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RTAC LEGISLATIVE RECAP & PREVIEW:

RECAP FROM LAST SESSION:

The Legislature adjourned sine die on May 28th. There was a tremendous amount of legislative activity concerning transportation funding both in the budget and other bills. \$96 million of the State's funding surplus was directed to infrastructure projects. Funding transfers were kept to a minimum. Regional transportation sales tax authority was expanded. Also, Arizona finally passed a substantive texting while driving ban.

On the negative, a permanent increase of transportation revenues, needed to address the \$30.5 billion funding shortfall on the state highway system and comparable shortfalls on local roads, was not accomplished. Also, the Highway Safety Fee will be repealed in two years, taking a step back from the progress that was made last year to stop the long-time funding raids.

THE BUDGET: The State had a sizable budget surplus to work with and much focus was placed on directing some of the one-time funding to capital improvements. The enacted budget included \$96 million in General Fund revenues to the following transportation projects:

- * \$2.8 million to Globe for the Jesse Hayes Road bridge project.
- * \$700,000 for a cold inspection facility at Mariposa Port of Entry in Nogales.
- * \$6.5 million for a SR-24 bridge over Ellsworth Road near Phoenix-Mesa Gateway Airport.
- * \$10 million for an I-10 widening study between Casa Grande and Phoenix.
- * \$10 million to the State Aviation Fund for statewide airport capital improvements including \$1 million for the Ernest A. Love Field Airport in Prescott.
- * \$20 million to Kingman for traffic interchanges on I-40 east of SR-66.
- * \$28 million to expand US Route 95 between Yuma and the Yuma Proving Ground.
- * \$18 million divided equally among all cities and towns for highways and roads.

I-17 FUNDING: The budget also directed \$130 million over three years to the I-17 widening project between Anthem and Sunset Point. Unlike the projects listed above, this will be funded by the State Highway Fund (SHF) rather than new General Fund revenue. As proposed by Governor Ducey and enacted in the budget, the initial transportation revenue retained by the ending of the HURF transfers will be used for I-17. The end of the HURF transfers was anticipated due to the previous year's enactment of the Highway Safety Fee and its fully funding of the Highway Patrol going forward. However, this year's budget also repeals the Fee on July 1, 2021 which could be problematic for the third year of this funding plan. (Since the budget was enacted, the State received a \$90 million federal INFRA grant for I-17 which will greatly alleviate the need for all of the additional SHF revenue dedicated to the project in the budget).

HIGHWAY SAFETY FEE REPEAL: With the inability to substantially raise state transportation revenue since the last gas tax increase in 1991, last year's passage of the Highway Safety Fee was substantial. While not growing the revenue streams, it was designed to at least stop the raiding of the existing funding that would have otherwise gone to the infrastructure. For transportation, those transfers have exceeded \$2 billion since 2000. The Highway Safety Fee was designed to stop the raids by fully funding Highway Patrol, the main recipient of those transfers. It appeared to be very effective this year as the budget minimizes the transfers to \$8.7 million which is a significant drop-off compared to the roughly \$100 million transferred last year. Unfortunately, the budget also repeals the Fee starting in July, 2021 which will likely leave the transportation revenues once again highly susceptible to raiding in future years.

NEW REVENUE: House Transportation Committee Chairman Noel Campbell introduced a bill to phase-in a 25-cent fuel tax increase, establish an annual inflation adjustment, and set comparable taxes and fees for alternative-fuel vehicles. After clearing two committees, the bill failed to get a vote by the full House.

REGIONAL TRANSPORTATION SALES TAXES: At the regional level, Representative T.J. Shope passed a bill doubling the transportation sales tax authority that counties can take to their voters from one-half to a full cent. The legislation applies to all counties but Maricopa. Also, the tax rate can't exceed a full cent when combined with any county road tax. Revenues can be used for a broad variety of transportation purposes including local streets, regional transit services and local contributions to highway projects.

WHAT TO EXPECT THIS YEAR:

STATE REVENUES: After sizable gains last year, the first two months of the new state fiscal year saw revenues continue to grow at a healthy pace, exceeding forecasted levels by \$58.6 million. HURF is growing but not quite as strongly with current collections actually below forecast. It is too early to assess if one-time revenues will be available for infrastructure. The State will likely have a surplus but probably not to the level that enabled the additional \$96 million to be appropriated to transportation projects this current year.

HURF TRANSFERS: Due to the revenues collected from the Highway Safety Fee, HURF transfers were limited to \$8.7 million and none directed away from local governments. The Fee will continue to be collected for all of the current year which should greatly minimize any HURF transfers in next year's budget as well. However, this will likely become an issue again after the Fee is repealed on July 1, 2021 which was enacted as part of this year's state budget.

NEW REVENUES: Chairman Campbell is expected to re-introduce his revenue bill from last year which will include a fuel tax increase, future inflationary adjustments and comparable fees and taxes for alternative-fuel vehicles. The size of the fuel tax increase is likely to be lowered from 25-cents to 18-cents phased in over three years. The bill is currently being drafted.