TRANSPORTATION FUNDING REPORT

PREPARED BY

CHUCK HUCKELBERRY
PIMA COUNTY ADMINISTRATOR

May 7, 2013

May 7, 2013

Transportation Funding Report

Executive Summary

Background

The American Society of Civil Engineers (ASCE) recently released its 2013 report card of the current state of America's infrastructure. This report indicates significant poor grades for most of our nation's infrastructure, including roads. Roads received an overall "D rating;" generally inadequate and requiring a significant investment.

Fifty-two percent of Arizona roads were rated in poor to mediocre condition, and driving on these poor roads costs Arizona motorists almost $887 million per year in vehicle repair and operating costs. In Pima County, this equates to $143 million based on the number of licensed motorists.

In Arizona, transportation systems; primarily highways and their construction, operation and maintenance; are funded through state-shared revenues known as Highway User Revenue Funds (HURF). HURF are a combination of transportation-related taxes, the largest single component being the gasoline tax, which is currently 19 cents per gallon (including a one-cent tax for environmental remediation of underground storage tanks). The gasoline tax has not increased since 1991. By comparison, the average tax of surrounding states is 29.7 cents per gallon.

During this 22-year period when gas taxes have not been increased, the Consumer Price Index has increased from 136 to 232, or 71 percent. More importantly, the index that actually reflects transportation-related costs, the Construction Cost Index, increased from 4,835 to 9,453, or 96 percent. Hence, the same dollar of HURF in 1991 can now only purchase 51 cents worth of highway improvements.

Transportation Revenue Trends

HURF revenues increased steadily through Fiscal Year FY 2006/07, and nothing in the forecast of future HURF would have predicted the present decline in HURF that is the result of a number of factors. HURF revenues for the Pima County Department of Transportation for road repair and maintenance are now lower than they were 13 years ago. Revenue bonds are unique in that they can only be issued based on the strength of future revenues. The decline in HURF growth, as well as the fund losses associated with legislative sweeps, has made the issuance of future HURF bonds very problematic.

The significant decline in HURF from FY 2007/08 through FY 2011/12 is due to a variety of factors. First, the decline of the national economy in the current Great Recession has stalled economic activity, such as the use of transportation systems and the purchase of fuel (generation of gasoline tax), the primary source of revenue for the HURF.

The very rapid rise in the price of fuel over time has also tempered the purchase and use of gasoline. Over the eight-year period from 2005 to today, the per-gallon price of fuel has nearly doubled.

Third, in response to the rapid rise in fuel cost, vehicle fleet efficiency has increased significantly over the last 10 years. The average new light vehicle fleet fuel efficiency over this period has increased from 19.84 miles per gallon to 23.64 miles per gallon, an increase of 20 percent. This means that 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.

Another significant factor in the decline of County HURF revenues in the past few years has been the legislative sweeps of funding where the State of Arizona, to balance their budget, diverted funds from HURF to pay for expenses that normally would have been paid through the State's General Fund. These legislative sweeps have been devastating to local governments' ability to adequately maintain their streets and highways. In Pima County, these legislative sweeps have resulted in an aggregate loss of $37.9 million for highway maintenance and repair.

Transportation Impact Fees

The County adopted transportation impact fees (TIFs) in 1997. Overall, TIFs have raised $109,463,840 through FY 2011/12 for transportation investments in the unincorporated area of Pima County. State law prohibits the use of TIFs on any highway improvements other than capacity improvements, and the roadway must be located in the unincorporated area of Pima County. TIFs have been used productively to augment transportation capacity improvements throughout Pima County; in total, $71,150,070 million have been spent through FY 2011/12.

The methodology for levying and collecting TIFs is highly restricted by state legislation and requires the fees to be deposited in accounts identified for very specific geographic benefit areas in the unincorporated area of Pima County and then allocated only to projects that improve capacity and are approved by the Board of Supervisors. By law, TIFs cannot be spent to repave, resurface or perform pavement preservation on any local street or highway, including arterials, within Pima County.

Insufficient Transportation Funding is Widespread

Transportation funding challenges are not unique to our region. The Maricopa Association of Governments' (MAG) March 29, 2013 Regional Transportation Plan Update cites the same factors adversely impacting revenue that are discussed in the accompanying report and also notes the increased conversion to alternative fuel sources such as electricity and compressed natural gas. The ASCE and MAG reports both indicate many other states face similar funding challenges and are implementing new strategies to increase funding, including increased per-gallon gas taxes and other changes in the calculation of fuel-related fees.

