American Road & Transportation Builders Association

Transportation Investment Can Make a Significant Contribution to Economic Recovery and Job Creation

Presented to

Committee on Transportation and Infrastructure
U.S. House of Representatives

by

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October 29, 2008

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Mr. Chairman, Congressman Mica and members of the Transportation and Infrastructure Committee, on behalf of the 5,000 members of the American Road and Transportation Builders Association, I want to thank you for inviting me to testify on economic recovery and job creation legislation. Our members greatly appreciate this Committee's initiative to include transportation investments in the proposed legislation. Investments in transportation infrastructure not only will generate thousands of new jobs in the short run, but benefit the economy and all Americans for many years afterward.

My name is William Buechner. I am a professional economist and have been ARTBA's Vice President for Economics and Research for 12 years. Prior to joining ARTBA in 1996, I served 21 years as a member of the core economics staff of the Congressional Joint Economic Committee, where I staffed more than 300 hearings on economic policy, unemployment, inflation and investment policy, among a wide range of other topics. I earned my Ph.D. in economics at Harvard University, where I served as senior research associate for the late John Kenneth Galbraith.

I am not an economic forecaster, but there is little question that the U.S. economy is currently being battered by problems that could lead to a serious recession. Some analysts are predicting the unemployment rate could rise to eight percent or higher before this is over and that recovery from the downturn could be a year or more in coming.

The U.S. economy would benefit from enactment of significant economic recovery and job creation legislation, as Federal Reserve Board Chairman Ben Bernanke has recently testified. It is well understood that when consumer spending turns down, homebuilding turns down, business investment turns down, and when overall economic activity is falling, the government can step in and temporarily support demand with provisions like extended unemployment benefits, housing assistance, middle-class tax cuts, and increased investment in infrastructure and public works.

For the rest of this testimony, I would like to focus on the last issue and explain how transportation investment could be a significant part of economic recovery and job creation legislation.

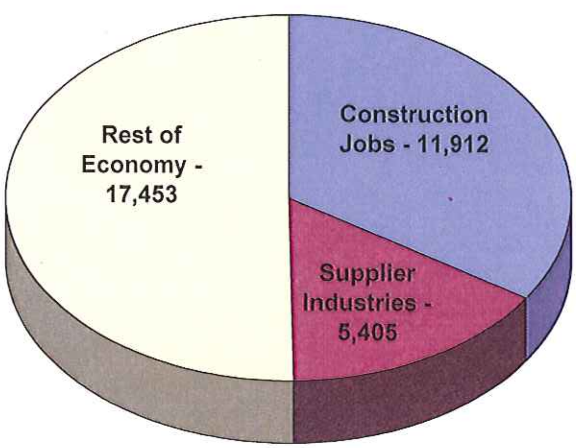
Workers in the U.S. construction industry have, so far, borne the brunt of the current economic crisis. Although the national unemployment rate is just over six percent, **the unemployment rate among construction workers in September was 9.9 percent, almost four percentage points higher than for the economy as a whole**. Economy-wide, more than 970,000 experienced construction workers are currently unemployed including workers shed by the depressed homebuilding industry and the general building industry. During the past three years, highway construction contractors have shrunk their payrolls by 30,000 workers as state and local highway agencies have postponed projects in response to skyrocketing construction costs and tight budgets. **In ARTBA's own quarterly survey of transportation construction contractors, 60 percent of respondents said employment was lower in the third quarter of 2008 than the same quarter of 2007 versus 12 percent reporting higher employment, one of the largest gaps for this measure in the history of our industry conditions survey.** A targeted transportation component in economic recovery legislation would help put these workers back on the job.

Transportation contractors have the capacity for a significant amount of additional construction work. According to ARTBA's latest quarterly industry conditions survey, many transportation construction contractors are operating well below capacity and are eager to take on new work. **Thirty-six percent of surveyed construction firms are operating at 75 percent of capacity or less. This is up from twenty-seven percent in the second quarter of 2008 and the highest report of unused capacity in the history of ARTBA's survey.** On the other end of the scale, only three percent of respondents said they were operating at full capacity in the third quarter, one of the lowest responses we have ever seen in our quarterly survey. With significant available capacity in the industry, there is no question that additional federal transportation investment as part of an economic recovery bill will create jobs that would not otherwise exist.

