Board of Supervisors Memorandum

May 23, 2017

Amended Tentative Budget Recommendation Regarding Pavement Preservation, Roadway Surfacing and Repair

Introduction

My April 26, 2017 memorandum transmitting the Recommended Budget for Fiscal Year (FY) 2017/18 to the Board of Supervisors indicated I would provide the Board by mid-May with a plan to fund a local highway repair program (Page 9, Section IID). In the absence of any statewide strategy to address transportation funding shortfalls, I propose the County implement the funding option discussed in this memorandum.

Background

As the Board of Supervisors is aware, every option to increase transportation investment for pavement preservation and road repair has been exhausted, not only this year, but also in previous years. The State gas tax, which stands at 18 cents, has not been raised in 26 years. The Legislature initially considered legislation for ballot referral and then refused to refer the question for a public vote. The Legislature considered allowing counties to impose a local gas tax, but that option failed. The Legislature considered a bill that would have ended Highway User Revenue Funds (HURF) diversion by the Legislature and would return full funding for transportation purposes by charging alternative fuel vehicles an equivalent tax, ending the vehicle license tax break for alternative fuel vehicles. This legislation passed the Senate, but it was held by Legislative leadership and will likely die.

This year, the Legislature did reinstate $30 million of HURF to local governments, and this item is being restored as an ongoing item. Therefore, an additional $3.5 million will be available for local arterial and collector roadway maintenance and repair.

The City of Tucson has referred a one-half percent increase in their sales tax to the voters. This would bring their sales tax on parity with that of the Towns of Marana and Oro Valley. The election to determine if the voters approve of this funding increase is on the May 16, 2017 ballot for the City of Tucson. If approved by voters, another $100 million in pavement preservation and repair would be dedicated to City streets and highways. This is in addition to the previous $100 million authorization for property tax-related bonds invested by the City of Tucson to repair their streets.

While we hoped for a more regional or statewide solution to transportation funding shortfalls, it is clear the only option left is to act on our own to raise revenues for pavement preservation and road repair.

Revenue Increase Options for Transportation

You may recall that the voters were asked to approve a standalone property tax bond question in November 2015. If approved, this question would have raised $160 million for road repairs and would have been distributed to each jurisdiction in accordance with their assessed value. The voters defeated this question with 53 percent voting no, and 47 percent voting in favor. Given this recent voter rejection, a property tax-related bond borrowing is not considered a viable method of repairing roads. Therefore, only two other options exist.

One option is to implement a countywide half-cent sales tax by a unanimous vote of the Board of Supervisors. This option has been available to the Board since 1990, a period of 27 years. It has never been exercised because there has not been unanimous agreement on the Board regarding levying a half-cent sales tax for any purpose, whether it be for road repair, property tax reduction or other County programs or purposes. While a half-cent sales tax would raise the most revenue – $70 million annually – it would likely be shared amongst jurisdictions by population. However, this tax would still provide sizable and almost immediate relief for repairing roads in the unincorporated area, since it would raise $25 million annually if the County's share were based on the unincorporated population. While a unanimous vote of the Board to enact a half-cent sales tax for transportation is possible, it is unlikely; primarily because of the ability of a single member to withhold approval unless certain conditions or requirements are met, which is an imposition of a minority position on the will of the majority.

The other option I recommend to the Board of Supervisors is the enactment of a property road tax permitted by statute and enacted by a simple majority vote of the Board. A property road tax is separate and a subset of the County's primary property tax rate, but it is added to the County primary tax for purposes of collection, expenditure limit calculation, and a Truth in Taxation hearing. It would be designated by line item on the property tax bill and will not add to the primary property tax rate and/or primary property tax revenues even though the overall tax rate will increase in the first year the road tax is levied. The tax must be segregated; and it must be used exclusively for streets, highways or roads. A property road tax can be levied upon budget adoption, which means that if approved by the Board, road repairs would begin immediately. The maximum allowable tax rate for a property road tax is 25 cents per $100 of assessed value. If such a tax were levied at the maximum rate, based on the current assessed value of the County, it would yield $19,526,525 in revenues for road repair and pavement preservation throughout the County.

Arterial and Collector versus Local Road Repair and Pavement Preservation

In my April 21, 2016 whitepaper entitled *Road Repairs in Unincorporated Pima County*, I articulated a funding policy associated with arterial and collector roadways versus local roadways. In that policy, I specified a funding allocation to arterial and collector roadways wherein growth over a base year of the HURF and road vehicle license tax, as well as any reduction in debt service paid for 1997 authorized HURF bonds, would be dedicated exclusively to pavement preservation and repair for the arterial and collector roadway system in the unincorporated area of Pima County. That policy resulted in $4.5 million being allocated to these types of roadways this fiscal year. Unfortunately, nearly $2 million of that allocation was from the HURF restoration enacted by the Legislature. Hence, over time, the arterial and collector roadway system will be adequately maintained by this policy-driven revenue dedication. In addition, the arterial and collector system in the unincorporated area of Pima County is in a much better condition than our local streets and highways. For this reason, if the Board chooses to enact the property road tax, I would recommend the entire amount be dedicated to improving local streets and highways.

Conditions of Using a Property Tax Road Repair Fund

There has been discussion regarding the purposes for which County HURF revenues are used; whether they are used to pay overhead, administrative costs, engineering, design, etc. While the debate is simply an academic exercise, it does little to resolve the problem. Hence, I would recommend that if the Board chooses to enact a property road tax, very specific terms and conditions should be applied to its use, including the following:

1. All revenues must be used exclusively for pavement preservation, pavement repair and road resurfacing, including total roadway pavement reconstruction when necessary. This means these revenues cannot be used for overhead; administration; insurance; engineering, planning, or design; or the construction of associated improvements such as sidewalks or improvements required by the Americans with Disabilities Act (ADA). Such will ensure every dollar is spent exclusively on pavement preservation, rehabilitation and/or repair.

2. All pavement repair activities, whether they be pavement reconstruction, pavement overlay, or pavement seal and surfacing, must be competitively bid to private contractors.

