



**COLORADO**

Department of Transportation

# COVID-19 State Budget Gaps: Impacts on Transportation

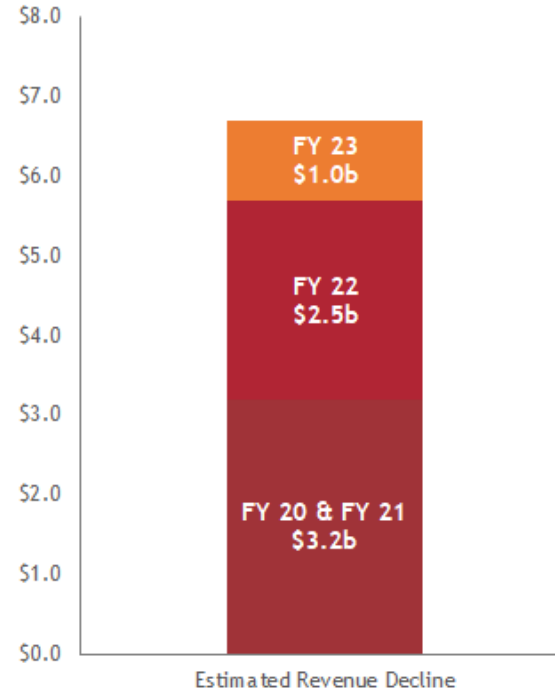
April 2020 <sup>1</sup>



# Revenue Shortfall - Statewide

## Projected shortfall in transportation revenue falls within the context of a drastic revenue shortfall statewide

- Statewide budget projections show a revenue shortfall over the next four years of almost \$7 billion:
  - \$3.2 billion for FY 20 and FY 21
  - \$2.5 billion for FY 22
  - \$1 billion for FY 23
- Additional emergency response and recession-related cost increases are on top of the shortfall.





# SB-267 Debt Update

- The State treasurer has not yet issued certificates of participation (COPs) for year 2 of SB 267 (~\$500 million, and some premium was anticipated).
- Issuance had been scheduled for March but was delayed at that time given uncertainty in the bond market.
- CDOT was notified on April 14 that the State Treasurer's office is not planning to issue debt until at least mid-May, pending more information regarding the Joint Budget Committee plans for balancing projected state shortfalls.
- Delayed timing of the second tranche of COPs creates funding uncertainty for a number of projects that are in the midst of the procurement process or scheduled to go out to bid, that are expected to be paid for with those funds.
- Projected revenue shortfalls (including gas tax revenue as well as other revenues that support general funds) also create significant funding uncertainty right now.



## Reduced mobility means lower revenues

- State gas tax (HUTF) is expected to fall dramatically over the next few years, with the steepest drop occurring during the strict social distancing period when people are driving much less. The most recent forecast calls for a loss of \$50 million in HUTF revenue to CDOT, although more recent data suggests the impact could be higher.
- Nationwide, AASHTO projects declines of ~30% in state transportation revenues over the next 18 months (and much higher in some states).

<u>Revenue Reductions</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
HUTF Revenue	\$8.2	\$19.9	\$22.1	\$0.0



