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April 17, 2020

RTAC LEGISLATIVE UPDATE

STATE TRANSPORTATION BOARD RECEIVES GRIM FINANCIAL OUTLOOK: ADOT staff gave their best effort to provide a transportation revenue forecast and potential impacts at today's virtual State Transportation Board meeting. As with the Legislature's Finance Advisory Committee last week, there are a tremendous amount of unknowns and uncertainties moving forward which greatly impedes accurate forecasting and from a broader perspective, predicting the impacts.

ADOT's Chief Financial Officer, Kristine Ward, estimated that, as of today, the anticipated revenues for the state's highway construction program will be reduced by $385 million over the next three years. This equates to losses of 9% this year, 22% in FY21, and 12% in FY22. That direct loss of revenue will be multiplied by changing conditions in the finance market and the likely ADOT deferment of $155.5 million in planned Highway User Revenue Fund (HURF) bonds which would equate to a $540.4 million loss to the five-year program.

Unlike other state revenues which have experienced very strong growth this year, HURF growth has been fairly moderate and actually slightly below forecasted levels. So, HURF collections did not enter the pandemic from a strong position and will see a drastic reduction in collections going forward until economic activity starts to pick up or we see substantial federal assistance. HURF's primary revenue sources, fuel and vehicle license taxes, will be impacted by severe reductions in fuel consumption and vehicle purchases.

Fuel consumption will also impact federal revenues as the federal gas tax generates roughly 95% of the federal Highway Trust Fund revenues. Collection reductions will accelerate the Fund's trending towards insolvency which had not been anticipated to be an issue this calendar year. If the recent past is any indication, federal lawmakers are likely to infuse the Fund with additional revenues that will, at a minimum, enable fully authorized spending levels to continue, but this will add to the transportation funding challenges that will potentially need to be addressed due to COVID-19.

In response to the funding challenges, ADOT is revisiting the entire five-year program and nothing is "off the table" as far as project inclusion and timing. Unless there is a drastic and fairly rapid change, adding new projects to the program will be highly unlikely and certainly not a priority. Retaining adequate State Highway Fund (SHF) revenues to fully meet federal match requirements and not lose any of our potential federal funding will be the top priority.

This could impact the HURF Exchange Program which was suspended when a similar revenue scenario occurred during last decade's recession. The program enables local governments to exchange their federal transportation funding for state, eliminating the federal aid process, and for most, allowing self rather than ADOT administration of a local project. On the positive, HURF Exchange is a relatively low cost program which may help it dodge the chopping block but prioritizing SHF revenues for federal matching requirements will certainly place it at risk depending on the magnitude of SHF losses.

From the broader state budget perspective, another longer term threat will be the possible resumption of HURF funding transfers which had largely ended after the creation of the Highway Safety Fee, which currently funds DPS highway patrol operations. The Fee is scheduled for repeal after June, 2021. Efforts this legislative session to accelerate that repeal have been curtailed by the suspension of the session. When the legislature reconvenes, they are unlikely to consider non-COVID-19 measures impacting the budget, whether new spending or tax cuts, due to the uncertainty of the state's revenue outlook. This may help prevent a resumption of HURF raids in the near term. However, if COVID-19 does result in a multi-year impact to state revenues, fund transfers will certainly be considered and HURF will be at further risk particularly after the Highway Safety Fee expires.

A relatively quick restart or phased in resumption of economic activity will mitigate these impacts to varying degrees. Also, federal support is highly likely and could be very substantial. The last federal relief legislation, the CARES Act, provided significant transit and airport assistance. Calls for similar support for highways and roads have been supported by both President Trump and Speaker Pelosi. While not likely to be in the next relief legislation which appears to be angling towards further small business and unemployment assistance, highway and road funding has bipartisan support and is on the longer term COVID-19 relief agenda.

In fact, the American Association of Highway and Transportation Officials (AASHTO) has proposed a $50 billion federal relief package for states that would make up for the anticipated lost state-generated transportation revenues and for that money to be treated as state rather than federal funding unencumbered by the federal aid process. As with the overall state budget, federal assistance could greatly mitigate state transportation revenue losses from COVID-19.