



BUMPY POLITICS PRODUCE BUMPY ROADS

Interruptions in government operations impact infrastructure investment.

ANIRBAN BASU AND JOSEPH NATARELLI

Given all the recent chatter regarding trade wars, inverted yield curves, volatile financial markets, ongoing protests in Hong Kong, burning rainforests, and the onset of the presidential primary season, it would be very easy to forget that, just a few months ago, the federal government shut down for 35 days, the longest such interruption in the modern era.¹ The impasse was largely attributable to differing views regarding funding for security along the southern border of the United States.

Interruptions in government operations impact infrastructure investment. Ultimately, more than 400,000 federal government workers were either induced to work without pay or furloughed until Congress achieved a resolution.² Several government agencies were also forced to

partially shut down, resulting in delays for a number of industries, including construction.

An article published by *The Washington Post* in early January 2019 reported that numerous states were halting or postponing highway and transit projects as the supply of federal funds ran dry. Impacts across states varied widely, in part because states such as Montana and New Mexico receive more than 80 percent of their highway funding from the federal government, while states such as New Jersey and Texas receive a much smaller percentage.³ Money for a number of these projects ran out by the end of 2018, which coincided with the onset of the federal shutdown.

Weather helped shield some states more than others. For instance, Maryland did not have any projects scheduled that required federal funding, as money for road construction and other forms of infrastructure investment were set aside in the context of perennial severe winter weather.⁴

Other states simply embraced different tactics. An Associated Press article reported that the State of Missouri was pushing ahead

ANIRBAN BASU is the chief construction economist at Marcum LLP and the CEO of the Sage Policy Group.

JOSEPH NATARELLI is Marcum LLP's national construction industry leader and office managing partner in New Haven, Connecticut.



THE NEXT 18 MONTHS WILL BE VERY IMPORTANT FOR THE NATION'S HEAVY HIGHWAY AND RELATED INDUSTRIES.

with a number of projects despite the shutdown. Bob Brendel, spokesman for the Missouri transportation department is quoted as saying that, “We maintain a [\$700 million] cash balance that allows us to handle these types of situations, and some states do not.”⁵

Oklahoma and its contracting community, for instance, were not as fortunate, as that state was forced to delay bidding on a \$137 million highway project that would have been paid for with federal funds. Terri Angier, Oklahoma Department of Transportation spokesperson said, “Unless they reach a resolution that includes and authorizes us more money to put toward the projects, we can’t add new projects.”⁶

Of course, the federal shutdown has been over for many months, but the drama emerging from Washington, D.C., persists. Among other things, the shutdown highlighted what can occur when federal funding is interrupted, even if only for a few weeks. Many projects were in planning phases during the period of the federal shutdown, mere months from breaking ground. The shutdown interrupted ongoing planning processes, layered in financial uncertainty, and ultimately delayed project bidding or worse.

Political drama impacting infrastructure investment is nothing new. Construction industry leaders will remember that, in December 2015, Congress and then-President Barack Obama passed the FAST Act, a \$305 billion surface transportation bill that provided infrastructure funding for the ensuing five years.⁷ The bill was passed during a period of increased partisanship resulting from a Congress that was then deeply concerned by the size of federal government deficits. That money is set to run out in spring 2021,⁸ so state and local government planners and agencies may soon find themselves in yet another set of circumstances ushering forth planning delays, project postponements, and cancellations.

History has a tendency to repeat itself, or so it seems. An article published in *The Baltimore Sun* from early 2015, when the FAST Act was still months away and Congress remained stalemated, reported that the state of Maryland was suffering from severe declines in federal transportation funding. Federal funds available for trans-

portation declined nearly 9 percent over a short period of time. Five other states experienced even sharper declines in federal funding.⁹

Going back a few more years, in 2012 Politico published an article on the approaching expiration of the Safe, Accountable, Flexible, Efficient Transportation Equity Act, set to expire in June of that year. Among other things, the article noted that interrupting construction can be wasteful. Mark Foster, then chief financial officer of North Carolina’s transportation department, is quoted as saying, “Very quickly ... [a shutdown] could bring the entire industry to a halt, and it would be very difficult to resurrect it quickly. What we’ve found is that when you slow it down, it takes twice as long to crank it back up.”¹⁰

It is conceivable that infrastructure investment is already being impacted by the impending insolvency of the nation’s Highway Trust Fund, presently anticipated to occur in 2021. The Census Bureau monitors construction spending every month. In June, the last month for which there is available data, public highway and street construction spending fell 6.4 percent compared to the previous month. June represents the second consecutive month during which spending in this subcategory fell, after peaking at \$113.3 billion on an annualized basis in April. This is a deviation from trend. Despite the recent two-month dip, highway and street spending is up 6.4 percent from the previous year.

Transportation is another nonresidential construction spending category highly impacted by federal funding. In June, transportation spending stood at \$38.3 billion on an annualized basis, 0.3 percent lower than the previous month. Compared to the same month a year earlier, spending was 8.4 percent higher.

The next 18 months will be very important for the nation’s heavy highway and related industries. The United States desperately needs new funding sources for infrastructure. The gas tax, which has not been raised since 1993, is simply not keeping up with the nation’s needs for greater reliability, productivity, and public safety on its roadways. But identifying new federal funding sources requires political consensus and, as with

federal funding for infrastructure, that remains highly constrained.

That said, lawmakers appear to have made some progress in forging the next U.S. transportation spending bill. In July 2019, the Senate Committee on Environment and Public Works voted unanimously on a potential \$287 billion spending bill spread out over the next five years starting in 2021. While many hurdles lie ahead, most prominent of which is how the government will find the money to fund the bill, bipartisan support is in evidence. ■

NOTES

¹ Naylor, B., "The shutdown is over. Now the federal workforce faces 'untold morale problems,'" National Public Radio (Feb 1, 2019). Available at: <https://www.npr.org/2019/02/01/690086926/the-shutdown-is-over-now-the-federal-workforce-faces-untold-morale-problems>.

² *Ibid.*

³ Halsey III, A., Highway and transit projects grind to a halt as the shutdown continues, *The Washington Post* (Jan 8, 2019). Available at: https://www.washingtonpost.com/local/trafficandcommuting/highway-and-transit-projects-grind-to-a-halt-as-the-shutdown-continues/2019/01/08/0ec80468-1369-11e9-90a8-136fa44b80ba_story.html.

⁴ *Ibid.*

⁵ Murphy, S., "Federal shutdown delays some state road, bridge contracts," The Associated Press (Jan 9, 2019). Available at: <https://www.apnews.com/2fc6df3716ab433e8f63d42e24a98208>.

⁶ *Ibid.*

⁷ "Fixing America's Surface Transportation Act," U.S. Department of Transportation. Available at: <https://www.fhwa.dot.gov/fastact/>.

⁸ Davis, J., "The Highway Trust Fund problem in two charts," The Eno Center for Transportation (Feb 8, 2019). Available at: <https://www.enotrans.org/article/the-highway-trust-fund-problem-in-two-charts/>.

⁹ Fritze, J., States scramble as federal highway funding erodes, *The Baltimore Sun* (Feb 21, 2015). Available at: <https://www.baltimoresun.com/politics/bs-md-transportation-funding-20150218-story.html>.

¹⁰ Wolfe, K. A., Everett B., and Snider, A., "Road bill gridlock worries states," Politico (March 28, 2012). Available at: <https://www.politico.com/story/2012/03/road-bill-gridlock-has-states-sweating-074624>.