MEMORANDUM

Date: September 21, 2017

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

From: C.H. Huckelberry
County Administrator

Re: **Cover Memorandum and Summary Report Related to Transportation Funding for the Sales Tax Advisory Committee Meeting on September 29, 2017**

As you can see in attached September 19, 2017 memorandum to the Sales Tax Advisory Committee, their scope is limited to determining whether road repair funding should be accelerated through the enactment of a half-cent sales tax. Such requires a unanimous vote of the Board of Supervisors. The Committee could also recommend all or a portion of the sales tax revenue be used to reduce County primary property taxes.

Using the present statutory maximum property tax levy for road repair, means total repair of the roadways in the unincorporated area will require at least 35 years. However, the property tax allocations in the City of Tucson from this levy, based on assessed value, will leave no more than half of the local roads in the City unrepaired after 35 years.

The purpose of the half-cent sales tax consideration is to accelerate road repairs. If enacted, the half-cent sales tax could reduce the repair time from 35 years to likely less than 10 years.

CHH/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Ana Olivares, Interim Director, Transportation Department

MEMORANDUM

Date: September 19, 2017

To: Chair and Members
Pima County Sales Tax Committee

From: C.H. Huckelberry
County Administrator

Re: **September 29, 2017 Sales Tax Advisory Committee Meeting Purpose and Scope**

I would like to thank you for agreeing to serve on the Sales Tax Advisory Committee (STAC). The STAC's work will be limited in time and scope.

During adoption of the Fiscal Year 2017/18 Budget, the Board of Supervisors adopted a .25 cent per $100 of assessed value property tax for road repair throughout Pima County, both in the unincorporated area of Pima County and within cities and towns. This action was the only option available to the Board to begin the long process of road repair in Pima County.

As you can perceive from the background materials, a property tax road repair option would have to be in place for at least 35 years to adequately repair the roads in unincorporated Pima County. This is an extremely long time; however, it is realistic given the property tax rate limitation imposed by State Statute on the County in raising property taxes for road repair purposes.

The Board also considered the option to accelerate the required road repair program by adoption a half-cent sales tax. Adoption of such would reduce the repair time for roads in the unincorporated area to approximately less than 10 years, assuming the proceeds of a sales tax are divided with cities and towns by population. However, the adoption of a half-cent sales tax requires a unanimous vote by the Board of Supervisors, pursuant to existing statute.

To determine the desire of the community for accelerated road repairs, the Board asked for the STAC to be formed. The STAC will hold seven meetings throughout the community, reporting the results of those meetings to the Board, and provide a recommendation to the Board on whether a sales tax should be adopted for road repair by unanimous vote.

During discussions regarding enactment of a sales tax for road repair purposes, the possibility of using a portion of the proceeds from the sales tax to reduce property taxes in Pima County was also discussed. The Board would like the STAC's thoughts and recommendations on reducing property taxes using a portion of the sales tax proceeds.

Therefore, your scope is limited to the following questions:

1. Should the Board of Supervisors, by unanimous vote, adopt a half-cent Countywide sales tax for the purpose of accelerating road repairs throughout the County, both in the unincorporated area of Pima County and in cities and towns?

2. Should the Board of Supervisors use any portion of the proceeds of a Countywide half-cent sales tax to reduce County primary property taxes? If so, what percentage of the sales tax should be used for this purpose?

3. Should the sales tax be permanent or temporary?

These public meetings held throughout the community will gauge the public's desires in answers to these questions. Upon receiving public input, the STAC will be requested to make a recommendation to the Board of Supervisors in regards to these three questions.

It is likely you will also hear there are many other options associated with road repair in Pima County. However, the options are outside the ability of the Board to employ as a tool for road repair and transportation investment. Pima County staff, primarily through my Executive Assistant Nicole Fyffe, has prepared the attached Whitepaper discussing these matters and other options in detail for your deliberations.

As the meetings progress, I expect you will request additional information or background materials. Staff will endeavor to provide those to you in a timely manner.

I look forward to seeing you at the STAC's first meeting on September 29, 2017 at the Oro Valley Council Chambers.

CHH/anc

Attachment

c: The Honorable Chairman and Members, Pima County Board of Supervisors
Nicole Fyffe, Executive Assistant to the County Administrator

Current State of Road Conditions and Road Repair Funding,
Including a Review of Other Funding Options

I. Overview

Pima County is responsible for building, operating and maintaining roads within unincorporated Pima County, with the exception of private roads and roads that pass through the County that are state and interstate highways. There are 1,866 miles of public paved roads within unincorporated Pima County. Of these, 632 are arterial and collector roads that carry most of the traffic, and 1,235 miles are local roads located mostly within neighborhoods and subdivisions. Over 60 percent of the total road miles are considered to be in poor or failed condition. Table 1 shows the cost to treat all of these roads to at least a fair condition is estimated at over $300 million, today. It is important to understand that this cost will only increase each year as more roads fall into disrepair. In addition, once these roads are improved to at least a fair condition, it is estimated that the annual cost to maintain those conditions will be $17 million a year.

Table 1
Cost to Treat Unincorporated Pima County Roads to at Least Fair Condition

Condition	Arterial	Collector	Local	Total	Treatment Type	Cost per Mile	Cost
Unrated	2	2	62	66			
Failed	8	109	212	329	Rehabilitation	$246,400	$81,065,600
Poor	90	201	582	873	Rehabilitation	$246,400	$215,107,200
Fair	16	28	119	163	Major Seal Coat	$70,400	$11,475,200
Good	47	60	102	208	Minor Seal Coat	$26,400	$5,491,200
Very Good	37	32	158	227	Nothing	$0	$0
	200	**432**	**1,235**	**1,866**			**$313,139,200**

In recent years, the Board of Supervisors has allocated minor amounts of funding to treat arterial and collector roads ($6 million budgeted for this Fiscal Year), but almost nothing has been spent to treat local roads due to inadequate resources. Note that this does not include basic road maintenance. The County's Department of Transportation spends approximately one quarter of its budget on maintenance activities, which include grading dirt roads, patching potholes, street sweeping, clearing weeds and trimming trees in the right of way, cleaning medians, repairing shoulders and sidewalks, and maintaining traffic signals and roadway markings.

