A Very Early Look at COVID-19 Impacts on Local Streets and Roads Funds

Formula based city and county local streets and roads (LSR) funds from the state include the Highway Users Tax Account (HUTA) and the Road Maintenance and Rehabilitation Account (RMRA – from SB1 of 2017). RMRA allocations are from portions of state excise (per gallon) taxes on gasoline and diesel, and vehicle registration taxes ("Transportation Improvement Fees"). HUTA funds come from gasoline excise taxes. There are certain first-in-line fixed amount take-outs in the complicated RMRA and HUTA allocation procedures that magnify revenue growth and decline on the city and county allocations.

A detailed explanation of LSR funding and January 2020 estimates of FY2019-20 and FY2020-21 allocations for cities and counties is available here: http://californiacityfinance.com/LSR2001.pdf. Due to the COVID-19 event and, specifically, the shelter-in-place order, it's clear the current year FY2019-20 revenue estimates must be revised downward substantially.

The magnitude of the effect of the COVID-19 event on fuel consumption and therefore tax collections and allocations depends on many as-yet unknown things including: the impact of the disease itself, restrictions by state and federal government on activity, and changes in transportation choices through and during the recovery from the event. Most road transportation in California will be suppressed through April and quite conceivably well into June.

Fuel taxes are collected each month for sales occurring in the prior month and then allocated according to statute. Consequently, we will begin to see the effect of COVID-19 on LSR allocations in the May 2020 allocations.

My early guestimates are that cities and counties will see a reduction in FY2019-20 RMRA allocations of from 10 to 20 percent and of HUTA allocations of from 15 to 30 percent. The FY 2020-21 effect should be much milder but depends largely on the extent of any longer term recession. These numbers are quite speculative at this point. We'll have much better estimates in 6 to 8 weeks.

The California Department of Finance normally updates its fuel consumption and transportation fund forecasts as part of the Governor’s budget revision, typically released in mid-May in preparation for a budget bill to be approved by the Legislature by June 15. These revised statewide revenue estimates are the basis of specific city and county allocation estimates that we provide to you.

So, assuming that the budget calendar proceeds as in prior years (and that is a major assumption), we will have new LSR (HUTA and RMRA) estimates for the current FY2019-20 year and FY2020-21 in tandem with the Governor’s May Revision.

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