

SUBJECT: RTA Financial Update and FY 2022-26 Revenue Estimate

| Meeting | Meeting Date | Agenda Category | Agenda Item # |
|-----------|--------------------|-----------------|---------------|
| RTA Board | September 24, 2020 | Information | 3 |

REQUESTED ACTION/SUGGESTED MOTION

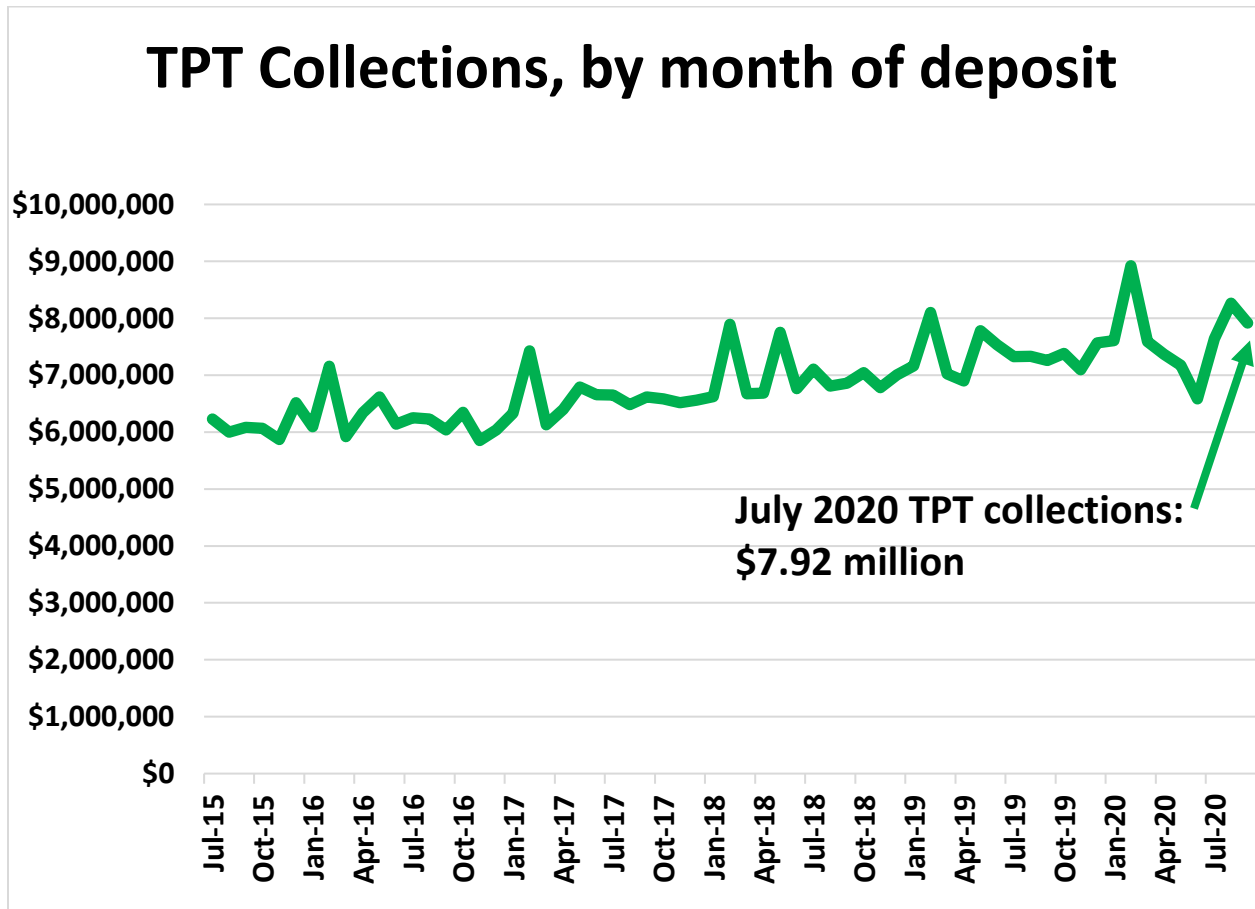
This is an information item.

