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Infrastructure Advocacy
& Education Organization

PSA-IAEO June 2015 Infrastructure Update

Congress Extends Transportation Funding….Again

For the 33rd time since 2008, Congress has passed a temporary funding bill extending funding for transportation through July 31 – again dodging the issue of how to pay for highway and transit in the long run. The two-month extension leaves state and local transportation officials in the lurch as they plan for the balance of the summer construction season; unable to embark on long-term projects that require the certainty of federal funding.

The federal gas tax has remained at 18.4 cents per gallon since 1993 and no longer brings in enough money to pay highway and transit bills. On June 17th House Ways and Means Committee Chairman Paul Ryan stated; "We're not going to raise the gas tax" at the onset of a hearing on how to fill a shortfall in the Highway Trust Fund that that has forced the transfer of $65 billion from the general tax fund since 2008. Ryan further indicated that another transfer from the general fund, estimated at $3 billion or more, would be needed to sustain funding through the end of fiscal 2015.

"A 10 cent per gallon increase would revitalize the Highway Trust Fund for another decade" Joseph Kile of the non-partisan Congressional Budget Office told the committee. This had little impact on members determined not to raise taxes.

PSA-IAEO continues to favor the implementation of innovative financing techniques such as the formation of a National Infrastructure Bank to encourage private investment in our nation's aging infrastructure as well as the passage of HR 2084: Partnership to Build America Act which encourages public-private partnerships in transportation.

The U.S.’s Energy Infrastructure Needs Major Changes

The U.S. electric grid will require major changes to reposition itself for the future challenges of climate change, new technologies, and national security in coming decades, according to a first-ever “Quadrennial Energy Review” recently released by the Obama administration.

The report says our system for getting electricity stands at a “strategic inflection point” and requires “significant change” in order to accommodate more renewables and the growth of distributed energy technologies like rooftop solar. And it says much the same for the rest of the U.S.’s sprawling, but often dated, power infrastructure.

The report comes at a time of major transition in the U.S. power sector. Solar and wind energy are expanding rapidly, and natural gas is gaining on coal. Meanwhile, the administration is pursuing a plan to limit greenhouse gas emissions by power plants. The new developments, combined with risks related to extreme weather, terrorism, cyber-attacks and aging infrastructure, make this a transformative moment for the nation’s power backbone.

In particular, the document envisions increased threats from climate extremes and cyber-hackers, but also much opportunity to create jobs, lower greenhouse gas emissions, and empower consumers if the right changes to the energy system are adopted today.

Overall, notes the Quadrennial Energy Review, the nation’s energy infrastructure consists of a staggering “approximately 2.6 million miles of interstate and intrastate pipelines; about 640,000 miles of transmission lines; 414 natural gas storage facilities; 330 ports handling crude petroleum and refined petroleum products; and more than 140,000 miles of railways that handle crude petroleum” and other fossil energy products.

And much of it is dated. There has been a “lack of timely investment in refurbishing, replacing, and modernizing components of [energy] infrastructure that are simply old or obsolete,” says the document. The report highlights one example in particular — almost half of the country’s “gas transmission and gathering pipelines,” it says, were built the 1950s and 1960s in a wave of construction following World War II. The modern world, meanwhile, poses radically new challenges to infrastructure.

“Threats to the grid — ranging from geomagnetic storms that can knock out crucial transformers; to terrorist attacks on transmission lines and substations; to more flooding, faster sea-level rise, and increasingly powerful storms from global climate change — have been growing even as society’s dependence on the grid has increased,” says the document.

The U.S.'s electricity grid is one of the world's strongest, the document admits. Yet the energy grid of the future does not, in most expert descriptions, look much like the one of today — it needs to make room for more distributed energy generation enabled by innovations like rooftop solar, as well as much more renewable power in general and, perhaps, more battery-based storage options for power.

Therefore, the Energy Department document calls for large federal investments over ten years to modernize the grid and improve energy security, including programs to strengthen natural gas systems, help states identify their power vulnerabilities, and move to "mitigate the risks associated with loss of transformers," which the document calls one of the "most vulnerable components" of the grid.

