

# *Impact of Rising Construction Costs on State Highway Construction Programs*



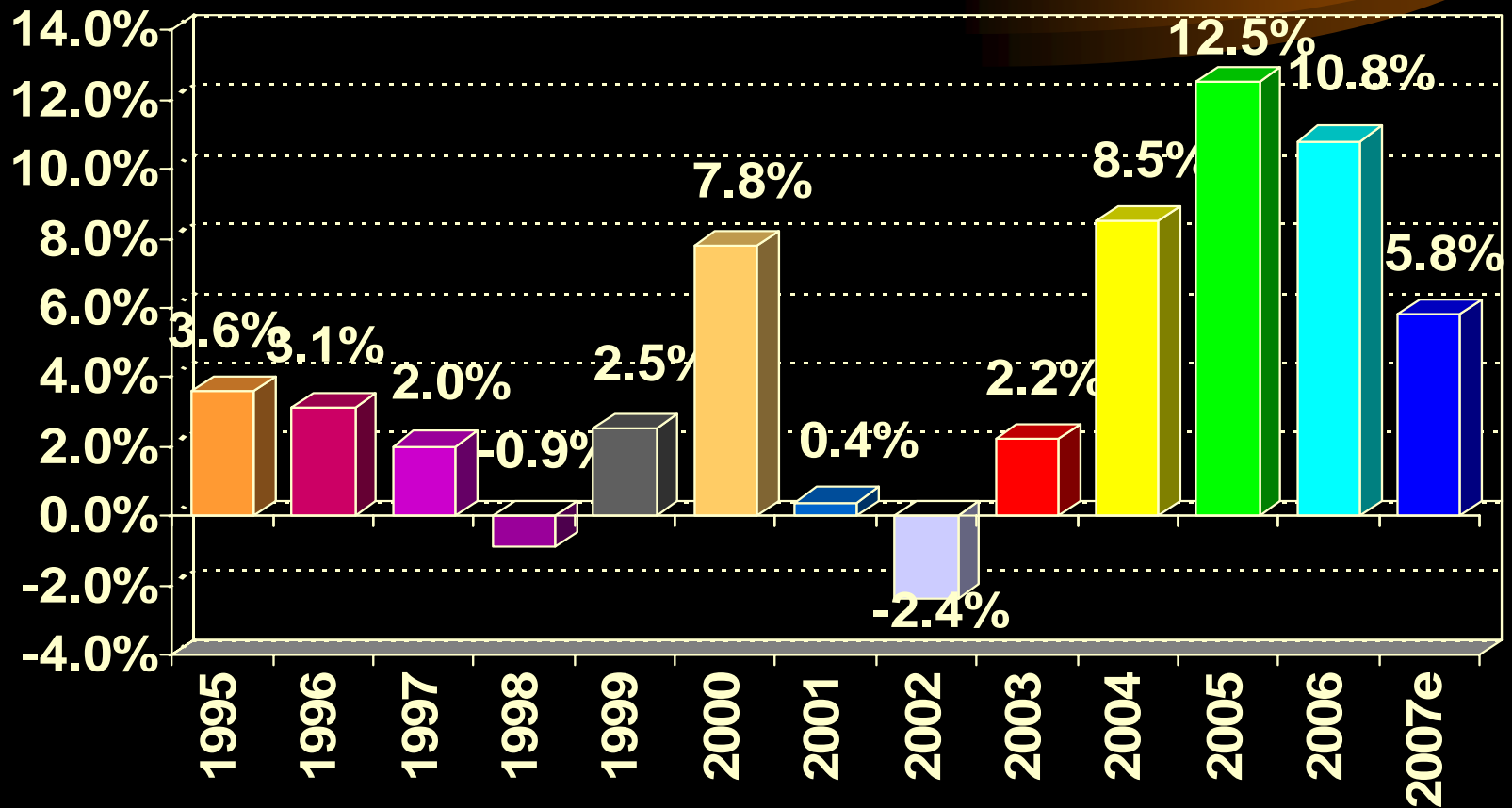
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VP for Economics and Research

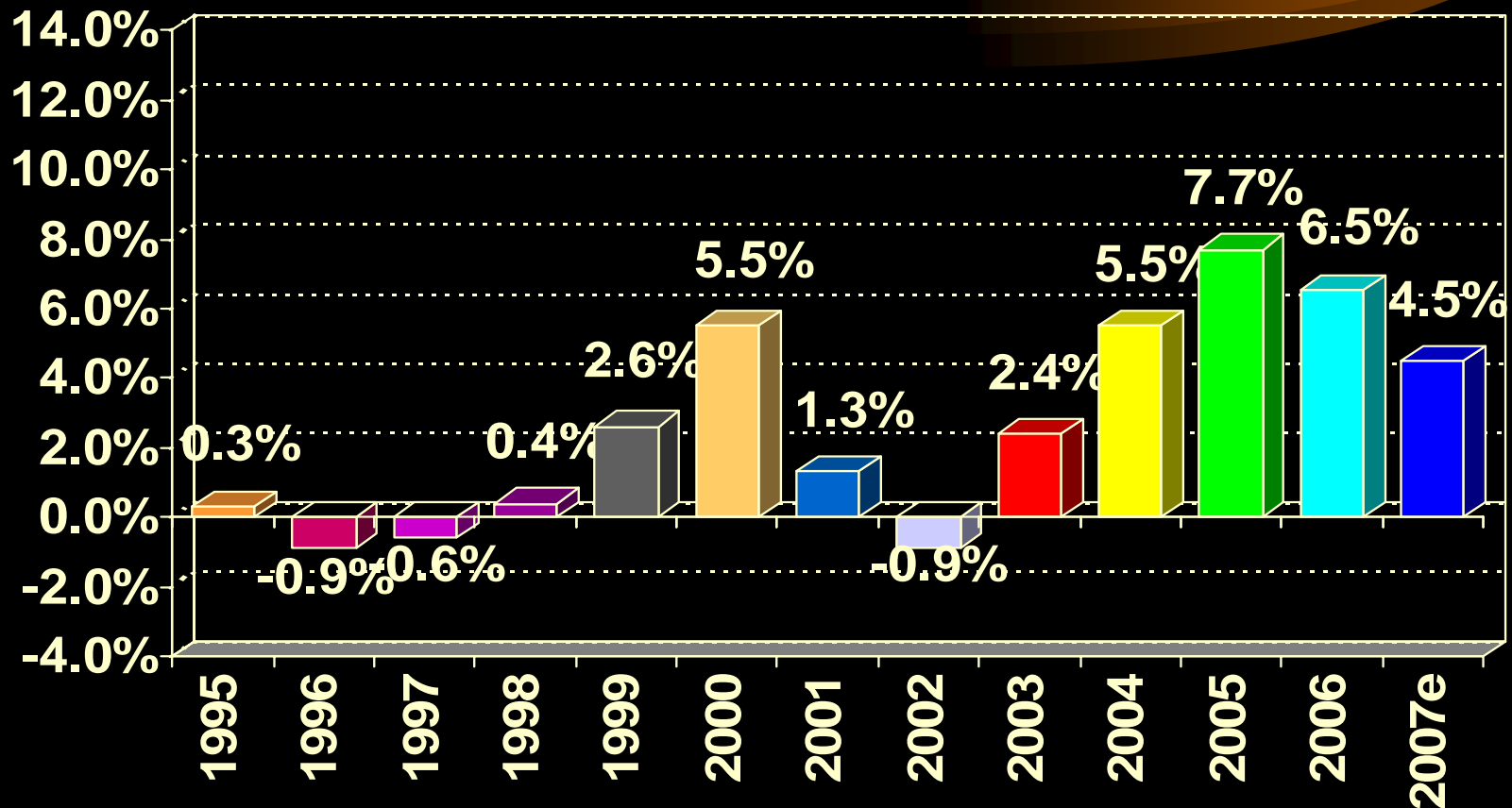
American Road & Transportation Builders  
Association

