



MEMORANDUM

Date: May 4, 2015

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CH", is written over the printed name "C.H. Huckelberry".

Re: **106th Arizona Town Hall on Transportation**

Attachment 1 to this memorandum is a report from the April 19, 2015 Arizona Town Hall. One hundred eight citizens of Arizona participated in a discussion regarding transportation in Arizona. Their key findings are contained in the first four pages of the report. Their findings regarding the actions requested of the Arizona Governor and Legislature are nearly identical to the County's Legislative Agenda for the last two years.

Regardless of inaccurate, distractive rhetoric regarding use of the State's existing transportation revenues, the need to increase these revenues is obvious and will drive Arizona's economy. If Arizona increases transportation revenues, we will become an important competitor for economic expansion. If we fail to do so, we will watch our neighboring states reap the benefits of an efficient transportation system and economic expansion.

It is apparent the balance of the State is also beginning to understand the need to increase the State gas tax. Even Maricopa County and their business leadership understand this issue and have produced the attached fact sheet (Attachment 2) regarding gas taxes. In addition, member of the Maricopa leadership group recently addressed the Southern Arizona Leadership Council and called for an increase in the State gas tax. Again, two years after we requested such action.

Attachment 3 is a summary prepared by RBC Capital Markets Research of states throughout the nation and the activities associated with increasing state gas taxes. A majority of states within the country are now beginning to or have addressed the need to raise state gas taxes.

In gas tax, Arizona ranks near the bottom; only seven states have a lower gas tax. Being at the bottom of this list is not a positive when we are facing significant transportation mobility and efficiency issues and attempting to position Arizona as a competitive state for economic expansion and development. Arizona cannot become a major competitor for international and interstate freight and trade without expansion of our transportation system. Such systems are only a result of investment, and investment, is made possible by gas taxes.

The Honorable Chair and Members, Pima County Board of Supervisors
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system. Such systems are only a result of investment, and investment, is made possible by gas taxes.

CHH/anc

Attachments

- c: John Bernal, Deputy County Administrator for Public Works**
- Dr. John Moffatt, Director, Strategic Planning**
- Priscilla Cornelio, Director, Department of Transportation**
- Ronald Shoopman, President, Southern Arizona Leadership Council**
- Michael Varney, President and CEO, Tucson Metro Chamber of Commerce**

Report of the
106th ARIZONA TOWN HALL
“Transportation and Arizona”

Tucson, Arizona
April 19-22, 2015

Introduction

In 2009, the 94th Arizona Town Hall on Transportation recognized that transportation in its most elemental form involves the movement of people and goods from one place to another. The transportation systems of today are interwoven with the fundamental characteristics of our modern society into something far more complex and multifaceted. These systems affect and are affected by our lifestyles, health, families, jobs, education, housing, community, infrastructure, fiscal and financial systems, the economy, and the environment.

Participants of the 106th Arizona Town Hall traveled from throughout Arizona and convened in Tucson for four days to discuss the challenges and opportunities transportation presents to Arizona. Since 2009, our views and discussions on transportation systems, and how these systems affect our lives have continued to evolve, and include a broader, more diverse range of infrastructure and emerging vehicle technologies, as well as changing or additional policies, programs, and investments that can affect behaviors and our use of transportation systems.

As an example of this interconnectivity, the 105th Arizona Town Hall, Arizona’s Economy, recognized that for the growth of Arizona’s economy, transportation infrastructure (including roads and airports) and transit modes (including rail, public, and air), along with broadband Internet access, must become a priority. However, with a reflection on the work and recommendations of prior Town Halls, especially those of the 2009 Town Hall, the lack of action and progress made toward addressing those recommendations over the past six years is strikingly alarming and apparent. This inaction is specifically relevant regarding recommendations about transportation funding approaches, such as providing legislative protections for Highway Users Revenue Fund (HURF), increasing and/or indexing the state gas tax, implementing alternative funding options (such as vehicle miles traveled (VMT)), and implementing tax increment financing. This 106th Town Hall believes if Arizona’s economy and business climate are to grow and thrive, we must consider funding of improvements and maintenance of Arizona’s transportation systems to be an urgent priority.

The results of the discussions at the 106th Arizona Town Hall are included in this report. Though not all Town Hall participants agree with each of the conclusions and recommendations, this report reflects the overall consensus reached at the 106th Arizona Town Hall.

Town Hall participants agreed to begin their report with priorities and actions. The substantive report supporting their priorities follows this section.

SETTING PRIORITIES AND TAKING ACTION

Arizona's economic future depends on immediately setting priorities for investment in our transportation systems by focusing on long-term plans, projects' potential for promoting economic growth opportunities, long-term cost savings, public safety, quality of life, and adapting and responding to emerging and new technologies.

Arizona's Congressional delegation must take the following actions:

- Support a long-term, sustainable funding solution by stabilizing the Highway Trust Fund, public transportation accounts, and re-authorize a long-term surface transportation bill.
- Support a fully-funded Federal Aviation Administration (FAA) re-authorization and enhancements to the Airport Improvement Program (AIP).
- Raise the Passenger Facility Charge (PFC) to enable airports to adequately fund needed infrastructure projects.
- Create a long-term, sustainable funding solution for personnel and technology at land ports of entry to facilitate international trade.
- Create a long-term, sustainable funding solution for all transportation systems.
- Actively seek passage of existing legislation to extend the designation of I-11 Intermountain West Corridor from border to border, through Arizona to the Nogales port with Mexico.

