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S&P: Construction Cost Inflation Weighs On U.S. Public Infrastructure Investment

Key Takeaways

- Overall project cost inflation for public sector sponsors creates a dilemma: Either scale back the scope of capital programs or increase funding from some combination of taxes, tolls, general fund sources, federal grants, or additional debt.
- The highest construction cost inflation seen in decades has arrived at an inopportune time; as historic levels of federal investment in infrastructure are starting to flow, cost inflation is beginning to erode some of its benefits.
- The Producer Price Index (PPI) for building materials and supplies increased 24.9% between March 2021 and March 2022, and 58.6% between pre-pandemic January 2020 and March 2022.
- Construction cost inflation will result in public sector project sponsors seeing higher bids from contractors, larger contingencies in new contracts along with wider cost escalation ranges for materials, as well as a shift away from fixed-price contracts.

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