

Preliminary Highway Fund Structural Gap - Summary

2012-2013 Highway Fund Baseline Budget Shortfall: \$5.7 million

2012-2013 Highway Fund Structural Gap Estimate: \$700 to \$750 million

Revenue and Other Resources

Revenue

This forecast of the structural gap is based on the Revenue Forecasting Committee's March 2010 revenue forecast and legislative changes enacted through the 2nd Regular Session of the 124th Legislature. Despite indexing fuel taxes, as well as the changes made to the tax rates for blended fuels and amending the indexing statute to prevent an inflation index from being less than 1(PL 2009, c. 413, Part W), revenue growth is projected to be less than 2% per year. This growth is inflationary and does not assume any growth in consumption.

Other Resources

During the 2010-2011 biennium, \$11.3 million was transferred to the Highway Fund from various reserve balances, increasing the 2012-2013 structural gap.

Baseline Allocations

The attached analysis of Highway Fund allocations starts with projections of Baseline Highway Fund Allocations. Baseline amounts use current authorized positions and calculate the full salary and benefit costs based on current collective bargaining agreements, actuarial estimates and rate changes. Personal Services baseline allocations are projected to increase by 16% in FY 2012 and by 3.29% in FY 2013. This initial large increase in FY 2012 results from the following one-time Highway Fund Personal Services adjustments:

- * Reduces funding to reflect projected savings from an increase in the attrition rate from 1.6% to 5% during the 2010-2011 biennium. \$3,087,536
- * Recognizes savings resulting from 10 shutdown days during the 2010-2011 biennium. \$3,426,002
- * Reduces funding from projected savings achieved through a rate reduction for retiree health insurance in FY11. \$5,241,774
- * Recognizes savings from eliminating merit pay increases during the 2010-2011 biennium. \$2,024,083

Baseline allocations flat fund the All Other line category from FY 2011 levels after making adjustments for one-time items. Significant one-time Highway Fund All Other adjustments are as follows:

- * One-time reduction of funding dedicated to the Urban-Rural Initiative Program. \$5,000,000
- * Reduces funding from a reduction in charges by the Division of Financial and Personnel Services as a result of a distribution of excess reserves for retiree health insurance and a reduction in retiree health insurance rates during the 2010-2011 biennium. \$253,189

Capital Expenditures are not included in baseline allocations, but are funded by new initiatives. For the Highway Fund, the lack of Capital Expenditures allocations in the baseline significantly understates the funding requirements and creates an artificially low starting point for the biennial budget.

Inflationary Costs and Statutory Changes Excluded from Baseline Allocations

While Personal Services estimates are "fully funded" for authorized positions, the inflationary effects on All Other budgets are not included in the baseline. These inflationary costs are included in this structural gap analysis to approximate the "current services" needs and projected to increase the All Other line category need by roughly \$8 million. In addition to inflationary effects, there are statutory changes that will affect Highway Fund costs in the 2012-2013 biennium. These include the following major provisions:

- * Capital Expenditures needs have been estimated at \$585,107,000 for the biennium. This amount is based upon the goals detailed in PL 2007, c. 470 with an inflationary component added. The total cost estimate for PL 2007, c. 470 goals was then reduced by estimated 2012-2013 Federal Funds, GARVEE Bonding (PL 2009, c. 413 Part F) and TransCap Bridge Bonds (PL 2007, c. 647).
- * Additional Urban-Rural Initiative Program (URIP) allocations above the 2012-2013 biennium baseline equal \$64,500,000. URIP funding is 10.658% of Highway Fund allocations to the Department of Transportation (less allocations for URIP and Marine Highway). Capital Expenditures needs and Maintenance Surface Treatment factor into this increase.
- * Maintenance Surface Treatment at the goal of 1,200 miles/biennium increases Highway Fund allocations by \$54,567,000.
- * Additional Debt Service requirements over baseline have been estimated at \$1,734,000.
- * This analysis factors in only legislatively authorized bond issues, it does not attempt to make an assumption of future legislative bonding action.

Gap Summary and Conclusions

The revenue picture along with Personal Services expenditure growth results in a projected shortfall of \$5,677,000 for the baseline budget, the budget starting point for the 2012-2013 biennium.

The current revenue estimates project very modest revenue growth despite the indexing of fuel tax rates for inflation and legislative changes during the 124th Legislature. This has combined with significant unmet capital spending needs in this area and continued high prices for key inputs to the Highway and Bridge Capital program (primarily steel and asphalt) to produce this significant "current services" shortfall. Expressed as a percentage of total "current services" allocations, the Highway Fund structural gap is projected to be roughly 53% (i.e. requiring a 53% reduction in "current services" allocations to equal revenue estimates).

This estimate of the Highway Fund structural gap for the 2012-2013 biennium is even larger than the 2010-2011 estimate. 2012-2013 is the second biennium in which the "current services" levels of funding for the Highway and Bridge Capital program have been based upon the goals for funding levels specified in PL 2007, c. 470 rather than looking back historically and applying a growth factor.

Preliminary Highway Fund Structural Gap - Summary (Continued)

	Actual		Budget	Projections	
	2009	2010	2011	2012	2013
Highway Fund Revenue	\$324,242,149	\$311,190,374	\$307,066,369	\$312,065,494	\$317,885,100
Annual % Change	-1.2%	-4.0%	-6.4%	1.6%	1.9%
Highway Fund Expenditures/Allocations:					
Actual Expenditures	\$307,608,312	\$290,599,761			
Current and Baseline Allocations					
Personal Services			\$138,952,907	\$163,373,076	\$168,755,030
All Other			\$145,281,618	\$151,749,551	\$151,749,551
Capital Expenditures			\$20,990,476	\$0	\$0
Total Current and Baseline Allocations			\$305,225,001	\$315,122,627	\$320,504,581
Capital Expenditures				\$283,776,731	\$301,329,930
Additional URIP				\$31,998,546	\$32,500,961
Maintenance Surface Treatment				\$27,000,000	\$27,567,000
Debt Service				\$1,002,006	\$731,713
Inflation Adjustments				\$2,742,306	\$5,542,201
Total Highway Fund Expenditures/Allocations	\$307,608,312	\$290,599,761	\$305,225,001	\$661,642,216	\$688,176,386
Annual % Change	-11.9%	-5.5%	5.0%	116.8%	4.0%
Total Transfers and Adjustments to Balance	(\$15,721,899)	(\$21,952,269)	(\$1,644,411)	\$0	\$0
Baseline Budget Shortfall				(\$3,057,133)	(\$2,619,481)
Ending Balances and Projected "Structural Gap"	\$1,511,938	\$150,282	\$347,239	(\$349,576,722)	(\$370,291,286)

Excludes Balance Forward