Thousands of appropriate transportation construction projects are ready to go. Critics argue that transportation projects take a long time to plan and construct and thus are not suitable for an economic recovery and job creation bill. This negative argument assumes that transportation spending in such legislation would target the same mix of projects as the regular federal highway program and other transportation investment programs. But that is clearly not what we are talking about. The regular federal transportation programs focus on major construction projects that require complex plans and environmental reviews and often take years to complete. **An economic recovery and job creation bill should focus on projects ready to go to construction in a very short time—"no-plan" projects requiring minimal engineering such as highway overlays, highway milling and resurfacing, runway resurfacing, bridge deck repairs, bridge painting and scraping, safety improvements, and highway striping, guardrail installation, and signage.** And there are plenty of such projects. Earlier this year, the American Association of State Highway and Transportation Officials (AASHTO) surveyed its members and found more than 3,000 highway projects totaling about $18 billion that could be under construction within 60 to 90 days after enactment of economic recovery legislation. There are likely to be similar ready-to-go projects at many of the nation's airports and local transit systems. In southern states, projects could be underway very quickly. In northern states, projects could be underway as soon as the snow melts. The spendout and job creation would be much faster than for the regular federal transportation improvement programs. **The argument that transportation projects take a long time to plan and execute does not apply** to the kinds of projects appropriate for economic recovery and job creation legislation.

Transportation investment in economic recovery and job creation legislation would generate thousands of new jobs. Periodically, the U.S. Department of Transportation calculates the number of jobs in the U.S. economy that are supported by federal highway investment. In its latest report, issued earlier this year, U.S. DOT found that every $1 billion of federal highway investment, when combined with required state matching funds, supports a total of 34,779 U.S. jobs. Many are well-paid highway construction jobs, as shown in the chart below. The rest are spread throughout the U.S. economy, either in supplier industries or in industries that benefit from the payrolls and spending of highway workers. While the U.S. DOT report emphasized the number of jobs supported by the ongoing level of federal highway investment, the results also mean that **every $1 billion of additional federal highway investment included in an economic recovery bill would generate 34,779 new jobs.** Investment in other transportation modes would generate a similar number of jobs. If the spending is temporary, the jobs will be temporary, but there is no question that new jobs will be created while the money is being spent.

U.S. Jobs Created by $1 Billion of Stimulus Spending on Highways



Source: FHWA

Job creation would begin even before construction starts. According to ARTBA contractors, materials suppliers and equipment manufacturers, **hiring in response to federal legislation often begins well before construction starts.** There are two triggers that signal contractors and suppliers to start adding employees. One is enactment of legislation providing additional financing for construction projects—stimulating suppliers of construction materials and equipment to begin building new inventory and expanding their labor force to meet the impending demand. The second occurs when state and local transportation agencies begin letting contracts for construction projects. **Weeks before construction begins, new employees need to be trained, all employees (even veterans) need safety training, machinery needs preventive maintenance, asphalt plants need to be reactivated, quarries need to be reopened or expanded, materials need to be purchase, equipment purchased or leased. All of this is economic activity—supporting or creating American jobs.** So, as soon as Congress passes economic recovery legislation with additional transportation investment, the job creation process will begin.

Jobs would be created in the U.S. By their very nature, **construction jobs cannot be exported. The jobs created by transportation construction projects in an economic recovery and job creation bill would be located in the U.S. and would employ American workers.** Unlike tax cuts which can be spent on imports, transportation investment would create thousands of well-paid on-site construction jobs in every state plus many other U.S. jobs producing the aggregates, construction machinery, asphalt, cement and other materials used in transportation projects.