3. Arterial and collector pavement preservation priorities will be developed by the Department of Transportation, with priority given to investment protection where repairs are made to extend the useful life of the roadway surface. Selected projects will be ratified by the Board at a public meeting. It should be noted that arterial and collector pavement preservation would be funded as described in my April 21, 2016 report to the Board (Attachment 1). Attachment 2 contains updates of *Table 3: HURF Authorization 10-year Debt Service Reduction* and *Table 4: Forecasted Increase in Pima County HURF and VLT Revenues through FY 2027*. Property road taxes will only be used for local roads.

4. Local road repair projects will be selected by the Board at a public meeting. The funding allocations shown in this report shall govern the funding spent in each Supervisorial District: within cities and towns, as well as within the unincorporated area.

5. How the Supervisor develops local road repair priorities will be up to the Supervisor. The Supervisor may establish advisory committees and may consult with the governing bodies of the cities and towns in which local road repair funding is allocated. See later sections of this report for discussion regarding Supervisor input on prioritization.

6. Program Administration and Contracting. Since the revenues from this program will be for County-levied property taxes, County staff and departments will administer the program. For funding allocations within cities and towns, an intergovernmental agreement will define the projects to be completed. The costs to administer, contract and inspect to ensure contract compliance will be reimbursable costs.

These conditions will ensure property road taxes maximize pavement rehabilitation and repair. If improvements such as those required by the ADA are necessary, they must be paid for separately by the implementing agency.

Specific Road Tax Language

The specific language that allows the County to levy a tax for County roads is contained in Arizona Revised Statutes (ARS) 28-6712 restated below.

> *"A. For road purposes the board of supervisors may levy a real and personal property tax of not more than twenty-five cents per one hundred dollars of property in the county as valued for tax purposes. The board of supervisors shall levy and collect the tax at the same time and in the same manner as other primary property taxes are levied and collected.* (Emphasis added.)
>
> *B. The monies shall be paid into the county treasury for the benefit of the highways in the county and shall be spent by the board with other monies received for purposes of improvement of county roads.* (Emphasis added.)
>
> *C. Notwithstanding any other law, in counties with an assessed valuation of two hundred million dollars or more, an amount of not more than twenty-five cents per one hundred dollars assessed valuation may be budgeted, levied, collected and spent for road purposes independently of and in addition to any other amounts lawfully available for road purposes. This levy is in lieu of the levy permitted under subsection A."* (Emphasis added.)

Tax Equity for Cities and Towns when the County Levies a Uniform Property Tax for the "Benefit of the Highways in the County"

As the Board knows, I have resisted and even objected to raising County primary property taxes to repair streets and highways in the unincorporated area of Pima County. This approach is, in my opinion, inequitable since residents of cities and towns pay this tax, as do residents in the unincorporated area; but the residents of cities and towns receive remote benefits from the levy of such a property tax. I believe it is unfair to levy a tax on a city or town resident for the sole purpose of improving a local street or highway in the unincorporated area of the County. To resolve this tax equity issue, I propose that any property tax levied by the Board for roads in the County be shared equitably with cities and towns in accordance with each jurisdiction's assessed value. Arizona law permits this if certain procedures are followed. Below is the statute (ARS 28-6707) related to this matter.

> *"A. The part of a highway located in an incorporated city or town may be constructed, improved or maintained through cooperation under this article in the same manner as if it were located outside an incorporated city or town.* (Emphasis added.)
>
> *B. As part of the cooperation, the board of supervisors may enter into an agreement with the governing body of a city or town for the lease of:*
>
> > *1. County equipment used to construct, improve or maintain highways located in the boundaries of the city or town.*
> > *2. City or town equipment used to construct, improve or maintain highways located in the boundaries of the county."*

Table 1 below shows the total assessed value of the County, as well as assessed value of each component jurisdiction. Hence, I recommend the Board share property road taxes with jurisdictions in accordance with their aggregated assessed value. This ensures equitable treatment for all the residents who will pay this tax.

Table 1: FY 2017/18 Taxable Net Assessed Value by Jurisdiction.

Jurisdiction	Taxable Net Assessed Value (NAV)	Percentage of Countywide Total Taxable NAV
Marana	$ 505,088,721	6.255
Oro Valley	612,684,205	7.588
Sahuarita	222,114,689	2.751
South Tucson	21,935,960	0.272
Tucson	3,326,022,182	41.190
Unincorporated Pima County	3,387,047,155	41.945
Total Pima County	**$8,074,892,912**	**100.000**

Source: Clerk of the Board of Supervisors, *2017 Abstract of Values*.

Table 2 below applies the percentage of assessed value to the total revenue yielding the revenue that would be available to each jurisdiction, including the unincorporated area of the County, for road repair for FY 2017/18 if the Board approves the 25-cent maximum levy for the road tax.

Table 2: Road Repair Revenue Generated in FY 2017/18 by Jurisdiction.

Jurisdiction	Percentage of Countywide Total Taxable NAV	Percentage of Road Repair Revenue
Marana	6.255	$ 1,221,384
Oro Valley	7.588	1,481,673
Sahuarita	2.751	537,175
South Tucson	0.272	53,112
Tucson	41.190	8,042,976
Unincorporated Pima County	41.944	8,190,205
Total Pima County	**100.000**	**$19,526,525**

<u>Allocation of Road Repair Funding in the Unincorporated Area by Supervisorial District</u>

Allocating the County's 41.94 percent share of the property road tax ($8.19 million) in each Supervisorial District is a straightforward analysis based on our detailed road and highway inventory in the unincorporated area. If these funds were used exclusively for local roads, then miles of County maintained paved local roads in each Supervisorial District within the unincorporated area would be the best measure of distributing these funds to each Supervisorial District.

Table 3 below is an inventory of local road miles in each District. Allocating County unincorporated area assessed value to each District would result in these specific allocations, by District, for these funds.

Table 3: Property Road Tax Revenue Allocation and Unincorporated Mileage by Supervisorial District.

