"Infrastructure: The Road to Recovery"

Testimony Presented to the Committee on Environment & Public Works
United States Senate

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Chairman Barrasso and Ranking Member Carper, thank you for convening today's hearing. I am Steve McGough, President & Chief Financial Officer of Houston-based construction software developer HCSS and am also proud to serve as the chairman of the American Road & Transportation Builders Association (ARTBA).

Your leadership in approving America's Transportation Infrastructure Act (ATIA) almost a year ago was a commendable and proactive step toward responsible government. Today, your bipartisan initiative provides a unique and foundational path forward to rebuilding from economic devastation no one could have foreseen 10 months ago. It is my pleasure to work with you now, and in the months to come, to demonstrate the economic imperative for a robust federal surface transportation program reauthorization.

Established in 1902, ARTBA is the oldest national transportation construction-related association. Our more than 8,000 members include public agencies and private firms and organizations that own, plan, design, supply and construct transportation projects throughout the country and world. The industry we represent generates $580 billion annually in U.S. economic activity and sustains more than four million American jobs.

COVID-19 altered every aspect of our daily lives, but one fact remains unchanged: America's infrastructure system is in dire need of repair. As Congress begins to turn toward recovery measures, the transportation construction industry is not here today asking for federal relief. Instead, we urge Congress and President Trump to utilize strategic investments in infrastructure to spur the meaningful economic boost the nation desperately needs.

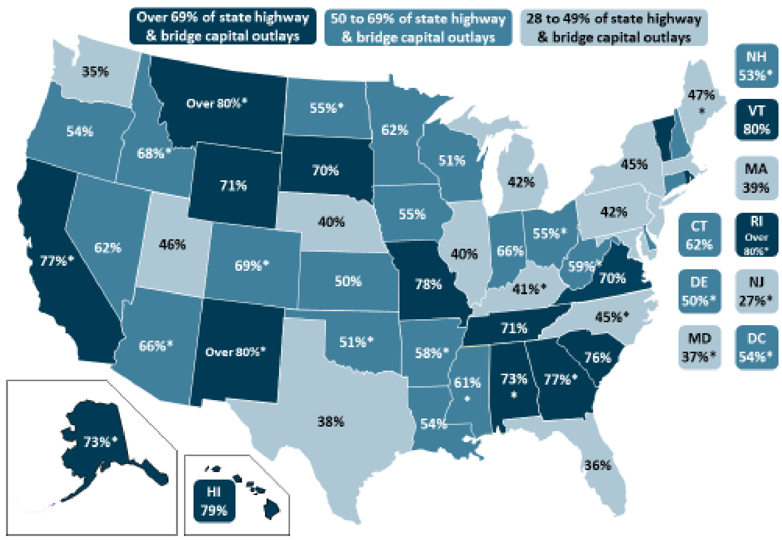
With over three decades in the business, I can say with confidence transportation construction is an industry of problem solvers. Today, our nation faces extraordinary challenges, and I know the problem solvers who design, build and supply our roads, bridges and transit systems are eager to help reopen, renew and revitalize the economy.

New Dashboard: 50-State Guide to Benefits of Federal Highway Investment

Since the 1956 Federal-Aid Highway Act, surface transportation investment has supported the construction of the Interstate Highway System and the other major highways and bridges that are the foundation of our modern economy. In fact, as the figure below in Exhibit 1 demonstrates, most states rely on federal funds to support the majority of highway and bridge capital outlays.

With 16 states relying on federal funds for 69 percent or more of the annual highway construction spending and another 20 states where federal resources constitute between 50 and 69 percent of their highway capital expenditures, the importance of federal highway investment to the nation is irrefutable.

Exhibit 1: Federal funds, on average, provide 51% of annual State DOT capital outlays for highway & bridge projects



Source: ARTBA analysis of FHWA Highway Statistics data, total ten year average 2008-2017 from tables SF-1 and SF-2. The percent is the ratio of federal aid reimbursements to the state and total state capital outlays and is indicative of the importance of the federal aid program to state capital spending for highways and bridges. Does not include local capital spending. Federal highway reimbursements are primarily used for capital outlays, including construction, right of way and engineering, but are also used for debt service for GARVEE bonds.

* States that have issued GARVEE bonds before 2014.

