

Date: August 24, 2020

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

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Subject: COVID-19 Impacts on Highway/Road/Street Funding – **August Update**

In the summary of our July 13 COVID-19 impact memo, we stated that the August allocation of state Road Use Tax Fund (RUTF) revenue would be especially meaningful in assessing COVID-19 impact trends. With the August allocation we now have more confidence in the longer-term COVID-19 trends and thus we were able to update our longer-term impact estimates. In this August update we will provide updated monthly and long-term RUTF allocation estimates; provide an update on traffic/vehicle sales trends; and update the status of federal funding discussions in Congress.

August Allocation of RUTF

- **Allocation:** Because we are later than planned for this August report, cities and counties have already received their August allocation of state Road Use Tax Fund (RUTF) revenue. You'll recall in our July memo that we had some concerns the August allocation could be lower than expected; however, the allocations came in higher than we estimated. The numbers are much lower than the July allocation but that was expected for the reasons discussed in the July update.
- **Reasons:**
 - Fee for New Registration revenue was much higher than expected. As will be described in the vehicle sales trend section, this is due to a balance of vehicle sales transactions that had not been processed during the peak of the pandemic that started being processed in June.
 - Annual Vehicle Registration revenue was also higher than expected. This may be due to a catch-up of those that deferred making their registration permits as allowed by one of Governor Reynold's proclamations.
 - TIME-21 revenue allocations are much lower because the TIME-21 cap of \$225 million is reached. However, this is more than offset for counties because this means annual vehicle registration revenue flows back to the RUTF which goes to counties at a higher percentage than TIME-21.
 - Lower allocation due to COVID-19 impact on fuel tax collections. The August allocation of those revenue streams correspond to collections in June which are better than May but still lower than normal.

September Allocation of RUTF

- **Allocation:** September allocation is estimated to be a relatively high month. We estimate it will be about 15 percent higher than the August allocation.
- **Reasons:**
 - The primary reason for the increase is because this is when the unallocated balance of FY 2020 Statutory Allocations Fund is transferred to the RUTF for distribution by formula. Look at the FY 2021 pipeline chart to visualize the Statutory Allocation Fund and how it is allocated by Iowa Code and then the balance at the end of the FY goes to RUTF. (<https://iowadot.gov/about/pdf/Pipeline.pdf>). This is a one-time bump in RUTF of about \$50 million.
 - Lower allocation due to COVID-19 impact on fuel tax collections and vehicle sales. The September allocation of those revenue streams correspond to collections in July which should not be as low as June but still lower than normal.

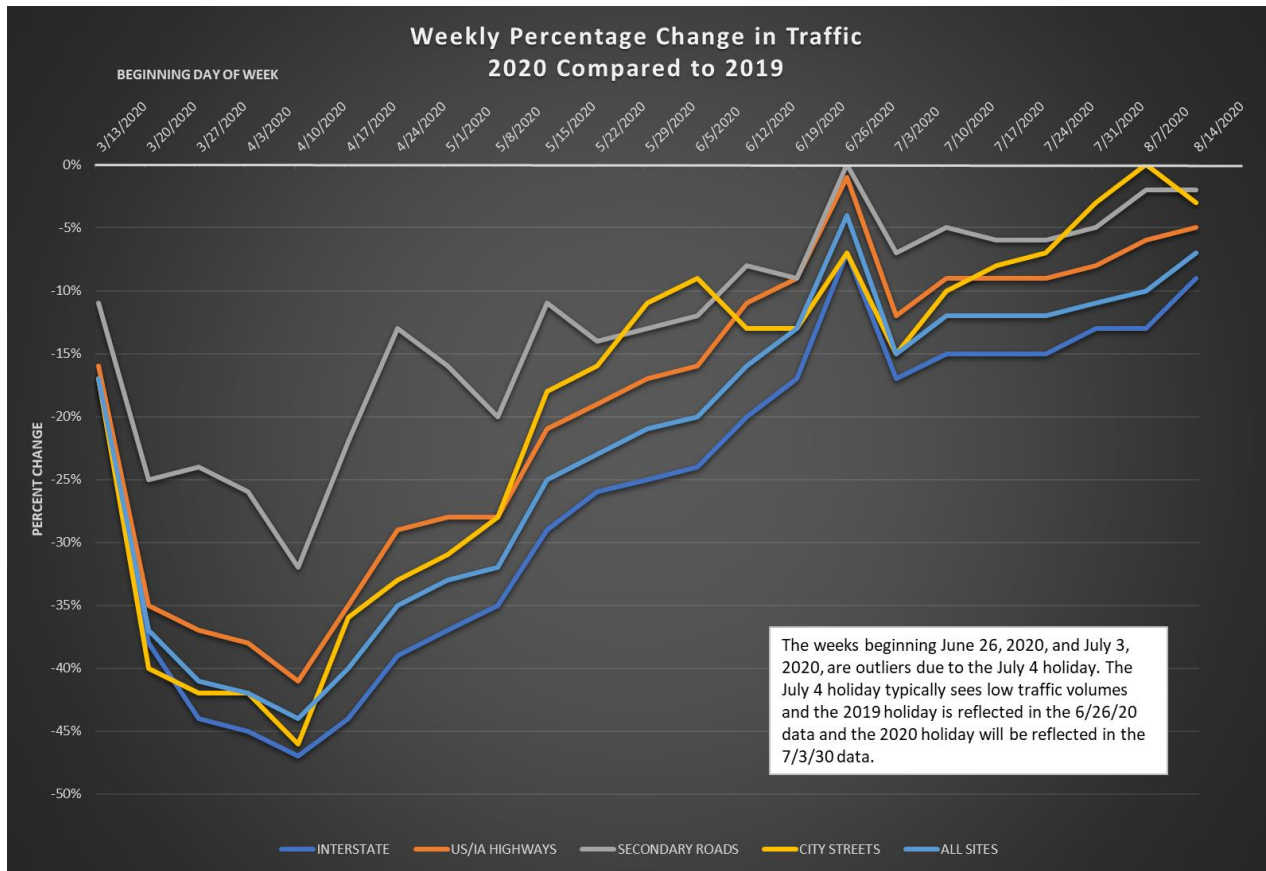
Overall Estimated COVID-19 Impacts on RUTF

