

Impact of Rising Construction Costs on State Highway Construction Programs



Presentation to Florida Transportation
Commission

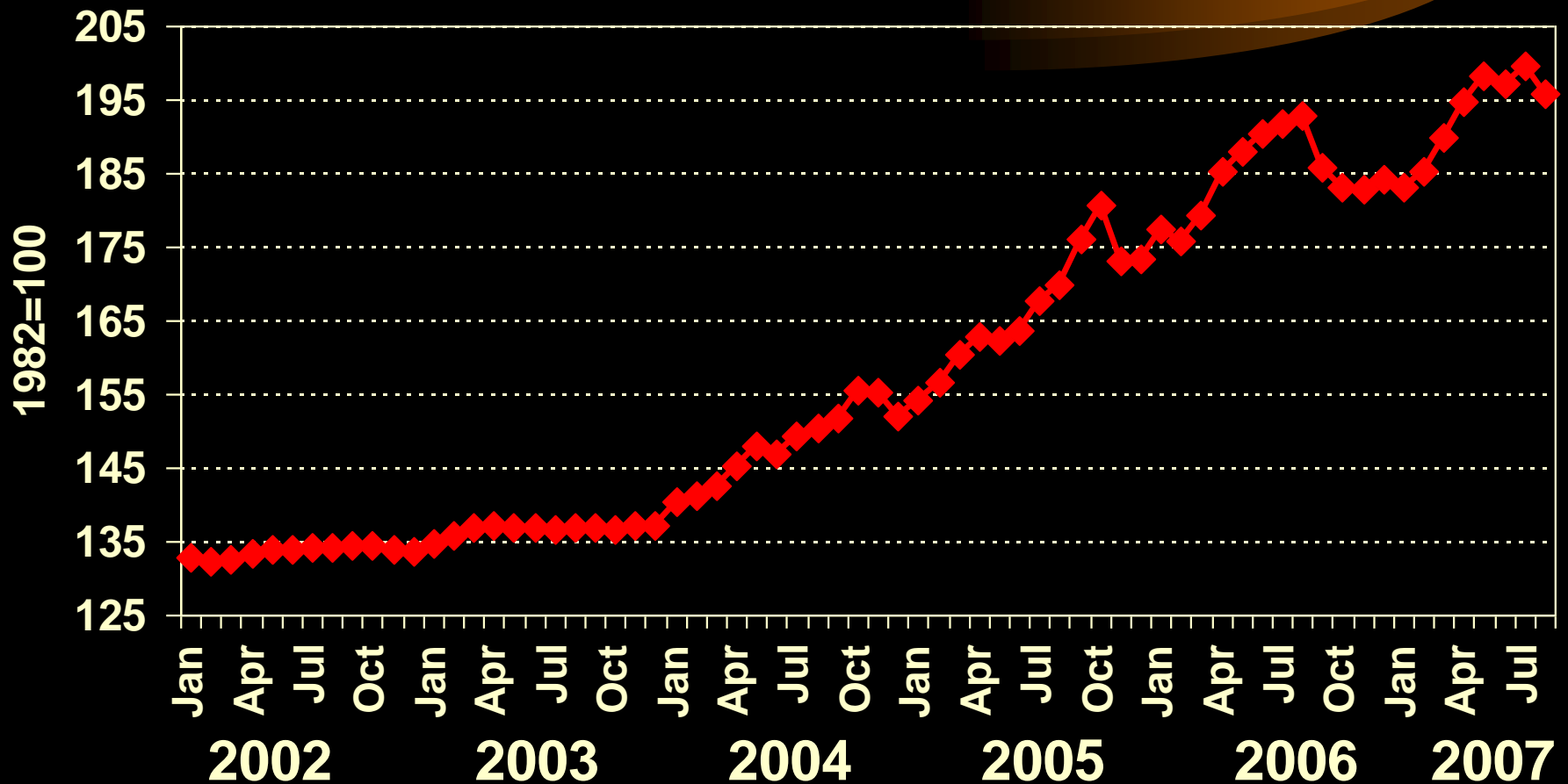
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VP for Economics and Research

American Road & Transportation Builders Association

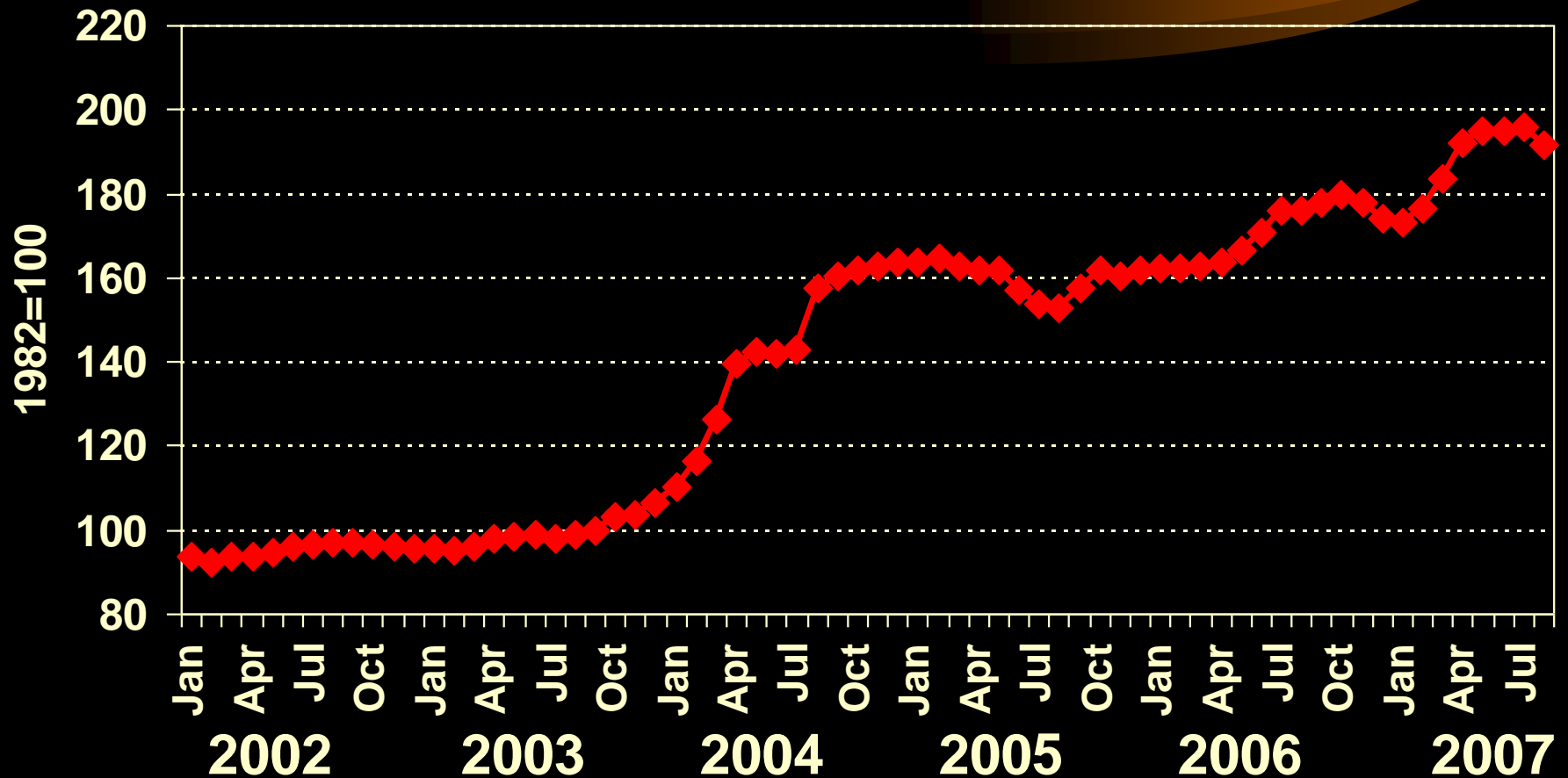
October 9, 2007

Since 2003, Cost of Highway Construction Materials Has Risen 42%



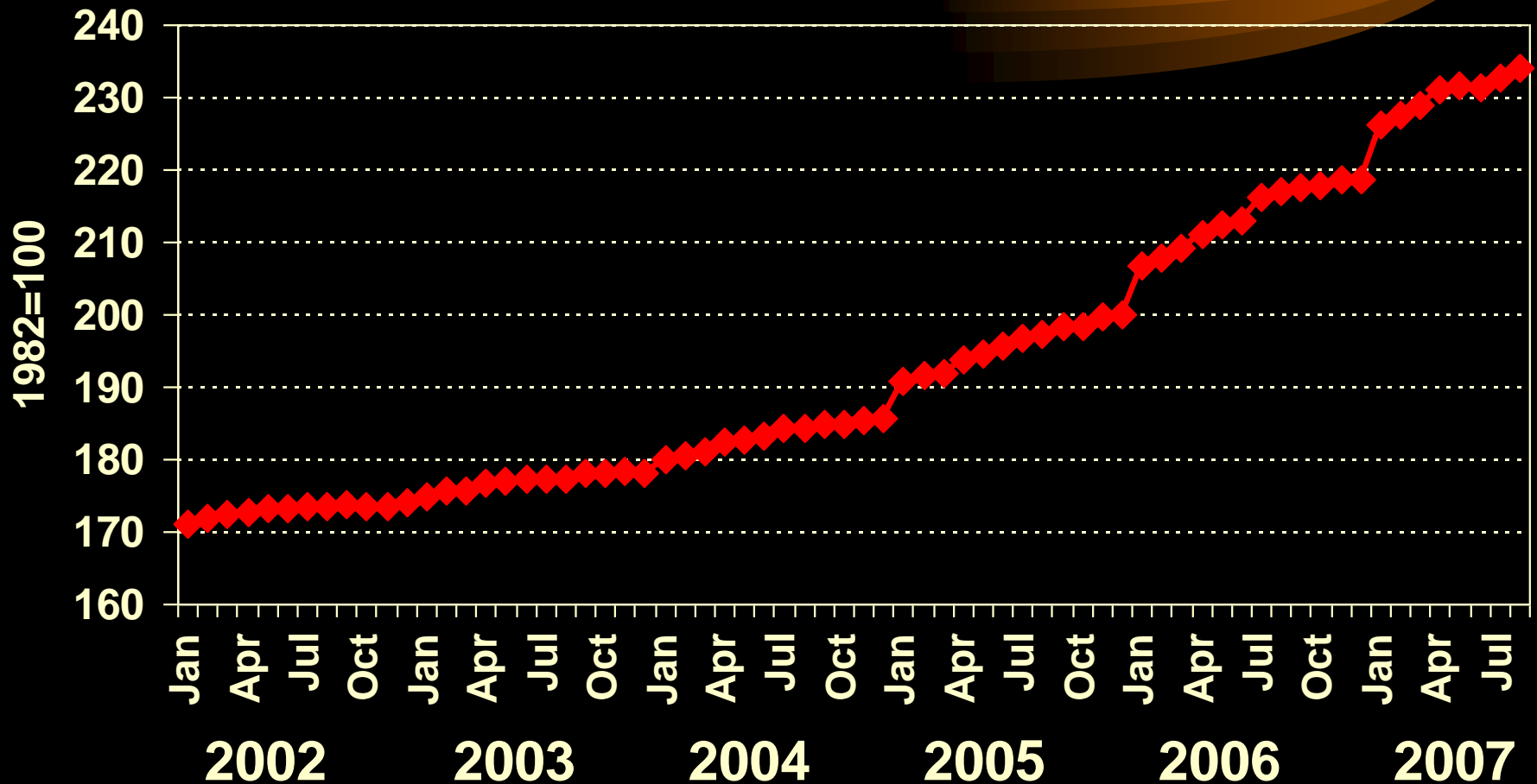
Source: Bureau of Labor Statistics, PPI for Highways and Streets

