



Legislative Fiscal Bureau

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May 13, 2021

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: 2021-23 Transportation Fund Condition Statement

This memorandum provides information on the 2021-23 transportation fund condition statement based on the Committees actions to date. The ending balance shown for the transportation fund is prior to completing its actions on the 2021-23 transportation budget.

The Governor's budget was based on transportation fund revenue and segregated (SEG) debt service estimates made prior to the time of introduction of the bills (AB 68/SB 111). Since that time, this office has met with Department of Transportation (DOT) officials regarding estimated revenues to the transportation fund in 2020-21, and the 2021-23 biennium, net of transportation revenue bond debt service, and received updated information from the Department of Administration officials regarding estimated debt service expenditures from the fund on general obligation bonds for the same period.

In addition, on May 6, 2021, under Motion #22, the Joint Finance Committee adopted ASA 1 to AB 68/SSA 1 to SB 111, that provides adjusted base funding levels for DOT (\$2,044,504,400 annually), and the other state agencies (\$26,305,800 annually) funded with transportation fund SEG for the 2021-23 biennium. Subsequently, under Motion #24, the Committee made adjustments to these adjusted base SEG appropriations funded from the transportation fund to reflect affected agency standard budget adjustments, including modifications to the turnover reductions, and sum sufficient debt service reestimates.

With these modifications, compared to AB 68/SB 111, transportation fund SEG appropriations, including reserves and lapses, under the Committee's actions to date would be: (a) higher by \$107,476,300 in 2021-22 and by \$54,545,600 in 2022-23 for DOT; and (b) higher by \$59,900 in 2021-22 and \$46,100 in 2022-23 for other state agencies with appropriations funded from the transportation fund. The following fund condition reflects the reestimate of transportation fund revenues, net of transportation revenue bond debt service under current law, and SEG appropriations from the fund under ASA 1/SSA 1, as amended by Committee actions to date.

TABLE 1**Transportation Fund Condition**

Revenues	<u>2021-22</u>	<u>2022-23</u>
Unappropriated Balance, July 1	\$35,554,300	-\$16,244,100
Motor Fuel Tax	\$1,029,231,900	\$1,051,868,800
Registration and Title Fees		
Registration Revenues	693,856,100	697,884,300
Title Revenues	219,189,900	226,227,300
Miscellaneous Motor Vehicle Fees	25,887,700	25,970,500
Less Revenue Bond Debt Service	-219,737,400	-208,312,700
General Fund Transfer	45,167,300	47,617,400
Petroleum Inspection Fee One-Cent Deposit	38,500,000	39,350,000
Petroleum Inspection Fund Unencumbered Balance	15,088,900	15,985,800
Petroleum Inspection Fund Ongoing Transfer	6,258,500	6,258,500
Driver's License Fees	40,743,100	41,511,000
Railroad Property Taxes	44,124,200	44,675,700
Aeronautical Fees and Taxes	9,828,100	10,685,100
Miscellaneous Departmental Revenues	29,347,000	31,203,700
Investment Earnings	<u>3,000,000</u>	<u>3,000,000</u>
Total Annual Revenues	\$1,980,485,300	\$2,033,925,400
Total Available	\$2,016,039,600	\$2,017,681,300
Appropriations and Reserves		
DOT Appropriations (Adjusted Base)	\$2,044,504,400	\$2,044,504,400
Motion #24		
Standard Budget Adjustments	-23,810,900	-23,810,900
Sum Sufficient Debt Service Reestimates	-22,664,400	-7,542,100
Less Estimated Lapses	-3,000,000	-3,000,000
Compensation and Other Fund Reserves	<u>10,000,000</u>	<u>12,000,000</u>
Total DOT Appropriations and Reserves	\$2,005,029,100	\$2,022,151,400
Other Agency Appropriations (Adjusted Base)	\$26,305,800	\$26,305,800
Motion #24		
Standard Budget Adjustments	106,000	106,000
Sum Sufficient Reestimates	<u>842,800</u>	<u>1,404,600</u>
Total Other Agency Appropriations	\$27,254,600	\$27,816,400
Total Appropriations, Reserves, and Lapses	\$2,032,283,700	\$2,049,967,800
Unappropriated Balance, June 30	-\$16,244,100	-\$32,286,500

