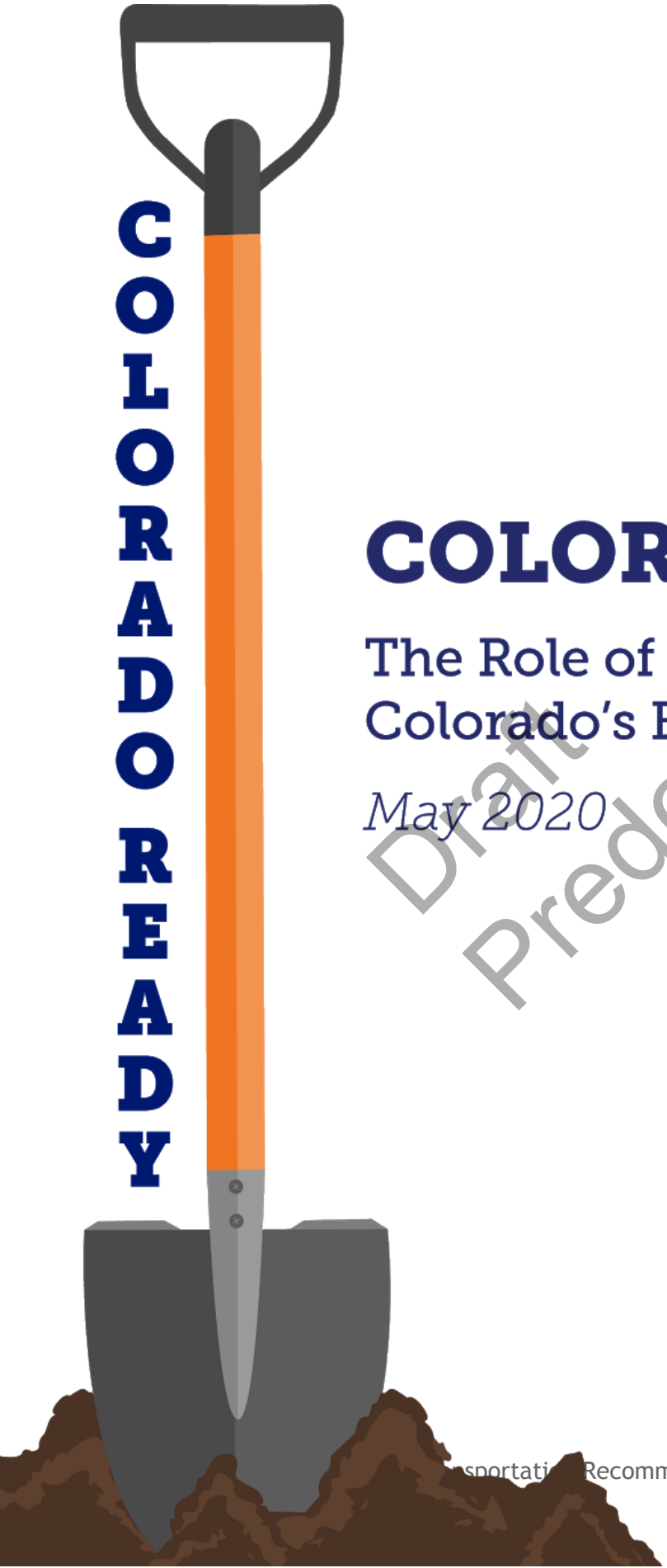

COLORADO READY

The Role of Transportation in Colorado's Economic Recovery

May 2020

This report was compiled by the TRANSPORTATION WORKING GROUP, a diverse group of leaders from across the state that care deeply about transportation.