As part of the County's budget for this Fiscal Year, the Board approved a new property tax dedicated to funding the repair of local roads. This was approved only after pursuing many other options, unsuccessfully, as outlined in this report. The new property tax is levied at a rate of 25 cents per $100 of taxable net assessed value, the maximum rate allowed by state statute, and is anticipated to be levied for five years. Over these five years, it is projected to raise about $100 million in total, and $19 million this Fiscal Year, to be spent repairing local roads throughout the County, including within cities and towns. The share for unincorporated Pima County this Fiscal Year is estimated to total almost $8 million. This $8 million, plus the $6 million allocated to arterial and collector roads, totals $14 million for this

Fiscal Year for unincorporated Pima County roads, which pales in comparison to the needs shown in Table 1.

The new Pima County Transportation Advisory Committee is tasked with recommending local roads to treat with the revenue from this new property tax. A white paper was prepared recently for this Committee also includes details on road conditions within the cities and towns (http://webcms.pima.gov/cms/One.aspx?portalId=169&pageId=355530). The City of Tucson is responsible for maintaining a similar number of road miles to Pima County. Over 70 percent of the City's roads are in failed or poor condition and that is after treating over 180 miles of roadways with $80 million of voter approved funding over the past four years. The City estimates it would cost at least $800 million to treat all of its roads to at least a fair condition. City voters approved a sales tax this year that is projected to raise $100 million before it sunsets five years from now. The roads in Marana, Oro Valley and Sahuarita are in much better condition, primarily because the roads are much newer and therefore less costly to maintain. Regionally, we are facing a price tag of over $1 billion to bring roads up to at least a fair condition, today. Existing road repair funding, including the County's road repair property tax and the City of Tucson's sales tax for road repair, will be woefully inadequate at addressing the backlog of road repair needs. But they are at least a start in the right direction.

II. Origins of the Pima County Sales Tax Community Input Plan

Several times in the past, the County Administrator has recommended the Board consider adopting a sales tax, but the recommendation failed to get the unanimous support of the Board required to approve a sales tax. During this year's budget hearings, the Board discussed the possibility of replacing this new road repair property tax with a half-cent sales tax, as well as using a portion of the sales tax to reduce the County's reliance on property taxes. The Board directed staff to solicit input from the community regarding a possible County sales tax for road repair and primary property tax reduction, with the results of this public input to be provided to the Board by March, 2018, in time for budget discussions. Under current state law, the Board cannot refer a sales tax to a public vote; the only way for the County to adopt a sales tax is by unanimous vote of the Board. In addition, the sales tax can by law only be for an amount that equates to a half-cent on most transactions.

Pima County is the only Arizona county that does not levy a sales tax. As a result, Pima County is forced to rely mainly on property taxes to fund general services. In fact, Pima County funds a larger percent of its general fund budget with property taxes than any other Arizona county and correspondingly, has the highest tax rate. Pima County's dependence on property taxes grew even greater this year when the Board approved adding the new road repair property tax.

Being considered a high property tax county has real consequences. One of the main arguments we heard leading up to the 2015 bond election was that the County already had the highest property tax rate in the State and therefore voters should not approve the sale of bonds for new and improved facilities that would be repaid with more property taxes. Furthermore, in 2015 the State tried to penalize Pima County because of our high property tax rates with a new requirement to pay Tucson Unified School District (TUSD) an amount that the State had previously paid for 35 years. Although the County ultimately prevailed against this State legislation in court, the image of being a high property tax county could continue to invite punitive actions by the State that cost the County and ultimately all taxpayers.

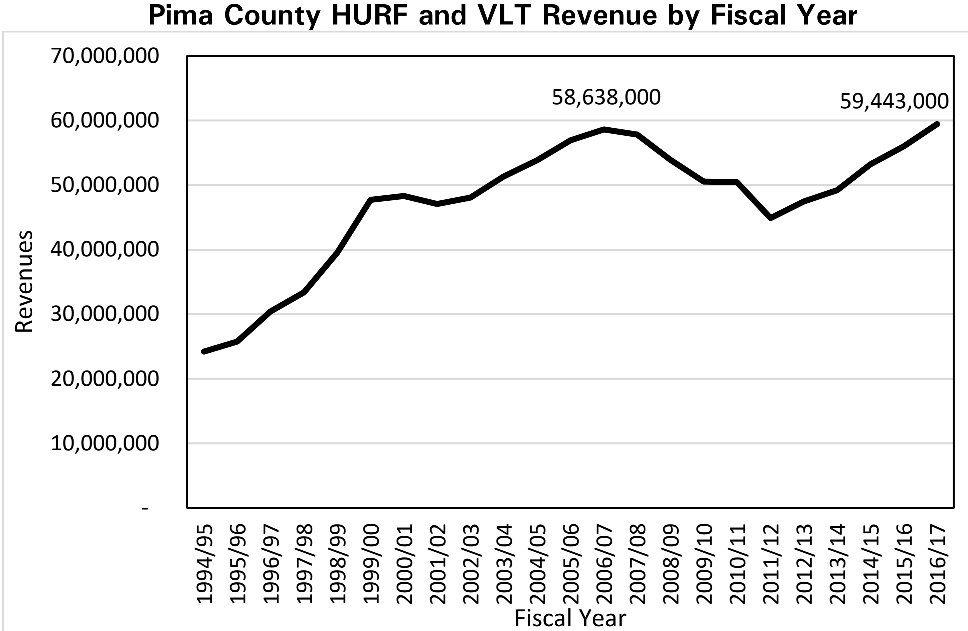
But before the Committee begins to discuss a County sales tax option, the Committee should be aware of other funding options the County has pursued to date, most of which have been unsuccessful entirely, or have failed to generate sufficient revenue to address the road repair crisis. The Committee could choose to make recommendations on these other options. The Committee could also recommend just continuing the County's new road repair property tax; and some of these options could be recommended in combination with others.

