



**Testimony of**

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Chairman Rafferty and Members of the Committee –

I would like to thank you for the opportunity to testify on the importance of transportation investment on the jobs and the economy of the Commonwealth of Pennsylvania.

My name is Alison Premo Black. I am a professional economist and have been with the American Road and Transportation Builders Association (ARTBA) for 13 years. I am currently vice president of policy and chief economist for ARTBA. I am responsible for a variety of national and state reports on the transportation construction market. I earned my PhD. in economics from George Washington University.

ARTBA members come from all aspects of the intermodal transportation design and construction sector. As a result, our association brings together contractors, engineers, product suppliers, equipment manufacturers, public officials and financial experts to advance a singular mission: improving the nation's transportation infrastructure network. The industry we represent generates more than \$380 billion annually in U.S. economic activity and sustains more than 3.4 million American jobs.

Today I would like to talk about some of the research and analysis I have done on the highway and bridge construction market in Pennsylvania.

Before I discuss the impacts of a potential cut in funding for highway and bridge construction, I think it is important to understand how vital this sector is to the Pennsylvania economy.

The firms and public agencies that design, build, maintain and manage the U.S. transportation infrastructure network – together with those who manufacture and produce the equipment, materials, supplies and services necessary for their work – comprise the transportation construction industry.

We estimate there was approximately \$4.3 billion in highway and bridge construction spending in Pennsylvania in 2012, including expenditures by the Pennsylvania Department of Transportation (PennDOT) and local governments. This is the value of ongoing work, regardless of when a contract was awarded, or construction work began.

That level of market activity supports nearly 166,200 jobs in the Commonwealth.

This includes:

- 82,795 full-time jobs directly involved in transportation construction and related activities. These are the men and women who work for contractors, suppliers and state and local transportation agencies.
- There are an additional 83,404 indirect jobs that are induced, or sustained by transportation construction industry employee, firm and agency spending throughout the

economy. So as workers in the highway and bridge construction industry spend their paychecks by going out to dinner, buying clothes, paying rent or shopping at area stores, they are creating additional demand for goods and services throughout the Pennsylvania economy. We call this the indirect effect.

- These direct and indirect employees earn a total annual payroll of \$6.4 billion and contribute an estimated \$581 million in state and federal payroll tax revenue.

Earlier this year, our economics team put together a report on what would happen if PennDOT cut highway and bridge lettings by 25 percent in a given year.

We found that such a decrease, if sustained in the years ahead, would cost the state economy \$1.25 billion in economic activity over a five-year period and put as many as 9,600 Pennsylvania jobs permanently at risk. This would be across all sectors of the Commonwealth's economy.

Here is how this works. Many highway and bridge projects are multi-year enterprises. Thus, a state appropriation for a project could be paid out over several years. In fact, the average time for a significant project is about five to seven years. This, of course, is not how most state programs are funded with dollars appropriated and fully spent in the same year.

A sustained 25 percent decrease in the highway and bridge investment would cut the current \$4.3 billion market to \$3.8 billion in 2017.

In this scenario, Pennsylvania contractors will demand fewer materials, equipment and supplies as the overall market opportunities decline and they have fewer projects backlogged.

Let me elaborate on what would be the non-construction employment impact.

Just under 1,000 jobs in the retail sector could be at risk. Another 900 jobs related to other administrative and professional services could be impacted. Nearly eight percent of the job losses could be in the manufacturing sector. The healthcare industry could lose over 600 jobs.

This would come at a time when investing in Pennsylvania's infrastructure and economy is extremely important. Of the state's 28,000 miles of roadway eligible for federal aid, 25 percent are rated not acceptable and need major repairs or replacement. Over 40 percent of the bridges in Pennsylvania are rated structurally deficient or functionally obsolete, according to the latest data from the Federal Highway Administration. This is well above the national average of 23 percent. Pennsylvania commuters, first responders, school buses and trucks cross these deficient bridges an average of 51.5 million times per day, according to our analysis of the National Bridge Inventory data. During their last inspection, the condition of the deck, super or sub-structure for over 5,300 of these bridges was classified as poor, serious, in imminent failure or failed.