District	Miles of County-maintained Paved Local Roads in the Unincorporated Area of the District	% of County-maintained Paved Local Roads in the Unincorporated Area of the District	% of County's $8.19 million Share of Property Road Tax Revenue
1	448	35.8	$2,932,093
2	70	5.6	458,651
3	316	25.3	2,072,122
4	308	24.6	2,014,790
5	108	8.7	712,549
Total	**1,250**	**100**	**$8,190,205**

Allocation within Cities and Towns by Percentage of Population in Each Supervisorial District

The County Supervisors, taken together, represent every taxpayer in the County, whether they live in a city or town or in the unincorporated area. Since the Board would levy the tax, it is appropriate the Board have input on where these funds are allocated within a city or town. We attempted to determine the local road mileage within each city and town and how that mileage corresponded to the area of the Supervisorial District within a city and town. Such an analysis was overly complex, and the cities or towns could not provide the information requested. Hence, the next best measure, which likely accurately reflects local street mileage, is to use population within a city or town that corresponds to a Supervisorial District. For example, in the City of Tucson, Supervisorial District 5 encompasses 31 percent of the population in the City of Tucson. In the Town of Marana, Supervisorial District 3 represents 58 percent of the population. Therefore, funds allocated by assessed value should be allocated within a city or town in accordance with the population of the District within city or town. This analysis is shown in Table 4 below.

Table 4: Property Road Tax Revenue Allocation within Cities and Towns by Percentage of Population in Each Supervisorial District.

Jurisdiction/ Supervisorial Districts	Incorporated Population	% of Incorporated Population	% of Incorporated Revenue Allocation
Marana	**34,628**		**$1,221,384**
1	14,530	41.96	512,493
3	20,098	58.04	708,891
Oro Valley	**43,648**		**$1,481,673**
1	43,648	100.00	1,481,673
Sahuarita	**25,149**		**$537,175**
2	14,450	57.46	308,661
3	2,684	10.67	57,317
4	8,015	31.87	171,197
South Tucson	**5,635**		**$53,112**
2	5,635	100.00	53,112
Tucson	**521,055**		**$8,042,976**
1	2,561	0.49	39,411
2	151,567	29.09	2,339,702
3	83,066	15.94	1,282,050
4	122,590	23.53	1,892,512
5	161,271	30.95	2,489,301

Since there are many more miles of local roads that need improvement as compared to the funding available in any given year, it matters little which projects are done first or last. How a particular Supervisorial District receives input from a city, town or the elected officials of said city or town is up to the Supervisors.

Total Road Repair Investment by Supervisorial District

Using the allocation for unincorporated and incorporated property road tax revenue, the amount of funding per Supervisorial District is shown in Table 5 below.

Table 5: Total Property Road Tax Repair Revenue by Supervisorial District.

District	Unincorporated Area	Marana	Oro Valley	Sahuarita	South Tucson	Tucson	Total
1	$2,932,093	$ 512,493	$1,481,673	0	0	$ 39,411	$ 4,965,670
2	458,651	0	0	$308,661	$53,112	2,339,702	3,160,126
3	2,072,122	708,891	0	57,317	0	1,282,050	4,120,380
4	2,014,790	0	0	171,197	0	1,892,512	4,078,499
5	712,549	0	0	0	0	2,489,301	3,201,850
Total	**$8,190,205**	**$1,221,384**	**$1,481,673**	**$537,175**	**$53,112**	**$8,042,976**	**$19,526,525**

Proposed Reduction in the County Primary and Secondary Property Tax Rates to Offset the Increase in the Road Tax

I hoped to reduce the County primary property tax rate by 25 cents to make an increase in the road tax a tax neutral activity. Such would have been possible had the County not been required to absorb an additional net General Fund impact from the Sheriff's budget of over $5 million, as well as another $5 million to pay for a substantially and accelerated increased costs in the Public Safety Retirement System (PSRS). These two costs total nearly $11 million, which is equivalent to 14 cents of the County primary property tax rate. This added to what I will describe in reducing primary and secondary tax rates would have made the road tax fiscally neutral from a tax impact perspective.

Given the planned 14-cent reduction is now allocated to the Sheriff's Department budget exceedance and the PSRS, I am prepared to recommend the Board reduce the primary property tax rate by 8 cents, which is equivalent to $6.2 million; reduce the County Library District secondary tax rate by 1 cent; and reduce the Regional Flood Control District secondary rate by 2 cents. The latter reductions in the secondary rates are temporary and are for FY 2017/18 only.

It should also be noted that reducing the property tax rate by 8 cents would place the tax rate below the FY 2017/18 Truth in Taxation rate; hence, a Truth in Taxation Public Hearing in adopting the FY 2017/18 budget would not be necessary. However, since the road tax is added to the primary rate and the recommended road tax increase is 25 cents, a Truth in Taxation hearing will be necessary. The rate reductions in the Library and Regional Flood Control Districts will also place these special districts below their Truth in Taxation rates.

If the Board accepts this amended budget recommendation, 11 cents of the 25-cent road tax increase will be offset by reductions in the County primary and secondary property tax rates for FY 2017/18.

Given the economic development activities and growth in the tax base occurring in Pima County, I am confident our assessed value or tax base will grow at an equal or greater rate than it grew this fiscal year. Hence, the FY 2018/19 budget will be structured to fully absorb the 25-cent road tax increase, making it fiscally neutral from a tax impact to the property taxpayers of Pima County. It would also be appropriate to consider levying this road tax for at least a five-year period, at the end of which other regional alternatives can be considered; since the City's sales tax surcharge would be scheduled to expire in five years, thereby allowing the region to revisit larger regional solutions for funding transportation.

<u>Budget Implications with County Expenditure Limit</u>

Although Pima County is allocating more than $11 million of the road tax to cities and towns, the entire $19.5 million would be subject to Pima County's constitutionally restricted expenditure limit. To avoid having to cut spending from Pima County programs to pay for city and town road repair, Pima County intends to finance the road tax program by issuing certificates of participation with three-year repayment schedules because spending long-term debt proceeds is not subject to the constitutionally restricted expenditure limit. We expect the interest cost of this financing to be minimal, since we intend to repay 90 percent of the debt in the first year, 98 percent by the second year, and the entire amount repaid in the third year. A portion of the road tax revenues allocated to cities and towns in Table 4 above will be used to pay the cities' and towns' proportionate shares of this financing cost.

