



MEMORANDUM

Date: December 12, 2022

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

From: Jan Lesher 
County Administrator

Re: **Highway User Revenue Fund and Vehicle License Tax Distribution**

Background

In November, the Clerk of the Board shared online links with you for the monthly Arizona Department of Transportation Highway User Revenue Fund (HURF) [reports](#). This memorandum provides you a summary of HURF and Vehicle License Tax (VLT) funding sources.

HURF and VLT are both state shared revenue sources for which state statute specifies the distribution and allowable use of the funds. HURF and VLT are the primary revenue sources that fund the Department of Transportation (DOT). These revenues are used to fund DOT personnel and operating costs, debt service, the County's contribution to transit and the maintenance and operations of the roadway network in the unincorporated county. Starting in Fiscal Year (FY) 2020, DOT began receiving PAYGO/General Fund support, as an operating transfer in, in order to accelerate the delivery of, and supplement HURF and VLT received by DOT for, the Road Pavement Repair and Preservation Program.

Highway User Revenue Fund

HURF collections are an aggregate of gasoline and use-fuel taxes, motor-carrier taxes, vehicle license taxes, motor vehicle registration fees and other miscellaneous fees. These revenues are distributed to cities, towns, counties and the State Highway Fund (Attachment). In FY 2022, \$55.5 million in HURF revenues were distributed to Pima County. Based on the most recent projections provided by ADOT in September 2022, Pima County is forecasted to receive \$55.7 million in HURF revenues in FY 2023.

Essentially, DOT will essentially see no growth in HURF revenues between FY 2022 and FY 2023, while costs for the pavement program have increased by over 10% during this same period. Table 1 shows the actual HURF revenue distribution to the county in FY 2018 through FY 2022 and the official ADOT projected distribution for FY 2023 through FY 2028.

Table 1: Actual and Projected HURF

Fiscal Year	HURF
2018	\$ 46,553,251
2019	\$ 49,718,364
2020	\$ 48,759,035
2021	\$ 52,117,753
2022	\$ 55,522,085
2023	\$ 55,656,172
2024	\$ 58,337,367
2025	\$ 60,154,038
2026	\$ 61,978,251
2027	\$ 63,806,525
2028	\$ 65,732,724

Vehicle License Tax

Pima County also receives a distribution of VLT. A portion is designated for transportation purposes and is given to DOT and a portion is distributed to the General Fund. Table 2 shows the actual VLT for transportation purposes distributed to the county in FY 2018 through FY 2022 and the official ADOT projected distribution for FY 2023 through FY 2028. There has been no growth in VLT from FY 2021 to FY 2023; however, it is assumed that there will be growth in the long-term.

Table 2: Actual and Projected VLT

Fiscal Year	VLT
2018	\$ 14,998,948
2019	\$ 15,846,459
2020	\$ 16,052,953
2021	\$ 18,528,630
2022	\$ 18,168,553
2023	\$ 18,309,994
2024	\$ 19,832,779
2025	\$ 20,969,880
2026	\$ 22,146,880
2027	\$ 23,367,103
2028	\$ 24,700,371

Transportation Department Budget Summary

DOT is funded almost entirely by HURF and VLT revenues. As shown in Table 3, HURF and VLT is over 95% of the total revenues that fund the department. Major uses of HURF and VLT are debt service for the 1997 HURF Bond Program, the Road Pavement Repair and Preservation Program and the Maintenance of Effort Agreement for Transit.