Source: The Washington Post

2015 AWWA State of the Water Industry Report

The American Water Works Association (AWWA) has been formally tracking issues and trends in the water industry since 2004 through the State of the Water Industry (SOTWI) study. AWWA continues to conduct this annual survey in order to:

- Identify and track significant challenges facing the water industry
- Provide data and analysis to support water professionals as they develop and communicate strategies to address current issues
- Discover and highlight potential problems or concerns on the water industry's horizon
- Inform decision makers and the public of the challenges faced by the industry

Some of the major findings of this study are:

- The current health of the industry as rated by all respondents was 4.5 on a scale of 1 to 7, down slightly from the 2014 score of 4.6; this score has fallen into a range of 4.5 to 4.9 since the survey began in 2004.
- In looking forward five years, the soundness of the water industry was expected to decline to 4.4 from the 2014 score of 4.5 (again out of 7.0); this score has fallen into a range of 4.4 to 5.0 since the survey's inception.
- The top five most important issues were identified as follows:
  1. Renewal and replacement (R&R) of aging water and wastewater infrastructure
  2. Financing for capital improvements
  3. Long-term water supply availability
  4. Public understanding of the value of water systems and services
  5. Public understanding of the value of water resources
- There is a gap between the financial needs of water and wastewater systems and the means to pay for these services through rates and fees.

- Concerning infrastructure R&R, the most important issue was establishing and following a financial policy for capital reinvestment. Other critical concerns in this area are prioritizing R&R needs and justifying R&R programs to ratepayers and oversight bodies (board, council, etc.)
- Forty three percent of utility respondents reported declining total water sales while 29 percent of respondents reported their total water sales were flat or little changed in the last 10 years. In all, this means that three-quarters of utilities are facing the issues associated with low or declining water demand that can dramatically impact cost recovery, i.e., pricing water to accurately reflect its true cost.
- Seventy two percent of respondents felt the general public has a poor or very poor understanding of water systems and services.
- The top three current regulatory concerns were identified as (1) chemical spills, (2) point source pollution, and (3) combined sewer overflows.

Cities See Longest Stretch of Job Growth

Local governments have experienced six consecutive months of employment growth—the longest stretch of growth since the beginning of the Great Recession—according to the May jobs report issued by the Bureau of Labor Statistics. The pace of growth over the past quarter puts local governments on track to reach their post-recession employment peak by 2019. The National League of Cities released an analysis of the May jobs report, finding that while six months of growth is an early indicator that recovery is starting to take hold at the local level, slow national economic growth and continued political and policy uncertainty at the federal level can undermine progress on the local level.

"The May jobs report shows the first six-months of sustained local government job growth since the recession," said National League of Cities CEO Clarence E. Anthony. "Local government workforces fulfill critical services in the community, from police and fire protection to public health and social services to training programs. Make no mistake, these jobs, and the services they provide, took big hits during the recession, but today's numbers are a good sign that we are on the road to recovery."

Nationwide, local governments added 15,000 jobs in May and employ 14,120,000 people. December 2014 to May 2015 marks the longest period of growth in the local government workforce since the start of the recession, but local governments (excluding education) are still 195,000 jobs below their post-recession peak (December 2008) of about 6.5 million jobs. If growth for last three months stays on pace (4,600 per month), it will take between three and four years for local government employment to be restored.

"Sustained job growth over the past six months is an early indicator that recovery is starting to take hold and that fiscal health is improving in our cities," said Christiana McFarland, research director at the National League of Cities and author of the analysis. "These improvements, however, are still tenuous and contingent on stronger growth in the broader economy."

Builder Confidence Hits Yearly High in June

Builder confidence in the market for newly built, single-family homes in June rose five points to a level of 59 on the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). This is the highest reading since September 2014.

“Builders are reporting more serious and committed buyers at their job sites and this is reflected in recent government data showing that new-home sales and single-family construction are gaining momentum,” said NAHB Chairman Tom Woods, a home builder from Blue Springs, Mo.

All three HMI components posted healthy gains in June. The component gauging current sales conditions jumped seven points to 65, the index charting sales expectations in the next six months increased six points to 69, and the component measuring buyer traffic rose five points to 44.

Looking at the three-month moving averages for regional HMI scores, the South and Northeast each rose three points to 60 and 44, respectively. The West posted a two-point gain to 57 while the Midwest dropped by one point to 54.

Latest Economic Indicators at a Glance

<u>Annual Employment Report</u>

Nonfarm payroll employment rose by 280,000 in May, and the unemployment rate was essentially unchanged at 5.5 percent. Employment rose in professional and business services, leisure and hospitality, and health care. Job losses continued in mining.

<u>Construction Employment</u>

Construction firms added 17,000 jobs in May and 273,000 over 12 months, as the sector's unemployment rate fell to 6.7 percent, the lowest May rate since 2006.

