HIGH FUEL PRICES: THE IMPACT ON ILLINOIS SMALL BUSINESS AND JOB CREATION

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS

OF THE

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HIGH FUEL PRICES: THE IMPACT ON ILLINOIS SMALL BUSINESSES AND JOB CREATION

MONDAY, JUNE 25, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX AND CAPITAL ACCESS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:10 a.m., in Hoffman Estates Village Hall, 1900 Hassell Road, Hoffman Estates, Illinois, Hon. Joe Walsh (chairman of the Subcommittee) presiding.

Present: Representative Walsh.

Chairman WALSH. Good morning, everyone.

Am I on? There, I am on.

Thank you for joining us.

Boy, that is on, isn't it?

The Small Business Committee, Subcommittee on Economic Growth and Capital Access, is now and will come to order.

I want to thank the witnesses for appearing today and for agreeing to testify on an issue that is so important to small businesses and consumers, high fuel prices.

Few things have such broad effects on consumers, the economy and small businesses as high fuel prices. While fuel prices have moderated somewhat from their recent highs, the price of a gallon of regular gasoline and diesel fuel is still 29 percent and 28 percent higher than two years ago. Overall, Americans are paying 93 percent more for gasoline than when President Obama took office in January of 2009.

The price of gasoline often determines where and when consumers will shop, what it costs a small business to deliver products and services, and the cost of purchasing materials and other inputs necessary for business operations.

When consumers have less money to spend and small businesses are forced to shift resources to fuel purchases, or pay higher prices for inputs, weak economic growth and anemic job creation are often the results. High fuel prices also increase economic uncertainty for both small businesses and their consumers.

Small businesses have repeatedly testified before this Committee about their need for certainty in order to grow their businesses and create jobs. Last year, I chaired a Subcommittee field hearing just like this in Woodstock, Illinois. At that hearing, a number of small businesses testified about how uncertainties created by policy actions in Washington inhibit their ability to grow and operate their businesses. These uncertainties can include new Federal regulations, Federal mandates on employers, and the direction of tax and spending policies.

In addition to your views on the effects of high fuel prices on small businesses, the Committee will certainly be interested in learning how these additional uncertainties affect you as well.

Other Subcommittee members may have opening statements. They will be submitted for the record.

Let me take a moment, witnesses, and explain our terribly complicated timing system for each of you. You will have 5 minutes. The light will start out as green. When you have 1 minute remaining, the light will turn yellow. Try to stick to your 5 minutes. If you go over, we will be flexible. Do the best you can.

I would like to introduce, in no particular order, our witnesses and give them each 5 minutes to testify. We will begin with James Zuber, a lifelong resident of Illinois, with more than 25 years experience in the commercial trucking industry. During those 25 years of operation, Mr. Zuber has logged over 3 million miles without an at-fault accident.

He is testifying today on behalf of the Owner-Operator Independent Drivers Association.

Mr. Zuber, you may deliver your testimony.

STATEMENTS OF JAMES ZUBER, OWNER, Jc3 TRUCKING, INC., NEWTON, ILLINOIS; PHIL KERR, PRESIDENT, HOME MEDICAL EXPRESS, INC., ELMHURST, ILLINOIS; LARRY SMITH, GENERAL MANAGER, LURVEY LANDSCAPE SUPPLY, DES PLAINES, ILLINOIS; AND RICHARD SADE, VICE PRESIDENT, S&S HINGE COMPANY, BLOOMINGDALE, ILLINOIS

STATEMENT OF JAMES ZUBER

Mr. ZUBER. Thank you. Good morning. My name is James Zuber. I am from Newton, Illinois, and I have been a professional truck driver for over 25 years.

Chairman WALSH. Did you press that? Why don't you move it a little closer to you?

Mr. ZUBER. One way or the other. There, okay.

Good morning. My name is James Zuber. I am from Newton, Illinois, and I have been a professional truck driver for over 25 years. I own my truck and haul construction goods and general cargo while leased to a motor carrier. I am here on behalf of the Owner-Operator Independent Drivers Association, commonly known as OOIDA. OOIDA's approximately 150,000 members are small business truckers from all 50 states.

The majority of trucking in this country is small business. Ninety-three percent of our nation's motor carriers own 20 or fewer trucks. My testimony will focus on the impact that energy prices have on small business truckers. These impacts are very real, especially when you consider them alongside the cost of regulations coming out of agencies like DOT and EPA.

While today's diesel prices are around 17 cents below last year, they are still very much on the high side. The fuel prices are still subject to short-term price spikes, which are devastating to small business truckers.

To give you a perspective, last year I drove 122,000 miles at $3.90 a gallon. My fuel costs were just under $80,000. When the price of a gallon of diesel increases by a nickel, my annual costs increase by $1,000. Trucking is a hyper-competitive business, and each of us operates on extremely thin margins. So any cost increase, especially those related to fuel or regulatory mandates, has an impact. An extra dollar spent on fuel means fewer dollars available to put back into my business.

Countless truckers have felt the pain of high fuel prices on their businesses and have had to put off buying new equipment, or worse. For me, this hits home when I need to pay for work on my truck and face higher prices for parts, labor, or even something as basic as tires, all without an increase in pay.

Further, for many truckers, business and family incomes are basically one and the same. Money isn't available to put towards the basic necessities like payments, like mortgage payments and medical expenses. And just as prices for repairs on the truck increase with high fuel prices, so do prices for household expenses like gas and food.

OOIDA has long supported an approach to energy policy that combines increased domestic energy production with efforts including greater marketing transparency, increase in focus on natural gas as a future energy source, and passing a new highway bill. In the past, the U.S. production has served as a relief valve, helping to mitigate price spikes. However, the strength of relief has been decreased as regulatory roadblocks have reduced domestic production on Federal lands and waters. Impeding domestic production with red tape is something truckers find very difficult to understand. Resources are available here at home.

Like most truckers, fuel is my largest annual operating expense. Trust me when I tell you, no government agency is more motivated than I am to make certain I am running my vehicles as efficient as possible. I do not need regulations telling me how to operate efficiently or forcing me to buy a truck that places some prescribed government efficiency standard ahead of what I need for my business.

Unfortunately, that is what has just happened with the EPA's new first-ever fuel efficiency rule for heavy-duty trucks. The regulations impose technologies that work for certain types of trucking operations on every one of our nation's trucking companies. It will add an additional $6,200 to the price of a new truck despite the older truck that I use today operates more efficiently than many of the trucks that are coming off the assembly line.

EPA is not the only agency driving up costs for truckers. The Department of Transportation's proposed rule requiring electronic onboard recorders, electronic stability control and speed limiters is using the veil of improved highway safety to one-size-fits-all regulatory mandates across the industry. These not only add significant costs to small business truckers, but also they will make a sizeable change to the industry, all with negative impacts to truckers who already have economic incentives to drive safely.

Further, one only has to look at significant improvement across the trucking industry over the past decade to question why such costly mandates are needed. The trucking industry faces significant economic and regulatory pressures on small business truckers like myself, especially impacted by the high fuel price spikes and costly mandates. Congress and the administration need to work to improve the domestic energy while resisting the urge to impose new mandates solely for the sake of imposing mandates.

Mr. Chairman, I thank you for the opportunity to testify, and I look forward to answering any questions.

Chairman WALSH. Mr. Zuber, thank you. Thank you very much.

I am now going to turn to Phil Kerr, our next witness from Elmhurst, Illinois. He is President of Home Medical Express, Inc., a small business home health services provider. Since its inception more than 6 years ago, Mr. Kerr's business has served more than 70,000 patients. He currently serves more than 7,000 patients across 10 counties in Illinois.

Mr. Kerr, you may deliver your testimony, and thanks for coming.

STATEMENT OF PHIL KERR

Mr. KERR. Thank you, Congressman Walsh and Ranking Member Schrader and members of the Small Business Subcommittee on Economic Growth, Tax and Capital Access, for the opportunity to provide testimony today on high fuel prices and the impact they have on small businesses.

As you mentioned, my name is Phil Kerr, and I am the President of Home Medical Express. We are located in Elmhurst, and we are a proud member of the American Association of Homecare.

Essentially, we are a provider of home oxygen therapy services, home nutrition therapy services, therapy for obstructive sleep apnea, and everything from hospital beds to wheelchairs. On a daily basis, we send about 23 people out in the field each day to distribute products and services from medical technicians to respiratory therapists and registered dieticians.

The American Association of Homecare is a trade association, a national trade association for all the providers, equipment manufacturers and other organizations of the homecare community.

I guess it was recently published that every $10 rise in the price of a barrel of oil translates to a 25-cent increase in gas prices, which tears more than $25 billion from our economy yearly. As a small business owner, I can tell you firsthand how it affects my business.

For our particular industry, it particularly has an impact on us. In other industries, a company will actually pass along additional costs to their customers. In our particular industry, we are dealing largely with Medicare and Medicaid, Blue Cross and other private insurance companies. About 75 percent of our business is dealing with the government with Medicare and Medicaid patients, and those patients we get a fixed payment for the services that we provide regardless of the costs that we have. So any cost that comes along, we are not able to pass that cost on to the actual customers.