Colorado Department of Transportation

Denver Regional Council of Governments

North Front Range Metropolitan Planning Organization

Pikes Peak Area Council of Governments

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Colorado State Senator Faith Winter

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Colorado State Representative Matt Gray

Colorado Concern

Colorado Contractors Association

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Colorado Forum

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Executive Summary

One year ago this May, Colorado embarked on an effort to refresh the state's transportation priorities based on firsthand input from citizens, stakeholders, and local elected officials from across the state. This ambitious effort created Your Transportation Plan, a 10-year list of projects that would improve the condition and safety of our roads, reduce congestion, and provide more travel options in nearly every one of Colorado's 64 counties.

This effort led the state's Transportation Commission to approve in November of 2019 a four-year series of projects based on expected revenue from the state legislature;[1] the first infusion of new transportation funding since the 2009 passage of FASTER. Many believed that longer-term funding solutions were on the horizon as the 2020 session began with conversations on transportation fees and alternative funding.

Colorado finds itself in a much different place today. The economic impact of COVID-19 has put a significant share of Colorado's transportation budget at risk with expected reductions--including a loss in gas tax and managed lane revenues, general fund dollars, and anticipated debt--that could exceed $1.2 billion over the next three years if unmitigated.

However, the extent of the risk only underscores the importance of finding creative approaches to meet our transportation goals for Colorado's recovery -- which include executing Colorado's statewide transportation plan that was developed in collaboration with partners and citizens across the state, and bolstering the complementary plans that exist within each metropolitan planning area and transportation planning region. Indeed, these authors are committed to work together to ensure that the industry plays a significant role in Colorado's economic recovery. This paper provides five areas of change that position the transportation sector to weather the current economic situation while ensuring we are "Colorady Ready" to support economic recovery through infrastructure investments.

1-Remain Focused on Delivering Your Transportation Plan

Your Transportation Plan --the product of a year-long statewide planning effort that relied on input from citizens across the state--provides a balanced program of projects that can provide both immediate impact through small, easy to deliver projects and multiple years of sustained investment through large corridor improvements. Just as Your Transportation Plan has informed recent budget cuts, it should serve as our guide through this period of uncertainty and eventual recovery. In a similar and complementary vein, we need to stay focused on helping Colorado's Metropolitan Planning Areas and Transportation Planning Regions execute on their plans.

2-Advocate for Federal Funding To Stimulate The Economy and Improve our Infrastructure

Congress must pass an overall stimulus spending package that includes a substantial investment in infrastructure and makes key structural changes that provide more flexibility and dollars for Colorado. This group supports analysis led by the American Association of State Highway and Transportation Officials that estimates a need for $50 billion in flexible state transportation dollars, to be delivered through state transportation departments and

[1] SB267, SB262, SB1 provided a total of $1.65 for transportation over a 4-year period.

which, in Colorado, would mean passing-through about a third of dollars to local subrecipients. However, this group believes that dollars should be distributed to states based on population, rather than the typical highway formula which provides Colorado with one of the three lowest rates of return in the nation.

3-Implement Key Administrative Actions That Position Colorado for Stimulus
The state should plan for project sequencing that can deliver projects of different sizes and complexity with an initial focus on rapid deployment projects that immediately infuse dollars into the economy. Additionally, a comprehensive transparency and public accountability strategy should be an embedded part of any spending plan.

4-Prepare Colorado's Workforce to Transition to High-Wage Transportation Jobs and Open New Opportunities for Artists and Architects
Infrastructure occupations boast competitive wages with relatively low barriers to entry, frequently paying up to 30 percent more to workers with a high school diploma or less compared to those in all other occupations. During this period of recovery, we should fund and support an already existing network of training and wrap-around service organizations. This also is an opportunity to embrace the talents of Colorado's artists and architects in the tradition of the Works Progress Administration.

5-Continue to Develop Policy Ideas That Deliver Long-Term Funding Solutions
Short-term funding packages--while essential--cannot supplant stable, long-term solutions. The state has a vetted and prioritized 10-year pipeline of projects that would return our system to a state of good repair and provide access and mobility for millions of Coloradans. We should continue to work together to find ways to deliver this plan.