Arizona's Governor and Legislature must take the following actions:

- Fund and implement ADOT's Key Commerce Corridors Plan. The governor should continue the Transportation and Trade Corridor Alliance (TTCA) and task it to find viable funding sources to implement this plan.
- Authorize the State Transportation Board to become a comprehensive transportation body.
- Stop diverting HURF, State Aviation Fund, and other transportation funds and change Arizona law so that the funds cannot be diverted in the future.
- Reinstate HURF exchange for local governments.
- Dedicate a source of funding for the Department of Public Safety (DPS) outside of HURF or other dedicated transportation funds.
- Increase and index the gas tax.
- Develop and adopt more sustainable long-term dedicated funding sources, such as a VMT user fee and a VLT user fee. This fee must be dedicated to transportation and not subject to diversion for other uses.
- Restore state funding for public transportation to local governments. Immediately restore the Local Transportation Assistance Fund (LTAF) throughout the state and establish a dedicated, long-term, sustainable statewide multi-modal transportation fund.

- Authorize county and local governments to utilize TIF.
- Aggressively market unfunded but important transportation projects, such as a Tucson to Phoenix passenger rail, to private investors as public-private partnership.
- Evaluate and more effectively implement existing traffic safety measures, including new legislation and administrative action prohibiting texting and other statistically proven acts that cause distracted driving.

Entities, including MPOs, COGs, and local governments must continue to take the following actions:

- Engage in and promote planning of our transportation systems in urban, rural, and tribal areas; planning must consider construction, use, operations, and maintenance costs.
- Prioritize funding and coordinate applications for federal funds for projects that provide economic development opportunities.
- Together with agencies, clearly and understandably disseminate facts about transportation projects to educate the public, taxpayers, and officials.
- Allocate funding to accelerate projects that demonstrate the efficiencies that can be gained utilizing new technologies, including things like active lane management and congestion.
- Allocate funding for pilot projects, such as those in response to new technologies or to examine congestion pricing models.
- Encourage local governments to adopt Complete Streets policies to ensure that all users of all modes can safely and comfortably use streets and to promote bikeable and walkable communities.

The Private Sector must take the following actions:

- Together with agencies, clearly and understandably provide facts about transportation projects to educate the public, taxpayers, and officials.
- Promote, and if necessary, initiate changes in Arizona law to implement the recommendations of this Town Hall Report.
- Explore P3s (Public Private Partnerships) that will enhance Arizona's transportation systems.
- Adopt strategies to reduce impacts on transportation systems, such as telecommuting, ride-sharing, parking fees.
- Chambers of Commerce and other entities must educate and advocate on transportation issues, particularly when it comes to supporting key reforms.

Educational Institutions must take the following actions:

- Provide research and educate students and the public about the importance of transportation, including funding, legislation, safety, and economic development benefits.
- Engage university research to support research and development of important transportation needs, including the establishment of a University Transportation Center (UTC) in cooperation with ADOT.
- Add curriculum on transportation infrastructure and transportation funding to the Arizona Motor Vehicles Department (MVD) authorized driving schools and defensive driving schools.
- Provide education on transportation to students and the public.
- Consider establishing a student committee to allow a cross-section of students to study and make recommendations regarding transportation in Arizona.
- Provide accessible education on transportation to students and the public, including on-line learning opportunities.

Individuals must take the following actions:

- Engage in a public discourse about transportation issues.
- Town Hall participants must share this Town Hall's findings with our communities, the groups or organizations in which we serve, our personal connections, the press, and our elected officials.
- Get together with other Town Hall participants from the same region and share the report and findings.
- Use social media to tell elected officials and others about the Town Hall's ideas and recommendations.
- Communicate with our state and local representatives about our recommendations.
- Author opinion editorials in newspapers to promote our recommendations.
- Support efforts to identify and secure funding for transportation systems.

SETTING THE STAGE

STRENGTHS

From our public transportation, to our freeways, to our parking, Arizona's transportation systems are comparatively new, comparatively reliable, and multi-modal. Arizona's transportation systems also benefit from forward-focused planning and regionally generated revenues in urban areas. They are not overcrowded when compared to other major cities. Our transportation systems allow for the efficient transportation and distribution of people and goods.

Public Transportation

We are extending our transportation systems to include bike path networks, ride-sharing, park-and-ride, regional bus systems, light rail, and streetcars. More recently in urban, small urban, and rural areas, we are increasing our investment in multi-modal transportation. Public transportation provides 100 million trips in Arizona. It is growing in popularity and is manifested in bus, rail, para-transit, bike, and pedestrian options.

New and modern infrastructure requires investment to meet population growth and travel options. These investments promote economic development, access to jobs, and healthy communities.

Location

Arizona's unique geographic position is a major strength. Arizona is near California and other ports and hubs. We are close to Mexico, Texas, Nevada and other markets. Our link in transportation systems in all four directions is invaluable.

Arizona's exposure to Mexico, in particular to Mexico's ports and the development of Highway 15 in Mexico, provides a great economic benefit to the state. Arizonans benefit from their ability to access national and international markets. Our connection to the south has benefited from the U.S. federal government's investment in border infrastructure, such as Nogales-Mariposa and San Luis II ports of entry, but further enhancements are needed. Development of I-11 will enable Arizona to reap economic benefits from the improvements and growth occurring in Mexico.

Changes in environmental and federal safety regulations may create opportunities in our state. New trucking rules and regulations control driver rest periods. As a result, Arizona lies at the center of the distribution flow to two major economies-California and Texas. California's regulations relating to trucking and CARB (California Air Resources Board) position Arizona to compete for California business.

Our geographic benefits extend beyond commercial industry. Arizonans benefit in their ability to access different parts of the country.