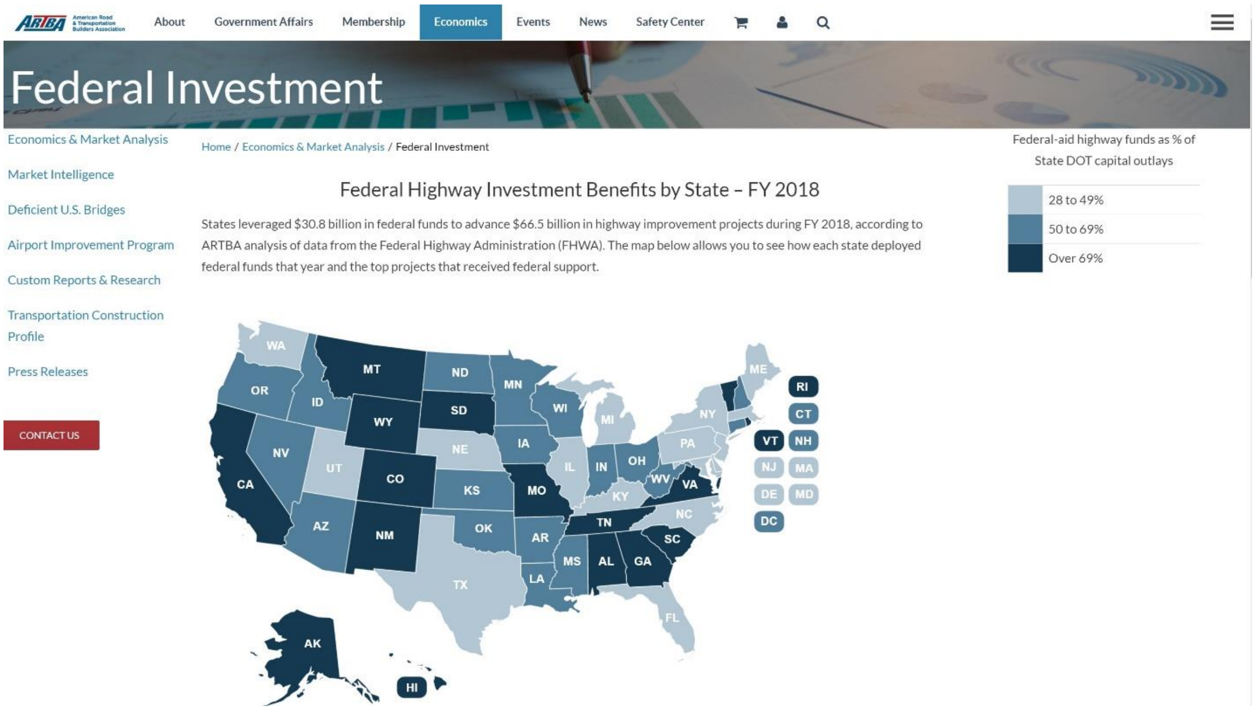
Many Americans, however, do not fully understand how important federal highway and bridge investment is to their communities and how, specifically, they routinely benefit from this program. One of the key attributes of 2009's American Recovery & Reinvestment Act (ARRA), commonly known as the "stimulus," was the requirement that the U.S. Department of Transportation (DOT) and states report, in real time, on the capital improvements and projects being supported by its highway funds.

This transparency was not permanent, and unfortunately, we still do not have easy access to detailed project data. Similarly, nearly every state transportation revenue or funding campaign over the last decade has been centered on the outcomes and projects that would be delivered. By contrast, the deliverables for the vast majority of federal highway investment exist only in apportionment and obligation tables. To rectify this situation, ARTBA created a searchable, customized dashboard of federal-aid projects dating back to 1950.

Through a Freedom of Information Act request, ARTBA received a download of FHWA's Fiscal Management Information System–the database used to track information on federal-aid projects.

The ARTBA Highway Dashboard features the major projects that moved forward and received approval from FHWA in each state for Fiscal Year 2018, the most recent available data.