Transportation spending would be targeted where need is greatest. One of the strengths of transportation investment in an economic recovery and job creation bill is that, unlike a general tax cut, the funds can be targeted where they will be most effective. Since construction is one of the weak areas of the economy right now, additional investment in highways and other ready-to-go transportation projects would help plug that hole. Furthermore, given the chronic gap between the current level of transportation investment and needs, the improvements resulting from additional transportation investment would be beneficial to the economy and all Americans in the long run as well.

Transportation investment has been used in the past to speed recovery and create jobs. During the severe 1982 recession, President Reagan and Congress worked together to increase the federal gas tax by five cents per gallon and expand federal highway investment more than 50 percent, from $8 billion in 1982 to more than $12 billion by 1985 – equivalent to a $21 billion increase in the federal highway program today. This bipartisan increase in federal highway investment helped boost employment in the construction industry by almost 20 percent between 1982 and 1985, or almost 700,000 jobs. **There is no substantive reason why the success of transportation investment in the 1982 economic recovery program could not be repeated today.**

Transportation provisions in an economic recovery and job creation bill should be crafted for maximum economic impact. To get the maximum job creation from transportation investments, the program should incorporate the following elements:

- **100 percent federal financing**. In an economic downturn, some state and local governments may not have the resources to meet the 20 percent matching requirement of the regular federal highway program. Generating matching funds would delay projects. To assure quick implementation of job creation legislation, the program should permit 100 percent federal financing of construction projects.

- **Maintenance of effort.** State and local transportation agencies should not be allowed to substitute federal job creation funds for their own transportation investment. The program should include a maintenance-of-effort provision, to assure economic recovery and job creation legislation actually creates new jobs. The maintenance of effort provision in the toll credit program could serve as a model.

- **Time certain for letting projects and completing construction.** The legislation should establish a deadline for letting transportation construction projects, to assure that the program begins creating jobs as soon as possible, as well as a deadline for completing construction, to assure that the economic impact occurs when the economy needs it most. If a state fails to meet a deadline, unused funds should be returned for redistribution to other states.

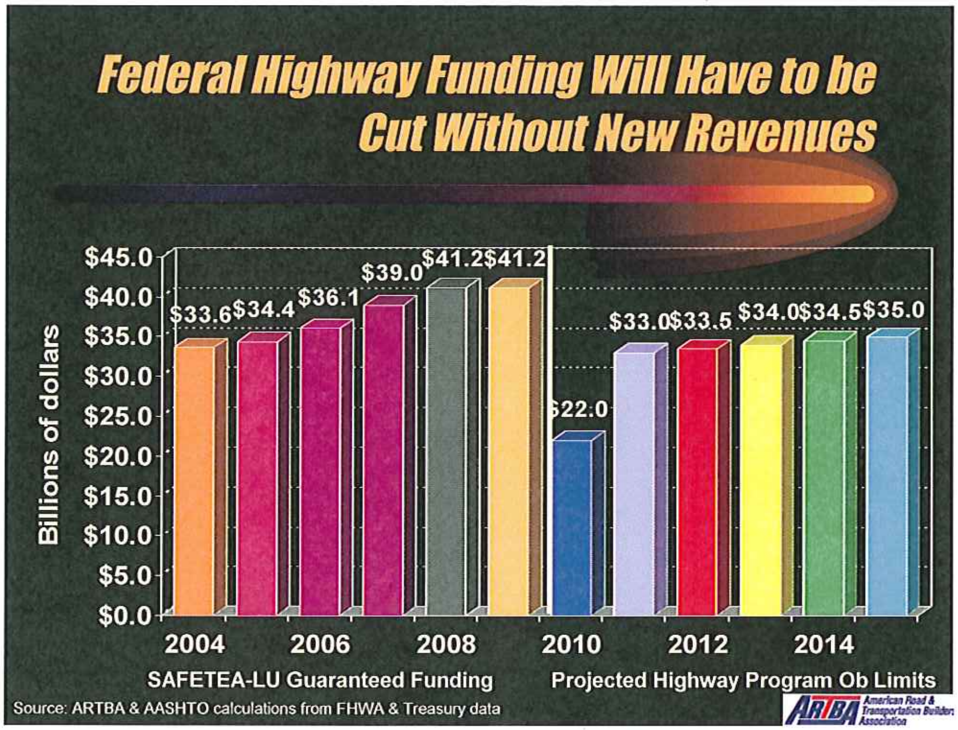
Transportation investment in economic recovery and job creation legislation should supplement, not supplant, reauthorization of the federal surface transportation and aviation programs. SAFETEA-LU, the 2005 act authorizing federal investment in highway and public transportation improvements for FY 2005-09, expires September 30, 2009. The Highway Trust Fund at that time will be left with a miniscule cash balance and a projected revenue stream that will be far less than needed to maintain existing investment levels. ARTBA and AASHTO calculate that the maximum possible highway program in FY 2010 will be $22.7 billion without new revenues. (See attached charts.) Every state would experience a 45 percent cut in federal highway program funding, threatening the loss of 700,000 jobs throughout the American economy. A similar cut would occur in the mass transit program a year later. **Economic recovery and job creation legislation can be a powerful tool for creating new transportation construction jobs in 2009, but it cannot substitute for timely reauthorization of the federal highway and public transportation programs to prevent the potential FY 2010 funding crisis from becoming a reality.**

