Impact of Rising Construction Costs on State Highway Construction Programs

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

Source: Bureau of Labor Statistics. PPI for Highway and Street Construction
Total Highway Construction Costs, inc. Labor and Overhead, Are Up 27 Percent Since 2003

Source: Bureau of Labor Statistics. PPI for Highway and Street Construction
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

Source: Federal Highway Administration
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

FY 2002: $2.5
FY 2003: $2.5
FY 2004: $2.5
FY 2005: $2.7
FY 2006: $7.6
FY 07/Jul: $10.0

Sect. 112
Corrid/Nat Sig
Demos
ST-LU HPP
Trans. Proj.
Sect 117
Sect 115
T-21 HPP

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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

Source: ARTBA, Value of Transportation Construction Put in Place, FHWA
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

Source: ARTBA, Value of Transportation Construction Put in Place
## Outlook for Federal Highway Funding in FY 2008

<table>
<thead>
<tr>
<th></th>
<th>SAFETEA-LU</th>
<th>President’s Budget</th>
<th>House Approps</th>
<th>Senate Approps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highway</strong></td>
<td>$39.6 billion + RABA</td>
<td>$39.6 billion, no RABA</td>
<td>$40.2 billion, inc. $631 mill RABA</td>
<td>$40.2 billion, inc. $631 mill RABA</td>
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<tr>
<td><strong>Transit</strong></td>
<td>$9.7 billion</td>
<td>$9.4 billion</td>
<td>$9.7 billion</td>
<td>$9.56 billion</td>
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<tr>
<td><strong>Airport (AIP)</strong></td>
<td>$3.52 billion (FY07)</td>
<td>$2.75 billion</td>
<td>$3.6 billion</td>
<td>$3.52 billion</td>
</tr>
</tbody>
</table>
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

Projected End of Year Balance in Highway Account

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