The fact of the matter is that over the last 6 years, since we opened our business through the government regulations regarding medical equipment, there has actually been a 33 percent reduction in fees as it is, while fuel costs have gone up.

I have been in the field for 32 years. My two partners and I started our business in 2006, as you mentioned. We started from scratch with no employees in 2006, and last year we finished with a little over $8 million in revenues, and we currently have 80 employees.

As you mentioned, we service over 50,000 patients and 7,000 active. We service about a 60-mile radius from the Elmhurst area. As I mentioned, 70 percent of the patients are Medicare and Medicaid, and our costs essentially get fixed.

Fuel costs now represent 3 percent of our revenues, the cost of our revenues, which is up 1 percent over the last 2 years. By itself, that may not seem like a lot of money. For our business, though, that has taken us from $126,000 in fuel costs in 2009 to this past year we surpassed or are at about $250,000. A $120,000 increase is significant. Our business during that time grew 43 percent, but our fuel costs grew 95 percent, so more than double the pace.

As I said earlier, other industries can pass that on. We are not able to pass those costs on.

One alternative that we have been forced to look at in providing services to the patients that we provide is having to drop-ship certain services. We are required by our insurance companies to provide the services to the patients in their home, deliver to the patients in their home. Certain items like tube-feeding therapy, people who drink things like Ensure at home for tube-feeding purposes, weigh about 13 pounds per box. Some patients get 10 boxes of those per month. We deliver those today inside their house. We bring it inside to their family room, their kitchen, pantry, what have you. Our costs to go to each house are about $50 per visit.

We can go through drop shipping and get down to about $37 per visit, but the implications of that are that 60 percent of these cases, as I mentioned earlier, are Medicare. We are going to have to bring products that weigh up to 130 pounds—if FedEx or UPS brings them, they bring it to the doorstep. They don't bring them inside. That will force consumers to actually bring those products inside themselves.

High gas prices have compounded a problem that home medical group providers have had with a new government program known as competitive bidding. This program is competitive in name only. In fact, in Round 1 of competitive bidding, 87 percent of the companies in the first nine states were eliminated from the marketplace.

It is a program that was poorly conceived, fundamentally flawed. It is now exhibiting many serious breakdowns that are predictable based upon its failure to recognize and account for the true nature of the way home medical equipment is provided to Medicare beneficiaries. These breakdowns have been evident since the start in 2007.

Round 2 of competitive bidding started this year. In March, we had to submit our bids for those things. We will find out later this year. The biggest problem that we have is that we were forced to provide a bid for four years. So that means that any increase in fuel prices over the next four years, no matter what they are, are built into the price we have had to commit to today. So it has made it very difficult for us.

We have included more detailed information about the problems with the bidding program in our testimony. Business closures and employee reductions have significantly impacted the industry.

In conclusion, I would like to thank you again for the opportunity to provide the testimony today. I regard this as an important issue and look forward to the Subcommittee to protect patients' access to homecare, as well as small businesses that provide the equipment that they need.

Chairman WALSH. Thank you. Thanks.

Our third witness is Larry Smith. He is General Manager of Lurvey Landscape Supply Company, located in Des Plaines. Lurvey is a diversified wholesale supply distribution business with 35 full-time employees and as many as 125 temporary seasonal employees.

Mr. Smith, welcome. You have the mic.

STATEMENT OF LARRY SMITH

Mr. SMITH. Chairman Walsh, distinguished members of the Subcommittee, and guests, thank you for the opportunity to testify today on how high fuel prices and price uncertainty affect my company and my industry.

I am Larry Smith of Lurvey Landscape Supply in Des Plaines. My company distributes a wide range of products used by landscapers, builders, and homeowners, from all types of green goods to paving materials to nonstructural stone building veneers to accessory products. All of the products we distribute are purchased from others.

We employ 35 people year-round and 120-plus during peak seasons. We actively participate in our national association, the American Nursery and Landscape Association, and its state partner, the Illinois Green Industry Association, as well as other trade organizations related to the products we distribute.

Our company is part of the vertically integrated nursery and landscape industry, often referred to as the green industry. All but a few of the very largest businesses in the industry are classified as small businesses. Most are family owned and operated, and many are multi-generational.

The plant production part of the business is considered agriculture, and in production value, its crops are valued at $16.7 billion at farm gate. Nationally, the industry contributes over $175 billion in economic output and sustains 1.95 million full- and part-time jobs.

Here in the Land of Lincoln, the most recent numbers show that the green industry has an impact of $5.2 billion on the Illinois economy, employs 200,000 people full- and part-time, and generates $1.9 billion in payroll.

Our company currently operates three locations in the Chicago area, serving about 1,200 landscape and construction businesses, as well as retailing to homeowners from our Des Plaines location. During a busy spring day, our wholesale locations will produce over 600 invoices. Lurvey Landscape Supply owns three 20-foot flatbed straight trucks and two small dump trucks for local deliveries of from a few miles to 150 miles or more. We can do well over 20 deliveries a day to the local market.

For the first time in our history, we have begun adding a fuel surcharge to our own local deliveries just to try to recoup some of the added expenses of high fuel prices.

The Great Recession has hit our industry hard, given the fact that residential construction, commercial property development and municipal investments in green infrastructure all declined sharply as the economy took a sharp turn for the worse. The ensuing credit crunch further destabilized businesses in our industry.

So against this backdrop, record high fuel prices and price volatility have added insult to injury. I would like to list a few of the impacts all of this has had on our business and many in the green industry.

Our customers need a stable price for products for extended periods of time in order to bid on work that is often six months to a year away. Fuel surcharges have ranged this spring from 15 percent to as high as 37 percent. In real numbers, a load from Pennsylvania this spring cost $925, and the fuel surcharge was $351.50 extra. Locally, we pay $310 for a load of concrete pavers, with an additional $62 in fuel surcharges. These surcharges were not part of the cost a few short years ago. This equates to significant increases in cost.

With that in mind, can we ask the growers that we buy plants from to absorb those costs when other economic conditions have forced their profit margins to near zero percent? Or can we absorb those costs?

Our net margins are less than half of pre-recession numbers, and a significant portion of the reduction is due directly to high fuel costs. That impacts our ability to reinvest in our business by updating or replacing delivery vehicles, and our employees by increasing wages or adding staff where and when it is needed.

These increased costs also impact how our suppliers operate and their ability to invest in employees and equipment.

Before the recession, prices were determined yearly for much of our inventory based on product cost without a significant weight placed on freight costs. Current practice requires us to weigh freight costs heavily in our pricing equations. This has caused us to significantly reduce the inventory we carry and necessitated quoting prices on a per-job basis, which in turn increases lead times and creates frustration and inefficiencies on the job if product can't arrive on time.

So while I am far more expert in running a business than I am in telling this Committee exactly how to take the knife edge off high fuel prices and price volatility, which leads to business uncertainty, I can speak to the troubling impacts we have faced. I do believe we as a nation must roll up our sleeves and get to work on any and every strategy to develop both traditional and non-traditional energy sources. There is no question that recent high fuel prices and price uncertainty have dramatically impacted our profit margins and our ability to take risks investing in new employees and equipment. We would welcome the actions that bring some relief.

Thank you again for this opportunity to testify.

Chairman WALSH. Thank you, Mr. Smith.

Our final witness is Richard Sade. Richard is Vice President of S&S Hinge Company, located in Bloomingdale, Illinois. S&S Hinge has been in operation for more than 80 years manufacturing specialized hinges used in a variety of applications.

Thank you for being here. You have the floor.

STATEMENT OF RICHARD SADE

Mr. SADE. Chairman Walsh, members of the Committee, thank you for the opportunity to testify before you today on this most important issue that impacts manufacturers of all sizes, especially small businesses like ours.

My name is Richard Sade, as you indicated, Vice President of S&S Hinge, based in Bloomingdale, Illinois, a third-generation continuous hinge manufacturer about 27 miles northwest of downtown Chicago. We manufacture parts for industries and products, including tool storage, marine, electrical, attic stairs, fixtures, emergency vehicles, and industrial distribution.

S&S Hinge is a family-owned business with 38 employees, and we are now looking to expand our business by increasing our exports and developing new products and technologies.

Like all Americans, at S&S we have felt the pain at the pump, not just when we want to take our families on summer vacations, but the pain is greatest on small businesses. Fuel impacts our company in several ways, the obvious one being our sales team stops at the gas station before visiting customers. We also have seen increases in the price we pay for raw materials through transportation and other surcharges. In some cases, our increased fuel costs are built into the sales price we provide to our customers, but even when we are successful in recovering some of these costs, it still makes our products more expensive on the global market and makes us less attractive to exports and new customers.

As a small business, we often are trapped between much larger customers who may not anticipate a price increase on raw materials, and suppliers who are also seeing increasing costs. A challenge we face is our suppliers typically add a surcharge based on the weight and how much steel we buy, not on how many miles they travel to deliver goods to us, and steel is very heavy, obviously, as we all know.

Obviously, as we try to grow our business and add employees, the amount of steel we buy will increase along the way, which comes with higher fuel surcharges. We must factor these surcharges in when deciding whether or not to explore new business opportunities and if we can afford to purchase raw materials we need to make more parts for our customers.