<u>Revised Tentative Budget Summary</u>

If the various property tax rate reductions and the property road tax are adopted by the Board, overall County expenditures will increase by a net of $23.5 million from the original recommended budget of $1.2436 billion to $1.2671 billion. The $19.5 million of pavement preservation and repair costs, plus $17 million of anticipated debt service, are offset by a $6.6 million reduction in the General Fund Budget Reserve from the original recommendation; $8 million of existing expenditure authority for local pavement preservation; and other adjustments described in my *May 23, 2017 Tentative Budget Adoption: Fiscal Year 2017/18* memorandum.

Table 6 below shows the differences between my original recommended budget and my proposed tentative adopted budget that includes the road tax and the other property tax rate adjustments.

Table 6: FY 2017/18 Pima County Budget and Property Tax Rates
Original Recommended versus Proposed Tentative Adopted.

	Original Recommended Tax Rates		**Proposed Tentative Tax Rates**	
Fiscal Year 2017/18 Budget	**Budgeted Expenditures**	**Tax Rate**	**Budgeted Expenditures**	**Tax Rate**
Total County Budget	$1,243,595,459	$5.8384	$1,267,072,355	$5.9784
Primary Property Tax:				
General Fund Primary	$582,483,943	$4.2896	$576,235,452	$4.2096
Transportation Road Tax	$0	$0.0000	$19,526,525	$0.2500
Total Primary Tax Rate		$4.2896		$4.4596
Secondary Property Taxes:				
County Free Library District	$42,235,325	$0.5153	$42,235,325	$0.5053
Regional Flood Control District	$17,496,778	$0.3335	$17,496,778	$0.3135
Debt Service	$117,790,376	$0.7000	$134,790,376	$0.7000

*Actual Expenditures will occur in the Capital Projects Fund.

Recommendation

I recommend the Board of Supervisors approve and add the 25-cent road tax to the Tentative Budget and adopt the rates and total budget expenditures as shown in Table 6 of this memorandum in the column entitled "Proposed Tentative Tax Rates."

Respectfully submitted,

C.H. Huckelberry
County Administrator

CHH/mjk – May 16, 2017

Attachments

ATTACHMENT 1

ROAD REPAIRS IN UNINCORPORATED PIMA COUNTY
Chuck Huckelberry, Pima County Administrator

April 21, 2016

I. INTRODUCTION

This report summarizes the issues and potentially available actions to resolve the road repair funding dilemma in Pima County. It will highlight the County Highway User Revenue Funds (HURF) and Vehicle License Taxes (VLT) used to operate, maintain and build a transportation system in the unincorporated area of Pima County. Roadway and surface transportation responsibility in Arizona is divided between the State, counties, and cities and towns. Counties in Arizona are responsible only for the transportation system in the unincorporated area.

Pima County is unique among Arizona's 15 counties, as we have the largest unincorporated area population in the State at 361,023, and therefore, the largest service demand.[1] Our unincorporated population exceeds that of Maricopa County by 67,145.

II. HOW DID WE GET TO WHERE WE ARE?

There are four primary reasons why Pima County's roads are in the condition they are in today.

1. Transportation revenues are not and have not been shared equitably within the State for years.

2. The Arizona Legislature has diverted highway funds for their own purposes, primarily to balance the State budget.

3. Transportation revenues have not been increased for 25 years while vehicle fuel efficiency has dramatically increased; meaning transportation revenues are stagnant and have actually declined dramatically in purchasing power for highway maintenance.

4. The County made a conscious decision in 1997 to invest in transportation capacity improvements to enhance regional mobility using HURF bonding.

Each of these factors is discussed below.

A. Transportation revenues are not growing or shared equitably.

Because Pima County has the largest unincorporated population of any county in Arizona, we have, by direct correlation, the highest need for transportation mobility investment of

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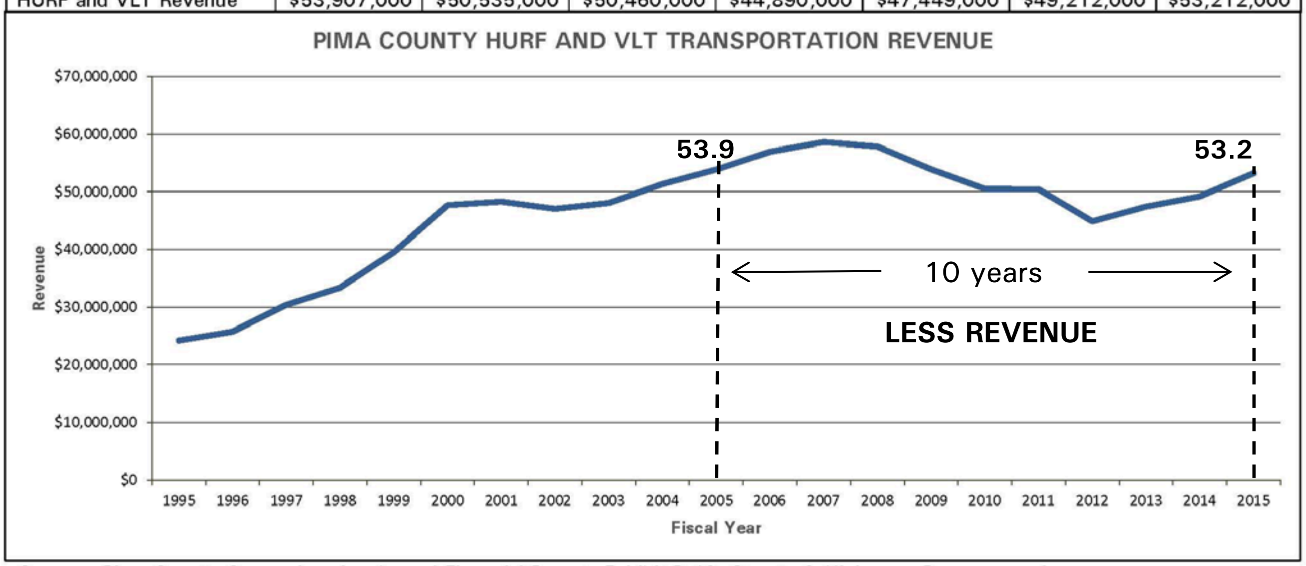
[1] Arizona Department of Administration July 1, 2015 Population Estimates. https://population.az.gov/population-estimates. Accessed April 12, 2016.

any county in Arizona. Yet, the State law that distributes State-collected revenues (HURF largely derived from gas taxes) to counties has been and continues to be based on antiquated distribution formulas and methodology. Previous to 1996, the distribution of HURF among counties was based totally on the proportion of origin of fuel sales in the county to origin of fuel sales in the State. Clearly, Maricopa County dominated all other counties in this distribution formula. Recognizing this formula was inequitable, the Arizona Legislature in 1996 modified the distribution formula to include a weighting factor for unincorporated population, since such has a direct correlation to transportation investment needs.[2]

Figure 1 below shows the amount of HURF and Vehicle License Tax (VLT) received by Pima County from 1995 through 2015. The graph shows a significant increase in the distribution of HURF to Pima County following the implementation of the HURF Equity Legislation. While this was significantly beneficial to Pima County in the past, it is far from equitable today. Today, our highway revenues are less than they were 10 years ago.

