Testimony of the Associated Pennsylvania Constructors (APC)

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Before

House Transportation Committee

Moving PA Forward by Investing in Roads, Bridges, and Transit

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Chairman Neilson, Chairman Benninghoff, and members of the House Transportation and Policy Committees thank you for the opportunity to testify before you today on transportation needs throughout the Commonwealth.

By way of background, the Associated Pennsylvania Constructors (APC) is a trade association that unites more than 400 members, including prime and subcontractors, consulting engineers, material suppliers, manufacturers, and others interested in Pennsylvania's road and bridge construction industry. The association has been serving the industry for over 90 years and represents the majority of actively bidding contractors in the Commonwealth's $2.5 billion highway industry.

Here with me today is Scott Grannas, APC's current president and the owner of Grannas Brothers, Inc. in Hollidaysburg, Pa. I'll let Scott introduce himself and his company.

APC is also a founding Keystone Transportation Funding Coalition (KTFC) member. The KTFC is a diverse group of transportation advocates that came together to support one simple goal: to secure a comprehensive, long-term, multimodal solution to Pennsylvania's transportation funding needs.

While the KTFC was first organized in the early 1990s, it played a vital role in the passage of Act 89 in 2013. Act 89 represented a significant, multimodal transportation funding initiative that produced a "decade of investment" that sustained our transportation program over the last decade.

While Act 89 continues to infuse much-needed funding into our transportation systems, it was enacted now 11 years ago. We are past the lifecycle of Act 89, and we face several new challenges in our Commonwealth.

Before I outline these challenges, I want to applaud the General Assembly's acknowledgment and support for preserving our valuable transportation funds. Since 2017, the General Assembly has systematically moved the State Police funding out of the state's Motor License Fund and into the General Fund. These actions directly put money into the highway construction program.

By way of background, when Act 89 was enacted in 2013, approximately $580 million annually was taken from the Motor License Fund for State Police operations. That level rose to $802 million in 2017 before you took action. (See Appendix A) Since then, the General Assembly has reduced this level to $250 million with the budget you just enacted with a pledge to reduce this to zero over the next two years. APC fully supports these continued efforts.

Today, however, it is essential to note that these additional funds created by moving the state police funding out of the Motor License Fund, combined with Congress' passage of the IIJA (Infrastructure Investment and Jobs Act) in 2021, have enabled us to keep pace with inflation. One of the industry's primary concerns is the expiration of the IIJA in 2026. Failure to reauthorize the federal program at the levels authorized under IIJA will result in PennDOT needing to pull back its program in the years ahead.

Appendix B is a chart of data APC compiles showing the annual value of PennDOT's letting program. For us, this is a direct picture of funding for our industry. You will see that in 2013, PennDOT's construction program was on the decline and was down to a $1.6 billion annual letting program at a level last seen a decade prior. These were dark times for the industry. Mr. Grannas can tell you the impact this had on his business. Many companies had to lay off workers to keep their doors open. These workers sought employment in other industrys or left the state entirely.

You will see, beginning in 2014 and up until Covid year in 2020, the direct impact Act 89 had on the letting program. Lettings consistently hovered around $2.5 billion annually, providing much-needed predictability and consistent funding levels vital for our industry's success.

Contractors need predictability in the construction program to invest in equipment, people, and materials yearly. Our members often bid on projects that may be 6 months to several years out before any physical work begins. Having a consistent funding program—one that is not up and down from year to year—is an environment in which we can succeed. And our success means the Commonwealth succeeds as well.

But, you will also see in this graph where the program was heading before the IIJA provided a "lifeline" of support. In 2021, lettings were just barely above $2 billion. Much of the program's erosion was attributed to several factors, chief among them being rising construction costs, scarcity of materials, and a "capped funding source" as Act 89 was fully implemented.

Appendix C is a snapshot of the inflationary impacts on the construction program, severely exacerbated by today's economic climate. In 2018, our industry had 726 contracts (aka projects) for a $2.5 billion program. In 2023, we completed 612 contracts (over 100 less) with more funding...$2.9 billion. We cannot stretch our transportation dollars today like we have just five years ago.