I would also like to briefly mention some of the methodology we used for the economic study. The total job losses are calculated using the U.S. Department of Commerce Regional Input-Output Modeling System, also known as RIMS II. Rims II is based on input output tables. For a given industry, the input output tables show the distribution of inputs purchased and outputs sold. This way we can identify what contractors have to buy in order to build a highway or bridge. Research shows that RIMS II multipliers are similar to other regional input-output models and software that are based on in-depth surveys. We choose to use the RIMS II multipliers because they are transparent.

It should be noted that our economic analysis did not take into account the very important long-term benefits of infrastructure investment, or the foregone opportunities the Pennsylvania economy would lose. In the economics literature there is a link between state and local economic growth and highway and bridge investment.

A cut in the PennDOT funding could mean that the Commonwealth's highway and bridge network would be less efficient in the future than otherwise. This would increase transportation costs, both time and money, for everyone that uses the system.

In terms of human life and suffering, the system may be less safe, which would incur a significant cost.

Finally, businesses looking to relocate to the Commonwealth may look at the decline in spending as a disincentive, and plan to move elsewhere.

But in the short-run, a cut in PennDot contract awards would certainly have an immediate economic impact that would be felt across all sectors of the economy.

Thank you very much for the opportunity to speak with you today.

# A RECIPE FOR JOB LOSS & ECONOMIC CONTRACTION IN PENNSYLVANIA

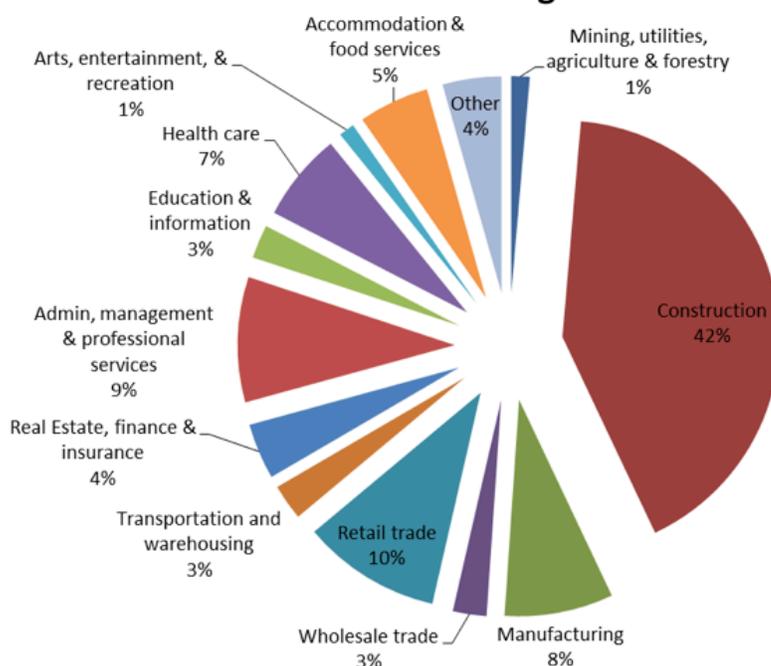
The Impact of a 25 Percent Cut in Pennsylvania's Highway & Bridge Investment Program

FEBRUARY 2013

In 2012, the Pennsylvania Department of Transportation (PennDOT) invested \$2.1 billion in new highway and bridge construction contracts for improvement projects throughout the Commonwealth. If that annual investment were to be cut by 25 percent—to \$1.6 billion per year—and sustained at that level annually thereafter, an economic analysis by the ARTBA Transportation Development Foundation (ARTBA-TDF) finds that over the next five years:

- Overall economic activity in Pennsylvania would drop by \$1.25 billion, reducing the state's wealth and competitiveness;
- Nearly 9,600 Pennsylvanians would be at risk of losing their current job, which could result in...
  - o \$378.5 million in lost wages
  - o \$16.9 million in lost state tax revenue

## Potential Job Losses Due To 25% Cut In PennDOT Lettings



This would include jobs across the economy—not only in construction, but in the retail, manufacturing, mining, tourism, health care and service sectors.

- Employment in the state's highway and bridge construction firms would drop 26 percent
- Investments in capital equipment by highway and bridge construction firms would likely drop 70 percent below the pre-recession 2007 level.
- The time and cost of ultimately fixing the Commonwealth's 4,600 deficient bridges and 25-plus percent deficient road pavement will increase.