Climate and Geography

Arizona's open spaces and famous weather allow Arizonans and tourists to engage in activities year round. Arizona has well developed biking and hiking opportunities. Path systems allow people to get around without using arterial roads.

The urban portions of the interstate highway system in Maricopa County are in relatively good shape. Highways in other portions of the state, such as Tucson, Flagstaff, rural communities, and tribal lands are not as well maintained. Much of Arizona's climate allows for year-round construction and maintenance, without the chaos and perpetual construction gridlock in other states.

Relatively New, Well-Planned Infrastructure

Arizona has benefited from past foresight, planning, and investment in its transportation systems. Although our transportation systems remain relatively basic, we have a solid foundation on which to build. Our transportation systems also have the advantage of being built according to modern planning. Though we no longer have the elected collaborative leadership of the past, some counties, local governments, and different regional organizations, such as councils of governments (COGs) and metropolitan planning organizations (MPOs) collaborate well.

Alternative modes of transportation (including buses, light rail, street car, para-transit, bicycling, and walking) are increasing in popularity in Arizona. They require investment to meet growing demand and population. The private sector has led and needs to continue to lead campaigns that advance our transportation system investment.

Air Transportation

Arizona's airports are a critical element of transportation infrastructure and a tremendous asset, contributing \$58 billion to the state's economy. Sky Harbor is among the country's best, most efficient airports. Arizona has benefited from its connection to military bases. When bases have closed or surplused, Arizona has leveraged those assets. Arizona's good flying weather and abundance of aviation facilities have made the state a center for aviation training, including airlines. The state has reaped economic benefits from these assets. For example, Gateway-Mesa airport is emerging as a transportation and business amenity.

Our air infrastructure also boasts Tucson International Airport and a system of 83 public use airports, which allow easy access to cities across the country and service large events in our tourist industry. Arizona is a draw for aviation due to our great weather, the large number of smaller airports and fields located throughout the state, the defense industry, and generous access to air space.

Rail Transportation

Arizona has a well-positioned freight rail system that is able to take advantage of regional ports, including double tracks in Arizona. The Port of Tucson plays a key role in Southern Arizona. Potential exists for developing additional inland ports along Arizona's rail lines to relieve west coast port congestion. Approval and development of the Red Rock Rail Classification Yard will improve Arizona's position.

Both of Arizona's Class I railroads currently host Amtrak passenger rail service. In addition, potential exists for the future development of passenger rail service between the Phoenix and Tucson areas, as well as between other Arizona cities in neighboring states.

Other systems work well with our rail system so that Arizona has export opportunities to the entire United States and the globe. Arizona's interstates and state highway network provide an anchor for and enable a robust trucking network around the state. Trucks deliver more than 75% of all freight in Arizona. Air cargo options are available to transport high value freight. Arizona commercial ports of entry with Mexico provide valuable international connections.

Innovation

Innovative local and regional solutions ease congestion, allow public transportation users to manage time, and alert individuals to safety conditions; this includes the use of traffic alert systems, roundabouts, Complete Streets, and new technologies, such as the high intensity activated crosswalk systems (HAWK).

Entrepreneurs in particular have responded to the economic advantages of developing and growing public transportation. Private sector innovations, such as grid bikes, ridesharing and car-sharing have provided transportation options. With these innovations, we need to address potential regulation and licensing.

SIGNIFICANT INFLUENCE

Development of our transportation systems also has been highly influenced by overall population growth, demographic changes, and funding. Population growth and land development have required expanding our transportation systems, resulting in the automobile-centric communities we have today. More recently in urban and rural areas, we are increasing our investment in public multi-modal transportation systems.

Much like the factors that have had significant influence in shaping our current systems, the factors that likely will have the greatest influence in shaping Arizona's future transportation systems include demographic shifts, new technologies, vision, and the will to fund improvements in the systems. Environmental considerations also will become increasingly important.

Demographic and Lifestyle Changes

When the economy crashed, starting the Great Recession, the development of many residential communities ceased and development instead shifted to infill and downtown areas with higher densities. Trends are shifting: Millennials, empty nesters, and others increasingly want to live, work, learn, and play in the same location. For many, efficiency and reduced transportation costs are essential. Millennials especially will influence our future systems. They tend to be more environmentally oriented and adapt to new technologies. These shifts will push decision-making toward this desired lifestyle, with transit, bike, and various other choices, and a growing emphasis on sustainable individual transportation options.

CHALLENGES

Arizona faces numerous transportation challenges, including the need for vision, planning, funding, and effective political leadership. Best estimates are that Arizona's transportation systems are underfunded by billions of dollars.

Funding

Arizona is underfunding its transportation systems. The state has been historically reactive instead of proactive. Delayed planning and investment often results in higher costs. We need predictable, reliable funding sources that the general public understands and supports, whether the sources are state, federal, or private.

We also need creative approaches to overcome resistance by Arizona's leaders. Currently, an increase in the gas tax is difficult. However, public officials who generally oppose new taxes might be supportive if HURF funding used a fairly-assessed user fee that cannot be diverted to pay for other purposes.

We also need to look at alternative funding approaches. Although necessary, increasing existing gas taxes is not a sustainable source of transportation financing because gas use is declining. As Arizona considers alternative revenue sources to fund transportation needs, payors must be assured that transportation funds will not be diverted for other purposes.

Locally implemented funding solutions have been, and will continue to be, necessary to address acute transportation needs. Local funding cannot do it alone. Several localities have approved bonds that finance transportation improvements once road conditions deteriorated to an unacceptable level. A more proactive approach to transportation planning and funding could alleviate the pressure on local communities.