ASSOCIATED OWP WORK ELEMENT/GOAL

Work Element 1646, Regional Transportation Authority

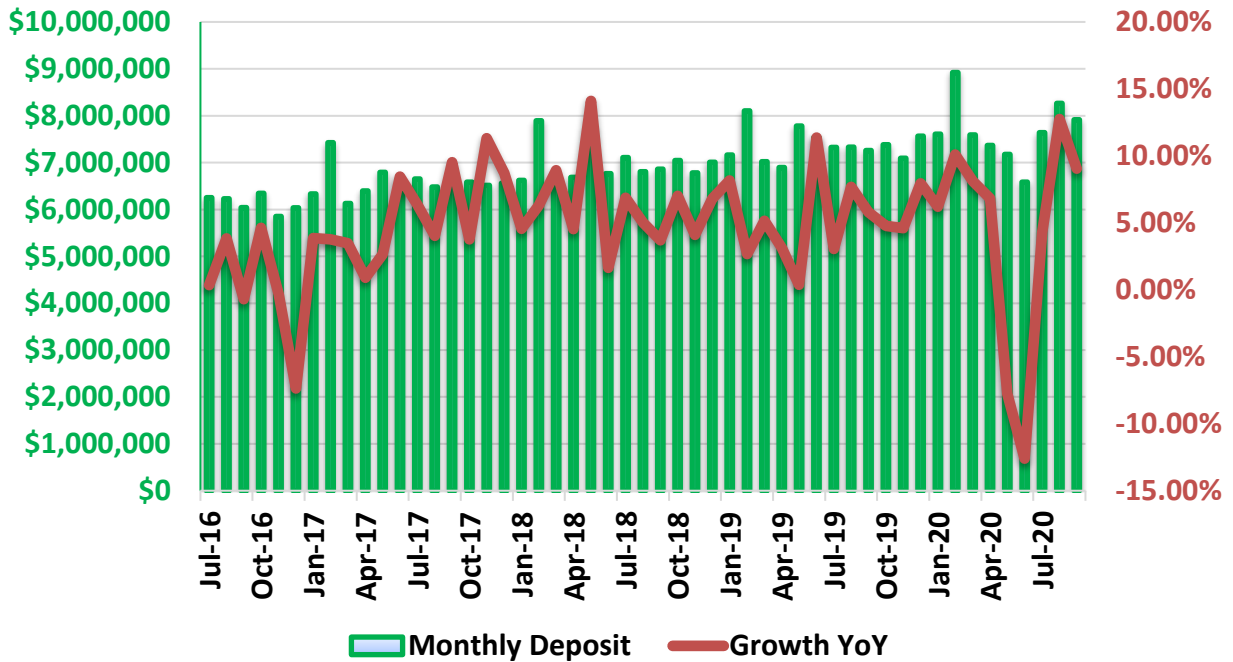
SUMMARY

Transaction privilege tax (TPT) collections declined briefly at the end of FY 2020, after a growth trend that has lasted 41 consecutive months. The onset of the COVID-19 pandemic ended this growth streak, but a surprising combination of federal and local pandemic stimulus efforts and strong economic conditions resulted in surprisingly strong TPT deposits in the first three months of fiscal year 2021 (from transactions in May, June and July of 2020).



The September 2020 TPT (July sales activity) deposit of \$7,915,372 was 9.05% above the September 2019 deposit.

