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RTAC LEGISLATIVE UPDATE

STATE REVENUES CONTINUE TO OUTPACE PROJECTIONS: The state's Finance Advisory Committee, consisting of the legislature's budget staff and leading state economists, met last week and continued to project a positive outlook for the state's budget and economy.

The projected ending balance for the FY22 state budget is now expected to be as high as \$2 billion. Since the beginning of the pandemic, which triggered an initial expectation of \$1.1 billion in revenue losses, the outlook dramatically improves every time there is a new forecast.

While revenue collections grow, the economy remains volatile as Arizona still has 93,000 less jobs than at the start of the pandemic. Federal relief funding has been given much of the credit for enabling sales and income tax revenues to grow despite the job losses and business closures. The CARES Act provided an estimated \$32 billion in assistance to Arizona, directed at the state and local governments, businesses, and individuals. Tax collections continue to climb. For December, revenue collections were 12.9% higher than the previous December and \$445 million above forecast. Sales tax grew by 11.1% and individual income tax by 13.2%. State fiscal year to date, state revenues are 17.9% above last year's levels.

The high numbers for this year are greatly influenced by the deferral of last year's income tax filing deadline from April to July which meant much of the tax was collected during the current state fiscal year that started in July rather than last year. However, even without that added revenue, FY2022 would still be experiencing 8.7% growth. State fiscal year to date, revenues have already grown by \$1.03 billion, only half way through the year with much more potential for further growth. In addition to the estimated \$2 billion surplus, the state's rainy day fund has remained mostly untouched with a current \$954 million balance.

HURF is not performing as well as the state's general fund but is experiencing 5.25% growth year to date. December collections were 6.5% less than the previous December but still \$162.7 million above forecast. When updating the state's five-year transportation construction program, ADOT estimated roughly \$500 million in lost HURF revenue from the pandemic. Those loss estimates cover the entire five years but will mostly be incurred near the beginning. On a positive note, ADOT will receive some additional federal support this year as the last relief package included \$9.8 billion for the state departments of transportation. ADOT's estimated share will be \$183 million.

The positive state revenue will likely impact transportation funding. The repeal of the public safety fee this July is projected to create a \$161 million funding gap for the Highway Patrol triggering concerns about the resumption of massive HURF transfers to cover that revenue loss. A substantial state revenue balance enhances the prospects of the general fund covering this gap rather than HURF. In fact, the Governor's budget proposal recommends this gap to be filled with general fund revenues. At the Finance Advisory Committee meeting, the legislature's budget staff also indicated that they have already made this adjustment to the state's projected baseline expenditures for the general fund further enhancing the chances of no new substantial HURF raids.

Of the anticipated \$2 billion balance, budget staff projects no more than \$400 million to be permanent growth capable of covering new ongoing expenditures. This means there will be as much as \$1.6 billion in one-time revenues available for the FY22 budget. Capital improvement projects including transportation infrastructure are an ideal use for one-time funding. In fact, over the last couple of years, the legislature has prioritized transportation for this funding and was set to do so again last year prior to the adoption of a "skinny" budget and the pandemic-induced abrupt end of session. To date, 20 bills have been introduced proposing to direct roughly \$200 million in one-time general fund revenues to transportation projects across the state.

TRANSPORTATION REVENUE BILLS INTRODUCED: In addition to opposing HURF transfers and advocating the direction of one-time revenues to transportation infrastructure, RTAC continues to advocate for updating and increasing the permanent revenue streams that fund the infrastructure and several such bills have been introduced. New House Transportation Committee Chairman Frank Carroll has introduced a pair of bills, HB2436 & HB2437, which would adjust fuel taxes annually for inflation and set fees, comparable to what a traditionally fueled vehicle pays in fuel taxes annually, for alternative fuel vehicles. Senator J.D. Mesnard has introduced a tax omnibus bill, SB1108, which also includes annual fees for alternative fuel vehicles. The former Senate Transportation and current Finance Committee chair David Livingston is still working on a comprehensive transportation revenue bill. Senators have until February 1st to introduce bills and Representatives have until February 8th, so more are likely to follow.