Exhibit 2: Overview of ARTBA Highway Dashboard



Source: ARTBA Federal Investment in State Highway Benefits Dashboard

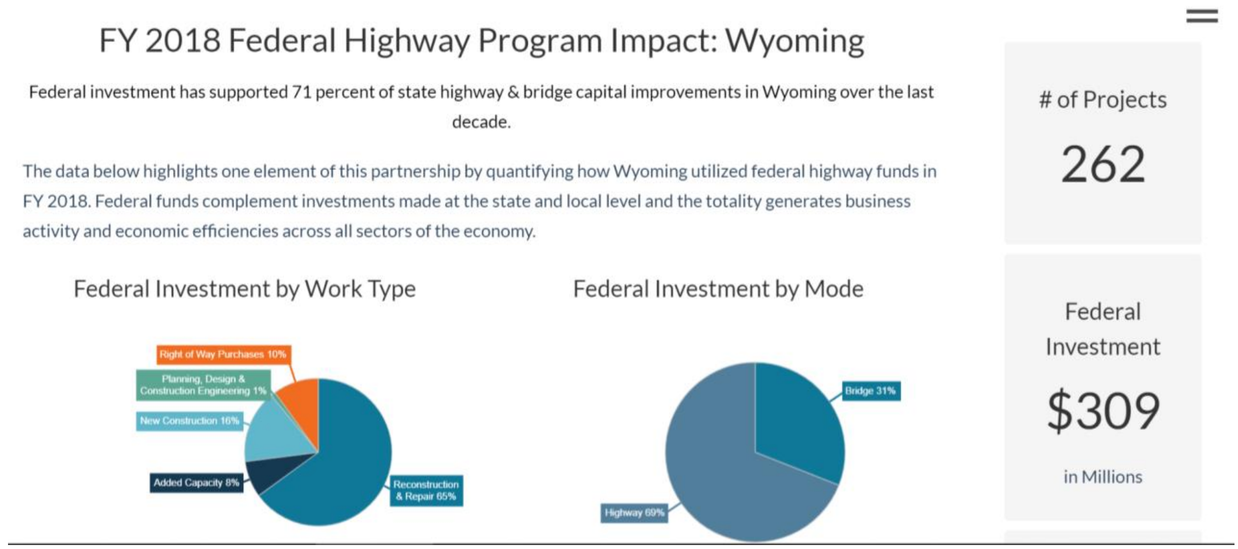
Rather than concentrate on distribution formulas and grant announcements, the portal is focused on the outcome of the program–the actual projects and improvements supported by federal investment.

The new ARTBA analysis and reporting of the data clearly demonstrates how states are leveraging their federal resources to deliver valuable economic and quality of life enhancements for your constituents. Specifically, the dashboard highlights the 10 largest projects that received federal aid, the breakdown of federal funds by spending category and the total number of projects supported in each of those areas.

For example, Wyoming in FY 2018 used $300 million in federal funds to support over 260 projects, as seen in Exhibit 3. This included work on I-80 and I-90. Most of the work–65 percent–was for major highway repair and reconstruction. Over half the value of the work–8 percent–included projects on the National Highway System, which includes the Interstates.

Over the last decade federal investment has accounted for an average of 71 percent of state highway and bridge capital improvements in Wyoming, including construction work, planning and design work and right of way purchases.

Exhibit 3: ARTBA Highway Dashboard – Wyoming



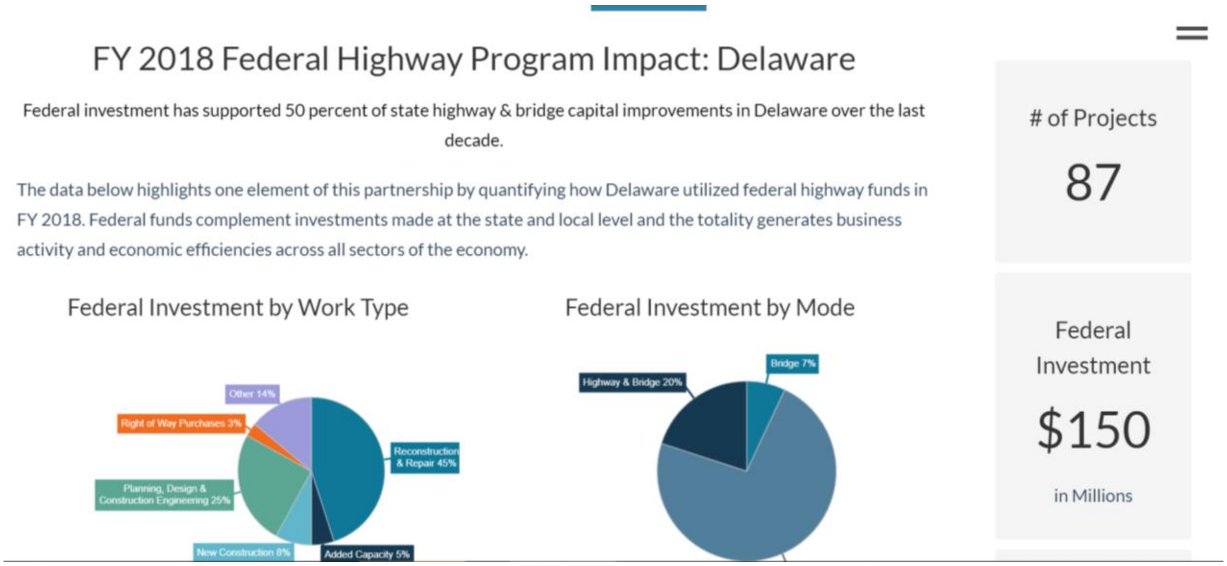
Source: ARTBA Federal Investment in State Highway Benefits Dashboard

