastructure, and Environmental & Diversified Services.

In 2013, we expect a vigorous debate over the possible institution of a Vehicle Miles Tax, as well as a major push for a hike in the gas tax. The fate of these initiatives will largely depend on the outcome of the November 2012 elections, but those seeking additional revenue for the Highway Bill have an uphill fight ahead of them.

[1] a hearing: http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=31f12c55-802a-23ad-4cf6-b13db5db512f

[2] here: http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.LiveStream&Hearing_id=31f12c55-802a-23ad-4cf6-b13db5db512f

[3] his testimony: <http://www.capalphadc.com/wp-content/uploads/2011/04/fredsmithtestimony.pdf>

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