Rural Transportation Advocacy Council
Linking Arizona to the Global Economy

RTAC TRANSPORTATION UPDATE

October 19, 2010
Fall Update

Thank you to everyone who participated in the 12th Annual Rural Transportation Summit last week in Litchfield Park. As a follow-up, this update provides an overview of the emerging legislative issues both in Phoenix and Washington and the most likely transportation priorities.

STATE BASE REVENUES CONTINUE TO IMPROVE BUT DIFFICULT BUDGET YEAR STILL ANTICIPATED: As reported in the Summer RTAC Legislative Update, various economic indicators such as job creation and unemployment continue to provide some uncertainty regarding the strength of the economic recovery. However, on a positive note, state base revenues (predominantly sales and income taxes) continue to improve. Collections this August were 23.8% higher than August of 2009. Even when excluding revenue from the one-cent temporary sales tax increase, collections were 5.8% higher than last year. While there have been some down months, collection levels have generally been on an upward trend over the last nine months.

While base revenues are improving, some other revenue assumptions built into this year's budget may not materialize. What is already known is that an anticipated $394 Million in additional federal Medicaid assistance was reduced to $236 Million creating a $158 Million shortfall. Two November ballot measures which would authorize the legislature to divert two dedicated fund balances (First Things First and Growing Smarter) to the general fund are also not expected to pass. The budget anticipated roughly $470 Million from those funds. In addition, while base revenue collections are improving, they are still likely to be under the forecasted amounts further contributing to a budget deficit. In all likelihood, a deficit of at least $750 Million will need to be addressed for the current fiscal year. While the FY2011-12 budget will be greatly impacted by any permanent adjustments enacted for this year, a sizable deficit is also anticipated for next year as one-time revenue sources and federal assistance will not be as available as in previous years.

As the State operating budget is roughly $8.5 Billion, adjustments in the 10% range are probable. This means that the trend of transferring transportation-related funding to the State General Fund will likely continue. Already this year, $83.5 Million has been transferred from highway funding to pay for Department of Public Safety (DPS) operations and another $43.6 Million was transferred straight to the State General Fund. Another roughly $40 Million in revenues dedicated to local governments for local streets was also transferred to DPS. Local governments have also lost the Local Transportation Assistance Funds (LTAF I & II) that were previously generated through lottery collections. The Legislature permanently repealed the LTAF accounts which were the only state-generated revenue sources for public transit.

In addition to highway construction funding, the ADOT operating budget has also been subject to considerable cuts, incurring a 25% reduction over the last two years. Service delivery due to staffing reductions is a growing concern. The operation and closure of MVD offices and highway rest areas will continue to be a challenge as will maintenance and repair operations such as snow removal if further budget cuts persist.

CONGRESS ADJOURNS WITH MUCH UNFINISHED BUSINESS NECESSITATING A LAME DUCK SESSION:
Congress adjourned at the beginning of October to allow incumbents, many of whom face a very difficult re-election effort, to start campaigning in earnest back home. None of the twelve major annual budget bills passed prior to adjournment. A continuing resolution was enacted to enable the federal government to operate beyond the end of the federal fiscal year which ended on September 30th. While continuing resolutions are not uncommon at the end of the year, the relatively short December 3rd expiration is rather unique. This will necessitate a lame duck session of current members after the November 2nd election but before the next Congress convenes in mid-January. In addition to the many retiring members, it is anticipated that many others will lose their re-election bids. The number of "lame ducks" participating in this session may create a very volatile and unpredictable atmosphere. Yet, they have a very full plate. They will need to act on the entire federal budget prior to December 3rd. Also, the current extensions of the aviation and surface transportation (SAFETEA-LU) authorization bills expire on December 31st and will also need action in the lame duck session to prevent a shutdown of federal aviation and surface transportation programs and funding.

ELECTION LIKELY TO MOVE WASHINGTON TOWARDS INCREASED GRIDLOCK:
Pre-election polling indicates that Republicans are likely to make significant gains in Congress. It is highly anticipated that they will gain a majority in the House with the possibility of taking the Senate as well. If Republicans fall short of a Senate majority, even just the pick-up of a few seats will increase the challenge of securing the 60 cloture votes needed to move any bill to a final vote.

One of the relatively obvious impacts of shifting from one-party control to a split government is that it becomes increasingly harder to pass legislation. This will likely have major ramifications for the next transportation reauthorization bill. All indications were that the Obama Administration was in general agreement with the substance of the reauthorization language put forward by Representative Oberstar and the Democrat-held congressional leadership. Disagreement over the timing of reauthorization and no consensus on how to pay for the increased transportation investment were the primary reasons that reauthorization stalled. The timing and costs will remain obstacles for passage in the upcoming year. Now, it is also highly likely that substantive disagreements will emerge between the White House and Congress if Republicans take control of drafting the bill. This change in dynamics means that the substance of reauthorization is now more unpredictable. It also means that the likelihood of enacting a bill anytime soon is far less likely.

