



2018 Economic and Legislative Updates By Mara Johnston

Welcome to the Spring Newsletter of the 2019 season. We wanted to take this opportunity to reflect on the industry and share some of our insights with you regarding the US economy and highlights on new legislation affecting the construction industry for the end of 2018 into 2019 and beyond.

To begin with a focus on the general construction industry and US economy, it has been over two years since Donald Trump was elected president and almost that long since his \$1 Trillion Infrastructure Plan was proposed. Just following the election, the Dow broke 26,000 points for the first time. The U.S. GDP advanced at an annualized 2.2 percent in the fourth quarter of 2018, following an annualized rate of 3.4 percent in the previous period (Q3). In 2018, the GDP advanced 2.9 % compared to 2.2% in 2017, and the 3.7% jobless rate in September 2018 was the lowest in almost 50 years.*

However, there is still a lot to be done in terms of our aging infrastructure, including reducing political and legislative stalemates, increasing innovative methods to provide financing, and improving the efficiencies around both the pre-construction and construction phases of projects. As an example, The Gateway Tunnel is still yet to proceed despite being over 100 years old on top of massive deterioration following Hurricane Sandy in 2012. Although New York and New Jersey have agreed to contribute half of the estimated \$12.7 Billion project cost, the Federal Government has not agreed to contribute the remaining funds needed to build such an important project. A few additional highlights on Federal and State changes are outlined below:

Tax Cuts

Economic expansion has been driven in part by President Trump's Tax Cuts and Jobs Act, which, among other provisions, included a decrease in the federal corporate income tax rate from 35% to 21%.

Material Costs and Tariffs

An increase in tariffs have ultimately increased material costs for contractors on construction sites. The cost of materials needed for construction projects and goods consumed (e.g. diesel fuel) is up 7.9% over the last year.

Labor

U.S. employers have added an average of 210,000 jobs a month during the past year, but even with unemployment at a 3.7% low, labor shortage in the construction industry is continuously noted as one of the largest struggles for contractors today. This is due to an ageing workforce of construction workers and the younger generation going into different fields. The construction industry must embrace technology and use innovative new methods to draw construction workers back into our field.

Legislative Updates

Federal

The federal tax per gallon of gasoline has remained at 18.4 cents and diesel fuel at 24.4 cents since 1993. Voters across the country approved nearly \$41 Billion in new investment for transportation last year.

Colorado

Colorado voters rejected two proposals, Proposition 109 and Proposition 110. Prop 109 proposed \$3.5B in bonds to pay for over 60 projects and Prop 110 was a 62 cent sales tax increase resulting in \$6B in funds.

Alabama

Alabama passed an new gas tax in January of 2019 by raising the state's gasoline tax 10 cents per gallon over three years.. The state gasoline tax, which is 18 cents per gallon, would increase by 6 cents this year, 2 cents in 2020 and 2 cents in 2021.

New Jersey

New Jersey passed new P3 legislation on August 14, 2018. The new bill S-865, allows NJ to enter into P3 projects with at least \$10M in public funds and any level of private funds.

California

California voted against Proposition 6, which would repeal the fuel tax increase helping fund \$52 Billion in infrastructure funds (12 cent tax on gas and 20 cent tax on diesel)

*Source: <https://www.constructiondive.com/news/two-years-of-trump-where-are-we-and-whats-next-for-construction/542578/>



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Are Public Contractors Over Levered?

The Federal Reserve tightened interest rates **three** times in 2018 in an attempt to achieve what it considers to be a market neutral interest rate. At the end of the calendar year in 2018, the fed funds rate was 2.25% - 2.5%, resulting in a prime rate of 5.25%. At Star, we compiled the cash interest paid by publicly traded E&C companies to understand how this may affect their cost structure. The table below is sorted by **Interest as a % of Revenue**, Highest to Lowest.

Company Name	Equity	Total Debt (\$ '000s)	Debt to Equity:	FY 2018 Revenue	Cash Interest Paid (\$'000s)	Int as % of Revenue	Cash Interest / Total Debt
Infrastructure & Energy Alternatives (IEA)	(131,178)	351,841	-2.68	779,343	10,817	1.39%	3.07%
Aecom*	4,278,374	3,673,500	0.86	20,155,512	271,842	1.35%	7.40%
Tutor Perini	1,787,889	761,504	0.43	4,454,662	51,447	1.15%	6.76%
Sterling	172,260	88,755	0.52	1,037,667	10,829	1.04%	12.20%
Granite Construction	1,397,634	382,405	0.27	3,318,414	14,864	0.45%	3.89%
Construction Partners Inc.**	299,469	63,264	0.21	680,096	2,336	0.34%	3.69%
MYR Group	324,464	89,792	0.28	1,531,169	3,097	0.20%	3.45%
Emcor	1,741,441	295,777	0.17	8,130,631	13,544	0.17%	4.58%

*As of 9/30/18 - Fiscal Year End.

**Does not include Non-cash interest

Data sourced from corporate 10-k stmts

Star America Capital Advisors in the Industry

Mara Johnston Speaks at MWBE Conference in Albany, NY



Mara Johnston presented at the annual Grow with NYS MWBE Forum in Albany on October 4th. The session was titled "Generations Talking." The presentation included an esteemed panel of women leaders and explored new opportunities for women as entrepreneurs and executives. The panel was moderated by Kathy Hochul, Lieutenant Governor of New York State along with other admired panelists.

Jim Merrill Speaks at Sax Construction Breakfast in NJ



Jim Merrill was a featured panelist at Sax's Construction Industry breakfast in Whippany, NJ on November 14th. Topics discussed included an update on the current state and near term outlook for the construction industry both Nationally and in New Jersey, material cost implications, trends in mergers and acquisitions, union vs non-union, MWBE compliance and other important areas of focus.

In addition, our team continues to develop and provide the industry with sector reporting to provide insight and knowledge when facing these decisions. Our website and LinkedIn pages are updated with our reports at the links below:

<http://www.staramericap.com>

<https://www.linkedin.com/company-beta/3246892>