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# MEMORANDUM

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Date: November 29, 2018

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

A handwritten signature in black ink, appearing to read "C.H. Huckelberry", is written over the printed name of the County Administrator.

Re: **General Fund Vehicle License Tax Allocation to Transportation**

At the November 20, 2018 Board of Supervisors meeting, District 1 staff person, Lori Hunnicutt, distributed the attached material (Attachment 1). The material appears to be Supervisor Ally Miller's attempt to justify voter rejection of Proposition 463 and to demonstrate the County has plenty of funds to repair roads if we used all of the monies available for Transportation. The problem with this handout is that not all of the revenues described are directly available for transportation. Supervisor Miller's material is an attempt to promote a belief, concept, or idea that is untrue, which is to state or conclude Vehicle License Tax (VLT) general fund revenues are for transportation.

I have previously explained in detail the origin of the VLT in the Arizona Constitution and its distribution methodology based on legislative policy decisions. My February 1, 2017 memorandum is attached for your reference (Attachment 2).

VLT revenues allocated to the County's General Fund should not be allocated to transportation improvements; since such would distort the original purpose of the VLT distribution to the General Fund of cities, towns, counties and the State of Arizona. To be used for transportation, the Legislature would have to direct these funds to be used only for transportation purposes, which would mean that every city, town and county in the State would be required to allocate their VLT general fund revenues for transportation purposes.

The present statute distributes VLT to the general funds of local governments, which does not include transportation. A separate statute already allocates a portion of VLT to counties for transportation. In addition, statewide a significant portion of VLT is already allocated to the Highway User Revenue Fund (HURF). For fiscal year 2017/18, \$433 million was so allocated. Pima County shares in this portion of VLT through our HURF distribution.

All counties receive a total of \$242 million in VLT for their general funds, cities and towns receive \$242 million in VLT for their general funds. The table below identifies each county's VLT general fund allocation.

<b>Fiscal Year 2017/2018 Arizona Vehicle License Tax Counties General Fund Distributions</b>	
<b>County</b>	<b>Distribution</b>
Apache	\$ 674,938
Cochise	3,936,427
Coconino	3,992,928
Gila	1,874,064
Graham	994,773
Greenlee	392,700
La Paz	693,689
Maricopa	162,125,632
Mohave	7,983,793
Navajo	2,547,080
Pima	28,882,602
Pinal	11,823,897
Santa Cruz	1,778,828
Yavapai	9,268,299
Yuma	6,011,816
<b>TOTAL</b>	<b>\$ 242,981,466</b>

The County could voluntarily use VLT general funds for transportation, however, that would mean either cutting the general fund budget by \$29 million, or increasing the property tax by this amount. Raising the property tax as a substitute for the VLT general fund raises a serious tax equity issue since the County would be increasing taxes on everyone in the County and effectively using a previous general fund source to repair roads for only unincorporated residents. Reducing the general fund by \$29 million and using VLT general funds for transportation would still result in a basic tax inequity. Because of tax equity, I would not recommend this action.

CHH/anc

Attachments

# ATTACHMENT 1

# Pima County Roads And Revenue

In 2015, Pima County Administrator Chuck Huckelberry and a majority of the members of the Board of Supervisors asked voters to approve a bond package in order to primarily fund special interests' development projects. A small portion of the funding would be used to patch the County's failing roads. Voters soundly rejected the funding scheme.

BONDS 2015	PROP. 425 ROADS	PROP. 426 ECONOMIC DEV.	PROP. 427 TOURISM	PROP. 428 PARKS & REC.	PROP. 429 HEALTH & SAFETY	PROP. 430 NATURAL AREAS/HISTORIC	PROP. 431 FLOOD CONTROL
TOTAL	NO 54.02%	NO 61.57%	NO 66.85%	NO 59%	NO 59.43%	NO 62.27%	NO 53.94%
TALLY/%	YES 45.98%	YES 38.43%	YES 33.15%	YES 41.05%	YES 40.57%	YES 37.73%	YES 46.06%
	FAILED BY 8.04%	FAILED BY 23.14%	FAILED BY 33.7%	FAILED BY 16.95%	FAILED BY 18.86%	FAILED BY 24.54%	FAILED BY 7.88%

