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September 18, 2020

RTAC LEGISLATIVE UPDATE

ADOT PROPOSES AND STATE TRANSPORTATION BOARD CONSIDERS NEW TENTATIVE FIVE-YEAR CONSTRUCTUON PROGRAM UPDATE:

At the State Transportation Board meeting this morning, ADOT unveiled a new tentative five-year transportation construction program update covering years 2021-2025. As anticipated, the revenue outlook is far better than projected in May but still considerably less than pre-pandemic forecasts. Based on the new numbers, ADOT is now proposing to continue the HURF Exchange program at a cost of $15.3M a year and will be able to retain the I-17 expansion project and its $90M federal INFRA grant. On the negative, maintenance and operations funding will be reduced and a drawing down of ADOT's cash balance will impact department flexibility, financing capacity, and the pursuit of future federal grants.

The new program's funding estimate has been reduced by $466.2M for the five-year period. This includes $206.2M in less revenues from the State Highway Fund and another $260M in reduced bonding capacity. This is a marked improvement from the May forecast which projected a revenue loss of $711M and an additional $155M in cancelled bond measures. The total lost HURF funding estimate is $500.9M, roughly half of which is allocated to counties and municipalities for local road systems in addition to the State Highway Fund distribution.

ADOT proposes to mitigate the lost funding through reductions to three major categories; $206.6M from operating costs, $175.3M from highway construction and $84.3M from ADOT's cash balance.

The reduced funding for operating costs will impact service delivery and particularly maintenance. Bridge and pavement conditions, which were already deteriorating, will continue to do so at an accelerated pace as more move from good to fair and fair to poor conditions. It is estimated that every $1 invested in preservation saves $8 in future reconstruction. If prolonged, this trend would jeopardize much of the state's existing highway system which has an estimated current value of $22.9 billion but would cost roughly $300 billion to replace.

As with operations and maintenance, the reductions to highway construction impact an already very lean program trending towards what will essentially be a moratorium on new construction in Greater Arizona once a handful of projects are completed over the next four years. This new construction moratorium is occurring in a state that has been consistently leading or near the top of the Nation in population growth for decades. The list of new construction projects proposed for retention in the program are:

FY2021	I-17 Anthem Way – Cordes Junction	$135M
	US95 Ave 9E to Fortuna Wash	$25M
FY2022	AZ69 Prescott Lakes Parkway – Frontier Village	$10M
	I-17 Anthem Way – Cordes Junction	$97.3M
FY2023	I-10 Phoenix to Casa Grande (Segment 1)	$50M
FY2024	I-40/US93 West Kingman TI	$70M
FY2025	AZ96 Santa Maria River Bridge (preservation funding)	$7M
	AZ82 San Pedro River Bridge (preservation funding)	$7M
FY2026-30	No new construction projects in Greater Arizona	

The reduction to ADOT's cash balance also creates risks and will have impacts on the program. First, it diminishes bonding capacity and the ability to finance future projects. Second, it will impact ADOT's ability to pursue federal grants as the Department may not have the resources to satisfy minimal match requirements and will not be as competitive as other states that may submit applications with greater local revenues above those minimal requirements. Also, if the federal Highway Trust Fund continues to trend towards insolvency and cash management measures need to be implemented, ADOT will have less flexibility to address delayed federal reimbursements for federally funded projects.

The fact is, making any sizable cuts to what was already a grossly underfunded program will be painful. ADOT's current long range transportation plan, which was adopted well before the financial impacts of the pandemic, estimated a $30.5 billion shortfall for the program over 25 years. That's over $1 billion a year every year for the foreseeable future and translates to less than half of each year's construction and maintenance needs being met on the highway system. There will obviously be a cumulative impact from this trend. What is also obvious is that the pandemic is not moving those investment levels in the right direction. However, based on where we were in May, today's update did have some good news as the HURF Exchange program will likely be spared and the I-17 expansion and $90 million federal grant for the project will be retained. The Board will conduct a public hearing on the tentative program on October 16th and is scheduled to adopt at their October 27th meeting. All will be conducted virtually and can be accessed including the submittal of public comments thru the Board's website – aztransportationboard.gov.

BUSY TWO WEEKS UPCOMING FOR CONGRESS: Prior to October, Congress must pass appropriations for the upcoming federal fiscal year for the entire federal government and also specific authorization for surface transportation programs. It appears that a "clean" continuing resolution has been agreed to for appropriations which will essentially enable spending to continue at existing levels for the duration of the resolution which is still being deliberated but will likely be 3-6 months. Authorization will likely be a one-year extension to the FAST Act and could be attached to the continuing resolution. This scenario minimizes the potential for increased transportation funding at least in the short-term but does improve the chances of timely action which would prevent a government shut down and disruptions to the flow of federal transportation dollars which is increasingly important particularly with ADOT's shrinking cash balance. The fate of another COVID-19 relief bill and its potential inclusion of transportation funding is more uncertain but also not linked to that October 1st deadline.