This risk is compounded by the fact that state and local governments are faced today with their own budget crises. Falling home values and declining consumer expenditures are reducing state and local revenues from property and sales taxes. High gasoline prices, less driving, falling truck sales and plummeting new automobile purchases are cutting into the gas tax and vehicle registration fees most states depend on to fund highway and mass transit projects. At least twelve states have already begun paring their highway construction programs, as detailed in the attached supplement to this statement, and more are sure to follow.

The last time this combination occurred was in 2002 and 2003. The result was a decline in the value of construction work put in place on highways and bridges and falling employment that lasted until 2005 when an improving economy and enactment of SAFETEA-LU provided the foundation for renewed growth of highway and bridge construction activity.

In conclusion, **ARTBA urges Congress to include significant transportation investment in an economic recovery and job creation bill to help increase transportation construction activity and create new jobs in transportation construction as quickly as possible. In addition, Congress should enact new multi-year surface transportation authorization legislation in a timely manner to prevent a disastrous downturn in transportation construction employment in 2010, just as the economy is recovering from the current economic crisis.**

Mr. Chairman, again I thank you for inviting ARTBA to testify during this hearing and I would be happy to answer questions.


Federal Highway Funding Will Have to be Cut Without New Revenues
$45.0
$40.0
$35.0
$30.0
$25.0
$20.0
$15.0
$10.0
$5.0
$0.0
Billions of dollars
$33.6
$34.4
$36.1
$39.0
$41.2
$41.2
$22.0
$33.0
$33.5
$34.0
$34.5
$35.0
2004
2006
2008
2010
2012
2014
SAFETEA-LU Guaranteed Funding
Projected Highway Program Ob Limits
Source: ARTBA & AASHTO calculations from FHWA & Treasury data
ARTBA


Federal Transit Program Would Sustain A Significant Reduction in 2011
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
Billions of dollars
$8.3
$8.6
$9.9
$9.0
$9.5
$10.3
$10.3
$4.9
$5.0
$5.5
$6.0
$6.5
2004
2006
2008
2010
2012
2014
SAFETEA-LU Transit Funding
Projected Transit Program Funding
Source: ARTBA & AASHTO calculations from FHWA & Treasury data
ARTBA

State Transportation Spending Cuts

As of October 20, 2008

Alabama:

- The number of road-building projects funded by the Alabama Department of Transportation dropped significantly through the first half of this year because of the rising cost of fuel and petroleum-based construction materials.
- With motorists driving fewer miles in the face of rising gasoline and diesel fuel prices, fuel tax revenues are down and the number of construction contracts has declined steadily since the first of the year. There were 31 contracts in January, 51 in February, 49 in March, 25 in April, 28 in May and 15 in June.
- ALDOT sought bids in 2002 for 440 transportation projects. The agency contracted 250 fewer projects in 2007, and it's on a pace to have even fewer this year.

