

Date: July 13, 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 – **July Update**

Following up on our June 22 memo, this is the first of our regular monthly updates regarding COVID-19 impacts on state Road Use Tax Fund (RUTF) revenue. Our goal is to provide this memo to you by the middle of each month so it reflects the new monthly allocation of RUTF to local governments. The first week of each month, we receive a report from the State Treasurer's Office that shows the allocations to each individual road fund that then is distributed to local governments, typically on the third Tuesday of the month. Therefore, this report reflects allocations that local governments should receive around July 21. Each month, we will provide updated allocation of RUTF figures/estimates, overall estimated COVID-19 impact of RUTF, some background on trends impacting RUTF, and updates on any related state/federal activities.

July Allocation of RUTF

July allocations will be significantly higher than we forecast in our June memo. As we described in the June memo, July was going to be a much higher month due to the fuel tax deposit timing issue that caused the June numbers to be lower than normal. However, across the board, state RUTF funding sources came in higher than forecast. The largest percentage increase was for fuel tax and fee for new registration. While this is good news, we want to caution you that even though we've considered all the major fluctuations that occur from month-to-month, there can still be large fluctuations in revenues that are difficult to quantify. In other words, we'll want to see what revenues look like in August before we conclude this is a trend we should reflect in our future estimates. Also, while this is positive news, it does not mean there is not a loss of funding due to COVID-19, it only means the loss may not be as large as initially estimated.

- **Allocation:** Last month, we estimated the July allocation would be more than double the amount of the June allocation. Based on the Treasurer's report, the July allocation will be almost three times the amount of 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. However, this was not as low as initially expected.

August Allocation of RUTF

- **Allocation:** We continue to estimate the August allocation 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. This will be an important month to assess COVID-19 impacts. If this month continues the positive trend we see with July allocations, we will revise our future estimates of COVID-19 impacts to be less than originally forecast. However, it's also possible that August comes in lower than expected. In that case, we will likely keep our longer term COVID-19 impact estimates the same.
- **Reasons:**
 - 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 and vehicle sales. The August allocation of those revenue streams correspond to collections in June which will be better than May but still lower than normal.

September Allocation of RUTF

- **Allocation:** September allocation is estimated to be a relatively high month. About 20 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.

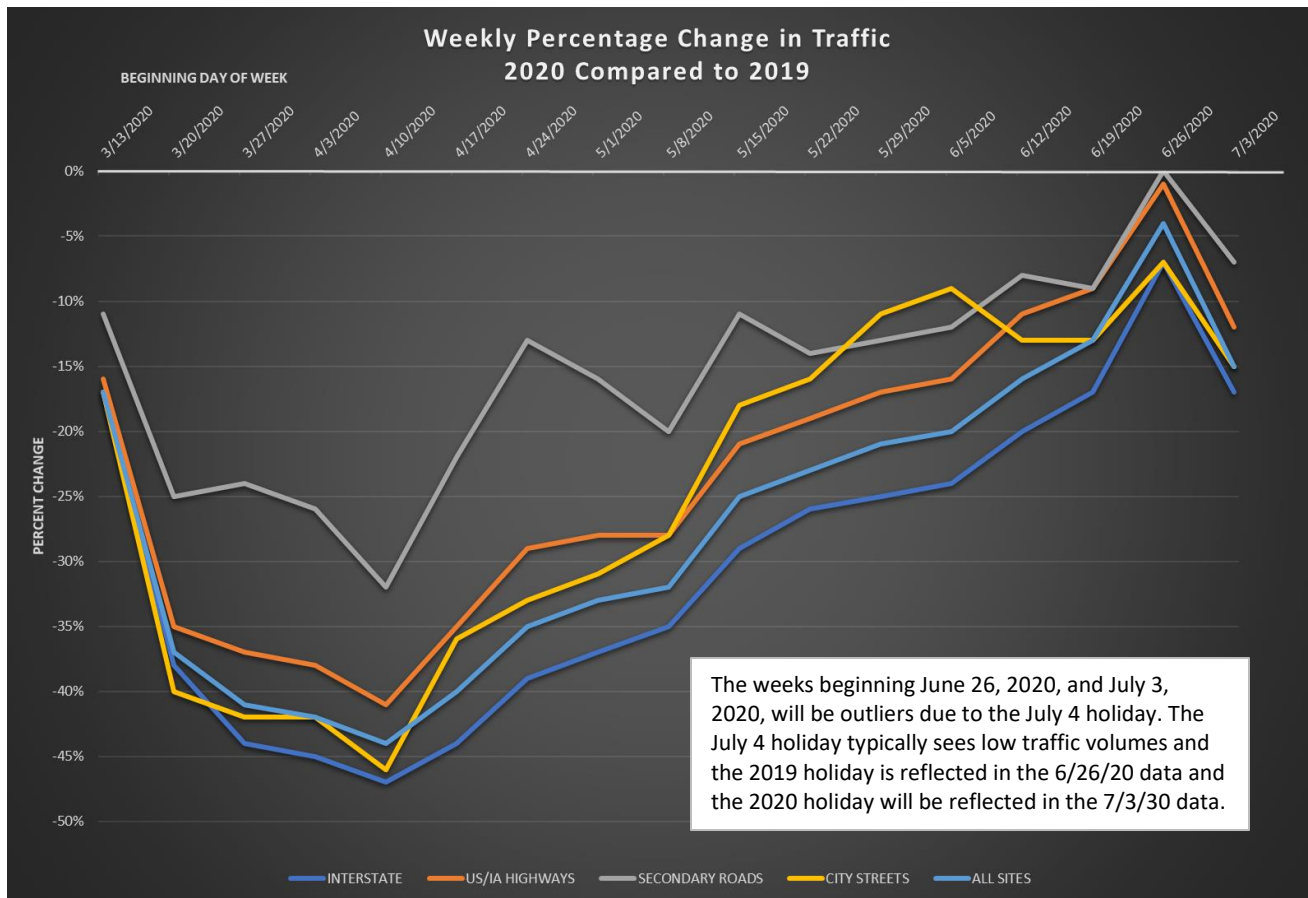
Overall Estimated COVID-19 Impacts on RUTF *(this is the same discussion/estimate from the June update and will be revised in August as we get more data)*

