Current State of the Special Transportation Fund (STF)

December 2017

To sell bonds for transportation projects, the state must continually demonstrate that the Special Transportation Fund (STF) is operating in balance during the biennium and throughout the coming years. Unfortunately, the current STF balance under the budget adopted in October cannot support the previously planned level of capital investments and services, while also funding normal operations for the Department of Transportation (DOT), including highway maintenance and bus and rail operations. Simply continuing work on ongoing capital projects will cost the state close to $1 billion this year, which impacts the STF through debt service.

In short, Connecticut faces two choices: we can sharply curtail spending on transportation, or we can begin to identify new resources to support the Special Transportation Fund. It is the position of the Malloy Administration that transportation infrastructure is critical to our economic success, and that simply cutting our way to balance in the STF by eliminating important projects and services would be a catastrophic choice.

Background: How We Got Here

The Transportation Finance Panel studied the STF in 2015 and warned that Connecticut needed to find new funding streams to shore up the STF in order to keep it sustainable over the long term. Financial projections at the time indicated that declining revenue and increasing expense trends could deplete the fund balance in approximately 5 years, if no corrective action was taken. Since the Panel's work in 2015, the situation continued to worsen.

Negative Trends

Over the years, a number of factors have contributed to the current strain on the STF.

- The reduction of the gas tax in 1997 resulted in a cumulative loss of $4 billion in the STF.

Then in 2012, the General Assembly "capped," or set an upper limit, on the gas tax levied on oil companies.

- The price of oil fell at a much faster rate than had been anticipated in 2015. At the same time, total vehicle miles declined and the market is switching to electric cars and more fuel-efficient vehicles. This means that less money is coming into the fund.
- The amount of annual debt service is increasing markedly as repayment obligations on previously issued bonds are due. These bonds were sold during a period of transportation infrastructure rebuilding over the last two decades.
- In the 2016-17 biennial budget, $37.5 million was diverted out of the STF and resulted in increased bus and rail fares, reduced highway maintenance, and a cut in DOT agency personnel positions. This also resulted in a reduction in the cumulative balance in the STF.

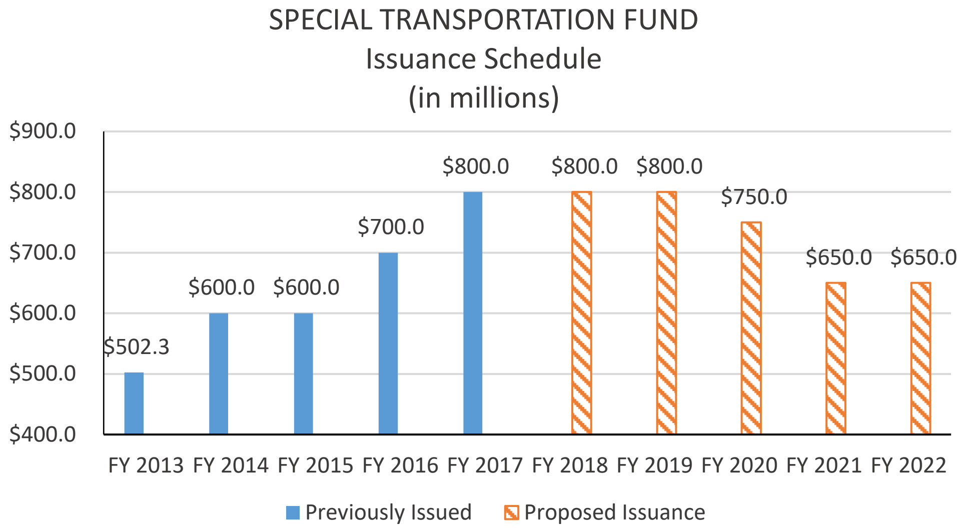
Positive Actions Taken Since 2015

Some corrective actions were taken in response to the 2015 warnings, but they were not enough to offset the negative trends now affecting the STF.

