Special Election Series #4

IBISWorld
WHERE KNOWLEDGE IS POWER

Election Spotlight: Transportation Infrastructure

By Andrea Alegria & Deonta Smith

October 2012

Both parties agree the transportation system needs updating, but a Republican administration may increase risk levels for the nation's transport and infrastructure industries.

Romney's plan increases private funding for transportation and infrastructure upgrades

At a time when over half of the country's roads and highways are in poor condition, 70,000 bridges and tunnels are structurally impaired, and transit ridership is up an astounding 235 million trips, much attention is being paid to transportation infrastructure reform[1]. Currently, the federal government administers policies and programs to protect and enhance the safety, adequacy and efficiency of the transportation system and services. However, the strategies the two political parties propose on how to fund and operate transportation infrastructure in the United States are very different. In order to assess each candidate's potential impact on downstream industries, IBISWorld has altered data regarding government funding for highways and federal funding for transportation to reflect potential changes in transportation spending under each presidential candidate.

Though decisions to expand budgets are often based on tax revenue, debt levels and inflation, implementing such proposals depends on approval from the US House of Representatives and the US Senate. With different parties controlling the House and Senate, it will be difficult for either presidential candidate to have proposals approved without conceding some aspects to reach a mutually beneficial scenario.

Concerns about the nation's infrastructure and its ability to support commerce and promote public well-being have prompted calls for greater infrastructure spending. The Department of Transportation, among other sources, asserts that adequate funding to repair and upgrade the nation's transportation networks is somewhere between $200.0 billion and $262.0 billion per year over the next decade. President Barack Obama's 2013 budget envisions spending an average of about $105.0 billion per year on transportation infrastructure over the next 10 years. In 2012, President Obama signed into law the current federal transportation bill, the Moving Ahead for Progress in the 21st Century Act (MAP-21). The program gives more than $105.0 billion per year in funding for surface transportation programs for fiscal years 2013 and 2014. MAP-21 is the first long-term highway authorization enacted since 2005. Prior to MAP-21, SAFETEA-LU assisted transportation

[1] www.house.gov

(continued on p. 3)

Election Spotlight: Transportation Infrastructure

In order to assess each party's potential impact on downstream industries, IBISWorld has used data regarding government funding for highways and federal funding for transportation, and modified it to reflect potential changes in transportation spending under each presidential candidate. The data has been adjusted down 2.8 %, reflecting the annualized declines in federal spending on transportation infrastructure under the Republican Party. The chart measures the risk level for downstream industries affected under each potential presidential administration; these risk scores range from 0 to 9, with a higher score indicating a higher risk level. Current IBISWorld risk ratings assume no change in policy and are, therefore, represented as the incumbent Democratic Party policies.

Infrastructure Industries Risk Level By Candidate

		Change	
2.71	3.96	1.25	Public Transportation
5.23	5.70	0.47	Bridge & Tunnel Construction
5.11	5.58	0.47	Road & Highway Construction
5.34	5.73	0.39	Road & Highway Services
4.33	4.72	0.39	Road & Highway Maintenance
3.20	3.38	0.18	Airport Operations
4.86	5.02	0.16	Ready-Mix Concrete Manufacturing
3.60	3.76	0.16	Cement Manufacturing
3.90	4.04	0.14	Heavy Construction Equipment Rental
5.17	5.29	0.12	Asphalt Manufacturing
5.22	5.30	0.08	Construction Machinery Manufacturing

Election Spotlight: Transportation Infrastructure

infrastructure. After being extended eight times, SAFETEA-LU finally expired in September 2012.

Under President Obama's 2013 budget plan, mandatory and discretionary federal transportation funding would climb about 2.0%, or $1.4 billion, from 2012 and would include major investments in highways and public transportation. In contrast, the Republicans' proposal suggests a different approach to expand transportation expenditures. In order to maximize existing revenue, congressional Republicans would like to extend the Transportation Infrastructure Finance and Innovation Program (TIFIA) by authorizing $1.0 billion per year to produce $60.0 billion in low-interest loans to leverage at least $120.0 billion in private investments for transportation projects. TIFIA currently represents $29.4 billion in infrastructure investments. This policy would include incentives for states and local governments to outsource related transportation construction projects to private firms.

