A Path Forward: A Common Sense Strategy for the Continued Viability of Colorado's Transportation Network

2020 Terry J. Stevinson Fellowship Report

The Terry J. Stevinson fellowship was established in honor *of Terry J. Stevinson, a founding board member of CSI. Thanks to Mr. Stevinson's continuing dedication to free enterprise these fellowships have been named in his honor.* ***The fellowship is awarded to two individuals with different backgrounds and perspectives to research a critical public policy issue facing Colorado and also presenting achievable solutions.*** *This year, the fellowship research topic selected was transportation infrastructure.*

2020 Terry J. Stevinson Fellows

Ben Stein

Ben's career in public finance stretches over 16 years, serving as Budget Director and CFO for CDOT for the better part of a decade, and as Deputy State Treasurer for another 8 years. In 2014, Ben retired from CDOT and became the Chief of Staff to U.S. Rep. Mike Coffman until 2019. Ben continues to work in the transportation field as a consultant.

Henry Sobanet

Henry's career in economics, budgeting, and finance has spanned over 25 years. He has worked for the Colorado Legislative Council and served as the Director of the OSPB under Governors Bill Owens and John Hickenlooper. Henry also served on the Colorado Transportation Commission. Currently, Henry is the CFO of the CSU System.

An Unquiet Crisis

Colorado is in the midst of a slowly unfolding unquiet crisis. There have been efforts over the past two decades to improve the state's transportation system and/or to educate Coloradoans on its deficient condition, but a sustainable solution remains elusive. The system is now under pressure from all sides: **growing usage, age, antiquated financing, and expensive inputs**. As a result, Colorado is experiencing increases in congestion and further roadway degradation.

Colorado can't fix these long emerging problems in a day, but the longer the deterioration continues the higher the future cost of solving it will be.

Growth in Funding Vs. Demand for Surface Transportation Infrastructure in Colorado*

*Bars Reflect the % Growth over 15 years from FY04 to FY19

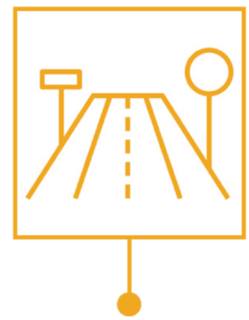
For the 15 years from FY04 to FY09, the main source of funding to CDOT, **revenue to the Highway Users Trust Fund, grew by 47% while Colorado's population plus construction cost inflation grew by 111%.**

Common Sense Institute
Read the full report at www.commonsenseinstituteco.org

A Plan to Move Forward

Phase I: Stabilization | Phase II: Rehabilitation | Phase III: Transformation

We recognize the difficulty in considering the long-term needs of a single policy area in the midst of a recession. While the impact of COVID-19 and the response to contain it, is currently ongoing, we believe the transportation issues that long-preceded the pandemic remain important to address. This is because it remains more likely than not that **transportation investments will not only serve the future economic needs of our state, but also contribute to its near-term recovery.**



Transportation investments will help contribute to Colorado's recovery

Phase 1: Stabilization - The Immediate Short Term

This period is defined as the remaining period before reliable treatments and/or vaccines for COVID-19 are available, and recovery from the recession occurs. **We recommend assessing the post-recession status quo for both revenue availability and system needs.**

This assessment should include:

1. Transportation revenue sources, especially the motor fuel tax.
2. Changes in travel patterns that could affect project ranking or urgency.
3. Decline in wear and tear on the system.

Appropriate steps should also be taken to reform hybrid, electric, and autonomous vehicle registration fees and taxation to fairly address the impact and costs they impose on the system.

Phase 2: Rehabilitation - The Pressing Short Term

Before COVID-19, the road maintenance deficit was $300 million annually

Based on the assessments in Phase 1, new calculations of the maintenance deficit should be recompiled. The most up-to-date estimates (setting aside the current recession) indicate there is a **$300 million deficit annually** for what is needed to keep the system largely in the condition it currently is now.

Because maintenance spending has fallen so far behind, we recommend this as the **"must do"** step for Colorado to take as soon as possible. Maintaining what we have is invariably far less expensive than reconstructing highway segments or constructing new ones. There is also the added benefit of reducing vehicle repairs, goods and people sitting in traffic jams, and increasing road safety.