The future of financing the construction, operation and maintenance of transportation systems needs substantial review at the national, state and local levels. New transportation financing strategies must be developed for surface transportation, including highways; air transportation; transit systems; freight and rapid passenger rail systems. While reinventing our transportation financing system is beyond the scope of the attached report, it is very important to recognize that many of our transportation problems, whether due to a of lack of funding for adequate road maintenance; an inability to expand or develop new highway systems; or to provide rapid rail passenger transport, are all tied to a dysfunctional financing support system for this infrastructure component that is essential for economic growth and vitality. A solution to this problem must be the goal of every level of government and will require an unparalleled level of cooperation between governments in the future.

The cost to improve those roads that are rated Failed, Poor or Fair in the aggregate within the unincorporated area of Pima County requires a future investment of $268 million. This is a considerable investment and can only be made over a period of time.

Recommendations

There is no single recommendation that will significantly resolve our existing highway maintenance investment dilemma. We need to focus on the problem using multiple strategies and continue to stress the need for long-term, stable and consistent funding for transportation. This is not a problem unique to Pima County; it is a problem for every local government within our region. Some local government transportation problems are more acute than others and vary directly in proportion to the age of their transportation infrastructure.

The recommendations below, which are discussed more fully in the attached report, are intended to attempt to manage the problem, not solve it. Only comprehensive transportation funding reform will solve the problem.

- Continue the $5 million annual allocation from the General Fund to the Department of Transportation for road maintenance.
- Continue to request that the State Legislature partially or fully return HURF revenues swept since 2002.
- Ask the Arizona Legislature to pass legislation to maintain the one-cent per gallon tax previously earmarked for leaking underground fuel tank remediation and provide the annual revenue from this tax to the state, cities, towns and counties for pavement improvement programs.
- Request that the Arizona Legislature increase the state gas tax by 10 cents to coincide with the 29.7-cents per gallon average gas tax of surrounding states.
- Consider in any new funding initiative, such as renewal of the Regional Transportation Authority tax, a significant allocation of new revenues toward pavement preservation and repair.
- Consider any of the funding options provided to the Board in my April 10, 2012 transportation report.

CHH/mjk

Attachment

Board of Supervisors Memorandum

May 7, 2013

Transportation Funding Report

Table of Contents

I. County Transportation Funding Equity

In Arizona, transportation systems, primarily highways and their construction, operation and maintenance are funded through state-shared revenues known as Highway User Revenue Funds (HURF). HURF are a combination of transportation-related taxes, the largest single component being the gasoline tax, which is currently 19 cents per gallon (including a one-cent tax for environmental remediation of underground storage tanks); and it has not increased since 1991. By comparison, the average tax of surrounding states is 29.7 cents per gallon.

During this 22-year period when gas taxes have not been increased, the Consumer Price Index has increased from 136 to 232, or 71 percent. More importantly, the index that actually reflects transportation-related costs, the Construction Cost Index, increased from 4,835 to 9,453, or 96 percent. Hence, the same dollar of HURF in 1991 can now only purchase 51 cents worth of highway improvements.

HURF are divided between the state, counties, cities and towns. The basic formula is that the state receives approximately 50 percent of HURF; cities and town 30 percent; and counties 20 percent. Of the counties' 20 percent, it has historically been distributed in accordance with the origin of fuel sales, which means each county received their share of HURF in proportion to their share of fuel sales as compared to total statewide fuel sales. This formula for distribution ignored transportation needs and demands and for years heavily weighted distribution of county funds to Maricopa County.

Pima County has always had the largest unincorporated population and, hence, the highest number of highway miles to construct, operate and maintain. Pima County's unincorporated population far outweighs any other county in the State of Arizona, including Maricopa County. Pima County has argued for years that HURF distribution is inequitable to Pima County. Pima County successfully argued in the State Legislature and enacted legislation creating HURF equity among counties by introducing population as a component of the distribution formula. Today, HURF are distributed among the counties based 50 percent on fuel sales and 50 percent on unincorporated population. Table 1 below shows Pima County's total HURF distribution four years before HURF equity legislation in 1997 and four years after. Obviously, HURF equity had a significant impact on the revenues due Pima County to construct, operate and maintain our highways in the unincorporated area.

Table 1 – Pima County HURF Revenue Four Years Before and After 1997 Legislation.

Fiscal Year	HURF/Vehicle License Tax (VLT) Revenues*
1994	$23,859,978
1995	24,208,243
1996	25,764,022
1997	25,611,615
1998	33,445,602
1999	39,535,440
2000	47,699,353
2001	48,317,052

**Data available only as combined HURF and VLT revenues.*

II. Decision to Utilize Revenue Bonds for Transportation in Pima County

Given the historic inequitable distribution of HURF to Pima County, the County developed a very significant backlog in transportation capacity improvements, such as widening existing two-lane roads to multiple-lane highways. This backlog, coupled with the increased flow of HURF from equity legislation, led to the County's decision to bond for highway improvements as a method of catching up with past highway capacity deficiencies.