S&S Hinge has already seen a 20 percent increase in fuel costs over the last year. Our employees, including our sales team, traveled respectively 475,000 miles a year in 2011. As we try to sustain and grow our business, this creates a Catch-22 for us. While we know the cost to make money, a 20 percent increase in fuel surcharges is significant for a small business like ours trying to grow and add jobs.

In part, as a result of these increases in fuel costs, our sales team is traveling less and relying more on the Internet to pursue new business opportunities. We know we must adapt to changing times, as any business. However, we seek to grow our company and add jobs. We cannot afford to miss new opportunities because of the increase in fuel costs.

Prior to joining S&S, I worked for several Fortune 400 companies, and while they also are dealing with significant fuel costs, economies of scale show how much more that increase can impact a small business in Illinois. A 20 percent increase in our transportation costs is an additional 28 percent annual increase in fuel use for our overall production costs in oils and lubricants. In any other industry like ours, where profit margins are low, single digits, any increase to cost puts a significant disadvantage to our bottom line.

A lack of a comprehensive energy policy also further puts American manufacturers at a global disadvantage, especially small businesses like S&S. Our business has taken advantage of tax credits and incentives in the past, such as the one-time ComEd Smart Idea program for our plant lighting, which gave us a one-time savings of $12,760.

As with anything in life, one size does not fit all. But this is certain, the U.S. must become more self-reliant on fuel sources. This will improve the market sustainability and help small businesses plan for the future.

To support manufacturers, the government should explore domestic options available that will mean real fuel cost reductions. Especially in an election year, politics can trump good policy, and manufacturers cannot afford politicians playing politics with their lives and their livelihoods. Federal programs intended to foster new energy-efficient technologies are often directed at large manufacturers and lack a small business requirement. The government should work with the private sector to authorize and support investments in domestic energy sources and alternative fuels.

Thank you for the opportunity to present my testimony today. Small businesses are the backbone of this country, and manufacturers are the driver of the recovering economy. But manufacturing can't drive us to better times without a fuel policy that makes sense for small businesses like ours. I look forward to continuing to work with you on this most important issue in the future and answering any questions you may have.

Chairman WALSH. Thank you. Thank you.

Politicians playing politics? That doesn't happen. Come on.

Thank you, everybody.

First, a thank-you to all of you in the audience. You know, if we were in Washington right now, this is what you would be doing. Virtually every committee in Washington holds hearings darn near every week or every other week. Every now and then, committees and the subcommittees, like this Subcommittee that I chair, were able to go into the field to bring witnesses from real life in front of us so we can listen to them, and this is a way for you all to actually come see a hearing because you can't get to Washington every week or two, and that's a good thing.

So thank you all for coming. Let me ask some questions of our witnesses, and I want to thank you each for taking some time.

You said it. You are the backbone of this country, small businesses, small businesses, small businesses. You are the job creators. You are the ones that eventually will get this economy back up on its feet. We in Washington tend to make life too difficult for you, and we have really done that over the course of the last three or four years.

And it is not just the uncertainty coming out of Washington. Uncertainty is a problem, but very certain over-regulations are a problem as well. So I hear you and I empathize with you, and I will tell you, when I am out a lot doing town halls or talking to folks out there, there is a real "big against small" feeling in this country. Big businesses, big banks seem to be doing just fine. Small businesses, community banks, are struggling.

When it comes to this issue in particular, high fuel prices, big businesses can take advantage of sophisticated financial tools to try to leverage or hedge against rising fuel prices. I don't think our small businesses have the same ability. So big businesses have tools that they can use to try to combat these.

What do you all do? If you can't use fancy derivatives and hedge against rising fuel prices, what strategies do you use to try to combat high fuel prices?

And that is for all of you. Does anybody have a short, quick, interesting answer?

Mr. SADE. Yes. I would like to answer that, Joe. It really is, as I testified, a Catch-22 because, for an example, for us to hedge on surcharges, we will go buy more raw materials—for example, trucking. We will get a truckload of steel versus a half a truck, which I have to go borrow money to do that.

Chairman WALSH. Yes.

Mr. SADE. And the lending in this country for small businesses is terrible. So we are constantly chasing that tail of trying to balance our business, working with the banks, and then adjusting for these fuel prices, because a lot of my customers are big corporations, and I have contracts with them. I can't raise prices. I can't pass that through on a yearly contract. Therefore, we eat it, and we can't continue to do that. We just—you know, the margins aren't there.

Chairman WALSH. Mr. Kerr, because of your unique client base——

Mr. KERR. For us, the additional costs that we had, what it ended up meaning for us was although we grew 80 employees over this 5-year period, there are five to ten more people we could have hired that could have had health insurance who would have purchased more vehicles. Down the road, it has forced us to hold back on some of those investments. As a result, what could have been even greater employee growth was stymied.

Chairman WALSH. Mr. Zuber, Mr. Smith, again, you are not a big old sophisticated corporation. That's a good thing. They can hedge and do different things. What sort of tools do you all have to try to combat and leverage against this?

Mr. ZUBER. The only option I have is I am a one-truck operation leased to a carrier, and all I can do is work on the truck myself instead of having it worked on. I try to cut costs like that. I work on my truck to turn it more fuel efficient.

Chairman WALSH. And if you have to work on that truck yourself, what does that take you away from?

Mr. ZUBER. It takes me away from my family life, and my wife gives up, my kids give up. Health insurance is hard to come by, that you can use. I mean, yes, it is very hard, especially the family life and the extra added work that I put into it, and then the compensation is not there.

Chairman WALSH. Mr. Smith.

Mr. SMITH. Lower margins, reduced labor don't pay raises.

Chairman WALSH. Yes. It has to give somewhere.

We mentioned how fuel prices have increased roughly 93 percent since President Obama got elected. They have begun to come down a bit. Are we still on the high end?

Mr. ZUBER. Yes, they are.

Chairman WALSH. Don't you love it when I ask easy questions?

Mr. ZUBER. Was that rhetorical?

Chairman WALSH. Well, that was whatever you want to call it. We are still up there, aren't we?

Mr. ZUBER. Yes, we are, very high. I think we need to depend more on domestic drilling. I think we need to cut some regulatory red tape to try to get more domestic drilling, and not only rely on oil and diesel but maybe in the small, the in-town communities, like the landscapers that deliver, don't force it on them. I don't want any mandates. But use maybe natural compressed gas. They are getting a lot of those around the area, but they are starting to put them in. They are not able to be used over the road very well for a lot of drivers, but cut it that way, and cut the regulatory red tape to build refineries, invest some of our money off the domestic oil that we capture to invest in alternate fuels, and try to get the price down, become self-reliant again in this country.

Chairman WALSH. You will never work in Washington. You are making much too much sense.

Gentlemen, $3.60, $3.70, $3.80 a gallon, this is still hugely difficult for your companies, your businesses?

Mr. SADE. It is not only difficult just from the fuel, but you have got to understand, any time there is this fluctuation with a barrel of oil, it affects our production costs because we use oils in our manufacturing process, and that is the other part of the equation that affects small businesses like mine, that we use oils and lubricants and cleaning solutions and that type of thing.

When oil gets to $100 a barrel, we see significant increases, 50 percent sometimes, in just oils that we use in production, lubricants.

Chairman WALSH. Mr. Smith, historically for you, this is high end right now, this is on the high end?

Mr. SMITH. Yes. We are currently, I think this week, the fuel surcharge for one of the companies that we deal with a lot is 15 percent. So that is still, that is $150 on a $1,000 load. That money comes out of somebody's pocket, and generally speaking it can't come out of our customers' pockets because they don't have any more money to pull out of their pockets.

Chairman WALSH. Maybe I didn't hear you right. Did you testify that this is the first time ever you've had to put a fuel surcharge on your deliveries?

Mr. SMITH. This is the first time that we have done it as a company for our own local deliveries that we do with our trucks.

Chairman WALSH. Okay. Mr. Zuber, answer me one question about the trucking industry in general. Has it become more consolidated? Is it tough for the one, two, three, four truck shops to make a go of it? What's happening to the smaller, smaller, smaller companies in the trucking industry?

Mr. ZUBER. Well, it is very tough for even the 100-truck operations. The problem is the fuel surcharge is not able to be passed on, and the operators eat it, and the problem is we are giving tax breaks, grants to the bigger companies that have the legal departments to swoop in and grab those grants that we know nothing about.

Chairman WALSH. What is—educate me—a 100-truck operation? Is that considered small? Medium?

Mr. ZUBER. That is small.

Chairman WALSH. That is small. Okay.

Mr. ZUBER. Yes. But, you know, we just do not have the—if we pass it on, we pass it on to everybody in this room. We have to pass it on to the consumers. They can't afford it. We can't afford it. But with the breaks that they are getting, they are not only getting breaks with grants and stuff like that. I pay a certain price for a gallon of diesel, whatever is on the sign out there. They may get 20 to 30 cents off of that as a big corporation. Tires are the same way, so on and so on, everything they use. They get such big breaks, it is hard for us to compete as owner-operators.

Chairman WALSH. And we hear that across industry.

Mr. ZUBER. Could I say one more thing?

Chairman WALSH. Oh, you have got the mic.