Outlook and Options

APC and the KTFC firmly believe that a multimodal, comprehensive transportation funding approach should be pursued in both the short and long term as you look to address our transportation system.

Several issues outlined below will continue to loom over our state as we look for ways to deal with these factors.

- Pavements, signals, and maintenance are currently in stable to fair condition;

- Aging bridges are getting older and in need of repair;
- Revenue streams flat (Act 89 was "Decade of Investment");
- Loss of buying power due to inflation;
- EV proliferation and increasing fuel efficiency standards;
- Dependency on the gas tax or Oil Company Franchise Tax;
- Uncertainty of future federal funding – IIJA expires in 2026.

Each of these above-listed items presents its own set of challenges. But allow me to address just a few of them.

As mentioned previously, Act 89 did help. Act 89 enabled us to tackle the rapidly growing deficient bridge inventory that propelled us to the top of the list nationally—a list no state wants to be on. We've made significant strides and cut our deficient bridge inventory in half.

PennDOT reports that 85% of its bridges older than 50 years are in fair or poor condition. This statistic shows how we must stay ahead of the curve before we rise back to the top of the list of poor bridges nationally.

That is why APC and the KTFC proposed a short-term funding plan for this year's budget. This plan proposed to establish a three-to-five-year bonding program primarily to fund state and local bridges. While bonding isn't a preferred way to fund our infrastructure in the long term, it can provide a way to generate funding for targeted infrastructure projects. However, APC maintains that any bonding program must have a corresponding payback revenue source so as not to mortgage our future with debt payments.

Any long-term funding solution should be aligned with where our nation is heading from a technology perspective. I've already outlined how inflation and rising costs have impacted our program. However, a more "hidden" form of inflation is built into the very lifeblood of how our transportation system is funded at the national and state levels.

Nationally, the Federal Highway Trust Fund is heavily dependent upon the federal gas tax. At the state level, over 78% of our highway revenues come from motor fuel taxes. This creates a massive over-dependence upon gas and diesel tax consumption to support our infrastructure. However, government policies and regulations mandate that vehicles be made with higher miles-per-gallon efficiency standards. Government initiatives encourage purchasing and using electric, hybrid, and alternative-fueled vehicles. While these initiatives may be laudable and sound public policy, they come at a considerable cost—directly impacting the structural way we fund infrastructure.

Some of the "non-traditional" long-term options that could be considered are as follows:

- Apply the state's gross receipts tax to electric vehicle charging stations.
- Allocate the future growth in the vehicle sales tax to the Motor License Fund.
- Review how counties use the $5 annual registration fee option to incentivize local matching funds.
- Establish a viable vehicle-miles-traveled fee.
- Explore the feasibility of a package delivery fee similar to utilizes service fees.
- Re-examination of tolling and congestion pricing fees.
- Low-level bonding with dedicated revenue sources.

While these options are not necessary endorsements by APC, they simply represent a mix of options that should be considered part of any transportation funding conversation in the future. These options obviously present both positive and negative political and policy considerations.

We must embrace new ways of providing stable, predictable, and reliable long-term funding revenues to maintain our infrastructure. APC and the KTFC remain willing and ready to work with the General Assembly to develop a plan that addresses our growing infrastructure challenges while keeping Pennsylvania economically competitive.

Thank you for allowing us to testify before you today, and I'm happy to answer any questions you may have.

