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June 18, 2020

RTAC LEGISLATIVE UPDATE

REVENUE REPORTS INDICATE BETTER THAN EXPECTED NUMBERS SO FAR:

While there have been significant revenue losses at the national, state and local levels, so far, the economic impacts from COVID-19 have not been as substantial as previously projected and are already trending back in an upwards direction. Of course, these are very uncertain times and Arizona, as with much of the country, is currently experiencing an increase in COVID-19 cases and hospitalizations which could trigger further preventative measures restricting economic activity.

In April, the state legislature's budget staff forecasted a \$1.1 billion loss in revenues over the next two years. They recognized the volatility and unpredictability that the quickly implemented restrictions would place on the economy and gave themselves a margin of error of \$500 million in either direction, so there was not a tremendous amount of confidence in that \$1.1 billion number, but nevertheless, a massive reduction was anticipated. When the April revenue collections were later reported, there was a 32.7% funding drop, however, the numbers were \$269 million better than anticipated. A preliminary May report also showed better than expected collections that were \$163 million above estimates. The final May report is expected this Friday, but for now, that \$1.1 billion anticipated loss in revenues has already shrunk by \$432 million. In fact, after April, five/sixth of the way thru the state fiscal year, revenue collections year-to-date were still 2.7% higher than last year.

At the national level, the May jobs report was strikingly more positive than anticipated up to its release a week and a half ago. Job losses were expected as high as 8 million nationwide yet the economy grew by 2.5 million jobs. This was primarily driven by a 2.7 million reduction in people who had been previously reported as temporarily laid off suggesting that businesses across the country have been reopening. The unemployment rate had been projected to soar as high as 20% and actually fell from 14.7% to 13.3%. Still high but trending in a recovery direction.

For transportation dollars, the April HURF collection numbers were down 13.5% yet they were also expected to be far worse as travel volume was down close to 40% suggesting there would be a comparable loss in fuel tax revenues coupled with losses in vehicle license taxes from less vehicle purchases. HURF growth over the year had not been nearly as strong as general fund revenues and year-to-date, following the April collection numbers, HURF was one-half percent above last year's collections but \$34.4 million below pre-COVID-19 forecasts.

WHAT TO EXPECT IN THE UPCOMING WEEKS:

ADOT FIVE-YEAR CONSTRUCTION PROGRAM: The State Transportation Board is expected to vote on ADOT's five-year construction program update tomorrow, June 19th. An update is statutorily required prior to July 1st which places into question whether ADOT has time to adjust their revenue forecasts based on the much better but relatively new revenue data. At the Board's study session two weeks ago, it was anticipated that the program update would have to factor in a \$711 million loss in revenue and \$155 million in delayed or cancelled bond measures. Drastic cuts to new construction and maintenance activity, a suspension of the HURF Exchange program and the return of \$115 million in federal grants due to the inability to meet local match requirements were all possibilities. Yesterday evening, ADOT amended the Board meeting agenda to add an item to consider an option that would essentially delay approval until further revenue data is available suggesting an effort to minimize immediate hits to the program in light of anticipated future improvements to the revenue outlook. The Board meeting starts at 9:00 AM tomorrow and can be watched live. The link can be found at www.aztransportationboard.gov

FEDERAL COVID-19 RELIEF & TRANSPORTATION REAUTHORIZATION In Washington, Congress is still considering another round of COVID-19 relief legislation. The House passed the HEROES Act several weeks ago which would provide another \$3 trillion including assistance to state and local governments, \$15 billion for highway and roads, and \$15.75 billion for transit. The positive May jobs report has taken some momentum away from moving the bill through the Senate yet the Federal Reserve Chairman and Treasury Secretary have both been recently vocal about the need to infuse more revenue into the economy. A bipartisan "dear colleague" letter was signed by 26 Senators including Arizona's Senator Martha McSally urging \$50 billion in relief funding for highways and roads in the next relief measure.

For transportation reauthorization, the House Transportation and Infrastructure Committee is in their second day of a marathon virtual meeting, the first of its kind, to consider amendments to the "INVEST in America Act" that was released by Chairman Peter DeFazio (D-OR) last week. Over 290 amendments have been offered for consideration. The bill would authorize roughly \$500 billion in surface transportation funding over the next five years averaging \$100 billion a year compared to this year's \$60 billion. Last summer, the Senate Environment and Public Works Committee passed out their own version of a reauthorization bill. Reauthorization is due by October 1st. Partisan differences are already occurring in this week's committee hearing and are highly anticipated to continue, particularly when the Republican-controlled Senate and Democrat-controlled House must come together in conference to agree on one version of the bill. At least some leaders of both parties have expressed support for substantially increasing infrastructure investment. The big question will continue to be how to pay for the increase and reaching a consensus among the two parties on a solution.

STATE LEGISLATURE: The state legislature finally adjourned sine die last month with an expectation of at least one special session to address COVID-19-related issues as early as late June. As we are basically entering late June, there is still no call for a session. There has been much disconnect among lawmakers regarding what should be included (or excluded) from a COVID-19 specific session and the improved revenue picture has likely alleviated at least some of the earlier state budget concerns. A special session has not been ruled out, and like everything else during this COVID-19 timeframe, new developments can occur quickly, however another state legislative session does not appear to be imminent at this time.