Opening Balance

At the time of the introduction of AB 68/SB 111, the estimated opening balance of the transportation fund for the 2021-23 biennium was estimated to be \$0. This 2021-22 opening balance was the result of a February, 2020, deficit/federal funding appropriation adjustment plan for 2020-21 submitted by the Department and approved by the Committee in March, 2021. This joint plan reduced SEG expenditures from the transportation fund by \$172.0 million in 2020-21 and replaced most of these reductions with additional federal funding for that year. Subsequently, using the updated estimates of revenues to, and actual expenditures from, the fund for 2020-21, the ending balance for 2020-21 (the 2021-22 opening balance) for the fund is estimated at \$35.6 million. The elements that account for the opening balance increase compared to the previous estimates are summarized in the following table.

TABLE 2

Change to the Estimated 2021-23 Opening Balance

<u>Item</u>	<u>Change to Balance</u>
Revenues	
Motor Fuel Tax Revenues	\$11,714,000
Vehicle Registration Revenues	-1,237,200
Titles	22,086,300
Driver's Licenses	-363,900
PIF One Cent Deposit	-1,125,200
PIF Transfer	<u>-382,000</u>
Total Revenues	\$30,692,000
Expenditures	
Reduced Expenditures	\$4,862,300
Change to Balance	\$35,554,300

2021-23 Estimated Revenues

Compared to AB 68/SB 111, net revenues to the transportation fund are estimated to increase by \$8.9 million in 2021-22 and \$17.7 million in 2022-23. The following sections outline the estimated changes by category of revenue as well as the changes in debt service and other appropriations.

Motor Vehicle Fuel Tax

Compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be \$7.9 million higher in 2021-22 and \$19.9 million higher in 2022-23. The higher revised estimates are primarily due to higher than expected consumption and fuel tax collections in 2020-21 and slightly more positive economic and fuel consumption forecasts for the biennium compared to the earlier

estimates. These estimates now assume modest growth in consumption coming off 2020-21, in which travel and fuel usage continued to be hit by the pandemic. The following table indicates the current estimate of motor vehicle fuel tax revenues compared to the estimates in AB 68/SB 111 for the current and next biennia.

TABLE 3

**Motor Vehicle Fuel Tax Revenues
(\$ in Millions)**

	AB 68/SB 111 Estimate	Revised Estimates		Year-to-Year % Change	
		Estimate	Difference		% Change
2019-21 Biennium					
2019-20	\$1,018.5				
2020-21*	986.6	\$998.3	\$11.7	1.2%	-2.0%
2021-23 Biennium					
2021-22	\$1,021.3	\$1,029.2	\$7.9	0.8%	3.1%
2022-23	1,031.9	1,051.9	19.9	1.9	2.2

*Estimate included in Department of Transportation 2020-21 deficit/federal funding plan, approved by the Committee in March, 2021.

Vehicle Registration and Title Revenues

Gross vehicle registration revenues are projected to be \$1.0 million lower in 2021-22 and then \$1.7 million higher in 2022-23 compared to the AB 68/SB 111 estimates. These gross registration fee revenue estimates are approximately 0.1% lower than the earlier estimates for 2021-22 and 0.2% higher in 2022-23. Vehicle registrations have remained fairly steady through the pandemic, with slight decreases in volume being offset by the registration fee increases included in 2019 Act 9, and first effective on October 1, 2019. Actual percentage growth in registration revenues over the prior year are estimated at 1.9% in 2020-21, the first full year of the registration fee increases, 2.3% in 2021-22, and 0.6% in for 2022-23.