The one miscalculation in this decision was due to the fact that revenue bonding legislation for counties had not been updated since originally conceived and had been modeled after revenue bonding for cities and towns. In this particular case, even though cities and towns have their own HURF distribution from the state, the statutes allowing for revenue bond elections allowed everyone in Pima County (including cities and towns) to vote on a County revenue bond election that was primarily intended to provide capital improvements in the unincorporated area. This led the City of Tucson to demand a share of County HURF in order to support the County's election. On September 5, 1997, the City, through the Mayor at a press conference, indicated that if the County did not provide sufficient revenues to the City, the City would be unable to support the election.

III. Court Action Necessary to Spend County HURF within Cities and Towns

Even though the statutes allowed cities and town residents to vote in a County HURF bond election, it was unclear and likely illegal for the County to spend County HURF on city streets and highways. In order to do so, the County requested a legal determination through the Arizona Court of Appeals that did provide certainty regarding a process and mechanism the County would need to utilize to ensure the use of County HURF inside cities and towns was legal. This involved the establishment and abandonment process set forth in the statutes that allows the County to establish and maintain one or more highways within or through a city or town. The Court of Appeals Decision is included herein as Attachment A.

IV. Voter Approved 1997 County HURF Bond Program

In November 1997, the voters approved the County's ability to issue County HURF bonds to complete a capital program that distributed the aggregate of $350 million of revenue bonds among 57 projects. The Board of Supervisors passed and adopted the original Bond Implementation Plan (BIP, Attachment B) for the program as Ordinance No. 1997-80. The BIP envisioned building a large number of highway capacity improvements throughout the region, including a number of projects within the City of Tucson. The BIP also specified the approximate timeframe for implementing each project and defined the original proposed scope of each project through the BIP. The BIP has since been amended a number of times to reflect contemporary reality regarding project implementation, decreased flow of HURF and other factors not anticipated at the time of the BIP.

V. Unanticipated Decline in the HURF

Table 2 below shows the 16-year aggregate HURF total fund receipt since 1997. As can be seen, the trend line is positive through Fiscal Year (FY) 2007/08. Nothing in the forecast of future HURF would have predicted the present decline in HURF caused by a number of factors.

Table 2 – Unanticipated Decline in HURF Revenue.

Fiscal Year	HURF Revenue	HURF/VLT Revenue
1997		$25,611,615
1998		33,445,603
1999		39,535,440
2000		47,699,354
2001		48,317,053
2002		47,074,605
2003		48,071,873
2004	$38,425,059	51,334,009
2005	41,755,890	53,878,131
2006	43,291,930	56,936,526
2007	44,606,855	58,637,775
2008	44,060,131	57,847,328
2009	41,209,550	53,906,177
2010	38,739,414	50,535,191
2011	38,973,544	50,459,963
2012	33,664,646	44,889,756

**1997 through 2003 data available only as combined HURF and VLT revenues.*

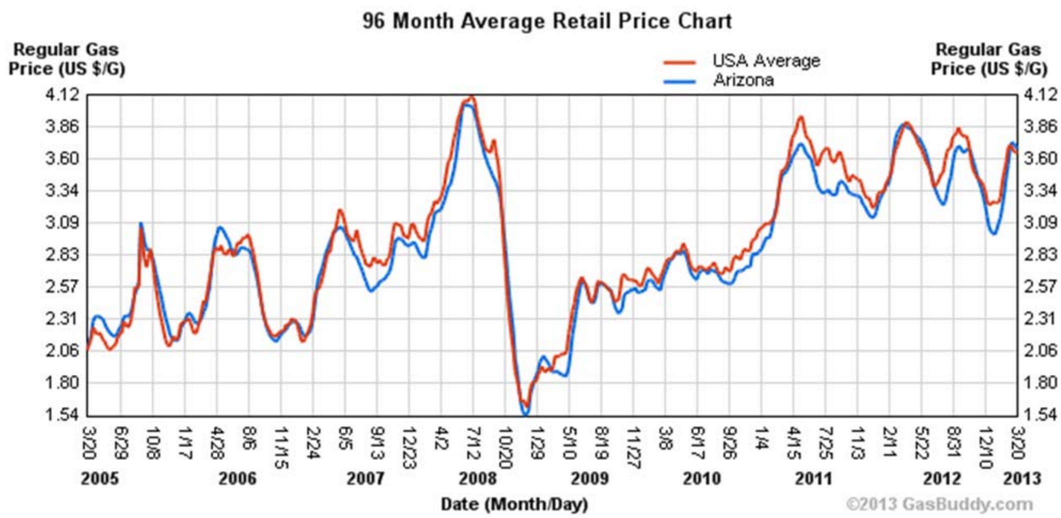
As can be seen, HURF revenues for the Department of Transportation for road repair and maintenance are now lower than in the Year 2000 – 13 years ago.