Monthly Deposit and Growth over Prior Year



TPT collections for fiscal year 2020 remained consistently strong through the end of the third quarter of FY 2020 and, even with the impact of the COVID-19 pandemic, exceeded the FY 2020 budget, as shown in the table below.

| | FY 2019 Actual | FY 2020 Actual | Change | FY 2020 Budget | Change |
|--------------|----------------------|----------------------|--------------|----------------------|--------------|
| July | \$ 7,108,013 | \$ 7,325,084 | 3.05% | \$ 7,119,012 | 2.89% |
| August | \$ 6,806,762 | \$ 7,330,415 | 7.69% | \$ 7,078,956 | 3.55% |
| September | \$ 6,860,786 | \$ 7,258,670 | 5.80% | \$ 6,945,968 | 4.50% |
| October | \$ 7,045,708 | \$ 7,382,349 | 4.78% | \$ 7,105,848 | 3.89% |
| November | \$ 6,781,770 | \$ 7,093,789 | 4.60% | \$ 6,848,966 | 3.57% |
| December | \$ 7,007,771 | \$ 7,565,121 | 7.95% | \$ 6,902,187 | 9.60% |
| January | \$ 7,162,647 | \$ 7,607,641 | 6.21% | \$ 6,990,070 | 8.83% |
| February | \$ 8,104,204 | \$ 8,922,479 | 10.10% | \$ 8,361,647 | 6.71% |
| March | \$ 7,020,781 | \$ 7,591,302 | 8.13% | \$ 6,832,689 | 11.10% |
| April | \$ 6,895,994 | \$ 7,366,759 | 6.83% | \$ 7,077,916 | 4.08% |
| May | \$ 7,780,828 | \$ 7,175,986 | -7.77% | \$ 7,631,254 | -5.97% |
| June | \$ 7,534,007 | \$ 6,584,271 | -12.61% | \$ 7,073,487 | -6.92% |
| Total | \$ 86,109,271 | \$ 89,203,866 | 3.59% | \$ 85,968,000 | 3.76% |

FY 2020 TPT collections exceeded the FY 2020 revenue budget by 3.76% in spite of the pandemic-related declines in the 4th quarter of the fiscal year.

With pandemic-related, stay-at-home orders and closures relaxing beginning in May 2020, the RTA's revenue improved, with three successive months of revenues that are greater than the same months in 2019.