Federal investment is also important to state highway and bridge construction in Delaware, as outlined in Exhibit 4. On average, federal funds account for 50 percent of the state's highway and bridge capital outlays.

The construction of the approaches to the Christina River Bridge is a major congestion-relief project in Delaware that will use $23.4 million in federal funds. This project is listed on the ARTBA Highway Dashboard as one of the major initiatives that moved forward in FY 2018.

Of the $269 million in highway and bridge construction projects that received federal funds, 45 percent will be invested on major repair and reconstruction work. Nearly half of the work is on the National Highway System.

Exhibit 4: ARTBA Highway Dashboard – Delaware



Source: ARTBA Federal Investment in State Highway Benefits Dashboard

The ARTBA Highway Dashboard provides access to the details about federal-aid projects that provide jobs, enhance business activity, and will improve the quality of life for citizens in every state. And for the first time, the public can navigate this information to understand the positive impact of the federal-aid highway program.

The application of the dashboard and its information to today's hearing and the future of the ATIA is clear. If states were able to deliver the type of meaningful outcomes shown on the ARTBA Highway Dashboard in 2018, imagine what they could accomplish with the type of investment increases proposed by the ATIA. This new tool will help policymakers and transportation advocates not only demonstrate the real-world impact of federal highway investment, but also illustrate what could be achievable with additional resources.

ATIA: A Solution in the Era of COVID-19

The COVID-19 related economic decline that began in March presents a generational challenge. But with that hardship comes a chance to chart a new course and create an economic resurgence with infrastructure at its core.

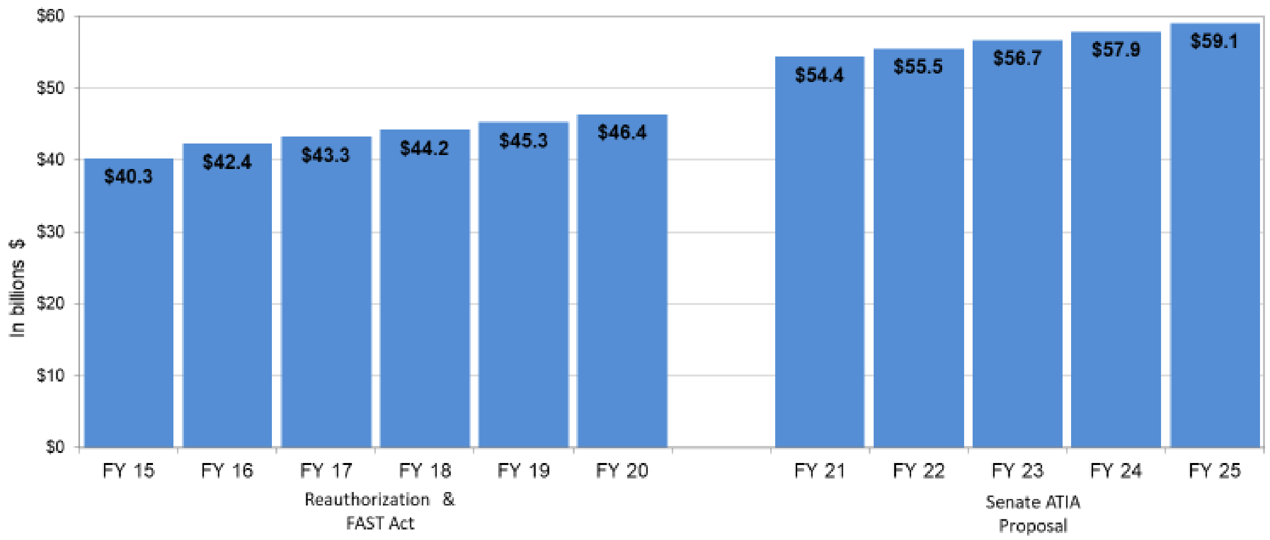
There are few public sector actions that can deliver the same level of short- and long-term economic benefits as transportation infrastructure investment. Increased construction activity provides immediate job creation and retention, while putting in place capital assets that support supply chain improvements and enable access to jobs, services, materials and markets for decades.

