Chairmen and Members of the Transportation Committee, thank you for the opportunity to discuss this urgent situation.

As we have shared in many public forums throughout the state – and as I myself and my predecessors have testified in budget hearings and before this committee – Pennsylvania’s transportation funding is in a state of emergency. In addition to the impacts from long-declining gas tax revenues and an ongoing lack of meaningful federal investment, PennDOT faces irrevocable losses due to the COVID-19 pandemic.

This year has been a long one. Today I’ll recap the pandemic’s effects on our business, and the many steps we took trying to avoid the situation we’re faced with today.

As detailed in my testimony to this body on May 12, early estimates projected that we could lose between $800 million and $900 million through this fiscal year as a result of reduced travel due to the pandemic. We now estimate a loss of $500 million to $600 million. We've already lost nearly $400 million that we won't recover. Thankfully, traffic volumes are coming back up, but not at pre-pandemic levels and, regardless, that revenue is gone for good.

We have been sounding the alarm on this issue for many months. We made our situation known to Congress, both through the American Association of State Transportation Officials in early April and in our own letter to the Pennsylvania Congressional delegation in May. We were hopeful that considering the impacts not only to Pennsylvania, but to all 50 states, the federal government would provide relief.

Also, it is important to note that every state’s transportation programs have been affected by the pandemic. In response, many states have increased their state gas tax – California, New Jersey and Virginia are recent examples. Many states have, like us, reduced the size of their programs. Other states, like New Mexico, Minnesota and Oklahoma turned to bonding and used other financial tools to mitigate the revenue losses.

And unfortunately, as you are aware, federal infrastructure relief has not come. Without federal help, and now with the impact of the COVID crisis, we’ve been forced to make many, many difficult decisions.

Even before COVID-19, we had reduced our 2020 program to $2.2 billion, compared to a high of $2.5 billion in 2015. We’ve shifted funds away from local projects to support the interstates. And we reduced the construction program by an additional $300 million.

We at PennDOT have taken an extremely fiscally conservative approach towards all initiatives and processes and, as such, in late spring, we withdrew advertisements for 19 resurfacing projects and canceled seven contracts that had not yet been executed to ensure we have the funding needed for basic maintenance functions.

We were forced to adjust our maintenance activities, focusing on lower cost preservation activities and, in some cases, scaling back operations. We planned to focus primarily on these types of scaled-back core activities for the remainder of 2020 and into 2021.

However, some areas simply cannot be trimmed. Our staffing levels and budgets for winter maintenance must be enough to keep our roads safe and passible in the coming months. Not just for commerce and work travel, but to keep life-sustaining operations connected and able to address the needs of our population.
But even with these efforts, in order to completely offset the drastic predictions of revenue shortfall in the Motor License Fund due to COVID-19, we would have had to reduce the total construction program to $1.3 billion or less for 2020 and to stop work on active design projects to cover all existing contracts.

Such a drastic reduction in construction dollars would have been devastating to the construction-related industries in Pennsylvania. Larger companies would have been forced to seek work outside of Pennsylvania, and smaller firms would face even greater challenges because they generally would not have the resources needed to seek work outside of the state. Pennsylvania workers would similarly face unemployment or would seek work in other states.

Pennsylvania’s economic state would be worse than it is today, and our infrastructure would be in far worse condition as a result – all on the backs of the people of Pennsylvania.

This was all explained in testimony in budget and confirmation hearings and in many public venues, from Planning Partner meetings to the State Transportation Commission, the Transportation Advisory Committee and in media interviews. And frankly, we fielded many concerns from legislators’ offices over these couple-dozen projects. We’re now about to be forced to suspend hundreds.

We’ve done everything we could do on our own to avert this situation, which is why we asked for authority to bond, and submitted our request through the normal budget process.

Without the ability to borrow, we will be forced to suspend nearly our entire design and construction program. There is not enough revenue to pay our contract bills. Our construction program has $7 billion to $8 billion in active projects at any point in time as many of our projects are multi-year construction with multi-year cash flow.

To put the size of our program in perspective, as of November 16, we had 550 payments totaling $147 million due in construction and 748 consultant payments at $18.5 million in our accounts payable based on a net 30 day pay period. All told, there are $165 million of current expenditures yet to be paid at this moment, and work is still going on. We are part of the large economic engine that is the transportation industry.

We have an additional 51 projects at roughly $300 million that we intended to bid in December. These projects are currently in jeopardy and will need to be postponed without the availability of relief funds. That would mean our construction program would only be $1.6 billion this year, or a total of a $600 million reduction this year. Due to the multi-year nature of our construction program, reducing the program by $600 million does not solve the current funding challenges. We’ve already cut back $300 million, and even if we were to cue another $300 million worth of projects, the problem isn’t solved.

PennDOT does not have the legal ability to shift money from any other internal fund to address our cash flow issue without defining a means to repay the source of the draw.

Additionally, our program must be able to use federal funding streams. Most federally funded projects require state dollars in cash to pay our contractors, and then we are reimbursed by FHWA. Without cash to pay the bills, we will not be able to receive reimbursement from FHWA. Our inability to pay contractors will jeopardize not only current projects that are federally funded but will run counter to our Stewardship and Oversight agreement with FHWA, imperiling future federal funding. This would also
jeopardize our ability to provide our state match of available federal funding for the year, thus further exacerbating our funding shortfalls compared to our needs.

For example, PennDOT is tasked with ensuring that recipients of federal highway dollars, such as local municipalities, comply with all federally approved project management requirements. Our federally approved local project delivery process requires local municipalities to pay their contractor within 10 calendar days of receipt of reimbursement from PennDOT. If PennDOT cannot make the reimbursement payment, it puts local municipalities in the untenable position of not paying local contractors or exhausting their own funds to pay contractors without knowing when reimbursement will come.

The ramifications of shutting our program down are nearly incomprehensible – not only to PennDOT, our industry partners, and the economy, but to quality of life of the people of Pennsylvania and everyone who travels through our state.

We’re talking about thousands of people whose jobs could be impacted if we must take this step.

The stoppage we may be forced into isn’t a pause – it is a catastrophe.

The pause that resulted from COVID-19 will have a direct cost in project delay impacts. While these adjustments are continuing to unfold, our projection is for less than 2% of the cost of the entire program. The delay cost claims resulting from a shut down through June of 2021 will be exponentially higher.

Though the construction season was just getting underway, the pause was a huge economic reduction. Thanks to the monumental industry partnership, we had our first critical projects restarted in just two weeks, and the opportunity to capitalize on the reduced traffic volumes and the increase in productivity that was achieved, has put us mostly back on track.

That did mean much more work late in the season, and work that is unfinished here in late November.

Note that the November billing is just hitting the books, and cash is needed now to ensure prompt payments are made to our partners. This has already been an exceptionally challenging year for our partners; they rely on our payments to timely pay their staff, as well as the vendors, suppliers, and other support services.

The workforce is at stake, the economy will suffer tremendously, and when we can re-engage, we will have a much larger hole to dig out of. The system degradation will increase exponentially, and we will lose all the ground we gained from Act 89.

We have not asked for the legislators to immediately fund these challenges nor have we asked for any fee or tax increases to address this issue. We have merely asked for the authority to leverage financing tools –at incredibly low interest rates – to allow us to continue to meet the transportation needs of our citizens and those relying on our transportation network. We urge you to help us ensure we can continue to engage and employ our industry partners and our department’s skilled professionals to meet these challenges and provide for their families.

Thank you. I will now be happy to take questions from the committee.