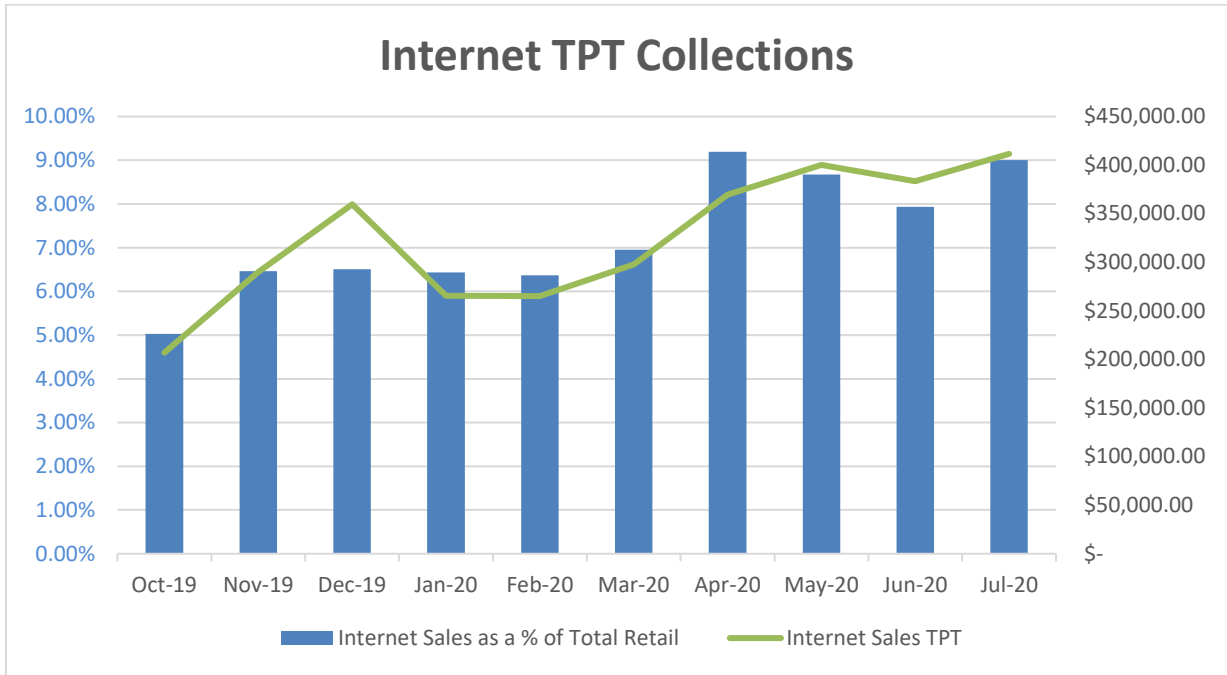
FY 2021 TPT Revenue Budget

In 2019, the University of Arizona Eller College of Management prepared a revenue forecast update for the RTA's TPT collections. This forecast has, in the past, been the basis for the RTA's TPT revenue budget, unless collection trends have dictated a more conservative estimate. The Eller forecast is updated triennially.

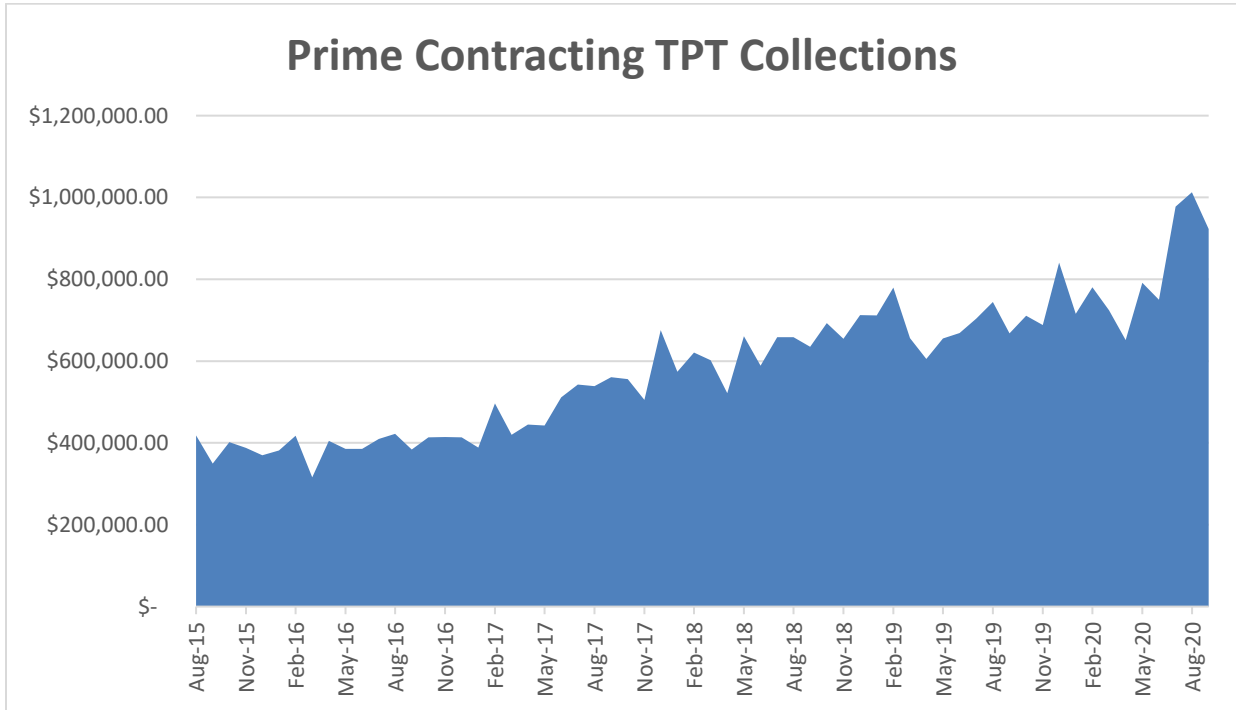
With the pandemic still a national concern, we anticipate more frequent updates, but the impact of the current pandemic on the RTA's TPT collections in FY 2021 cannot be forecast with any confidence. However, for the purpose of establishing the budget, a 15% reduction from the baseline revenue forecast was adopted for the FY 2021 budget.

