WELCOME TO THE TRANSPORTATION TRENDS QUARTERLY NEWSLETTER

The end of summer always comes with a renewed sense of urgency. How will that translate to our transportation infrastructure landscape?

Read: In this quarter's ***Transportation Trends,*** find original research, forecasting and pragmatic guidance that can help you plan and budget for the transportation infrastructure your community needs, from timely policy updates, to cost analysis and forecasting, to analysis of the most impactful grants, funding and financing dynamics.

Listen: In this quarter's ***Transportation Trends Partner Audiocast***, we sit down with Lisa Buglione, Executive Director at the Association for the Improvement of American Infrastructure (AIAI), to discuss the role of public-private partnerships (P3) and alternative delivery in meeting increasingly scaled and complex infrastructure needs nationwide.

The Policy and Funding Backdrop:

In ***last quarter's Transportation Trends***, we noted that Congress was unlikely to enact a new surface transportation authorization to replace the Infrastructure Investment and Jobs Act (IIJA) before the law expires on September 30. Recent developments suggest Congress shares that assessment, as both the House and Senate have drafted temporary funding measures (continuing resolutions, or CRs) to avoid a broader lapse in federal appropriations, which also expire on September 30. Both chambers have proposed continuing federal funding into December, providing additional time to reach an agreement on longer-term spending bills and to know the outcome of the upcoming election.

For transportation programs, however, the situation is more complicated than a typical continuation of appropriations or CR. While the Senate's proposed CR does include an extension of the IIJA, the Senate committees have not yet released a broader surface transportation reauthorization package. Meanwhile, the House has introduced its reauthorization proposal, the **BUILD America 250 Act**, but has not yet voted on the measure and did not include a short-term extension in its proposed CR. As Congress works toward a final funding package for the broader Federal government, the future of federal surface transportation programs remains uncertain. Will they include an extension of the transportation programs in a CR that keeps the rest of the government operating, or will it be a separate piece of legislation? Either way, we are not expecting a new multi-year authorization by the September 30th deadline.

Without either an IIJA extension or a new authorization, the Federal Highway Administration (FHWA) would be unable to continue operating under its current statutory framework. A short-term extension would allow FHWA to continue administering programs and generally maintain funding at IIJA levels on a prorated basis. For example, a 75-day extension would provide roughly 20 percent (75/365) of the annual IIJA funding authority.

However, the funding picture is not entirely straightforward. The IIJA included significant advanced appropriations under Division J that would not automatically continue unless specifically provided for in the extension language. If those funds are not addressed, State DOTs could experience a meaningful reduction in available federal funding for the transportation program. In addition, discretionary grant programs have historically slowed or paused during short-term extensions, limiting opportunities for agencies to supplement formula funding through competitive awards.

While there appears to be bipartisan support for preventing a government shutdown and maintaining federal transportation funding in the near term, a short-term extension is not a substitute for a multi-year transportation authorization. Extensions preserve existing programs temporarily but leave State DOTs without the long-term funding certainty needed to confidently plan, program and deliver major transportation investments. As a result, State DOTs are likely to adopt a more cautious approach to project development, delay larger commitments and defer strategic decisions until Congress establishes a longer-term transportation funding framework.*(For a potential sidebar/callout box:)*