Cost of Steel Started the Process, Almost Doubling in Price in Early 2004



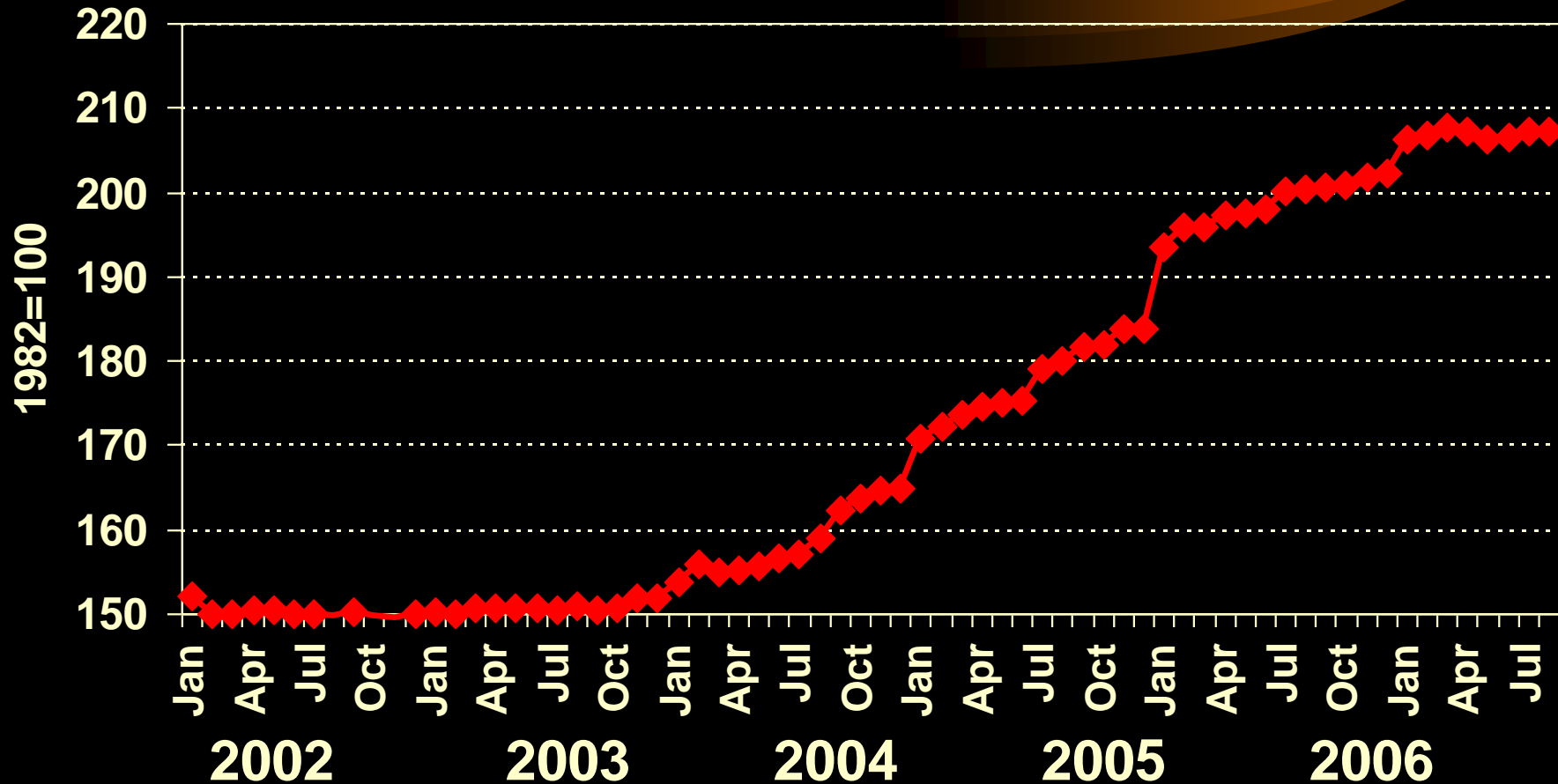
Source: Bureau of Labor Statistics, PPI for Hot Rolled Bars, Plates & Structural Steel

Then Prices for Core Highway Construction Materials Began to Rise, Including Crushed Stone (Up 31%)



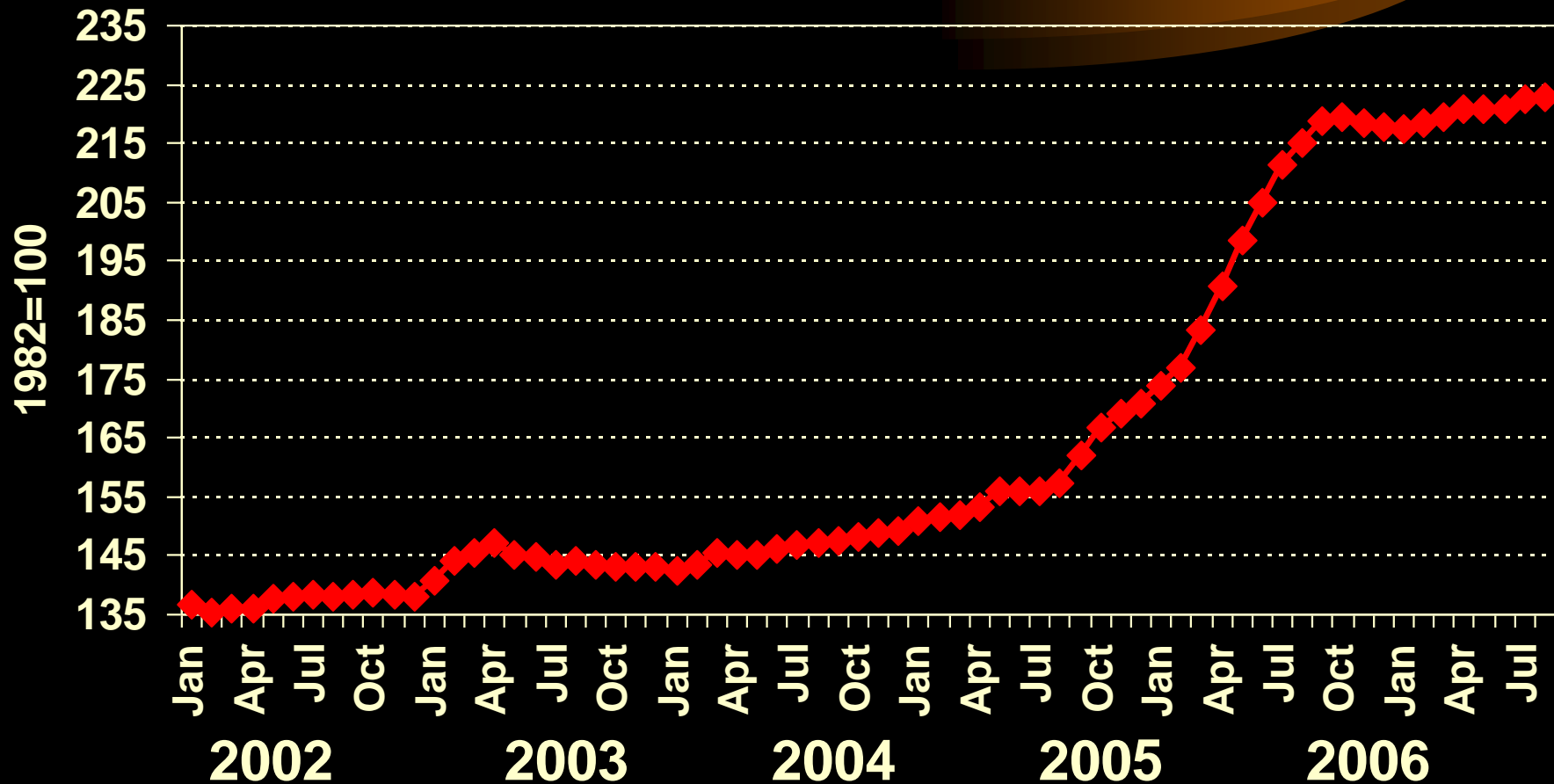
Source: Bureau of Labor Statistics, PPI for Construction Sand, Gravel and Crushed Stone

...Ready-Mix Concrete (Up 37.3% Since 2003)