DISTRICT	SUPERVISOR	PROP. 425 ROADS YES	PROP. 426 ECONOMIC DEV. YES	PROP. 427 TOURISM YES	PROP. 428 PARKS & REC. YES	PROP. 429 HEALTH & SAFETY YES	PROP. 430 NATURAL AREAS/HISTORIC YES	PROP. 431 FLOOD CONTROL YES
1	ALLY MILLER	48.43%	48.49%	33.21%	40.91%	39.05%	38.13%	47.21%
2	RAMON VALADEZ	43.76%	40.05%	33.90%	41.70%	43.77%	38.09%	45.23%
3	SHARON BRONSON	44.11%	37.60%	32.13%	39.98%	40.32%	37.52%	45.19%
4	RAY CARROLL	41.70%	33.98%	28.48%	36.42%	35.20%	32.07%	41.98%
5	RICHARD ELIAS	53.92%	49.95%	43.56%	51.92%	53.30%	48.94%	54.12%

On November 6, 2018, residents rejected the latest bond measure brought forth by Pima County Administrator Chuck Huckelberry and a majority of the members of the Board of Supervisors; Richard Elias, Sharon Bronson, Steve Christy, and Ramon Valadez. The bond ballot measure failed by a large margin. Among the most common reasons expressed by taxpayers for their "no" vote was the fact that they did not trust County leadership to spend the money on roads rather than well-connected special interests' projects.

## 2018 GENERAL ELECTION PIMA COUNTY PROPOSITION 463

**NO 56.04% YES 43.96% FAILED BY 12.08%**

### Voters Were Right

The voters' message was clear –

- 1) voters do not trust the County with their money
- 2) voters do not have confidence that their money would be used for its intended purpose
- 3) voters believe that the County has adequate resources to fix the roads

### State of Arizona HURF / VLT FUNDS DISTRIBUTIONS

#### 7/01/18 -

	PIMA	MARANA	ORO VALLEY	SAHUARITA	SOUTH TUCSON	TUCSON	
Highway User Rev. Fund	\$20,420,857.39	\$1,477,269.55	\$1,462,647.97	\$967,054.71	\$185,719.88	\$17,663,351.10	\$42,176,900.10
Vehicle License Tax	\$17,728,870.42	\$791,666.60	\$783,853.67	\$518,215.75	\$99,701.47	\$9,467,579.06	\$29,389,886.97
<b>TOTAL</b>	<b>\$38,149,727.81</b>	<b>\$2,268,936.15</b>	<b>\$2,246,501.64</b>	<b>\$1,485,269.96</b>	<b>\$285,421.35</b>	<b>\$27,130,930.16</b>	<b>\$71,566,787.07</b>

#### 7/01/17 - 6/30/18

	PIMA	MARANA	ORO VALLEY	SAHUARITA	SOUTH TUCSON	TUCSON	
Highway User Rev. Fund	\$46,465,328.97	\$3,304,243.82	\$3,326,401.80	\$2,187,455.80	\$429,281.67	\$40,328,746.78	\$96,041,458.84
Vehicle License Tax	\$43,931,883.53	\$1,929,180.39	\$1,941,282.89	\$1,277,129.23	\$250,069.25	\$23,527,093.31	\$72,856,638.60
<b>TOTAL</b>	<b>\$90,397,212.50</b>	<b>\$5,233,424.21</b>	<b>\$5,267,684.69</b>	<b>\$3,464,585.03</b>	<b>\$679,350.92</b>	<b>\$63,855,840.09</b>	<b>\$168,898,097.44</b>

#### 7/01/16 - 6/30/17

	PIMA	MARANA	ORO VALLEY	SAHUARITA	SOUTH TUCSON	TUCSON	
Highway User Rev. Fund	\$45,171,071.78	\$3,075,470.78	\$3,241,022.66	\$2,111,850.44	\$424,110.39	\$39,548,209.31	\$93,571,735.36
Vehicle License Tax	\$42,033,566.09	\$1,767,981.07	\$1,864,315.13	\$1,214,199.41	\$244,454.71	\$22,751,271.60	\$69,875,788.01
<b>TOTAL</b>	<b>\$87,204,637.87</b>	<b>\$4,843,451.85</b>	<b>\$5,105,337.79</b>	<b>\$3,326,049.85</b>	<b>\$668,565.10</b>	<b>\$62,299,480.91</b>	<b>\$163,447,523.37</b>