# Revenue Outlook

## Available general funds could be significantly reduced

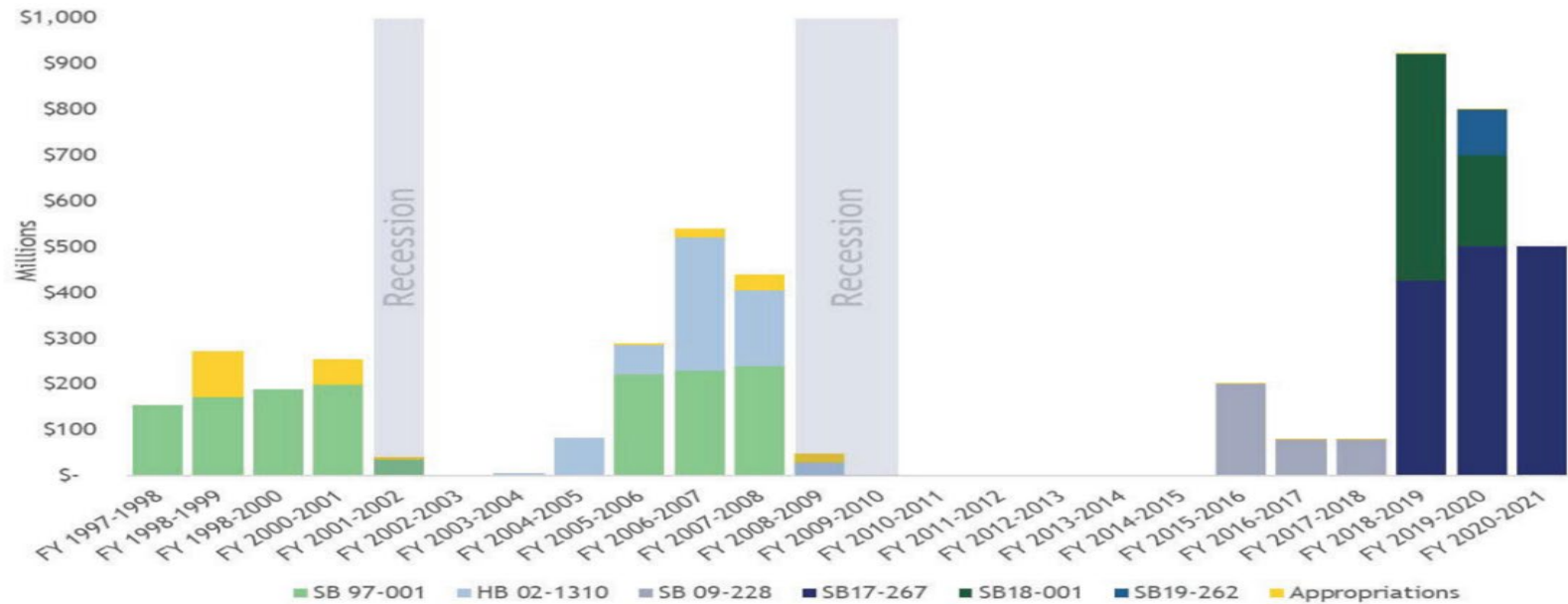
Additionally, CDOT's portion of the general fund, like all programs supported by the general fund, may be reduced due to decreased revenue. Combined budget impact could be nearly \$100 million over the next year and nearly \$250 million over the next few years (including loss of General Fund plus loss of gas tax revenue). If these funds were lost, CDOT would need to cover debt service costs from base revenues (cutting projects to account for the delta). Though CDOT expects that the second tranche of COPs will ultimately be issued, it would cause a much greater near-term project impact than the scenarios below if they were not.

Potential Budget Impacts	FY 20	FY 21	FY 22	FY 23	Total
Forecasted reduction in HUTF Revenue	\$ (8.20)	\$ (19.90)	\$ (22.00)	\$ -	\$ (50.10)
Potential suspension of SB 19-263 General Fund Transfer	\$ -	\$ (50.00)	\$ (50.00)	\$ (50.00)	\$ (150.00)
Potential General Fund Debt Service Assumed by CDOT	\$ -	\$ (16.00)	\$ (16.00)	\$ (16.00)	\$ (48.00)
<b>TOTAL</b>	<b>\$ (8.20)</b>	<b>\$ (85.90)</b>	<b>\$ (88.00)</b>	<b>\$ (66.00)</b>	<b>\$ (248.10)</b>



# Historical funding data

Historical data shows that General Funds for transportation have been unreliable during weaker economic periods





# Reduction Options

**The Department is limited in which programs can absorb potential reductions.**

- Many CDOT investments are mandated by state and federal requirements. CDOT's federal fund allocations generally fulfill these state-of-good-repair (asset management) requirements.
- Additionally, maintenance and operations expenses are largely fixed since those activities (e.g. snow and ice removal and avalanche and rockfall control) are required to maintain basic road functionality.
- Thus, cuts would need to be absorbed by reducing the state's construction program.
- Since we can't cut projects that are underway or encumbered by contracts, we have to look at projects that are not yet awarded -- **primarily those that we prioritized through the planning process for use of SB 267 funds.**