FIGURE 1: PIMA COUNTY HURF AND VLT FOR TRANSPORTATION REVENUE, 1995 THROUGH 2015.

Fiscal Year	1995	1996	1997	1998	1999	2000	2001
HURF and VLT Revenue	$24,208,000	$25,764,000	$30,412,000	$33,370,000	$39,535,000	$47,699,000	$48,317,000
Fiscal Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
HURF and VLT Revenue	$47,071,000	$48,072,000	$51,334,000	$53,878,000	$56,937,000	$58,638,000	$57,847,000
Fiscal Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
HURF and VLT Revenue	$53,907,000	$50,535,000	$50,460,000	$44,890,000	$47,449,000	$49,212,000	$53,212,000



Source: Pima County Comprehensive Annual Financial Report, Exhibit D-12, Streets & Highways Revenue, various years.

[2]Arizona Revised Statute 28-6540, Arizona highway user revenue fund distribution; state highway fund; county, city and town proportions.
http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/28/06540.htm&Title=28&DocType=ARS, accessed April 18, 2016.

Today, the per capita revenue from HURF varies widely among counties. Table 1 below shows Arizona's 15 counties, their unincorporated populations and the value of their currently received HURF on a per capita basis for FY 2014/15.[3]

Table 1: Fiscal Year 2014/15 Per Capita HURF Revenue by County.

County	County HURF Revenue Allocation	Unincorporated Population, 2010 Census	Per Capita HURF Revenue	Per Capita Rank
Apache	$ 6,396,769.27	61,192	$104.54	14
Cochise	7,586,843.95	52,410	144.76	07
Coconino	9,040,356.54	53,567	168.77	04
Gila	3,529,256.10	25,602	137.85	08
Graham	2,293,193.03	20,402	112.40	12
Greenlee	880,475.57	4,430	198.75	03
La Paz	3,653,987.72	13,729	266.15	02
Maricopa	97,698,476.39	284,404	343.52	01
Mohave	11,543,436.75	75,230	153.44	06
Navajo	7,653,220.50	68,097	112.39	13
Pima	40,762,362.68	353,264	115.39	11
Pinal	18,291,170.86	187,517	97.54	15
Santa Cruz	3,216,374.35	25,670	125.30	10
Yavapai	10,918,936.01	83,782	130.33	09
Yuma	9,775,872.69	60,013	162.90	05
Statewide Total	**$233,240,732.41**	**1,369,309**	**$158.27**	

Statewide Average Per Capita County HURF Revenue = $158.27.
Source for FY 2015 HURF = ADOT.

B. Legislative Use of HURF Funds for Purposes Not Related to Highways

The Arizona Legislature has also been diverting significant funds in the order of magnitude of now over $1.2 billion of HURF to balance their own budget.[4] They have used the "notwithstanding" section of law to justify their diversion; something no city or town would be permitted to do. The Arizona Legislature has made a few feeble attempts to stop robbing the HURF Fund; but, apparently, it has no serious intention of doing so. Hence, city, towns and the State transportation department must continue to endure legally sanctioned diversion of HURF for purposes other than to maintain and construct highways in Arizona.

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[3] Huckelberry, C.H. Memorandum to the Pima County Board of Supervisors, *Equitable Allocation of Highway User Revenue Funds Among Counties*, Page 1. February 17, 2016.
[4] Pima Association of Governments.

Even though the current State budget appears to have a significant surplus,[5] the Arizona Legislature has taken no action to stop the diversion of HURF monies, which would help the State, cities and counties meet the transportation needs and obligations of their communities. If the nearly $100 million in annual HURF diversions by the Legislature were stopped, our region would gain approximately $11.3 million per year in HURF revenue, and the County would gain $3.6 million per year.

C. <u>Lack of revenue increases for 25 years and increasing vehicle fuel efficiency</u>.

The primary source of revenue for transportation has been the gas tax; both state and federal. The state gas tax has not been increased in 25 years, and the federal gas tax has not been increased for 23 years. Both are roughly 18 cents per gallon. Due to population growth and inflation, per capita transportation revenues have decreased 54 percent.[6]

In addition, over the same period vehicle fleet efficiency has increased significantly. Increasing vehicle fleet efficiency means fewer gallons of gasoline are purchased and tax receipts are lower. The average new light vehicle fleet fuel efficiency has increased from 19.84 miles per gallon to 23.64 miles per gallon, an increase of 20 percent. This means the same quantity (or less) fuel can be purchased, but wear and tear on the highway system increases by 20 percent without a corresponding increase in revenue to operate and maintain the highway system.

These factors combined results in the dollar of transportation revenues in 1991 now buying only approximately 51 cents worth of transportation improvements in 2016. If adjusted for both inflation and additional vehicle fuel efficiency, the value of a 1991 gas tax would be more than 70 percent less today.

D. <u>Mobility investment of the 1997 HURF Bond Program.</u>

In 1996 and 1997, the common theme heard most often from residents in the unincorporated area of Pima County was mobility, or the lack thereof. Former rural two-lane roadways were becoming clogged with suburban traffic congestion. Not a single concern was ever expressed over a lack of maintenance of the County highway system; it was always mobility and the need to widen and improve the County arterial and collector highways. Armed with increased revenue from the HURF resulting from the HURF Equity Legislation, the County asked the voters to approve $350 million in HURF bonds to improve the most critical roadway segments in Pima County. This resulted in a vast number of rural two-lane roadways being converted to four- and six-lane urban arterial streets at substantial cost and investment. Attachment 1 shows the resulting improved

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[5] Pitzl, Mary Jo. *Arizona ends budget year with $266 million surplus.* http://www.azcentral.com/story/news/arizona/politics/2015/07/20/arizona-reports-surplus/30444483/. Accessed April 15, 2016.