Mr. ZUBER. It is funny. I started in the early 80's as a truck driver. I made almost—I actually took home more money. But back then, you could buy diesel for 89 cents a gallon. Today it is $3.90. I made 95 cents to $1.00 a mile back then. I make an average of $1.02 a mile, plus fuel.

Chairman WALSH. Wow.

Mr. ZUBER. It doesn't come out. It is hard to raise three kids, a wife, and be happy.

Chairman WALSH. Wow, wow.

Mr. Kerr, again, you are unique at this table because of what you do and who you are working with. Seventy-some percent, as you said, is Medicare and Medicaid. Is it true that home health care and ambulances are the last health professions still making house calls?

Mr. KERR. Largely, that is true. I mean, there are still small physician groups that do that, but they are the exception rather than the rule.

Chairman WALSH. And home health care has experienced Medicaid reimbursement cuts?

Mr. KERR. Medicaid and Medicare.

Chairman WALSH. Medicare?

Mr. KERR. Medicare has been significant, and this competitive bidding that I spoke about, just to take a minute or so on that subject. Right now, there are approximately 35 million people in the United States that have Medicare. The Obamacare plan is going to take that number to about 70 million people on those government rolls. The costs associated with this program of competitive bidding where in the first nine cities they eliminated 87 percent of the competition—and, by the way, that 87 percent that was eliminated were small businesses——

Chairman WALSH. Right.

Mr. KERR. If you take that going forward, it seems counter-intuitive. You are going to take double the demand, and you have reduced the supply by 87 percent. So your area that you live in, McHenry, we service that area from our place. So in metropolitan Chicago, there are about 100 companies that do what my company does. Take that down to 13, and it exacerbates the fuel situation. We now have to drive—we have broadened the geographic density, and we now end up having to drive farther to provide those services. So the amount of fuel that we are going to consume becomes grossly inefficient.

Chairman WALSH. Now, health care and Obamacare will probably be a fairly interesting topic this week. But with these Medicare cuts, and with these rising fuel costs, in your mind, what is this going to do to folks' access to health care, especially home health care?

Mr. KERR. Well, certainly a lot of the extra services that personal service companies provide are going to be diminished, like one of the examples I talked about. We are just going to have to eliminate any possibility of being customer or senior citizen friendly. If the option is to go out of business or stay in business and reduce some of those services, that is another rhetorical question I suppose.

Chairman WALSH. Oh, we are full of them.

Mr. KERR. Right.

Chairman WALSH. Isn't it fascinating to everyone this pattern here of big versus small? You can almost go down every industry, and big businesses and big corporations generally have capital, generally are sitting on capital. Generally, government tends to create rules to take care of them, and it is the smaller businesses that take the hit.

A couple of general questions for everybody, and then we will call it a morning.

Actually, Mr. S&S Hinge, I want to ask you one quick specific. Do you compete against foreign imports?

Mr. SADE. Yes.

Chairman WALSH. Okay. What are fuel prices, how are they helping you in this competitive environment, or hurting you? Try to just take 30 seconds.

Mr. SADE. One of the issues is that, as you well know—you have been to my plant. Over the years we have tried to, what we call, China-proof ourselves with technology and innovation. However, the big-box guys do buy quite a bit of hardware from Asia. The good news there is that some of this is coming back to the States, and when it comes to manufacturing, because of the higher transportation costs and fuel costs, I can't go and sell my product in China anymore just for the fact of shipping it there outweighs the cost of manufacturing costs. So exporting has become more difficult. But again, on the flip side, we are seeing more activity come back.

Chairman WALSH. Two quick general questions, and then we will wrap. The price of gas at the pump has moderated a bit the last couple of months. Demand for gas is down. I mean, Americans are hurting. So on the demand side, there is not as much demand. We are not driving around as much. The economy is struggling out there. Folks are struggling.

Give me your quick take right now on where you see things in this country economically. Let's start here and go down the row quickly.

Mr. ZUBER. Where are we at now?

Chairman WALSH. Yes, where are we at right now.

Mr. ZUBER. We are at a point where jobs are being lost. If there are no consumers to buy my products—well, not my products but the products I haul, that means less loads for my truck to haul. That means more trucks trying to haul the same load. The prices are going down. The fuel is still up. You know, only so many can live on that top tier when you have got the bottom tier working and supporting the top tier. If we don't do something, I look for it to crumble.

Chairman WALSH. Mr. Kerr, what do you think? You are out there. Where do you think we are at economically right now?

Mr. KERR. I think it is kind of the—you are familiar with Atlas Shrugged? It is much like that. The idea of innovation kind of goes by the wayside. People that were formerly in businesses where you had very thin margins to begin with, margins continue to erode. There becomes no more motivation to be involved in that business. In Atlas Shrugged, people just start disappearing, and I think we will see that, at least in that microcosm.

Chairman WALSH. Mr. Smith, where are we at right now economically?

Mr. SMITH. We are still on the bottom and treading water. I see glimpses of hope, and then they go away just as quickly as they show up.

Chairman WALSH. Yes. Where are we at right now?

Mr. SADE. Oh, boy, good question.

Chairman WALSH. Thirty seconds.

Mr. SADE. Washington has got us stifled. The economy is just— you know, the leadership and what is going on. As you well know, I am very much active in some other politics, and I think that there are trillions of dollars on the sidelines. Everybody is waiting to see what happens, obviously, with the election, and regulation has been killing us. So it is very, very slow.

Chairman WALSH. Okay, last quick question, bullet answers. Anything you advise me to do? Let's pretend that I can take to Washington, when I go back tomorrow, and we will turn it into law. When it comes to high fuel prices, what is one thing you would like to see your government do to improve the situation? One thing. Start with Mr. Zuber.

Mr. ZUBER. Cut the regulatory red tape and start becoming more dependent on our own oil and resources in this country.

Chairman WALSH. Mr. Kerr.

Mr. KERR. Increase supply in whatever way that we can do that, whether that is additional drilling or what have you.

Chairman WALSH. Additional drilling.

Mr. Smith.

Mr. SMITH. Same thing, additional drilling, more supply.

Chairman WALSH. Mr. Sade.

Mr. SADE. Approve the pipeline.

Chairman WALSH. Approve the pipeline. You did that in three words.

Thank you. Thank you all. My closing thought is we are treading water right now. We are barely treading water. Things out there are so much worse than people in Washington realize. Our unemployment rate is not 8.2 percent. It is higher than that. Every quarter we have adjusted our growth numbers down. It is difficult to say we are even limping along. We are—you used Atlas Shrugged. The metaphor, and I think it is an apt one, the metaphor I use is, look, this is the most innovative, entrepreneurial, go-get-'em, energetic country that men and women have ever created, and right now it is like Gulliver's Travels. It is like we are laying down on our back, this great American engine and this great American economy, and we are all tied up. We are all tied up by all these regulations, by all this red tape, by all these taxes, by all this new big health care thing that was thrown on us, and the American ingenuity can't get up. It is like we are on our backs, and this isn't rocket science.

We try to complicate things in Washington all the time. You create jobs. All you want Washington to do, I think, is lay down some simple rules and then get out of the way and let you do your thing. Unfortunately, that is not at all what we, what Washington has done the last three to four years.

As I say every time I am with you all, with small business heads, my first and only instinct is to apologize. I think, Mr. Zuber, Mr. Kerr, Mr. Smith, Mr. Sade, I apologize for Washington because you all have a target on your back. For some reason this administration, for some reason too much of Washington wants to just go at you and make your lives miserable, and for that I apologize.

I want to thank you all for being here today. If it were up to me, I would hold 10 field hearings for every hearing we hold in Washington. We would get people out of Washington, coming out here in this great country talking to people as well, so that folks who don't ordinarily get to Washington can listen. But we learn more when we listen to you and hear from you.

So thank you all for coming. You have, I believe, provided great insight into this issue of high fuel prices. Your written testimony will go to the committee and we will study and continue to work on the things that you all are concerned about.

I ask unanimous consent that members of this committee have 5 legislative days to submit statements and supporting materials for the record.

Hearing no objection, so ordered.

Chairman WALSH. Without objection, then, this hearing is now adjourned. Thank you for coming.

[Whereupon, at 11 a.m., the Subcommittee was adjourned.]

Statement of Larry Smith
Before the
House Small Business Subcommittee on Economic Growth, Tax and Capital Access
Field Hearing on
High Fuel Prices: The Impact on Illinois Small Businesses and Job Creation
June 25, 2012

Chairman Walsh, distinguished Members of the subcommittee, and guests, thank you for the opportunity to testify today on how high fuel prices and price uncertainty affect my company and my industry. I am Larry Smith, of Lurvey Landscape Supply in Des Plaines. My company distributes a wide range of products used by landscapers, builders and homeowners; from all types of green goods (trees, shrubs, perennials, annuals, and sod) to paving materials (clay pavers, concrete pavers and retaining walls, natural stone pavers and retaining walls, roof deck paving solutions) to non-structural stone building veneers to accessory products. All of the products we distribute are purchased from others.

We employ 30 people year-round in various sales and management positions, and 120+ during peak seasons to handle incoming and outgoing material, sales staff and maintenance of plant and other materials. We actively participate in our national association, the American Nursery & Landscape Association, and its state partner, the Illinois Green Industry Association as well as other trade organizations related to the other products we distribute.