- The legislature set aside one-half a percent (1/2%) of the state sales tax to be dedicated to the STF 2015, but it proved insufficient to meet the needs of this fund.
- Given the history of diverting funds from the STF for non-transportation purposes, the Governor first proposed a constitutional lockbox for transportation funding in 2015. In 2017, the legislature finally approved a statewide referendum on a constitutional lockbox, which is now scheduled to go to voters in November 2018.
- The legislature approved redirecting revenues from the state's sales tax on new car sales to the STF. However, the new revenue will be phased in gradually beginning 2021. While this will be a major help to the STF in the long term, it comes too late to solve the immediate needs of the STF.

A Grim Scenario: What the 'Status Quo' Would Look Like

If we do not take action to increase revenues in the STF, the Connecticut Department of Transportation would be forced to significantly revise its operating budget and its five-year capital program. It would significantly reduce highway, rail and bus services for the public, and reduce the capital program by over $4 billion over the next 5 years. That means debt service on new bond issuances over the next five years would be limited to: $800 million in FY 2018, $800 million in FY 2019, $750 million in FY 2020, $650 million in FY 2021, and $650 million in 2022.

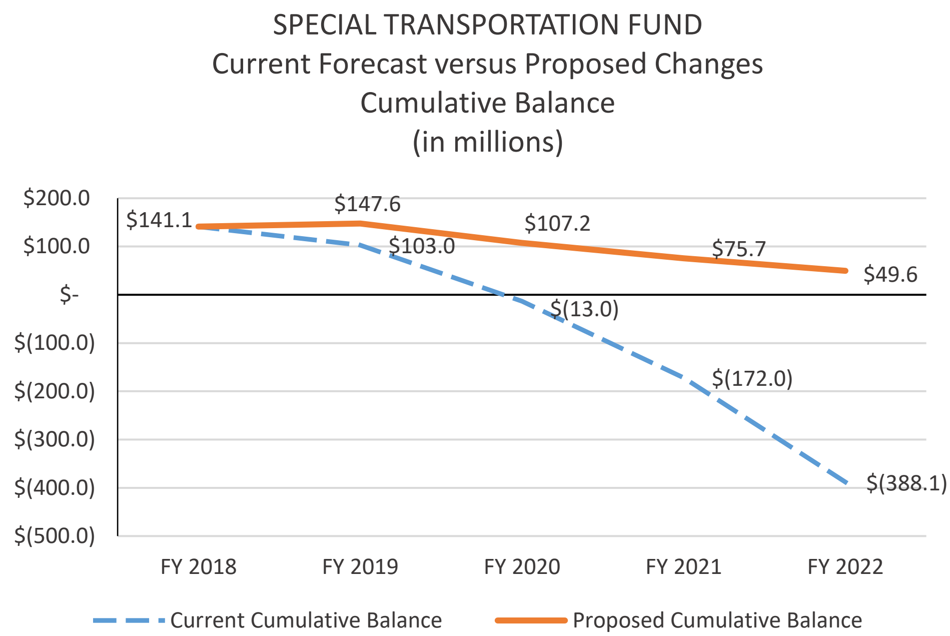


Note: Previously issued shows only the par amount. Does not include refunding or premium.

This reduced capital outlay would demand difficult decisions about deferring or cancelling important projects. Since some of these projects must ultimately be completed to protect life safety, these delays would only serve to drive up costs and restrain economic growth in the state.

Actions to significant reduce operating and capital expenses instead of new revenue would require implementation through future state budgets, as well as through the federally-mandated transportation planning process in collaboration with the state's Metropolitan Planning Organizations. They would result in deterioration of our transportation facilities in a few short years, and a significant curtailment of transit services and affordability. Unfortunately, absent new revenues, the state would have no choice but to implement such dire alternatives.

The sections below illustrate what is in jeopardy should the Special Transportation Fund remain at current, "status quo" funding levels. DOT would be forced to undertake these potential actions in order to ensure that the STF would be operating within its current projected resources. Regrettably, under these conditions – which assumes no new revenues will be added to the STF – many new transportation capital projects and programs would be scaled back or delayed. Additionally, operating expenses would be balanced by scaling back transit and highway services, and increasing transit fares. (See Appendix A)



This scenario constitutes the basis for financial disclosures that the state must make in connection with issuing transportation revenue bonds in the coming months.