Leadership

We lack sufficient effective, statewide leadership on transportation issues. Arizonans and their political leaders must have the political will to plan, develop, maintain, and pay for our transportation systems. The State Transportation Board is positioned to provide a comprehensive role to consolidate regional priorities and put forth a unified transportation vision for the state.

The actions and inactions of public officials speak loudly to voters. For example, diverting HURF, state aviation, and other transportation funds to other purposes demonstrates that transportation needs are not a high priority for some of Arizona's public officials. We must use HURF, State Aviation, and other transportation funds for the purposes for which they were intended. Transportation solutions may include a variety of modes, and leadership support for these modes is critical to rural and urban communities. Transportation infrastructure issues require long-range thinking, not short range maneuvering. Not giving our transportation issues the weight they deserve will detrimentally impact Arizona's economic development.

Economy and Transportation

Economic development and a sound functioning statewide transportation infrastructure that benefits rural and urban economies are closely tied.

In that regard, we must inform the public how Arizona's transportation infrastructure is a vital investment in the future. We should use examples to show Arizonans how much transportation systems are essential to their everyday life and economic vitality. Many people are unaware that they on average spend only \$10 a month on the state gas tax. Public officials, businesses, transportation experts, and advocates, as a community, must provide accurate information about Arizona's transportation needs and the likely consequences of failing to invest in transportation. The message must be clear, accurate, engaging, and understandable.

Lack of understanding contributes to lack of engagement. Many who depend on our transportation systems are not at the table to discuss how they function.

Divergent Priorities

Conflicting priorities are an obstacle to the optimal development and functioning of Arizona's transportation systems. Addressing these differences requires flexibility. One size does not fit all. People use transportation differently. We must create a system that provides options for people who are unable to drive or cannot afford to drive a car.

Different groups, such as millennials and baby boomers, have different needs for getting around and different visions for what transportation should be. They often do not support projects that do not benefit them personally. For example, members of a community with an aging population may feel they have paid their dues and should not pay into the system. Millennials, on the other hand, are planning for their future and are more willing to invest in emerging technology.

Urban, rural, and tribal communities can have very different priorities. We must account for these priorities during planning and not as an afterthought. Urban areas face congestion and maintenance challenges. Many tribal and rural communities have limited points of entry, face weather challenges, and lack basic infrastructure in regards to 911 services and mapping. Rural communities lack public transportation, bicycle and pedestrian infrastructure, and roads are in disrepair. One challenge is that these and other communities must compete for limited funds, and rural and tribal communities too often lose out.

Planning

Arizona's transportation infrastructure requires both short-term and long-term planning that considers divergent priorities. Our planning cannot ignore or overlook the impact that one part of our transportation system has on other parts. For example, expanded access to one area may lead to congestion in another area.

Our planning and coordination must incorporate voices and considerations at all levels, from local to federal. Smaller communities may have very different priorities than larger communities, and also than other smaller communities. For example, Prescott, with an average age of 46 to 47, may have different priorities than those of a community with a lower average age. Cohesive transportation planning would include and address all statewide, regional, and local priorities and needs.

Our transportation plan must be future-focused and flexible, so our transportation systems can

adapt to and use technological advances. By being proactive, we can improve efficiency, control costs, address needs and priorities for all communities, and ensure the public understands and supports our future direction. We must make clear policy statements and set milestones for success. Projects must be built on time. Funds must be used for their intended purposes.

TECHNOLOGY, LAND USE AND THE ECONOMY

TRANSPORTATION TECHNOLOGY AND INNOVATION

Technology and innovation have resulted in diminished gas tax revenues as people drive less and fuel efficiency continues to improve, combined with the use of hybrid and/or electric vehicles. Innovation also provides cost-effective ways of making transportation systems easier to use. For example, applications on smart phones can positively affect use of public transportation and allow drivers to make decisions that reduce congestion. Technology and innovation also make our transportation systems safer and more efficient by providing alerts associated with weather and traffic-related events, such as traffic flow and lane restrictions.

GPS, radio frequency identification (RFID), or similar technology could allow implementation of a vehicle miles traveled (VMT) user fee model to generate funding for transportation infrastructure. Arizona should consider a fuel-agnostic user fee model, such as a VMT user fee based on vehicle weight and pollution impact. As we consider this and other revenue-generating models based on new technologies, we also should consider that such technologies may not be embraced by some members of the public who are concerned about personal privacy.

Arizona also should continue focusing on more efficient and sustainable options for the construction, use, operations, and maintenance of its transportation systems, including improved road and building materials, LED traffic signals and streetlights, ride-share options, and intelligent vehicles. In addition, more fueling and charging infrastructure is needed for alternative fuel vehicles.

LAND USE AND DEVELOPMENT

Impact of Transportation on Land Use and Development

Generally, the goal of transportation is to get people or goods from point A to point B. There are significant economic benefits from access to the transportation network, but there can be unintended consequences to transportation systems that impact quality of life and economic value. Transportation can negatively impact communities. We should take measures to reduce the negative impact on affected communities regardless of socioeconomic status.

Transportation and development have a dynamic, symbiotic relationship. Development and redevelopment are attracted to locations that are well served by transportation infrastructure but can have unintended consequences, such as changes in property values and impact on commercial zones if traffic is steered toward or away from businesses. A robust public transportation system provides benefits to communities when land use complements transportation services. Fixed rail transportation in particular has attracted significant investment by private sector development along these corridors as evidence by the Metro Light Rail in the metro Phoenix area and the Sun Link modern streetcar in Tucson. Property values generally increase after construction is complete, but such increase can impact affordable housing.