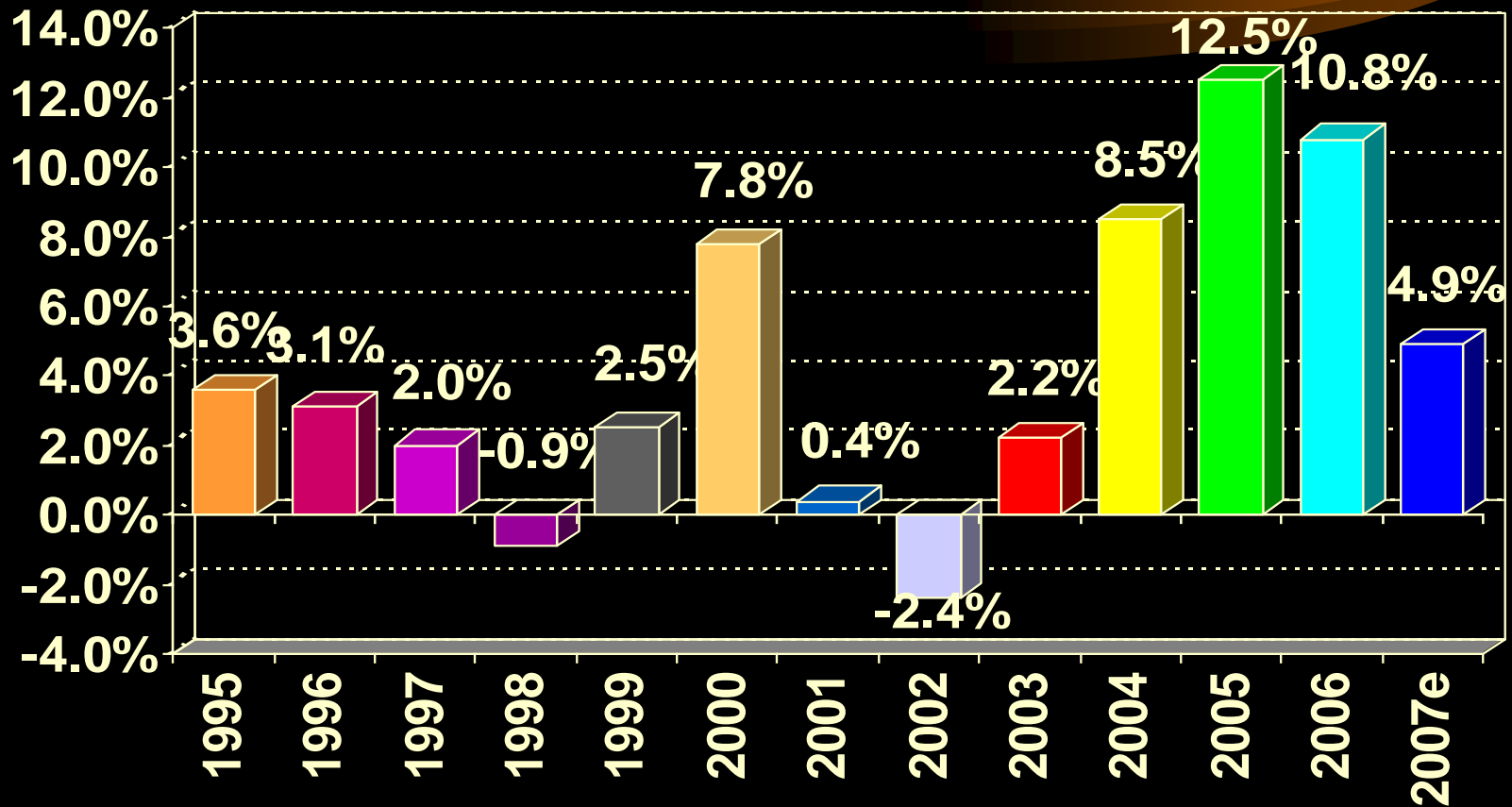
Source: Bureau of Labor Statistics, PPI for Ready-Mix Concrete

...And Asphalt Paving Mixtures (Up 53.6%)

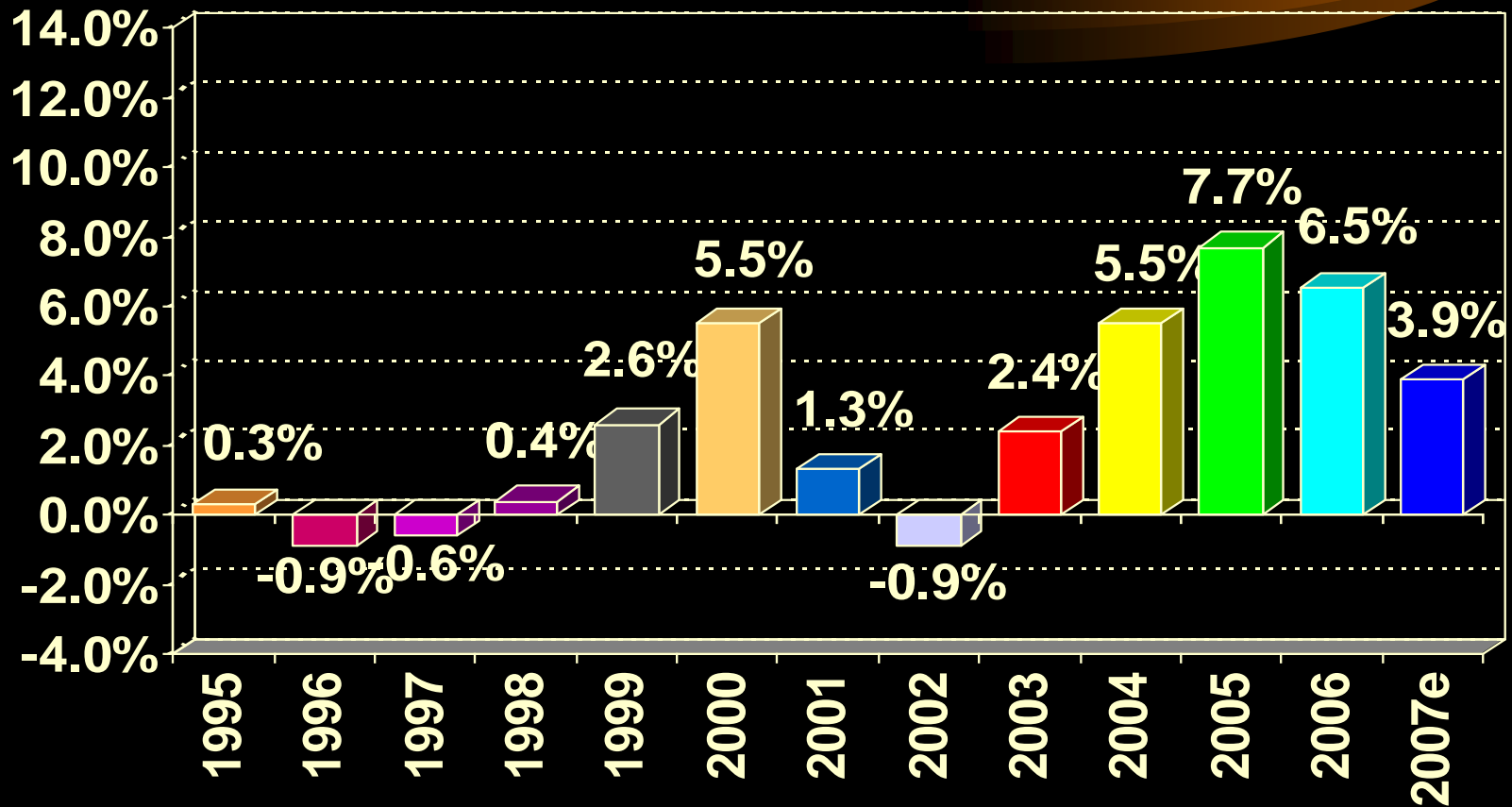


Source: Bureau of Labor Statistics, PPI for Asphalt Paving Mixtures & Blocks

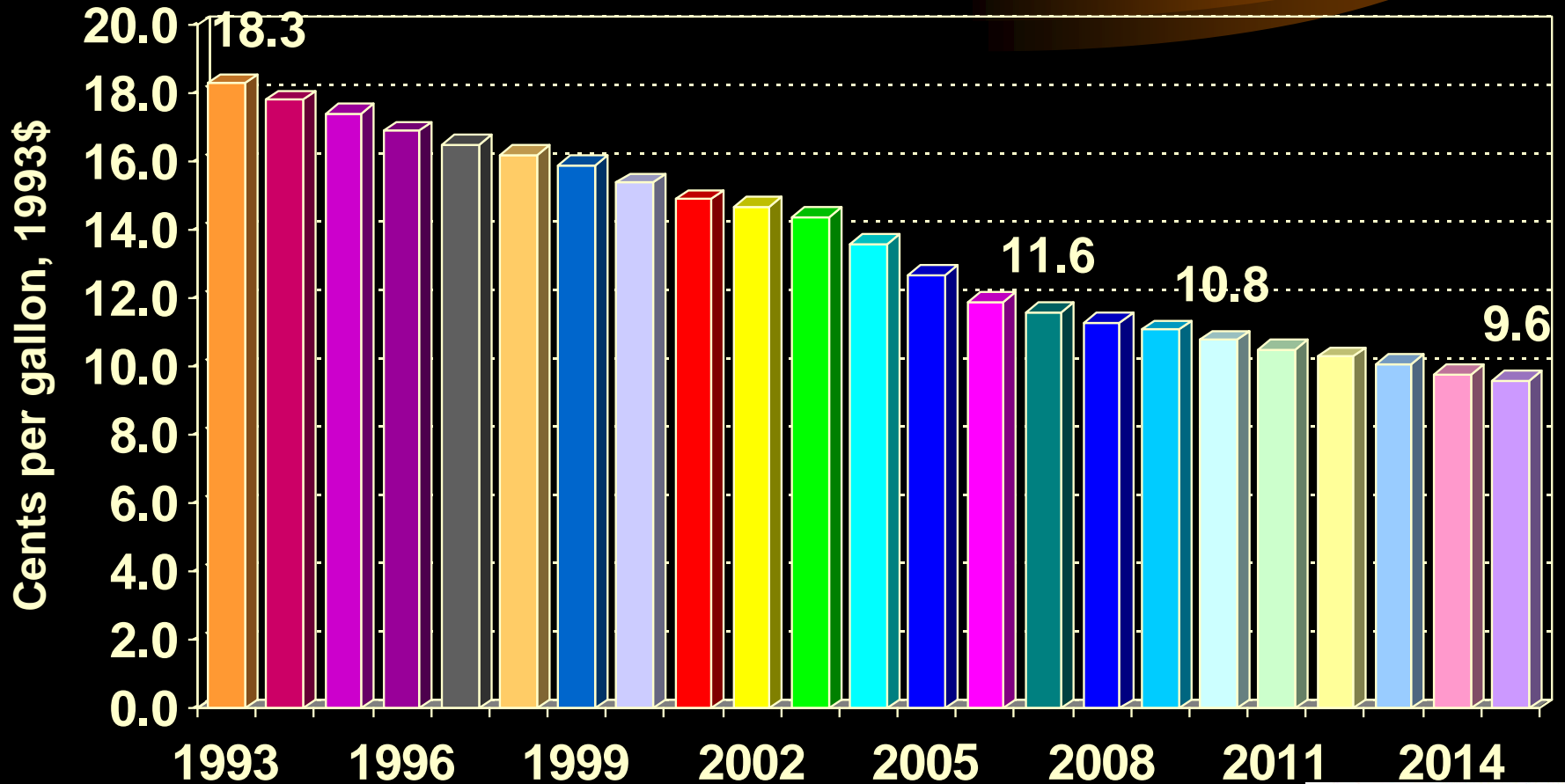
Have Not Seen Such Inflation in Highway Construction Materials Since Late 1970s



Total Highway Construction Costs, inc. Labor and Overhead, Are Up 26 Percent Since 2003