# Planning Process

## Recently completed planning process identified a 10-year pipeline of projects, some of which will likely have to be deferred

- CDOT conducted a lengthy public outreach process that identified about 100 projects to fund with S.B. 1, S.B. 262, and anticipated S.B. 267 funding.
- Projects were approved by the Transportation Commission in Nov 2019.
- Projects include a mix of simpler repaving jobs (including \$300 million in rural resurfacing) and more complex capital projects on interstates.
- Projects were spread across four years to account for stream of funding, project readiness, and statewide equity.
- The first set of “year 2” projects are preparing to go to bid this spring.





# Possible options to close the revenue gap

**Option 1** - Cuts spread across “base programs” such as Surface Treatment and Regional Priority Program:

- Cuts to repaving program jeopardize already fragile progress toward meeting Federally-mandated targets on pavement quality.
- Regional Priority Program dollars tend to be used as match or to fully fund larger projects and thus are embedded in projects across the state.

**Option 2** - Cuts focused on major capital projects (SB 267/SB 1 program) selected by Transportation Commission that haven’t yet been awarded:

- Large, multiple-year projects already under construction (e.g. I-25 North segments) would likely be held harmless.

**Recommendation:** Assuming issuance of second tranche of COPs, CDOT staff recommend option 2, with a focus on spreading cuts across the state and across types (e.g. preserving as much rural paving as possible).



# Considerations for making hard decisions

1. In an economic downturn, simpler projects that are ready to go tend to be most effective in creating and savings jobs and supporting businesses.
2. “Down payments” on longer-term investments where work is less immediate likely yield slower results in terms of near-term work and economic stabilization.
3. If cuts need to occur, balancing them across regions will be important to statewide economic recovery.
4. In discussions about future transportation funding/stimulus, it will be important to start with candid discussions about what projects are at risk of being lost, before turning to aspirations to grow the project list. Those projects identified as potential cuts could be given priority if new funding becomes available.
5. That said, CDOT has identified up to \$2.5 billion of “shovel ready” projects to highlight the extent of possible investment if funds become available.



# SB-267 -- overview and impact of cuts

- CDOT is currently executing year two of SB 267, which authorized \$500 million in debt (certificates of participation, or “COPs”) a year over four years. One year has been issued at this point.
- Given prior schedules for debt issuance, many CDOT projects currently going through the procurement process rely on issuance of the second tranche of COPs.
- CDOT has already awarded some projects that depend on this second tranche of debt. Other projects have selected partners but not signed contracts, and others have yet to go out to bid.
- Absent the second tranche of COPs, CDOT would have to cut state of good repair projects to honor current contracts, and would have to hold on future awards.
- If debt is issued but CDOT faces other budget cuts described earlier, some projects would not be put out to bid.
- Future projects that have been identified would also not be able to proceed if future tranches of COPs are not issued or backfilled through other funds. Some projects are expected to encumber funds from multiple years.
- We anticipate that COVID will have a multi-year budgetary impact. Early projections show that the maximum impact to the state budget could be in FY22.



# Year 2 - SB-267

## Project Status Categories

### 1-Awarded-Notice To Proceed issued

I-25 South Gap Package 3

US 550/160 Connection (Interchange Completion)  
I-25 Valley Highway Phases 3 & 4

I-70 Peak Period Shoulder Lanes (PPSL) - Year Two  
267 Commitment

SH 116 - US 287 to Kansas Border

US 50 Texas Creek East

SH 64 Meeker West

US 6 Merino to Atwood

CO 59 Seibert to Cope

CO 141 & 145 Slickrock & Redvale Resurfacing

SH9 Iron Springs to Main St.

### 2-Bids Opened- Notice To Proceed Not Yet Issued

SH 69A Westcliffe to Fremont County (\$7.1m)

SH 92 Crawford East (\$7.8m)

SH 34 Grand Lake (\$11.5m)

CO 17 MP 84.5 to 118.5 Shoulders and Resurfacing (\$32m)

- Low bidder is APC Southern, a small/medium business that employs 65 people. This job represents  $\frac{2}{3}$  of their annual volume. They will struggle to survive if job is cancelled. If delayed, a one season job turns into two.