As we've described in the past, due to the large variations of monthly allocations that are unrelated to COVID-19, it's challenging to estimate on a monthly basis how much of the variability is due to COVID-19. Therefore, it is more meaningful to estimate the impacts of COVID-19 over a several month period. As we've looked at traffic and vehicle sales trends and analyzed several months of actual RUTF allocations, we've updated our long-term COVID-19 Impacts on RUTF. Our initial estimate was that from June 2020 through October 2020, the reduction in RUTF due to COVID-19 would be approximately \$100 million. Our revised estimate is that there will be a reduction in RUTF of approximately \$50 million. The \$50 million reduction reflects about a 10 percent loss of RUTF over that five-month period. Therefore, you can roughly assume your RUTF/TIME-21 allocations over that five-month period will be 10 percent lower than normal.

For the time period from November 2020 through June 2021, we initially estimated a reduction of about 10 percent. We're now estimating a reduction of approximately eight percent. The reduction may be less than that; however, given the uncertainty of COVID-19 impacts during that time period, we are continuing to be conservative.

Statewide Traffic Trends

On the next page is a chart showing average weekly change in traffic counts at our more than 120 automatic traffic recorders across Iowa compared with the equivalent week in 2019. You'll see the peak drop in traffic was in mid-April and has been growing each week. Excluding the timing effects of the July 4th holiday, total traffic had stayed constant at about 15 percent below 2019 levels from mid-June through most of July. However, since the end of July, traffic has started to increase again with total traffic the week ending last Thursday being at seven percent below 2019 levels. Traffic on city streets has generally returned to 2019 levels.