#### 7/01/15 - 6/30/16

	PIMA	MARANA	ORO VALLEY	SAHUARITA	SOUTH TUCSON	TUCSON	
Highway User Rev. Fund	\$42,436,682.55	\$2,588,305.26	\$3,055,451.42	\$1,870,380.36	\$417,417.48	\$38,501,738.22	\$88,849,975.89
Vehicle License Tax	\$39,562,036.41	\$1,471,220.74	\$1,717,145.67	\$1,055,684.89	\$236,022.35	\$21,739,782.69	\$65,781,892.75
<b>TOTAL</b>	<b>\$81,998,718.96</b>	<b>\$4,059,526.60</b>	<b>\$4,772,597.09</b>	<b>\$2,926,065.25</b>	<b>\$653,439.83</b>	<b>\$60,241,520.91</b>	<b>\$154,631,868.64</b>

Source Arizona Treasurer: <https://aztreasury.gov/distribution-report/>

PROVIDED BY SUPERVISOR ALLY MILLER DISTRICT 1

# Supervisor Ally Miller, District 1

Pima County Board of Supervisors  
130 W Congress 11<sup>th</sup> Floor  
Tucson, AZ 85701

Phone: (520) 724-2738

Fax: (520) 724-8489

Email: [District1@pima.gov](mailto:District1@pima.gov)

Website: [www.allymillerdistrict1.com](http://www.allymillerdistrict1.com)

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# ATTACHMENT 2



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# MEMORANDUM

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Date: February 1, 2017

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Use of Highway User Revenue and Vehicle License Tax Funds**

Questions have previously been raised regarding the amount of funding available to the Department of Transportation (DOT) from State-shared revenues. The total amount of funding available has either been misinterpreted or misconstrued to inflate the amount of funds available to the Department.

During Board discussions of the Fiscal Year 2016/17 Tentative Budget, Supervisor Miller stated on her website, "In 2014/15, the County received \$78.1 million from the various distributions of HURF and VLT from the State." I clarified this misleading statement regarding the purposes for which VLT is distributed in my May 26, 2016 memorandum to the Board:

*"The implication is that the County had sufficient funds to maintain our roadways. What Supervisor Miller failed to state on her County website is the source of the \$78 million number. This number is the total distribution, not the total distribution available for transportation purposes. The transportation distribution for FY 2014/15 remains at \$52.4 million, which has been stated on numerous occasions. The other Vehicle License Tax (VLT) distribution is made specifically by the Arizona Constitution to the County General Fund and is not for transportation purposes. Supervisor Miller's statement is very misleading and is intended to draw the conclusion the County is capable of road repairs without bonds and/or an increase in gas taxes or other transportation-related revenues. Spending General Fund VLT on roads in the unincorporated area suffers the same tax inequity with City residents as when we spend General Fund property tax revenue for County road repairs."*

This issue arose again recently, partly in response to the County's inability to allocate significant new revenues to pavement rehabilitation and repair.

As you can see from the attached spreadsheet, the total amount of revenues available to the Department of Transportation (DOT) to build, operate and maintain the highway system in the unincorporated area of Pima County is \$60.3 million; not the \$78.1 million previously misreported or misstated.

The statement attempts to construe that the Vehicle License Tax (VLT) distribution to the County General Fund should be used for transportation. On the contrary, any use of any VLT for transportation is only a recent statutory change by the Arizona Legislature. The VLT was

first enacted by a Constitutional Amendment in 1940; and it was initially directed to the State General Fund and the general funds of the counties, cities and towns for general government purposes and to local school districts. In 1974, the Legislature changed the distribution to transfer county school funds to the State school fund and, in 1976, eliminated the State School Fund. That distribution was directed to the State General Fund. Hence, there is very clear statutory history and State law that allocates VLT to the State General Fund, as well as the general funds of counties, cities and towns.