Revenue bonds are unique in that they can only be issued based on the strength of future revenues. The decline of HURF growth and even fund losses associated with legislative sweeps has made the issuance of future HURF very problematic.

The significant decline in HURF from FY 2008 through 2012 as indicated in Table 2 above is due to a variety of factors. First, the decline of the national economy in the current Great Recession has stalled economic activity, such as the use of transportation systems and the purchase of fuel (generation of gasoline tax), the primary source of revenue for the HURF.

Second, the very rapid rise in the price of fuel over time has also tempered the purchase and use of gasoline. Over the eight-year period from 2005 to today, the per-gallon price of fuel has nearly doubled (see Figure 1 below).

Figure 1



Third, in response to the rapid rise in fuel cost, vehicle fleet efficiency has increased significantly over the last 10 years. The average new light vehicle fleet fuel efficiency over this period has increased from 19.84 miles per gallon to 23.64 miles per gallon, an increase of 20 percent. This means that 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.

Most of the previous factors are due to free market economic conditions and could not have been anticipated or controlled. One of the most important factors in the decline of County HURF revenues in the past few years has been the legislative sweeps of funding where the State of Arizona, to balance their budget, diverted funds from HURF to pay for expenses that normally would have been paid through the State's General Fund. These legislative sweeps have been devastating to local governments' ability to adequately maintain their streets and highways. In Pima County, these legislative sweeps have resulted in an aggregate loss of $37.9 million for highway maintenance and repair.

Table 3 below shows the amounts of these legislative sweeps each year for the past 12 years.

Table 3. Legislative Sweeps, 12-year History.

Fiscal Year	Amount Swept
2002	$ 616,289
2003	1,114,001
2004	1,583,290
2005	2,012,825
2006	4,663,683
2007	3,882,919
2008	3,358,184
2009	2,900,363
2010	3,488,483
2011	2,596,771
2012	7,983,212
2013*	3,734,865
Total	**$37,934,884**

**Projected*

In summary, our ability to adequately and timely implement the 1997 HURF bond program, as well as adequately maintain our streets and highways, has been adversely impacted by economic conditions at the national, state and local levels. Rapidly rising fuel prices responding to market conditions, increased vehicle fleet efficiency resulting in fewer gallons of gasoline purchased for taxation, and legislative sweeps at the state level to balance the state budget have all combined to significantly impact the implementation of the 1997 County bond program for transportation and adversely impacted our highway maintenance program.

Transportation funding challenges are not unique to our region. The Maricopa Association of Governments' (MAG) March 29, 2013 Regional Transportation Plan Update cites the same factors adversely impacting revenue that are discussed in this report and also notes the increased conversion to alternative fuel sources such as electricity and compressed natural gas. The MAG report indicates other states face similar funding challenges and are implementing new strategies to increase funding, including:

- Washoe County, Nevada indexes federal, state and local gas taxes to keep revenue in the county;
- In Virginia, a bill awaits the Governor's signature that would, among other actions, replace the cents-per-gallon gas tax with a percentage tax;

- Wyoming has increased its gas tax from 14 to 24 cents per gallon effective July 1, 2013, and localities will receive one third of the revenue;
- Maryland reduced its per-gallon tax but now indexes it to inflation;
- New Hampshire has legislation pending that would raise the gas tax and use casino revenues to fund roads and bridges; and
- Oregon has legislation pending that would require per-mile fees for high-efficiency vehicles after 2015.

VI. Status of the 1997 HURF Bond Program

Despite the challenges of inadequate revenues to support the HURF bond program, there has been significant and substantial progress made in implementing the program. Attachment C contains graphic representation of the status of the various 1997 HURF bond projects. Also shown are 92 separate DOT-57 safety projects. A list of projects improved or planned for improvement under DOT-41, which is a category created previously by a reallocation by the Board of Supervisors, is also included in Attachment C.

In total, 82 percent of projects listed have been completed or are under construction, excluding two programs. The two programs, DOT-41 Neighborhood Transportation Improvements and DOT-57 Safety Improvements, have 91 projects completed or under construction. This represents almost $250 million of HURF revenue bonds expended to date. In essence, the 1997 bond program is nearly complete.

Expenditures of these bond programs in many cases have been matched by other revenues, either by transportation impact fees of the County or Regional Transportation Authority (RTA) funding. To date, the expenditure of $246 million in revenue bonds has attracted or been matched by an equal expenditure of other funds. It is forecasted that when complete, the $350 million in revenue bonds will have attracted or been matched by an estimated $561 million in other funds.

