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January 13, 2020

RTAC LEGISLATIVE UPDATE

2020 STATE LEGISLATIVE SESSION OPENS WITH GOVERNORS STATE OF THE STATE:

This year's state legislative session kicked off earlier today including the Governor's State of the State Address. The Governor prioritized tax reductions and education. He re-asserted his no new tax pledge and indicated that this year's tax cut agenda would focus on individual income taxes, and in particular, exempting military pensions. He did propose substantial increases for education funding with the details to be further elaborated on Friday, when his budget proposal for the upcoming year is scheduled for release. As far as infrastructure, the Governor expressed support for expanding I-10 and particularly its bridge over the Gila River. By comparison, legislators have expressed relatively stronger support for transportation investment this session. House Speaker Rusty Bowers released a House 2020 Majority Plan prioritizing transportation investment for key projects and maintenance. Senate President Karen Fann has also been very outspoken regarding her support for addressing infrastructure needs. Also, further infrastructure investment was included in the "Blueprint for a Better Arizona" released by House and Senate Democrat leaders earlier today.

STATE REVENUE OUTLOOK: Revenue collections remain very strong. Through the first five months of the state fiscal year, revenues were \$325 million higher than the previous year amounting to more than a 10% increase. While growth was anticipated, these numbers are already \$294 million more than what was forecasted with more than half of the fiscal year to go. Anticipated surplus levels for the year continue to adjust upwards with as much as \$1 billion stated as a possibility. Unfortunately, the Highway User Revenue Fund (HURF) is not performing nearly as well as the State General Fund. For that same timeframe, collections have increased only 1.1% from the previous year and are actually slightly below forecast.

DIRECTING ONE-TIME FUNDING TO INFRASTRUCTURE PROJECTS: There is much support among key legislators to direct a sizable portion of the one-time funding to infrastructure. Senate Transportation and Public Safety Committee Chairman David Livingston expressed his support at the Rural Transportation Summit for directing 20% of the surplus to infrastructure, a percentage similar to last year's surplus use. In fact, he has already introduced eleven bills appropriating funding for various bridge projects and a couple of interchange improvements totaling \$46 million. These bills are scheduled for consideration by the Senate Transportation Committee this Wednesday morning. Other lawmakers have also introduced bills directing one-time funding to infrastructure projects including roads on the Navajo and Hopi reservations, airports and a bridge over Tonto Creek.

ACCELERATING THE HIGHWAY SAFETY FEE REPEAL: As with last year, there will be much competition regarding the use of the one-time funding. As indicated by the Governor's State of the State, tax cuts will be a part of that mix. In fact, Senate Finance Committee Chairman J.D. Mesnard will pursue a \$400 million tax cut package to be phased in over the next three years. The package includes an accelerated repeal of the Highway Safety Fee to January rather than July of 2021, which is estimated to trim collections by roughly \$93 million. This addresses an equity issue as the current July date requires those with vehicle registration payments due the first half of the year to pay the Fee one more extra time than those scheduled for payments after. However, the legislative plan that was set to pay for the I-17 expansion, and particularly the addition of reversible lanes south of Sunset Point, relies on \$45 million from the Fee in 2021. This year's proposal would zero out Fee collections for that year.

INCREASED TRANSPORTATION REVENUE BILL: As highways and local roads across the state continue to face drastic under-investment levels, House Transportation and Infrastructure Committee Chairman Noel Campbell will once again introduce legislation to address much of the shortfall with the support of both House Speaker Bowers and Senate President Fann. Still in draft form, the bill is anticipated to have the same three major elements as last year's effort. Rather than 25-cents, this year's version is likely to be an 18-cent per gallon user fee phased in over three years. Future inflation adjustments and comparable fees for alternative fuel vehicles will also be included. Chairman Campbell plans to dedicate the first five weeks of the House Transportation and Infrastructure Committee meetings to further educating legislators about the trends and challenges for building and maintaining the state highway system and local road networks. This Wednesday's committee meeting will focus on overview presentations by ADOT, the League of Arizona Cities and Towns, and the County Supervisors Association. As currently scheduled, the testimony will take a more focused look at State Transportation Districts 3 & 4, which encompass Cochise, Gila, Graham, Greenlee, Pinal and Santa Cruz counties, on January 22nd. The January 29th hearing will shift to Districts 5 & 6 which include Apache, Coconino, La Paz, Mohave, Navajo, Yavapai and Yuma counties. The February 5th meeting will focus on Pima County and then Maricopa County on February 12th. More information regarding the bill and these hearings will be forthcoming.