III. Other Road Repair Funding Options Besides County Sales Tax and Road Property Tax

1. HURF Revenues

In Arizona, the primary source of funding for the improvement of roads, as well as operations and maintenance, is the Highway User Revenue Fund (HURF), which is made up of a variety of state taxes and fees that the state distributes to cities, towns and counties. These taxes and fees include gas taxes, use fuel taxes, motor carrier taxes, vehicle license taxes (VLT), and vehicle registration and driver license fees. The largest single HURF revenue source is the state gas tax, which is currently 18 cents per gallon and has not been increased for 27 years. The lack of increase in the gas tax, while the cost of construction materials, wages and other costs associated with improving and maintaining a transportation system have increased significantly, has severely undercut the ability for transportation departments across the state to adequately fund these essential activities. More details on this are provided in a later section of this report. Figure 1 shows HURF and VLT distributions to Pima County from 1995 through 2017. Note that sometimes the term HURF revenues is also used to refer to a combination of HURF and Vehicle License Tax revenues.

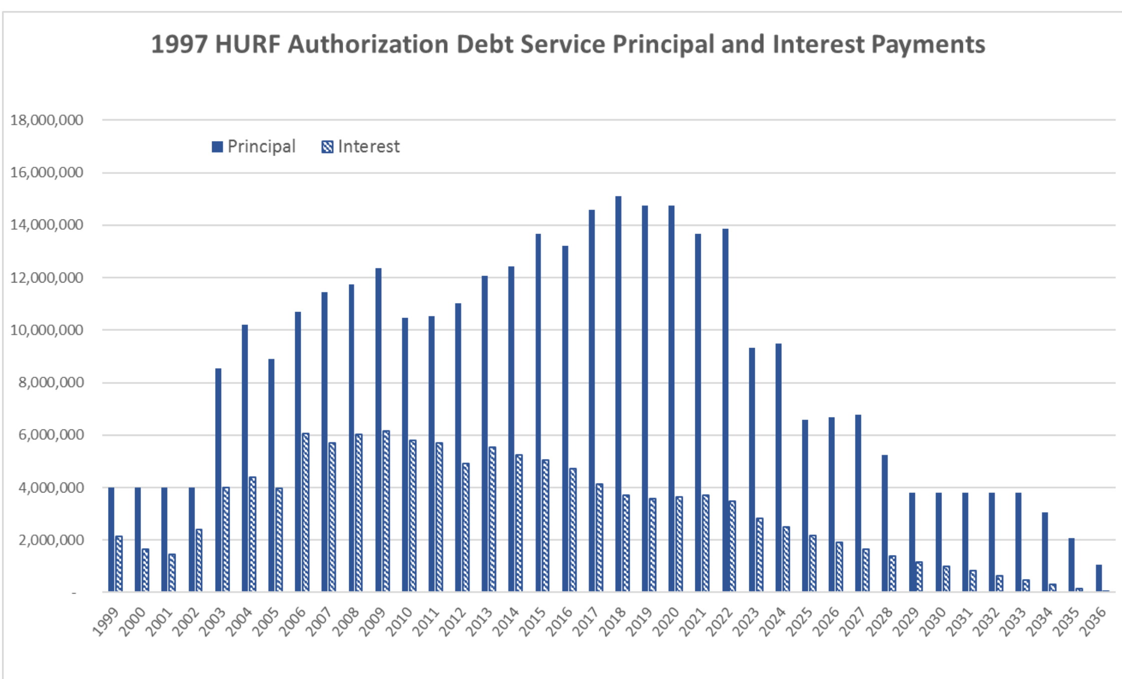
Figure 1
Pima County HURF and VLT Revenue by Fiscal Year



This graph shows an increase in the distribution to Pima County following a change in 1995 regarding how HURF revenues were distributed. The drop in revenues after 2007 is due primarily to three factors: (1) economic downturn that resulted in less driving and purchases of fuel, (2) improved vehicle fuel mileage resulting in vehicle that use less gas, and (3) diversions of HURF revenue by the State to balance their own budget. While these diversions still occur, the State in Fiscal Year 2014/15 did begin allocating additional revenues to local governments to make up somewhat for these diversions, which in 2016/17 resulted in about $3.5 million in additional funds to Pima County.

The majority of the Pima County Department of Transportation's budget is supported with HURF revenues. The single largest expense associated with Pima County's transportation system is repaying the debt associated with revenue bonds approved by voters in 1997. At that time, roads in fast growing suburban areas of Pima County were growing more and more congested and in need of expansion. The demand from the community was not in the area of road repair, but instead in expanding roads to address growing traffic demands. At about the same time, Pima County was successful in getting the legislature to add population as a component of the HURF distribution formula, resulting in increased revenues to Pima County. Although Pima County's share of HURF revenues are for unincorporated Pima County, a bond election requires a county-wide vote, and therefore the $350 million ballot measure included funding for roadways within cities and towns, as well as the unincorporated roadways under Pima County's responsibility. To date, the County has issued $276.6 million in HURF revenues bonds, which have resulted in 250 lane miles of roadway capacity improvements and over 90 safety improvement projects, over 60 percent of which was spent in District 1. Figure 2 shows the debt service payments on the bonds that have been issued and are anticipated to be issued.