Transportation and the Economy

In stable economic times, transportation plays a key role in our economy, providing a predictable return on investment and job growth.[2] In addition to the direct and immediate benefits of construction itself (e.g. supply orders and wages), transportation projects improve accessibility for businesses and residents, reduce travel time, improve safety and, particularly for Colorado, support a multi-billion dollar tourism industry. In 2018 alone about 25 million visitors recreated in the I-70 Mountain Corridor, of which about 37 percent were out-of-state visitors and 63 percent were in-state visitors.

Transportation and Colorado's Military Installations
Colorado also is unique in the number and size of its military installations (e.g. Buckley, Cheyenne Mountain, Peterson, Schriever, and Fort Carson). In addition to serving as some of the state's largest employers, these bases make Colorado's transportation network crucial to our nation's strategic mobility.

Colorado's freight industry is another key, transportation-dependent player in our economy. Today 1 in 6 jobs in the Colorado economy rely on safe, efficient, and reliable freight transportation and $155.8 billion or 1/3 of Colorado's economy is generated by freight and freight-reliant industries.

Transportation and Jobs

Infrastructure's role in the labor market is one of its most powerful economic drivers. The construction industry requires a breadth of employment opportunities including craft (heavy equipment operator, carpenter, electrician), office (payroll clerk, administrative assistant, communications), and professional services (materials testing, surveyor, safety). Infrastructure occupations boast competitive wages with relatively low barriers to entry, frequently paying up to 30 percent more to workers with a high school diploma or less compared to those in all other occupations.

Freight and Commercial Drivers License (CDL)
In 2017, the trucking industry in Colorado provided 110,200 jobs, or 1 out of 20 in the state. Total trucking industry wages paid in Colorado in 2017 exceeded $5.7 billion, with an average annual trucking industry salary of $51,683. The U.S. Bureau of Labor Statistics (BLS) reported in May 2018 that truck drivers, heavy, tractor-trailer and light delivery drivers earned a mean annual salary of $46,960.

Prior to COVID-19, a construction boom in Colorado led to labor shortages across the industry. In response, a number of job training programs were launched to draw more workers into the field. The state legislature provided a key role in supporting these programs through the passage in 2015 of the Skilled Worker Outreach, Recruitment, Key Training Act – the "WORK Act," designed to increase the awareness of and enrollment in Colorado's skilled worker training programs. This legislation created a three-year grant totaling $10 Million for outreach

[2] According to the U.S. Department of Commerce, in 2018, construction (horizontal and vertical) contributed $21.3 billion to the state's GDP, with construction wages and salaries totaling $11 billion statewide

efforts and training updates. One of the program's six grant recipients included the Associated General Contractors of Colorado's "Construction Careers Now," a four-week pre-apprenticeship program at Emily Griffith Technical College that introduced young people to the construction trades. Another notable program, WORKNOW, was initiated to support one of CDOT's largest projects--Central 70. Today, WORKNOW finds and prepares a workforce for construction industry opportunities while also providing key "wrap-around services" like access to childcare or work needs like tools and boots.

The Economic Impact of COVID-19 on Transportation

The economic fallout of COVID-19 has put a significant share of Colorado's transportation budget at risk. State gas tax revenue is falling, with the steepest drop occurring right now, resulting in a projected loss of $50m/year. The same dynamic (reduced vehicle travel) is impacting managed lane revenues while an overall reduction in state general funding is anticipated to cost transportation about $200 million. Lastly, roughly a billion in planned debt issuance is at risk. In total, these losses total $1.25 billion (roughly equivalent CDOT's average base budget) over the next three years.

