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June 24, 2008

Bob Herz, Chairman
Maricopa Association of Governments
Specifications and Details Committee
302 North 1st Avenue, Suite 300
Phoenix, Arizona 85003

Re: Escalating Construction Material Costs

Dear Bob and Members of the Committee,

This year has brought significant and unprecedented cost increases to the construction industry. Crude oil prices are in excess of $125 per barrel which, even when corrected for inflation, translates into the highest fuel cost in history. Construction is dependant on energy, especially diesel fuel which is essential for heating hot mix, clinker (the solid material produced by the cement kiln stage) as well as for transportation of raw materials. The construction industry uses diesel fuel in nearly every piece of equipment on every construction site. Rollers, pick ups, brooms, water trucks, distributor trucks, loaders, pavers, scrapers, haulers, blades, and most light truck applications rely on diesel fuel.

In addition to increasing the price of fuel, rising energy costs have dramatically increased the cost of asphalt cement, a strategic material in the construction industry. In order to provide a sense of perspective, in 1998 asphalt cement cost $120 per ton. Yet from May to July of 2008 alone, the cost increased by nearly $250 per ton and the cost could rise to as much as $700/ton before the year is over. **This industry has never experienced cost increases of this magnitude.**

The cost of hot mix was $48/ton in January and is expected to reach $65 or $70 a ton by September. That's an increase of over 40%. The cost of hot mix asphalt may reach $80 per ton by year end. More than half of these cost increases are directly tied to rising energy prices. Some refiners are phasing asphalt out of their product streams because rising costs have eliminated its profitability. At $125/bbl for crude oil, asphalt must return at least $700/ton to a refinery to break even. In the past, refiners could sell asphalt at less than crude oil cost because that loss was more than made up by the relatively profitable sale of transportation motor fuels. But now profit margins on those fuels are so thin that refiners can no longer afford a significant loss on asphalt. Therefore, refiners are looking for ways to stretch the value of crude oil, which means that they are increasingly turning to other processes and products to improve their bottom lines. All of these alternatives reduce asphalt production. Until asphalt pays as much as competing refinery streams or at least covers the cost of crude oil, it will be a strategy of refiners to avoid asphalt as a viable product stream. This reduction in refining capacity for asphalt is expensive to reverse, which suggests that asphalt prices will remain high even if crude oil prices fall.

These unprecedented increases in energy costs, will force agencies to face extraordinary increases in project costs. As a partner, we wish to help in every way to mitigate this crisis which is why we are requesting permission to utilize all available energy-saving measures in an effort to contain the costs of construction.

We are asking you to immediately consider:

- Allowing and encouraging a minimum of 15% reclaimed asphalt pavement (RAP) in all asphalt paving mixes while maintaining hot mix quality requirements that are the same as for virgin mix.
- Identifying a maximum RAP percentage along with specification changes necessary that will ensure performance of high RAP mixes.
- Developing and employing asphalt conservation strategies. MAG, ARPA and AGC need to develop strategies for use of all methods of recycling as well as reviewing and refining, maintenance strategies.
- Considering the use of chip seals, fog seals, and other low asphalt use procedures to maintain or increase the service life of pavements. These processes must be administered to limit the impact to the public.
- Selecting materials in terms of cost and performance.
- Implementing "warm mix" or other energy conservation measures in collaboration with industry.
- Implementing cost adjustments or indices for energy related items in contracts to reduce buyer and seller risk for all bid items.
- Increased funding for infrastructure projects.

These strategies should be implemented even if crude oil costs level off or decrease. The long term health of the construction industry and public sector investments will depend on implementing the changes that we have proposed. We believe that these challenges actually represent opportunities for both industry and agencies to become more responsive to future infrastructure demands.

Respectfully submitted,

Jeff Benedict, Chairman
AGC/ARPA Asphalt Paving and Technical Committee