The Environment & Public Works (EPW) Committee has already taken action to facilitate such two-pronged economic growth with the July 2019 passage of S. 2302, the ATIA. As a result, this committee defied past practices and current perceptions by approving a multi-year reauthorization proposal 14 months in advance of a deadline and with unanimous bipartisan support. It is time for the other committees of jurisdiction and the full Senate to build on the work you started.

ATIA would enable meaningful enhancement to the nation's highway and bridge infrastructure network for the first time in nearly 15 years by increasing investment levels by 27 percent over its five-year duration, as shown in Exhibit 5. To put this growth in context, the figure below illustrates ATIA's annual investment levels and how they would compare to the previous five years of federal highway investment.

Nearly $250 billion of ATIA's $287 billion would be distributed directly to states using apportionment formulas from the 2015 *Fixing America's Surface Transportation (FAST)* Act surface transportation law. By utilizing established programs with known parameters like the Surface Transportation Block Grant program and the National Highway Freight Program, the Federal Highway Administration (FHWA) and state departments of transportation can ensure smooth and prompt implementation, fueling investment in capital improvement projects and expansion.

Exhibit 5: Federal Highway Program Obligation Limitation Under FAST Act and Senate ATIA Proposal



Source: FHWA final notices for annual highway program obligations.

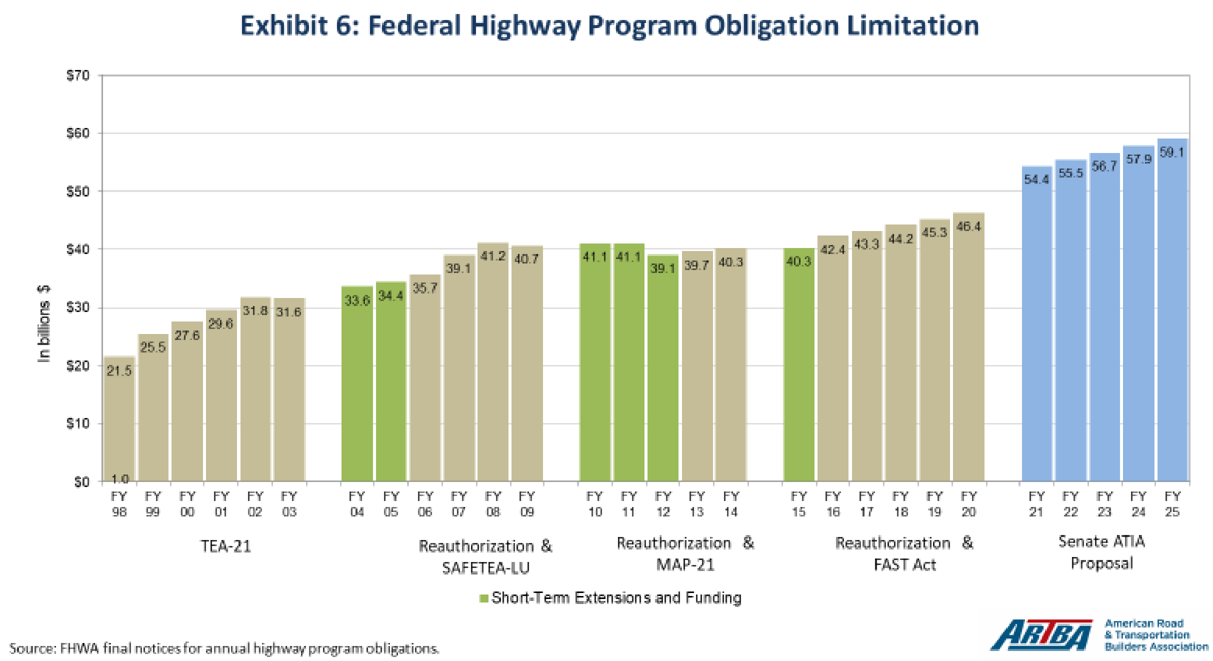
In addition to its investment levels, ATIA included policy reforms built on the experience of the last five years to maximize the impact of federal resources to create a 21st century infrastructure system. Enhanced project delivery reforms, such as codification of President Trump's Executive Order on "One Federal Decision," would reduce costs brought on by unexpected delays. By elevating the priority of the National Highway Freight Network, ATIA would support and improve goods movements. Improvements made to innovative financing programs, like streamlining and enhancing predictability in the application process, would attract new private capital.