In fact, the likelihood of reauthorization being delayed until at least after the next presidential election in two years is growing. In practical terms, this would likely mean that federal transportation programs and spending levels would remain essentially unchanged through a series of SAFETEA-LU extensions. In fact, it is anticipated, that the lame duck session will consider an extension through September of next year.

While not sustainable in the long-term, the most recent estimates indicate that the federal Highway Trust Fund can at least cover SAFETEA-LU spending levels through the end of 2013. This is significant as a shortfall during this continuing period of uncertainty and SAFETEA-LU extensions would have likely been very problematic for transportation spending quite possibly resulting in a reduced rationing of available funding.

With the growing likelihood of further reauthorization delays, the enactment of relatively lengthy SAFETEA-LU extensions will become an increasing priority for transportation advocates. Relatively lengthy extensions will be a priority as longer extensions will provide greater stability and predictability of funding needed for state departments of transportation to implement their construction programs.

During this period of transition between authorization bills, another major threat to funding levels and stability is the growing trend of highway rescissions. These actions are becoming increasingly popular as "offsets" to increased spending for other federal programs. While the impacts of each rescission may vary, they typically do nothing more than reduce excess authority which has no funding implications unless overall authority is reduced below appropriation levels. A major problem is that these unanticipated authority reductions do have an impact on state and regional highway programming. Also, at the rate that rescissions are being enacted, authorization levels are moving increasingly close to dipping below appropriated levels which would result in real funding cuts. A final point is that the presumed benefit of using highway rescissions is highly questionable as the rescissions typically do not result in actual spending reductions. They have essentially been nothing more than accounting gimmicks used to make spending bills look more palatable in this time of increased federal deficit concerns. A rescissions issue brief and talking points are attached to this message.

LEGISLATIVE PRIORITY RECAP:
The following priorities presume that reauthorization will not occur next year. In the event that significant movement does occur, it will obviously become a priority and future RTAC updates and legislative alerts will address it accordingly. In the meantime, the transportation legislative authorities currently are:

- PASS RELATIVELY LENGTHY EXTENSION BILLS THAT WILL AT LEAST PROVIDE SOME FUNDING STABILITY AND PREDICTABILITY

- STOP THE PRACTICE OF HIGHWAY RESCISSIONS

- AT THE STATE LEVEL, STOP THE RAIDS ON TRANSPORTATION FUNDING AND THE ADOT OPERATING BUDGET

- DURING THIS TIME OF DWINDLING RESOURCES, PROTECT THE EQUITABLE ALLOCATION OF TRANSPORTATION FUNDING TO RURAL AREAS.

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RESCISSIONS ISSUE BRIEF

RURAL TRANSPORTATION ADVOCACY COUNCIL (OF ARIZONA)
SEPTEMBER 8, 2010

THE ISSUE:
As related to federal transportation funding, rescissions refer to the practice of taking back (rescinding) a portion of spending authority previously enacted. Historically, rescissions have been used as accounting tools and typically have no real impact on transportation spending levels. However, the recent increase in their frequency and magnitude has created considerable funding uncertainties and has come close to causing actual funding losses. The impact on funding predictability is further stressed by the lack of a long-term authorization act, both of which greatly impede the ability of states and regions to implement their transportation improvement programs.

As transportation funding continues to decline and the near-term prospects for new revenue become less promising, protecting existing revenue sources should be a growing priority. Unfortunately, the Nation's largest transportation funding source, the federal Highway Trust Fund, is increasingly becoming a target for spending reductions. These reductions are occurring despite the widely-held assertion that our Nation's infrastructure is woefully underfunded and increasingly unable to meet our needs. The preliminary findings of Arizona's long range transportation plan update indicate that existing revenue streams will provide funding for only about half of the State's needs.

For greater Arizona, state revenues have declined to a point where federal funding is virtually the only source available for highway projects. The near-term prospects for state-generated revenue once again contributing to highway investment are not good. Therefore, greater Arizona will continue to rely almost completely on federal highway funding. Unfortunately, despite the need to increase investment, existing federal transportation dollars are actually at risk. Growing concerns over federal deficit spending have resulted in new spending measures being paired with cuts to other programs, such as transportation, to offset the new costs.