Local governments across the state face similar challenges. Cities are projected to lose $12.6M in gas tax revenue over the FY20-22 time period. Counties face cuts of $18.7M. Local sales tax revenues devoted to transportation are also in decline, further adding to funding reductions. Nationwide, the American Association of State Transportation Officials projects declines of ~30% in state transportation revenues over the next 18 months, with roughly $50

The Relationship between State and Federal Transportation Funding

Federal funding for transportation projects occurs mostly through the federal aid highway program, which distributes the Highway Trust Fund (HTF) to states for the construction and improvement of highways and transit. The HTF is funded through a number of taxes, including the federal gas tax, and is distributed to states through formulas set forth in HTF reauthorization (most recently, the FAST Act) and as federal aid on qualifying projects. In general, Colorado's allocation from the HTF is approximately $600 million. Unfortunately, the federal formula that determines this amount does not favor the state; making Colorado one of three "donor" states that pay more into the HTF than we receive back. Federal funding also flows directly to local governments at varying levels depending on the program. Today, for example, 36% of funds allocated via the federal Surface Transportation Block Grant program are provided to Colorado's five metropolitan planning organizations.

At the state level, state gas tax revenues are deposited into the Highway Users Tax Fund (HUTF) and from there it is distributed to the state, counties, and cities based on a statutory formula. Motor fuel tax revenue is divided into two "pots" prior to allocation: the first seven cents of the tax rate and everything else (above seven cents). The first seven cents are distributed 65 percent to the State Highway Fund, 26 percent to counties, and nine percent to cities after off-the-top deductions occur. Off-the-top deductions fund the Ports of Entry under the Department of Revenue, the Colorado State Patrol, and the Department of Public Safety. Funds above seven cents are distributed to the State Highway Fund, counties, and cities at proportions of 60 percent, 22 percent, and 18 percent, respectively.

billion in flexible funding needed to avoid commensurate cuts.

Because many transportation investments are mandated by state and federal requirements or are necessary to maintain basic road functionality and safety (e.g. snow and ice removal and avalanche and rockfall control), funding reductions must be absorbed by reducing the state's capital construction program. Absent federal funding intervention, the state is bracing for a two-thirds reduction in its $1.6 billion capital plan.

Infrastructure's Role in Economic Recovery

Fortunately, infrastructure investment can also stabilize and stimulate the economy during economic downturns. These benefits were seen most recently via the American Recovery and Reinvestment Act (Recovery Act). The Recovery Act combined three areas of fiscal stimulus — with each area comprising roughly a third of the ~$800b package, aimed at different phases of the recovery. A total of $48.1 billion in funding was provided for transportation infrastructure which improved more than 42,000 miles of roads and almost 2,700 bridges. An additional $90 billion for clean energy included significant advancements in clean transportation technology like long range batteries that made subsequent electrification advancements possible.

Additionally, transportation projects can improve market and public confidence that the recovery is happening. Infrastructure is one of the most tangible signs of what government does. From the Works Progress Administration through the Recovery Act, investments in infrastructure served an outsized role in serving as a public indicator of "recovery at work."

Recommendations

1-Remain Focused on Delivering Your Transportation Plan and the Regional Plans that Complement It

Over the coming months, new information about the trajectory of economic events will help CDOT better understand the range of funding and financing choices. Regardless of what the future brings, Colorado should remain focused on delivering Your Transportation Plan.

On November 20, 2019, the Colorado Transportation Commission approved a multi-year plan to invest approximately $1.6 billion in new state funding, including funding from SB1, SB 262 and all four years of SB 267. These projects are part of a broader 10-year pipeline of projects, known as Your Transportation Plan-- the product of a year-long statewide planning effort that relied on input from citizens across the state and conversations with local elected officials in all 64 counties. The plan focuses on the areas CDOT heard most about during its outreach.

Extent of Your Transportation Plan Outreach

The Largest Investment In Rural Roads In Recent History

- 41 rural road projects totaling over $330 million to improve the drivability along 500+ miles of rural roads.
- The median age of the last time many of these roads received an upgrade was 1997, or 22 years ago.