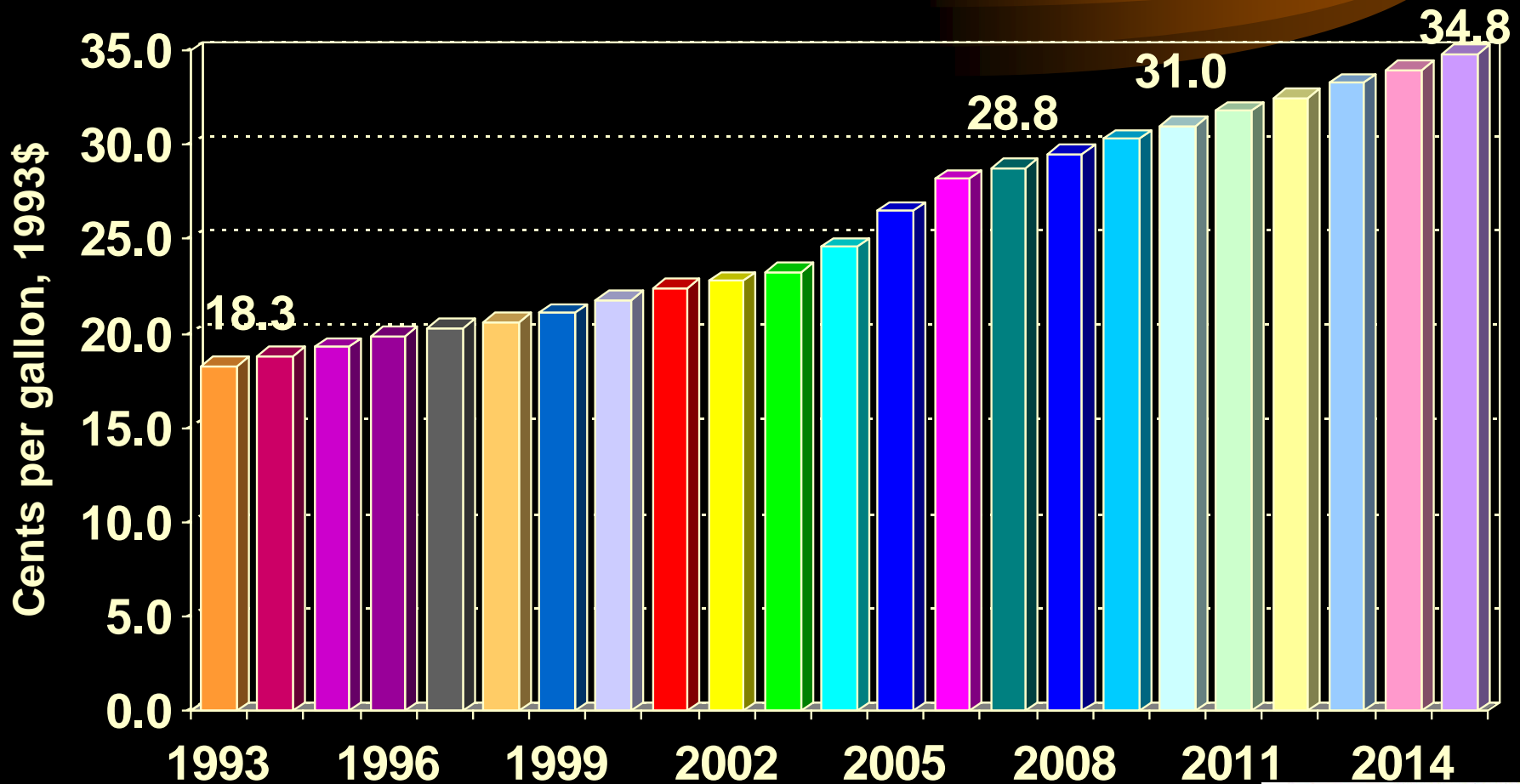


Rising Highway Construction Costs Have Reduced Purchasing Power of Federal Gas Tax



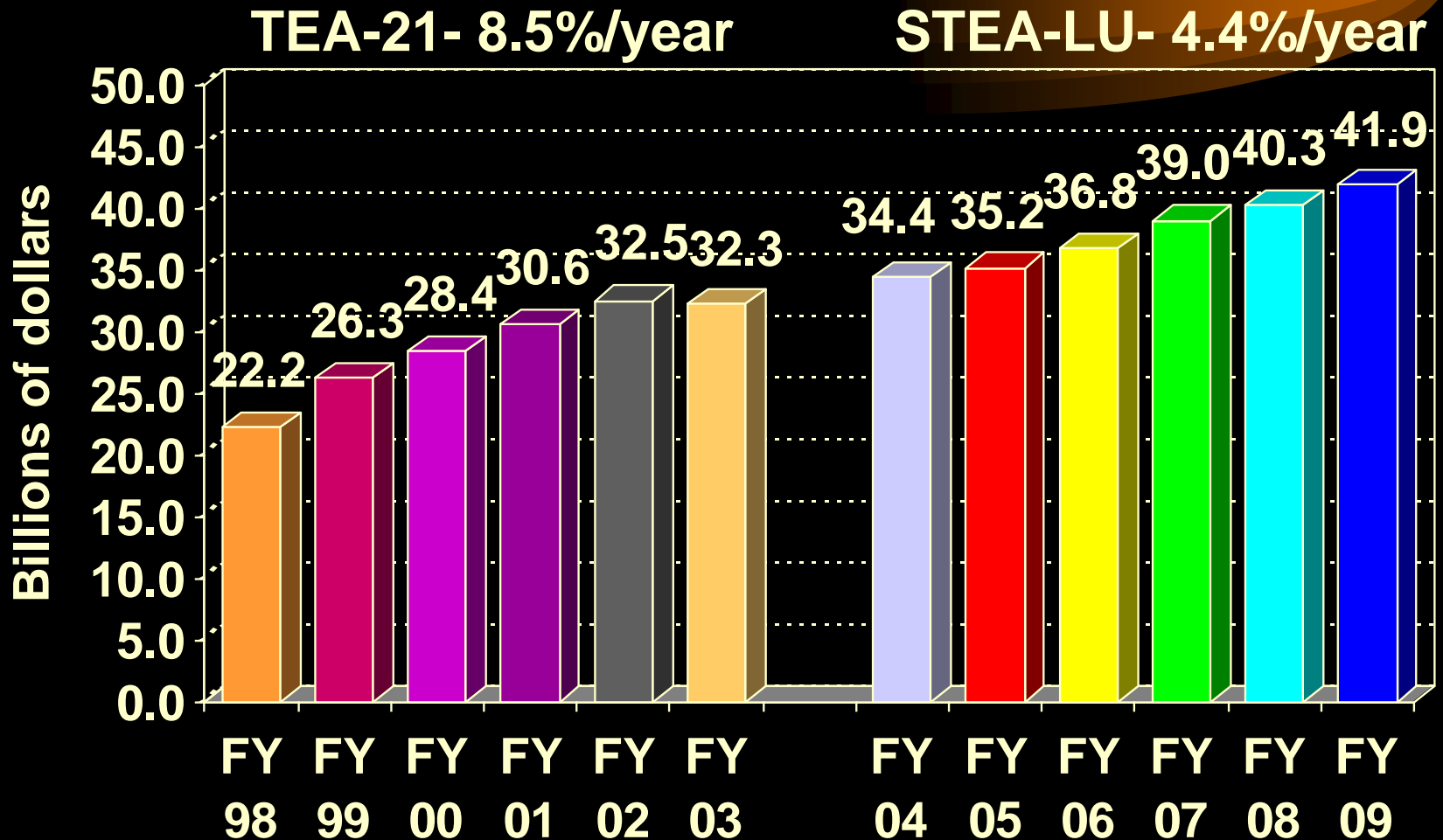
Source: ARTBA calculations from BLS data

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



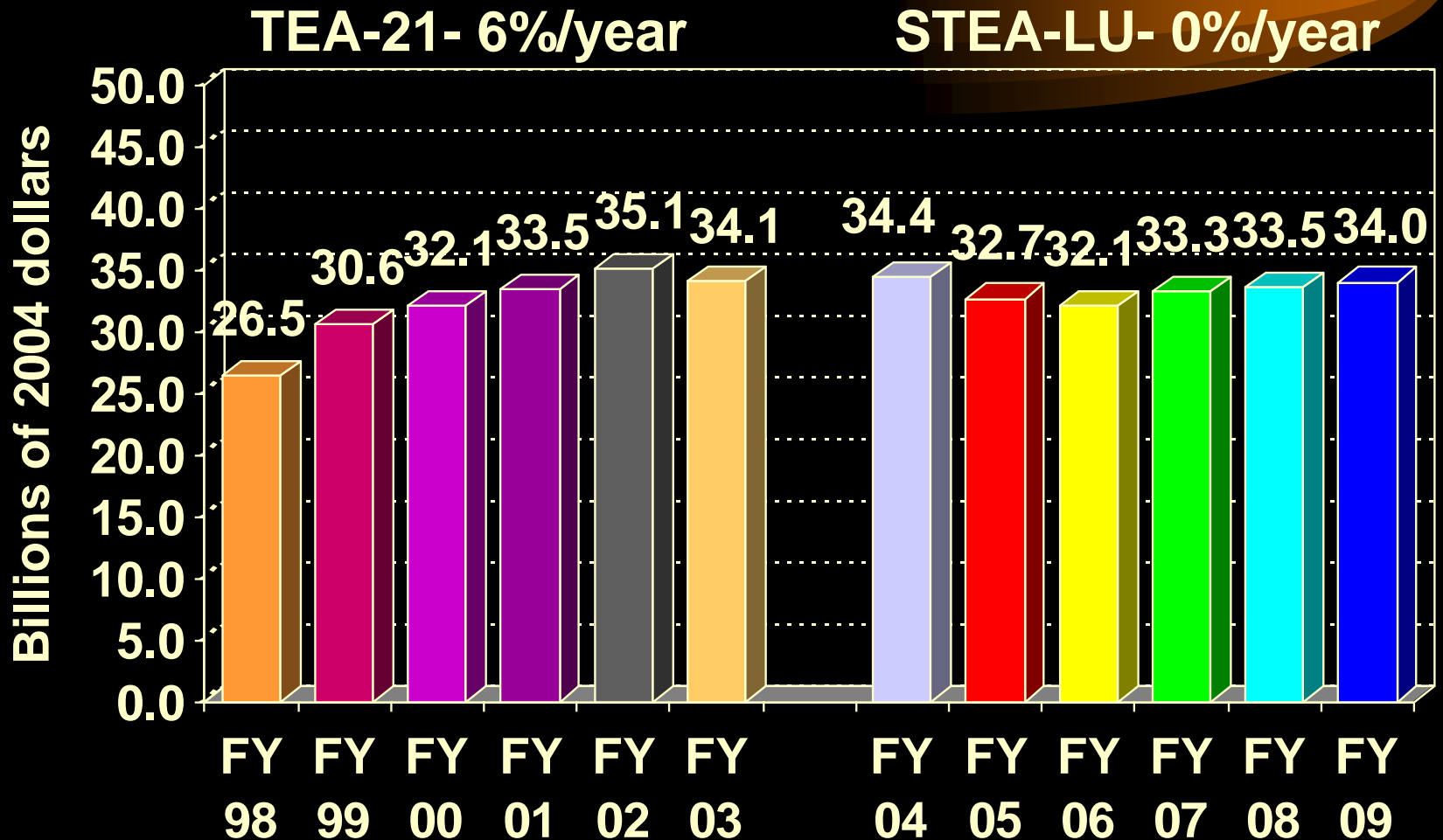
Source: ARTBA calculations from BLS data

