

Date: June 22, 2020

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

From: Stu Anderson, Director  
Planning, Programming and Modal Division

Charlie Purcell, Director  
Project Delivery Division

Subject: COVID-19 Impacts on Highway/Road/Street Funding

At the end of March, we sent you our initial estimate of the impacts of COVID-19 on state Road Use Tax Fund (RUTF) revenue. The purpose of this memo is to provide you with updated estimates now that we have real data that reflects COVID-19 impacts. This took longer than we expected for two reasons. First, the lag between when revenues are collected and when they end up being deposited into our accounts is about one month longer than we initially thought. In addition, the RUTF variation from month-to-month is quite significant this time of year so it's been challenging to differentiate those variations from COVID-19 impacts.

We now have completed our analysis and are sharing those results with you in this memo. Please keep in mind that these are high-level estimates and the situation is very fluid. Therefore, we will plan to send out an updated analysis around the middle of every month the rest of this calendar year.

### **State RUTF Impacts**

Last week, Iowa DOT, cities, and counties received their June allocation of state RUTF. In general, those allocations were about 40 percent lower than the May allocations. However, about half of that reduction was unrelated to COVID-19. We'll explain why in the next section, but this is an example of the need to look at all the factors that impact monthly allocations. The following sections summarize the variation we expect to see in monthly allocations for the next few months. Please note, when we refer to RUTF, we also include TIME-21 revenue. As you'll see, the TIME-21 revenue allocations and when they are deposited are part of the variability you will experience in the next few months.

### **June Allocation of RUTF**

- We expect this will be the lowest allocation of RUTF to cities/counties over the next several months. We had estimated it to be about 40 percent lower than the May allocations and based on our review of allocations from the Treasurer's office to cities and counties, this appears accurate. **Please note that the 40 percent drop is NOT primarily due to COVID-19 for the reasons below.**
- Reasons:
  - The biggest reason this is lower than May is due to a significant portion of May fuel tax revenue payments were received on June 1 because the last day of May fell on a

Sunday. In fact, approximately 2/3 of the May fuel tax revenue payments fell into this situation and will be reported as June fuel tax payments to be allocated in July. This will be made up in the July allocation of RUTF to cities/counties.

- Lower allocation due to COVID-19 impact on fuel tax collections and vehicle sales. The June allocation of those revenue streams correspond to collections in April which was the lowest month of travel and vehicle sales.

### **July Allocation of RUTF**

- July will be a high month of RUTF revenue to cities/counties. We estimate it will be more than double the June allocation.
- Reasons:
  - Higher allocation due to the May fuel tax revenues that were credited to June instead of May as described previously.
  - Higher allocation due to a full month of TIME-21 annual registration fees collected in May that will be allocated to local governments in July. This is the highest month of TIME-21 allocations to local governments.
  - Lower allocation due to COVID-19 impact on fuel tax collections and vehicle sales. The July allocation of those revenue streams correspond to collections in May which was not as low as April but still significantly lower than normal.

### **August Allocation of RUTF**

- August allocation is estimated to be comparable to the May 2020 allocation of RUTF to local governments. This will be significantly lower than July, but July was artificially high.
- Reasons:
  - TIME-21 revenue allocations are much lower because the TIME-21 cap of \$225 million is hit. 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 and vehicle sales. The August allocation of those revenue streams correspond to collections in June which should not be as low as May but still lower than normal.

### **September Allocation of RUTF**

- September allocation is estimated to be a relatively high month. About 10 percent lower than the July 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 Estimate COVID-19 Impacts on RUTF**

As we've described, 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, we think 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, we've estimated that from June through October, the reduction in RUTF to COVID-19 is approximately \$100 million. The bigger impacts are early in that period and then decrease each month as traffic and vehicle sales have increased and are expected to continue to increase. That \$100 million reduction reflects about a 20 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 20 percent lower than normal.

We expect to see continued lower RUTF receipts beyond October but hopefully they will continue to improve. Initially, we estimate a reduction of about 10 percent from November 2020 through June 2021. Of course, this is all subject to change based on the progression of the COVID-19 pandemic and how it may or may not impact travel and vehicle sales.

We've updated the RUTF source table that we included in the March memo to include some more information about trends. It is at the end of this memo.

### **Federal Backfill**

There continues to be a lot of discussion in Washington, D.C. of federal backfill for lost state transportation revenues; however, that does not appear to be a priority for immediate action. The good news is there is a lot of discussion about federal surface transportation reauthorization. The House T&I Committee has passed a bill that would significantly increase highway funding and the Senate EPW Committee previously passed a bill that would do the same. The administration also continues to talk about significant increases in infrastructure funding. While it's unlikely we'll see a full reauthorization by September 30, 2020, we're hopeful something will pass in December/January and provide significant increases in federal funding that should help offset lost state revenue.

Please remember everything we've said in this memo is an estimate and highly subject to change. Therefore, as stated earlier, we will send out an updated analysis around the middle of every month the rest of this calendar year.

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
<b>Fuel tax</b>	\$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 and was down 16 percent last week. See our daily traffic report at <a href="https://iowadot.gov/maps/Data/AUTOMATIC-TRAFFIC-RECORDER-REPORTS">https://iowadot.gov/maps/Data/AUTOMATIC-TRAFFIC-RECORDER-REPORTS</a>	<b>Significant:</b> Fuel tax revenue will drop in direct relationship to decline 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>
<b>Annual vehicle registration fee</b>	\$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.
<b>Fee for New Registration</b> (5% fee paid when buying a new or used vehicle)	\$346 million	20 percent	Expect dramatic drop in vehicle sales	Vehicle sales were down by over 50 percent in April. In May, they were down about one-third.
<b>Other</b> (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	<b>Minor:</b> In terms of overall dollar amount but driver's license renewals are way down
<b>Total</b>	\$1.722 b			