The combination of historic investment levels with consensus policy reforms offer an opportunity to fuel economic growth and enhance the quality of life for all Americans for decades.

ATIA on an Unparalleled Path for Success

Few issues on Capitol Hill receive the consistent, sustained bipartisan support as infrastructure investment legislation. Bipartisanship has also been a frequent infrastructure talking point since the 2016 elections that deserves a further look under the lens of what could be achievable in the current political climate.

Exhibit 6 shows a comparison of the EPW-committee passed ATIA with the investment trajectory growths of previous highway program reauthorizations to reinforce the unprecedented opportunity it represents to spark the type of infrastructure renewal members of both parties and President Trump have routinely requested.



From a historical standpoint, prior surface transportation reauthorization bills demonstrate that broad-based support exists, regardless of which party is in control of the White House or the House or Senate. Each were passed by the Senate with lopsided vote tallies:

- 2005: *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users:* Roll Call 91-4

- 2012: *Moving Ahead for Progress in the 21st Century:* Roll Call 74-19
- 2015: *Fixing America's Surface Transportation Act:* Roll Call 83-16

The FAST Act is particularly instructive. It offered modest policy changes, as the reforms of the previous reauthorization measure were being implemented. Furthermore, its investment levels essentially preserved purchasing power. The measure garnered the support of 83 Senators.

Of the 83 Senators who supported the FAST Act, **66** are still serving in the 116th Congress.

It is also noteworthy that while multiple temporary program extensions have been the norm during the last three reauthorization cycles, the legislative lifespan of ATIA ends this year because a new Congress will convene in January 2021. This means there are two very explicit consequences of failing to enact this legislation in 2020: more uncertainty in the current environment; and sidelining the most robust reauthorization proposal in two decades.

If ATIA is not enacted this year, it could be resuscitated in the next Congress, but it might not be. Frankly, Mr. Chairman, this is not a risk we are prepared to take.

Any delay or inaction would not just waste an opportunity but would fuel further economic uncertainty when the nation cannot afford it. ATIA would provide substantial stability and resources at a time when state transportation budgets are already facing significant challenges due to reduced user fee revenues resulting from COVID-19 stay at home orders.

ATIA Immediate Economic Impact

There are two compelling reasons why elected officials from both parties and virtually every economic sector have been calling for increased federal infrastructure investment for the past four years: overwhelming need and unparalleled effectiveness. In addition to creating jobs and generating tax revenues throughout the economy during the construction cycle, infrastructure improvements foster and facilitate continued growth for decades to come.

In 2019, public highway and bridge construction activity and related capital outlays alone generated nearly $400 billion in economic activity across all sectors of the economy, and 2.8 million jobs were supported or created–with many of them outside of the construction industry. How does this ripple effect work? Highway, street, and bridge contractors purchase inputs, such as materials, from other businesses as they complete work on projects. These suppliers then purchase items from other firms, creating an indirect effect.

The employees of the construction firms and supplier industries spend their earnings by purchasing clothing, food and other goods and services, thereby creating induced demand in other sectors of the economy. As jobs are created or sustained, employees receive additional income, spend more, and businesses increase sales. Subsequently, taxes grow due to larger payroll and sales volumes, providing state and local municipalities with additional revenues to reinvest.

The benefits of direct construction expenditures are undeniable and compelling in their own right, but are far outweighed by the long-term economic efficiencies that result throughout the economy from upgraded highway and bridge infrastructure facilities. As repairs and upgrades are made to the highway, street, and bridge networks overseen by these public agencies, drivers, businesses, shippers and transit riders will save time and money.

These user benefits are a result of decreased congestion, less money spent on vehicle repairs, safer roads, and an improved infrastructure network. Economic studies suggest that a conservative estimate of economic return for major transportation capital investments are $4 in benefits for every $1 spent.[1]

This return can be even greater for individual projects of regional significance. A study commissioned by the U.S. Treasury Department found that for every $1 in capital spent on select projects, the net economic benefit ranged between $3.50 and $7.00.[2] Released in December 2016, "40 Proposed U.S. Transportation and Water Infrastructure Projects of Major Economic Significance" also explores some of the challenges of completing the work. The report found that a lack of public funding was "by far the most common factor hindering the completion" of the projects.