Focus Expansion On Key Strategic Corridors

- Nearly 40% of funds are towards modernization of I-25, which directly serves roughly 85% of the state's population.
- 55 projects will improve freight corridors which are so critical to Colorado's economy.

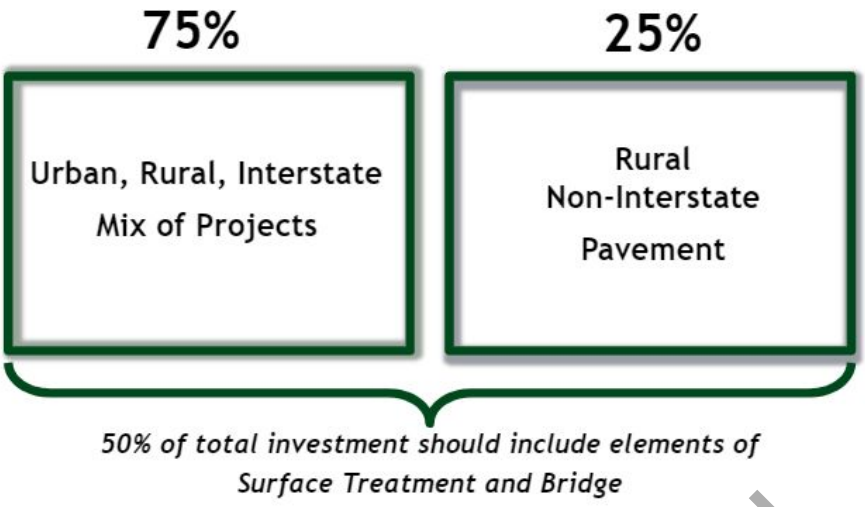
Fix the basics

- 72 asset management projects
- Overall, CDOT has an extensive list of quick-delivery projects that would tackle long-deferred maintenance on our roads, bridges, and tunnels.

Improve safety and mobility for key urban arterials

- The project list includes $25 million to kick off a new program focused on improving safety and mobility along roads like Colfax, Federal, and Sheridan in Denver.
- Includes several specific projects that will enhance important urban routes like Highway 119 in Boulder and I-70B in Grand Junction.

Funding Allocation in Your Transportation Plan



2-Advocate for Federal Funding To Stimulate The Economy and Improve our Infrastructure

Congress must pass an overall stimulus spending package that includes a substantial investment in infrastructure and makes key structural changes that provide more flexibility and dollars for Colorado. This group supports a request by the American Association of State Highway and Transportation Officials to provide $50 billion in flexible aid to offset the roughly 30 percent of revenues nationwide that are being lost to transportation budgets and could force drastic cuts, if left unmitigated.

Specifically, this legislation should:

- Rely on existing formula funding programs but provide additional flexibility to use funds for operations and maintenance. This is much more efficient than awarding funds on a competitive basis through grant programs or by creating new programs. Competitive grants are time-consuming, make planning more difficult and delay the deployment of funds by giving project-level discretion to federal agency staff rather than state and local practitioners who know their road networks best. An important lesson learned from the Recovery Act is that, for quick results, utilizing the traditional highway and transit formula programs pushed dollars through most expediently, delivering dollars directly to states and transit agencies.
- Update formula allocations. Fast-growing states such as Colorado represent an increasing proportion of population and vehicle miles traveled, and an increasing proportion of contributions to the Highway Trust Fund while the state's share of formula programs has remained unchanged. Colorado, along with Texas and South Carolina, receive the lowest proportional return on the current highway formula in the nation. By way of illustration, CDOT estimates that if $50 billion dollars were

allocated based on population rather than the current formula allocation, Colorado could receive up to an additional $200 million.