[6] Huckelberry, C.H. Memorandum to the Board of Supervisors, *A Plan for Funding Street and Highway Repairs in Pima County*. August 1, 2014.

arterial highway system in Pima County as a result of the 1997 HURF bond program. The five supervisorial district boundaries are also shown.

Table 2 below shows the supervisorial district beneficiaries of this HURF bond program investment.[7]

Table 2: 1997 HURF Bond Expenditures by District.

District	Amount*	Percent of Total
1: Miller	$156,746,801	62.44
2: Valadez	33,259,241	13.25
3: Bronson	10,369,023	4.13
4: Carroll	27,427,653	10.93
5: Elías	23,234,605	9.25
Totals	**$251,037,323**	**100.00**

**These amounts do not include projects that cross multiple districts.*

The 1997 HURF bond program has been a major success in providing needed and demanded mobility for the residents of unincorporated Pima County.

III. WHAT DOES THE 1997 HURF BOND PROGRAM HAVE TO DO WITH ROADWAY MAINTENANCE?

The answer is "everything." County HURF monies that are spent on debt service, both principal and interest to retire bonds issued from the 1997 voter authorization, cannot be spent on maintenance or road repair. They must be spent as a first priority on repaying the bond holders who lent Pima County the money to make the roadway capacity improvements sorely needed in 1997. Therefore, these funds are not available for roadway repair or roadway maintenance. To date, the total principal and interest payments of HURF paid to repay bonds issued equals $254 million. Today, it is estimated the total cost to repair all local arterial and collector streets is approaching $300 million. Hence, the amount dedicated for principal and interest payments on bonds issued for highway capacity is 85 percent of this obligation; a substantial amount. Put another way, the interest payments alone on this debt equal $81 million; again, a substantial amount. Figure 2 below shows the 1997 HURF authorization debt service principal and interest payments by fiscal year until the present debt is retired, assuming no further bonds are issued.

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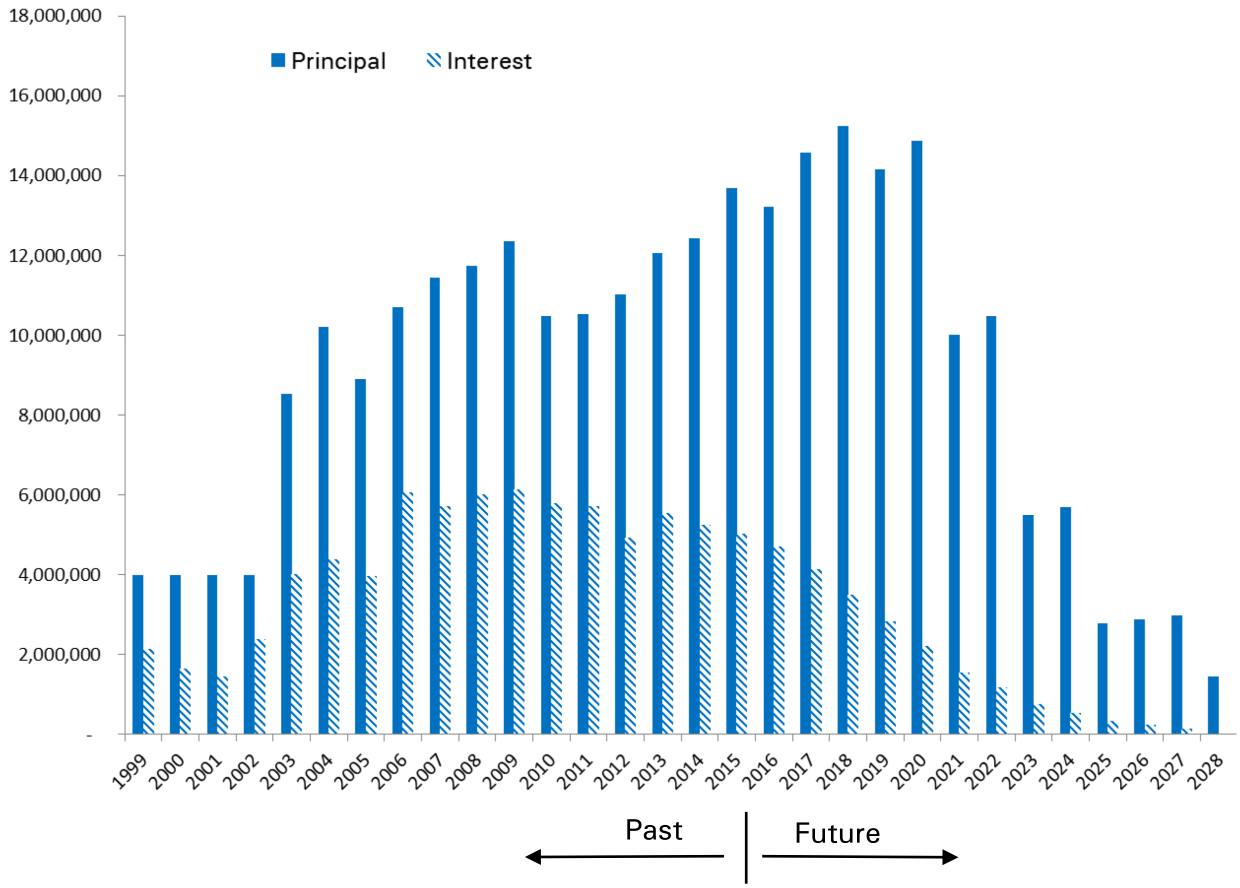
7 Huckelberry, C.H. Memorandum to the Pima County Board of Supervisors, *Additional Transportation Investment Information Requested by the Board of Supervisors at the Meeting of February 18, 2014*, Page 5, Table 4. March 18, 2014.