Our company is part of the vertically integrated nursery and landscape industry, often referred to as the "green industry." It includes nursery and greenhouse growers, garden retailers, landscape design and installation professionals, and industry suppliers. Ours is an industry of small and family businesses. All but a few of the very largest businesses in the industry are classified as small businesses, most are family-owned and operated, and many are multi-generational.

The plant production part of the business is considered agriculture, and in production value it produces crops valued at $16.7 billion at farmgate. Nationally, the industry contributes to over $175 billion in economic output, and sustains 1.95 million full- and part-time jobs.

Here in the Land of Lincoln, the most recent numbers show that the Green Industry has an impact of $5.2 Billion on the Illinois economy, employs 200,000 people full time and part time, and generates $1.9 billion in payroll.

Our company currently operates 3 locations in the Chicago area, serving about 1200 landscape and construction businesses as well as retailing to homeowners from our Des Plaines location. During a busy spring day, our wholesale locations will produce over 600 invoices with about 95% of those being picked up by the customer. LLS owns three 20-foot flatbed straight trucks and two small dump trucks for local deliveries of from a few miles to 150 miles or more. As you can see from my example, we can do well over 20 deliveries a day to the local market. For the first time in our history, LLS has begun adding a Fuel Surcharge to our own local deliveries just to try to recoup some of the added expense of high fuel prices.

The "Great Recession" has hit our industry particularly hard, given the fact that residential construction, commercial property development, and municipal investments in "green infrastructure" like parks and street trees all declined sharply as the economy took a sharp turn for the worse. The ensuing credit crunch further destabilized businesses in our industry. So against this backdrop, record-high fuel prices and price volatility have added insult to injury.

I would like to list a few of the impacts all of this has had on our business and many in the green industry.

Our customers need a stable price for products for extended time periods in order to bid on work that is often 6 months to a year away from even putting a shovel in the ground. Fuel Surcharges have ranged this spring within our own company from 15% to 25%. Some of our outside carriers have quoted surcharges as high as 37%. In real numbers, a load of stone from Pennsylvania this spring cost $925.00 and the Fuel Surcharge was $351.50. Locally we pay $310.00 for a load or concrete pavers with an additional $62.00 in Fuel Surcharges. These surcharges were not part of the cost a few short years ago. This equates to significant increases in cost.

With that in mind, can we ask the growers that we buy plants from to absorb those costs when other economic conditions have forced their profit margins to near 0%? Or can LLS absorb those costs?

Our net margins are less than half of pre-recession numbers and a significant portion of the reduction is due directly to high fuel costs. That impacts our ability to re-invest in our business by updating or replacing delivery vehicles and our employees by increasing wages or adding staff where and when it is needed. These increased costs also impact how our suppliers operate and their ability to invest in employees and equipment.

Before the recession, prices were determined yearly for much of our inventory based on product cost without a significant weight placed on freight costs. Current practice requires us to weigh freight costs (read fuel) heavily in our pricing equations. This has caused us to significantly reduce the inventory we carry and necessitated quoting prices on a per job basis which in turn increases lead times and creates frustration and inefficiencies on the job if product can't arrive on time.

Conclusion

So while I'm far more expert in running a business that provides high quality landscape supplies and services to our customers than I am in telling this Committee exactly how to take the knife-edge off high fuel prices and price volatility which leads to business uncertainty, I can speak to the troubling impacts we have faced. I do believe we as a nation must roll up our sleeves and get to work on any and every strategy to develop both traditional and nontraditional energy sources. There is no question that recent high fuel prices and price uncertainty have dramatically impacted our profit margins, and our ability to take risks investing in new employees and equipment. We would welcome actions that bring some relief.

Thank you again for this opportunity to testify.

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Testimony of Phil Kerr

President, Home Medical Express, Elmhurst, IL

House Small Business Subcommittee on Economic Growth, Tax and Capital Access

On

"High Fuel Prices: The Impact on Illinois Small Businesses and Job Creation."

June 25, 2012

I would like to thank Chairman Walsh, Ranking Member Schrader, and members of the Small Business Subcommittee on Economic Growth, Tax and Capital Access for the opportunity to provide testimony for the hearing on "High Fuel Prices: The Impact on Illinois Small Businesses and Job Creation."

My name is Phil Kerr and I'm the president of Home Medical Express located in Elmhurst, Illinois and proud member of the American Association for Homecare (AAHomecare). Home Medical Express is a provider of home oxygen, enteral therapy and medical equipment services. Products and services we offer include oxygen concentrators, portable oxygen tank systems, Obstructive sleep apnea therapy, aerosol and suction therapy, feeding pumps, hospital beds and wheelchairs. Home Medical Express sends technicians to bring equipment and provide services to patients in their homes.

AAHomecare is the national trade association for health care providers, equipment manufacturers, and other organizations in the homecare community. AAHomecare members serve the medical needs of Americans who require oxygen equipment and therapy, mobility assistive technologies, medical supplies, inhalation drug therapy, home infusion, and other home medical products, services, and supplies in the home.

I recently read that for each $10 rise in the price of a barrel of oil translates into a 25-cent increase in gas prices, which tears more than $25 billion from our economy yearly. High gas prices impact families throughout the United States, forcing them to make difficult choices. Businesses have to make tough choices as well because of rising fuel costs. As a small business owner, I can tell you first-hand how high gas prices negatively impact my business. High gas prices can be particularly difficult for providers of durable medical equipment (DME), also referred to home medical equipment (HME), since a large component of our cost is delivery and service of the equipment. This factor is compounded by the fact that a majority of the patients I serve are enrolled in Medicare or Medicaid, so any additional costs cannot be passed on. As a result, any rise in gas prices significantly increases my cost of business.

High Gas Prices – HME Providers Cannot Pass On Costs to Consumers

I am a 32-year veteran of the home medical equipment industry and have worked for Local, Regional and National Suppliers as a Medical technician, Branch Manager, Region Manager, Regional Vice President, CEO and owner with a responsibility for more than 120 cities in 25 states with annual revenues up to $125 million during this time.

My two partners and I started Home Medical Express in 2006 in Elmhurst, Illinois and have grown our business from scratch to $8.5 million in revenues for the year ending 2011. We currently employ approximately 80 employees. We have serviced 50,000 new patients since our inception and currently service approximately 7,000 active patients over a 60-mile radius from Elmhurst. We provide 24-hour service to this area and have a 2-hour service guarantee.

Approximately 70% of our patients are covered under the Medicare and Medicaid government programs and another 25% from private insurance carriers like Blue Cross Blue Shield, etc. These insurance programs pay for our services with a flat fee per item with the understanding that all delivery charges are included in that fee. There are no adjustments for proximity to the patient or for changes in the cost of doing business from fuel charges to wages.

Fuel costs now represent 3% of our revenues, up from 2% in 2009. By itself, that may not seem like much. But in 2009 our annual fuel costs were $126,000 and reached $247,000 by 2011, a 95% increase in costs while our business only grew 43%. Had the fuel costs stayed flat, we would have been able to hire four more staff members with health insurance benefits and four more delivery vehicles.

Other industries can simply pass on increased fuel costs to their customers to maintain their profit margins. In our industry, we not only have not been able to increase our fees to offset this cost, but we have incurred a 33% reduction in the fee schedule from the insurance payors including Medicare since 2006.

One alternative that our company has been forced to consider is drop shipping certain supplies to a patient's home and having them brought to their doorstep instead of inside their homes. This would require in 60% of the cases a senior citizen being responsible to carry sometimes heavy supplies themselves.

New Government Program Compounding Problems with High Fuel Costs

High gas prices have compounded a problem HME providers are already having with a new government program, known as the DMEPOS competitive bidding program. This program is "competitive" in name only. The Medicare Modernization Act of 2003 required Medicare to replace the current payment methodology for certain HME items with a selective contracting process. Any provider not awarded a contract is prohibited from providing bidded Medicare items for the length of the contract, typically a three-year period.

The bidding program was implemented on January 1, 2011 in nine cities across the U.S. and began in an additional 91 metropolitan areas this year, including the Chicago area. The Centers for Medicare and Medicaid Services (CMS) originally began implementation of the program in 2007. However, because of fundamental problems with the design of the program, Congress delayed implementation for a period of 18 months in the Medicare Improvements for Patients and Providers Act of 2008 so that CMS could correct those problems. CMS has re-launched the program with minimal changes and ignored congressional intent.

The Medicare bidding program is a poorly conceived and fundamentally flawed program that is now exhibiting many of the serious breakdowns that were predicted based on its failure to recognize and account for the true nature of the way HME is provided to Medicare beneficiaries. These breakdowns have been evident since the start of the Round One bidding process in early 2007, throughout the bid evaluation process, and right through the awarding of contracts. Design and operational problems in the bidding and contracting phase will seriously compromise beneficiary access and quality of care.