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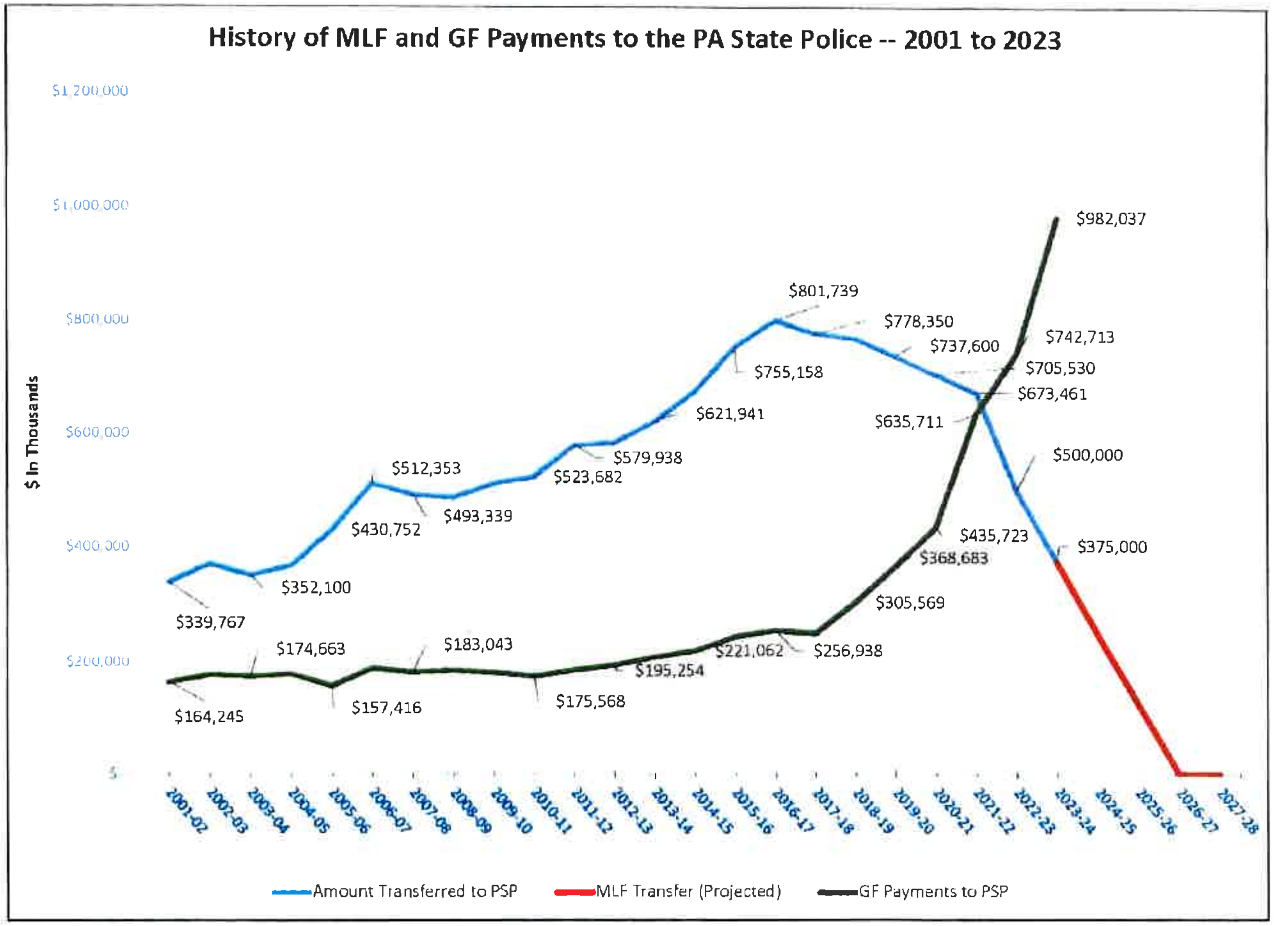
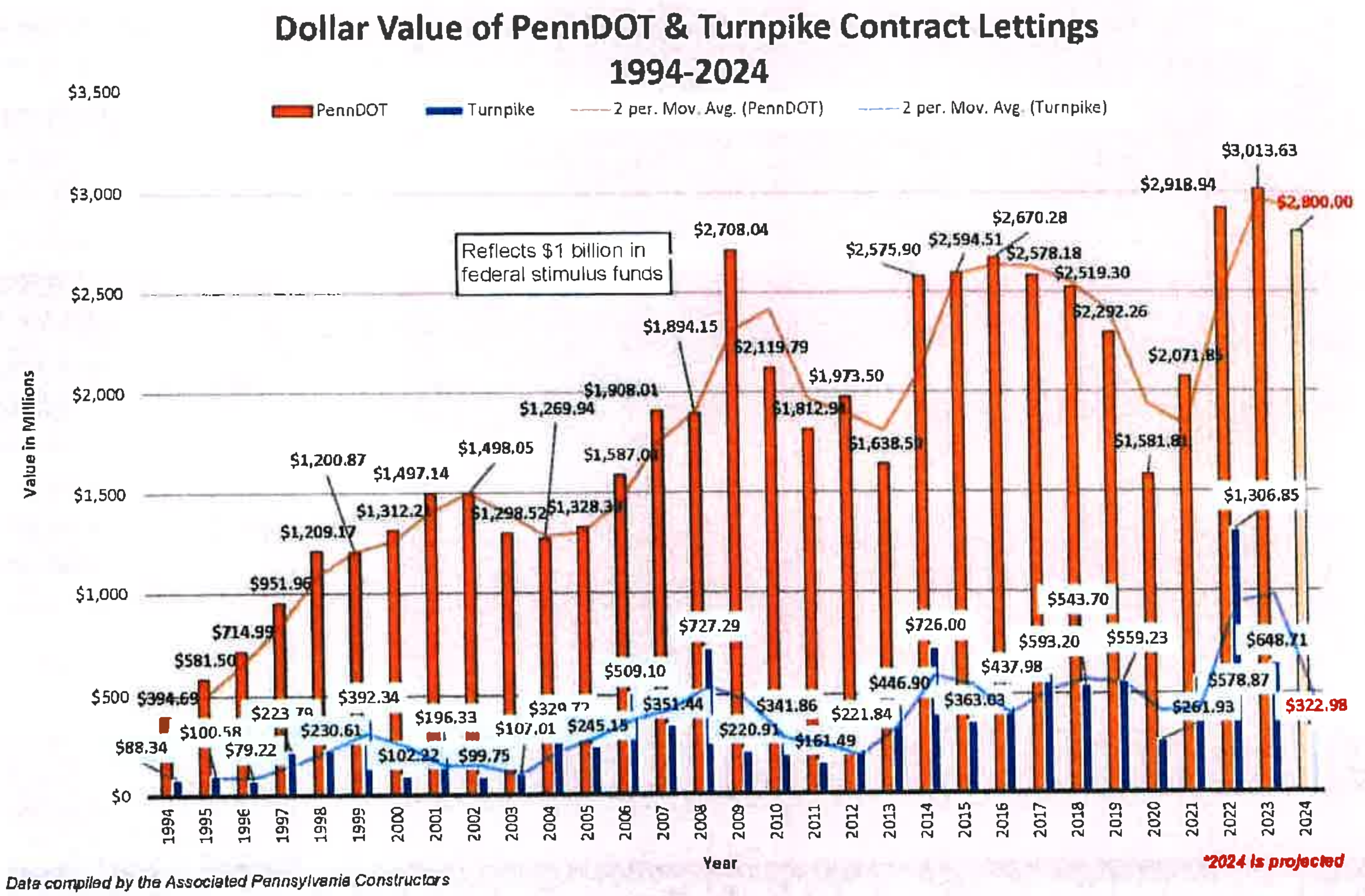
MOTOR LICENSE STATE POLICE SUBSIDY

Appendix A



CONSTRUCTION PROGRAM HISTORY

Appendix B



CONSTRUCTION LETTING SUMMARY

Appendix C

- **Calendar Year 2018**
  - **$2.48 Billion**
  - **726 Contracts**
- Calendar Year 2019
  - $2.20 Billion
  - 589 Contracts
- **Calendar Year 2020**
  - **$2.2 Billion (Goal) - $1.55 Billion (Actual)**
  - **473 Contracts**
- Calendar Year 2021
  - $ 2.02 Billion
  - 566 Contracts
- Calendar Year 2022
  - $2.84 Billion
  - 548 Contracts
- **Calendar Year 2023**
  - **$2.93 Billion**
  - **612 Contracts**
- Calendar Year 2024
  - $2.80 Billion (Goal)