US50A Pueblo West Purcell Interchange (\$42m)

- Low bidder is Kirkland Construction, a small business located in Southern Colorado. Majority of Kirkland's 150 employees are Pueblo County residents. As a small business, Kirkland informed CDOT that they have been forgoing other bidding opportunities since this bid letting and would be severely impacted if the project did not move forward.



# Year 2 - SB-267 Project Status Categories

## 3-Not Yet Opened

US 6 Fruita to Palisade Safety Improvements

Urban Arterial Safety Improvements

US 50 Passing Lanes Blue Mesa

US 285/CO 9 Intersection Improvement w/Bridge Widening

Bridge Preventative Maintenance: CO 12, CO 194, and I-25C

Bridge Preventative Maintenance on I-25, CO 16 & CO 24 in Colorado Springs (4 bridges)

SH 92 Rogers Mesa to Hotchkiss

SH13 Fortification Creek

US 550 Montrose to Ouray County Line Safety Improvements

US 287 Bridge Preventative Maintenance Phases 1 & 2

US 160 McCabe Creek Major Structure Replacement

US 287 (A-Park St So) - Lamar Downtown Paving

SH 21 and Research Parkway Interchange

I-25 Colorado Springs Ramp Metering Phase 2

US 50 Windy Point/Blue Creek Canyon

Bridge Repair on CO 109 over US 50B in La Junta

US 50 Grand Junction to Delta Repairs

SH 13 Garfield County MP 11.3 to 16.2

I-25 North: Segment 5 & 6 - Express Lanes (CO 56-CO 402)

I-25 and SH 94 Safety and Mobility Improvements



# Year 2 SB-267 Projects with Additional Year 3 & 4 Outyear Funding

I-25 North: Segment 7 & 8 - Express Lanes on permanent EIS alignment (CO 402 to CO 14) - \$88 M Year 1, \$154.2 M Year 3&4

SH 96 East of Ordway to Arlington - \$3.8M Year 2, \$6.2M Year 3

I-25 Raton Pass Safety and Interchange Improvements (part 1) - \$5.5 Year 2, \$5.5 Year 3



# Year 3 & 4 SB-267 Projects

SH 52 Resurfacing Prospect Valley (Phase 1)

SH 24 Leadville South

SH 115 - Safety and Paving improvements from MM 20-39

I-25 Through Pueblo New Freeway

I-25 Paving and Mobility- Fillmore to Garden of the Gods Colorado Springs

SH 109 - SH 160 to Otero County Line

I-70B East of 1st to 15th Street

I-70 Auxiliary Lane East Frisco to Silverthorne

I-70 West: Floyd Hill

US 50/285 Intersection Reconstruction (Round-about)

Intersection Improvements at SH 50/550

I-70 West Vail Pass Safety Improvements - Phase 1

SH 119 Safety / Mobility Improvements

SH 139 Douglas Pass North

SH 149 Lake City North

I-76 West of CO 144 Westbound

I-25 Raton Pass Safety and Interchange Improvements (Part 2)



# Year 3 & 4 SB-267 Projects (cont.)

I-76 US 34 East Both Directions

US 160 from Springfield to SH100 and SH 100

CO 149 Resurfacing and Shoulders North of Creede

CO 114 Resurfacing and Shoulders

SH 385 Phillips/Yuma County Line South

SH 300 Leadville West

I-76 East of Sterling

US 160 MP 0-8 Aztec Creek Resurfacing

US 385 North of Cheyenne Wells

SH 139 Dinosaur Diamond

CO 141 North of Naturita Resurfacing

US 50 North of 285 Resurfacing

US 550 Billy Creek Resurfacing

CO370 Resurfacing

CO 138 Sterling North (Part 2)

SH 318 Browns Park East

SH 114 Parlin West

SH 92 Hotchkiss to Crawford

US 550 Pacochupuk South Roadway Mobility/Safety Improvements

SH 96 near Eads to Sheridan Lake

SH 67 from SH 96 to Florence

SH 194A Surface Treatment and Drainage Improvements

SH 125 Walden North

SH 14 Grizzly Ranch North

CO 52 Resurfacing Prospect Valley (Phase 2)