Round 2 of competitive bidding, which includes many areas in Illinois, has already started. The bid window for HME providers closed on March 30, 2012, with 3-year contracts starting July 1, 2013. So HME providers like me who have submitted bids had to factor into those bids a guess about what gas prices will be in 2016. If fuel prices suddenly increase, HME providers who are awarded contracts in bid areas will not receive any adjustments. If a fuel crisis occurs during this period, many HME providers will be forced to close their doors, leaving seniors and people with disabilities without the equipment they need.

Cost Effectiveness of Homecare/Reduction of Providers will Increase Health Care Costs

HME business closures and employee reductions have a direct impact on our nation's economy and overall health care spending. HME offers an efficient and cost-effective way to allow patients to receive care they need at home. The need for HME and HME providers will continue to grow to serve the ever-increasing number of older Americans. Homecare represents a small but cost-effective portion of the more than $2.3 trillion national health expenditures in the United States, and approximately 15.5 million Medicare beneficiaries require some type of home medical equipment annually, from rather simple bedside commodes for people who have hip replacements to high-tech ventilators for quadriplegics.

Yet, not all products are created equal: some require involvement of licensed or credentialed clinicians to be on staff or cost as much as $15,000 to purchase. And while Congress and the Office of Inspector General have shed light on HME products they believe to be overpaid, many others are unprofitable for us to provide even before the bidding program. The high cost of fuel, labor, rent and utilities and regulatory compliance associated with billing and collections, HIPAA privacy, identity theft, IT security, Sarbanes-Oxley, waste disposal, beneficiary and employee safety, OSHA, DOT and FDA regulations continue to escalate year after year. Anyone who has ever required HME or had a relative who needed it can attest that our service includes much more than just the equipment.

The more people receive quality equipment and services at home, the less is spent on hospital stays, emergency room visits, and nursing home admissions. Home medical equipment is an important part of the solution to the nation's healthcare funding crisis. The facts bear this statement out as private health care plans have contracted for our services for decades and reaped the cost-savings along the way. Even the current Administration is trying to develop programs to manage chronically ill Medicare patients in the home through new demonstration projects and the Medicare Innovation Center.

Any reduction in the utilization of HME will drive up health care costs for everyone.

Conclusion

Thank you again for the opportunity to provide testimony regarding this important issue. AAHomecare and I look forward to working with the Subcommittee to protect patients' access to homecare, as well as the small businesses that provide the equipment they need.

Testimony of

JAMES ZUBER
PROFESSIONAL TRUCK DRIVER & MEMBER
OWNER-OPERATOR INDEPENDENT DRIVERS ASSOCIATION

Before the

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX & CAPITAL ACCESS
UNITED STATES HOUSE OF REPRESENTATIVES

Regarding

HIGH FUEL PRICES: THE IMPACT ON ILLINOIS SMALL BUSINESSES AND JOB CREATION

JUNE 25, 2012

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On behalf of

Owner-Operator Independent Drivers Association
1 NW OOIDA Drive
Grain Valley, Missouri 64029
Phone: (816) 229-5791
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Good morning Chairman Walsh, Ranking Member Schrader, and distinguished members of the Subcommittee. Thank you for inviting me to testify on matters which are extremely important to our nation's small business trucking professionals and professional truck drivers.

My name is James Zuber, and I am a member of the Owner-Operator Independent Drivers Association (OOIDA). I live in Newton, Illinois and have been a professional truck driver for more than twenty five years. I currently own my own truck and am leased on to a motor carrier where I spend most of my time hauling construction goods and general cargo into the Chicago metropolitan area and across the Midwest.

As you are most likely aware, OOIDA is the national trade association representing the interests of independent owner-operators and professional drivers on all issues that affect small-business truckers. The approximately 150,000 members of OOIDA are small business men and women in all 50 states who collectively own and operate more than 200,000 individual heavy-duty trucks.

The majority of the trucking community in this country is made up of small businesses, as 93 percent of all carriers have 20 or fewer trucks in their fleet and 78 percent of carriers have fleets of just six or fewer trucks. In fact, one-truck motor carriers represent nearly half of the total number of motor carriers operating in the United States.

I have been asked to come here today to speak on behalf of OOIDA and my fellow professional drivers about the impact that high fuel prices are having on the trucking industry, especially small business truckers like me who personally experience the costs of high fuel prices every day when we fill up our trucks and take to the road. Unlike many industries around the country, the trucking industry is not made up of major entities that can spread increased fuel costs across their business units. Instead, for a large part of the trucking community, when a trucking company pays for fuel, it comes out of the operator's pocket.

Sadly, the impact of fuel prices on the livelihoods of truckers is a story we have told to Washington many times before. While today diesel prices are around 17 cents below what they were a year ago, they are still very much on the high side of recent history. Even with recent declines, the challenges faced by small business truckers have certainly not declined.

This is because fuel prices do not occur in isolation. Over the past few years, the trucking industry has been laboring under a steadily increasing amount of regulations from the Department of Transportation, the Environmental Protection Agency, and other agencies. While there is certainly a need for sensible regulation, trucking – especially small business trucking – has been assaulted by a barrage of unnecessary and costly regulation which, when coupled with the rising cost of fuel, are certain to force some small business truckers to park their vehicles. Unfortunately, the answer for many in government to the challenge fuel prices present to truckers is more regulation – instead of common-sense actions like expanding access to American energy.

On behalf of America's small business truckers, I thank the Subcommittee for this opportunity to highlight some actions that OOIDA feels would address the challenges facing our industry, both from high fuel prices and from broader regulatory burdens that drive up the cost of doing business.

How High Fuel Prices Impact Small Business Truckers

When thinking about how high fuel prices impact the trucking industry, it is easy to think just in the terms of how the largest motor carriers with many trucks in their fleets are impacted. However, while a high fuel bill for one of these mega-carriers may have an impact on their stock price, the impact of a high fuel bill on small business truckers cuts far closer to home.

To give you some perspective, the average OOIDA member runs their truck over 100,000 miles each year while getting generally somewhere between five to seven miles per gallon depending upon their operation. Most of us will be operating long haul trucks equipped with either twin 135-gallon tanks or twin 150-gallon tanks, so we can easily see a bill of over $1,000 when we fill up. During 2011, I ran approximately 122,000 miles and paid an average of $3.90 per gallon. My fuel costs last year were just under $80,000. Whenever the price of a gallon of diesel fuel increases by a nickel, a trucker's annual costs increase by $1,000. Such price increases result in an enormous extra burden on the small business trucker whose average annual income is approximately $40,000.

Trucking is a hyper competitive business and each of us operates on extremely thin margins. High fuel prices do not simply impact me when I fill up at the truck stop. The price of tires, engine hoses, and so many other parts critical to the safe operation of my truck – and my business – are strongly linked to the price of oil. All of these have seen steady price increases as oil and fuel prices have increased over the long-term. In the short term, we can see decreased loads due to fuel price spikes as companies may have to hold back on replacing inventory due to decreased demand or a need to hold on to cash to meet their own fuel costs. For these reasons, the price of fuel represents one of the largest risks to the success of a small business trucker.

What does this risk mean? Extra dollars spent on fuel means fewer dollars available to put into my business. Countless truckers over the years have felt the pain of high fuel prices on their business. Business expansions have been canceled, truck payments have been missed, and entire trucking companies have gone bankrupt due to high fuel costs. Yes, fuel is an expense that can be written off for tax purposes and our industry does have a system of fuel surcharges in place, but when price spikes come suddenly the impact of those structures is significantly reduced, leaving the trucker feeling the full weight of the price increase. Further, small business truckers who operate with their own authority are less likely than major motor carriers to obtain fuel surcharges to cover the impact of a price spike.

For many small business truckers, business income and family income are basically one in the same. Even if a small business trucker is able to keep their business afloat during times of high fuel prices, money is not going towards family necessities, from health insurance to mortgage and car payments. And unlike the majority of Americans, most small business truckers do not have unemployment insurance to fall back on should the go out of business.

Like all businesses, small business truckers prefer predictability. We like to have predictable loads, predictable weather conditions and traffic, and most of all, predictable fuel prices. Price spikes, which seem to be occurring more frequently as world political and economic instability continues, can have especially devastating impacts on truckers, with a few months of high prices taking trucking companies from a position of profitability to a position of bankruptcy.

The price of fuel is something that small business truckers are acutely sensitive to because of the almost immediate and far reaching impact it has on their business and family bottom lines. For that reason, OOIDA has long supported a set of energy policies focused on addressing the impact of higher fuel prices on small business trucker. In fact, OOIDA was founded in 1973 as a result the Arab oil embargoes that literally shut down the trucking industry and nearly crippled the nation. OOIDA's President, Jim Johnston, and several other founding members traveled to Washington, DC to present the problems of the trucking industry and common-sense energy solutions before lawmakers. Last spring, the OOIDA Board of Directors updated these solutions as "Principles to Address High Diesel Fuel Prices Impacting Truckers," and I will outline some of these solutions below.

Bringing Back the Relief Valve of Domestic Energy

In the past, domestic energy production has helped mitigate price spikes based on international conditions. It has, in many ways, served as a relief valve ensuring that short term price increases are mitigated and do not have devastating impacts on the trucking industry.

While it is good news that overall domestic energy production is up, we are concerned that, according to recent reports, energy production on federal lands and waters, which contain some of our most plentiful energy supplies, are actually down from the last year by greater than ten percent. With prices this high, truckers like me find it difficult to understand why regulatory and other roadblocks remain to accessing these important American energy resources.

