Impact of Rising Construction Costs on State Highway Construction Programs

Presentation to Florida Transportation Commission
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VP for Economics and Research
American Road & Transportation Builders Association
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Since 2003, Cost of Highway Construction Materials Has Risen 42%
Cost of Steel Started the Process, Almost Doubling in Price in Early 2004

Source: Bureau of Labor Statistics, PPI for Hot Rolled Bars, Plates & Structural Steel
Then Prices for Core Highway Construction Materials Began to Rise, Including Crushed Stone (Up 31%)
...Ready-Mix Concrete
(Up37.3% Since 2003)

Source: Bureau of Labor Statistics, PPI for Ready-Mix Concrete
...And Asphalt Paving Mixtures
(Up 53.6%)

Source: Bureau of Labor Statistics, PPI for Asphalt Paving Mixtures & Blocks
Have Not Seen Such Inflation in Highway Construction Materials Since Late 1970s

Source: Bureau of Labor Statistics. PPI for Highway and Street Construction
Total Highway Construction Costs, inc. Labor and Overhead, Are Up 26 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

$18.0
$22.0
$26.0
$30.0
$34.0
$38.0
$42.0


Billions of dollars
Obligations for Highways Guar. Funding

* $2 billion transferred to FY 05 on last day of FY 04
Unobligated Earmarks at End of Fiscal Year

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Sect. 112</th>
<th>Corrid/Nat Sig</th>
<th>Demos</th>
<th>ST-LU HPP</th>
<th>Trans. Proj.</th>
<th>Sect 117</th>
<th>Sect 115</th>
<th>T-21 HPP</th>
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</thead>
<tbody>
<tr>
<td>FY 2002</td>
<td>$2.6</td>
<td>$0.0</td>
<td>$2.5</td>
<td>$2.4</td>
<td>$7.7</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
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<td>FY 2003</td>
<td>$2.6</td>
<td>$0.0</td>
<td>$2.5</td>
<td>$2.4</td>
<td>$7.7</td>
<td>$0.0</td>
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<tr>
<td>FY 2004</td>
<td>$2.5</td>
<td>$0.0</td>
<td>$2.5</td>
<td>$2.4</td>
<td>$7.7</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
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<tr>
<td>FY 2005</td>
<td>$2.4</td>
<td>$0.0</td>
<td>$2.4</td>
<td>$2.4</td>
<td>$7.7</td>
<td>$0.0</td>
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<td>$0.0</td>
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<tr>
<td>FY 2006</td>
<td>$7.7</td>
<td>$0.0</td>
<td>$7.7</td>
<td>$7.5</td>
<td>$7.7</td>
<td>$0.0</td>
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<td>FY 2007/Aug</td>
<td>$10.0</td>
<td>$0.0</td>
<td>$10.0</td>
<td>$9.9</td>
<td>$7.7</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
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</table>

Source: Federal Highway Administration
Value of Construction on Highways and Bridges Grew Rapidly in 2005-2007

Source: ARTBA, Value of Transportation Construction Put in Place
Virtually All the Growth Was With State & Local Funds – Up 40% Since 2004

Billions of dollars

2000 2001 2002 2003 2004 2005 2006 2007E
Federal State & Local

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

Billions of dollars

Source: ARTBA, Value of Transportation Construction Put in Place
New Awards/Starts for Highway & Bridges Tell A Different Story - Were Up $4 Billion in SFY07

Source: ARTBA analysis of New Starts data from McGraw-Hill Construction Economics
But Increase Due to Two States – New Contracts in California Up $2 Billion...

<table>
<thead>
<tr>
<th>Years</th>
<th>Millions of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 02</td>
<td>$4,906.5</td>
</tr>
<tr>
<td>FY 03</td>
<td>$3,099.5</td>
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<tr>
<td>FY 04</td>
<td>$2,545.7</td>
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<tr>
<td>FY 05</td>
<td>$3,513.0</td>
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<tr>
<td>FY 06</td>
<td>$4,045.8</td>
</tr>
<tr>
<td>FY 07</td>
<td>$6,023.2</td>
</tr>
</tbody>
</table>

Source: ARTBA analysis of New Starts data from McGraw-Hill Construction Economics
And New Contract Awards in Georgia Up $1.5 Billion...

Source: ARTBA analysis of New Starts data from McGraw-Hill Construction Economics
And States Reducing Value of New Contracts Rose in FY07

Source: ARTBA analysis of New Starts data from McGraw-Hill Construction Economics
## 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>
</tr>
<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>
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</tbody>
</table>
Both House and Senate have passed FY 2008 transportation appropriation bills that include the RABA bonus.

President has threatened to veto approps bills that exceed his request.

Will likely include new earmarks.

State DOTs will get no more, maybe less, formula funds than in FY 07.
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 (40%) to Save $4.3 Billion of HA Outlays

Note: Annual totals include funding for NHTSA & FMCSA
Option 2: Senate Finance Proposal to Generate Needed New Revenues

- Reimburse HTF for emergency spending since 1998
- Suspend fuel tax exemptions for six months
- Reduce fuel tax evasion
- Generates $5.7 billion through FY09, included in FAA authorization bill
Beyond FY09, Projected Annual HTF Revenues $19 Billion Less than Needed Just to Maintain Conditions

Source: ARTBA analysis of USDOT 2006 Conditions and Performance Report; U.S. Treasury forecast
• 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 2009 will be below SAFETEA-LU