While most of the program has been completed or is currently under construction, a number of projects remain to be implemented. Six projects are under development and five others are shown as future projects. Four of the five projects under development are now RTA projects within the City of Tucson and require County allocation of bond funds to the City. Some of the City of Tucson projects are presently being contested, i.e., widening of Broadway Boulevard. Others are being constructed in phases and substantially supplemented with RTA funding, such as Houghton Road, Grant Road and 22nd Street. The County will continue to meet these obligations, while at the same time work to complete the essential components of the original program.

The two remaining County projects under development are DOT-50 and DOT-53. DOT-53 involves the improvement of the Kinney Road/Ajo Highway intersection. Starting in FY 2013/14, the Arizona Department of Transportation (ADOT) will be improving Ajo Highway, including the intersection. It is proposed that this bond project be modified through the bond ordinance amendment process to modify the scope so that County bond funds can be provided to ADOT for the rebuilding of the intersection. DOT-53, the Old Nogales Highway project in the area of the Summit Neighborhood, is under development. The County is proposing to relocate this intersection approximately 1/8 mile to the south to allow for the construction of perpendicular approaches to the intersection. The new intersection will be named Nogales Highway/Old Vail Connection. The project will require a new railroad crossing to be constructed by the County. Construction is scheduled to begin in FY 2014/15.

Five other projects remain to be completed and are shown on the attached maps as future projects, even though portions of them may have already been improved. These are portions of Cortaro Road, Thornydale Road, Orange Grove Road, Kolb Road, and Mainsail Boulevard/Twin Lakes Drive in Catalina.

A portion of Cortaro Road (DOT-18) has been improved through the County's allocation of bond funds to the Town of Marana. However, a segment of Cortaro Road from Camino de Oeste to Thornydale Road remains to be completed. Due to limited bond funding, a bond ordinance amendment is being proposed that would acknowledge that only the design of this segment can be completed with bond funding and that additional non-bond funds would be needed for construction.

A significant component of Thornydale Road has already been improved from Orange Grove Road to Cortaro Farms Road. The segment from Cortaro Farms Road to Linda Vista Boulevard (DOT-23) remains to be completed. This project was original stalled due to the endangered species listing of the cactus ferruginous pygmy-owl. This species has since been delisted by the US Fish and Wildlife Service, and the project should resume. However, it appears there is not enough bond funding available to complete design and construction. It may be necessary in the future to consider amending the bond ordinance to acknowledge this constraint.

Orange Grove Road is being improved in segments. The most recent segment improvement (DOT-44b) was recently bid, and an award of contract is anticipated to be before the Board of Supervisors on April 16, 2013, with construction to start this summer. This will improve and widen Orange Grove Road from Camino de la Tierra Road to La Cholla Boulevard. The segment of Orange Grove Road from La Canada to Oracle is scheduled for construction soon. These improvements include left turn lanes and bike lanes to be funded under the DOT-57 Safety program.

Kolb Road from Sabino Canyon Road to Sunrise Drive (DOT-32) remains to be completed and continues to be delayed due to reduced HURF allocations.

Similarly, DOT-24, Mainsail Boulevard and Twin Lakes Drive in the vicinity of Twenty-Seven Wash in Catalina, remains to be completed and continues to be delayed due to reduced HURF allocations. An assessment of the needs in this area found that traffic demands are lower than anticipated and would likely not occur at the levels expected over the next 20 years. The recommendation was to perform as-needed, site-specific improvements for drainage and safety issues. Sometime in the future it may be prudent to amend the scope of this project in the bond ordinance.

VII. Possible Future HURF Bond Programs and Need for National Policy Attention to Finance Transportation Improvements

Given the statutory imbalance regarding who is permitted to vote for HURF programs and the decline of revenue source for transportation purposes, it is highly likely there will not be future HURF revenue bond programs. The future of financing the construction, operation and maintenance of transportation systems needs substantial review at the national, state and local levels.

The November 13, 2012 Economic Development Action Plan approved by the Board of Supervisors contained a section on significant and important future issues that need to be resolved. One item was the long-term future of transportation funding. The section in the Economic Development Action Plan that covered this issue applies today and is restated below.

> ***A. Developing New Investment Strategies for Transportation Systems***
>
> *A vibrant economy and real growth in economic activity are the result of a variety of factors related to available capital, innovation, financial systems and supporting infrastructure.*
>
> *One of the essential components of infrastructure support systems is now threatened by disinvestment. In a September 17, 2012 New York Times article, an in-depth analysis of transportation funding indicated traditional methods of financing transportation infrastructure that have been in place for 60 years or longer are no longer capable of producing the revenues to support these systems, let alone expand or adequately maintain them.*
>
> *New transportation financing strategies must be developed for surface transportation, including highways; air transportation; transit systems; freight and rapid passenger rail systems. While reinventing our transportation financing system is beyond the scope of this economic development report, it is very*

important to recognize that many of our transportation problems; whether due to a of lack of funding for adequate road maintenance, inability to expand or develop new highway systems, or to provide rapid rail passenger transport; are all tied to a dysfunctional financing support system for this infrastructure component that is essential for economic growth and vitality.

