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Western Arizona Council of Gov'ts
Yuma Metropolitan Planning Org.

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February 18, 2021 (status update included)

RTAC 2021 LEGISLATIVE PRIORITIES UPDATE

With revenue sources that have not been adjusted in 30 years, Arizona's existing infrastructure continues to fall into a further state of disrepair while the expansion needs for what is the fastest growing state in the Nation are also not addressed. The Arizona Department of Transportation's long range transportation plan estimates a \$30.5 billion funding gap which equates to over \$1.2 billion a year every year in under-investment. Maintenance targets are only expected to be met three of the next ten years accelerating the trend of already deteriorating pavement and bridge conditions. To address as much of the preservation needs as possible, a moratorium on expansion projects across Greater Arizona has been underway with no new projects scheduled after 2024 and minimal activity prior. County and municipal road systems, which also rely heavily on state fuel and vehicle taxes, are facing similar challenges. Inadequate infrastructure impacts public safety, the economy, the environment, cost of living and quality of life. To address our infrastructure needs to the fullest extent possible, RTAC is proposing the following state legislative priorities for the upcoming year:

NO HURF RAIDS: From 2000 to 2020, state lawmakers diverted over \$2 billion in Highway User Revenue Fund (HURF) revenues that would have otherwise been directed to highway and road infrastructure. The primary recipient of this funding has been DPS Highway Patrol, which by statute, should be limited to \$20 million a year, but has often exceeded \$200 million. This practice was greatly reduced several years ago with the enactment of a Public Safety Fee attached to annual vehicle registration renewals and set at an amount adequate to cover Highway Patrol's annual budget. However, a repeal of that fee is scheduled for July which will create an estimated \$161 million funding gap. This lost revenue brings up the potential for a resumption of the HURF raids in next year's budget. More revenue is needed to address the decades of under-investment in our infrastructure. Taking away existing revenues is certainly a move in the wrong direction.

STATUS: *The Governor's budget proposal fills the Highway Patrol funding gap with general fund revenues. The Legislature's budget staff has already adjusted their baseline spending expenditures to indicate this as an added general fund expense. Provided the economy doesn't collapse and the projections of a substantial budget surplus continue, HURF appears to be safe from transfers in next year's budget.*

INDEX CURRENT REVENUES: State fuel taxes have not been adjusted since 1991. They are set at a fixed per gallon amount rather than a sales percentage. They remain the same regardless of any change to fuel costs. Inflation and better vehicle fuel efficiencies continually reduce their purchasing power. Over a thirty-year period, the decline is substantial. Annually adjusting fuel taxes, so that they at least keep up with inflation, will provide some immediate additional funding while also providing longer-term prevention against the infrastructure revenue/needs gap continuing to grow larger.

STATUS: *HB2436 introduced by House Transportation Committee Chairman Frank Carroll and SB1650 introduced by Senator David Livingston both would have adjusted fuel taxes annually for inflation. While both bills were placed on committee hearing agendas, they were held and have now missed the initial committee hearing deadline.*

USER EQUITY FOR ALTERNATIVE FUEL VEHICLES: Alternative fuel vehicles represent a small but growing percentage of the vehicles using our highways and roads. As the technology advances and these vehicles become more commercially viable, their growth could be exponential relatively shortly. Their use further diminishes HURF funding as their fuel sources are not currently taxed like the combustible engines they will likely be replacing. Establishing fees and fuel taxes for alternative fuel vehicles, comparable to those paid by other vehicles, provides equity to all road users in addition to generating additional highway revenue. Also, it is far better to create a fee and tax structure now, before their widespread use, rather than after.

STATUS: *HB2437 introduced by House Transportation Committee Chairman Frank Carroll and SB1650 introduced by Senator David Livingston both would have set annual fees for alternative fuel and hybrid vehicles. While both bills were placed on committee hearing agendas, they were held and have now missed the initial committee hearing deadline. Former House Speaker and current Senator J.D. Mesnard introduced SB1108, a tax omnibus bill which includes alternative fuel vehicle fees. The bill passed the Senate Finance Committee and is ready to be considered by the full Senate.*

INCREASE FUEL TAXES: Our 18-cent rate, which hasn't been adjusted since 1991, is the 46th lowest in the country and just half of the 36-cent national average. 36 states have raised their fuel taxes in the last ten years, leaving us further behind. Increasing existing fuel taxes or establishing other user fee-based revenue sources to address as much of the decades-old underinvestment gap as possible should remain a priority.

STATUS: *Former Senate Transportation Committee and current Finance Committee Chairman David Livingston introduced SB1650 which would have increased fuel taxes one-cent every year from 2022 to 2045. The bill was scheduled to be heard in the Senate Transportation & Technology Committee but was held and has now missed the initial committee hearing deadline.*

DIRECT ONE-TIME FUNDING TO INFRASTRUCTURE: With the strong revenue collections in recent years, lawmakers have prioritized directing one-time funding to infrastructure projects and were on course to do so again last year prior to the pandemic and abrupt end to the session. While economic and budget volatility remain, the State remains on course to have a substantial carry forward balance at the end of the year. If the surplus remains, prioritizing infrastructure projects for its use should remain a priority with the caveat that no HURF raids remains a higher budget priority.

STATUS: *The most current state budget forecast estimates a \$2 billion carry forward balance. Of that funding, roughly \$400 million is anticipated to be permanent growth which could be committed to new ongoing expenditures or tax cuts. The remaining \$1.6 billion is one-time revenue. Capital improvement projects are ideal for one-time funding. To date, 29 bills have been introduced that would appropriate roughly \$290 million to transportation infrastructure projects across the state. Some members have indicated they will pursue appropriating funding for additional projects directly into the budget. It has been reported that legislative leadership had earlier indicated that they supported making \$200 million of the one-time funding available for infrastructure projects. However, that amount could change when the budget process ramps up in earnest.*

CONCLUSION: To summarize, it appears that existing revenues will be protected from HURF transfers and a sizable portion of the surplus will be directed to specific infrastructure projects. The bills that would have increased the ongoing revenue streams did not have a good week, all but one failed to pass their initial committee assignments prior to the deadline. The one remaining, SB1108, is a tax omnibus bill which includes annual fees for alternative fuel vehicles and hybrids, but at levels significantly less than those proposed by the other bills.

Also of note, Representative Richard Andrade's bill, HB2769, would establish a study committee comprised of legislators, ADOT and various stakeholders to review revenue options to address the infrastructure investment shortfalls and report on their findings by the end of the year. While a similar process and study was completed a couple of years ago, going through this exercise again after session will help keep this issue visible to legislators and provide some momentum going forward. The bill passed the House Transportation Committee on February 17th so it remains alive.