At-Risk: DOT Operating Budget Items

The first area necessitating significant reductions would be the DOT operating budget. The following are representative of what could be at-risk:

DOT Administrative Impacts

- 15% reduction in DOT staffing

Highway and Bridge Impacts

- Reduction in PAYGO road and bridge paving and maintenance work
- Completely close rest areas
- Reduced maintenance staff that would impact service levels for snow events and routine maintenance

Bus Impacts

- Eliminate Non-ADA local bus service subsidies
- 15% bus fare increase FY 2019
- Transit District 15% Subsidy Cut FY 2019
- Transit District 50% Subsidy cut FY 2021

- Additional CMAQ subsidy for CT*fastrak*
- 5% bus service reduction in FY 2021

<u>Rail Impacts</u>

- 10% rail fare increase FY 2019
- 5% rail fare increase FY 2021
- 5% rail fare increase FY 2022
- Metro-North non-service expense reductions FY 2019
- No weekend and some off-peak service - Danbury, Waterbury and New Canaan rail lines FY 2019
- 50% reduction in Shoreline East service FY 2019

At-Risk: DOT Capital Programs

Based on the assumptions detailed below, approximately $6.2 billion of the current Five-Year Capital Plan (FY 2018-2022) would likely advance, and approximately **$4.3 billion would be at-risk for suspension or deferral**. Approximately $850 million of this is the estimated total cost of projects scheduled to be advertised/procured in FY 2018 that under this scenario, would not advance as planned. Approximately $2.0 billion of the $2.8 billion **of Let's Go CT Ramp Up** authorizations is also included in the $4.3 billion that would not advance as scheduled.

Note that the process of implementing a dramatically reduced capital program would require that each project be reviewed based on safety and state-of-good repair. Constant adjustments would need to be made regarding which projects would go forward and which would be suspended or deferred. The following list is representative of the actions that would be required.

Continuing Capital Projects

To begin, programs fitting the following criteria would *continue* under a "status quo" scenario:

- Projects with existing contracts / already awarded
- Future projects programmed with federal funds
- 100% state design projects supporting future federal projects
- 100% state funded projects would only advance if required for a "State of Good Repair"
- State bridges with deficiencies requiring immediate attention

Specific projects going forward would therefore include:

<u>Public Transportation</u>

- All projects associated with the Walk Bridge Program

- Hartford Line construction (New Haven to Hartford), including Windsor Locks station
- Locomotive overhauls
- 16 new coaches for Hartford Line to replace leased equipment
- SAGA bridge repairs
- New Haven Line signal system replacement
- New Haven Line network infrastructure
- New Haven Rail Yard projects
- Waterbury Branch signalization

Highway and Bridge

- Bridge repairs @ $25m/yr
- Pavement; VIP @ $54m/yr plus Preservation @ $25m/yr
- Gold Star NB Bridge(Phase 1) @ $104m
- East Haddam Swing Bridge @$38
- Charter Oak Repairs @ $10m (in lieu of larger Charter Oak Bridge Interchange project) (Note: Full project would advance if CT is awarded the Federal INFRA grant.)
- Waterbury Bridges (I-84 & CT 8) @ $180m
- $10.4m/year for Equipment Procurements for the Highway and Bridge Maintenance fleet
- LOTCIP: 100% State Funded in 2018, revised to STP-Urban in 2019-22 at 80/20
- Local Bridge included only for projects with a fully executed agreement
- Town Aid Road Payments to Municipalities – only the portion out of GO Bonds
- Facility funds for Roof Repairs
- Environmental Compliance Funds for Tank Replacements and other Mandated Activities
- Funds for PE/RW/Mods, Safety Program, Guiderail, Illumination, some Signing

At-Risk Capital Projects

Unfortunately, many projects would need to be suspended or deferred under the "status quo" scenario. Generally, projects in this category would fit into the following criteria:

- 100% state funded projects would not be going forward (unless required to maintain base state of good repair) – this includes many **Let's Go CT Ramp Up projects**, FIF-Road and FIF-Bridge projects, as well as many 100% state funded Public Transportation projects.
- Limit Design work and Rights-of-way acquisitions for 100% state funded Construction projects – this may mean stopping existing Consultant Design agreements. Some additional expenses would be necessary to bring design to logical stopping point.