I-270: Widening from I-76 to I-70





# Decision Process

**The extent of project cuts depends on the extent of ultimate funding shortfalls; we must do the best that we can with the dollars that we have**

- Thanks to the hard work of CDOT staff and the Transportation Commission, we have a robust, approved, four year capital plan. Each dollar that we receive goes into paying for projects on that approved list.
- Conversely, each dollar cut because of revenue shortfalls reduces our ability to execute projects on that list.
- As we develop a clearer picture of total revenues for the coming years, we will be able to determine the specific projects that can/cannot move forward. As noted earlier, current projections show that FY22 budget shortfall could exceed that in FY21.
- It is important to begin discussion now about the parameters for how those hard choices will be made.



## Additional revenue, especially from the federal government, is critical for avoiding or reducing the drastic nature of cuts

- Phase III federal relief package provided \$150 billion to states and localities (\$1.7b for CO), but statewide needs are projected to be at least \$7 billion.
- Governor has sent a letter to Congress requesting **\$500 billion nationwide for both state and local government shortfalls. State and local fiscal relief is critical for the solvency of transportation programs as well as other state programs across Colorado.**
- Ongoing discussions related to providing aid to states and localities have **direct** impacts to transportation spending because such aid, albeit not explicitly transportation focused, is intended to reduce the size of unexpected shortfalls that state and local governments across the country are experiencing. Because dollars are fungible relative to total state shortfall, general relief to states helps transportation, much like targeted infrastructure spending does.
- The state is working closely with federal government and delegation regarding any future federal stimulus infrastructure dollars. Due to our recent planning process, CDOT is well prepared with a healthy list of “shovel ready” projects should/when federal infrastructure funding is made available.



## Transportation isn't alone. Budget cuts are impacting other agencies and aspects of state government.

- With anticipated billions in revenue reductions statewide, cuts to education, health care expenses, parks and other services are likely.
- Transportation can play an important role in short-term and long-term economic recovery and, fortunately, CDOT is well positioned to help deliver this support.



**In an effort to avoid committing to obligations until dollars are secure, CDOT staff wish to discuss the following immediate actions, while we evaluate overall approach to absorbing reductions**

- CDOT staff are extremely concerned about issuing Notices to Proceed on SB 267 projects that are awarded but pending NTP (Category 2), pending further clarity from the Treasurer's office regarding issuance of year 2 COPs.
- CDOT staff recommend holding further SB 267 bid openings and advertisements (Category 3) pending clarification of COP tranche 2 issuance timeline.
- CDOT staff recommend continuing to advertise and award this year's base program projects paid for by Title 23 funds (which are firm) in order to continue keep work ongoing during this unsettling time.
- It will be important to continue discussing a balanced approach to reducing size of program in a targeted manner once funding levels are further clarified.



# Moving Toward Recovery - Transportation Working Group

- Transportation investment is critical during an economic downturn.
- CDOT, at the request of the Governor's Economic Stabilization and Growth Council, has created a Transportation Working Group to discuss policy ideas that can be implemented in the **medium** and **long term** that will help move the state's economic recovery forward.
- CDOT will regularly update and discuss the group's feedback with the Transportation Commission, and CDOT will serve as a liaison between the Working Group and the Council, which is Chaired by former Secretary of Transportation, Federico Pena, and led by OEDIT.
- CDOT ED has asked Kathleen Bracke to serve as a TC representative to the group, in addition.
- The Group is a diverse group of Colorado voices that care deeply about the state's transportation.
- Members include representatives from local government, business, freight carriers whose role in the economy is paramount in the current environment, transit, the construction industry, and legislators.
- Across the group, we have people with deep expertise who are leaders in our communities.

CDOT  
DRCOG, NFRMPO, & PPACG  
Club 20 & Pro15  
CRL Associates  
Senators Faith Winter & Ray Scott  
Representative Matt Gray

Colorado Concern  
Colorado Contractors Association  
Colorado Motor Carriers Association  
Colorado Forum  
Colorado Western Contractors Association  
Regional Transportation District