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July 20, 2020

RTAC LEGISLATIVE UPDATE

CONGRESS RETURNS TO DC WITH A CROWDED AGENDA: Congress goes back to Washington today returning from its 4th of July recess with a heavy workload remaining for the duration of the year including much transportation-related activity.

COVID-19 Relief Funding: In May, the House passed the Heroes Act, that chamber's version of the fifth round of COVID-19 relief. The legislation calls for roughly \$3 trillion in assistance for a broad array of uses. This includes \$500 billion to states and \$375 billion to local governments. Unlike earlier state/local assistance which required the funding to be used for direct COVID-19 related activities, this round is more intended to make up for revenue losses to state and local general funds. The legislation also includes \$15 billion for lost state highway and road revenues and another \$15.75 billion for transit. This would be the first relief funding provided to highways and roads.

The American Association of Highway and Transportation Officials (AASHTO) had earlier requested \$50 billion in relief funding to offset state transportation revenue losses nationwide but has since lowered that estimate to \$37 billion including \$16.7 billion for the current year, roughly in the same ballpark as the Heroes Act funding level.

The Senate has yet to propose another relief package and the message prior to July 4th was to wait and see how the CARES Act relief assistance was working before considering further spending. However, as much of the CARES Act assistance is set to expire on July 31st including the enhanced unemployment assistance, early last week, both Senate Majority Leader Mitch McConnell and U.S. Treasury Secretary Steve Mnuchin expressed the need to pass further assistance within the next couple of weeks. Senate leadership discussions have already started and they appear to be targeting a \$1 trillion level rather than the \$3 trillion passed by the House.

Support and momentum to include highways and roads in the next relief package continues to grow in the Senate. Many states have already cut transportation construction activity as a result of lost revenues and reductions to Arizona's construction program are anticipated. The magnitude will be dependent on how much of the lost revenue is offset by federal relief funding. Another priority important to Arizona which has received traction is to waive local match requirements so that states will not need to return any federal funding due to an inability to contribute a required level of state or local-generated funding to a project. The House bill exempts the relief funding from match requirements for both highways and transit. Again, expect action on another relief package within the next couple of weeks.

Reauthorization: Prior to the recess, the House also passed the Moving Forward Act, a \$1.5 trillion infrastructure bill which includes a roughly \$500 billion five-year surface transportation reauthorization package. The first year calls for a continuation of current programs with substantially higher funding levels including \$14.7 billion for highways and \$5.8 billion for transit above FY20 levels. The first year funding is also exempt from local match requirements. Years two thru five continue the higher investment levels but with substantial reforms to existing programs, four new “core” programs and seven new discretionary grant programs.

The drafting of the transportation language and vote in the Democrat-controlled House were very partisan and much of the policy changes and spending priorities will not be supported in the Republican-controlled Senate. Almost a year ago, the Senate Environment & Public Works Committee passed out a draft bill covering their oversight areas of responsibility but the bill has advanced no further. The bill also contains reforms but not nearly to the extent of the House bill. Both contain significantly higher investment levels for highways and transit. For the five-year period that would be covered by the next authorization bill (FY21-25), a 27% funding increase is proposed by the Senate and 42% by the House. For transit, the Senate proposes a comparable increase to highways while the House proposes a 72% boost in transit investment.

President Trump’s latest infrastructure proposal calls for an additional \$1 trillion over ten years and he is expected to release a new proposal soon. Last week, candidate Biden released a \$2 trillion infrastructure investment package. While substantial policy differences remain between the House, Senate and President; all have called for significant funding increases.

There is clearly bipartisan support for greater investment. Unfortunately, with the exception of a proposed General Fund transfer to partially cover the House bill costs, the question of how you continue to pay for existing spending levels, let alone any increase, remains unanswered. As the authorization deadline is just over two months away and we move closer to the November election, it is anticipated that an agreement is less likely to be accomplished setting up the likelihood for an extension of the FAST Act at least through the election.

FY21 Budget: As with reauthorization, a budget agreement is unlikely to occur prior to the election setting up a continuing resolution for at least the beginning of the next federal fiscal year starting in October. Last week, the House Appropriations Committee passed out their twelve funding bills for the upcoming year including the Transportation-Housing and Urban Development bill. Funding reflects the higher transportation investment levels included in the first year of the Moving Forward Act that just passed the House. The Senate is much further behind as none of the appropriation bills for next year’s budget have yet to pass out of the Senate Appropriations Committee.

STATE TRANSPORTATION BOARD CONTINUES DEFERMENT OF FIVE-YEAR PROGRAM UPDATE UNTIL OCTOBER:

The Board met last Friday and reaffirmed the course of deferring the next update to the state’s five-year construction program until October as decided at the Board’s June meeting. ADOT will condense and accelerate their annual revenue forecasting process and develop a recommended program update for review at the Board’s September 18th meeting with an expectation of formal approval at the following meeting on October 16th. At a minimum, more accurate revenue numbers regarding COVID-19’s impact on

HURF collection levels will be available by then and there is still much hope and expectations for a better revenue outlook than was forecasted at the beginning of the pandemic. An improved forecast (and some federal relief funding) will lessen the level of adjustments needed for the program. The initial COVID-19 adjusted forecast estimated a loss of \$711 million in HURF revenue collections coupled with a needed deferment of \$155 million in scheduled bond measures. Such losses would have quite a drastic impact to what is already a very lean highway program.

STATE LEGISLATURE LOOKING LESS LIKELY TO RECONVENE THIS YEAR:

Despite a once high expectation of reconvening once health safety conditions improved, disagreements among lawmakers have made it less likely that such action will occur prior to the start of the next regular session in January. There is considerable disagreement over the potential scope of a special session and the need has diminished with the improved state revenue outlook. Barring any further drastic change to revenues imperiling the state budget or some new compelling development such as required state legislative action linked to future federal relief funding, the state legislature is unlikely to convene again.