Using those guidelines, the following projects would be at risk of cancellation or deferral if the state chooses to do nothing. *To be very clear, it is the strong position of the Malloy Administration that action is needed, and that these important projects should continue.*

Public Transportation

- Hartford Line–PE and Con–Phase 3b–Double tracking (Hartford - Springfield), including all additional stations PE and Con except Windsor Locks (North Haven, Newington, West Hartford, Windsor, and Enfield)
- Replacement of Rail Cars on Shore Line East, Waterbury and Danbury Lines (up to 200 cars)
- Café Car Conversion (10 cars)
- Clinton Railroad Station
- Merritt 7 Railroad Station (PE and Con)
- New Haven Railroad Station Parking Garage(PE and Con)
- Stamford Railroad Station Parking Garage (PE and Con)
- Stamford Railroad Station Pedestrian Bridge(PE and Con)
- Orange Railroad Station
- Madison Railroad Station – Pedestrian Bridge and Parking Garage
- Bridgeport Barnum Railroad Station
- Cos Cob Bridge Repairs
- New Canaan Branch Improvements
- New Haven Line Customer Service Initiative
- New Haven Line – Rail Maintenance Facility Improvements
- Off System Bridge Repairs
- Middletown Swing Bridge Repairs
- Greater New Haven Transit District (GNHTD) New Maintenance Facility
- Estuary TD New Maintenance Facility
- Norwalk TD Facility Improvements
- Greater Hartford Transit District (GHTD)- Union Station Improvements
- Greater Bridgeport Transit Authority (GBTA) – Facility Improvements
- Bus Service Expansion Fleet

Highway and Bridge

- State Bridges currently rated in fair condition, excluded @ $77m
- Hartford Interchange 29 @ Charter Oak Bridge (Note: This project would go forward if CT is awarded the Federal INFRA grant.)
- Woodbridge CT 15 West Rock (Heroes) Tunnel

- Norwalk 7/15 Interchange
- Hartford I-84 Viaduct
- Middletown Route 9 Signals/Bridges
- Waterbury 8/84 Interchange (Mixmaster)
- West Hartford, I-84 Construct Operational Lanes EB & WB
- I-95 Widening between Stamford to Bridgeport
- I-95 Widening from the Baldwin Bridge to the Gold Star Bridge
- Danbury, Reconstruct I-84 between Exits 3 & 8
- Gold Star Bridge NB (Phase 2)
- Maintenance Facility Rehabs and Replacements
- Renovate District 1 HQ Building in Rocky Hill
- Salt Shed Roof replacements and wetland remediation
- Town Aid Road Payments to Municipalities - portion from STO Bonds
- Local Bridge projects without a fully executed agreement
- Pavement; VIP underfunded by $21m/yr and Preservation by $25 m/yr
- Signing Preservation (underfunded by $15m/year)
- Community Connectivity Program
- Expanded Trail/Alternative Mobility Program
- Innovative Bridge Program
- Minimally Funded Miscellaneous Needs: Emergency Projects, Construction Claims, Asset Management , MS-4 Compliance, Alternative Contracting Expansion
- Highways Over-programming (approximately $500m). Projects included in Over-programming may advance if other projects, on the Go List are delayed, leaving a hole in the federal program.

Conclusion: What Can Be Done

The best choice for Connecticut is clear. We should avoid deep and painful project cuts or deferrals, fare increases, or service cuts as much as possible. We should continue to make the necessary investments into our transportation infrastructure that will support economic growth in both the short and long-term. We should undertake a thorough and frank discussion – both among state leaders and with the constituents we serve – about what is necessary to make those investments a reality.

