

Date: March 31, 2020

To: City Public Works Directors/Engineers/Clerks
County Engineers
Metropolitan Planning Organizations
Regional Planning Affiliations

From: Stu Anderson, Director
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Subject: COVID-19 Impacts on Highway/Road/Street Funding

We're writing to you today to discuss COVID-19 impacts on state Road Use Tax Fund (RUTF) revenues and potential federal relief/stimulus. For those of you not already aware, the most significant immediate transportation-related revenue impacts were felt by Iowa's 35 public transit agencies, eight commercial service airports, and, to a lesser degree, general aviation airports. Fortunately, the Coronavirus Aid, Relief, and Economic Security Act signed into law on March 27, will provide substantial relief to those transportation providers and the Iowa Department of Transportation (DOT) is focused on supporting efforts to implement those relief measures as soon as possible. However, the COVID-19 impacts on highway/road/street funding are now looming and yet to be addressed. We all have a role to play in addressing those impacts and being prepared for the potential of additional funding.

State RUTF Impacts

The table on the last page of this memo lists the revenue sources that go into the state RUTF (for purposes of this discussion, we're including the TIME-21 revenue into all the state RUTF numbers) along with a summary of how each revenue source is impacted by COVID-19. The most obvious impact is due to reduced travel. We are seeing a 40 percent drop in total traffic on the entire public roadway system in Iowa which directly reduces state fuel tax revenue. In addition, we expect vehicle sales to drop significantly which will directly reduce Fee for New Registration revenue (five percent of the purchase price of all new and used vehicle sales). In total, our initial estimates show an approximately 25 percent reduction in state RUTF monthly deposits to the Iowa DOT, cities, and counties. The April deposit may not fully reflect this drop due to the traffic reduction beginning in the middle of March and because of an anticipated higher monthly fuel tax allocation due to timing issues. However, we expect the May RUTF deposit will fully reflect the impacts of COVID-19.

Potential Federal Relief

Iowa DOT Director Scott Marler wrote to Iowa's Congressional delegation on March 22 to inform them of COVID-19 effects on transportation funding. That initial letter focused on public transit and aviation/airports, but he did let them know state road funding is the next issue needing to be addressed. We are now working on a follow-up communication with the delegation that is entirely focused on road funding challenges.

Our primary focus, also supported by the American Association of State Highway and Transportation Officials, is to urge Congress to provide supplemental federal funding to backfill the anticipated shortfalls in state road funding. This is already being discussed in Washington, DC as a need to be addressed through a fourth relief package that will be considered in late April.

Potential Federal Stimulus

In addition to discussions of supplemental federal funding to backfill state road funding shortfalls, there is also discussion of increased federal infrastructure funding to help reinvigorate the economy as we work to come out of the COVID-19 crisis. There is potential a fourth or fifth relief package, likely to be considered in late April or early May, could include additional infrastructure funding.

While it is still very speculative, Iowa DOT is starting to think about projects that could be ready to be delivered if additional federal funding is made available. Without knowing any details of what a package might look like, we are going back to look at how we prepared for the Recovery Act funding in 2009. This means, we are looking at 1) projects that either had completed or soon will complete all of the applicable federal-aid project development steps or 2) projects that have little/no environmental impacts, no right-of-way required, and the ability to prepare or finish plans quickly. We encourage you to start thinking about this as well.

It's important to point out up front that should substantial additional federal funding be provided, it's unlikely Iowa DOT will be able to swap those funds; therefore, expect that these projects would need to be developed as federal-aid projects. The constraint on Iowa DOT swapping those funds would be because of the need for Iowa DOT to retain enough state funding to match the regular formula federal-aid.

Conclusion

This is an unprecedented time and the situation and necessary responses will evolve as we work our way through this. Given the current uncertainty in road funding, we recommend you prepare for the following scenarios:

- 1) Reduction of state RUTF of 25 percent or greater
- 2) Funding at status quo
- 3) Funding at levels above status quo

Iowa DOT is supporting the Iowa Transportation Commission (Commission) in their development of the 2021-2025 Iowa Transportation Improvement Program (Program). The Commission is developing the Program assuming scenario 2 (status quo funding) but will be prepared to react to either a reduction or increase in funding.

As stated earlier, Iowa DOT will be communicating with Iowa's Congressional delegation about the funding challenges we're facing and the need for federal support. In addition, we'll be highlighting our strong partnership with you and our joint ability to deliver infrastructure projects in a timely and efficient manner as demonstrated by our work with Recovery Act funding in 2009. You'll recall that Iowa was near the top in the country in how quickly we delivered projects and that's in large part due to our strong partnership and early actions to prepare.

We'll be in touch as we learn more about state road funding impacts and potential federal actions to mitigate.

**State Road Use Tax Fund (including TIME-21)
Funding Sources and COVID-19 Impacts**

State Revenue Source	Estimated FY 2020 Revenue (prior to COVID-19 impacts)	Percent of Total State Revenue	COVID-19 Impact on Funding Source	Corresponding Revenue Source Impact
Fuel tax	\$663 million	39 percent	Total traffic in Iowa is down about 40 percent. See our daily traffic report at https://iowadot.gov/maps/Data/AUTOMATIC-TRAFFIC-RECORDER-REPORTS	Significant: Fuel tax revenue will drop in direct relationship to decline in traffic.
<i>Passenger Vehicles</i>			<i>Total passenger vehicle traffic is down over 40 percent</i>	<i>At this time, all fuel tax revenue decreases are due to passenger vehicle traffic reductions.</i>
<i>Trucks</i>			<i>Truck traffic has not decreased (it has actually slightly increased but it is not expected to continue increasing)</i>	<i>Diesel fuel tax revenue will be steady.</i>
Annual vehicle registration fee	\$626 million	36 percent	DOT is allowing late renewals Impact of fewer vehicle sales and potential delayed remittance of fees from counties	Minor Modest
Fee for New Registration (5% fee paid when buying a new or used vehicle)	\$346 million	20 percent	Expect dramatic drop in vehicle sales	Significant
Other (title fees, driver's license, etc.)	\$87 million	5 percent	DOT is allowing late renewals of DLs. Other fees could be impacted by reduction in vehicle sales	Minor: In terms of overall dollar amount but driver's license renewals are way down
Total	\$1.722 billion			