Source: *The Birmingham News*. July 29, 2008

- "Our biggest issue is cost escalations due to materials, and our fuel and asphalt indexes are really driving our overruns thru the roof. This will impact our program in that we won't be able to do as many projects.
- Projects have declined while dollars increase or stay level over time. So far through 2008 (which ended our year on September 30) – 311 projects for \$603m."

Source: Alabama Road Builders Association. Oct. 17, 2008

Arizona:

- "The proposed South Mountain Freeway could be scaled back, converted into a parkway or delayed further as the Valley faces a \$4.5 billion shortfall for transportation projects.
- [Eric Anderson, Maricopa Association of Government's transportation director] said a combination of declining sales tax revenues, rising construction costs and lower bonding capacity have created a funding deficit of at least \$3.8 billion but probably more like \$4.5 billion."

Source: *The Arizona Republic*. Oct. 16, 2008

Florida:

- "Massive transportation cuts could be coming to the state in 2009, the top official with the Florida Department of Transportation in Northeast Florida is warning.
- The possibility of budget cuts is leading county officials on the First Coast to seriously consider other ways to pay for transportation projects, including tax hikes and toll roads.

- FDOT District 2 Secretary Charles Baldwin and others believe the state will deal with a projected $4 billion budget deficit in 2009 primarily by cutting planned transportation projects. The state cut about $500 million from the $8.2 billion transportation budget in 2008.
- This means any construction project that has not started by the time the Legislature meets next spring is in danger of being cut or indefinitely delayed."

Source: *The Times-Union (Jacksonville).* Oct. 13, 2008

- "In FL our 5 year work program has taken a $5.2B cut since November 06. In addition our Turnpike just announced a cut of $1.2B in its 5 year work plan."

Source: Florida Transportation Builders' Association. Oct. 16, 2008

Idaho:

- "Worries about the economy and dwindling federal highway spending, along with delays on a North Idaho project, prompted the Idaho Transportation Board on Wednesday to slash the amount of money it hopes to borrow in 2009 to pay for ambitious Idaho highway projects.
- The board voted to cut $174 million from its planned road request for 2009 financed with bonds backed by federal highway payments. Instead of asking lawmakers to approve $299 million in new debt as long planned, the board will seek $125 million."

Source: *Idaho Statesman.* Sept. 18, 2008

Maine:

- "Liquid asphalt, a base for mixing asphalt, has more than doubled in price since early this year, jumping from $307 in January to $765 per ton last month, according to DOT. The transportation agency last month announced the cost increase forced it to suspend 85 miles of planned road paving this year, work that carried a price tag of $13.6 million.
- Some are cutting back or delaying paving projects in the hope that prices will fall, according to Pete Coughlan, a DOT official who works directly with municipal officials. And put off those repairs too long, DOT Deputy Commissioner Gregory G. Nadeau said, and the cost of rehab increases exponentially -- hardly a desirable scenario when revenues are flat or decreasing."

Source: *Kennebec Journal.* Sept. 8, 2008

Maryland:

- "MD Gov. Martin O'Malley plans to announce ... that his administration will delay $1.1 billion in transportation projects over the next six years.
- The projects are funded through a transportation account distinct from the general budget."

Source: *Baltimore Sun*. Sept. 10, 2008

Michigan:

- "Michigan's annual state road and bridge program (MDOT) has seen a drop of over 24% since its high point in 2006. Local agencies have suggested that their losses have been even greater.
- As transportation funds plummet, the number of MI roads that have gone from good to poor condition has nearly doubled – from 11,499 in 2003 to 21,581 in 2007. Forty-five percent of MI's roads are expected to be poor condition by 2018. In addition, one in every six of the state's critical bridges is not scheduled for repair any time in the next five years due to a lack of funds.
- In 2004, it would have cost $3.7 billion to bring all MI roads that were in poor condition up to good condition. Today that figure has already ballooned to $6.6 billion and continues to escalate."