One immediate way to do that is to work towards the passage of the Transportation Lockbox Amendment to the state constitution in November 2018. First proposed by the Governor in 2015, the lockbox would ensure that funding put into the STF could only be used for transportation and related purposes. In other words, the STF would be protected from future raids made by future governors and future legislatures.

Another potential tool is authorizing general obligation (GO) bonds to offset reduced bonding capacity in the STF. This strategy would require legislative action, but could enable the state to maintain progress on important projects while other revenues are made available.

Finally, there is no denying that adding to the existing revenue streams in the STF will need to be considered in the near term to avoid significant reductions in transportation services and increased fares. More gradual changes that would address greater investments in capital programs could be implemented over time. In the coming weeks, in preparation for the 2018 legislative session, the Malloy administration will put forward specific proposals on this front.

Regardless of what combination of ideas are realized, there can be no denying that the status quo simply won't do. Together, leaders in the state government must reckon with the new reality facing our STF, and take the necessary steps to shore up our existing roads and bridges, invest in new and important projects, and ultimately grow our state economy. Connecticut families and businesses deserve nothing less.

Appendix A

SPECIAL TRANSPORTATION FUND PROJECTIONS

Current Forecast versus Proposed Changes (in millions)

December 6, 2017

Current Forecast

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
1.	**Revenues**	$ 1,554.4	$ 1,590.0	$ 1,628.7	$ 1,734.4	$ 1,843.0
2.	**Expenditures**					
3.	Debt Service	$ 614.7	$ 680.2	$ 752.1	$ 839.2	$ 941.0
4.	Operating	896.2	947.9	992.6	1,054.2	1,118.1
5.	Total	$ 1,510.9	$ 1,628.1	$ 1,744.7	$ 1,893.4	$ 2,059.1
6.	**Operating Surplus/(Deficit)**	$ 43.5	$ (38.1)	$ (116.0)	$ (159.0)	$ (216.1)
7.	**Cumulative Balance**	$ 141.1	$ 103.0	$ (13.0)	$ (172.0)	$ (388.1)

Proposed Changes

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
8.	**Revenues**	$ 1,554.4	$ 1,590.0	$ 1,628.7	$ 1,734.4	$ 1,843.0
9.	**Expenditures**					
10.	Debt Service	$ 614.7	$ 667.5	$ 728.7	$ 794.6	$ 845.4
11.	Operating	896.2	916.0	940.4	971.3	1,023.7
12.	Total	$ 1,510.9	$ 1,583.5	$ 1,669.1	$ 1,765.9	$ 1,869.1
13.	**Operating Surplus/(Deficit)**	$ 43.5	$ 6.5	$ (40.4)	$ (31.5)	$ (26.1)
14.	**Cumulative Balance**	$ 141.1	$ 147.6	$ 107.2	$ 75.8	$ 49.7

Expenditure Adjustments

1. Department of Transportation Expenditure Changes
    a. Rail Fare Increase – 10% increase starting FY 2019. Additional 5% increase in FY 2021. Additional 5% increase in FY 2022
    b. Bus Increase – 15% increase starting in FY 2019
    c. Service Adjustments – Shoreline East reduce service starting on July 1, 2019. Eliminate weekend and some off-peak service on New Haven Line branch lines (Danbury, Waterbury and New Canaan) starting in FY 2019
    d. Other Adjustments – Includes, but not limited to: subsidy reductions, hiring freezes, and other various adjustments
2. Other Agency Expenditure Adjustments
    a. Department of Motor Vehicles – Various agency savings
    b. Department of Energy and Environmental Protection – Various agency savings
3. Debt Service
    a. Reduce issuance: In FY 2018 from $900 million to $800 million; in FY 2019 from $900 million to $800 million; in FY 2020 from $900 million to $750 million; in FY 2021 from $1,000 million to $650 million; and FY 2022 from $1,500 million to $650 million.