<u>Consumer Confidence</u>

Consumer confidence, which had declined in April, increased moderately in May. “Consumer confidence improved modestly in May, after declining sharply in April,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “After a three-month slide, the Present Situation Index increased, propelled by a more positive assessment of the labor market. Expectations, however, were relatively flat following a steep decline in April. While current conditions in the second quarter appear to be improving, consumers still remain cautious about the short-term outlook."

Gross Domestic Product (GDP)

Real gross domestic product -- the value of the production of goods and services in the United States, adjusted for price changes -- decreased at an annual rate of 0.7 percent in the first quarter of 2015, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.2 percent.

Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in April on a seasonally adjusted basis. Over the last 12 months, the all items index declined 0.2 percent before seasonal adjustment.

The index for all items less food and energy rose 0.3 percent in April and led to the slight increase in the seasonally adjusted all items index. The index for shelter rose, as did the indexes for medical care, household furnishings and operations, used cars and trucks, and new vehicles. In contrast, the indexes for apparel and airline fares declined in April.

The energy index declined in April, while the food index was unchanged. The indexes for gasoline, natural gas, and fuel oil all declined, while the electricity index was unchanged. The food at home index declined for the second month in a row, offsetting an increase in the index for food away from home. Major grocery store food group indexes were mixed.

The all items index declined 0.2 percent for the 12 months ending April. This represented a slightly larger decrease than the 0.1-percent decline for the 12 months ending March. The decline was driven by the energy index, which fell 19.4 percent over the last 12 months, with all the major components declining except electricity. The food index rose 2.0 percent over the last year, and the index for all items less food and energy rose 1.8 percent.

Producer Price Index

The Producer Price Index for final demand rose 0.5 percent in May, seasonally adjusted. Final demand prices fell 0.4 percent in April and advanced 0.2 percent in March. On an unadjusted basis, the final demand index declined 1.1 percent for the 12 months ended in May, the fourth straight 12-month decrease.

Productivity and Costs

Nonfarm business sector labor productivity decreased at a 3.1 percent annual rate during the first quarter of 2015, as output declined 1.6 percent and hours worked increased 1.6 percent. The decline in productivity follows a decline of 2.1 percent in the fourth quarter of 2014. From the first quarter of 2014 to the first quarter of 2015, productivity increased 0.3 percent, reflecting increases in output and hours worked of 3.2 percent and 2.8 percent, respectively.

Factory Orders

New orders for manufactured durable goods in April decreased $1.2 billion or 0.5 percent to $235.5 billion. This decrease, down two of the last three months, followed a 5.1 percent March increase. Excluding transportation, new orders increased 0.5 percent. Excluding defense, new orders increased 0.2 percent.

Transportation equipment, also down two of the last three months, drove the decrease, $2.0 billion or 2.5 percent to $77.9 billion.

Employment Cost Index

Compensation costs for civilian workers increased 0.7 percent, seasonally adjusted, for the 3-month period ending March 2015. Wages and salaries (which make up about 70 percent of compensation costs) increased 0.7 percent, and benefits (which make up the remaining 30 percent of compensation) increased 0.6 percent.

Civilian Workers

Compensation costs for civilian workers increased 2.6 percent for the 12-month period ending March 2015, rising from the March 2014 increase in compensation costs of 1.8 percent. Wages and salaries increased 2.6 percent for the 12-month period ending March 2015, which was higher than the 1.6-percent increase in March 2014. Benefit costs increased 2.7 percent for the 12-month period ending March 2015, compared with a 2.1-percent increase for the 12-month period ending March 2014.

Private Industry Workers

Compensation costs for private industry workers increased 2.8 percent over the year, higher than the March 2014 increase of 1.7 percent. Wages and salaries increased 2.8 percent for the current 12-month period ending March 2015, also higher than the March 2014 increase of 1.7 percent. The cost of benefits rose 2.6 percent for the 12-month period ending March 2015, which was higher than March 2014, when the increase was 1.8 percent. Employer costs for health benefits increased 2.5 percent over the year. The 12-month percent change for March 2014 was an increase of 2.4 percent.

Among occupational groups, compensation cost increases for private industry workers for the 12-month period ending March 2015 ranged from 2.3 percent for natural resources, construction, and maintenance occupations and service occupations to 3.4 percent for sales and office occupations.

Among industry super sectors, compensation cost increases for private industry workers for the current 12-month period ranged from 1.8 percent for construction to 6.1 percent for information.