Figure 2
Debt Service on County HURF Revenue Bonds Issued and Scheduled to be Issued



For Fiscal Year 2017/18, approximately 38 percent ($18.6 million) of the County's HURF revenues are allocated to pay down this debt. While the far majority of these bond projects have been completed for some time now, three major projects within the City of Tucson have been delayed for various reasons but are scheduled to move forward to construction over the next 3-5 years. The County is still scheduled to complete additional segments of three roadways, as well as additional roadway safety projects. The County has not yet sold the remaining bonds for these City and County projects, but is scheduled to do so as the cash is needed. One project has not been pursued as the demand to expand the roadway never materialized. The County also has a few projects in which segments of the roadways were completed, but other segments no longer warrant expansion. A determination will be made in the near future as to whether the remaining bond authorization for these unscheduled projects, totaling approximately $16 million, should not be sold.

Figure 2 assumes bonds will be sold for the remaining scheduled City and County projects, but does not include the sale of approximately $16 million of the remaining unscheduled bond authorization. If all or a portion of the remaining $16 million is scheduled for sale, then the debt service schedule shown in Figure 2 would be extended for additional years, or payments would be increased within the years shown. As currently forecasted in Figure 2, the County's debt service payments would see a sizeable decline starting in FY2022/23, almost $6 million less than this Fiscal Year. Ten years from now, debt service payments are estimated to be $12 million less than this Fiscal Year, and 15 years from now payments are estimated to be $15 million less than this Fiscal Year. As these payments decline, significantly more HURF revenues can be allocated to road repair and pavement preservation.

One option that could be considered is reallocating the $16 million of unscheduled 1997 HURF bonds for road repair. The ballot question approved by voters in 1997 was stated as follows:

> *"Shall Pima County be authorized to issue and sell street and highway user revenue bonds in an aggregate principal amount not exceeding $350,000,000 for the purpose of improving, constructing, reconstructing, acquiring rights of way for or maintaining county streets and highways, and to pay all expenses properly incidental thereto and to the issuance of such bonds, such bonds to be payable solely from revenues derived from taxes, fees, charges and other moneys collected by the State of Arizona and returned to the County for street and highway purposes pursuant to law and to be issued in one or more series, maturing not more than 20 years following the date of the issuance of each series, and bearing interest at a rate or rates not higher than 12% per annum?"*

The Board of Supervisors subsequently adopted a bond implementation plan ordinance that specified the uses of these HURF bonds. Bond implementation plan ordinances can, for substantial and justifiable reasons, be amended (and have been) through a public hearing process that requires approval by the Bond Advisory Committee at a publically noticed meeting and then approval of the Board after holding a public hearing that is publically noticed in the newspaper. While Pima County repays all bond debt in 15 years or less, these bonds could be issued with repayment schedules no longer than 10 years to better match the life of the road treatments. Pima County has never paid more than a 4.39 percent interest rate for HURF bonds, and our last sale in 2016 was at 1.44 percent. Low interest rates currently, plus the County's AAA bond rating and a short payoff term, should result in low borrowing costs. Consideration of this option would have to be weighed against the pay as you go approach that the County is currently using this Fiscal Year to fund road repair from HURF revenues, as described next.

The Department of Transportation is expected to spend $6 million this Fiscal Year on road repair for arterial and collector roadways in unincorporated Pima County, funded with HURF revenues. The Department has been asked to identify additional funds for future years for road repair out of their existing budget, through implementing a variety of efficiency measures. It is important to note that these HURF revenues would only be spent on roadways in the unincorporated area and only on arterial and collector roadways. In the long term, these HURF funds, combined with the HURF funds now dedicated to debt service on the bonds, will provide a more consistent source of revenues for road repair. However, that time is still far off and waiting that long will only result in more roads falling into poor and failed conditions, further increasing the road repair costs.

2. General Fund

Because of the dire need for road repair in unincorporated Pima County, the Board has, on occasion, and as a last resort, allocated General Fund revenues in amounts of $5 million to $10 million a year. Typically this has occurred when there were fund balances available to do so, and just for arterial and collector roads. But to consistently allocate funding to road repair from the General Fund would require cuts to the core services that rely on the General Fund. Many of these services are required of the County by the State, or are provided just in unincorporated areas of the County. Therefore, if a consistent amount were to be allocated from the general fund, it should be expended only to repair roads in unincorporated Pima County, where Pima County clearly has the responsibility.

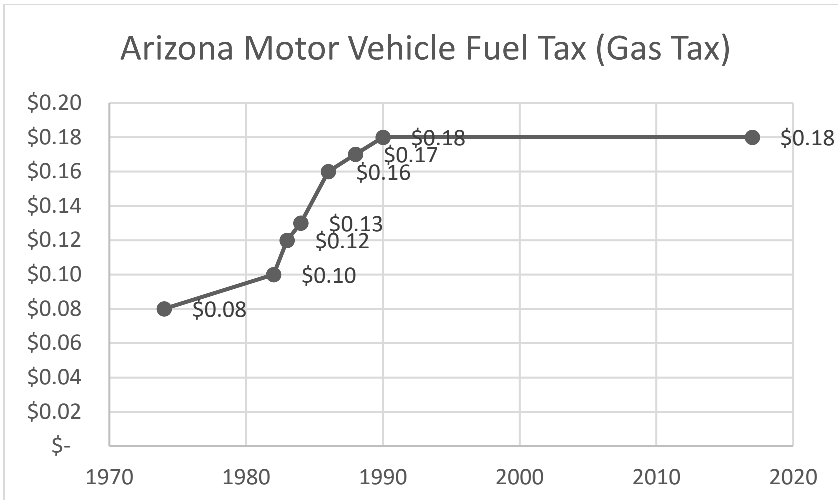
3. Ten-Cent Statewide Gas Tax Increase

For the last 10 years Pima County has included in its legislative agenda a proposal to increase the State gas tax. This gas tax is the largest revenue source for the state-shared HURF. HURF funds the far majority of Pima County's Transportation Department's expenditures for maintaining and improving the public roadway system in unincorporated Pima County.