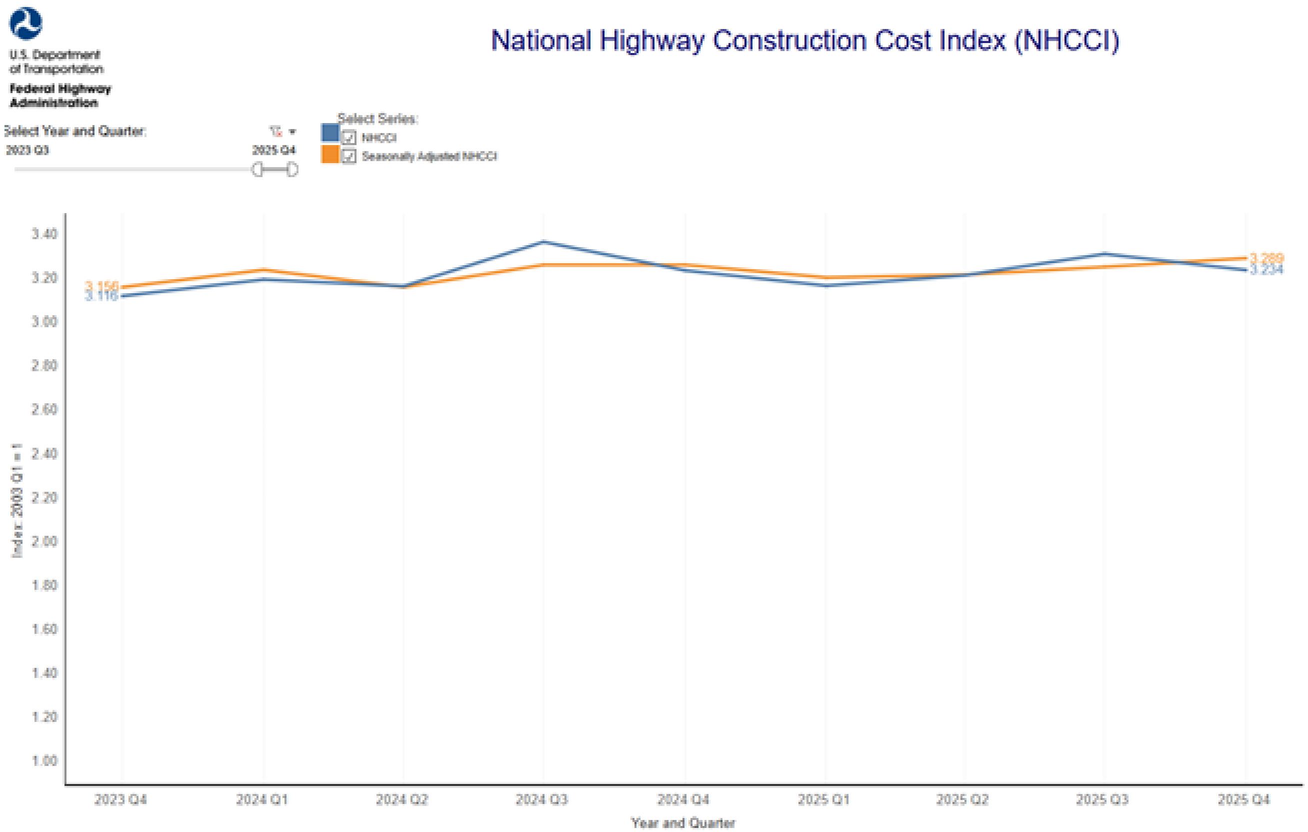
WHY IT MATTERS
FOR STATE DOTS

- Reduced funding certainty for long-range planning
- Potential delays in project programming and commitments
- Reduced availability of discretionary grant opportunities
- Increased caution around multi-year project delivery decisions
- Continued uncertainty until Congress adopts a long-term authorization

Cost Analysis and Forecasting:

Recent movements in the National Highway Construction Cost Index (NHCCI) and its underlying inputs continue to signal upward pressure on highway construction costs, although the index's multi-quarter reporting lag limits its value as a real-time indicator. As of Q3 2026, the latest published NHCCI figure reflects Q4 2025 conditions, leaving roughly three quarters of current market activity outside the official measure. Federal Highway Administration (FHWA) data shows that the latest non-seasonally adjusted value declined while the seasonally adjusted index increased.

The increase in the seasonally adjusted value indicates that costs remained higher than would typically be expected for the 4th quarter. The gap between the two measures suggests that cost pressures remain elevated relative to historical seasonal patterns. Trends in related producer price, material, labor and energy indices provide additional context for assessing whether these pressures are likely to persist in future NHCCI releases.



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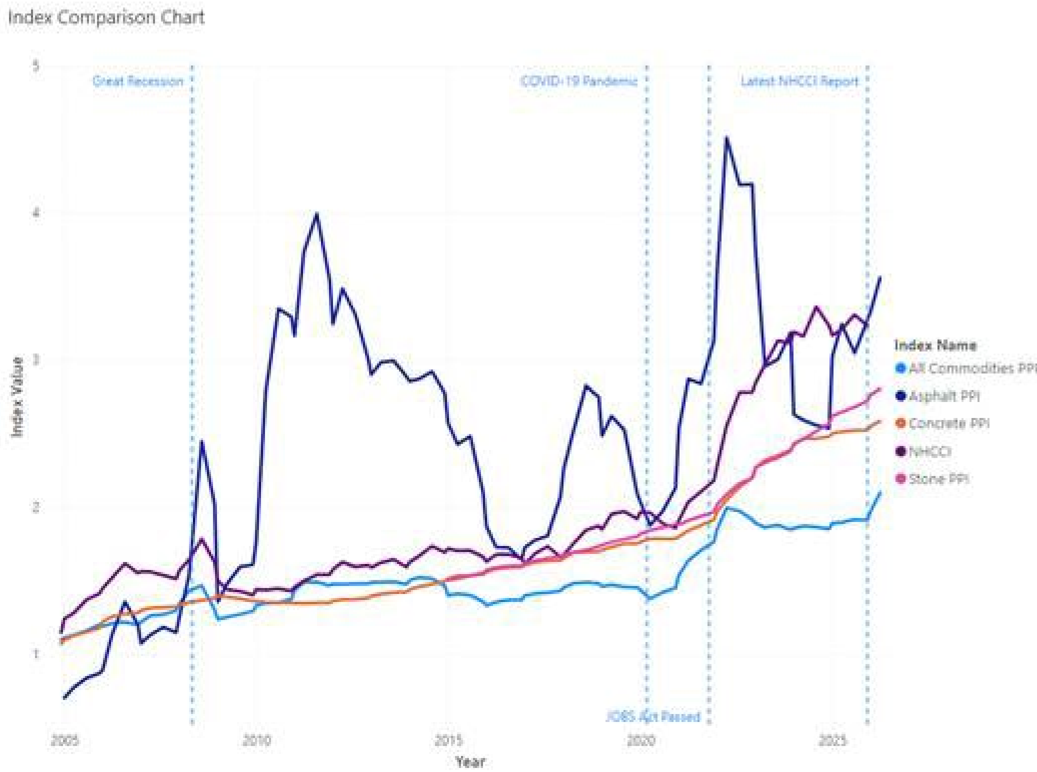