Balancing Quality of Life and Natural Resources with Transportation Needs

An equitable balance between quality of life and transportation is achieved through planning that encompasses both major projects, such as highways, and smaller projects such as walking, hiking, and biking paths. Effective planning assures that people and goods are moved efficiently from one location to another and assures that our transportation systems serve a broad range of people and needs. For some communities, nearby availability of bus services may be a priority, while for other communities other options, such as dial-a-ride, may be more appropriate. While proper zoning is critical to planning, transportation planning also should respect private property rights.

We should consider both the costs and benefits of transportation. Transportation systems on the fringe of existing urban areas may result in urban sprawl, which may impose greater costs and burdens. Those same transportation systems, however, may serve the need for affordable housing, which sometimes is found outside urban centers. Communities outside urban centers often are most in need of public transportation; yet providing service is challenging and costly.

Arizona must assure that planning includes consideration of all voices and priorities to promote and achieve the optimal balance of quality of life and natural resources with all of our transportation needs. Transparency and open communication are essential to break down silos so that all engage in integrated planning.

Arizona must recognize that some communities are underserved by transportation systems. Rural, tribal, and low-income communities sometimes are burdened by transportation facilities that pass through their region without serving those communities. All voices need to be included.

ARIZONA'S ECONOMY

Transportation systems impact all segments of Arizona's economy by allowing movement of goods and people in, out, and within the state. The efficient functioning of our transportation systems is essential to our economy. When key transportation systems are not functioning properly, business activities can be disrupted and economic development is hindered. Strong transportation systems that are built upon partnerships across local and regional communities and the state can make Arizona a more attractive location for establishing manufacturing plants and distribution centers, providing more economic development opportunities and jobs.

Specific actions that would have the greatest return on investment to Arizona's economy include the development of the Arizona Department of Transportation's (ADOT's) Key Commerce Corridors, which would connect Arizona to its domestic and international trading partners. We also should establish inter-modal transportation and distribution centers to take advantage of our proximity to the regional ports. Developing these distribution centers could have a substantial return on investment, including jobs and revenue, thus taking advantage of our proximity to Mexico, Texas, California, Nevada, and beyond to other locations such as Canada, creating opportunities for Arizona to be a destination and manufacturing and assembly center instead of a "pass-through" corridor of goods and people.

FUNDING AND FINANCING

Revenue Generation

Arizona should consider a variety of revenue-generating methods, recognizing that one method is not a panacea. Revenue-generating methods must incentivize desired outcomes and demonstrate a clear and understandable link to the benefits associated with those outcomes. Some examples include:

- The gas tax, which imposes user fees based on the number of gallons of fuel used.
- A VMT user fee, which imposes user fees based on the number of miles driven.
- Congestion pricing, which imposes higher user fees for on-peak travel.
- Parking pricing, which imposes higher user fees for on-peak parking.
- Toll roads for new capacity that might not otherwise be built and that increase reliability while imposing higher user fees to avoid congestion.

Whatever revenue-generating methods we choose, we need to be clear regarding where and how money is to be spent and that funds must be used for their intended purpose.

Revenue Neutral and Low Cost Actions

Some changes will allow us to link use to desired outcomes, but will require little or no increased spending of our limited transportation revenue.

We should look at what others have done successfully. To reduce rush hour congestion following crashes, law enforcement should examine existing protocols for clearing crash scenes. Arizona should address distracted driving issues because distracted driving leads to crashes and related traffic congestion. Incentive pricing and employer subsidies for those who use public transportation would encourage people to use it during peak travel periods. To help reduce transportation costs, government and private sector employers should examine, incentivize, and use alternate transportation options such as carpooling, vanpooling, and telecommuting. Employers should be encouraged to utilize telecommuting to reduce transportation costs. Encouraging people to use technology to avoid traffic congestion can help reduce that very congestion and save the person time. Some of these ideas, if implemented, might result in overall cost savings.

Education is important. Media exposure and special events can go a long way to engage and to educate the public. We should continue to encourage public and private sectors to promote the use of alternative modes of transportation with events such as “bike to work week.” Private insurers could become involved with regard to safety concerns. We need to present the information in a way that the public understands. The private sector and local, regional, state, federal, and tribal governments should coordinate their messages.

Planning is a significant action that can help reduce costs sooner rather than later. With appropriate planning, municipalities can encourage communities where people can live, work, and play close to home. Zoning and incentives could promote walkability and bikeability, as well as businesses, such as corner grocery stores that serve neighborhoods.

Funding Resources

Resources available to address Arizona's current and future transportation needs (including infrastructure development, operations, and maintenance) come from the public and private sector. Within the public sector, federal, state, local, and tribal governments each play a role. Specific resources come in a variety of forms from the revenue-generating methods of user fees, vehicle license taxes (VLTs), sales and property taxes, and gas taxes to financing methods, such as bonding and public private partnerships (P3s or PPPs) that allow paying for investments over longer periods of time.

To increase, diversify, and stabilize funding for transportation, Arizonans should:

- Improve political and public alignment through clear, understandable, and constant communications about the need for investment, and provide those communications using various means and methods.
- Demonstrate the results of spending by making sure people understand how specific projects or facilities have been funded.
- Ensure we have short-term and long-term plans in place for our transportation systems.
- Continue to allow city and local governments to levy taxes for a dedicated taxing period for specific projects.
- Eliminate "sweeping" of HURF, State Aviation Fund, and other state transportation funds, and also seek other funding sources for Department of Public Safety.
- Change Arizona law to allow local governments to take advantage of Tax Increment Financing (TIF).
- Raise and index the gas tax.
- Implement use-based fee models to generate revenue, such as the VMT fee/tax.
- Restore funding to the Local Transportation Assistance Fund, which can be used to seek federal matching funds.
- Identify trends and transportation funding options used elsewhere that may be available to raise transportation funding in Arizona.