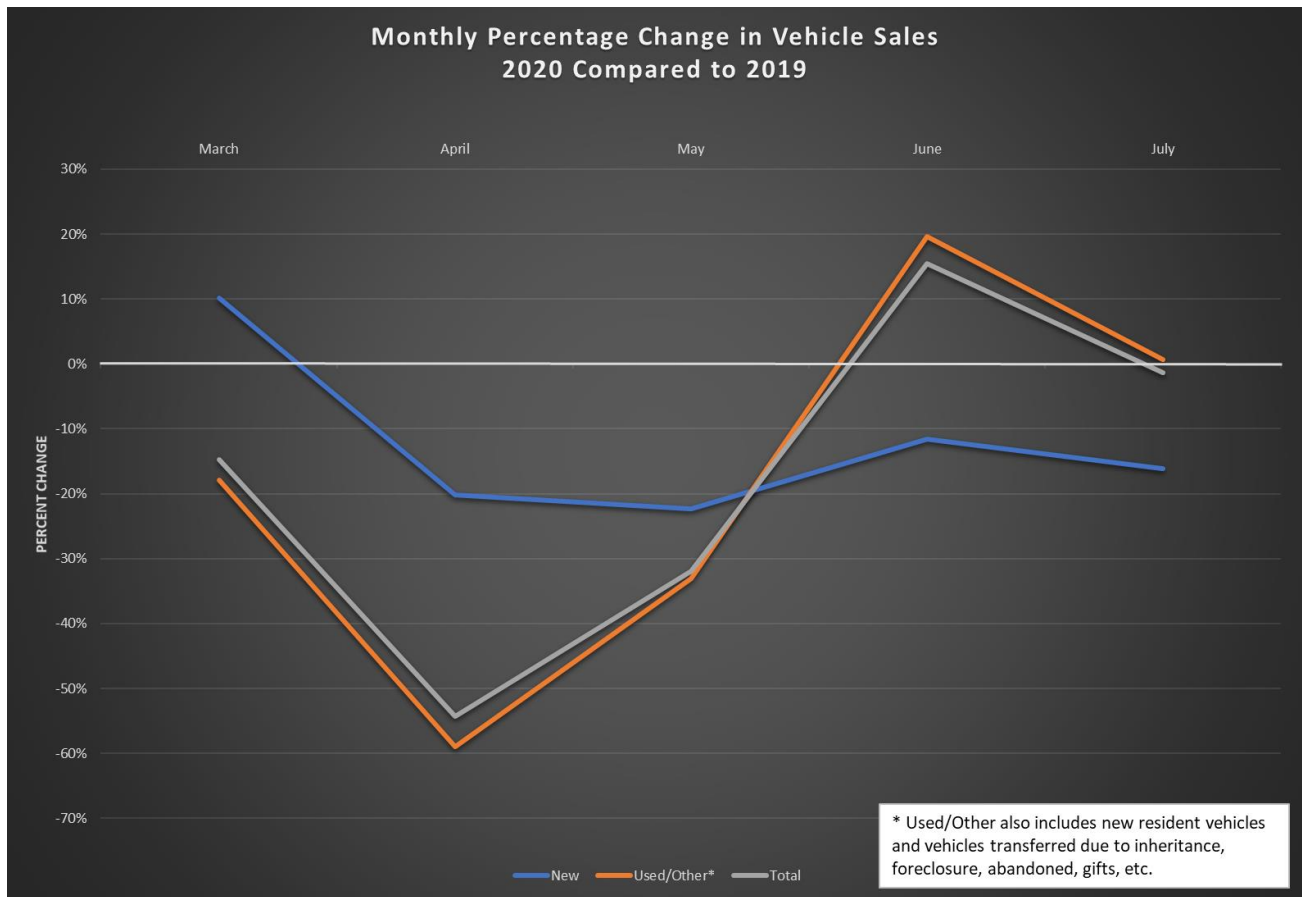


Statewide Vehicle Sales

On the next page is a chart showing the monthly percent change in Iowa vehicle sales compared with the equivalent month in 2019. Please see the footnote that explains the “used/other” category includes other vehicle transfers that don’t necessarily equate to vehicle sales. This likely skews the number to the high end.

Since the July update, we have learned more about the June jump in total vehicle sales. While vehicle sales dropped significantly in April, it’s apparent the April numbers in our chart reflect both a drop in actual vehicle sales but also a slow-down in the processing of vehicle sales transactions during the peak of the pandemic. Therefore, as that backlog was processed, we saw an artificial bump in vehicle sales data show up in June. This was reflected in the much higher than expected Fee for New Registration revenue in the August allocation (based on June collections).

If you look at total vehicle sales from March through July, vehicle sales are down a little less than 20 percent from those same months in 2019.



Federal Funding

- Reauthorization:** Since the July update, there has been no additional action on reauthorization of the FAST Act which expires September 30, 2020. A signed reauthorization by September 30, 2020, is unlikely and we will instead see an extension.
- FFY 2021 Appropriation:** The full House passed an FFY 2021 appropriation on July 31. A signed appropriation by September 30, 2020, is unlikely; therefore, we expect a continuing resolution. It's possible that a continuing resolution may be a tool to provide some additional funding beyond FFY 2020 levels to provide relief.
- Backfill:** Discussions on another COVID-19 relief package have stalled. The House passed a bill on May 15, 2020, and the Senate came out with a proposal on July 27, 2020. The proposals are very different with the Senate proposal not providing any federal backfill for lost state transportation revenues. The backfill of lost state revenue has been a major point of contention in the negotiations. The soonest the Senate could likely act on a relief package is September 8, 2020.

Summary

Like July, the August allocations are better than expected so we have now updated our estimates of COVID-19 impacts on RUTF. However, there is still a significant reduction in RUTF due to COVID-19 and we expect that to continue for an extended time period.

Please let us know if you have any questions or comments.

**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 was down 44 percent in mid-April at its lowest. It has grown each week since then. See our daily traffic report at https://iowadot.gov/maps/Data/AUTOMATIC-TRAFFIC-RECORDER-REPORTS	Significant: Fuel tax revenue changes in direct relationship to in traffic. There is a two-month lag between collections and allocations to jurisdictions. For example, April collections are allocated to jurisdictions in June.
<i>Passenger Vehicles</i>			<i>Almost all of the decrease in traffic has been due to passenger vehicles.</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 been relatively stable throughout this pandemic.</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	This revenue stream is coming in only a couple percent below forecast and we expect that to continue.
Fee for New Registration (5% fee paid when buying a new or used vehicle)	\$346 million	20 percent	Expect dramatic drop in vehicle sales	From March through July, vehicle sales were down 20 percent compared with 2020 levels.
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 b			