Under Act 9 the title and title transfer fees were increased by \$95, from \$69.50 to \$164.50, including supplemental title fees, effective October 1, 2019. Thus, changes in the volume of vehicles titled, through an original title or a title transfer, have a more substantial impact on the financial condition of the transportation fund than in past years. Gross title fees are expected to be lower by \$0.05 million in 2021-22 and lower by \$2.8 million in 2022-23 compared to the earlier estimates. Like motor fuel, title fee revenues, which are derived from sales of new cars or transfers of ownership of existing cars, were slowed by the pandemic in 2019-20, despite the \$95 fee increase that was in effect for three quarters of that year. Actual percentage growth over the prior year would be estimated at 35.8% in 2020-21, due to the first full year of the \$95 fee increase and pent up vehicle sales demand coming off a slow 2019-20 due to the pandemic, -6.7% in 2021-22, and 3.2% in 2022-23.

Other Fund Revenues

Other transportation fund revenues are projected to be, in aggregate, lower by \$4.5 million in 2021-22 and lower by \$5.4 million in 2022-23 compared to the AB 68/SB 111 estimates. This is the net effect of the following reestimates: (a) lower amounts associated with the GPR Transfer of \$1.6 million annually; (b) lower amounts associated with the one cent petroleum inspection fee of \$7.1 million annually; (c) higher estimated amounts associated with the annual petroleum inspection fund year-end transfer of \$4.2 million in 2021-22 and \$4.3 million in 2022-23; and (d) lower amounts of miscellaneous departmental revenue of \$1.0 million in 2022-23.

Transportation Revenue Bond Debt Service

Transportation revenue bond debt service is estimated at \$219.7 million in 2021-22 and \$208.3 million in 2022-23 on bonds issued to date and the expected issuance of remaining bonding authorized under current law. Transportation revenue bond debt service is an offset to revenues from vehicle registration and titles fees. Annual revenue bond debt service amounts are estimated to be lower by \$6.4 million in 2021-22 and lower by \$4.3 million in 2022-23 compared to the amounts included in AB 68/SB 111, which results in an increase in net revenues by the same amounts. These lower debt service amounts do not yet include the authorization of any additional transportation revenue bonds for the major highway development program and for DOT administrative facilities, which would be provided at \$149.0 million and \$13.0 million respectively under AB 68/SB 111.

Earlier Committee Actions on Appropriations

DOT Appropriations. On May 6, 2021, under Motion #22, the Joint Finance Committee adopted ASA 1 to AB 68/SSA 1 to SB 111, which provides SEG funding levels for DOT, and other state agencies funded with transportation fund SEG, at the adjusted base funding levels for the 2021-23 biennium. As a result, under the ASA 1/SSA 1, the starting point for Joint Finance Committee actions on the DOT's 2021-23 appropriations is the adjusted base level funding amounts plus estimated reserves and lapses, or \$2,051.5 million in 2021-22 and \$2,053.5 million in 2022-23, compared to the amounts in AB 68/SB 111 of \$1,897.6 million in 2021-22 and \$1,967.6 million in 2022-23.

Subsequently, under Motion #24, the Committee made adjustments to the base level SEG appropriations included in the substitute amendments to reflect standard budget adjustments, with a modification to Department turnover, that reduced SEG funding from the transportation fund by \$23.8 million annually. In addition, under Motion #24, the Committee adopted reestimates of sum sufficient debt service appropriations funded from the transportation fund, which further lowered the adjusted base level funding amounts by \$22.7 million in 2021-22 and \$7.5 million in 2022-23. Despite these actions, and before the Committee completes actions on DOT's 2021-23 biennial budget, the funding levels for DOT appropriations and reserves under ASA 1/SSA 1, as amended to date, are currently higher than AB 68/SB 111 by \$107.5 million in 2021-22 and by \$54.5 million in 2022-23.