In August, legislation was enacted providing additional education funding and Medicaid assistance. The additional spending was partially offset by rescinding $2.2 Billion in unobligated balances of federal highway fund apportionments including $45 Million from Arizona. Just a month prior, a similar transportation rescission was inserted in a different spending bill; this time to provide additional funding for the war in Afghanistan and other measures. This rescission was eventually amended out of the bill when its spending provisions were pared down, but is indicative of the growing trend of targeting transportation reductions. Rescissions have been substantial as well as increasingly frequent. Last year, a single rescission stripped over $8.5 Billion in apportionments nationwide, including $170 Million from Arizona. Dating back to February of 2005, Arizona has lost over $435 Million to rescissions.

To spend real Highway Trust Fund dollars, adequate levels of apportionments and obligation authority are both needed. Rescissions are typically limited to excess apportionments which have no real impact on actual spending levels. However, if apportionments are rescinded to levels below obligation authority, real spending cuts will occur. This process will be further illustrated in the background section of this brief.

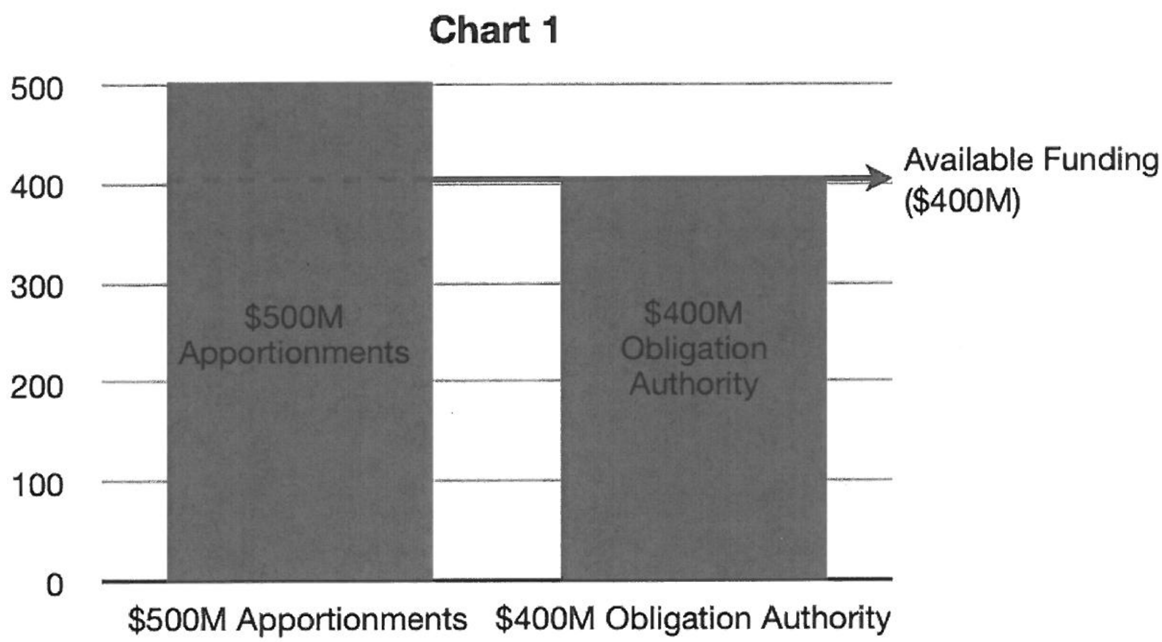
Last year's rescission that stripped Arizona of $170 Million was the tipping point that lowered apportionment levels below obligation authority and had Arizona on course to lose roughly $190 Million in actual funding. The lost apportionments were subsequently restored six months later. However, for that half-year period, Arizona's highway spending rate could not exceed the lowered apportionment levels. As the authority restoration occurred halfway through the federal fiscal year, all of the states then had to play "catch up" to obligate all of the restored authority prior to the end of the fiscal year deadline. Now, this more recent August rescission strips another $45 Million from Arizona. This virtually leaves no margin for any further rescissions without creating actual funding losses. For the fiscal year, Arizona now totals $702 Million in unobligated apportionments and $694 Million in obligation authority, a difference of just over 1%.

Transportation concerns aside, the value of using highway rescissions as an offset for other spending measures is of highly questionable value. Quite frankly, the offsets are more of an accounting gimmick than a substantive means of mitigating other spending increases. As previously described, rescissions have historically been limited to stripping excess apportionments that were never going to be matched with the needed obligation authority. On paper, such rescissions can appear to reduce spending, but in reality, strictly eliminating excess apportionments has no impact on the levels of actual spending.