A solution to this problem must be the goal of every level of governmental jurisdiction and will require an unparalleled level of cooperation between governments in the future.

Recently, the American Society of Civil Engineers (ASCE) released a report card rating America's infrastructure in 2013. This report indicates significant poor grades for most of America's infrastructure, including roads. Roads received an overall "D rating;" generally inadequate and requiring a significant investment.

Fifty-two percent of Arizona roads were rated in poor to mediocre condition, and driving on these poor roads costs Arizona motorists almost $887 million per year in vehicle repair and operating costs, or approximately $205 per motorist. In Pima County, this would equate to $143 million based on the number of licensed motorists. The report also noted that Arizona's gas tax, one of the lowest in the nation at 19 cents per gallon, has not increased in 22 years. Table 4 below charts the history of Arizona's gas tax increases since its inception in 1921.

Table 4 – Arizona Motor Fuel/Gas Tax History.

Year	Gas Tax Rate
1921	$0.01
1923	0.03
1927	0.04
1931	0.05
1963	0.06
1965	0.07
1974	0.08
1982	0.10
1983	0.12
1984	0.13
1986	0.16
1988	0.17
1991	0.18

Source: ADOT

The additional one-cent tax not reflected above funds the Arizona Department of Environmental Quality's Underground Storage Tank (UST) Assurance Account. This account, also known as the State Assurance Fund (SAF), was established in 1990 to clean up leaking underground fuel storage tanks. However, since 2004, the Arizona Legislature has passed legislation that swept much of the UST revenue to help balance the state budget. The SAF and the accompanying one-cent per gallon excise tax will sunset on December 31, 2013.

The ASCE 2013 report card also indicates current investment trends are doing little to improve roadway conditions and may result in a decrease of conditions and performance. "With each passing year, the economic cost of underfunding maintenance and repair produces a mounting burden on our economy and increases costs to make improvements."

New transportation financing strategies must be developed for surface transportation, including highways; air transportation; transit systems; freight and rapid passenger rail systems. While reinventing our transportation financing system is beyond the scope of this report, it is very important to recognize that many of our transportation problems, whether due to a of lack of funding for adequate road maintenance, an inability to expand or develop new highway systems; or to provide rapid rail passenger transport, are all tied to a dysfunctional financing support system for this infrastructure component that is essential for economic growth and vitality. A solution to this problem must be the goal of every level of government and will require an unparalleled level of cooperation between governments in the future.

VIII. Debt Repayment Structure of the 1997 HURF Program

Of the $350 million bonds authorized in 1997, $260.6 million have been sold and issued. $122.5 million have been repaid, and the current repayment structure is shown in Attachment D. Future bond sales must be carefully structured, given the current weak status of the HURF flow. The maximum debt period of HURF-issued bonds is 15 years, and the first $90 million of authorization was limited to a 10-year repayment structure; hence, there will be a time in the future when the program will be completed, bonds will be repaid and the full flow of HURF funds to the County can be used to construct, operate and maintain only those highways in the unincorporated area.

IX. Development Impact Fees and their Use in Transportation System Investment

The County adopted transportation impact fees (TIFs) in 1997. These fees originally were adopted at $1,550 per single family residence. These fees have steadily risen over the years to $5,199 per single family residence on average. Overall, TIFs have raised $109,463,840 through FY 2011/12 for transportation investments in the unincorporated area of Pima County. State law prohibits the use of TIFs on any highway improvements other than capacity improvements, and the roadway must be located in the unincorporated area of Pima County. TIFs have been used productively to augment transportation capacity improvements throughout Pima County. In total, $71,150,070 million have been spent through FY 2011/12. The methodology for levying and collecting TIFs is highly restricted by state legislation and requires the fees to be deposited in accounts identified for very specific geographic benefits areas in the unincorporated area of Pima County and then allocated only to projects that improve capacity and are approved by the Board of Supervisors. To date, Table 5 below shows the various benefit areas identified in Pima County and the fund balances of TIFs collected for specific capacity improvements in these geographically identified benefit areas.

Table 5 – TIF Collections and Balances by Benefit Area.