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.

Statewide Traffic Trends

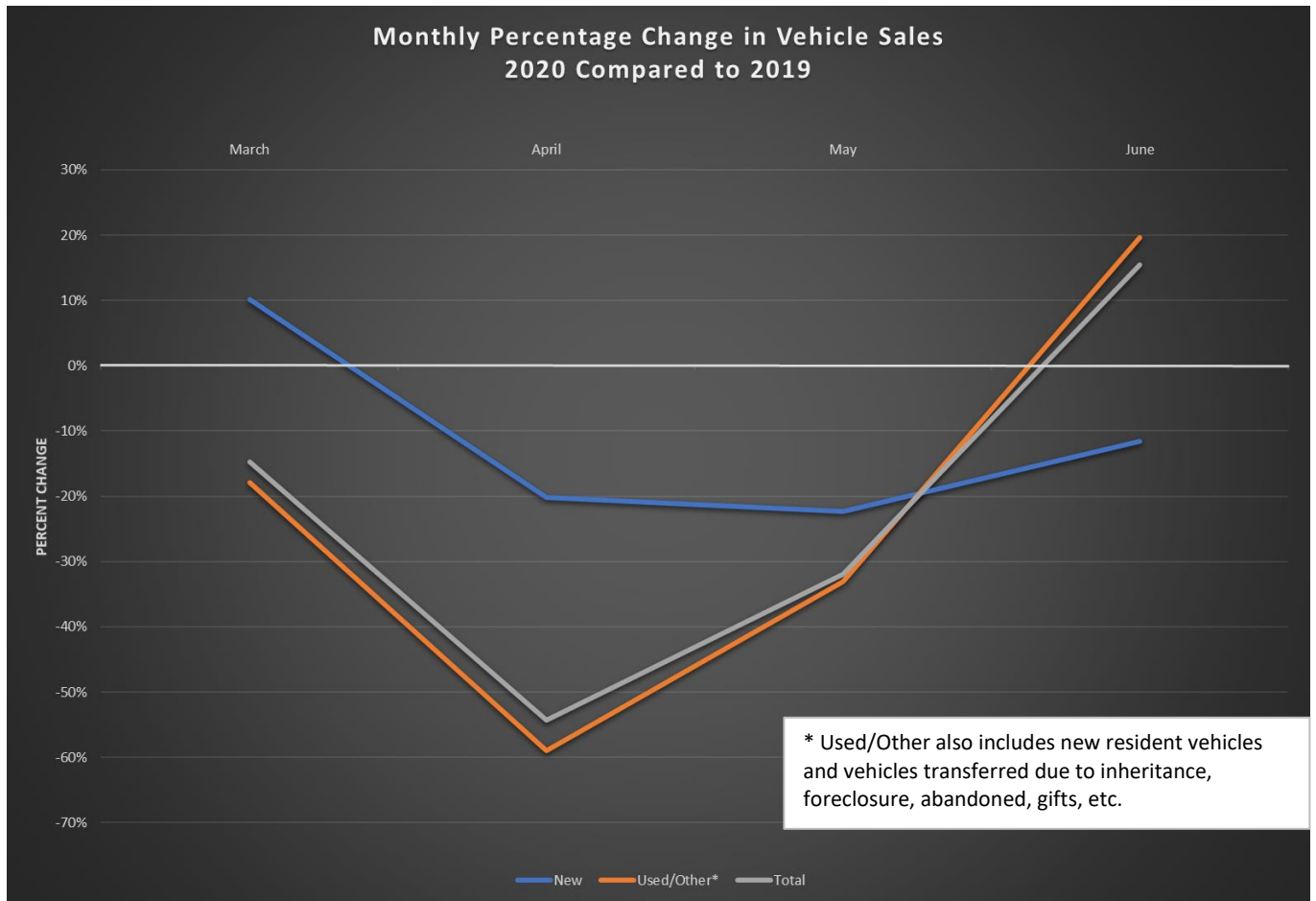
Below is a chart showing average weekly change in traffic counts at our more than 120 automatic traffic recorders across Iowa compared with the equivalent week in 2019. You’ll see the peak drop in traffic was in mid-April and has been growing each week since then. The last two weeks are outliers due to the timing of the July 4th holiday in 2019 vs. 2020.