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



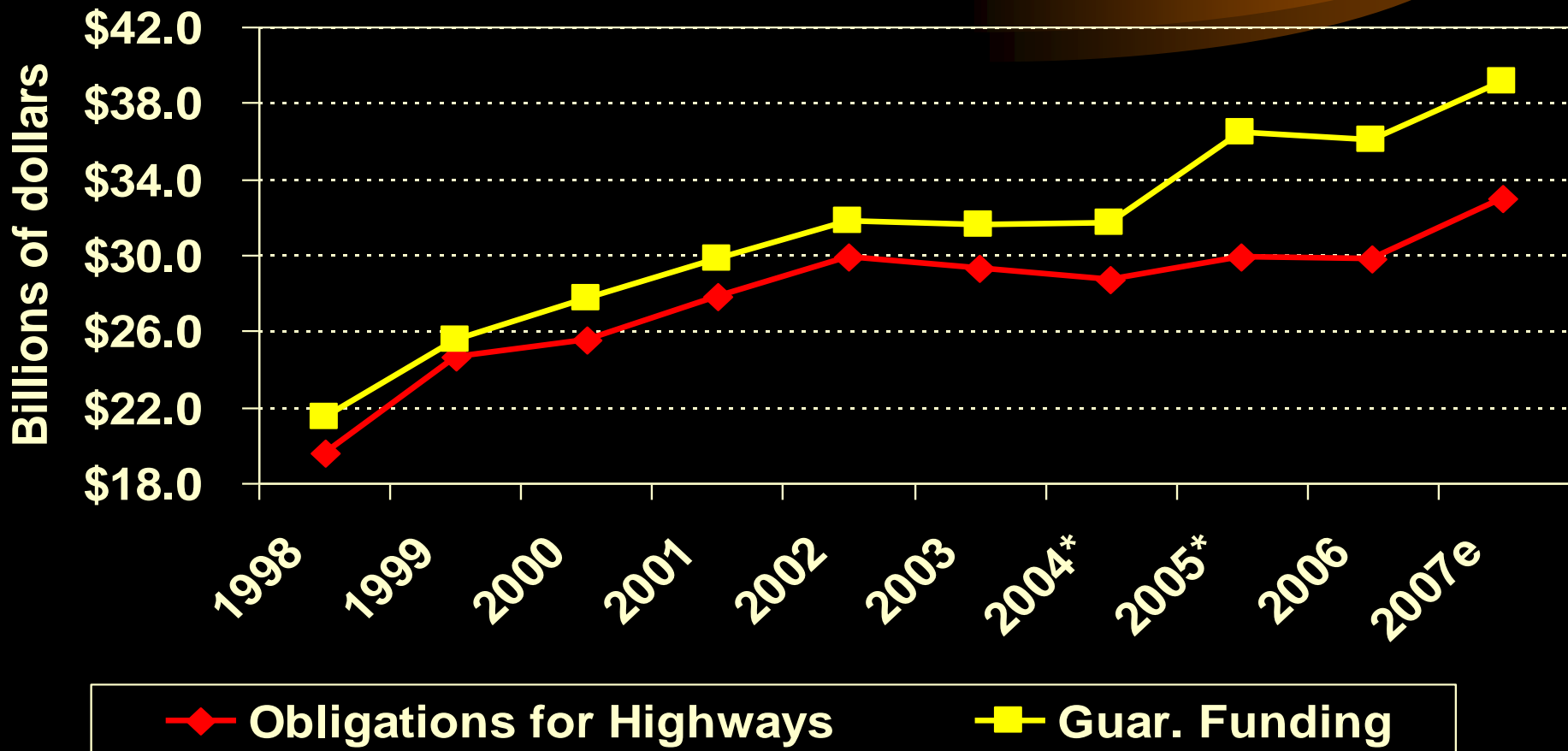
Source: Federal Highway Administration

Guaranteed Funding After Effects of Highway Cost Inflation



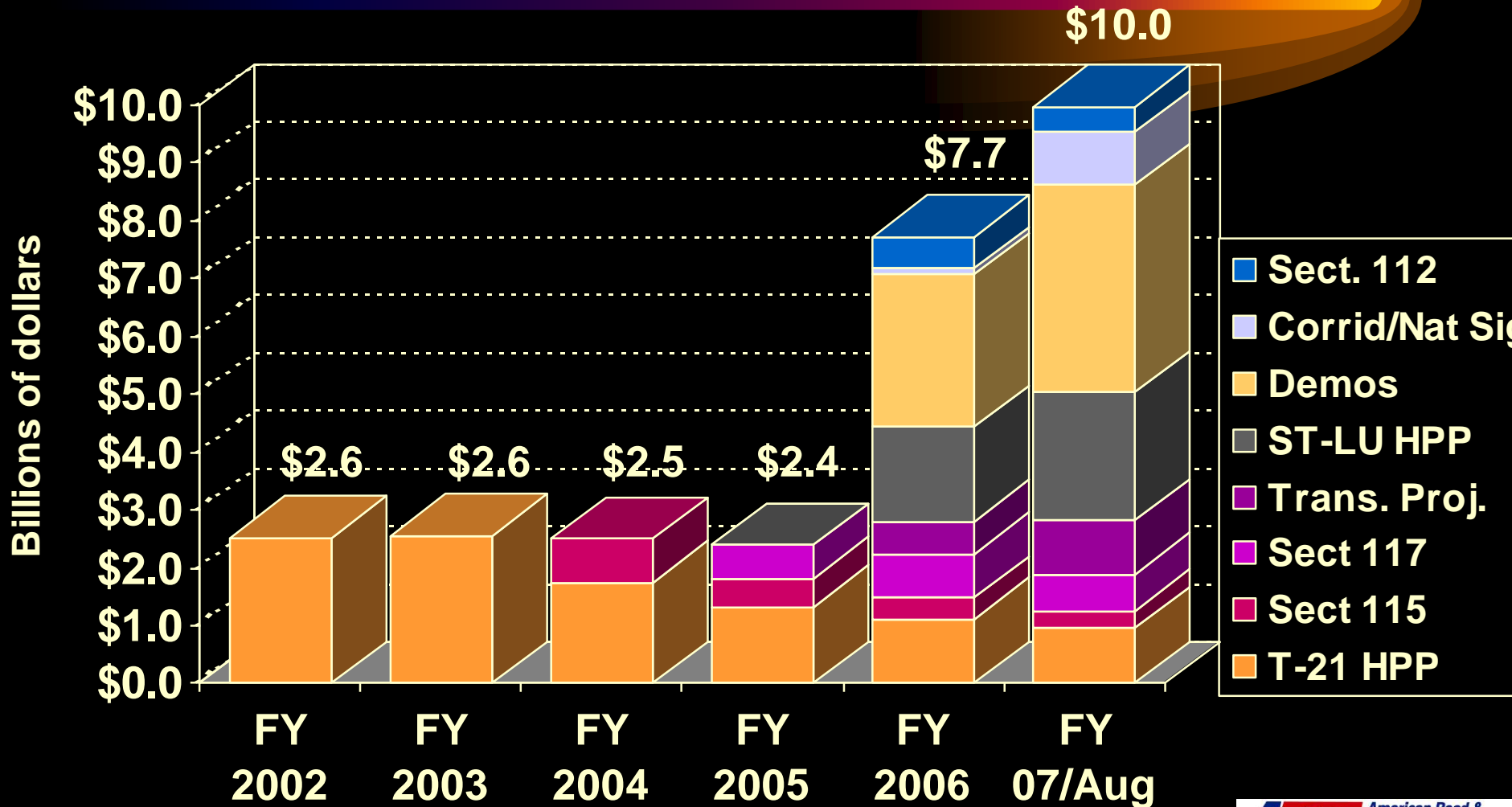
Source: ARTBA calculations from FHWA and BLS data