- Eliminate state and local match requirements for all stimulus-related USDOT grants: Allows state and localities to allocate funds spent on federal match toward other much needed projects and accelerate the ability to disburse funds. This is especially important for CDOT's local partners who have smaller budgets and anticipate difficulty meeting math requirements.
- Alter financing mechanisms to provide flexibility and options for states:
    - **TIFIA refinancing to recapitalize stressed projects in construction / loan modifications for stressed projects in operations:** Projects in the operations phase face significant reductions in cash flow in the short term. These impacts could be allayed by allowing a modification of loan terms to reduce/defer interest.
    - **Expedited TIFIA loans for existing strong credits:** Utilizing SEP-15 waivers to leverage prior credit ratings could help expedite the process.
    - **TARP for public authorities with motor fuel tax/sales tax/other demand-based revenue:** Allow states to borrow from the federal government/refinance existing debt for a limited period of time with a beneficial interest deferral/interest only period to help withstand a downturn in revenues.
    - **Remove the elimination of the advance refunding in the Tax Cut and Jobs Act:** Allows state and local governments to take advantage of favorable interest rates to reduce borrowing costs.
- Expand the electric vehicle tax credit and provide new funding for EV charging infrastructure: An economic downturn could create certain challenges for large-scale vehicle electrification, especially if low oil prices degrade the consumer savings associated with saving money at the pump. Expanding the electric vehicle tax credit — which currently caps out at 200,000 per manufacturer, eliminating credits for automakers who have been early adopters to electrification — would help encourage car sales and improve air quality.
- Allow for privatizing rest areas. The commercialization of rest stops is precluded under Title 23 of the U.S. Code, except with certain exceptions that were grandfathered prior to the exclusion. CDOT has insufficient resources for even basic upkeep at rest stops[3], and privatizing some of these facilities could take meaningful expenses off the state's books. Moreover, a change in permitting commercial activity on federal highway right of way would also make it possible to install commercial electric vehicle charging along our interstate roads.
- Provide additional support for low-emissions freight through the Diesel Emissions Reduction Act (DERA) program. The COVID-19 crisis has demonstrated just how critical freight is to the supply chain, yet many of the vehicles carrying short and long-haul

[3] CDOT currently operates 26 rest areas around the state, with an operating budget of just over $2 million per year while a backlog of repairs totals $15 million. For example, the Vail Pass rest area, which could be an interim destination to reach key tourism destinations, requires a full rebuilding estimated at $11 million.

freight are extremely out-of-date. A significant appropriation to the DERA program, to be distributed to states via formula, could allow states to stand up grant and/or loan programs to help freight carriers upgrade to trucks that meet higher air quality standards. Eligibility should include internal combustion engine trucks that comply with EPA emissions standards/DOT fuel economy standards for at least MY2014 (when federal agencies put stronger standards into place).

3-Implement Key Administrative Actions That Position Colorado for Stimulus

The state should take several immediate measures to prepare any new dollars to be spent immediately and increase public confidence in the impact of this funding.

These steps should include:

- Increased transparency and accountability through:
  - More detailed tracking of budgets on larger projects that are scheduled to last longer than a year to complete.
  - New public reporting projects so Coloradans can see the progress on CDOT projects and how dollars are spent.
  - Setting new spending targets to ensure more money is spent on infrastructure, where the public can see and use CDOT's work.

- Strategic in-sourcing in rural areas: CRS 24-92-109 requires government agencies to open construction projects for public bidding if the construction project is considered a "public project," which is defined by the estimated cost.

  Since 1998 any CDOT project estimated over $150,000 must be bid out for contracting. In 2010, all other state agencies except CDOT were granted an increased cap of $500,000. This has limited CDOT's ability to directly perform small projects, which can be most difficult in rural parts of the state where contractors are limited.[4] CDOT and the legislature should work together with the contracting community to consider exceptions that would allow certain maintenance projects -like paving- to be done in-house in rural parts of the state. Modernizing the threshold would allow CDOT to accomplish routine tasks more cost-effectively, freeing up other dollars for the capital budget, which is completed by construction contractors. Applicability of the higher threshold would be limited to routine roadwork that is included in the maintenance budget, and not work on the capital plan.