The estimated annual cost of Phase II grows to $500 million annually if the traditional sharing of transportation dollars with counties and cities continues.

Below you may find a menu of options for **achieving new maintenance spending of $300 or $500 million annually**. Each of the options comes with its own advantages and disadvantages. Rather than prescribe a recommendation, we felt it was more important to show the cost required of each option.

Take Your Pick: What Would it Take to Raise the Revenue Needed for Phase II?		
Options for Funding Phase II		
Revenue Source	$300 million/yr (state only)	$500 million/yr (60% state/40% local)
Sales Tax Rate Increase	0.24%	0.40%
Income Tax Rate Increase	0.15%	0.25%
Vehicle Registration Fee Per Vehicle	$51.88	$86.47
Vehicle Miles Traveled Tax per Mile	$0.0056	$0.0093
Passenger Vehicle Fuel Tax per Gallon	$0.1008	$0.1680

Phase 3: Transformation - The Medium Term

Colorado's Transportation Network needs an infusion of sustainable revenue

Under current Colorado law, CDOT will receive an additional $500 million a year in funding for capacity expansions through FY 2023. This means that the **progress towards completing the over $9 billion in backlog of identified capacity projects will stop when the last of the projects funded via this program is completed.**

Earlier this year, CDOT released a list of top priority capacity projects totaling $3.2 billion with a proposed completion by 2030. However, current funding will not be sufficient to address the list.

If begun in 2024 funding all of the $3.2 billion would require an additional $533 million per year to complete all projects by 2030. Alternatively, ***if financed, we estimate the annual payment would be $234 million for 20 years.*** The table below shows the incremental changes to the various taxes or fees that would achieve either a "pay-go" or bond-financed plan.

To accomplish either the Phase 2 or Phase 3 or both, and reset the trajectory of our transportation system's future, **Colorado needs an infusion of sustainable, earmarked dollars.** Expecting large infusions from the federal government to address this backlog is hopeful at best. And looking for more dollars in the State's General Fund above those expected to fund the existing and growing Certificate of Participation transportation financing is even less likely.

We don't take the potential impact of these costs on household and business budgets lightly, but there are also costs to doing nothing in the form or more expensive repairs to the system later, safety issues, damage to vehicles, and delayed travel time.

Take Your Pick: What Would it Take to Raise the Revenue Needed for Phase III?

Options for Funding Phase III Recommendations		
Revenue Source	$533 million/yr "Pay-Go"	$236 million/yr annual bonding
Sales Tax Rate Increase	0.43%	0.19%
Income Tax Rate Increase	0.27%	0.12%
Vehicle Registration Fee Per Vehicle	$92.14	$40.81
Vehicle Miles Traveled Tax per Mile	$0.0099	$0.0044
Passenger Vehicle Fuel Tax per Gallon	$0.1791	$0.0793

Even Amidst This Current Pandemic, We Cannot Lose Sight of Long-Term Needs of Our Transportation Infrastructure

In spite of surface transportation deficiencies, Colorado's economic growth has continued. Factors such as the highly diverse mix of industries, strong energy and technology-based business activity, the lure of its mountains and climate, and key assets like Denver International Airport continue to make Colorado a prosperous state. **Though Colorado's economic performance for the last several years has outperformed most other states, its transportation system is barely keeping up, and the limited prospects for expansion of the system will likely place the state at a disadvantage going forward unless addressed.**

If we are unable to expand our transportation network, it may place Colorado at a disadvantage going forward

New technologies ranging from smarter roads to smarter and more efficient cars, have great potential to move people, goods, and services more safely and efficiently than the status quo. However, **Colorado's system for transportation finance is not ready for the transition to a new transportation model.** We need to start planning now to deal with disruptive innovations like ridesharing which appears to have affected demand for transit prior to the recent drops due to the pandemic. Further still, the extent to which commuting patterns are permanently altered is still not certain. New traffic patterns may affect the prioritization of capacity expansion.

We are still optimistic enough that we believe the sweet spot of a good plan with moderate costs, and visible, accountable outcomes is within the capabilities of the political and civic circles in Colorado. Though the nuts and bolts of the plans outlined here are important, they are not sufficient. Success will require those leading this effort to put aside preconceived notions or advocacy for particular modes of transportation, finance and/or region. The key is to work together in ways that have not occurred to date and to consider that some progress is vastly more useful than none.