Construction Equipment Guide

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Congress Punts on Six-Year Highway Bill

By: Pete Sigmund

A new six-year highway and surface transportation bill, which may be enacted within the next six months, would have to increase infrastructure spending to almost half a trillion dollars to meet critical needs of roads, bridges, mass transit and other vital sectors.

The previous "SAFETEA-LU" act, which expired Sept. 30, 2009, authorized $286 billion. Funding a large increase in a fragile and politically contentious climate will be a huge issue.

"The numbers which are circulating on Capitol Hill are between $450 billion and $500 billion for the life of the next multi-year bill," said Jeff Solsby, director of public affairs of the American Road & Transportation Builders Association (ARTBA) in Washington, D.C. "It's not outside the realm of possibility that a bill will be passed before the end of 2010 but, more realistically, it could be passed in a period of time between now and next spring."

Rep. James Oberstar (D- Minn.), chairman of the House Transportation Committee, had proposed a $450 billion bill last year, but it was bypassed in the urgent focus on health care reform.

"Mr. Oberstar's bill comes pretty close to what the federal share should be to meet highway maintenance needs, said Dr. William Buechner, ARTBA's vice president of economics and research. "We're falling short by $30 billion to $40 billion a year from what we should be doing."

Whether a large amount will be authorized is a big question. The mid-term elections on Nov. 2 loom over everything.

"The likelihood that the House will be controlled by Republicans, bringing a change of dynamics, is pretty high," said Jason Langford, manager of government affairs at the Washington, D.C., office of the Associated Equipment Distributors (AED). "If the GOP took over the House, and included several Tea Party types, that will generate hostility towards new spending bills or any spending, which is not offset by cuts in other places. It's purely speculation, but my guess is that, if this happens, then seeing a bill that high ($450 billion) isn't likely. The funding would probably be close to what was authorized in the previous bill in 2005."

(Appropriations under SAFETEA-LU averaged $42-billion per year. These were supplemented by a separate $27.5 billion for highways under the American Recovery and Reinvestment Act (ARRA) stimulus program begun in 2009.)

Action Required

Highway and bridge construction has been funded by five short-term extensions since the previous highway and surface transportation act expired. These have continued funding at the previously authorized levels. The last of these extensions expires Dec. 31, 2010, requiring that a new law, or extension, be passed by a "lame duck" session of Congress between the mid-term elections and when the next Congress (the 112th) is sworn in during January. (No serious work on a highway bill is foreseen before the elections, which will occupy the attention of Congress until November.) The lame duck sessions would meet for a week in mid-November and then again in early December.

"Congress must do something before the new year," said Langford. "They could do a short-term extension into early next year, a mid-range extension of about one year, or they could possibly kick it into 2012 in a multi-year extension until after the presidential election. We're guessing there will be an extension sometime next year."

In a Labor Day speech in Milwaukee, Wis., President Obama proposed spending $50 billion "up front" (probably during the first year of a new six-year bill). In a new twist, he said this would be "fully paid for" by eliminating tax breaks and subsidies for the oil and gas industry.

"I don't think the lame duck Congress would consider a new bill since the Obama Administration hasn't provided any detail on what they want," said Ken Simonson, chief economist of the Associated General Contractors of America (AGC) in Arlington, Va. "Usually Congress doesn't get going [on a new bill] until it has a blueprint from the Administration. I think it will pass some sort of extension by Dec. 31 and enact a new bill several months after the Administration prints its new budget next February."

Enormous Infrastructure Needs

One thing is certain: Infrastructure needs, and requisite funding, are enormous.

Citing the recently released 2008 Department of Transportation report to Congress on the status of roads, bridges and transit, **The Road Information Program (TRIP)** in Washington, D.C., said in a September, 2010, report on America's Roughest Rides: "The DOT study estimates that the annual investment needed to maintain urban roads and highways (excluding bridges) in their current condition is $26.6 billion annually — a 90 percent increase in annual funding." TRIP said the annual investment to significantly improve the condition of these roads is $39 billion annually — a 171 percent increase in annual funding."

"Pavement conditions are likely to worsen under current funding levels," TRIP said. "Through 2025, the U.S. faces a $189-billion shortfall in the cost to maintain urban roadways in their current condition and a $375-billion shortfall in the cost to make significant improvements to urban roadways."

TRIP research shows that overall vehicle travel increased by 39 percent from 1990 to 2008 and is expected to increase another 35 percent by 2030.

Urban roadways carry 78 percent of the approximately 2 trillion miles driven each year in urban America.

ARTBA's Buechner performed a separate analysis of the DOT report in order to determine the funding needed to prevent congestion from worsening, rather than DOT's target of maintaining user costs. Buechner said the anti-congestion goal "would require an annual investment of $119.5 billion," adding that federal highway funding in the next highway bill should start at $69.5 billion, at minimum, and grow to $76.3 billion by 2015 just to maintain physical conditions and operating performance. (Buechner's analysis assumes that the federal highway program continues to cover 42.5 percent of highway and bridge investment.)