The next largest use of County HURF (after the \$27 million in VLT for the General Fund) is \$19.2 million for debt service, which repays capital debt associated with major transportation roadway widening, two-thirds of which occurred in Supervisorial District 1.

In addition, based on the advent of the Regional Transportation Authority (RTA), the County transferred our public transit program to the RTA to operate public transit in the unincorporated area of the County. State statute sets this transfer, and it increases in accordance with the Consumer Price Index. The amount is currently \$6,249,415, regardless of whether transit service cost in the unincorporated area increases or decreases. Recently, the County was required to develop and construct a bus stop at Sabino Canyon and Cloud Roads as a condition of zoning approval based on transit service along Sabino Canyon. The City of Tucson and RTA recently eliminated this transit service; hence, the County is paying more for public transit services in the unincorporated area and receiving less service.

What is important in this programmatic expenditure breakdown is the amount spent on highway maintenance, whether for general road maintenance or maintenance of traffic signs and traffic signals. This totals over \$22 million, the largest single expenditure of the DOT.

We hope that in the future, State diversion of HURF would continue to decrease and, thereby, add to our ability to repair our roadways. Previously, when the Legislature reduced this diversion, the County was able to increase our investment in pavement maintenance and repair. Unfortunately, the Governor's budget this year actually proposes to divert more money from HURF into the State General Fund, which reverses any progress we have made in increasing funds for highway maintenance and pavement repair.

The revenue sources and amounts available to the DOT are solely controlled by the State, specifically the State Legislature. It continues to appear unlikely there will be any significant major increases in these revenue sources, which means we will continue to struggle with how to repair and maintain our local highways.

CHH/mjk  
Attachment

c: Carmine DeBonis, Jr., Interim Deputy County Administrator for Public Works  
Tom Burke, Deputy County Administrator for Administration  
Nanette Slusser, Assistant County Administrator for Public Works  
Priscilla Cornelio, Director, Transportation  
Keith Dommer, Director, Finance and Risk Management  
Robert Johnson, Budget Manager, Finance and Risk Management

**Pima County Response to Call to the  
Public  
Transportation HURF and VLT  
FY 2016/17 Adopted Budget (excludes Grants)**

**By Program**

<b>Fund Sources</b>	<b>Amount</b>	<b>Note</b>
HURF	45,250,000	1
VLT for Transportation Fund	13,200,000	
VLT for General Fund	27,000,000	2
Subtotal	85,450,000	
Removal of VLT for General Fund	(27,000,000)	
Other Transportation Revenue	1,897,896	
<b>Total Revenue</b>	<b>60,347,896</b>	
Operating Transfers-In		
Graffiti Abatement from General Fund	120,662	
Other from Other Fund	1,137	
<b>Total Operating Transfers-In</b>	<b>121,799</b>	
<b>Total Fund Sources</b>	<b>60,469,695</b>	
<b>Fund Uses</b>		
Operating Transfers-Out		
Debt	19,224,299	3
Capital Projects/Pavement Preservation	5,250,000	4
Other	38,809	
<b>Total Operating Transfers-Out</b>	<b>24,513,108</b>	
Operations Budget		
Payment to RTA for Public Transit	6,249,415	5
Transportation Engineering	377,631	
Administrative	163,505	
Transportation Systems	1,216,286	
Director's Office	4,183,227	6
County Overhead	2,984,667	
Public Works Admin. Overhead	661,473	
Insurance	1,289,863	
Field Engineering	1,860,279	
Maintenance Operations	15,601,941	7
Traffic Engineering Services	6,570,232	7
CIP Programming - Ops	234,866	
<b>Total Operations Budget</b>	<b>41,393,385</b>	
<b>Total Fund Uses</b>	<b>65,906,493</b>	
<b>Fund Surplus (Deficit)</b>	<b>(5,436,798)</b>	
<b>Beginning Fund Balance (Actual)</b>	<b>6,838,064</b>	
<b>Ending Fund Balance</b>	<b>1,401,266</b>	