Figure 2: 1997 HURF authorization debt service principal and interest payments.



Perhaps we should have opted for pay-as-you-go financing of our highway capacity improvements, but any elementary highway user cost/benefit analysis would clearly indicate the overall aggregate user benefits greatly outweigh – by a factor of 10 or more – the lost investment benefit from interest payments. Hence, the clear economic rationale to bond for capacity improvements.

IV. <u>WHAT ARE OUR OPTIONS GOING FORWARD</u>?

A number of options to resolve our transportation dilemma have been proposed, but none have been acted upon. The County legislative agenda has for three years called upon the Arizona Legislature to increase the statewide gas tax by 10 cents per gallon.[8] The County

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[8] Huckelberry, C.H. *2016 Recommended Legislative Agenda*. December 15, 2015. *Supplemental Information Related to the Board of Supervisors November 18, 2014 Agenda Item Regarding the 2015 Legislative Agenda and Transportation Funding*. November 12, 2014. *Recommended Legislative Agenda for 2014*. November 12, 2013.

legislative agenda over the same period has called for the Arizona Legislature to stop the diversion of HURF so that counties, cities and towns, as well as the State highway system, can use the diverted HURF money for roadway repair. Nothing has been acted upon by the Legislature.

Options have been discussed to increase the County property tax; however, the use of property taxes for road repair is fundamentally inequitable to 64 percent of the region's population, since the County levies a property tax countywide but is only responsible for road maintenance in the unincorporated area.

The County has asked for a more equitable distribution of HURF revenues and has asked the Legislature to consider authorizing a 10-year, half-cent sales tax that would be administered by the Regional Transportation Authority for roadway repair.

The Legislature has not responded to a single proposal.

V. WHAT ARE OUR BEST OPTIONS FOR HELPING OURSELVES, ASSUMING THE STATE AND STATE LEGISLATURE WILL CONTINUE TO AVOID THE PROBLEM?

Since there is no effort or discussion in the Legislature to address transportation funding issues, even though Arizona is falling far behind adjacent states in economic competitiveness, I will remove from the list of options any revenue enhancements by the Arizona Legislature.

However, there is light at the end of the tunnel, but it is likely 10 years away. The "light" is defined as a substantial improvement in the pavement surface condition of all Pima County roadways: arterial, collector and local.

Table 3 below shows the existing debt service schedule over the next 10 years for the HURF bonds that remain outstanding. As these payments begin to decrease, the reduction can be dedicated to roadway maintenance. In addition, we believe there is a strong argument to be made that based on Arizona's improving economy, HURF diversions should stop, and stop now. Eliminating the State HURF diversion would add another approximately $3.6 million each year to the funds available for road repair. In addition, it is likely HURF and VLT revenues will continue to increase modestly.

Table 3: HURF authorization 10-year debt service reduction.

FY	Total Principal and Interest	Savings	Debt Service Reduction Available for Road Repair
2016	17,900,000		
2017	18,700,000	0	0
2018	18,700,000	0	0
2019	17,000,000	900,000	900,000
2020	17,000,000	900,000	1,800,000
2021	11,600,000	6,300,000	8,100,000
2022	11,700,000	6,200,000	14,300,000
2023	6,200,000	11,700,000	26,000,000
2024	6,300,000	11,600,000	37,600,000
2025	3,100,000	14,800,000	52,400,000
2026	3,100,000	14,800,000	67,200,000

Table 4 below shows the forecasted increase in HURF and VLT revenues due the County over the 2016 base year.

Table 4: Forecasted Increase in Pima County HURF and VLT Revenues Through FY 2026.

FY	Projected HURF and VLT Transportation Revenue (millions)	Projected Funding Available Over 2016 Base Year (millions)
2016 (base year)	$55.44	$ 0
2017	57.12	1.7
2018	57.80	4.1
2019	60.30	8.9
2020	63.00	16.4
2021	65.81	26.8
2022	68.13	39.5
2023	71.10	55.2
2024	74.21	74.0
2025	77.40	96.0
2026	80.73	121.3

FY2016 reflects actual HURF and VLT revenues and distributions through March 2016. Projections for FY2017 through FY2025 are based on ADOT, Financial Management Services, "Arizona Highway User Revenue Fund, Forecasting Process & Results, FY2016-2025," September 2015.

The increased revenues from declining debt service over the next 10 years could also be dedicated to roadway repair. Hence, as shown in Attachment 2, if 1) the reduced debt service payments on HURF bonds are dedicated to roadway repair for the next 10 years ($67.2 million); 2) the Legislature ceases their diversion of Pima County HURF ($36 million based on annual average of $3.6 million between FYs 2009 and 2014); and 3) growth in VLT and HURF receipts is dedicated to roadway repair for the next 10 years ($121.3 million), a total of $224.5 million could be made available for this purpose, meeting 75 percent of the County's documented road maintenance and preservation needs.

The primary question is whether there will be $224.5 million available for pavement maintenance and preservation in the next 10 years. This assumption relies on no further debt issuances associated with the 1997 Bond Program. While this is certainly possible, the answer is probably not. The City has been delayed in decisions related to bonding improvements related to Broadway Boulevard and other corridors. Until those decisions are made the County bonds will not be released; hence, it is likely safe to assume that in the next few years, decisions will be made that will release these authorized bonds.

In addition, is it safe to assume the Legislature will immediately reverse their HURF diversions? Likely not, but it is also significantly likely, given the pressure they will be under to restore dedicated funding to transportation they have diverted for other purposes by transportation special interest and lobbying groups.

Finally, do I believe the Arizona Department of Transportation's (ADOT's) forecast regarding growth in HURF and VLT? Again, I am very skeptical, given the HURF and VLT over the last 10 years has actually decreased. However, I do realize we have been through the longest recession in our history. I find it improbable these revenues will increase to the amount forecasted by ADOT. On the other hand, I have seen significant recent increases in these distribution amounts simply because of economic activity.

Hence, the question: how real is $224.5 million of revenues for pavement repair and maintenance in the next 10 years? It is certainly possible, but not highly probable.