When costs of potential improvements are factored in, Buechner said federal highway spending would have to grow from $92.3 billion in Fiscal 2010 to $101.3 billion by Fiscal 2015, more than double the current level of federal highway investment.

The American Society of Civil Engineers, in its annual "report card," gives a failed grade to the nation's entire infrastructure while The American Association of State Highway and Transportation Officials (AASHTO) lists $80 billion of projects that need to be worked on.

"In the last 20 years we've seen vehicle-miles double, cars on the road double and available transportation infrastructure capacity increase by (only) six percent," said ARTBA's Solesby. "We are choking on our own success. We have a real infrastructure-capacity crisis while India, the European Union and other global competitors are investing king's ransom money in infrastructure not just for their own betterment but to compete with us. They're eating our lunch, and likely our breakfast and dinner too. If we are going to compete in the global economy, we must start to match the investments of our competitors. It's no secret that they have stolen the playbook, which we put together with our development and infrastructure system."

Nick Yaksich, vice president of global public policy at the Washington, D.C., office of the Association of Equipment Manufacturers (AEM), said: "We need a long-term six-year [highway and bridge] investment so that contractors can make proper investment decisions. If they know they have six years of work, they will buy cranes and other equipment to do that work. Equipment manufacturing revenue has declined about 50 percent, from about $120 billion in 2008 to about $60 billion in 2009."

President Obama, in his Labor Day speech, highlighted the need to fix 150,000 miles of roads, lay or rebuild 4,000 miles of railroad track and refurbish some 150 miles of airport runways.

Raise the Gas Tax?

How would Congress fund a vastly expanded highway and bridge program over the next six years? Many construction industry organizations are calling for increasing the federal tax on gasoline, perhaps by 10 to 13 cents per gallon.

"The funding needs, which we have are greater than any one source is capable of generating," said Solsby. "All options, including infrastructure banks, need to be on the table. No one will say the gas tax isn't very effective and very viable in continuing to provide substantial revenue on a year-to-year basis. The challenge is that you see an erosion of purchasing power in that revenue, an increase in the cost of materials, and increase in fuel efficiency, and some inflation. The revenue we're taking in is far outpaced by the needs — the conditions and performance currently in the system."

Declared ARTBA's Buechner: "Highway construction is financed by user fees. The problem is that gas tax revenues aren't enough for continued funding at the current level. If Congress doesn't enact some kind of user fee, which enhances revenue into the Highway Trust Fund, it doesn't have a lot of options. One is to cut back on the federal highway program. The other is to dip into the General Fund, which would impact the deficit. It's not a pretty picture. ARTBA supports the gas tax as the fastest, easiest way to go, but, politically, it would be a very difficult way to go. They have to come up with something."

Some economists are saying that, without increasing taxes on both the top and middle- income tax brackets, the deficit could double to $3 trillion by 2020, endangering infrastructure and other programs.

Infrastructure Bank Approach

In his Labor Day speech, President Obama backed more infrastructure banks — public/private partnerships, which fund projects with private, rather than federal or state, money.

Directed by the federal government, infrastructure banks, under some proposals, would be part of the U.S. Treasury, pooling tax dollars with private investment from institutional investors to fund highway and other infrastructure projects. Proponents say a panel would approve projects on merit, rather than depending on political power in Congress.

"It [the bank] will change the way Washington spends your tax dollars," Obama said in his Milwaukee speech, "reforming the haphazard and patchwork way we fund and maintain our infrastructure to focus less on earmarks and outdated formulas and more on competition and innovation that gives us the best bang for the buck."

Advocates of the infrastructure bank include Gov. Arnold Schwarzenegger (R.- Calif.), Gov. Edward Rendell (D-Pa,) and Michael Bloomberg, the independent mayor of New York. Completed projects might charge fees, taxes or tolls.

"Keep in mind that the federal government provides about 40 percent of highway funding nationwide, the other sources being a match from state and local governments or some combination thereof," said Solsby. "We're going to have to dig a deep well to go back to and that will require a lot of sources. Some smaller examples [of the bank] are in place at the state and local level, but nothing has been assembled at this larger federal level. However, to put this into perspective, the total availability of private money for transportation infrastructure would only meet about 15 percent of the total need."

Commented AEM's Yaksich: "The infrastructure bank would be a significant change, taking some of the decision-making away from Congress and putting it into the bankers' hands. I don't think Congress is going to be inclined to support that. Ultimately, it's still deficit spending, collecting some user fees, paying back into the bank, but not paying back as much as you're taking out."

High Stakes

The construction industry has been hard-hit by the recession, which ended in June of last year. Unemployment in the industry has averaged 18 percent. Recovery has been slow. In 2009, the construction equipment industry had lost 40 percent of its workforce from 2006 levels.

A new well funded highway and surface transportation bill will be a positive step forward.