Furthermore, Paul Ryan – the running mate of Republican presidential candidate Mitt Romney – has introduced a budget proposal that allocates about 25% less funding for transportation over the next decade than is currently allocated. From 2013 to 2022, Ryan would spend about $78.8 billion per year on transportation infrastructure.

Democrats and Republicans have differing, yet industry-changing policy proposals that range from increased government funding for transportation expansion to having a self-sustaining transportation system that is contracted out to private enterprises. Some fiscal conservatives believe user fees, including federal gas and diesel taxes, should pay for transportation programs entirely, even though revenue from those taxes is not enough to fund current transportation spending. Conservatives also would like to see the federal role in transportation dramatically reduced, with states picking up those responsibilities, giving transportation infrastructure a more self-sustaining model. In contrast, most Democrats advocate for increasing income or other taxes to advance greater federal investments in rail and highway construction projects, which would provide more jobs and update deteriorating structures quickly.

Election Spotlight: Transportation Infrastructure

Public Transportation
IBISWorld report 48511

Obama	Romney
• The current federal transportation bill, MAP-21, funds surface transportation programs gives more than $105.0 billion in funding for surface transportation programs for fiscal years 2013 and 2014. Industry firms receive money through the federal Highway Trust Fund, which is funded by a federal tax on gasoline.	• Republicans advocate for transit systems that are funded by user fees, and are in favor of reducing federal spending for city and regional transportation agencies. A potential drop in transportation funding under a Romney administration would adversely affect agencies in the Public Transportation industry.

Public transportation agencies primarily operate regional passenger transportation systems with regular routes and fixed schedules. Federal, state and local governments are an important source of public transit funding because taxes and grants subsidize the majority of operations. The government also provides funding for expansion programs and infrastructure and capital works projects that are designed to improve the safety, accessibility and reliability of public transit services. As a result, government funding is an important determinant of industry income and expansion trends.

President Obama's budget includes a $476.0-billion surface transportation plan, with $47.0 billion spent over six years to develop high-speed rail projects. Both MAP-21 and SAFETEA-LU are included in this plan. Under the current budget, public transportation agencies would likely continue to receive funding from the federal government for transit projects, including service line extensions.

A potential drop in transportation funding under a Romney administration would significantly affect large agencies in the Public Transportation industry. In early 2012, House Republicans introduced a federal transportation bill that proposed to eliminate the Surface Transportation Assistance Act, signed into law by President Ronald Reagan in 1983. That legislation created a dedicated funding source for public transportation through a federal tax on gasoline. The proposed bill would maintain the gasoline tax revenue for highways, but eliminate it for mass transit. This would effectively cut off many transit agencies' funding from the federal Highway Trust Fund. Although the bill was not passed, Republicans have reiterated a transportation platform that advocates developing funding systems that primarily rely on user fees instead of federal grants. For example, Republicans are in favor of reducing federal spending for local and regional transit agencies, and having these agencies rely primarily on user fees. If a similar bill is signed into law under a Romney administration, transit systems nationwide may be forced to ask Congress for needed capital and infrastructure money on an annual basis. This shift away from a reliable and steady source of revenue could hinder agencies' ability to plan and fund long-term capital projects. Consequently, a potential decline in funding for transit agencies under a Romney administration results in a higher risk score for the Public Transportation industry.

Election Spotlight: Transportation Infrastructure

Road, Highway, Bridge and Tunnel Construction
IBISWorld reports 23411a and 23412

Obama	**Romney**
• Industry revenue would expand rapidly off a low base; the immediate increase in government spending would increase the availability of new construction and maintenance-related activities.	• Industry revenue growth would slow in the short run as the industry transitions to a more self-sustaining funding model.