The importance of a robust transportation network has been well documented by business analysts, economists and the research community.[3] Overall estimates are that every $1 increase in the highway, street and bridge capital stock generates a total of 30 cents in business savings.[4]

Some of these specific benefits include staying competitive, increasing access to a larger labor pool, greater market share and access to more customers. By saving on travel times and with lower operating costs, businesses have additional capital to expand and reinvest. Businesses are more efficient, and regions with a strong infrastructure network will see the potential for like companies to locate near each other and form agglomeration economies.

But that is only a small part of the picture. Without the infrastructure built, maintained and managed by the nation's transportation construction industry, virtually all of the major industry sectors that comprise the U.S. economy—and the American jobs they sustain—would not exist or could not efficiently and profitably function.

More than 63 million American jobs in tourism, manufacturing, transportation and warehousing, agriculture and forestry, general construction, mining, retailing and wholesaling are dependent on the work done by the U.S. transportation construction industry.

[1] R. Shapiro and K. Hassett, "Healthy Returns: The Economic Impact of Public Investment in Surface Transportation," 2005.

[2] Report available at https://www.treasury.gov/connect/blog/Pages/Importance-of-Infrastructure-Investment-for-Spurring-Growth-.aspx as of February 2017.

[3] Glen Weisbrod, Don Very, & George Treyz, "Measuring Economic Costs of Urban Traffic Congestion to Business."

[4] Nadiri, M. Ishaq and Theofanis P. Mamuneas, "Contribution of Highway Capital to Output and Productivity Growth in the U.S. Economy and Industries," Federal Highway Administration, 1998.

As these sectors begin to recover from the job losses or slowdowns caused by the pandemic, lower transportation costs and an improved infrastructure network will help that process.

ATIA Long-Term Economy-Wide Impacts

ATIA investment would be focused on the major highways and bridges that are the core of the U.S. economy. The Interstate and National Highway System are critical for the movement of freight across the country. According to FHWA's Freight Analysis Framework, truck shipments account for 73 percent of the value of domestic freight.

In FY 2018, according to the ARTBA Highway Dashboard, state governments invested nearly two-thirds of their federal dollars in projects on the Interstate or National Highway System. Nearly half of the projects–45 percent–were for repair or reconstruction work. An additional 22 percent of funds were used for adding capacity, such as a new lane or major widening, to an existing roadway. Just four percent of funds were invested in new roads or bridges.

FHWA estimates the number of National Highway System miles carrying large volumes and high percentages of trucks is projected to more than double by 2045. Currently there are 6,229 miles on the National Highway System that carry over 8,500 trucks per day and at least every fourth vehicle is a truck. This is expected to increase 104 percent to 12,729 in 2045.

According to INRIX's 2019 Global Traffic Scorecard, traffic congestion cost Americans $88 billion. It is important to understand, however, the true costs of wasted time and fuel are borne by the entities that utilize highway freight as a critical component of their daily operations.

While it is intuitive that freight bottlenecks and other inefficiencies impact all sectors of the economy, the Bureau of Transportation Statistics (BTS) *"Industry Snapshots: Uses of Transportation 2017"* report quantifies the importance of highway freight throughout the economy. According to BTS, the wholesale and retail trade sector is the U.S. economy's largest user of transportation services and goods movement on the nation's highways accounts for 58 percent of its transportation expenditures. The second largest transportation user is the services sector and highway shipments represent 44.4 percent of its total transportation costs. Manufacturing is the third largest user of transportation services and the sector utilizes highways for 65 percent of its transportation needs.

The 27 percent increase in federal investment under ATIA would provide states with needed resources to make improvements to these important roads that connect the U.S. economy. The range of direct and indirect economic benefits these resources could stimulate underscores the scope of opportunities before the Senate and should be a clarion call to all for immediate action.