OOIDA supports actions taken by the House last week when it passed important legislation to expand offshore and onshore energy production here in the United States. This legislation represents a common-sense effort to knock down regulatory barriers preventing environmentally sound energy production in places like the Gulf of Mexico and the Mountain West. This will benefit the trucking industry in two ways: 1) by expanding energy by allowing the development of these resources to move forward, and 2) the drilling and refining of these resources must be supported by the trucking industry, as trucks are needed to haul important equipment and supplies.

The Importance of a Comprehensive Approach

Because decreased energy production from federal lands and waters has weakened the relief valve protecting against massive energy price spikes, truckers have felt the pain of what often becomes an irrational market situation, with high amounts of speculation driving up the price of fuel higher and higher.

OOIDA supports efforts to expand transparency of energy trades, and is glad that the Commodity Futures Trading Commission is moving forward on these long-delayed rules. However, it is important that we have a variety of approaches to address energy price spikes, as a comprehensive approach will have the best chance of having true success.

The impact of price spikes on trucking goes beyond the time a trucker spends filling up his or her tanks at a truck stop. Seventy percent of our nation's freight – consumer and industrial goods alike – is moved by truck. If companies and consumers are spending more money on energy, that means they are spending less on the things I haul, giving me fewer opportunities to work. Trucking has seen significant challenges over the past few years as industrial and consumer demand has decreased or remained flat. While things are picking up, high energy prices have the ability to significantly hurt our emerging economic recovery.

Because of the important role that trucking plays in our nation's overall economy, OOIDA also supports efforts to prepare the industry to move to future energy sources. While some may tout the advantages of biofuels, truckers have significant concerns about these fuels, both from a practical operating aspect and from the significant incentives provided to this industry. We are, however, very interested in the increased focus by many towards natural gas and applaud what appears to be growing bipartisan support for the role this fuel can have in powering vehicles, especially local delivery and heavy-duty long haul trucks. Our nation has significant natural gas reserves and we should take advantage of these resources.

Reducing congestion and improving our highways also has an impact on fuel use by truckers. We urge competition of a long-needed reforms to our highway program that will dedicate more dollars back to maintaining and improving our roads and bridges. Trucking provides nearly 40 percent of the revenues for the Highway Trust Fund, and it is important to prioritize as many of those dollars back to our highways as possible.

Increasing the Regulatory Burdens on Truckers: The Wrong Approach

While the solutions to our energy challenges are by no means easy, to truckers they are pretty common sense. Unfortunately, instead of making the correct decision, the federal government has followed a path that we in the trucking community are very familiar with – taking the easy route of increasing the regulatory burdens on the trucking industry.

Last September, the Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) finalized the first-ever greenhouse gas and fuel efficiency rules of heavy-duty trucks. This regulation came after a decade of EPA regulations on diesel engine particulate and NO_X emissions that have added an additional $30,000 to $50,000 to the price of a new truck while at same time actually reducing fuel efficiency for these vehicles.

These new regulations will, according to agency estimates, add at least an additional $6,200 to the price of a new truck starting in 2014. The experience of OOIDA and others in the trucking industry is that the real price increases related to regulations are significantly higher (EPA underestimated the cost increases of diesel engine regulations during the 2000s by a factor of 2 to 5). While the agencies state that the average trucker will save tens of thousands of dollars in fuel because of these regulations, there are two significant problems with that argument, problems that significantly undercut the argument for these regulations, especially as the end-all, be-all solution to high fuel prices faced by truckers:

Not All Motor Carrier Operations Will See Fuel Cost Savings, Yet All Motor Carriers Will Face the Increased Cost of Regulation.

As noted above, the agencies claim significant fuel costs savings from these regulations – given the nature of the trucking industry, such a claim is highly suspect and is bordering on little more than junk science. There are over 500,000 motor carriers in the United States, each with their own business model running on varied terrain and hauling varied cargo. For many of these operations, there is no way the mandates instituted under the regulation will result in any true fuel savings, yet the only new trucks available after 2014 will be those that comply with the regulation and they will be priced accordingly.

For example, a significant portion of the owner-operator community in the United States focus on what is known in the industry as "heavy-haul" operations, where they move oversized and overweight loads that require special equipment and special permits. These are the folks who haul cargo such as equipment for the oil and gas industry, construction and farming equipment, turbines, blades, and towers for wind turbines, and equipment for our nation's armed forces.

These loads are extremely heavy, extremely large, or both, meaning that any potential fuel savings from methods such as changing truck aerodynamics, speed limiters, or special tires will be lost because the load is either so heavy or so large that significant amounts of fuel will be used simply due to the laws of physics. Despite this fact, these one-size-fits-all regulations will force motor carriers to purchase trucks that EPA says will save them vast amounts of fuel when the trucker behind the wheel knows that all these regulations mean is that a new truck is more expensive, and thus further out of reach.

The High Cost of Regulation Will Keep Many Motor Carriers from Purchasing New Trucks.

OOIDA and its members do not dispute that many of the technologies covered under the EPA's Heavy-Duty Truck Rule will result in fuel savings for specific trucking operations. Indeed, since the agencies' sole outreach to the trucking industry was to major motor carriers focused on transporting goods from distribution center to distribution center along major highways, these regulations do prescribe add-ons that lead to fuel savings in that type of operation. That is why small and large motor carriers focused on these types of operations have been incorporating these technologies to save fuel, all without any government mandate or regulation.

As highlighted above, if truckers don't drive in a fuel efficient manner, they will drive themselves out of business, as fuel expenses can be 50 percent or more of a truck operator's total revenue before other expenses like truck payments, insurance, maintenance, and taxes. Despite the significant market forces in play, the EPA's view is that truckers cannot figure out how to reduce fuel use and costs on their own without the government showing them the way through new regulatory mandates.

For truckers, these regulatory mandates are not free. There is a cumulative cost of these regulations plus a decade's worth of diesel emission regulations, and potential new mandates from the Department of Transportation. All of these new regulatory mandates are pushing the cost of a new truck higher and higher, placing that purchase far out of the reach of all but the largest carriers and most successful owner-operators.

This leads to significantly reduced environmental benefits from the regulation, putting truckers at risk of being put into a never-ending cycle: Regulations are implemented by Washington, but they do not achieve the anticipated results in improving fuel economy; Washington decides that further regulations are necessary, driving the price of new trucks even higher; this new round of regulation also does not achieve Washington's goals, putting truckers at the mercy of a constantly repeating record. The irony in this situation is that a major reason for the reduction in truck fuel economy during the 2000s was the diesel emissions regulations mandated by EPA increased fuel use by 5-9 percent. Truckers are being forced by EPA to pay extra to potentially regain fuel economy that previous EPA regulations took from them.

Further Regulatory Burdens Impacting Trucking

As noted in the outset, the high cost of fuel must be viewed in concert with broader regulatory impacts facing the industry. The impact of EPA regulations have been outlined above, but regulations moving through the Department of Transportation, especially the Federal Motor Carrier Safety Administration (FMCSA) have the greatest impact on trucking and the greatest potential to drive up costs for small business truckers.

These burdens, including those that are outlined below, are driving up the cost of a new truck and artificially impacting the competitive playing field within the trucking industry. Many of these regulations are being proposed with a one-size-fits-all view of the trucking industry and are often being advanced with the active support of some segments within the trucking industry. Regulatory authority that is granted to agencies by Congress to address highway safety needs should not be abused and used to make significant changes to the structure and nature of the trucking industry. This authority should also be used with discretion and a focus on issuing new regulations when they are necessary to improve safety, not simply when there is a chance they may improve safety.

Electronic On-Board Recorder (EOBR) Mandate.

FMCSA is continuing efforts to require use of EOBRs for recording a driver's record of duty status (RODs), despite the realities showing not only that such a mandate is likely the most expensive trucking regulation in history, but also that EOBR use does not lead to improved highway safety.

Installation of an EOBR on every truck owned by every one of the more than 500,000 interstate motor carriers operating in the United States would be a cost of truly historic proportions. Estimates from President Obama's Administration rank this rule as not only one of the most expensive under development by the Department of Transportation, but also by the entire Federal government. According to an August 2011 letter to Speaker Boehner, the President estimated that an EOBR mandate would cost the industry approximately $2 billion.

All of this cost might make some sense if use of EOBRs resulted in improvements in highway safety. The EOBR device is able to only track driving time, which makes up only a portion of a driver's work day. The device still requires human entry to record non-driving duty status, just like today's paper logs. For that reason, DOT has been unable to link EOBR use and improved highway safety, stating that "there is little research data linking EOBR deployment directly to safety benefits." This becomes all the more important when DOT data shows that less than two percent of all crashes involving heavy-duty trucks are due to fatigue.

Use of EOBRs should be a voluntary business-based decision, and not a government mandated requirement. OOIDA is committed to working to improve the safety of our nation's highways, but not through such a burdensome and unnecessary regulatory mandate.

Compliance, Safety, Accountability (CSA).