## Notes

<sup>1</sup> The State of Arizona taxes motor fuels and imposes various fees related to the registration and operation of motor vehicles. Included are motor vehicle fuel taxes, use fuel taxes, vehicle license taxes, motor carrier fees, vehicle registration fees, driver licenses, and other miscellaneous vehicle operation fees. Depending on the category, all or a portion of these taxes and fees are distributed to the Highway User Revenue Fund (HURF), which was first established by the Legislature in 1974. Article IX, Section 14 of the Arizona Constitution requires HURF monies be expended only for purposes directly related to highways or streets, such as right of way acquisition, construction, reconstruction, maintenance, repair, roadside development, and payment of principal and interest on highway and street bonds. The Arizona Attorney General has advised that HURF monies may be used for any activity having a specific highway or street purpose, even if the activity is not specially enumerated in Article IX, Section 14. Each year, counties file financial information verifying HURF revenues received are used solely for authorized transportation purposes.

<sup>2</sup> The Vehicle License Tax (VLT) was enacted by voters at the General Election of November 5, 1940 as an amendment to Article IX, Section 11 of the Arizona Constitution. Previously known as the Auto Lieu Tax, it was a tax on the value of vehicle personal property, with the tax rate being the average of the combined state and local property tax rates for all taxing districts during the preceding year, not to exceed \$4.00 per \$100 of value. The tax was collected at the time of vehicle registration, with the Legislature directing distribution of the tax to the State General Fund and the general funds of the counties, cities and towns for general government purposes, and to local school districts. Only a small amount of taxes collected from motor carriers operating in interstate e-commerce was earmarked for highway maintenance and construction. Article IX, Section 11 was later amended to exempt mobile homes from VLT when the mobile home was subject to general property taxes. The Legislature changed the distribution in 1974 from County School Funds to the State School Fund, and in 1976 changed the distribution to the State General Fund for school finance assistance when the State School Fund was eliminated. In 1977, the Arizona Department of Transportation was authorized to take over responsibility for the collection of VLT from county assessors. In 1980, 12 percent of VLT collections was first directed to the HURF. The Legislature increased the distribution to HURF to its current 31.5 percent during a 1981 Special Session.

<sup>3</sup> Principal and interest payments on the issuance of up to \$350 million in HURF bonds authorized by the voters in 1997 for primarily arterial street and highway widening projects throughout the County, including specific roadways within the City of Tucson.

<sup>4</sup> This year, \$4.5 million of this fund was allocated to pavement repair and rehabilitation, confined primarily to arterial and collector streets and highways in the unincorporated area.

<sup>5</sup> This transfer is set by State statute and increases in accordance with the Consumer Price Index. It is now \$6,249,415, regardless of whether transit service increases or decreases in the unincorporated area.

<sup>6</sup> The \$4,183,227 in the Director's office is broken down into several different categories. \$1.19 million is for personnel costs. \$718,000 is Information Technology Department charges for radios, computers, server storage and software for the entire Department of Transportation (DOT). \$563,000 was budgeted for Repair and Maintenance (R and M) objects to cover supplies provided by the department for building and site repairs, including graffiti cleanup.

R and M Machinery and Equipment includes Fleet Services special billing charges, fire extinguisher services and copier meter readings for the Director's office. R and M Building Services includes janitorial, pest control and services for the cleanup of graffiti in the community. R and M Grounds and Landscaping is the final expense in the R and M objects category. Utilities account for approximately \$300,000 of the \$4.1 million budgeted. Leases and Rentals of \$219,000 are primarily for the Department's portion of the rental of the Public Works Building. \$147,000 is for typical operating expenses such as office supplies, software, small computer equipment, postage and freight, printing, security and motor pool. The remaining \$326,000 covers a regional planning contract with the Pima Association of Governments and the overhead portion of the Memorandum of Understanding with the Department of Environmental Quality, as well as lobbying, outside legal counsel and staff training.

<sup>7</sup> These two major divisions of DOT account for \$22 million of their annual expenditures. These divisions are primarily responsible for the maintenance and operation of the transportation system in the unincorporated area of Pima County.