September 11, 2007

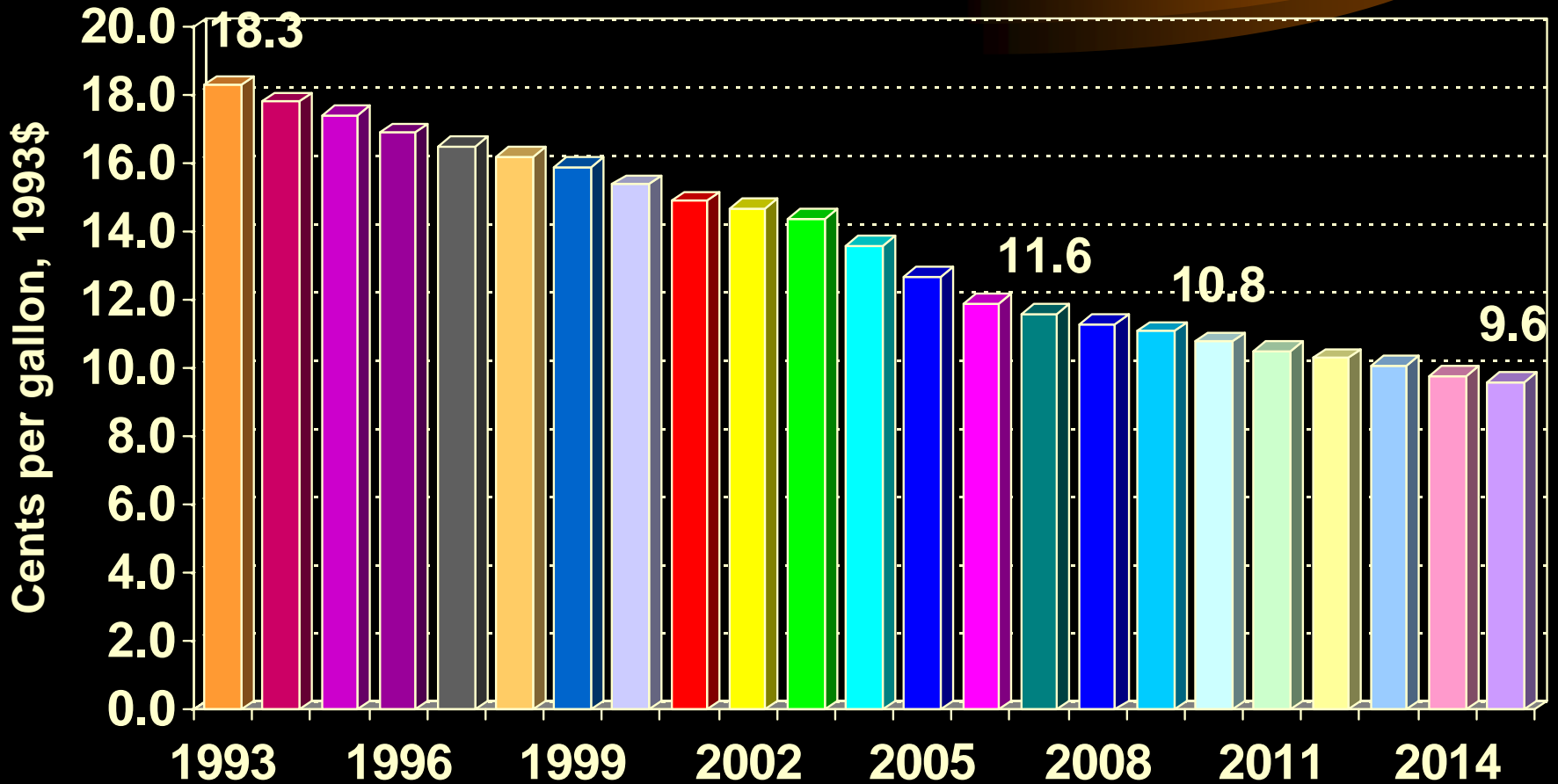
# *After Decade of Modest Inflation, Cost of Highway Construction Materials Is Up 43 Percent Since 2003*