The per gallon gas tax in Arizona is 18 cents and has not been increased since 1990, which was 27 years ago. In comparison, social security benefits are tied to the consumer price index (CPI) and automatically increase when the CPI increase. Since 1990, social security benefits have increased 67 percent. The purpose, as stated on the Social Security Administrations website, of tying the benefits to the CPI "is to ensure that the purchasing power of Social Security...benefits is not eroded by inflation." If gas tax increases had been tied to the CPI since 1990, the gas tax would now be 30 cents per gallon, and Pima County's Fiscal Year 2016/17 HURF revenue for unincorporated roads would have been $10.1 million greater than under the current 18 cent per gallon tax.

As you can see in the chart below, the Legislature had no difficulty raising the gas tax regularly between 1980 and 1990, but has not raised it once since then.

Figure 3

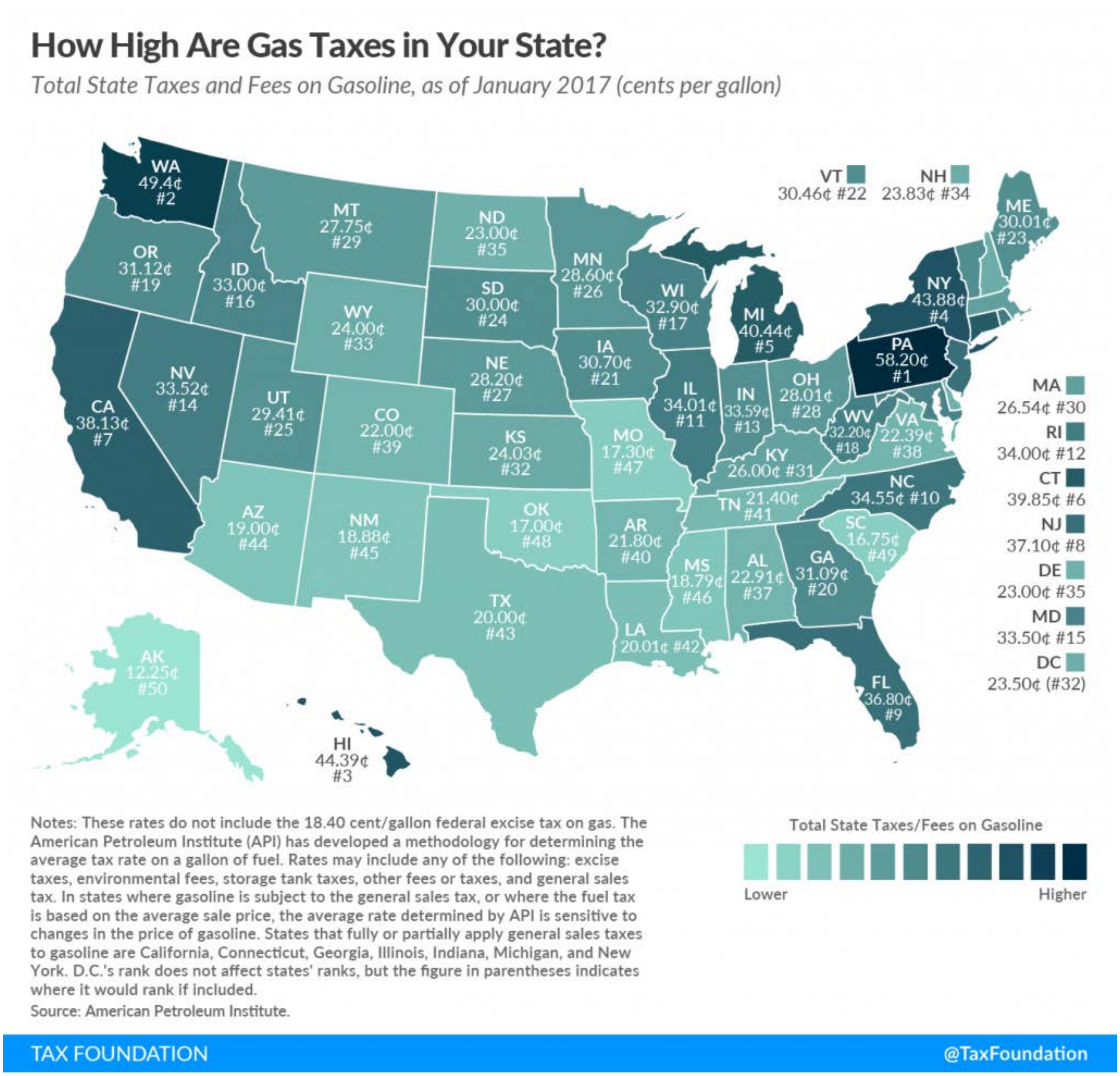


This past session, the Legislature initially considered various legislative options to increase the gas tax, but every effort failed. The County Administrator has again recommend this proposal be included in the County's legislative agenda for next session, but will also propose indexing the gas tax to the CPI. Based on total statewide gasoline tax revenue for Fiscal Year 2016/17, an initial 10 cent per gallon increase in the gas tax would result in approximately $18.7 million of additional HURF revenue for Pima County and its cities and towns, of which $8.4 million would be Pima County's unincorporated share, when the change in driving frequency associated with the higher cost of gasoline purchases is considered.

Arizona's gas tax is the 6th lowest in the U.S., according to the American Petroleum Institute and as shown in Figure 4 created by the Tax Foundation. Note that this ranking shows Arizona at 19 cents, which includes the one cent for environmental remediation of underground storage tanks that was added in 1990.