Other Agency Appropriations. Agencies other than DOT receive funding from the

transportation fund, including for Department of Revenue's administration of the taxes to the fund, and transfers to the Department of Natural Resources' conservation fund under the motorboat, snowmobile, and all-terrain vehicle current law formulas. Under the ASA 1/SSA 1, the total funding for these other agency appropriations would be set at the adjusted base level amounts of \$26.3 million in 2021-22 and \$26.3 million in 2022-23, compared to \$27.2 million in 2021-22 and \$27.8 million in 2022-23 under AB 68/SB 111.

Subsequently, under Motion #24, the Committee adopted the standard budget adjustments associated with other agency operations appropriations that increased base level funding from the transportation fund for these agencies by \$0.1 million annually. In addition, under Motion #24, the Committee adopted reestimates to amounts to be transferred from sum sufficient appropriations to the conservation fund under the motorboat, snowmobile, and all-terrain vehicle formulas, which increased adjusted base level SEG funding from the fund by \$0.8 million in 2021-22 and \$1.4 million in 2022-23. As a result, the funding levels for the other agency appropriations under ASA 1/SSA 1, as amended, are higher than AB 68/SB 111 by \$0.06 million in 2021-22 and by \$0.05 million in 2022-23.

Summary

The revenue estimates upon which the Governor's transportation budget were primarily based on estimates completed in the Fall of 2020, at the time of the Department's biennial budget request submittal. However, the Department of Administration slightly modified DOT's motor fuel estimates prior to the introduction of AB 68/SB 111. Since that time, actual collections through the first three quarters of 2020-21 have improved base year projected revenues. In addition, the economic outlook for collections of fund revenues remains positive, primarily for the motor fuel tax, which results in higher estimated total revenues to the fund in the 2021-23 biennium compared to AB 68/SB 111.

AB 68/SB 111 reduced base level funding for the Department from \$2,044.5 million to \$1,890.6 million in 2019-20 and \$1,958.6 million or by -\$239.9 million in the 2021-23 biennium. Much of the base level funding reductions were made to the state highway rehabilitation program SEG appropriation, which the Governor replaced with \$278.5 million in recommended general obligation bonding. Under the ASA 1/SSA 1, as amended by Committee actions, DOT appropriations and reserves are at \$2,005.0 million in 2021-22 and \$2,022.2 million in 2022-23 and at \$27.3 million in 2021-22 and \$27.8 million in 2022-23 for other state agencies appropriated SEG funding from the transportation fund. These appropriation levels are higher by \$107.5 million in 2021-22 and \$54.5 million in 2022-23 for DOT appropriations and reserves and by \$0.06 million in 2021-22 and \$0.05 million in 2022-23 for other state agencies compared to AB 68/SB 111.

These higher appropriation levels under ASA 1/SSA 1 are partly offset by a \$35.6 million higher 2021-22 opening balance to the transportation fund and by the \$26.5 million in additional net revenues in the biennium, compared to the estimates included in AB 68/SB 111. This produces a projected -\$32.3 million, June 30, 2023, transportation fund balance before the Committee begins actions to complete the 2021-23 transportation budget. Table 4 provides a crosswalk of the fund condition balance under the Governor's bill, as modified by changes in revenue estimates and the appropriation levels under ASA 1/SSA 1 thru Committee actions to date.

TABLE 4

**2022-23 Transportation Fund Ending Balance
(\$ in Millions)**

Balance, June 30, 2023 (AB 68/SB 111)	\$67.7
Revenues -- Change to Balance	
2021-22 Opening Balance	\$35.6
Motor Vehicle Fuel Tax	27.8
Vehicle Registration	0.7
Titles and Title Transfers	-2.8
Other Revenue	-9.9
Revenue Bond Debt Service*	<u>10.7</u>
Total Revenue -- Reestimate	\$62.1
Expenditure Increases (ASA 1/SSA 1, to date)	
DOT Appropriation and Reserves	\$162.0
Other Agency Appropriations	<u>0.1</u>
Total Expenditures	\$162.1
Balance, June 30, 2023	-\$32.3

*The estimated lower transportation revenue bond debt service amounts increase net revenues to the fund.

I hope that this information is helpful. Please contact me if you have questions.

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