P3s can offer financing for transportation projects, large and small, which can reduce costs and expedite project implementation. Arizona has a solid structure for P3s. The potential uses of P3s are varied, from work on roadside rest areas, to rural roads, to roads into some of Arizona's forest areas. When appropriate, P3s should be considered.

Opportunities and Barriers

Factors that support the desired development of funding to meet Arizona's transportation needs include the link between transportation funding and jobs and the demonstrated success of projects already completed. Support for transportation funding also depends on taxpayers, voters, and public officials understanding that the investment of their tax dollars will yield substantial benefits, including those associated with economic development.

Fostering this clear understanding requires a level of "marketing" or presenting information about highly technical and complex subjects in an understandable way, without technical jargon. When taxpayers, voters, and public officials do approve funding through bonds or taxes, results must be demonstrated. Transparency and follow-through build trust and support. This trust is betrayed when funds approved for one purpose are diverted for a different use.

In contrast, a lack of understanding regarding a project and its benefits, or simply a lack of trust, can create barriers to development of transportation funding. Successful projects can generate constituencies that help support desired transportation funding. The light rail in the Phoenix metropolitan area provides an example of such support. Despite demonstrating successes, overall funding for transportation has gradually decreased on the federal and state levels, and Arizonans may not support increased taxes as a funding option. In some cases, the reluctance to fund transportation is based on a community's inability to afford such investment, such as small communities that do not have the tax base and necessarily have to use federal funds, which makes projects cost more and can reduce the size of the projects.

GAS TAX FACTS

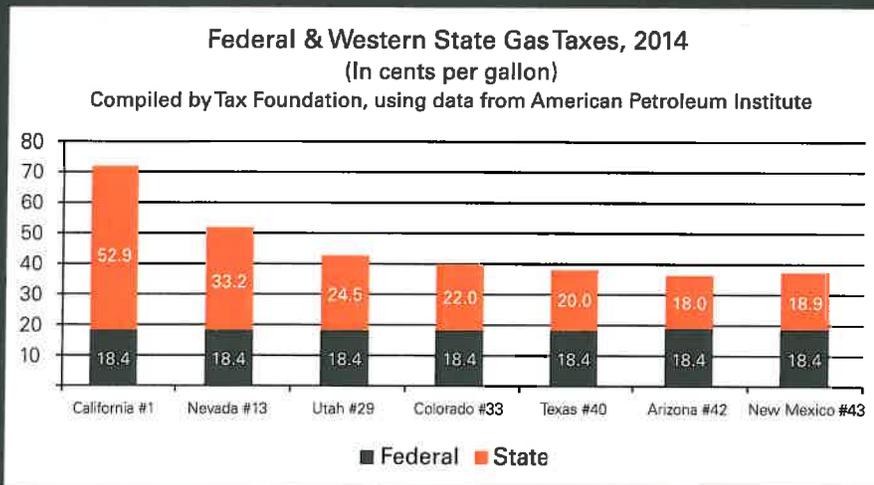


How much do I pay?

Our state gas tax is 18 cents per gallon. The average gas mileage (combined city and highway) for newer model vehicles is 25 miles per gallon. The average driver drives 1,250 miles per month. Therefore, an average Arizona driver of a newer model vehicle pays \$9 per month in state fuel taxes.

The last time Arizona's gas tax was increased was 1990. If it had been indexed to inflation, the gas tax would have risen from 18 cents per gallon in 1990 to 33 cents per gallon in 2014.

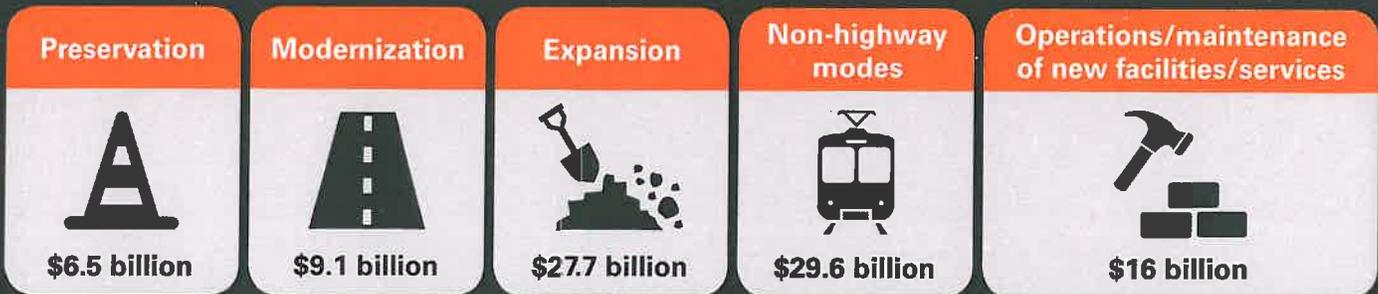
What do other states collect?



Other monthly household expenses compared to fuel tax payments

Housing	\$1400
Water, sewage, trash, gas	\$100
Electricity	\$200
Eating out	\$223
Health Insurance & care	\$300
Cable/internet service	\$100
Cell phone	\$60
Gym membership	\$35
State fuel taxes	\$9
Federal fuel taxes	\$9.20

Total state highway needs over the next 25 years = \$88.9 billion



Source: Arizona Department of Transportation, Arizona's Long-Range Transportation Plan, Adopted 2011

▶▶▶ **Estimated actual available funds = \$26.2 billion**

To join our effort for a stronger, more modern statewide transportation system, visit AccelerateAZ.com.