Source: Ulteig's proprietary Transportation Construction Cost Forecasting Tool, 2026

Given the lag in the NHCCI, the Producer Price Index (PPI) can provide a more current indication of changes in material, energy and manufacturing input costs. Historically, the PPI tracked closely with the NHCCI, but the relationship began to diverge around 2022. The recent PPI spike will test whether that divergence persists or whether renewed input cost pressure is reflected in future NHCCI releases. Increases in the PPI for All Commodities, asphalt-related costs, stone, concrete and construction employment costs reinforce the potential for further pressure. If energy costs remain elevated and volatile, they are also likely to increase overall construction costs. However, the NHCCI has not always moved proportionally with individual commodities; during a significant asphalt cost spike in 2010, the index remained comparatively resilient.

Competitive bidding trends provide another useful lens on NHCCI movement. Previous FHWA analysis indicates that fewer bids can elevate NHCCI values because reduced competition may contribute to higher awarded contract values. Tracking bid counts by quarter and geography, comparing engineer estimates with awards, and examining itemized costs across project timelines could identify regional competition patterns and clarify how contractor capacity, project duration and delivery schedules influence cost escalation. These dynamics are especially relevant as agencies manage aging assets, rising maintenance needs, weather-related risks and uncertainty surrounding future funding. Funding uncertainty can delay projects and reduce the number of new bidding opportunities available to contractors. Historically, a smaller pool of available projects has sometimes attracted more bidders to each opportunity, potentially increasing competition; however, this pattern has not been confirmed under current market conditions and should be treated as a historical indicator rather than a forecast. Analysis of these relationships could inform expectations for bidding conditions as agencies plan around federal surface transportation reauthorization, while reinforcing the importance of project prioritization, lifecycle cost optimization and efficient delivery.

Ulteig's Transportation Construction Cost Forecasting Tool estimates near-term NHCCI values using statistical relationships among the FHWA index, producer price indices, construction materials pricing, labor costs and variation within the NHCCI. The accompanying dashboard compares the latest Q4 2025 observation with projected conditions through 2026, providing visibility into approximately three quarters of otherwise unreported movement. Based on current inputs and recent five-year patterns, the forecast suggests that the NHCCI will likely remain elevated through 2026, although quarterly growth may vary. These outputs are best interpreted as ranges and directional signals rather than precise predictions. Broader economic indicators, including the Federal Reserve Beige Book, can provide important context for evaluating the assumptions and uncertainty underlying forward-looking statements. The Beige Book synthesizes largely qualitative information on current conditions and outlooks across the 12 Federal Reserve Districts. Its latest reporting notes continued increases in material, transportation, energy and labor costs, suggesting that inflationary pressure likely remains embedded in infrastructure delivery.

Some state departments of transportation are responding to cost and workforce pressures by using digital tools to improve delivery efficiency. At the 2026 Western Association of State Highway and Transportation Officials (WASHTO) Annual Conference in Las Vegas, leaders from the Texas Department of Transportation (TxDOT), California Department of Transportation (Caltrans) and Utah Department of Transportation (UDOT) discussed practical applications of artificial intelligence (AI) in asset management, quality assurance and administrative work. These applications may improve prioritization and efficiency, but panelists emphasized that implementation should begin with a defined business problem, reliable data governance and continued human oversight.

It is important to acknowledge the limits of forward-looking projections. While trend-based models capture structural cost drivers, they cannot reliably anticipate large external shocks. **Geopolitical conflicts, sudden supply disruptions and rapid policy shifts can introduce step-change impacts that exceed historical variance**. In the current environment, both upside and downside risks remain asymmetric and difficult to quantify precisely.

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