According to the American Road and Transportation Builders Association, 23 states increased gasoline taxes between 2013 and 2017, and 30 states increased gasoline related taxes 50 times between 1997 and 2017.

Figure 4



4. <u>Ten-Cent Local Gas Tax</u>

Efforts to garner legislative support for an optional local gas tax has also been ongoing for years. Similar to the State's gas tax, a local tax could be applied at the wholesale level, and at a per gallon rate. Unlike the State's gas tax, this option would give counties the choice of adopting this additional tax. Based on Fiscal Year 2016/17 gas gallons purchased in Pima County, a ten cent per gallon local gas tax would result in approximately $39 million in revenue for Pima County and its cities and towns, when adjusted for the change in driving frequency associated with the higher cost of fuel purchases. If the distribution were based on population, it would result in the following revenues for unincorporated Pima County and its cities and towns.

Table 2
Ten-Cent Local Gas Tax Distribution by Jurisdiction

Jurisdiction	July 1, 2016 Census Population	% Population	Revenue Allocation
Marana	43,474	4.3%	$1,677,000
Oro Valley	43,781	4.3%	$1,677,000
Sahuarita	28,794	2.8%	$1,092,000
South Tucson	5,645	0.6%	$234,000
Tucson	530,706	52.2%	$20,358,000
Unincorporated Pima County	363,806	35.8%	$13,962,000
Total Pima County	**1,016,206**	**100.0%**	**$39,000,000**

This past session, the Legislature considered allowing counties to impose a local gas tax, but ultimately it failed.

5. Sales Tax Based on the Price of Gasoline at the Pump

Currently sales taxes collected in Arizona do not apply to the sale of gasoline. During Fiscal Year 2016/17, 397.7 million gallons of gasoline were sold in Pima County. This represents nearly $875 million of taxable sales when gas prices average $2.20 per gallon during the year. If a 5-percent local option sales tax were enacted on gasoline, approximately $42.4 million of sales tax revenue would be available for road repair across Pima County, when adjusted for the change in driving frequency due to the higher cost of fuel purchases. If the distribution was based on population, it would result in the following revenues for unincorporated Pima County and its cities and towns:

Table 3
5-percent Local Gas Sales Tax Distribution by Jurisdiction

Jurisdiction	July 1, 2016 Census Population	% Population	Revenue Allocation
Marana	43,474	4.3%	$1,823,200
Oro Valley	43,781	4.3%	$1,823,200
Sahuarita	28,794	2.8%	$1,187,200
South Tucson	5,645	0.6%	$254,400
Tucson	530,706	52.2%	$22,132,800
Unincorporated Pima County	363,806	35.8%	$15,179,200
Total Pima County	**1,016,206**	**100.0%**	**$42,400,000**

The above is based on a 5-percent sales tax. But if existing sales tax levies by cities, towns RTA, and the state were to apply to the sale of gas, which they do not currently, the additional revenues are likely to be at least 20 percent more than the amounts shown in Table 3.

6. Modified/Variable Rate Sales Tax Based on the Wholesale Price of Gas (the Utah example)

In 2015, the Utah State Legislature was struggling with how to address a significant transportation funding shortfall and a flat gas tax of 24.5 cents per gallon that hadn't been increased for 18 years and continued to lose purchasing power due to inflation, alternative fuel vehicles, etc. Two competing bills were approved, one by the Senate and one by the House. The Senate approved a bill that would increase the existing gas tax. The House approved a bill that would replace the existing gas tax with a variable sales tax based on the average wholesale price of gasoline. The final compromise included an initial increase of the state's gas tax by 5 cents per gallon (to 29.5 cents per gallon), while later replacing this flat per gallon tax with a 12 percent sales tax on the wholesale price of fuel once the price of fuel reaches a particular price. Switching to a tax that varies based on the price of fuel can result in increased revenues when gas prices rise, but decreased revenues when the price of gas falls. Therefore, the legislation also included a base and ceiling, and the based is adjusted each year based on the consumer price index. In addition to this variable rate sales tax, the legislation also gave counties the authority to seek voter approval for a 25 cent sales tax, the revenues of which would be distributed to counties, cities and transit districts for transportation related expenses only. A briefing paper from the Utah Legislature with more details (http://senatesite.com/utahsenate/wp-content/uploads/TRA-Gas-tax-2015-briefing-paper-Last-Draft.pdf). Note that no attempt was made to estimate what the revenues would be to Pima County for such an option due to its complexity.

According to the Transportation Investment Advocacy Center, 18 states have some form of a variable-rate gas tax, with half of these states collecting a variable rate sales tax on the wholesale price of gas. This advocacy group has drafted model language for states considering a variable-rate gas tax. The model provides options, including adopting automatic adjustments to a flat per gallon tax based on the consumer price index, percent change in population growth, and/or percent increase in fuel efficiency. Another option recommended is in addition to the flat gas tax, or replacing it, with a variable-rate sales tax on the wholesale price of gas. Many states have adopted a combination of these options. Pima County's pursuit of a state gas tax increase indexed to the consumer price index could be considered a basic variable rate gas tax.

7. General Obligation Bonds for Road Repair

Pima County's 2015 bond election included $160 million for road repair that would have been distributed to cities, towns and unincorporated Pima County based on assessed property value. The project was one of three projects in one ballot question for road and highway improvements. The question was one of seven ballot questions before the voters for County general obligation bonds. None of the questions were approved by voters. The question that included the road repair funding was rejected by 53 percent of the voters. General obligation bonds are repaid with property taxes. Inclusion of the road repair in the bond election was an effort of last resort by Pima County after years of lobbying for an increased State gas tax and the end to state diversions of HURF revenues that would have otherwise provided funding for road repair.

