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January 18, 2021

RTAC LEGISLATIVE UPDATE

STATE LEGISLATURE CONVENES FOR REGULAR SESSION: The state legislature was sworn in and the Governor provided his State of the State address to kick off the legislative regular session last Monday. Much uncertainty remains about how the session will be conducted as COVID cases continue to soar and restrictions are implemented at the Capitol.

In the Senate, committee hearings will limit in-person attendance to five senators and the public is restricted from the building. The public will be able to provide testimony virtually. Visitors are allowed in the House but limited to committee hearings and scheduled meetings. Other requirements such as temperature checks, masks and social distancing are in effect.

The Senate is developing a “backbone” rather than last session’s “skinny” budget to basically extend existing spending levels for another year in the event that the Legislature is unable to carry out a more typical budget-setting process. Leadership has expressed their desire for a more regular process but are preparing the more expedient alternative just in case. The Governor’s proposed budget is certainly more ambitious than extending the status quo further including tax cuts and new spending initiatives.

The legislative process will be further complicated this year by the near even partisan split of both chambers. Republicans hold a 31-29 advantage in House and a 16-14 advantage in the Senate. Neither majority caucus has a single vote to spare to pass a bill. Legislation will be far more difficult to pass.

On a positive, the state budget outlook continues to out-perform forecasts. Initial projections at the beginning of the pandemic of over \$1 billion in revenue losses have continually improved to where the state is now projected to finish the current year with a carry forward balance of roughly \$750 million. The state’s rainy day fund of close to \$950 million has remained untapped. Sales and income tax revenues continue to grow. While the better than expected performance has been a constant, the economy remains highly volatile and if it were to change negatively, the state’s budget outlook could shift quickly. Arizona still has close to 100,000 less jobs than before the pandemic. Many businesses have struggled to remain afloat.

For transportation, efforts to increase transportation revenues and protect existing funding from legislatively-directed transfers known as HURF raids will be a priority. The transfers have been minimal the last couple of years in large part due to a Public Safety Fee that has fully funded Highway Patrol operations. That Fee will be repealed after June, likely setting up a fight for how

the Legislature will fund Highway Patrol and make up for the estimated \$161 million loss of Fee revenues. HURF raid prevention received a significant boost on Friday when the Governor's budget proposal recommended the lost revenue to be backfilled by the general fund.

It appears that infrastructure projects will also be a priority for available one-time funding as numerous bills have already been introduced appropriating funding to specific projects. A list of the bills and their details that have been introduced to date can be found in the transportation bill matrix attached to this message. Also attached are an overview of RTAC's legislative priorities for the upcoming session and a resolution supporting those measures passed by the RTAC board.

Other potential revenue-raising proposals that are likely to be considered include a fuel tax increase, indexing fuel taxes for inflation, and comparable fees and taxes for alternative fuel vehicles. The Senators have until February 1st and Representatives until February 8th to introduce bills so many are still anticipated. Former Senate Transportation Chairman David Livingston is expected to introduce a comprehensive infrastructure funding package and new House Transportation Committee Chairman Frank Carroll is also expected to introduce some transportation revenue bills.

CONGRESS PASSES APPROPRIATIONS & HIGHWAY RELIEF FUNDING: For the first time, highways were included in a COVID relief package along with additional funding for transit. Congress agreed to a \$1.4T budget package which will fund the federal government for the remainder of the federal fiscal year while also enacting an additional \$900B for COVID relief. The relief package includes another \$14B for transit and \$10B for state departments of transportation for highway and road relief. Arizona's estimated share of the highway funding is \$183 million.

For the federal budget, transportation programs were appropriated funding through the end of September. Highways and transit were funded at their fully authorized levels and each received additional supplemental funding bringing their totals to \$46.35B for highways and \$13.39B for transit, fairly comparable to last year's levels, slightly less for highways (\$160M) and slightly more for transit (\$750M). When including the relief funding, overall federal funding is substantially increased this year. Further investment is possible as it is highly anticipated that an economic recovery package including infrastructure investment will be considered early in the year. Also, federal surface transportation programs are due for a re-authorization, legislation that typically covers a five-year period and potentially includes new priorities and investment levels. Current authority expires on September 30th.