| FY 2021 Revenue Budget Performance | | | | | |
|---|---------------------------|----------------------------|---------------------------|-----------------------|-----------------------------|
| | FY 2020 Actual | FY 2021 Adopted | FY 2021 Actual | YOY Growth | Change to Budget |
| July | \$ 7,325,084 | \$ 6,382,750 | \$ 7,639,783 | 4.3% | 19.7% |
| August | \$ 7,330,415 | \$ 6,387,395 | \$ 8,264,777 | 12.7% | 29.4% |
| September | \$ 7,258,670 | \$ 6,324,880 | \$ 7,915,372 | 9.0% | 25.1% |
| October | \$ 7,382,349 | \$ 6,432,648 | | | |
| November | \$ 7,093,789 | \$ 6,181,210 | | | |
| December | \$ 7,565,121 | \$ 6,591,907 | | | |
| January | \$ 7,607,641 | \$ 6,628,957 | | | |
| February | \$ 8,922,479 | \$ 7,774,648 | | | |
| March | \$ 7,591,302 | \$ 6,614,720 | | | |
| April | \$ 7,366,759 | \$ 6,419,063 | | | |
| May | \$ 7,175,986 | \$ 6,252,833 | | | |
| June | \$ 6,584,271 | \$ 5,737,239 | | | |
| Total | \$ 89,203,866 | \$ 77,728,250 | \$ 23,819,932 | | |

Although recent revenue deposits have been very favorable, the regional economy is performing very differently than in years past. Industries such as construction are performing extremely well, stimulated by favorable interest rates and increased housing demand. Retail demand has been strong following the shutdown, and Remote/Marketplace Facilitated (internet) sales are capturing a greater share of the retail sector.