State and Local Government Workers

Compensation costs for state and local government workers increased 2.1 percent for the 12-month period ending March 2015, compared with a 1.9-percent increase for March 2014. Wages and salaries increased 1.8 percent for the 12-month period ending March 2015. In March 2014, the increase was 1.2 percent. Benefit costs increased 2.8 percent in March 2015. In March 2014, the increase was 3.0 percent.

Real Earnings

Real average hourly earnings for all employees were unchanged from March to April, seasonally adjusted. This result stems from a 0.1-percent increase in average hourly earnings being offset by a 0.1-percent increase in the Consumer Price Index for All Urban Consumers (CPI-U).

Real average weekly earnings were unchanged over the month due to no change in both real average hourly earnings and the average workweek.

Real average hourly earnings increased by 2.3 percent, seasonally adjusted, from April 2014 to April 2015. This increase in real average hourly earnings, combined with no change in the average workweek, resulted in a 2.3-percent increase in real average weekly earnings over this period.

Construction Spending

Construction spending during April 2015 was estimated at a seasonally adjusted annual rate of $1,006.1 billion, 2.2 percent above the revised March estimate of $984.0 billion. The April figure is 4.8 percent above the April 2014 estimate of $960.3 billion. During the first 4 months of this year, construction spending amounted to $288.7 billion, 4.1 percent above the $277.3 billion for the same period in 2014.

Spending on private construction was at a seasonally adjusted annual rate of $725.2 billion, 1.8 percent above the revised March estimate of $712.1 billion. Residential construction was at a seasonally adjusted annual rate of $353.1 billion in April, 0.6 percent above the revised March estimate of $351.1 billion. Nonresidential construction was at a seasonally adjusted annual rate of $372.1 billion in April, 3.1 percent above the revised March estimate of $361.0 billion.

In April, the estimated seasonally adjusted annual rate of public construction spending was $280.9 billion, 3.3 percent above the revised March estimate of $271.9 billion. Educational construction was at a seasonally adjusted annual rate of $63.3 billion, 3.6 percent above the revised March estimate of $61.2 billion. Highway construction was at a seasonally adjusted annual rate of $87.1 billion, 8.5 percent above the revised March estimate of $80.3 billion.

Nonresidential Construction Spending

Nonresidential construction spending did not just offer good news about April; it also supplied upwardly revised spending data for both February and March. Nonresidential spending expanded 3.2 percent on a monthly basis in April and spending totaled $646.7 billion on a seasonally adjusted, annualized basis, according to the government's initial estimate. Nonresidential construction is up by a solid 8.8 percent over the past year, consistent with ABC's forecast of high single-digit growth. The Census Bureau also revised March's nonresidential spending figure from $611.8 billion to $626.7 billion, and February's figure from $613.1 billion to $618.4 billion. Initial estimates suggested that nonresidential construction was sagging during the early months of the year; however, the new data indicate spending has expanded during each of the previous three months.

"The upbeat assessment of nonresidential construction in April has been rendered more meaningful by the upward revisions for prior months," said ABC Chief Economist Anirban Basu. "The presumption had been that nonresidential spending construction data would improve as we approached the summer, and the outlook ahead remains solid. There is a considerable amount of financial capital available to move construction projects forward and low interest rates certainly help. While the availability of substantial financial capital may eventually produce over-built private construction markets, for now the expectation is that progress will continue."

Construction Materials Prices

Prices for inputs to construction industries expanded by 1.1 percent in May, the largest month-over-month increase in more than two years and only the third time in the past 10 months that construction input prices have grown on a monthly basis. Year-over-year prices fell by 3 percent in May and have now fallen by more than 3 percent in each of the year's first five months. The last time this occurred was the third and fourth quarter of 2009. Only three of the 11 key construction inputs—nonferrous wire and cable, crude petroleum and crude energy materials—experienced monthly price increases in May.

"Commodity markets experienced a reversal of several patterns that have been in place for many months in May," said Associated Builders and Contractors' Chief Economist Anirban Basu. "Most notably, key energy prices rose meaningfully, with oil prices rising to roughly $50 per barrel. While natural gas prices did not rise for the month according to the producer price index, they remained relatively flat after falling by more than 10 percent in three of the year's first four months. Many economic forces were at work, including a weaker U.S. dollar. Many commodities are priced in dollars, which helps to lay a floor under the associated prices. With the European economy showing signs of life the dollar's rise against the euro has effectively stalled.

