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ARRA'S FUTURE IMPACT ON THE CONSTRUCTION INDUSTRY

By Brad C. Friend

"Nothing is so permanent as a temporary government program." - Milton Friedman

Mr. Friedman's quote is true in more ways than one. Although public entities and contractors are adapting to the end of the American Recovery and Reinvestment Act's ("ARRA") stimulus funds, the ARRA will continue to have permanent impacts on the construction industry.

The ARRA became law on February 17, 2009, with its central purpose of spending $787 billion to stimulate the slumping American economy. To put the size of the ARRA into perspective, the ARRA's expenditure of $787 billion was greater than the $500 billion (adjusted for inflation) cost of Franklin D. Roosevelt's entire "New Deal." Overall, only 13% of the entire ARRA ($102 billion) was for construction spending. However, the expenditure of such a large amount of money in such a short period of time has had a significant impact on the construction industry. Primarily, public construction spending over the past two years has mitigated the substantial decrease in private construction spending brought on by the recession.

The ARRA's impact on the construction industry will continue as exemplified by the budget crises facing most of the fifty states – and the federal government. Prior to the economic recession, many states and their departments of transportation ("DOTs") were faced with tight budgets which restricted their ability to fund public construction projects. The ARRA provided a reprieve to many public entities in terms of funding health, education and construction programs. But with most of the ARRA funds having already been spent or allocated, the states and DOTs are right back in the same – or worse – budgetary position that existed prior to the ARRA. The ending of ARRA funds, coupled with decreased tax revenue brought on by the recession and the slow recovery, has been referred to as the "ARRA Cliff."

The Missouri Department of Transportation's ("MoDOT") dire budgetary circumstance illustrates the "ARRA Cliff." MoDOT recently announced that it was reducing its staff by 1,200, closing 135 facilities and selling more than 740 pieces of equipment. MoDOT's budget has recently averaged $1.2 billion per year. However, over the next five years, MoDOT's budget will be cut in half to an average of about $600 million per year. The substantial budget reduction will mean that new road construction projects in Missouri will not be let and maintenance funds for roads and bridges will be stretched thin.

The ARRA's permanent impacts on the construction industry will also be felt in the states that have used the ARRA funds to construct large highway and rail projects because the states will be responsible for funding the operating and maintenance costs of such projects. The prospect of expensive future operating and maintenance costs caused Ohio, Florida and Wisconsin to recently turn down ARRA funds for construction of high speed rail projects. As a result of Ohio, Florida and Wisconsin's rejection of the ARRA funds, the state of Washington will receive $780 million to upgrade its existing Amtrak rail system. Even though Washington will not use the funds to construct high speed rail, Washington estimates that it will spend $50-80 million over the next twenty years in maintaining the new upgrades.

The states' and federal government's budget crises and the end of the ARRA funds will also likely result in tax dollars being directed towards more politically sensitive welfare expenditures rather than public construction projects. The construction industry is holding out hope that private construction spending substantially increases in the next several years to minimize the reduction in ARRA spending.

Not only has the ARRA significantly impacted the construction industry in the past two years, the ARRA will have a lasting impact on the construction industry for decades to come.

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