8. An Additional Half-Cent Sales Tax to be Levied by the Regional Transportation Authority

In 2006, voters across Pima County approved a 20-year $2.1 billion Regional Transportation Plan and a half-cent sales tax to fund implementation of the plan. The RTA funding authorization expires in 2026 and the plan did not include funding for road repair. According to the RTA's website, the RTA has delivered more than 785 improvements and services, including:

- 266 miles of bicycle lanes
- 149 miles of sidewalks
- 52 pedestrian crossings
- 111 bus pullouts
- 171 intersections
- Numerous wildlife crossing structures

The RTA Board is comprised of elected representatives from each of the incorporated cities and towns, Pima County, the Pascua Yaqui Tribe and the Tohono O'odham Nation. The Pima County representative of the Arizona State Transportation Board also serves on the board. The RTA is managed through the Pima Association of Governments (PAG), the region's metropolitan planning organization.

Between January and April 2014, the Pima Association of Governments (PAG) gathered public input through an online survey and public workshops to formulate a new 2045 regional plan for transportation (not to be confused with the RTA 20-year plan). Over 1,100 residents participated in the survey. A summary of the results indicated that "across all age groups, ethnicities and income levels, the condition and maintenance of the region's roadways is far and away the biggest concern of survey respondents…"

In the survey, 79 percent of respondents rated the quality of road conditions as poor to very poor. When given a choice of what improvements we need to make for a transportation system, whether it is the bike network, public transportation or level of congestion, 73 percent of respondents rated improving road conditions as their top choice.

When asked to rate the biggest transportation issues facing our region over the next 30 years, 89 percent of respondents identified improving and maintaining transportation infrastructure as a top issue for the future. When asked their top three priorities for the future of the region's transportation system, improving the condition of the region's roadways was the biggest priority, followed by improving the ability to travel across the region and improving transit service in high-use corridors.

The survey also asked questions about how transportation investments should be funded. Eighty-nine percent of respondents said they were willing to explore other ways to pay for improvements to the transportation system. The funding option receiving the highest support was to extend the RTA sales tax beyond 2026, with over 50 percent of the respondents supporting this option. In addition, over 50 percent of the respondents supported increasing the State gas tax. The option with the least support was to increase local property taxes for transportation. Less than 20 percent of the respondents supported such an increase.

The PAG survey showed a dramatic shift in priorities from mobility to maintenance. The County's 1997 HURF bond election was a countywide vote on essentially increasing capacity on the major highway systems throughout Pima County. In essence, it was voting for mobility. During the public discussion and debate over the bond issues, the condition of roads or maintenance of roads never arose. Similarly, in preparing for the 2006 RTA election, the discussion was again focused on mobility. During all of the public meetings, discussions, and input sessions, street and highway maintenance or conditions rarely arose in the debate over whether to enact a half-cent sales tax to increase mobility through increased highway and transit capacity.

Clearly, the results of PAG's public input process showed that there has been a shift in attitudes among the public regarding the condition and adequacy of our roads. It also showed a surprising level of support for sales taxes dedicated for street and highway maintenance, as well as a majority support for increasing user fees or gas taxes. The least publicly accepted method for raising revenues for street and highway maintenance was found to be a local property tax. This is consistent with the support shown during the City of Tucson's sales tax election held in May 2018, of which a portion of the revenues are being spent on road repair, as well as consistent with voters lack of support in 2015 for the County's transportation bond election question that included the sale of bonds financed with property taxes.

Between March and October 2016, a group called the RTA Reauthorization Task Force met to explore reauthorization options, and discussed pursuing a November 2018 public vote for reauthorization to include an additional half cent sales tax for road repair. At the Task Force's last meeting on October 10, 2016, they approved a motion recommending that the RTA Board and PAG Regional Council amend its Legislative Policy Positions to include expansion of the RTA excise tax rate by ½ percent, for a limited time period or budget, for the specific purpose of restoring the region's roadway conditions to an acceptable level and to authorize its Executive Director to pursue its enactment through legislation.

This was included in Pima County's legislative agenda for the 2017 session. But at the same time, the City of Tucson decided to pursue their own half cent sales tax election for funding road repair and public safety infrastructure, for a five-year period. The City ultimately succeeded and the state legislation for reauthorization of RTA with funding for road repair stalled.

It will take approximately two years to prepare for an RTA public vote to reauthorize, mainly because it would require a revised plan to also be on the same ballot. If preparations were similar to 2006, a variety of interests would be represented on a planning committee. Other competing interests for regional transportation funding include transit, pedestrian infrastructure, additional investment building new roadways, expanding existing roadways, etc. Per state statute, an election for this can only take place during even year November general elections. Therefore the most likely date is November 2020. State statue also now limits the earliest when taxes can begin to be collected to the April after a successful election, which for a November 2020 election means April 2021. The City of Tucson's new sales tax for road repair and public safety ends June 30, 2022, unless the City pursues an election to extend it. The County's new 25 cent property tax, if the Board were to continue to fund it each year for a total of 5 years, would end June 30, 2022 unless the Board were to approve continuing it or decides to end it sooner.