# *Total Highway Construction Costs, inc. Labor and Overhead, Are Up 27 Percent Since 2003*

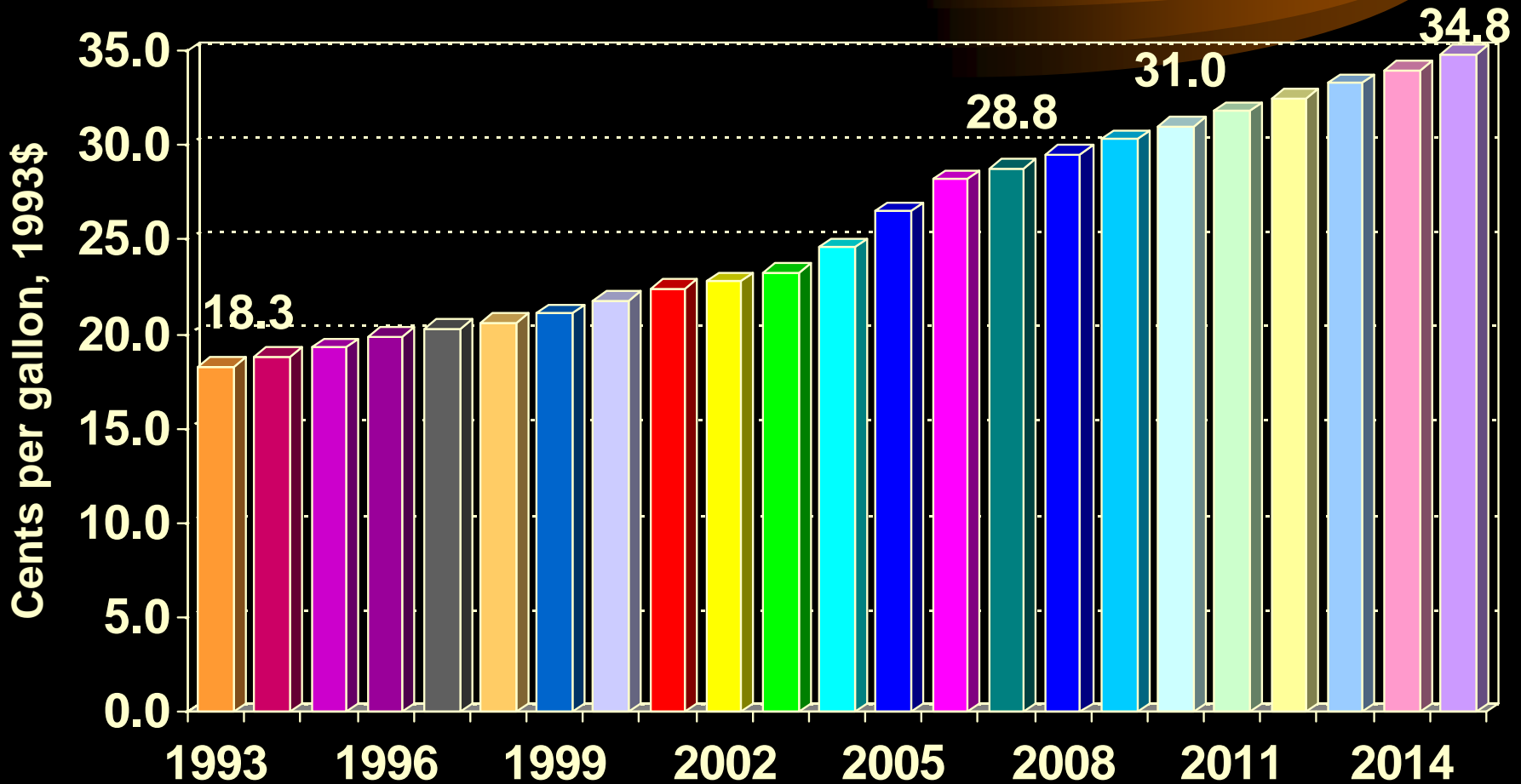


# *Rising Highway Construction Costs Have Reduced Purchasing Power of Federal Gas Tax*



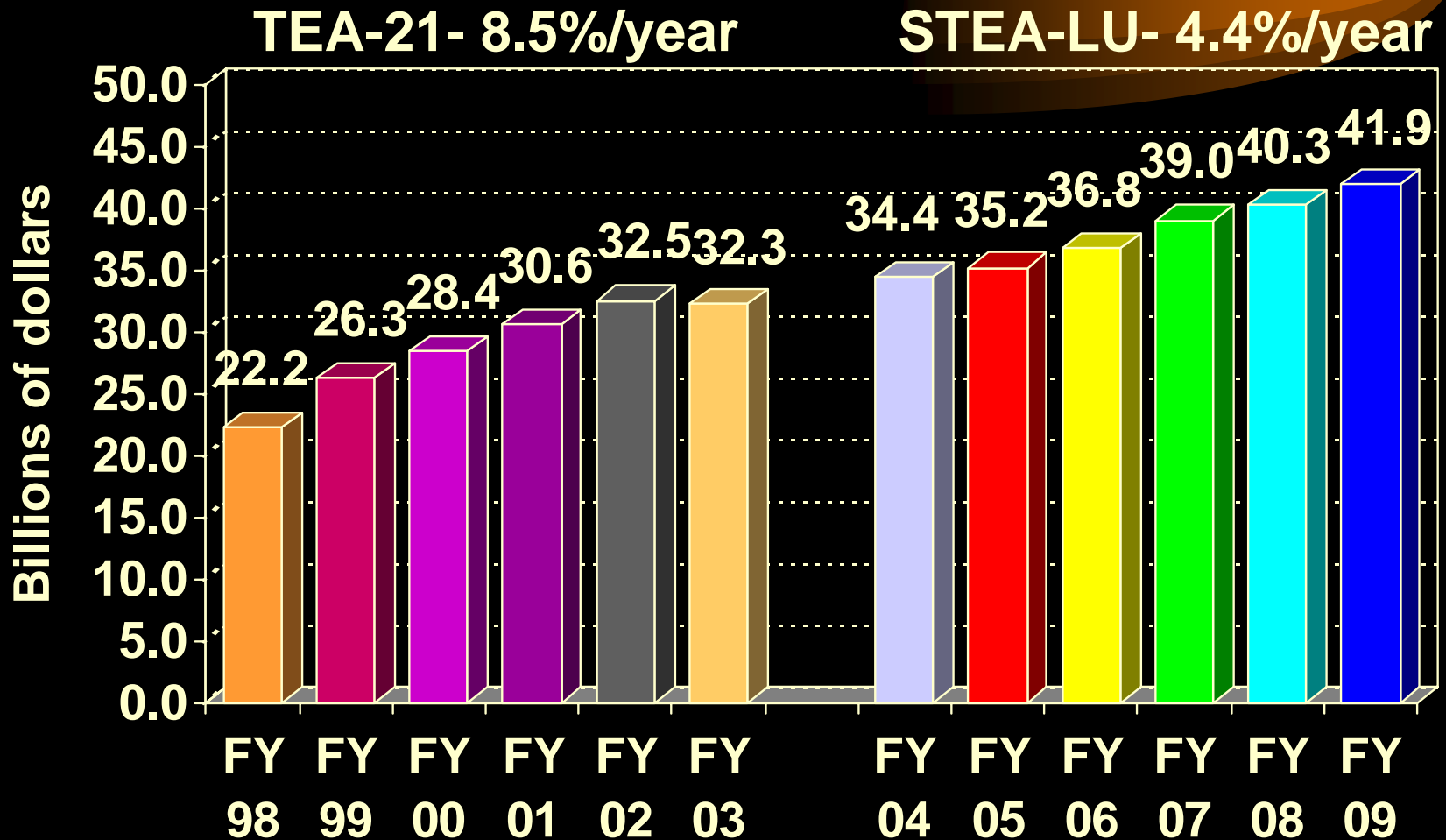
Source: ARTBA calculations from BLS data