VI. A REGIONAL APPROACH IS LIKELY BEST

To immediately begin addressing our pavement repair problem, I also believe a half-cent sales tax proposal is worth pursuing at the legislative level, with such being a limited 10-year sales tax dedicated exclusively to roadway repair and distributed among the County jurisdictions based on population. Such a program would be administered by the successful Regional Transportation Authority building on the success of the 2006 voter-approved plan. This will raise the nearly $300 million needed to adequately repair Pima County's roads and provide another $500 million to the City of Tucson, which would substantially resolve their road issues. This tax would allow the various transportation jurisdictions to repurpose and rededicate their transportation revenues to maintaining the highway system. None of the proceeds from the sales tax could be utilized for engineering or administrative purposes, and all roadway maintenance projects would be completed through private contracting.

VII. SELF HELP

Self-help provides the option for road repairs of local streets will be largely paid for by residents. Today, in Green Valley, approximately 60 percent of the subdivisions maintain their own private roads through homeowners' associations (HOAs). Thirty percent of the subdivisions have County roads but still have HOAs that assess annual dues. The remaining 10 percent have a combination of public and private roads. There is a marked difference in the dues paid by a homeowner where the County is obligated to maintain the roads versus where the HOA assumes maintenance responsibilities for their roadways.

The Green Valley Council provided a list of typical annual dues of a number of HOAs where the roads are maintained by the County and a number of HOAs that have private roads, which means the HOA assumes this responsibility. From the information provided, the average HOA dues where residents are required to maintain their own roadways is $430 per year, as opposed to $30 per year where the County has assumed road maintenance responsibilities. This is a substantial annual difference.

The County also reviewed repair costs of 12 different subdivisions within Green Valley where the County has maintenance responsibility for local roadways; estimated the cost for complete repair, which ranges from extensive removal and replacement of pavement section to maintenance seal and resurfacing. The estimated annual cost to a homeowner based on amortizing the capital cost over a 10-year period is provided in Table 5 below.

Table 5: Green Valley Subdivisions Community Facilities District or Improvement District Options for Failed Road Conditions.

Route	Length	Width	Area [yd²]	Treatment and Condition Rating	Engineer's Estimate	Aggregate Limited Net Assessed Value	Number of Parcels	Annual payment,10-year amoritization[1]	Average tax increase on typical $150,000 home
Green Valley Townhomes/Tucson Green Valley Unit No. 1	6,964	30	23,213	Failed[2]	$324,987	$ 1,310,970	169	$39,480	452
Green Valley Country Club Estates Lots 1-154, Blks 1-14	12,466	38	52,634	Poor[3]	263,171	3,360,055	266	31,968	143
Green Valley Country Club Estates Lots 155-376, Blks 15-19	13,200	38	55,733	Poor[3]	278,667	3,303,624	264	33,852	154
Green Valley Country Club Vistas (1-229)	13,570	40	60,311	Poor[3]	301,556	2,514,657	229	36,636	219
Green Valley Country Club Vistas (230-482)	14,256	40	63,360	Poor[3]	316,800	2,859,080	253	38,484	202
Green Valley Desert Hills No. 4 (1-224)	1,679	38	7,089	Poor[3]	35,446	1,866,089	211	4,308	35
Green Valley Fairways (1-235)	10,560	36	42,240	Poor[3]	211,200	1,929,679	233	25,656	199
Green Valley Fairways No. 2 (236-474)	11,616	36	46,464	Poor[3]	232,320	2,463,366	239	28,224	172
Green Valley Fairways No. 3 (475-763)	15,048	36	60,192	Poor[3]	300,960	2,599,284	289	36,564	211
The Villages at Green Valley HOA	17,561	38	74,146	Poor[3]	370,732	4,080,934	482	45,036	166

[1]Assumes four percent interest on principal.

[2]For Poor (very cracked with tented joints) or Failed ratings, the traditional option is rehabilitation at $14 per square yard. This leaves the roads in new to good condition for about seven years.

[3]A crack/chip/fog seal will not improve the ride at $5 per square yard, but it will protect against potholes for eight to 10 years. Cracks will reflect through over time.

Unless there are new revenues provided, it is unlikely there will be significant public funds invested in local road repair in the next two to four years. In looking at the 12 subdivisions reviewed, the cost to substantially improve their roads would cost less, on an annual basis, than what it typically costs a member of an HOA that is responsible for their own private roads.

For homeowners who would like to finance road improvements for local public roads in their HOAs, several mechanisms are available and range from the traditional improvement district to a more contemporary community facilities district. The cost reflected in Table 5 above amortizes the initial capital over 10 years at an interest rate of four percent.

There are a number of options available to repair local roads. County public local roads will be repaired eventually, but our Department of Transportation has as their highest repair priority the arterial and collector roadway system.

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ATTACHMENT 2

Updated Table 3: HURF Authorization 10-year Debt Service Reduction.

FY	Total Principal and Interest	Savings	Debt Service Reduction Available for Road Repair
2016	$17,900,000		
2017	18,700,000	–	–
2018	18,600,000	–	–
2019	16,800,000	$ 1,100,000	$ 1,100,000
2020	16,600,000	1,300,000	2,400,000
2021	11,100,000	6,800,000	9,200,000
2022	11,200,000	6,700,000	15,900,000
2023	6,200,000	11,700,000	27,600,000
2024	6,200,000	11,700,000	39,300,000
2025	3,100,000	14,800,000	54,100,000
2026	3,100,000	14,800,000	68,900,000
2027	3,100,000	14,800,000	83,700,000

Updated Table 4: Forecasted Increase in Pima County HURF and VLT Revenues Through FY 2027.

FY	Projected HURF and VLT Transportation Revenue (millions)	Projected Funding Available Over 2016 Base Year (millions)
2016 (Base Year)	$55.89	$ 0
2017	59.86	3.97
2018	61.14	9.22
2019	63.56	16.89
2020	66.18	27.18
2021	68.37	39.66
2022	69.61	53.38
2023	71.67	69.16
2024	73.58	86.85
2025	75.73	106.69
2026	78.00	128.80
2027	81.21	154.12

FY 2017 reflects actual HURF and VLT revenues and distributions through March 2017. Projections for FY 2018 through FY 2027 are based on ADOT, Financial Management Services, "Arizona Highway User Revenue Fund, Forecasting Process & Results, FY 2017-2026," September 2016.