



Central Arizona Governments
Central Yavapai Metro. Planning Org.
Flagstaff Metropolitan Planning Org.
Lake Havasu Metro. Planning Org.
Northern Arizona Council of Gov'ts.
Sierra Vista Metro. Planning Org.
Southeastern Arizona Governments Org.
Sun Corridor Metro. Planning Org.
Western Arizona Council of Gov'ts.
Yuma Metropolitan Planning Org.

August 21, 2020

RTAC LEGISLATIVE UPDATE

AUGUST STATE REVENUE REPORT SHOWS STRONG COLLECTION NUMBERS

FOR JULY: Revenue collections of \$1.52 billion last month were the highest in Arizona history for the month of July despite the pandemic. This was in large part due to the delayed income tax filing date of July 15th. Logic would suggest that if you were owed money, you filed early but if you needed to cut the state a check, you probably waited until last month's deadline. This played out with the revenue collections as over half a billion more was collected from individual income taxes compared to July, 2019. However, the state also experienced revenue growth from all other major revenue categories including sales tax which posted a 13% increase over the previous July levels. Even within sales, restaurants & bars, one of the most severely hit business sectors, actually showed significant improvement although still at a loss. Revenues were 11% below the previous July. However, back in April, the decline was 42%.

July was a great start to the new fiscal year as we are already \$212 million above forecasted levels just one-month in. The August report also improved the final numbers for State Fiscal Year 2020 which ended on June 30th. After the initial COVID-19-adjusted forecast predicted a \$638 million deficit, the August update actually closed FY20 with a positive \$377 million carry-forward balance – over a \$1 billion turnaround! FY21 is now projected to have a \$62 million shortfall as opposed to the \$518 million estimated as recently as June.

The uncertainties regarding COVID-19 and its impact on public health and the economy remain. Close to 28 million Americans remain unemployed including 370,000 Arizonans. However, what is certain to date is that public revenue collections have not been nearly as impacted as initially predicted. The losses may have wiped out the substantial revenue surplus that was accumulating pre-pandemic but they have not created the massive deficits that were initially feared.

STATE TRANSPORTATION BOARD MEETS, STICKS TO OCTOBER FIVE-YEAR CONSTRUCTION PROGRAM UPDATE SCHEDULE, ANTICIPATES IMPROVED REVENUE OUTLOOK:

The State Transportation Board met this morning and received an update on HURF revenues, the status of the five-year construction program update and its timing. HURF was not performing nearly as well as other state revenue categories prior to the pandemic, and overall, continues to perform below last year's collection rate. On the positive, diesel taxes are growing as freight and delivery demands remain stable and a boost in vehicle sales has improved Vehicle License Tax revenues. However, fuel tax revenue is down 12% as more people work remotely and are involved in less out-of-house activities. However, the revenue losses are not projected to be nearly as bad as the \$711 million estimated at the beginning of

the pandemic. ADOT does not expect to complete their forecast update for another week. However, indications were provided today, that at a minimum, the revised forecast will enable maintaining the I-17 flex lane project in the program and keeping the already awarded \$115 million in federal TIGER and INFRA grants that may have been returned due to earlier concerns about satisfying the local match requirements. While no commitments were made, staff also indicated that the HURF Exchange program, and the roughly \$15 million needed to award new projects next year, remains a priority. The Board is scheduled to consider a tentative five-year program update on September 18th, conduct a public hearing on October 16th and approve the program on October 27th. As of now, all three meetings are planned to be conducted virtually with log-in instructions provided on the Board's website – aztransportationboard.gov

HEAVY TRANSPORTATION AGENDA FOR CONGRESS: The next federal fiscal year is fast approaching on October 1st and Congress still needs to pass a budget and reauthorize surface transportation programs prior to that date. Adding to the crunch is the current August recess and the unlikelihood of any further votes prior to September 8th. The House has already passed transportation appropriation and authorization bills but it is highly unlikely that the Senate will follow in time for the two chambers to reach an agreement prior to October. In all likelihood, short-term extensions will likely occur at least through the November General Election and quite possibly until after the next Congress convenes in January.

However, the prospects of passing another COVID-19 federal relief bill in September are far more likely as the funding for current federal unemployment assistance will likely dry up by mid-month adding to the myriad of other COVID-19 relief needs. Efforts to include highway relief funding have gained momentum as no such relief was provided in the earlier rounds and it is estimated that state-generated highway and road revenues will face a \$37 billion shortfall from the pandemic. The latest House relief bill includes \$15 billion for highways and \$15.75 billion for transit. Inclusion could greatly mitigate the adjustments that ADOT and the State Transportation Board will need to make in order to adopt a fiscally constrained five-year construction program.

As the Arizona congressional delegation holds meetings across the state over the next couple of weeks, please emphasize the need to include highway funding in the next relief bill!