# *Federal Gas Tax Would Have to Be 28.8 CpG in 2007 to Maintain 1993 Purchasing Power of 18.3 CpG*

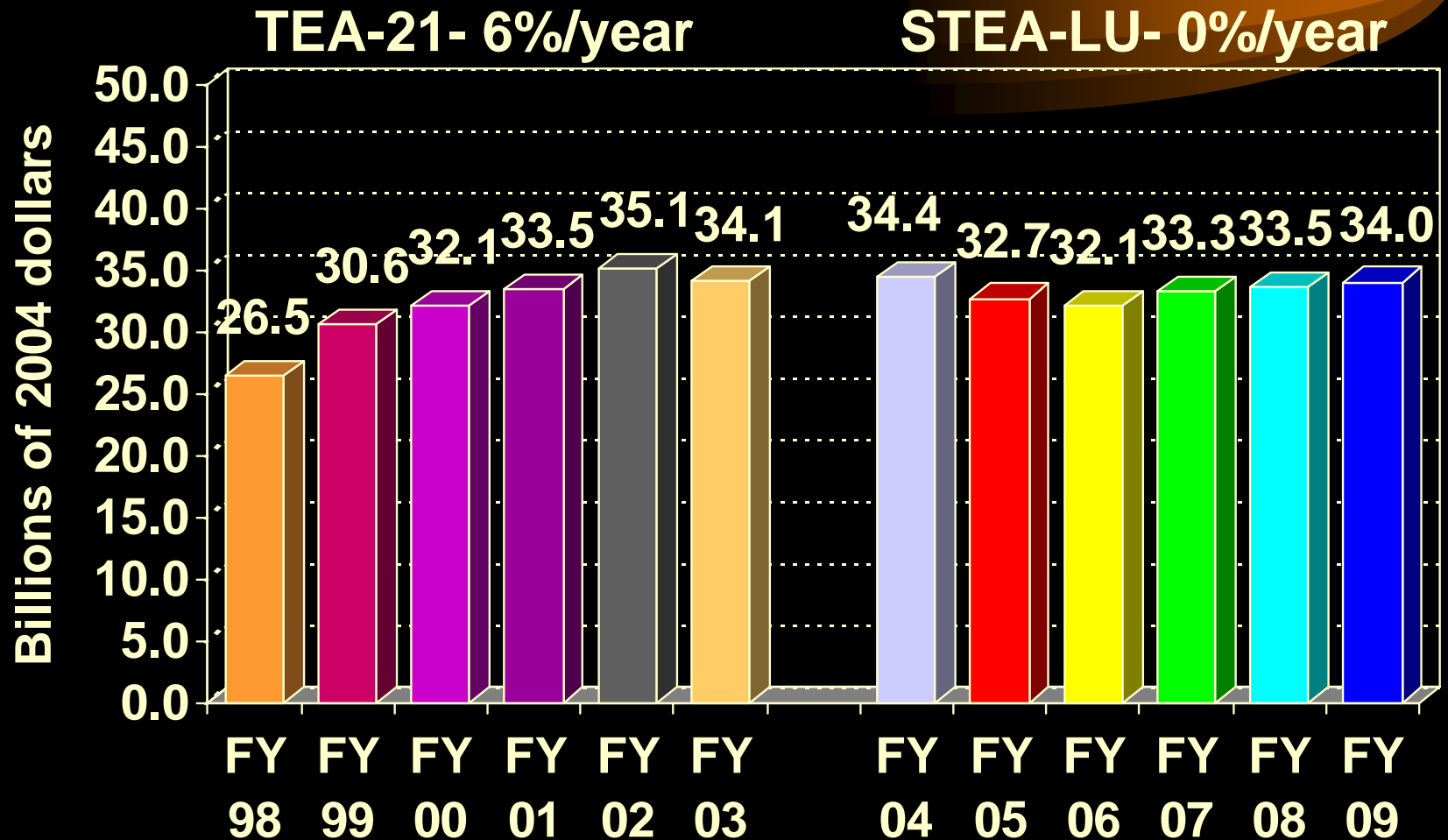


Source: ARTBA calculations from BLS data

# Guaranteed Funding for Highways Under TEA-21 and SAFETEA-LU

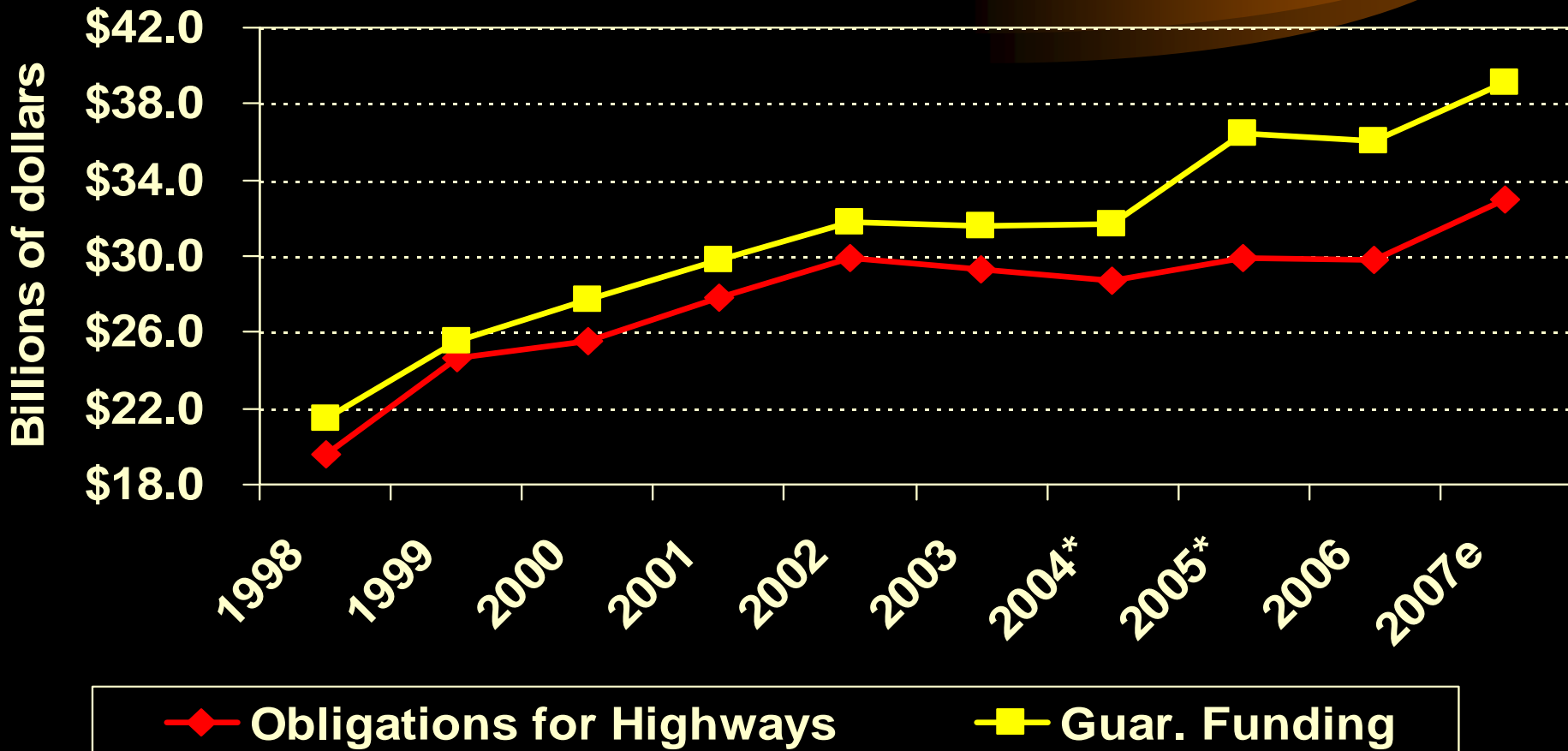


