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Northern Arizona Council of Gov'ts.
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RTAC LEGISLATIVE UPDATE

STATE LEGISLATURE/FUNDING: Monday marked the 120th day of session and work is winding down on regular session bills as the focus shifts more to the budget. In fact, the legislature recessed for much of the first half of the week so that leadership could devote more time to budget negotiations with the Governor. Tax cuts are a major leadership priority with a phased-in flattening of the individual income tax to 2.5% as the main piece. The impact on state funding and revenue sharing with counties and municipalities are complicating those discussions and the ability to secure adequate votes to pass both chambers.

Revenue numbers continue to be unprecedented. Through the end of March, state general fund revenue collections are 18.8% higher than the previous year and still 12.3% higher when excluding the money added from last year's later income tax filing deadline. This year's "skinny" budget minimized spending increases in large part to hedge against potential COVID-related revenue losses that did not materialize. The result will be a substantial carry-forward balance. In addition, the American Rescue Plan provided the state government with roughly \$12.2 billion in federal relief assistance, an amount actually higher than the state's \$11.8 billion operating budget. Also, the State still has a remaining balance from the CARES Act which it will have through the end of December to use.

Legislative leadership committed to setting aside \$200 million of the surplus revenue for infrastructure projects very early in the session. This was before some further improved forecasts and the enactment of this latest round of federal relief funding. The revenue outlook has continued to substantially improve and that initial number for infrastructure could rise. An updated list of the projects that were included in earlier bills this session is attached. Ultimately, any that are funded will be done so through their inclusion in the budget rather than through these bills which are no longer advancing as the budget drafting has begun. However, they still provide a good indication of the level of legislative support for directing more revenue to the infrastructure and also some of the specific projects that have support.

The American Rescue Plan also provided a substantial level of funding to local governments. Allocations to the states and locals were made available on Monday along with guidance on permissible uses from the U.S. Treasury:

[Interim Final Rule](#)

[American Rescue Plan Fact Sheet](#)

[American Rescue Plan FAQ's](#)

Despite the further guidance, much will still be subject to interpretation. Those complexities, as well as the one-time nature of this and some of the state's own generated revenue, will complicate the state's budget-setting process.

While water, sewer, and broadband are explicitly listed as permissible relief fund uses, transportation infrastructure is not. However, the funding can be used to backfill COVID-related revenue losses which could impact transportation. The relief funding should also provide a positive ripple effect that will indirectly impact transportation. The influx of revenue will greatly alleviate any pressure to raid highway funding to pay for other government programs. Also, transportation will not be competing with broadband for surplus general fund revenues as any broadband investment will most likely be paid for with the federal funding.

INFRASTRUCTURE REMAINS TOP FEDERAL PRIORITY: In Washington, the President hosted the Republican and Democrat leaders of the House and Senate at the White House earlier today to discuss infrastructure. It is clearly at the top of the Washington agenda. The President introduced a \$2.3T jobs plan on March 31st that extended well beyond what would be considered traditional infrastructure. Senate Republicans countered with a \$568B proposal that would be specifically limited to traditional infrastructure such as roads and sewers. The President and congressional Democrat leaders responded with an openness to divide the President's plan into separate packages and address the traditional infrastructure first and separate from the other provisions. While differences remain regarding funding priorities within transportation and how the plan would be paid for, there is bipartisan support to increase infrastructure investment at significant levels.

Current authorization for transportation programs is set to expire at the end of September. Reauthorization, which is typically done in five-year increments, will also likely increase permanent revenue streams for transportation investment in addition to this additional infrastructure package which would be more one-time in nature. The primary oversight committees have targeted drafting their parts of the authorization legislation by Memorial Day (which now appears to be slipping to early June) while congressional leadership is targeting July 4th for the infrastructure package. The two may merge depending on the degree of bipartisanship and consensus that can be reached.