Not All Federal Highway Funds are Getting into the Spending Stream

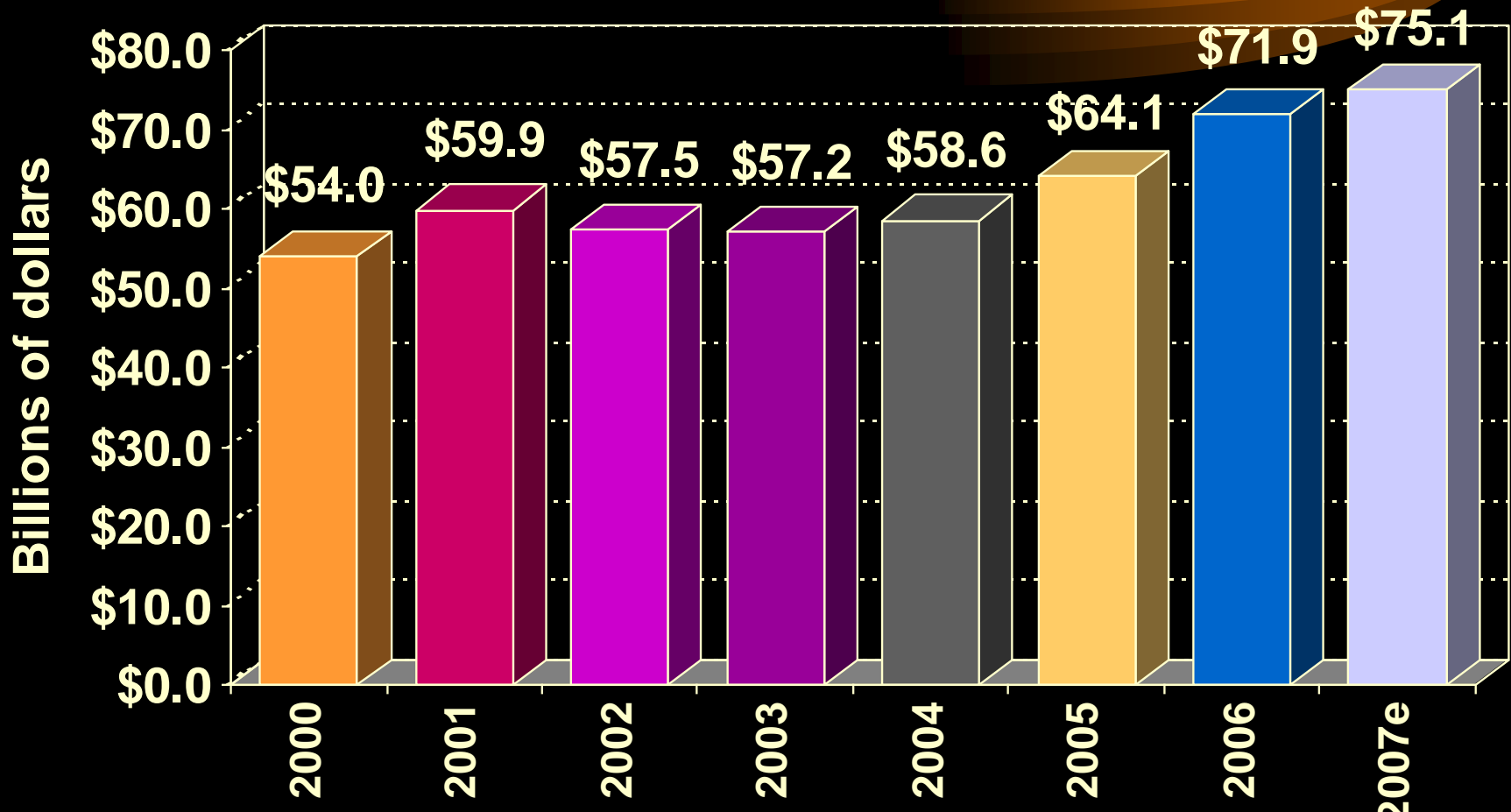


* \$2 billion transferred to FY 05 on last day of FY 04

Unobligated Earmarks at End of Fiscal Year



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



Source: ARTBA, Value of Transportation Construction Put in Place

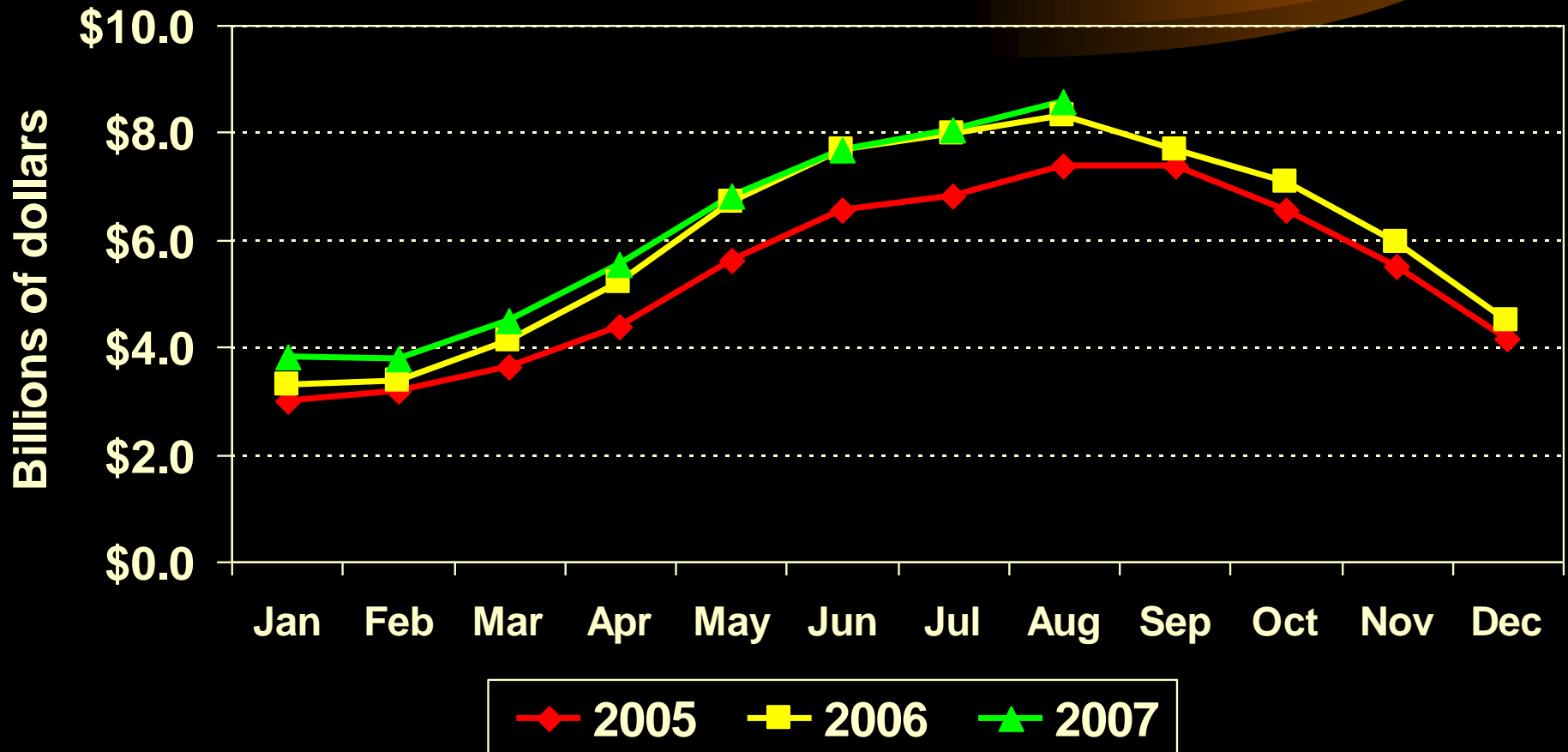
Virtually All the Growth Was With State & Local Funds – Up 40% Since 2004