# Guaranteed Funding After Effects of Highway Cost Inflation



Source: ARTBA calculations from FHWA and BLS data

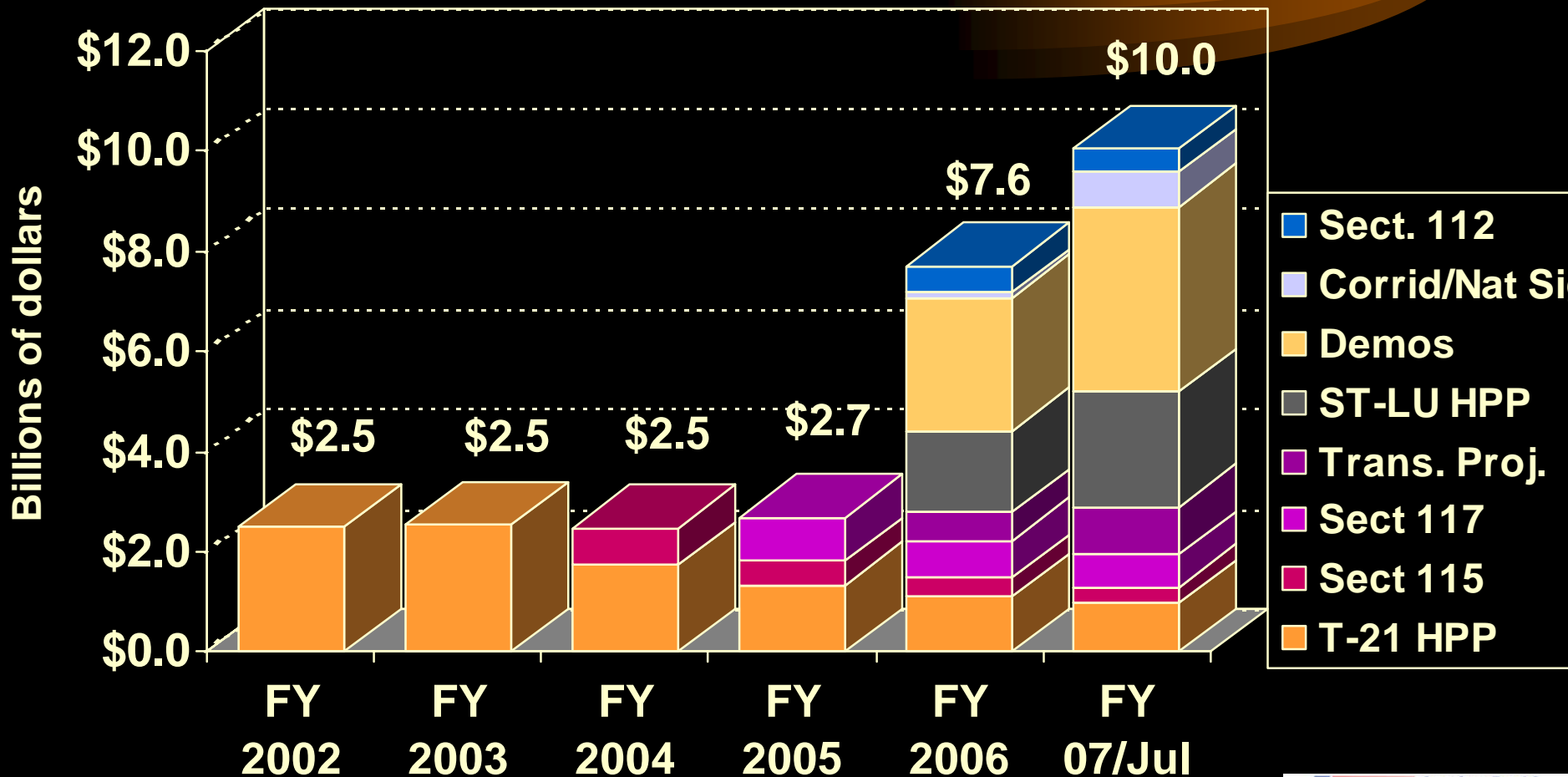
# *Not All Federal Highway Funds are Getting into the Spending Stream*



