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April 14, 2020

RTAC LEGISLATIVE UPDATE

LEGISLATURE'S FINANCE ADVISORY COMMITTEE DOES THEIR BEST TO PROVIDE A FORECAST AMIDST THE COVID-19 PANDEMIC: The Legislature's Finance Advisory Committee met last week in part to project the revenue and budget implications from COVID-19. Staff did their best to provide some budget numbers but it is very clear that there are far too many unknown factors at this point to accurately predict the economic impact of the pandemic and our response.

A \$1.1 billion shortfall encompassing the next two years was predicted but with a margin of error as high as \$500 million in either direction. Through the first three quarters of the state fiscal year, revenue collections were very high and a very sizable surplus was anticipated. To what extent that strong start will buffer what is anticipated to be significant losses at the end remains to be seen.

While we are still at least a week away from seeing the March revenue numbers and more than a month from April's, staff is predicting roughly a 25% loss in revenues for the final quarter (April-June).

On the positive, the state has close to \$1 billion in the Budget Stabilization or "Rainy Day" Fund. Also, the federal CARES Act provided a potential \$1.6 billion in additional funding to Arizona although much of it is tied into direct assistance with COVID-19 expenses. Further broader federal assistance is highly anticipated for both the states and local governments and will likely be taken up when Congress is expected to return to Washington in May.

The longer-term budget uncertainties are also greatly influenced by the duration of the pandemic and for how long social and economic activity will be curtailed. The Finance Advisory Committee used data from the Institute for Health Metrics and Evaluation which estimates that Arizona deaths are likely to peak around the weekend of April 24th and stop around the end of May. If that is accurate, and how it impacts a resumption of economic activity, remains to be seen. There is also speculation that one or more additional waves of illness could occur in the future causing another ramp up of limited social and economic activity. This will hopefully be countered by the timing and availability of a vaccination or cure.

In the meantime, the state legislature is likely to do little more this year unless they need to address specific COVID-19 issues. They were scheduled to convene again yesterday but the recess has been extended indefinitely. If any substantive resumption were to occur, any non-COVID-19 issues impacting the budget, whether it be new spending or tax cuts, are likely not going to be considered due to the revenue uncertainties. A list of non-controversial bills with bipartisan support might be considered but even that will be heavily dictated by time constraints. The State Constitution does authorize lawmakers to roll over any incurred debts into the next year's budget. With all of the uncertainties, that will likely be the direction they take - or the pre-authorized use of "Rainy Day" Fund revenues to address any shortfalls.