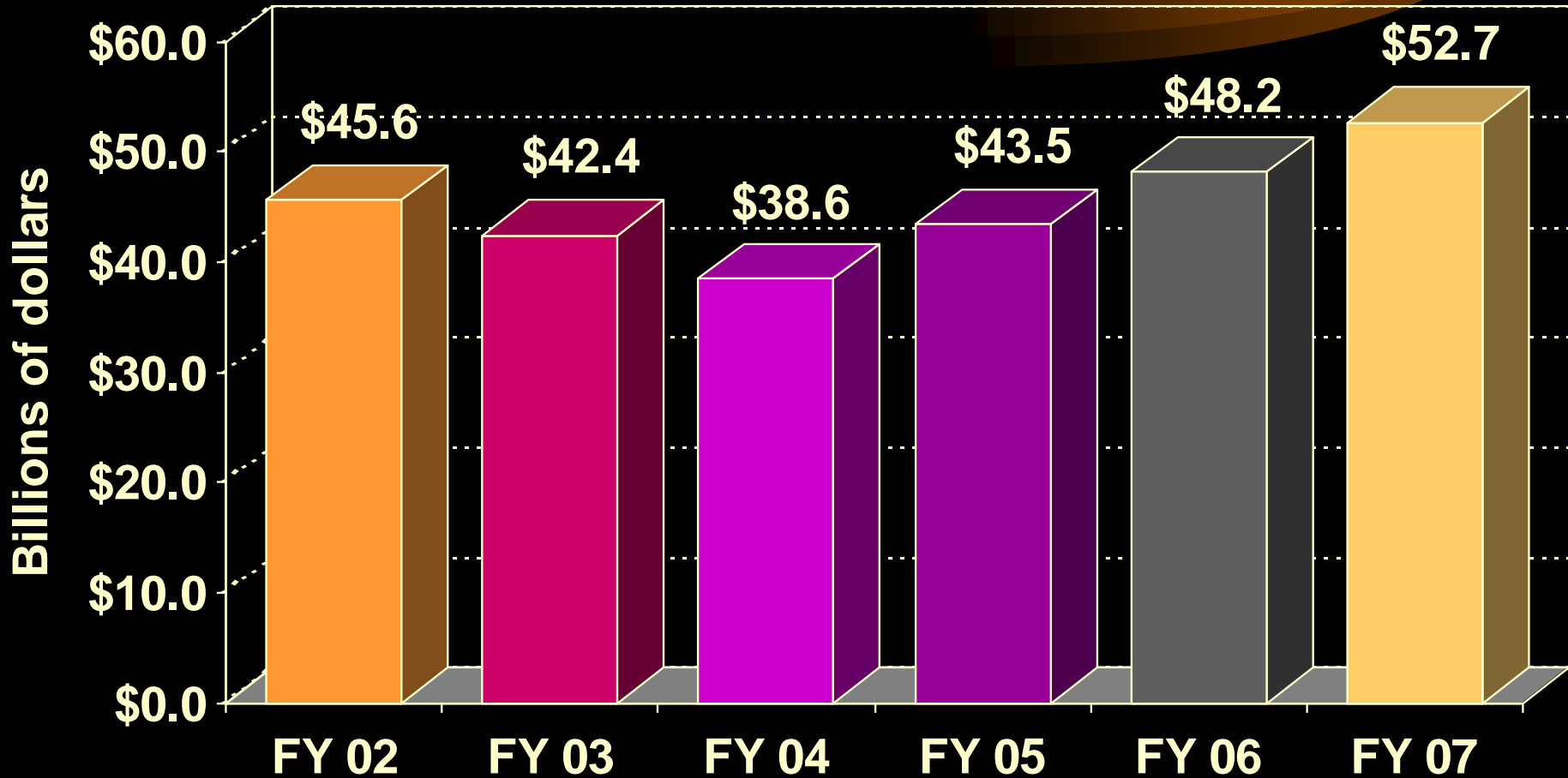
Comments on State and Local Funding

- 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

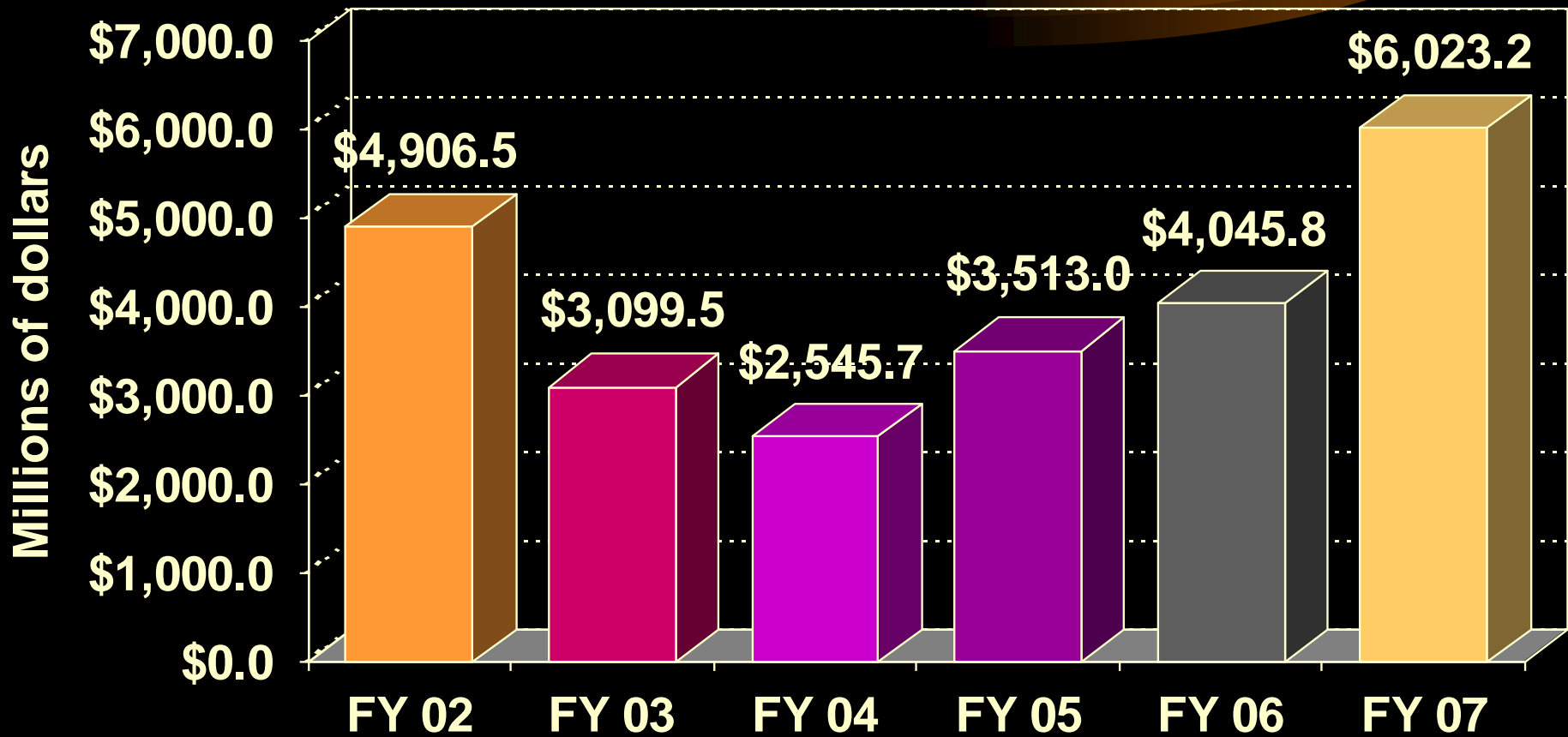


New Awards/Starts for Highway & Bridges Tell A Different Story - Were Up \$4 Billion in SFY07

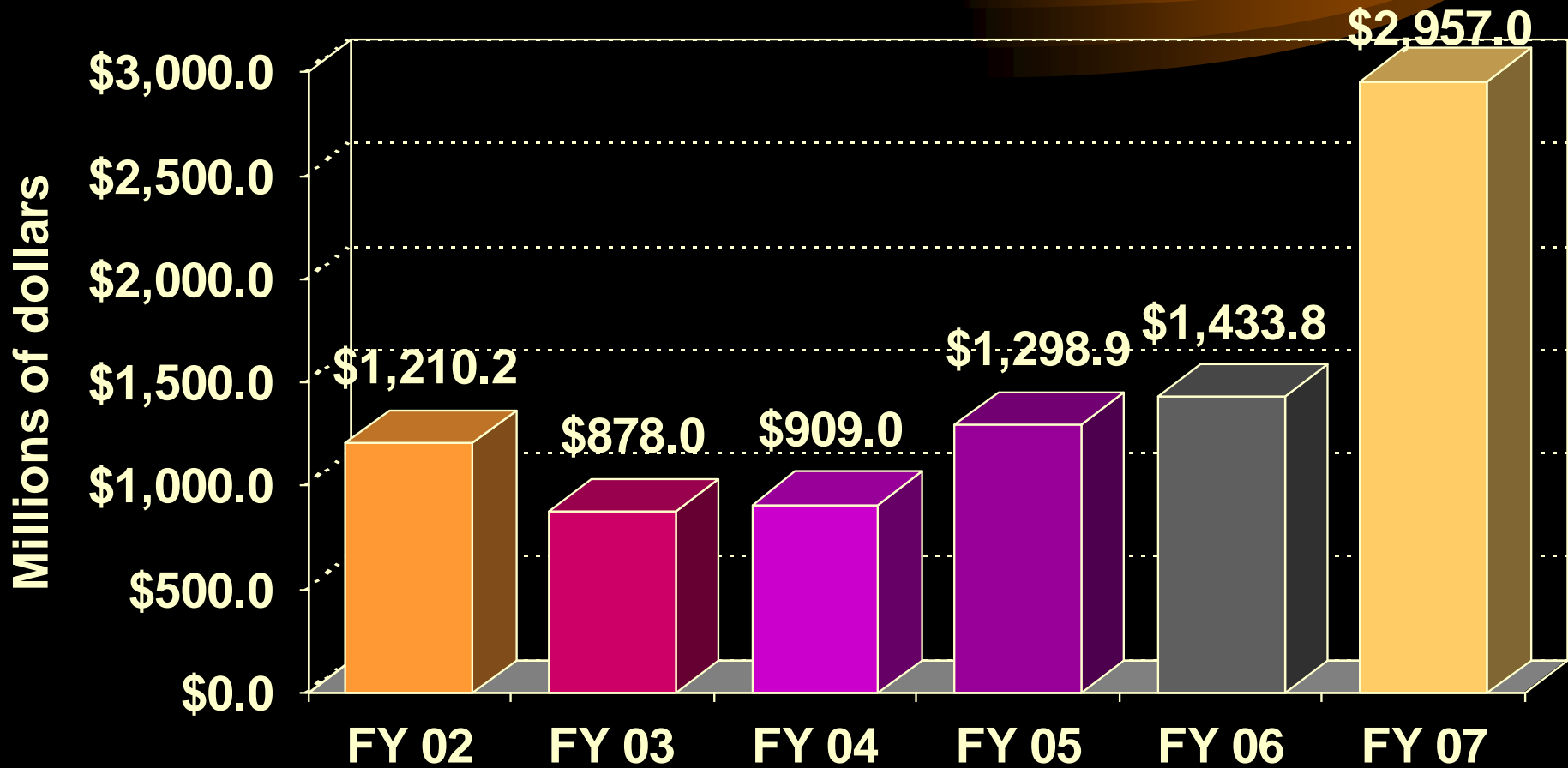


Source: ARTBA analysis of New Starts data from McGraw-Hill Construction Economics

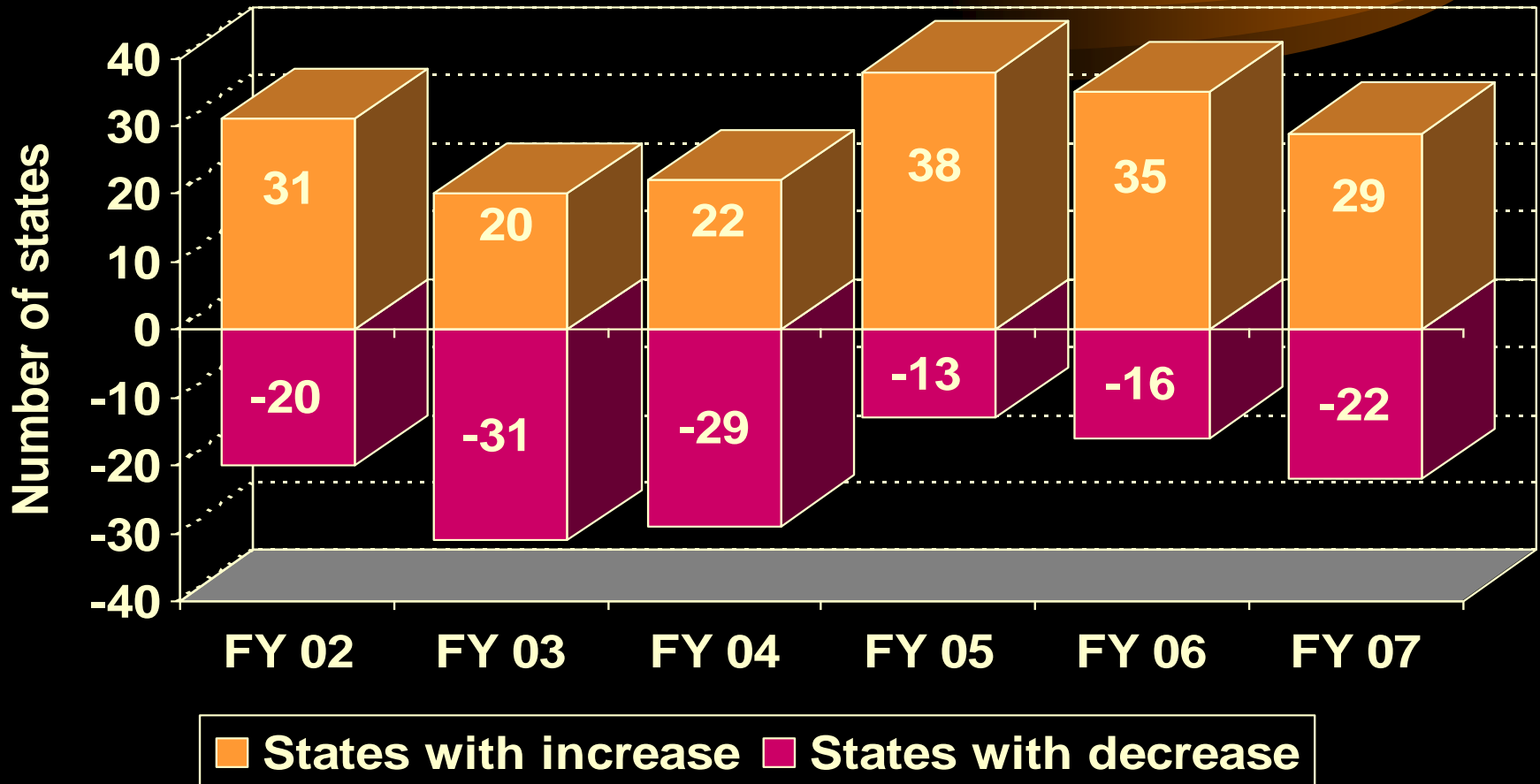
But Increase Due to Two States – New Contracts in California Up \$2 Billion...



And New Contract Awards in Georgia Up \$1.5 Billion...