Confronting the Immediate Challenge

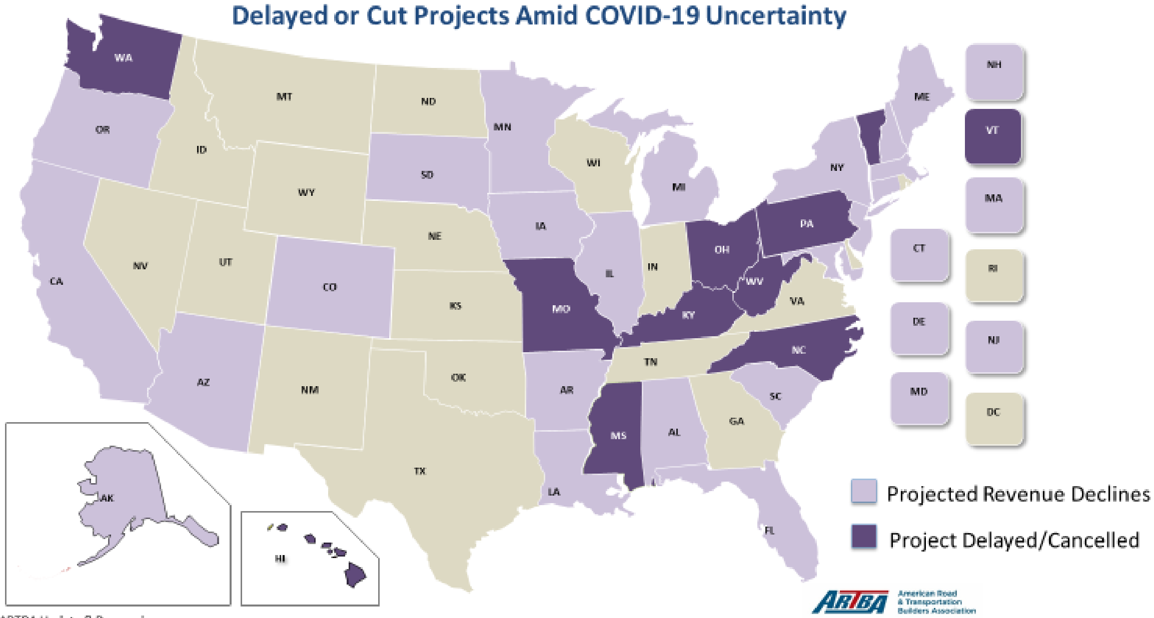
We have focused on the importance of long-term transportation investment and danger of continued underinvestment. However, state transportation programs and the transportation construction industry also face daunting, short-term challenges.

While many projects continue, state and local governments and transportation authorities are beginning to feel the strain of declining revenues related to user fees and the overall slowdown in economic activity.

They have begun to provide more detailed information about expected declines in transportation revenue and changes to current transportation construction programs and lettings as the COVID-19 pandemic continues.

- Currently, 10 states have announced project delays or cancellations valued at nearly $4.02 billion. These include Hawaii, Kentucky, Mississippi, Missouri, North Carolina, Ohio, Pennsylvania, Vermont, Washington and West Virginia.
- There are 15 local governments that have announced project delays or cancellations of $1.02 billion.
- Ten states or local areas have vetoed, canceled, or postponed legislative initiatives or ballot measures related to transportation funding because of the pandemic. This includes several major initiatives in California self-help counties.
- In at least 32 states, detailed in Exhibit 7, transportation authorities and local governments have publicly projected declining revenues. This does not mean that transportation programs will be cut by the same amount but points to growing pressure on transportation-related revenue sources and state and local budgets.

Exhibit 7. States That Have Reported Revenue Declines or Have Delayed or Cut Projects Amid COVID-19 Uncertainty



Source: ARTBA Update & Research.

Because of these immediate and serious challenges, ARTBA has joined numerous groups in urging Congress to provide state departments of transportation (DOTs) with at least $49.95 billion in federal funding. This will ensure improvements to the nation's transportation infrastructure move forward and mitigate potential job losses in the transportation construction industry. This injection of federal investment should be complemented with a bipartisan, robust reauthorization of the federal surface transportation programs.

The Time Is Now

Mr. Chairman, members of the Committee, when you approved ATIA last July it was in many respects the most robust and solution-focused highway reauthorization proposal in decades. Since that time, the world has changed but the nation's need for a reliable and safe highway infrastructure network has not.

Your proposal's substance, viability and political attribute were always worthy of broad-based support. Now, it represents a path forward for economic recovery and growth at a desperate time in our nation's history.

I fully recognize the headwinds all major legislation faces in the current climate, but there are also severe consequences of failing to act. State and local highway spending peaked shortly before the Great Recession. With no long-term surface transportation reauthorization in place and other economic challenges, it took eight years–until 2015–for highway and bridge activity to return to pre-recession levels.

That is certainly not a history any of us should want to repeat.

As with any infrastructure initiative, there will always be those who focus on a proposal's cost over its benefits and "pay-fors" over outcomes. The question we must answer is not if we can afford a robust, five-year highway program reauthorization, but rather if we can afford to not have such an action.

Thank you again for inviting me to appear today and I look forward to your questions.