Since the early 1990s, the federal government has allocated transportation infrastructure funding under multiyear authorizations (typically five or six years) to guarantee ongoing investment, despite fluctuations in the budget. Under the Surface Transportation Extension Act of 2012, federal funds are distributed to state and local governments for disbursement to contractors.

Historically, dedicated federal funding has been used for road and highway expansion activities or building new roads; however, maintenance is often delayed. In an effort to update road and highway structures more efficiently in the future, Democrats and Republicans have presented differing plans to "modernize" the nation's transportation infrastructure.

Currently, federal spending on transportation infrastructure represents about a quarter of total transportation spending. The relatively small contribution from federal funding is meant to encourage state and local municipalities to supply their own funding for road and highway construction projects. However, the existing format is inefficient, in part due to formulas that govern over 70.0% of federal investment. For example, fuel tax revenue is returned to the states according to the miles of highway they contain, the distances their residents drive and the fuel they burn. Under this format, a state using toll roads to limit travel and congestion would be punished for its efforts with reduced funding, whereas one that built highways it could not afford to maintain would receive a larger allocation of funding.

To provide a more effective and fair solution, the Democratic and Republican parties have proposed two contrasting initiatives to serve as a long-term resolution. Under the Democrats' proposal, industry revenue would expand more rapidly in the short-run because the administration plans to expand federal funding for transportation-related construction projects. In addition to the MAP-21 funds, President Obama's 2013 budget proposal would provide $50.0 billion for transportation infrastructure projects in fiscal 2013, including highway and runway construction. This increase in funding is anticipated to make more projects available for industry firms, as maintenance projects that were initially deferred become current projects.

In contrast, the Republicans propose a solution that would increase private funding of road, highway and bridge construction in the future. Under this policy, the government would promote public and private partnerships that will make transportation infrastructure more self-sustainable in the future. Federal funding would decrease about 25.0% over the next few years. Instead

Election Spotlight: Transportation Infrastructure

of providing state and local municipalities direct funding for industry-related projects, the government would provide loans to private investors, which are to spearhead construction activities.

Conclusion

The nation's transportation infrastructure – its transit systems, highways, bridges and airports – are vital to economic growth. While President Barack Obama and presidential candidate Mitt Romney may both agree with this, they differ in how and how much to spend to advance major infrastructure projects over the next decade. The Public Transportation, Road and Highway Construction, and Bridge and Tunnel Construction industries generate combined revenue of $109.9 billion in 2012 and have a substantial footprint in the US economy.

Republican and Democrat views vary widely when it comes to federal funding for transportation. Based on the varying views of both parties, IBISWorld research reflects the effects of potential funding changes for infrastructure under each candidate's administration. Democrats advocate greater federal investment in rail and highway construction projects, even if it means increasing taxes to pay for them. A potential decline in funding under a Romney administration could limit the ability of public transportation agencies to access federal funds that have been guaranteed in the past. Changes to this funding could alter agencies' ability to plan and execute long-term transit projects.

As a whole, a potential decline in infrastructure spending under Romney could constrain revenue, profit and employment growth across public transportation agencies and downstream construction industries, thus causing their respective risk scores to rise.

Contact:
Savannah Haspel
VP, Public Relations
IBISWorld

Phone: 1-310-866-5044
savannahh@ibisworld.com
www.ibisworld.com

www.ibisworld.com | 1-800-330-3772 | info@ibisworld.com

At IBISWorld we know that industry intelligence is more than assembling facts. It is combining data with analysis to answer the questions that successful businesses ask.

Identify high growth, emerging and shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing and new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

IBISWorld
WHERE KNOWLEDGE IS POWER

Who is IBISWorld?
We are strategists, analysts, researchers and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to give you the real-world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply researched answers quickly.

IBISWorld Membership
IBISWorld offers tailored membership packages to meet your needs. Join and become an industry expert!