\* \$2 billion transferred to FY 05 on last day of FY 04

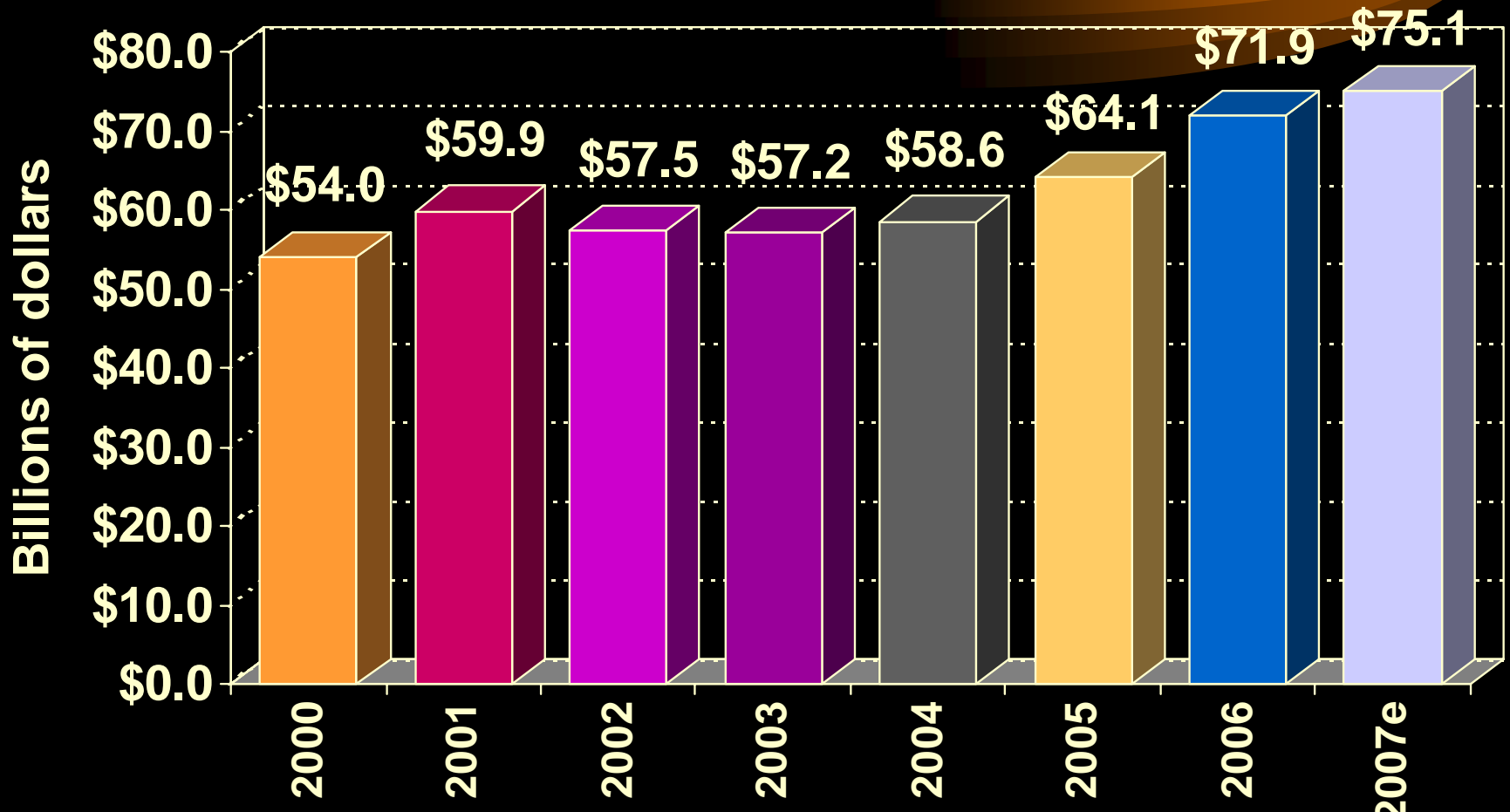


# *Unobligated Earmarks at End of Fiscal Year*



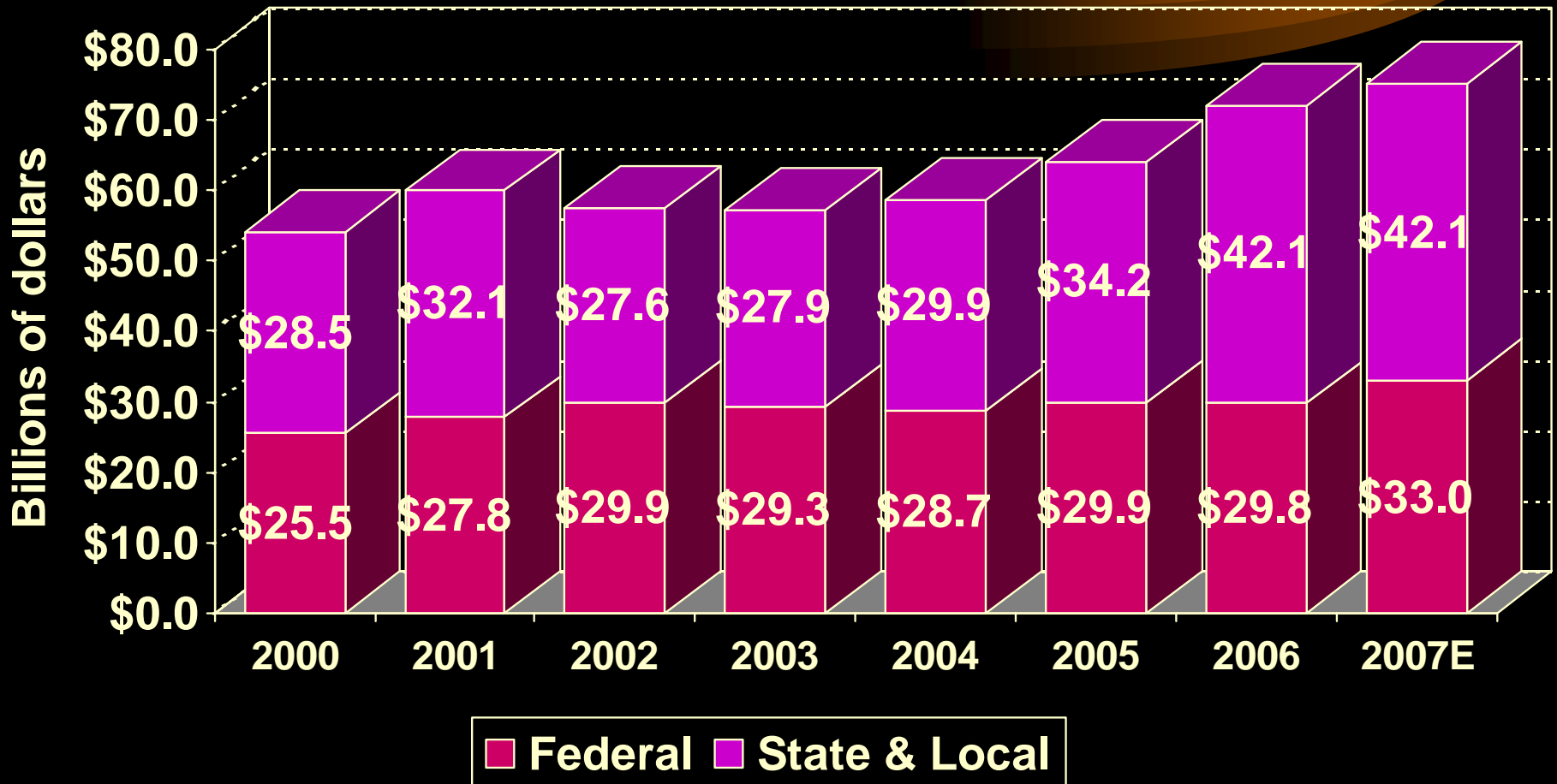
Source: Federal Highway Administration

# *Value of Construction on Highways and Bridges Grew Rapidly in 2005-7*



Source: ARTBA, Value of Transportation Construction Put in Place

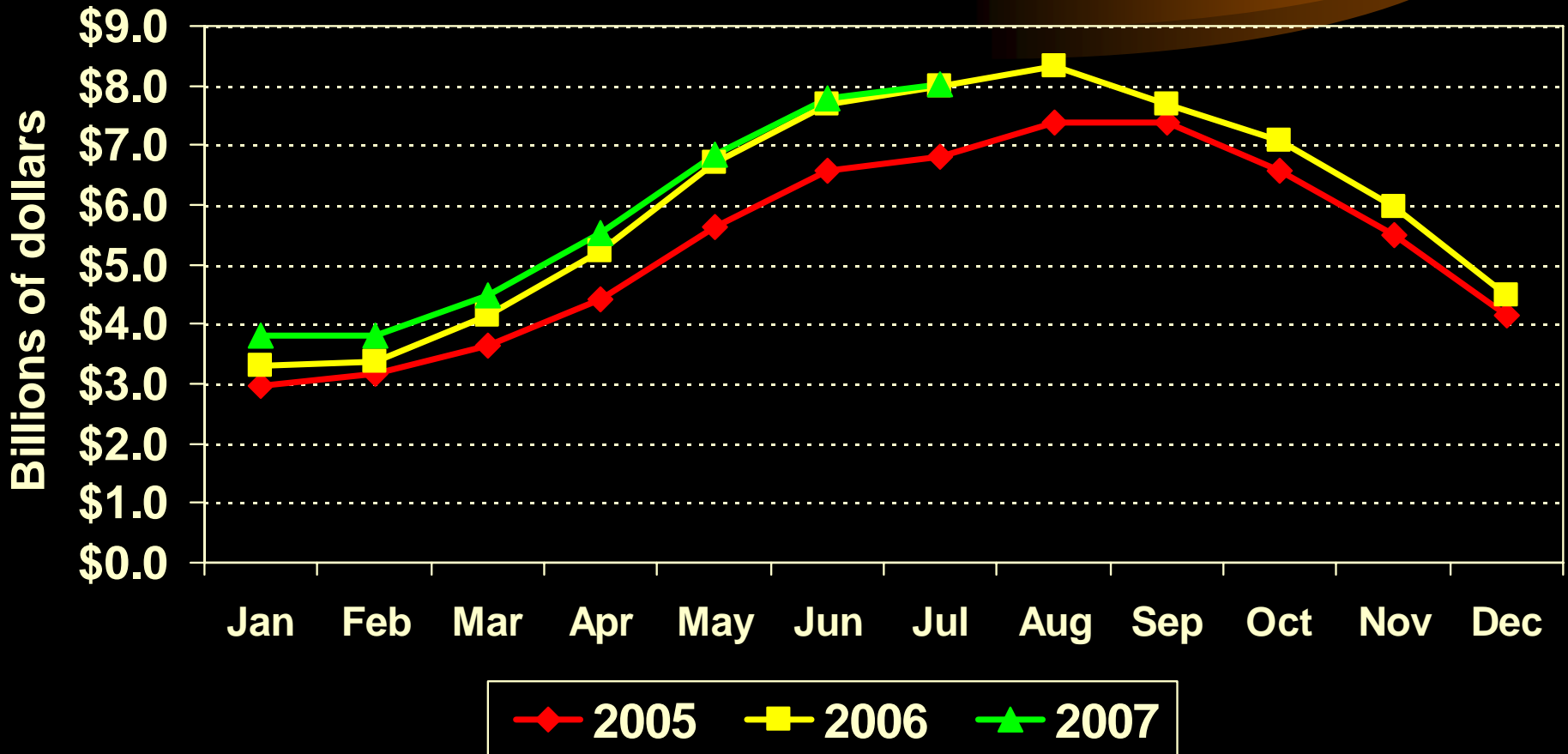
# *Virtually All the Growth Has Been With State & Local Funds – Up 40% Since 2004*