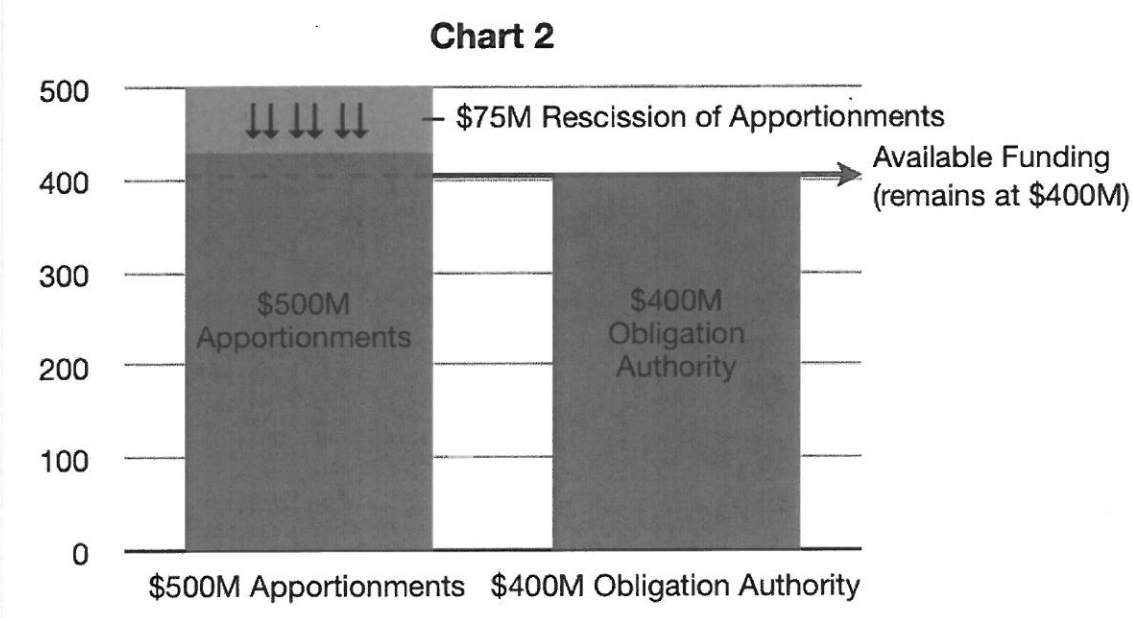
Even if a rescission were to result in actual transportation spending cuts, its value as an offset for other federal spending increases is still highly questionable. The Highway Trust Fund is a dedicated funding source where the revenues are used exclusively for transportation. For example, no revenue was transferred out of the Highway Trust Fund as a result of the last rescission to pay for the increased education and Medicaid spending. The added burden on general fund revenues created by this spending bill is unchanged by the so-called offset.

BACKGROUND:

Roughly every six years, Congress passes a transportation authorization bill that creates or continues transportation programs and sets upper limits on the amount of funds available, also called apportionments. Each year, Congress also passes an appropriations bill that limits the level of funding available for that particular year called obligation authority. The levels of apportionment and obligation authority determine the level of actual federal funding that will be available to a state in a given year. For every dollar spent, one dollar in apportionments and one dollar in obligation authority must be available as illustrated in Chart 1:

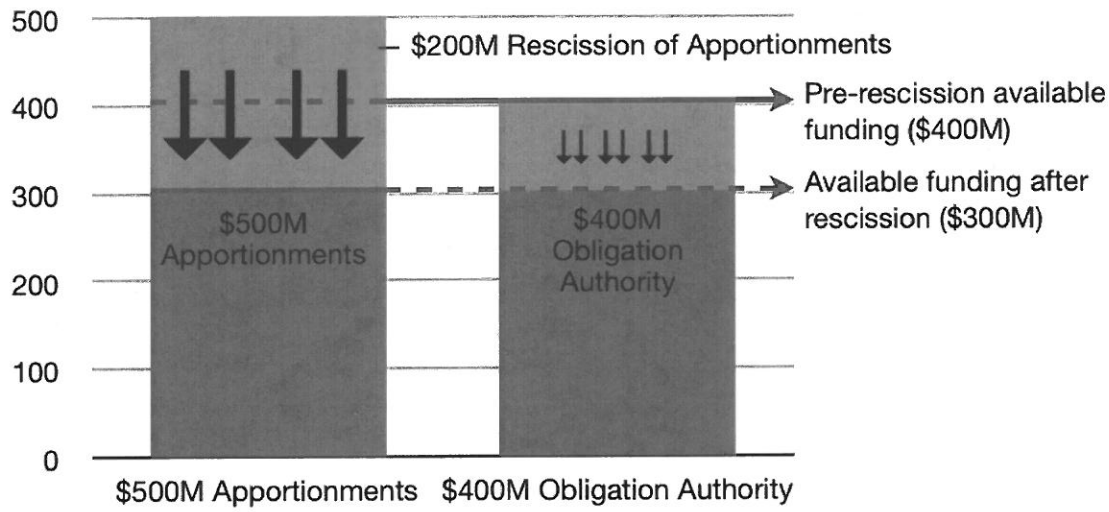


As the original purpose of obligation authority was to limit the level of apportionments used in a particular year, apportionment levels are typically greater than obligation authority levels. Congress often rescinds the "excess" apportionment levels. As previously described, these actions are quite often no more than an accounting gimmick used for budgeting. While rescinding excess apportionments creates real problems for state and regional transportation planning processes, they dó not change the actual level of federal funding available. This is illustrated in Chart 2 where $75 Million in "excess" apportionments are rescinded but available funding remains unchanged:



However, if apportionments are rescinded to a level below obligation authority, such as with the $200 Million rescission example illustrated in Chart 3, a real funding loss occurs. Total apportionments are now $100 Million less than available obligation authority and result in a $100 Million loss of available funding. Such a rescission occurred last year although the apportionments were later restored:

Chart 3



CONCLUSION:

Transportation rescissions have become an increasingly popular action supposedly to mitigate federal deficit spending. As most rescissions do not result in actual spending reductions and, even if they did, would provide no actual relief for general fund expenditures, their value as deficit saving measures are highly questionable.

While having questionable budgetary impacts, rescissions are clearly problematic for implementing transportation programs, particularly due to the impact on funding predictability which is also currently impacted by the lack of a long-term authorization act. Rescissions are also occurring at such a rate and magnitude that their further proliferation could cause actual transportation funding losses. As current revenue streams are increasingly becoming inadequate to meet our transportation infrastructure needs and the short-term prospects for new revenue are not encouraging, maintaining existing revenue streams is a vital priority and currently threatened by rescissions.

For further information, please contact Kevin Adam at the Rural Transportation Advocacy Council (of Arizona) at kadam@rtac.net or (480) 577-7209.

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RESCISSIONS TALKING POINTS

RURAL TRANSPORTATION ADVOCACY COUNCIL (OF ARIZONA)
September 8, 2010

Highway rescissions are typically the practice of taking back certain levels of highway contract authority previously apportioned to the states. These actions are increasingly having negative impacts on transportation funding and the ability of states and regions to implement their transportation improvement programs. The following are key points concerning rescissions:

- Even prior to the current economic downturn, existing revenue streams for transportation were dramatically losing their purchasing power. While there is a lack of consensus concerning how we raise additional revenue, there is a widely-held assertion that current revenues are not meeting our infrastructure needs which will have a growing impact on our economy, environment and overall quality of life. While there is a strong consensus that more investment is needed, the reality is that existing funding levels are under threat.

- Despite losing ground with our infrastructure needs, highway rescissions are passing with greater frequency and magnitude. Over the last five years, Arizona has lost $435 Million in unobligated apportionments. Actual funding losses are more complex to determine. If apportionments are rescinded below obligation authority levels, real dollars are lost. This occurred earlier this year until legislation restored the rescinded apportionments. After the restoration, the latest August rescission reduced Arizona apportionments to a level just 1% over obligation authority, leaving no margin for additional cuts without causing a real dollar loss.

- Rescissions are also disruptive to transportation improvement programs as they diminish funding predictability. For example, a rescission enacted last year reduced the rate of funding available by roughly 30% for a six month period. All of the authority was later restored, but for that six month period, federal reimbursements to states for transportation projects could not exceed the lowered levels. As the authority restoration occurred halfway through the federal fiscal year, the states had to play "catch up" to obligate all of the restored authority prior to the end of the fiscal year deadline. Such uncertainty over funding levels and the timing of their availability can wreak havoc on the ability of states to program projects. This is compounded by the current lack of a long-term authorization act which also greatly impedes funding predictability.

- While the negative consequences of rescissions are real, their alleged benefit to the federal budget process is highly suspect. First, rescissions that do nothing more than cut excess apportionment levels have no real impact on actual spending but are portrayed as such. Also, even if a rescission were to cause actual transportation spending cuts, its value as a spending offset is still questionable. The Highway Trust Fund is a dedicated funding source where the revenues are used exclusively for transportation. The most recent rescission was attached as an offset to a new spending bill for education and Medicaid. Money from the Highway Trust Fund was not transferred to pay for the new education and Medicaid spending. The added burden to the federal general fund created by this new spending was not offset at all by the transportation rescission.

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