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.

Vehicle sales were down by more than 50 percent in April but have increased since then, particularly in the used vehicle market. New vehicle sales are still over 10 percent below levels in 2019 but used vehicle sales are higher than 2019 levels in June.



Changes to State Fuel Tax Rates

On June 30, Governor Reynolds signed Senate File 2403 in law (<https://www.legis.iowa.gov/legislation/BillBook?ga=88&ba=sf2403>). The purpose of the bill is to incentivize greater use of ethanol blends of 15 percent or greater (E15+). The bill does this by changing the current variable tax rate structure to provide a lower tax rate for E15+ instead of E10+. This means that effective July 1, 2020, E10 is taxed at the same rate as gasoline and E15+ is taxed at a rate six cents per gallon (cpg) lower than E10 and gasoline. The net impact of this change is an increase in fuel tax of about \$8 million per year initially. This is because more than 80 percent of all gasoline sold in Iowa is E10 and that will now be taxed at the same rate as unblended gasoline. E15+ makes up less than five percent of all gasoline sold in Iowa so even though it is taxed at a much lower rate, the negative impact of fuel tax revenue is more than offset by the increase in tax for E10.

The bill also clarified which report Iowa Department of Revenue (DOR) must use to determine the proportion of gasoline sales in Iowa that are E15+ and the proportion of diesel sales in Iowa that are biodiesel blends of 11 percent or greater (B11+). This is important because these proportions determine the tax rate and the report Iowa DOR previously used did not fully account for the blends of fuel sold at the pump. This correction has the impact of increasing the B11+ tax rate to 30.1 cpg from 29.5 cpg effective July 1, 2020. This increase applies to over 50 percent of all diesel sold in Iowa resulting in about a \$2 million per year increase in fuel tax revenue.

These fuel tax rate changes will start being reflected in September allocations of RUTF. Below are the fuel tax rates prior to, and after July 1.

- ▶ Tax rates prior to July 1, 2020
 - Gasoline:
 - ▶ Ethanol (all ethanol blends): 29.0 cents per gallon (cpg)
 - ▶ Unblended gasoline: 30.5 cpg
 - Diesel:
 - ▶ B11+: 29.5 cpg
 - ▶ Unblended and biodiesel blends up to 10 percent: 32.5 cpg
- ▶ New tax rates as of July 1, 2020:
 - Gasoline:
 - ▶ E15+: 24.0 cpg
 - ▶ Unblended gasoline and E10: 30 cpg
 - Diesel:
 - ▶ B11+: 30.1 cpg
 - ▶ Unblended and biodiesel blends up to 10 percent: 32.5 cpg

Federal Backfill

Action and discussion regarding transportation funding has been continuing on several fronts. On reauthorization, the House passed their bill July 1. The bill would provide significant increases in transportation funding for the next five federal fiscal years. However, when the Senate passes a reauthorization bill, it will likely look much different and negotiations will have to resolve the differences.

Discussions on the Federal Fiscal Year 2021 appropriations bill have also begun. A House subcommittee passed a bill that provides for regular appropriations along with “emergency” stimulus funding. Like reauthorization, the Senate version will likely look much different.

Of more immediate interest is increasing discussion of another COVID-19 relief package. It was expected that late July would be the soonest the Senate would be ready to consider the next package and it appears a proposal will be released around July 20 when the Senate reconvenes. The House previously passed a \$3.5 trillion aid package and the Senate and administration have been talking about a \$1 trillion aid package. Backfill of lost state revenue is still part of the discussion.

Summary

In closing, the July allocations are better than expected so we are cautiously optimistic our initial COVID-19 projections were too conservative. However, we need another month of revenue data before we will be comfortable this is a trend and not just a one-month anomaly. Therefore, we are waiting until our August report to update our longer-range estimate of COVID-19 impacts on state funding. We’re also hopeful that federal action on a COVID-19 relief package will be determined by early August so we can report on how/if that helps address the funding transportation funding shortfall in Iowa.

One closing comment about the final FY 2020 RUTF revenue figures. While it was negatively impacted by COVID-19 the last couple of months, the final numbers are still a little higher than we forecast back before the fiscal year began. That likely won’t be the case with FY 2021.

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	Vehicle sales were down by over 50 percent in April. In May, they were down about one-third. In June they have continued to improve with used vehicle sales exceeding 2019 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			