Benefit Area	**Collections through FY12 (including interest earned)**	**Expenditures through FY12**	**Balance**
Altar Valley	$ 713,155	—	$ 713,155
Avra Valley	12,724,945	$776,132	11,948,813
Catalina Foothills	11,200,337	9,805,642	1,394,695
Canyon del Oro	18,225,327	14,930,677	3,294,650
Mountain View	11,170,847	2,505,784	8,665,063
Rincon Valley	14,702,151	13,729,135	973,016
San Xavier	16,398,854	12,105,289	4,293,565
Santa Cruz	11,966,797	10,846,199	1,120,598
Silverbell — Tortolita	5,533,633	3,152,828	2,380,805
Southwest	973,662	—	973,662
Tucson Mountains	5,854,132	3,298,384	2,555,748
TOTALS	**$109,463,840**	**$71,150,070**	**$38,313,770**

By law, TIFs cannot be spent for highway maintenance purposes. Hence, TIF cannot be spent to repave, resurface or perform pavement preservation on any local street or highway, including arterials, within Pima County.

X. <u>Funding Obligations of Maintenance Deficiencies in the County Transportation System</u>

Not unlike most local governments that are now new communities, the transportation system in the unincorporated area of Pima County requires serious maintenance reinvestment. The reinvestment is needed for a variety of reasons and is acutely evident in the poor condition of many of our local street and highway pavement surfaces. The County has begun to reinvest in pavement resurfacing and rehabilitation through the allocation of $10 million from the County General Fund in FY 2012/13. These allocations will not be required to be repaid to the County General Fund. Further, a recurring allocation of $5 million annually from the General Fund will be made by the County beginning in FY 2013/14 and for the foreseeable future.

The County Transportation Department has developed a conditions assessment for all of the paved roadways within each supervisorial district that are under the jurisdiction of the County. These roadway conditions are shown for each district in Table 6 below.

Table 6: Paved Roadways Condition Assessment by Supervisorial District.

District	Condition	Miles	Percentage
1	Failed	84	15.0
	Poor	316	56.5
	Fair	57	10.3
	Good	58	10.3
	Very Good	44	7.9
	Total	**558**	**100.0**
2	Failed	21	18.6
	Poor	37	32.3
	Fair	17	14.9
	Good	21	18.1
	Very Good	18	16.1
	Total	**115**	**100.0**
3	Failed	116	21.5
	Poor	245	45.4
	Fair	53	9.8
	Good	52	9.6
	Very Good	74	13.7
	Total	**538**	**100.0**

4	Failed	66	13.0
	Poor	231	45.6
	Fair	70	13.8
	Good	61	12.1
	Very Good	79	15.6
	Total	**506**	**100.0**
5	Failed	21	16.5
	Poor	67	54.0
	Fair	14	11.0
	Good	17	13.4
	Very Good	6	5.2
	Total	**125**	**100.0**

A further refinement showing local roads and major roads by supervisorial district is shown in Table 7 below.

Table 7: Paved Roadways Condition Assessment by Supervisorial District.

Local Roads

District	Failed	%	Poor	%	Fair	%	Good	%	Very Good	%	Total	%
1	68	16	256	61	47	11	27	7	19	5	418	100
2	15	22	21	31	4	6	13	19	14	21	67	100
3	38	13	133	46	32	11	33	11	51	18	287	100
4	37	16	205	61	33	11	37	7	0	5	312	100
5	14	16	52	58	4	4	16	18	4	4	90	100
Totals	**172**	**16**	**667**	**58**	**120**	**4**	**126**	**18**	**88**	**4**	**1,174**	**100**

Major Roads

District	Failed	%	Poor	%	Fair	%	Good	%	Very Good	%	Total	%
1	20	13	63	43	12	8	31	21	21	15	147	100
2	9	18	16	32	13	26	9	18	3	6	50	100
3	83	31	121	46	23	9	19	7	18	7	264	100
4	40	18	47	43	30	8	27	21	46	15	190	100
5	6	19	19	59	3	9	1	3	3	9	32	100
Totals	**158**	**18**	**266**	**43**	**81**	**8**	**87**	**21**	**91**	**15**	**683**	**100**

Our Transportation Department has developed large wall maps for each supervisorial district that show the condition assessment for local and major roads.

The average cost per mile to repair deteriorated roadways varies widely based on their condition as shown below in Table 8. As expected, it is much less expensive to repair a roadway in good or fair condition than it is to repair a roadway that is in poor or failed condition.

Table 8: Pavement Preservation/Rehabilitation Types and Costs.

Treatment Types	Type of Road Condition	Cost Per Mile (26 feet wide)
Minor seal coat (fog)	Good	$ 15,250
Major seal coat (chip, slurry, micro)	Fair	53,375
Asphalt paving (overlay or mill/fill)	Poor/Failed	213,500

To determine a rough cost estimate of bringing all roadways up to a "good" standard, the average cost per mile is multiplied by the number of miles of roadways in fair, poor and failed condition. These costs are shown by supervisorial district in Table 9 below.

Table 9: Roadway Condition Improvement Cost Estimates.