From July 1, 2016, through June 30, 2017, $76.9 million was collected for the RTA half cent sales tax. If an additional half cent tax was approved to be administered by the RTA entirely for road repair, it is estimated that $73.5 million of additional revenue would be generated during the first full year of the tax, when adjusted for the higher cost of taxable purchases and exempting pre-existing contracts (such as construction contracts) from the new tax as exists under statute. By the third year of the additional half cent tax, when pre-existing contracts have expired, RTA would realize nearly the same $76.9 million revenue as in Fiscal Year 2016/17, plus additional revenue from local economic growth. If first year tax revenues of such were to be distributed based on population, the following would be the share for each city and town, and unincorporated Pima County:

Table 4
Additional Half-Cent RTA Sales Tax for Road Repair Distribution

Jurisdiction	July 1, 2016 Census Population	% Population	Revenue Allocation
Marana	43,474	4.3%	$3,160,500
Oro Valley	43,781	4.3%	$3,160,500
Sahuarita	28,794	2.8%	$2,058,000
South Tucson	5,645	0.6%	$441,000
Tucson	530,706	52.2%	$38,367,000
Unincorporated Pima County	363,806	35.8%	$26,313,000
Total Pima County	**1,016,206**	**100.0%**	**$73,500,000**

This would generate almost twice as much as the existing City of Tucson sales tax for roads, plus the County's property tax for roads. It would generate nearly $4.8 million more revenue than a County half cent sales tax, as the RTA also levies its tax on the rental of real property (commercial leases), which the County cannot do with a County sales tax levy. The RTA is limited to spending revenues on transportation related expenses, whereas the County could adopt a half cent sales tax to also raise revenue to reduce the primary property tax rate. The RTA additional half cent would require a public vote, whereas the County's half cent can only be adopted by the Board of Supervisors. Other differences could be explored further if the Committee so desires.

IV. Advantages and Disadvantages of Road Repair Funding Options

This introductory report focused on describing these alternative funding options and estimating the amount for revenues they would generate. It did not include the advantages and disadvantages of each. The Board of Supervisors, when it approved the sales tax community input plan, explicitly requested that the Committee consider both the advantages and disadvantages of a County sales tax. If the Committee wishes to discuss any of the alternative options in more detail, the advantages and disadvantages of those options should also be considered and included in any final recommendations to the Board.

V. Summary

The estimated cost today to treat roads across the region to at least a fair condition, is over $1 billion. This far exceeds what Pima County, the City of Tucson and other cities and towns plan to spend on road repair this year. The problem is most acute in the City of Tucson and unincorporated Pima County, where 70 percent and 60 percent of the roads are in poor or failing condition. The cost to address these needs will only continue to grow as insufficient funding is applied to the problem.

The intent of this report was to inform the Committee of other funding options the County has pursued to date, most of which have either been unsuccessful entirely, or have failed to generate sufficient revenue to address the road repair crisis. These are summarized below.

1. State-Shared HURF Revenues

   The County is spending $6 million in HURF revenues this year for repair of arterial and collector roadways in unincorporated Pima County. Remaining HURF revenues are spent on repaying bonds for the 1997 bond program roadway capacity improvements, maintenance, planning and engineering, administration, overhead and insurance. Departmental efficiency measures may result in additional HURF revenues being available for road repair in the future. In 10 to 15 years, an additional $12 million to $15 million in HURF revenues may be available for road repair as the County's debt service payments for the 1997 HURF bond program decline. There also may be an opportunity to reallocate approximately $16 million of remaining bond fund authorization for unscheduled projects to road repair, but this would be a one-time allocation and not reoccurring revenues.

2. General Fund

   The County has only allocated General Fund revenues to road repair as a last resort when there were fund balances available to do so, and just for arterial and collector roads. But to consistently allocate funding to road repair from the General Fund would require cuts to the core services that rely on the General Fund.

3. Ten-Cent State Gas Tax Increase

   Requires legislative approval, which has been unsuccessfully sought for numerous years. Over 50 percent of respondents to PAG's 2014 public survey supported increasing the State gas tax. If the State Legislature did raise the State gas tax by 10 cents, it is estimated that Pima County and its cities and towns would receive an additional $18.7 million more in HURF revenues, including $8.4 million of HURF revenues for use in the unincorporated area.

4. Ten-Cent Local Option Gas Tax

   Requires legislative approval, which has been unsuccessfully sought for numerous years. If the state legislature did approve legislation allowing counties to adopt a 10 cent local gas tax, it is estimated that Pima County and its cities and towns would receive $39 million in revenue, with $14 million available for the unincorporated area.

5. Five Percent Local Option Sales Tax on Gas at the Pump

   Requires legislative approval. If the state legislature did approve legislation allowing counties to adopt a 5 percent local sales tax on gas at the pump, it is estimated that Pima County and its cities and towns would receive $42.4 million in revenue, with $15.2 million available for the unincorporated area.

6. Variable Rate Sales Tax on the Wholesale Price of Gas

   This is the Utah example. Seven other states also have a variable rate sales tax applied to the wholesale price of gas.

7. General Obligation Bond for Road Repair

   Pima County was unsuccessful in seeking voter approval of $160 million in general obligation bonds for road repair in 2015, to be repaid with property taxes. Less than 20 percent of respondents to PAG's 2014 public survey supported increasing local property taxes for transportation improvements.

8. Additional Half-Cent RTA Sales Tax for Road Repair

   Over 50 percent of respondents to PAG's 2014 public survey supported extending the RTA sales tax beyond 2026. City voters this year approved a half-cent sales tax partially for road repair, which will sunset in 2022. If the RTA were to pursue legislation for an additional half-cent for road repair, the earliest a public vote could be held is November 2020, with revenues collections beginning no sooner than April 2021. A half-cent sales tax dedicated exclusively to road repair would generate $73.5 million in the first year of the additional tax (based on Fiscal Year 2016/17 taxable sales) for road repair within Pima County and its cities and towns, with $26.3 million available for the unincorporated area.

Four comprehensive memorandums from the County Administrator to the Board of Supervisors regarding road repair funding options, can be found on the County Administrator's webpage http://webcms.pima.gov/government/county_administrator/ at the link titled "Review all memoranda and correspondence…" and under the transportation tab. They are dated April 21, 2016, August 1, 2014, May 7, 2013, and April 10, 2012.

A funding options report prepared for the 2016 RTA Reauthorization Task Force, can be found at http://www.rtamobility.com/documents/pdfs/RTARTF/2016/RTARTF-2016-09-19-TransportationFundingOptions2016-04-28.pdf