- Project sequencing to maximize benefits to the economy during recovery stage: Smaller ("shovel ready") projects that are more straightforward to execute can put work on the streets (literally) faster than bigger, more complex projects that tend to require years of planning. At the same time, the drop in toll revenues is likely to

[4] For reference, a one and half inch asphalt overlay on a two-lane roadway for $150,000 will cover a quarter mile and a chip sealing on a two-lane roadway will cover almost five miles.

impact traffic and revenue studies that are used to back larger projects. The state should consider temporarily shifting new project starts toward smaller iobs and deferring some of the larger projects so that they are ready to enter discussions around financing and delivery as the economy improves. This has the further advantage of avoiding financial encumbrances for dollars that are uncertain while keeping its eye on the ball with respect to delivering the projects prioritized over time though the time may take longer than originally anticipated.

4-Maximize job opportunities within the transportation sector.

Should stimulus funding pass, the state has a unique opportunity to transition unemployed workers to high-wage transportation jobs. Additionally, focused programs can connect the talents of Colorado's artists and architects to infrastructure.

Colorado should expand financial support for job training to help displaced workers from other industries enter construction. Even a small investment in communication and outreach can help attract workers to an existing network of training and wrap-around service organizations that already exist in Colorado.

Zaracillo Canyon Bridge

This also is an opportunity to embrace the talents of Colorado's artists and architects, who have been particularly impacted by COVID-19. Such a focus would follow in the tradition of the Works Progress Administration (WPA). During the Great Depression, more than one-third of (WPA) funds in Colorado were devoted to roadwork. WPA funding built or improved 9,458 miles of highways, roads, and streets; 3,368 bridges and viaducts; and 21,241 culverts by the program's end in 1943. In 1930, less than 500 miles of road were paved in the state; by 1940 8,200 miles of roadway were paved or gravel- surfaced. The picture to the left is the Zaracillo Canyon Bridge in Las Animas County. It was built by the WPA in 1936 using native stone on a significant skew.

5-Continue to Develop Policy Ideas That Deliver Long-Term Funding Options and Solutions

Prior to the onset of COVID-19, transportation stakeholders and elected officials embarked on a series of conversations on a potential fee package to modernize Colorado's transportation funding mechanisms. Once the current crisis has stabilized, stakeholders should "return to the table" and continue these conversations.

Short-term funding packages--while essential--cannot supplant stable, long-term funding. The state has a vetted and prioritized 10-year pipeline of projects that would return our system to a state of good repair and provide access and mobility for millions of Coloradans. Restarting conversation on long term solutions to provide dedicated transportation revenue will demonstrate that the state is committed to investing in our failing state infrastructure while also providing jobs, support for local businesses and immediate infusion of dollars into our economy. With $2.5 billion in ready-to-build transportation projects.

SUMMARY OF RECOMMENDATIONS

In keeping with the structure of the Economic Recovery Council, these recommendations are also summarized here in the following categories:

Federal Action Required	Fiscal Impact to State	Administrative Action Required
Advocate for Federal Funding To Stimulate The Economy and Improve our Infrastructure with specific mechanisms that: • Rely on existing formula funding programs • Update formula allocations. • Eliminate state and local match	Expand financial support for job training to help displaced workers from other industries enter construction. Once the current crisis has stabilized, stakeholders should "return to the table" and continue conversations around long-term funding solutions for transportation.	Remain Focused on Delivering Your Transportation Plan Increase transparency and accountability in spending and project delivery Sequence projects to maximize benefits to the economy during the recovery stage; focusing immediately on small, quick-delivery

requirements for all stimulus-related USDOT grants • Alter financing mechanisms to provide flexibility and options for states • Privatize rest areas	Develop programs to connect Colorado's artists and architects to stimulus projects. Allow for strategic in-sourcing of small paving work in rural areas.	projects that put funding into the economy.