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September 22, 2020

RTAC LEGISLATIVE UPDATE

APPROPRIATIONS & TRANSPORTATION AUTHORIZATION ADVANCE, RELIEF FUNDING STALLS: Yesterday, the House introduced legislation in an effort to quickly address the need to pass appropriation bills and transportation authorization before all expire on September 30th. It appears that a vote that could have come as early as today has been delayed, yet must move quickly as the House and Senate now have eight days to send this legislation to the President in time for the September 30th deadline and prevent a government shutdown and the disruption of federal programs including transportation that would ensue.

To date, none of the 12 major appropriation bills that fund the federal government have been passed for the federal fiscal year that starts on October 1st. The House bill includes a “clean” continuing resolution that essentially allows current spending levels to continue through December 11th. This would cover 72 days or roughly 20% of Federal Fiscal Year 2021.

A one-year extension of the FAST Act, which is the current authorization bill for surface transportation programs, is attached to the bill essentially authorizing existing transportation programs and current funding levels to continue for another full year.

Also, expenditures for the Highway Trust Fund continue to outpace revenues which are predominantly generated from federal fuel taxes which have declined during the pandemic. A trajectory towards insolvency has accelerated and the bill would deposit additional revenues into the Fund anticipated to at least provide adequate funding through the one-year extension. An additional \$10.4B for highways and \$3.2B for transit are included.

While for much of the last couple of months, Congress and the White House have focused on another round of COVID-19 relief funding, there continues to be a wide gulf on setting the funding level between the Democrat-controlled House and the Republican-controlled Senate and White House. While that gulf has narrowed some, it is still sizable and now lawmakers must prioritize and address appropriations and transportation authorization before that October deadline. During October, the prospects for relief funding will be increasingly impacted by the upcoming November election and the increasing political volatility that will ensue. It appears that some in leadership from both parties support another relief package and some level of discussions are continuing but the differences, extremely crowded agenda and nearing election day are very problematic.

Transportation relief continues to be a priority. ADOT's vastly improved revenue forecast from last week still anticipates a loss of \$500 million in HURF revenues over the next five years. This impacts dollars to county and municipal road systems and state highways. Federal relief funding to offset lost state-generated transportation funding still remains the most immediate viable option for minimizing the anticipated HURF losses. Highways and roads were not included in earlier rounds of federal relief funding.

Kristine Ward and Greg Byres from ADOT provided excellent presentations on the HURF funding forecast and impacts to ADOT's five-year construction program at the State Transportation Board meeting last Friday which are attached.

SEPTEMBER STATE MONTHLY FISCAL REPORT INDICATES CONTINUING TREND OF STRONG TAX COLLECTIONS, THIS TIME INCLUDING HURF: The report, which covers revenue collections for the month of August, affirms a continuation of collections trending well above forecasted levels. Revenues grew by 9.9% compared to the previous August and were \$53.3 million above the fairly recent June forecast. Sales tax, as well as individual and corporate income taxes all performed well over expectations. Just two months into the new state fiscal year, we are already \$283.7 million above forecast and \$630 million above last year's collection levels.

Major uncertainties about the future persist as the pandemic continues, new unemployment claims remain at record high levels, and only about half of the pre-pandemic jobs have been recovered. Despite these massive disruptions and earlier dismal forecasts, tax revenues continue to grow now almost six months into the pandemic.

Even HURF is starting to improve. HURF was one of the few major state revenue categories that did not experience strong growth during State Fiscal Year 2020 which ended on June 30th. In fact, collections were anemic pre-pandemic and the year finished with 2.6% less revenue than the previous year. Going forward, by all indications, vehicle miles travelled continue to be limited which has a direct correlation to less fuel use and taxes. This has been roughly offset by healthy diesel tax collections and vehicle license taxes which have benefited from an uptick in new car sales.

Despite these fuel tax declines and overall collection trends, August's HURF collections were surprisingly 19.4% higher than August, 2019 and \$38 million above forecast. For the first two-months of the current state fiscal year, HURF has grown by 8.1% and is already \$61.5 million above forecast.