# *Comments on State and Local Funding*

- Rising cost of construction materials has strained highway budgets – S&Ls had to stretch to start & continue planned projects
- Not much meat left on these bones
  - State & local spending still running ahead of tax revenues – budgets better but not good
  - Capital spending already near peak percent of total spending

# *Highway and Bridge Construction Slowing After Strong Spurt Last Year*



# *Outlook for Federal Highway Funding in FY 2008*

	SAFETEA-LU	President's Budget	House Approps	Senate Approps
Highway	\$39.6 billion + RABA	\$39.6 billion, no RABA	\$40.2 billion, inc. \$631 mill RABA	\$40.2 billion, inc. \$631 mill RABA
Transit	\$9.7 billion	\$9.4 billion	\$9.7 billion	\$9.56 billion
Airport (AIP)	\$3.52 billion (FY07)	\$2.75 billion	\$3.6 billion	\$3.52 billion

## *Current Progress*

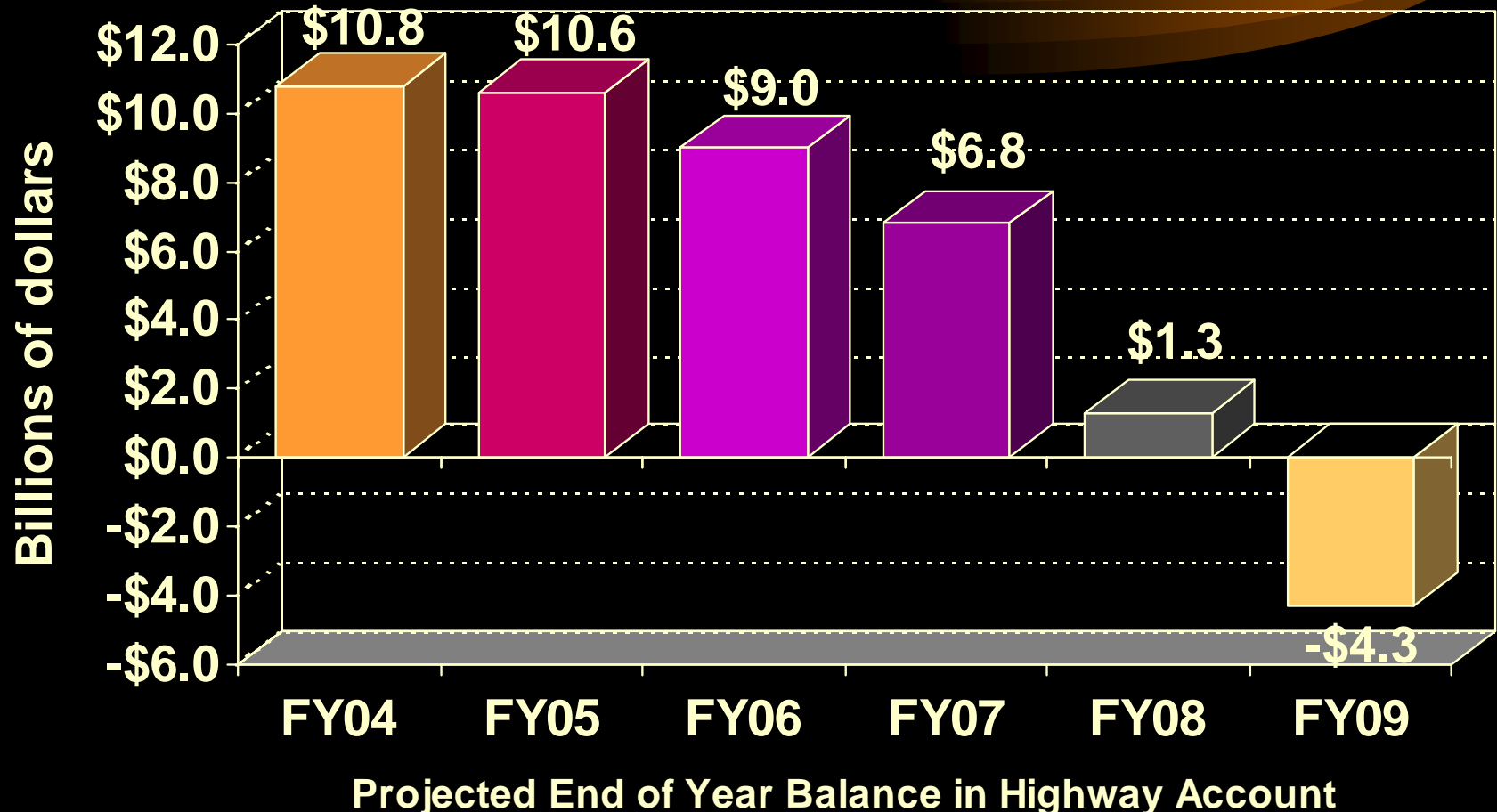
- House passed FY 2008 transportation appropriation bill, 268-153, on July 24
- Senate Appropriation Committee has reported its bill, awaiting floor action
- Will likely include new earmarks
- President has threatened to veto approps bills that exceed his request

## *Background for FY 2009*

- When enacting SAFETEA-LU, Congress refused to consider an increase in federal gas tax
- To fund SAFETEA-LU, Congress spent all Highway Trust Fund (Highway Account) revenues for FY 2004-09 plus all of the cash balance