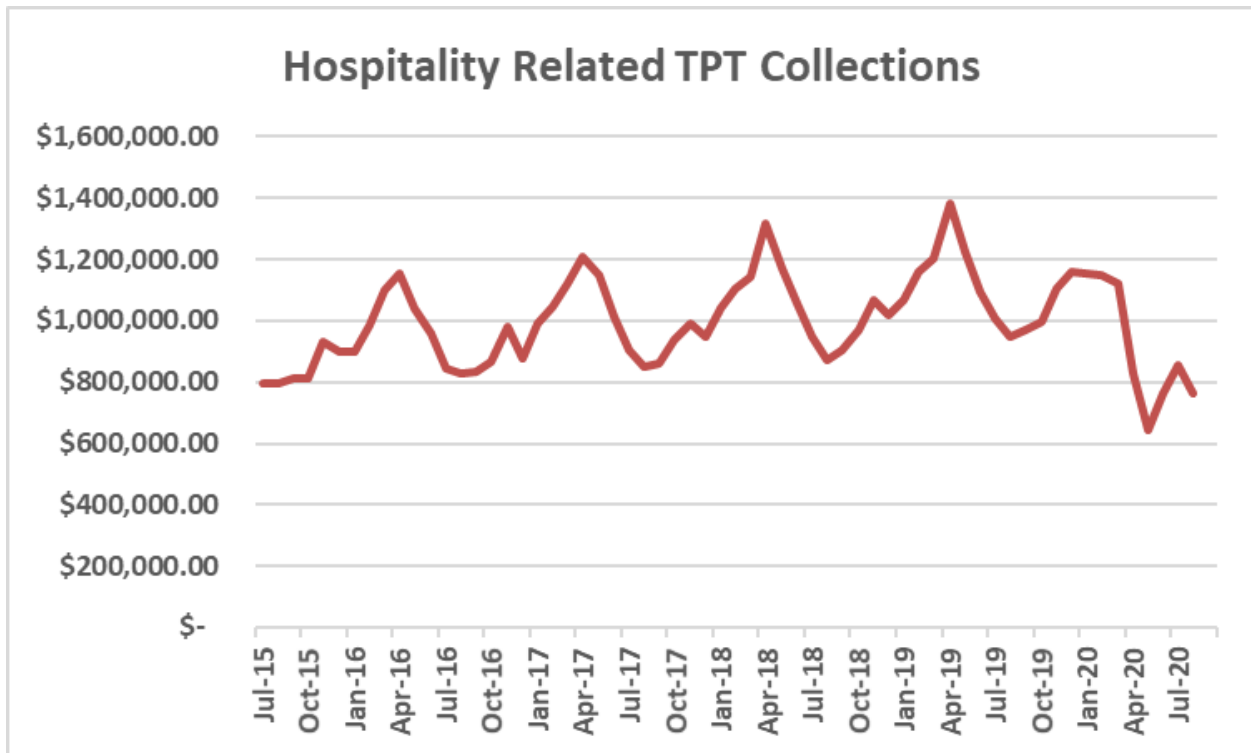


Beginning with collections in October 2019, Internet TPT collections (Remote Sales and Marketplace Facilitated Sales) commenced in Arizona. With the onset of the pandemic, Internet TPT collections grew from approximately 6.5% of total taxable retail sales to 8.5% of total taxable retail sales. As local retail reopens, internet sales remain high, suggesting a lasting shift in purchasing patterns.



Prime Contracting collections are higher than any time since August 2008, at the beginning of the Great Recession. In FY 2019, the Contracting industry represented just over 9% of TPT collections.

Hospitality-related trade groups have not fared well with the pandemic-related closures and consumer confidence. For the sake of this discussion, Hospitality trade groups are defined to be Restaurant/Bar sales (011), Amusements (012) and Transient Lodging (025). These trade groups, taken together, amounted to 15% of the total TPT collections during FY 2019.



FY 2022-26 Revenue Estimate and Transportation Improvement Program (TIP) Development

The Development of the FY 2022-26 TIP has begun and must be fiscally constrained. Although recent collections have been surprisingly strong, significant weaknesses remain in major portions of the local economy. Coupling these weaknesses with the declining CARES Act support, lingering high unemployment, as well as the potential for further pandemic-related closures, staff recommends a conservative revenue estimate for the development of the FY 2022-26 TIP.

Staff is currently recommending a revenue estimate that is based upon the 2019 Eller Revenue estimate, with a reduction of 10% in revenue for FY 2022, followed by a 5% reduction in FYs 2023 and 2024, with FYs 2025 and 2026 using the baseline Eller estimate. The TIP also will have reductions in the previously forecast HURF revenue estimate.

These reductions in revenue will necessitate some project funding adjustments in the TIP. However, all RTA named projects can be fully funded at the RTA ballot amount. The RTA will be working with its member jurisdictions to identify project readiness and jurisdictional priority to manage the reduction in revenues in the near term.

PRIOR BOARD AND/OR COMMITTEE ACTION

RTA Board was presented the Eller 2019 Revenue Update at its May 2019 meeting.

The RTA Board approved the 2021 Revenue Budget in May 2020.

TECHNICAL, POLICY, LEGAL OR OTHER CONSIDERATIONS

None noted.

ATTACHED ADDITIONAL BACKUP INFORMATION

N/A.

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| Staff Contact/Phone | Farhad Moghimi, 495-1420 James DeGrood, 495-1481 Corrina Gil, 495-1472 |
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