May 1, 2015

US Municipal Notes

State Gas Taxes Make a Comeback

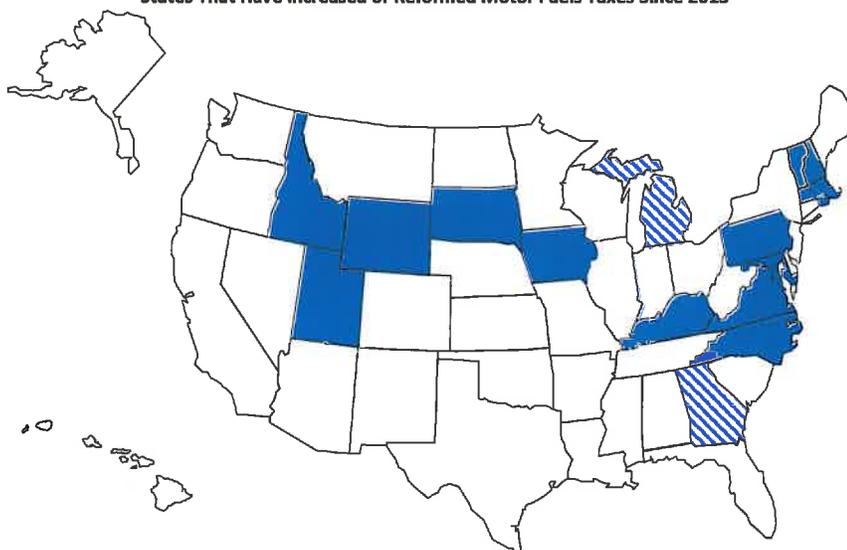
All values in U.S. dollars unless otherwise noted.

Having lost patience with the federal government's apparent inability to establish a long term national transportation plan, many state governments have decided to take matters into their own hands. After going decades, in some cases, without increasing their gas taxes, many states are now instituting changes. In some cases, states have enacted a simple increase in the fixed per gallon tax rate, while in others, states have converted their taxes from a fixed to a variable rate structure that changes with either the price of gasoline or inflation. We note that many of the states that have enacted these changes are among those not generally known for embracing new taxes. Nevertheless, the combined effects of federal funding uncertainty, unavoidable capital needs, increasing construction costs, the Great Recession, and increasing vehicle fuel efficiency, have pushed many states into a classic "crowding out" dilemma. State gas tax revenues have largely failed to keep pace with transportation costs, leaving many states with the choice of either deferring maintenance once again (this strategy was employed during the recession), or siphoning funds from other state programs to meet their capital needs.

In 2013 and 2014, eight states enacted increases to, or reforms of, their gas taxes. Thus far in 2015, another seven have followed suit. Moreover, several other states have been exploring this issue over the past year, so we expect to see more states take similar action over the near to intermediate term. We view this as positive for the credit profiles of these states. Not only do these initiatives provide an ongoing, stable source of funding for transportation improvements and expansions, thus improving the quality of life and overall attractiveness of these states for business investment, but they also eliminate budgetary crowding out by freeing up scarce state resources for other important public purposes. Consequently, we foresee a nationwide trend of state gas tax rate increases and reforms.

Exhibit 1: Even some of the most traditionally tax-averse states have decided to increase and/or reform their gas taxes in recent years. Since 2013, 15 states have made these changes, and the issue is under discussion in many others. With little leadership at the federal level, the states are beginning to take transportation funding into their own hands.

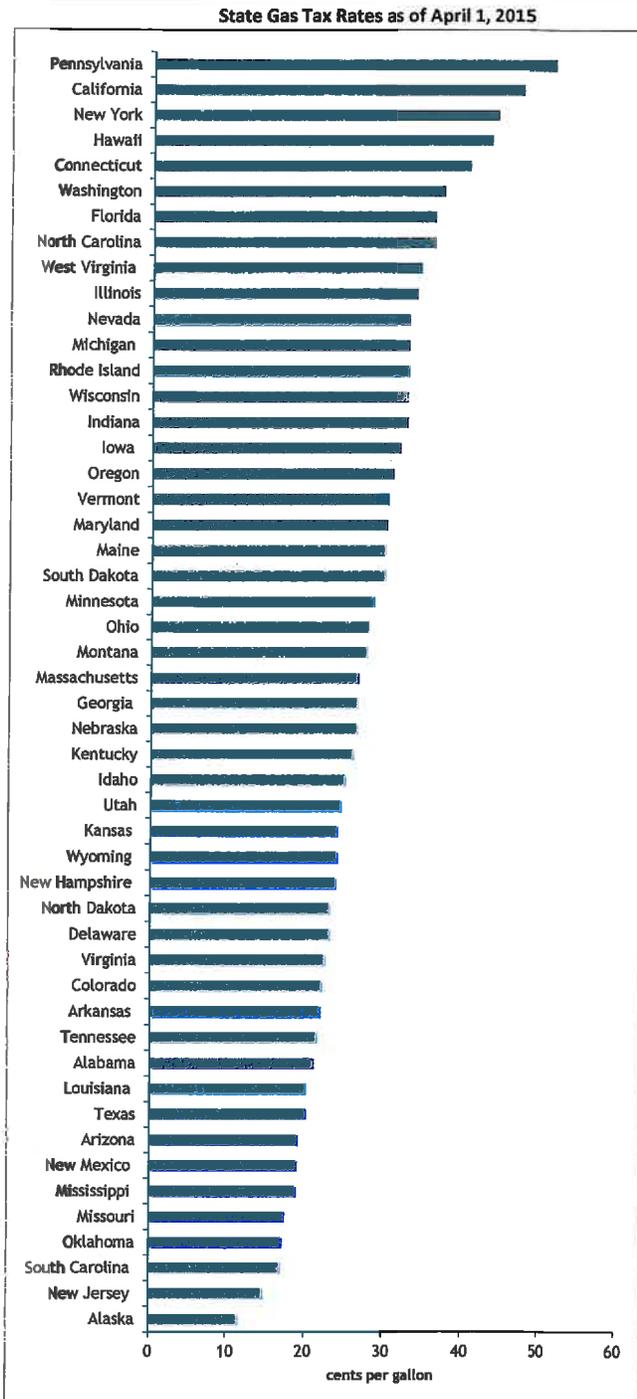
States That Have Increased or Reformed Motor Fuels Taxes Since 2013