And States Reducing Value of New Contracts Rose in FY07



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

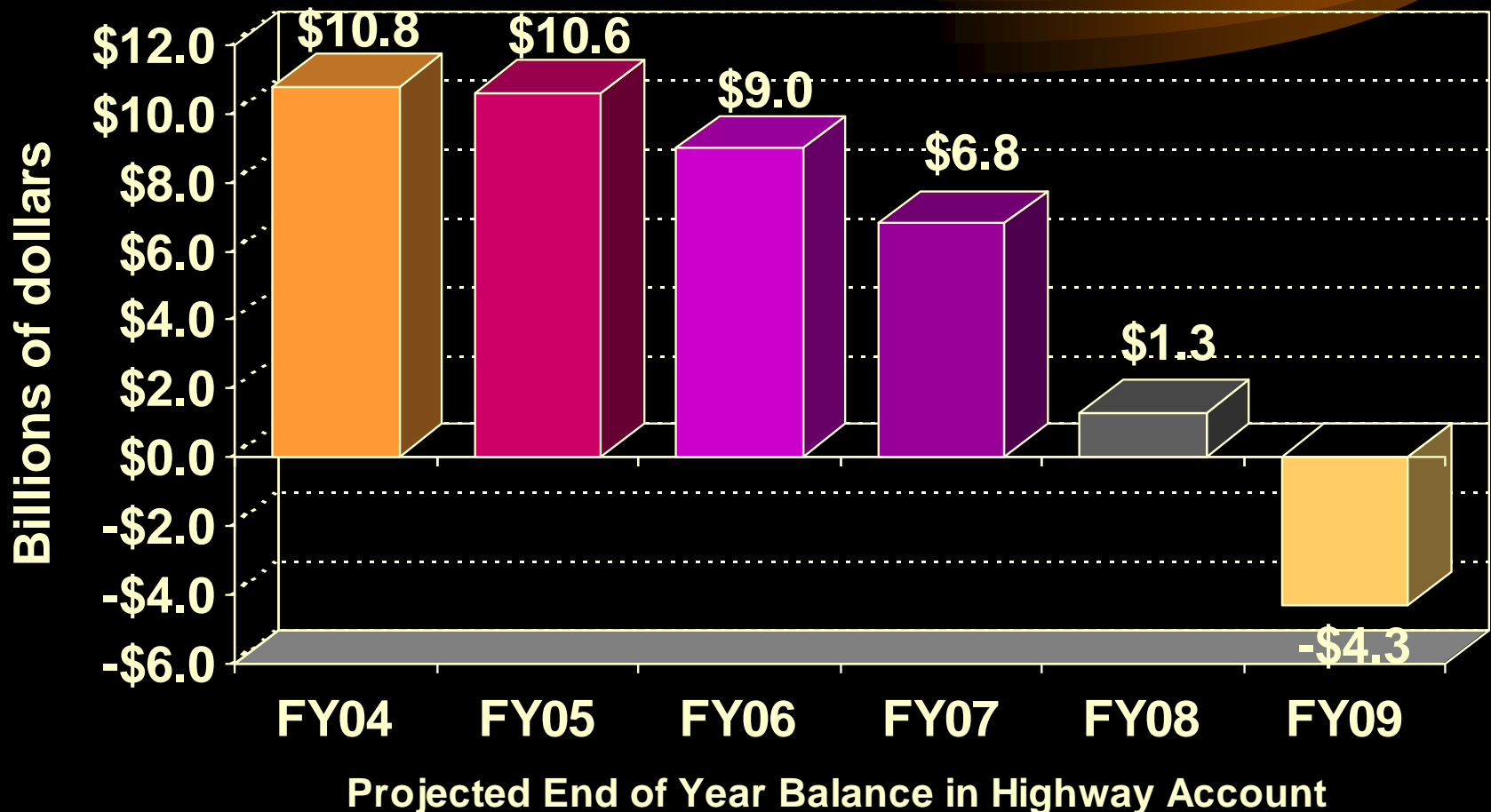
Current Progress

- 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

Background for FY 2009

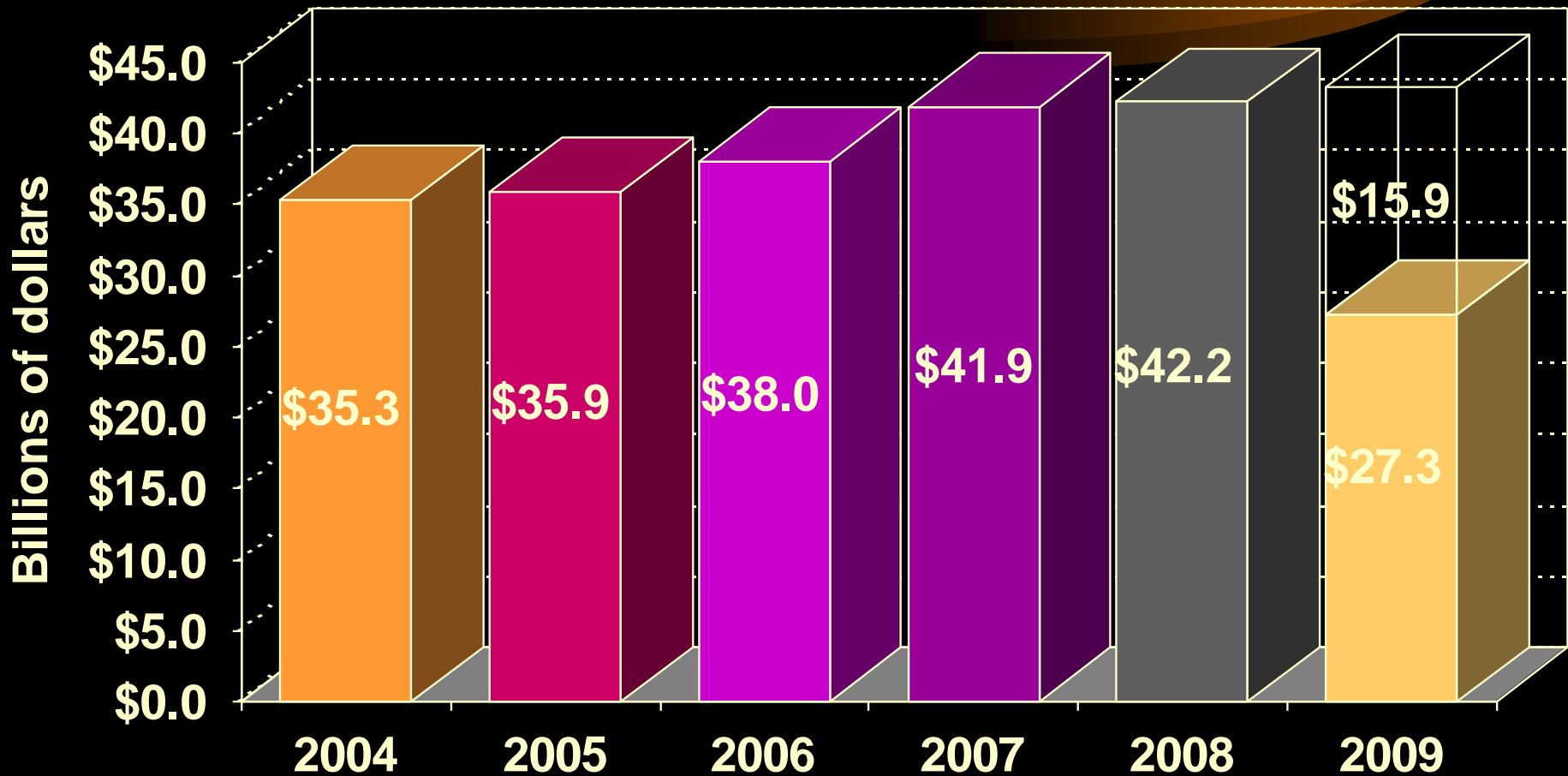
- When enacting SAFETEA-LU, Congress refused to consider an increase in federal gas tax
- To fund SAFETEA-LU, Congress spent all Highway Trust Fund (Highway Account) revenues for FY 2004-09 plus all of the cash balance

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 (40%) to Save \$4.3 Billion of HA Outlays

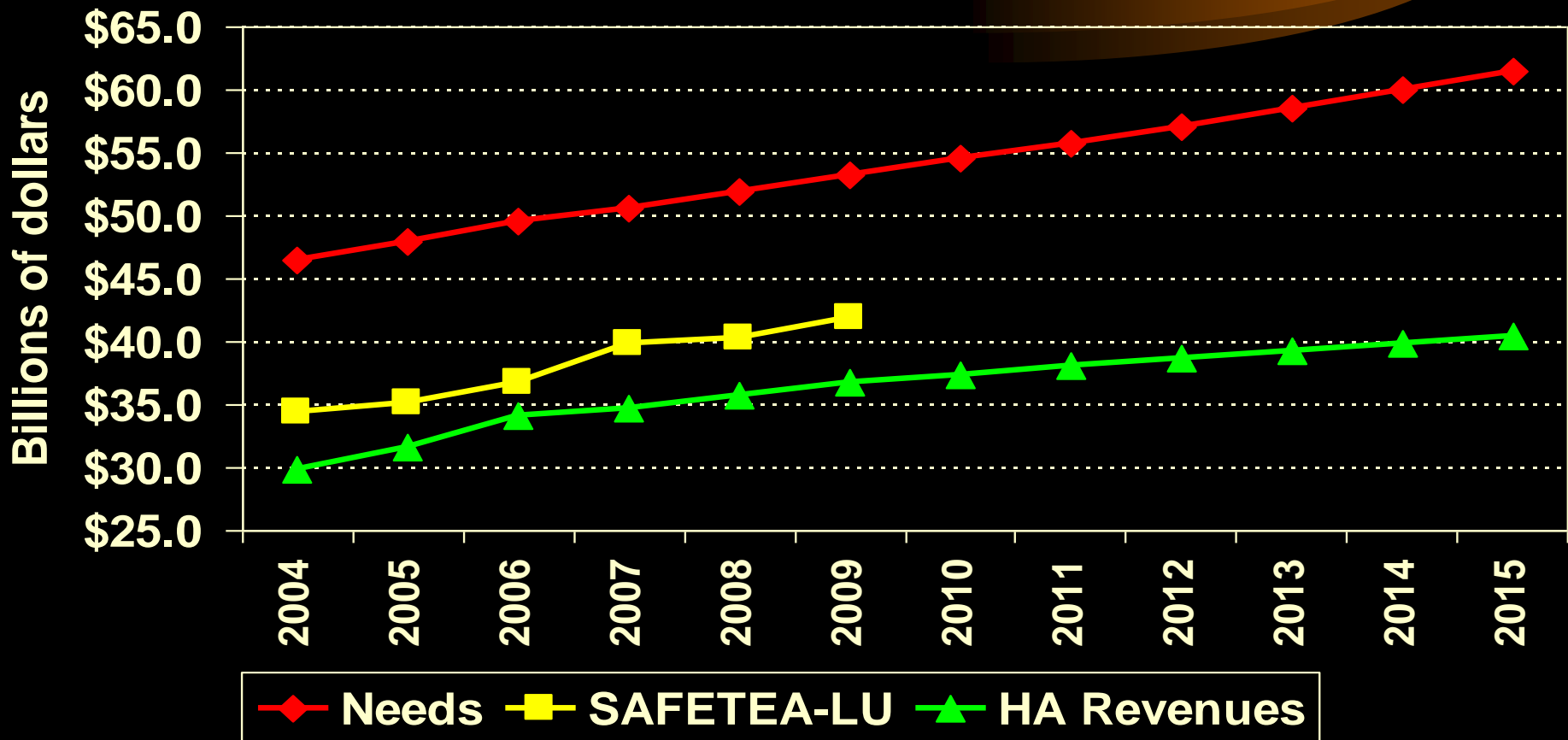


Note: Annual totals include funding for NHTSA & FMCSA

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



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 2009 will be below SAFETEA-LU