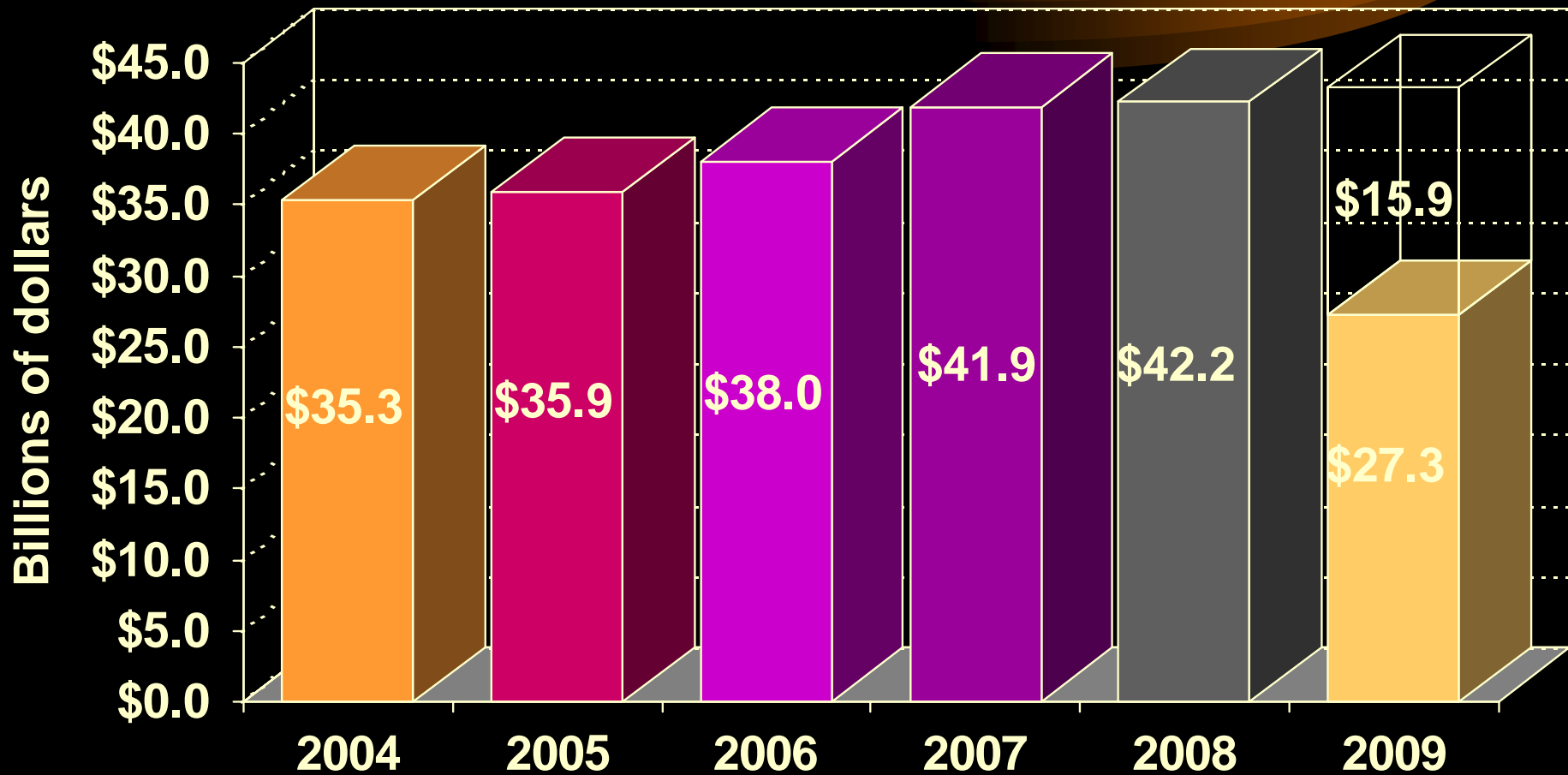


# *New Projections Show -\$4.3 Billion Highway Account Balance by FY 2009*



Source: FHWA estimates for Mid-Session Review of FY 2008 Budget

# *Option 1: Cut \$15.9 Billion in FY 2009 to Save \$4.3 Billion of HA Outlays*

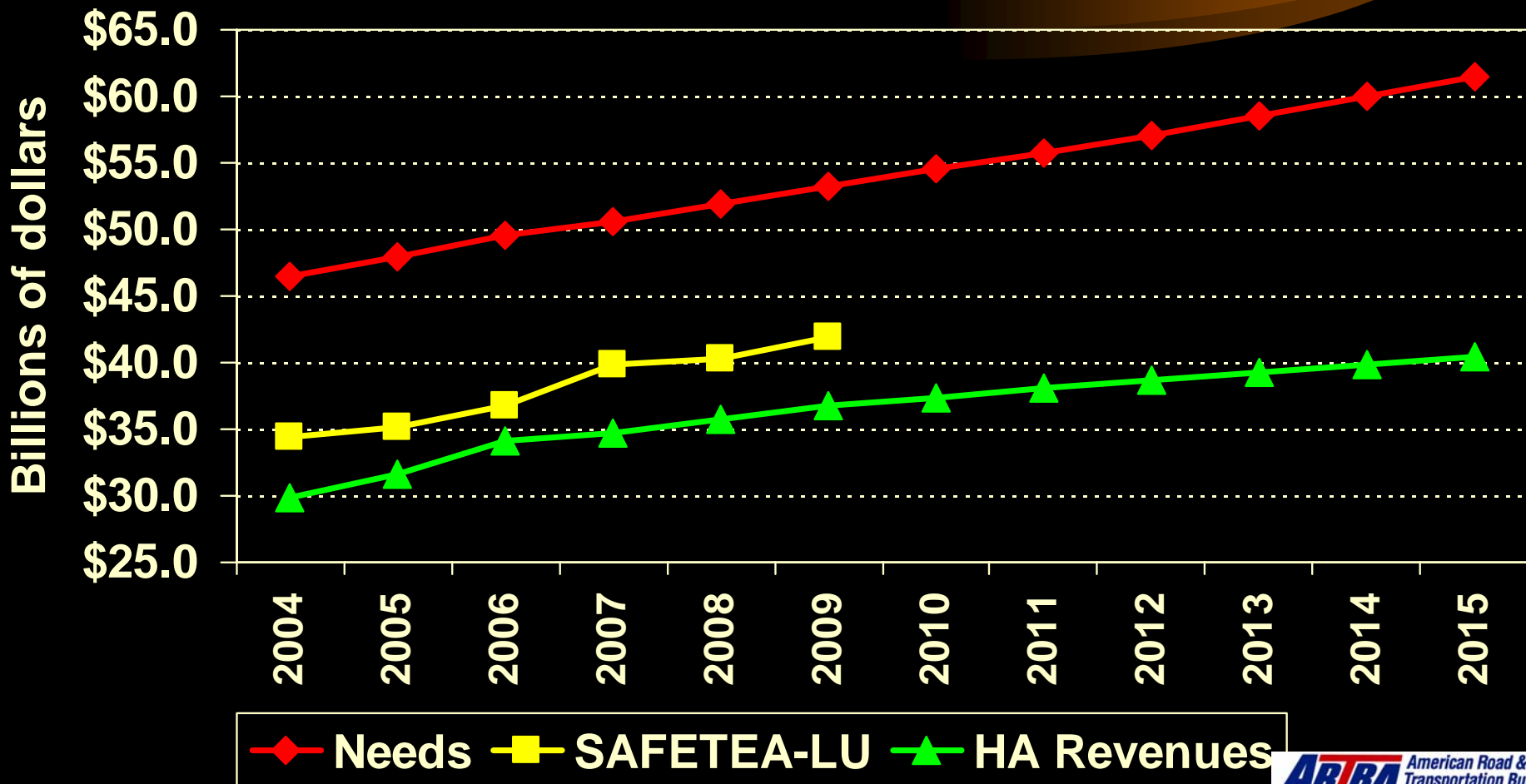


Note: Annual totals include funding for NHTSA & FMCSA

## *Option 2: Generate \$4.3 Billion of New Revenues*

- Charge cost of fuel tax exemptions to General Fund rather than HTF
- Reduce fuel tax evasion
- Credit “gas guzzler” taxes to HTF
- Repay HTF for foregone interest on balances
- Recapture HTF balance written off in 1998

# *Federal Funding of \$55-\$60 Billion in FY 10-15 Needed to Maintain Conditions*



## *Conclusion*

- Cost of constructing highways and bridges has skyrocketed since 2003
- State and local highway budgets have been stretched to the limit
- Federal highway funding under SAFETEA-LU has barely covered higher costs, no real increase
- Without new revenues, federal highway funding after 2008 will be even lower