"Stakeholders should not consider this the beginning of a new trend," said Basu. "There are a number of reasons to expect the U.S. dollar to advance against other major currencies during the next few months, including an anticipated shift in monetary policy. Last year, the U.S. Federal Reserve ended its quantitative easing program, and interest rate increases are likely during the month ahead. This will help suppress further increases in commodity prices, including those related to energy. Key elements of the global economy also continue to stumble, including in China, with its worst world outlook in approximately 20 years, and in Brazil, which is not expected to expand economically in 2015."

Only three of the key materials' prices increased in May.

- Crude petroleum prices expanded 15.6 percent in May but are down 42 percent from the same time last year.
- Crude energy materials prices gained 7.7 percent in May but are 37.3 percent lower year-over-year.
- Nonferrous wire and cable prices expanded 0.9 percent on a monthly basis but shed 2.8 percent on a yearly basis

Eight of the 11 key construction inputs did not expand for the month.

- Fabricated structural metal product prices dropped 0.5 percent lower for the month but have expanded 0.8 percent on a year-over-year basis.
- Natural gas prices fell 1.7 percent in May and are down 48.4 percent from the same time one year ago.
- Prices for plumbing fixtures remained flat in May and are up 4.9 percent on a year-over-year basis.
- Prices for prepared asphalt, tar roofing and siding fell 1.5 percent for the month and are down 1.9 percent on a year-ago basis.
- Iron and steel prices fell 1 percent in May and are down 14.9 percent from the same time last year.
- Steel mill products prices fell 2 percent for the month and are 11 percent lower than one year ago.
- Softwood lumber prices fell 2.5 percent and are 7.9 percent lower than one year ago.
- Concrete product prices grew 1.3 remained flat in May and are up 4.9 percent on a yearly basis.

Retail Sales

Advance estimates of U.S. retail and food services sales for May, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $444.9 billion, an increase of 1.2 percent from the previous month, and 2.7 percent above May 2014. Total sales for the March 2015 through May 2015 period were up 2.1 percent from the same period a year ago. The March 2015 to April 2015 percent change was revised from virtually unchanged to +0.2 percent

Retail trade sales were up 1.4 percent from April 2015, and 2.0 percent above last year. Motor vehicle and parts dealers were up 8.2 percent from May 2014 and food services and drinking places were up 8.2 percent from last year.

New Residential Sales

Sales of new single-family houses in April 2015 were at a seasonally adjusted annual rate of 517,000. This is 6.8 percent above the revised March rate of 484,000 and is 26.1 percent above the April 2014 estimate of 410,000.

The median sales price of new houses sold in April 2015 was $297,300; the average sales price was $341,500. The seasonally adjusted estimate of new houses for sale at the end of April was 205,000. This represents a supply of 4.8 months at the current sales rate.

New Residential Construction

Privately-owned housing units authorized by building permits in May were at a seasonally adjusted annual rate of 1,275,000. This is 11.8 percent above the revised April rate of 1,140,000 and is 25.4 percent above the May 2014 estimate of 1,017,000.

Single-family authorizations in May were at a rate of 683,000; this is 2.6 percent above the revised April figure of 666,000. Authorizations of units in buildings with five units or more were at a rate of 557,000 in May.

Privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,036,000. This is 11.1 percent below the revised April estimate of 1,165,000, but is 5.1 percent above the May 2014 rate of 986,000.

Single-family housing starts in May were at a rate of 680,000; this is 5.4 percent below the revised April figure of 719,000. The May rate for units in buildings with five units or more was 349,000.

Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,034,000. This is 4.7 percent above the revised April estimate of 988,000 and is 14.5 percent above the May 2014 rate of 903,000.

Single-family housing completions in May were at a rate of 635,000; this is 5.2 percent below the revised April rate of 670,000. The May rate for units in buildings with five units or more was 392,000.

U.S. Trade Balance

The goods and services deficit was $40.9 billion in April, down $9.7 billion from $50.6 billion in March, revised. April exports were $189.9 billion, $1.9 billion more than March exports. April imports were $230.8 billion, $7.8 billion less than March imports.

The April decrease in the goods and services deficit reflected a decrease in the goods deficit of $9.3 billion to $60.7 billion and an increase in the services surplus of $0.4 billion to $19.8 billion.

Year-to-date, the goods and services deficit increased $1.5 billion, or 0.9 percent, from the same period in 2014. Exports decreased $18.0 billion or 2.3 percent. Imports decreased $16.5 billion or 1.8 percent.