District	Condition	Miles	%	Cost per mile	Cost per Type	Cost per District
1	Failed	84	15.0	$213,500	$17,870,367	
	Poor	316	56.5	213,500	67,372,740	
	Fair	57	10.3	53,375	3,067,909	
	Good	58	10.3			
	Very Good	44	7.9			
Totals for District 1		**558**	**100.0**			**$88,311,016**
2	Failed	21	18.6	$213,500	$4,558,322	
	Poor	37	32.3	213,500	7,895,985	
	Fair	17	14.9	53,375	909,885	
	Good	21	18.1			
	Very Good	18	16.1			
Totals for District 2		**115**	**100.0**			**$13,364,191**
3	Failed	116	21.5	213,500	$24,746,075	
	Poor	245	45.4	213,500	52,244,933	
	Fair	53	9.8	53,375	2,809,987	
	Good	52	9.6			
	Very Good	74	13.7			
Totals for District 3		**538**	**100.0**			**$79,800,994**

4	Failed	66	13.0	213,500	$14,055,030	
	Poor	231	45.6	213,500	49,242,542	
	Fair	70	13.8	53,375	3,715,180	
	Good	61	12.1			
	Very Good	79	15.6			
Totals for District 4		**506**	**100.0**			**$67,012,752**
5	Failed	21	16.5	213,500	$ 4,392,330	
	Poor	67	54.0	213,500	14,384,902	
	Fair	14	11.0	53,375	733,383	
	Good	17	13.4			
	Very Good	6	5.2			
Totals for District 5		**125**	**100.0**			**$19,510,615**
TOTAL COST						**$267,999,569**

The cost to improve those roads that are rated Failed, Poor or Fair in the aggregate within the unincorporated area requires a future investment of $268 million. This is a considerable investment and can only be made over a period of time. Recent action by the Board of Supervisors to invest approximately $20 million in highway pavement preservation and repair has taken care of less than 10 percent of the problem. As I discussed earlier in this report, highway funding for the last 20 years or more has not kept pace with demand or inflation. Twenty-two years is too long a time period to effectively ignore transportation investment obligations.

XI. Recommendations

There is no single recommendation that will significantly resolve our existing highway maintenance investment dilemma. We need to focus on the problem using multiple strategies and continue to stress the need to reach long-term, stable and consistent funding for transportation. This is not a problem unique to Pima County; within our region it is a problem for every local government. Some local government transportation problems are more acute than others and vary directly in proportion to the age of their transportation infrastructure.

The following recommendations are intended to attempt to manage the problem, not solve it. Only comprehensive transportation funding reform will solve the problem.

1. Continue to allocate $5 million annually from the General Fund to the Department of Transportation for road maintenance.

2. Continue to request that the State Legislature partially or fully return to Pima County the $38 million in HURF revenues that have been swept since 2002.

3. Request that the Arizona Legislature pass legislation to maintain the one-cent per gallon excise tax previously earmarked for the USTAA and provide the estimated annual revenue of $29 million from this tax to the state, cities, towns and counties for pavement repair and maintenance. This program has existed since 1990, and regulatory and technological advances should diminish the magnitude of the underground storage tank problem. In addition, the concept that the polluter should pay, not the gas tax payer, means that gas taxes diverted to this program over the last 23 years should now be used to allow the state, cities and towns, as well as counties, to better maintain their highways for the public – the individuals who pay the tax.

4. Request that the Arizona Legislature increase the state gasoline tax by 10 cents to coincide with the 29.7-cents per gallon average gasoline tax of surrounding states. While gas tax increases are not likely to be popular, they are necessary. The state, cities and towns, as well as counties, cannot maintain, build or improve their transportation systems on thin air. The conservative state of Wyoming increased their gas tax by 10 cents effective July 2013. We should have the courage to do the same, as this will significantly improve economic opportunities within our region. As noted previously is this report, surrounding states have a total average state gas tax of 29.7 cents per gallon.

5. Consider in any new funding initiative such as renewal of the Regional Transportation Authority tax, a significant allocation of new revenues toward pavement preservation and repair in an amount not less than $500 million to be distributed in accordance with assessed value, population or a combination thereof among the various local governments maintaining and operating streets and highways in Pima County.

6. Consider any of the funding options I provided to the Board in my April 10, 2012 report (Attachment E).

Respectfully submitted,

C. Huckelberry

C.H. Huckelberry
County Administrator

CHH/mjk – April 10, 2013

Attachments

c: Martin Willett, Chief Deputy County Administrator
John Bernal, Deputy County Administrator for Public Works
Priscilla Cornelio, Transportation Director
Steve Christy, District 2 Member, Arizona State Transportation Board
Cherie Campbell, Interim Executive Director, Pima Association of Governments and Regional Transportation Authority
Ronald Shoopman, President, Southern Arizona Leadership Council
Michael Varney, President and CEO, Tucson Metro Chamber
Michael Racy, Racy Associates, Inc.