CSA replaced SafeStat as FMCSA's safety management and performance system in December of 2010. We are now a year and a half into the new system and its flaws are becoming more obvious. Certain portions still are grossly flawed, prejudicial, hidden from view, and awaiting implementation. In short, CSA, while well meaning, is a program not ready for prime time, yet the safety and performance data generated through the system are having real-life impacts on motor carriers.

As an example of one of the many problems with CSA, crash data is collected without determination of fault, despite the fact that police collect this information. Without the fault determination, any truck involved in an accident is indistinguishable from another, leading to significant prejudicial impact on both driver and motor carrier safety profiles. For example, nearly 20% of all negative interactions with trucks involve another vehicle rear-ending a moving truck. However, CSA displays this type of crash without any indication that the trucker was not at fault. In another example, an OOIDA member's truck was hit by multiple vehicles as part of a 50-vehicle accident – the trucker was able to stop his truck and not hit anyone. Despite that fact, the seven fatalities that resulted from this major accident are all listed in the trucker's record under CSA with no distinction or notation about what really happened. With this flawed data available to freight brokers, shippers, entrepreneurial trial attorneys, and the public, incomplete and false CSA data is being used to essentially red-line carriers.

Given the significant role that CSA is primed to play in FMCSA's future enforcement and regulatory activities, it is important that the agency get the system right. Unfortunately, there are still major hurdles it must overcome.

Electronic Stability Control (ESC) Systems & Heavy Vehicle Speed Limiters.

The recent proposal to mandate ESC equipment is an excellent example of how purported safety mandates lead to significant cost increases to the end users of heavy-duty trucks. OOIDA estimates that such technology will cost approximately $1,500 per truck. There were over 171,000 new heavy-duty trucks sold in 2011 – meaning that this mandate will cost over $250 million each year and will reach a cost of over $1 billion in only four years. All of this while the benefits of this technology across the entire trucking industry have yet to be proven.

Continuing this path down mandating unproven and potentially unsafe "safety" technology, NHTSA is preparing to release a Notice of Proposed Rulemaking (NPRM) to mandate speed limiters on heavy-duty trucks. OOIDA has a number of concerns regarding speed limiters, and we oppose such a regulatory mandate. Safety concerns with speed limiters include: 1) increased speed differentials on our nation's highways, which will lead to increased accidents; 2) the devices increase pressure on drivers to drive at the maximum allowable speed all the time, no matter what the posted speed limit or driving conditions; and 3) one speed limited truck trying to pass another often creates a rolling road block, undermining safety, increasing vehicle interactions, and raising the likelihood of "road rage." Further, speed limiters will increase the cost of doing business for small business truckers. By forcing them to drive below the safe and posted speed limits on many highways, these devices can add an entire day to a delivery, a major hit for a trucker who is paid by the mile.

Conclusion

Mr. Chairman and members of the Subcommittee, small business truckers are the front line in feeling the impact of high fuel costs and energy price spikes.

As professional drivers, we see the impact of high fuel prices every day. Unfortunately, today's high fuel costs are only adding to the challenges imposed upon the industry from numerous, costly government regulations. These challenges not only rob small business truckers of the ability to maintain and grow their business, but also decrease the incomes of hundreds of thousands of families around the country. OOIDA looks forward to working with this Subcommittee and the entire Congress to find solutions to our nation's energy challenges while reducing burdensome regulations on small business truckers.

Thank you for the opportunity to testify today on this important topic, and I look forward to answering any questions from the Subcommittee.

Written Testimony of
Richard Sade
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S & S Hinge Company
Bloomingdale, IL

Before the
House Committee on Small Business
Subcommittee on Economic Growth, Capital Access, and Tax

Hearing on
"How High Fuel Prices Affect Small Business Uncertainty and Contribute to Our Nation's Jobs Crisis: The View of Local Illinois Small Businesses"

June 25, 2012

Chairman Walsh, Ranking Member Schrader, members of the Committee, thank you for the opportunity to testify before you today on this important issue that impacts manufacturers of all sizes, especially small businesses like ours. My name is Rich Sade, Vice President of S & S Hinge based in Bloomindgale, Illinois, a third generation continuous hinge manufacturer about 27 miles northwest of downtown Chicago. We manufacture the middle gauge range of continuous hinge for a variety of industries and products including tool storage, marine, electrical, attic stairs, fixtures, signage, emergency vehicles, and industrial distribution. S & S Hinge is a family-owned business with thirty-eight employees and we are looking to expand our business by increasing our exports and developing new products and technologies.

Like all Americans, at S &S Hinge we have felt the pain at the pump and not just when we take our families on summer vacations. And like all American companies we feel the pain in our operations but unlike larger corporations, the impact of fuel prices and instability is greatest on small businesses.

Fuel impacts our company in several ways – the obvious being when our sales team stops at a gas station before visiting a customer. We also see the impact in an increase in the price we pay for our raw materials through transportation and other surcharges. When we are successful passing along surcharges and increased fuel costs to our customers, this means that ultimately the cost is passed along to American consumers or our customers go offshore looking for a cheaper supplier – in a country where their governments often illegally subsidize their energy costs.

As a small business, we are often trapped between our much larger customers who may not accept a price increase and our raw material suppliers who are also seeing increased costs. A challenge we face is our suppliers typically add a surcharge based on the weight of how much steel we buy, not on how many miles they travel to deliver their goods to us – and steel is heavy. Obviously, as we try to grow our business and add employees, the amount of steel we buy will increase but along with that comes higher surcharges. We must factor in these surcharges when deciding whether or not to explore new business opportunities and if we can afford to purchase the raw materials we need to make more parts for our customers.

S & S Hinge has already seen a 20 percent increase in fuel costs over last year. Our employees, including our sales team, traveled 475,000 miles in 2011 as we tried to sustain and grow our business. This creates a Catch 22 for us. While we know it costs money to make money, a 20 percent increase in fuel charges is a significant hit for a small business like ours trying to grow and add jobs.

In part, as a result of these increased fuel costs, our sales team is traveling less and relying more on the internet to pursue new business opportunities. We know we must adapt to changing times just as any business, however, as we seek to grow our company and add jobs we cannot afford to miss new opportunities because of increased fuel costs.

Prior to joining S & S Hinge, I worked for several Fortune 400 companies, and while they also dealt with significant fuel cost increases, economies of scale show how much more that increase can impact a small business in Illinois. The 20 percent increase in our transportation costs is in addition to a 28 percent annual increase in fuel used for our overall production costs. In an industry like ours where profit margins are in the low single digits any increase in costs puts us at a significant disadvantage.

There is no question that skyrocketing fuel costs combined with uncertainty in the energy market continue to hurt our ability to spend more on growing sales and increases the costs of manufacturing in America. U.S. manufacturers already face a 20 percent disadvantage when compared with nine major industrial countries including Germany, Japan, Canada, Mexico, and China. In some cases, our increased fuel costs are built into sales prices we provide to our customers, but even when we are successful in recovering some of our costs, it still makes our product more expensive on the global markets and makes us less attractive to new customers.

A lack of a comprehensive energy policy only further puts American manufacturers at a global disadvantage, especially small businesses like S & S Hinge. Our business has taken advantage of tax credits and incentives in the past, such as a one-time ComEd Smart Idea program for our plant lighting which gave us a one-time savings of $12,760.

Energy policy, from fuel prices to electricity usage to environmental regulations, impacts every step of the manufacturing supply chain. Downstream suppliers, particularly those who purchase energy intensive raw materials such as steel, feel the pressure of energy costs from both their suppliers and customers. Increased fuel costs combined with fewer domestic sources reduce the global competitiveness of domestic small and medium sized manufacturers.

As with anything in life, one size does not fit all. But this is certain; the U.S. must become more self-reliant on fuel sources. This will improve market stability and help small businesses plan for the future. To support manufacturers, the government should explore all domestic options available that will mean real fuel cost reductions. Especially in an election year, politics can trump good policy and manufacturers cannot afford it when politicians play politics with their livelihood.

Federal programs intended to foster new energy efficient technologies are often directed at larger manufacturers and lack a small business requirement. The government should work with the private sector to authorize and support the investment in domestic energy sources and alternative fuel. The government has not effectively explored all domestic conventional and alternative sources.

To help support small businesses like S & S Hinge in Illinois, the government should:

- Encourage development and implementation of new technologies without taxing energy intense industries. This sends a ripple effect throughout the manufacturing sector, regardless of business size or industry;
- Explore all conventional and alternative long-term options including current energy resources such as nuclear, wind, coal, and solar.
- Ensure that energy programs are available to all small and medium sized manufacturers, including those in the lower tiers of the production chain, and streamline their application process.

In his January 2011 Executive Order, President Obama said "Agencies must identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior." This is an important point that I hope federal agencies comply with as they explore additional energy options. Policymakers in Washington must embrace energy policies that would bring prices down and improve access for small businesses – whether opening domestic energy resources, reducing burdensome regulations, and other steps to make us more globally competitive.

Thank you for the opportunity to present this testimony today. Small businesses are the backbone of this country and manufacturers are the driver of a recovering economy. But manufacturing can't drive us to better times without a fuel policy that makes sense for small businesses like ours. I look forward to continuing to work with you on this important issue in the future and answering any questions you may have.

Thank you.