Source: Michigan Infrastructure & Transportation Association (MITA). Oct.17, 2008

Nevada:

- "Nevada's highway system needs about $11 billion between now and 2015. [Deputy Director for Engineering Kent Cooper] said the state's current revenue stream will fall more than $4 billion short of that. Nevada needs to spend at least $1.5 billion between now and 2014 on maintenance and preservation projects 'just to avoid increasing the backlog of pavement and bridge maintenance needs.'
- Unfortunately, one of the things NDOT gave up to meet its share of budget cuts mandated by the governor's office, was the lion's share of its maintenance budget. Director Susan Martinovich said that means NDOT will have to get creative to extend the life and usability of Nevada roads until the economy turns around.
- Martinovich told the board one of Nevada's problems is the state fuel tax is a flat 18.4 cents a gallon where many other states get a percentage. With people driving less, Nevada has actually seen its gas tax revenue drop."

Source: *Nevada Appeal*. Sept. 17, 2008

New York:

- "Citing tough economic times and the high cost of asphalt, the state Department of Transportation plans to eliminate nearly 10 percent of its projects because its budget isn't going as far as expected.
- At the same time the state Thruway Authority is canceling $250 million worth of projects scheduled through 2011, including rebuilding and resurfacing roadways and bridges, and county highway superintendents are looking to scale back local projects, as well."

Source: *The Citizen (Albany, NY)*. Oct. 14, 3008

North Carolina:

- "North Carolina's road-building and transportation budget is being cut by $50 million, a number that could easily grow to $200 million for the year, as state officials react to declining tax revenue.
- Transportation Secretary Lyndo Tippett enacted 6 percent cuts in spending this week. He said no highway construction projects have been delayed so far, but he anticipates the reductions eventually will cause delays.
- The 6 percent reduction mirrors the decline in combined revenue from the state's gas tax and the highway use tax, which is applied to car purchases.
- If tax revenue remains down at the current level, the department will have to cut $200 million by June 30 of next year. Further declines will prompt deeper cuts."

Source: *The Charlotte Observer*. Oct. 17, 2008

Pennsylvania:

- "Since the federal government put the brakes on adding tolls to Interstate 80, Pennsylvania is looking at having the money available for transportation needs cut in half by July 2010.
- If I-80 isn't tolled, funding will drop to $250 million a year for transit and to $200 million a year for highways and bridges, said Rich Kirkpatrick, a spokesman for the state Department of Transportation."

Source: *The Patriot News*. Oct. 20, 2008.

Virginia:

- "Virginia's transportation revenues are expected to decrease by up to $2.6 billion over the next six years, putting the brakes on most new highway construction and probably hurting services ranging from rest stop operations to roadside mowing, the state's top transportation officials said Wednesday."
- The Commonwealth Transportation Board will decide later exactly which projects in the six-year highway construction plan will be scrapped or delayed. Virginia's

transportation revenues had been projected at about $25 billion over the next six years

- [Secretary of Transportation Pierce Homer and Virginia Department of Transportation Commissioner David Ekern] cited the faltering national economy and decreasing gasoline and automobile sales tax collections as the chief reason for a downward adjustment of $2.1 billion to $2.6 billion. The reductions are on top of June's $1.1 billion cut in the six-year highway plan. That program, which now stands at $7.9 billion, will be slashed an additional $1.1 billion to $1.6 billion."

Source: *The Virginia Pilot*. Oct. 15, 2008.

- "State and federal revenues are projected to be between $2.1 and $2.6 billion less over the next six years. We must make $227 million in reductions for the rest of this fiscal year alone."

Source: Statement by David Ekern, P.E., VDOT Commissioner. Oct. 15, 2008

West Virginia:

- "To deal with declining revenue and higher expenses for construction materials, the state highways department will focus on maintaining roads and bridges instead of building new ones, officials said.
- The main source of funding for Division of Highways, the state Road Fund, is projected to slowly but steadily decline as high gas prices reduce travel. That will reduce revenue from the state gas tax, the major component of the fund.
- Projections are that the Road Fund will decline from $660 million in the current budget year to $648 million in fiscal 2012-13, as drivers cut back on travel and gradually switch to more fuel-efficient vehicles."

Source: *Charleston Daily Mail*. July 30, 2008