Source: Institute on Taxation and Economic Policy; Georgia General Assembly. Georgia pending Governor's signature. Michigan proposal goes before the voters on May 5.



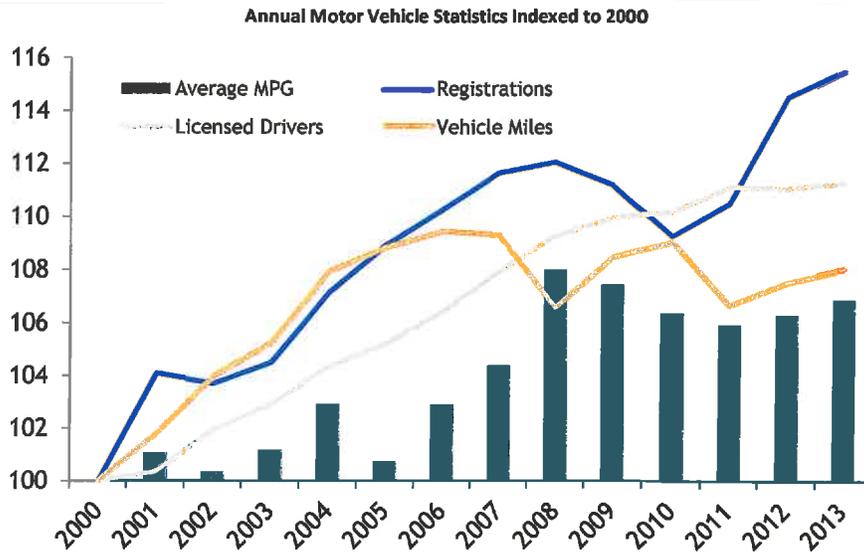
Exhibit 2: While there has been some movement of late to convert fixed rate per gallon gas taxes to more of a variable rate structure, the vast majority of the states still levy a fixed rate tax. According to the Institute on Taxation and Economic Policy, on average, these fixed rate taxes haven't been raised in 17 years. The most recalcitrant states are also among those with the lowest rates.



Source: American Petroleum Institute

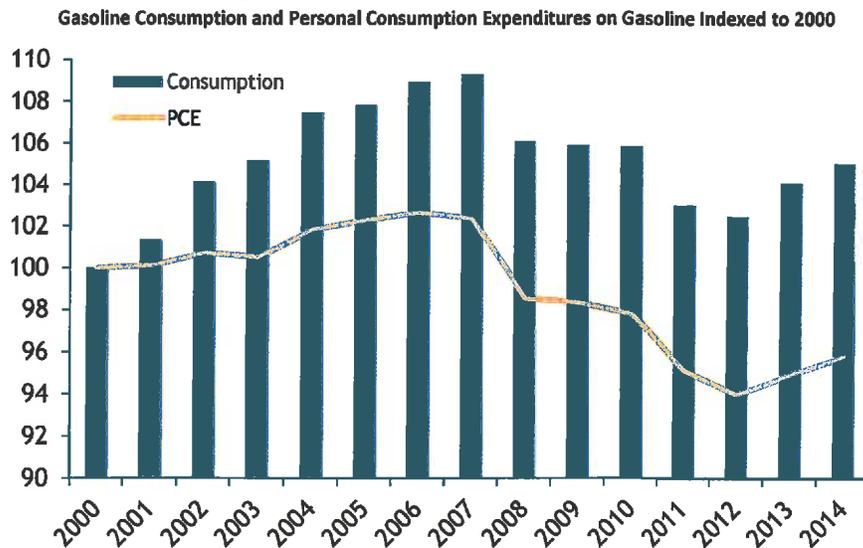


Exhibit 3: While the Great Recession took a bite out of US motor vehicle statistics, the trend in vehicle usage has generally been up over the last 15 years. In particular, vehicle miles have been in a growth mode since 2011 (up another 1.5% in 2014, not shown). The estimated average fuel efficiency of light duty vehicles (vehicles on the road, not just new vehicles) has been improving since 2011 as well.



Source: Haver Analytics, US DOT; 2013 data latest available for registrations, licensed drivers and vehicle efficiency

Exhibit 4: The combination of the dampening effects of the recession and increased vehicle efficiency has depressed both consumption of gasoline and spending on gasoline. More recently, the decline in oil prices has contributed to the spending drop. As a result, state gas taxes calculated both on a fixed per gallon basis and as a percentage of sale, have failed to keep pace with both capital needs and construction costs.



Source: US BEA; US EIA; Personal consumption expenditures on gasoline and other motor fuels in \$2009.