Table 3: HURF & VLT as a percentage of total DOT Revenues

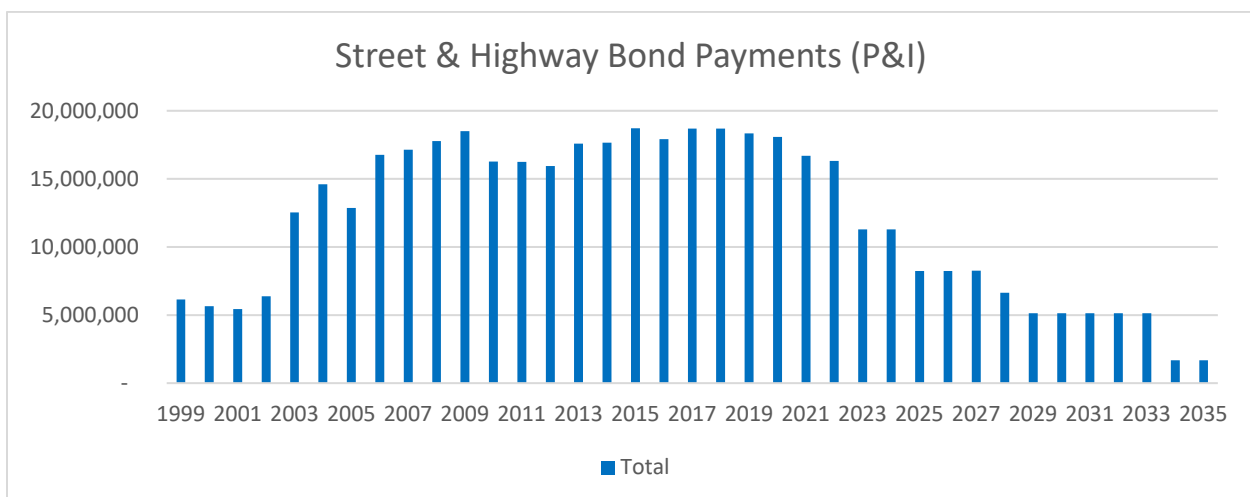
Fiscal Year	2018		2019		2020		2021		2022		2022	
	Actual	% of Total	Actual	% of Total	Actual	% of Total	Actual	% of Total	Actual	% of Total	Budgeted	% of Total
HURF	\$ 46,553,251	73%	\$ 49,718,364	73%	\$ 48,759,035	72%	\$ 52,117,753	71%	\$ 55,522,084	73%	\$ 57,464,000	73%
VLT	14,998,948	24%	15,846,459	23%	16,052,953	23%	18,528,630	25%	18,168,553	24%	18,834,000	24%
Other Revenues	2,052,190	3%	2,801,034	4%	3,271,442	5%	2,761,173	4%	2,123,429	3%	2,017,678	3%
Total Revenue	\$ 63,604,389	100%	\$ 68,365,857	100%	\$ 68,083,430	100%	\$ 73,407,556	100%	\$ 75,814,066	100%	\$ 78,315,678	100%

Note: Amounts above do not include Operating Transfers In or the Property Taxes collected from the Transportation Property Road Tax levied in FY 2018.

Beginning in FY 1999 a portion of the HURF revenues were used to pay debt service payments related to the 1997 HURF Bond Program. Table 4 shows the actual and forecasted debt service payments for the life of the HURF Bond Program. HURF Bonds have provided funding to DOT’s Capital Improvement Program (CIP) as well as funding for CIP projects in other jurisdictions, such as the City of Tucson’s recently completed Broadway Boulevard project.

DOT’s CIP program is primarily funded with a combination of Impact Fees, Regional Transportation Authority funds, Regional HURF 12.6%, Federal Funding and HURF Bonds. Direct HURF distributions to DOT are used to cover minor expenses on CIP projects that cannot be covered or exceed the funding available from other sources.

Table 4: 1997 HURF Bond Total Principal and Interest Payments



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Beginning in FY 2020, the County began its Road Pavement Repair and Preservation Program (RPRPP). The RPRPP is funded by both PAYGO and HURF funds. DOT has committed over \$104 million in HURF towards the RPRPP from FY 2020 through FY 2023.

While the Regional Transportation Authority (RTA) and City of Tucson directly manage transit in the region, Pima County provides funding for transit through a Maintenance of Effort Agreement with RTA. This expense is paid by DOT using VLT revenues. In FY 2023, the amount paid by the County is \$6,992,848.

Conclusion

HURF and VLT are state shared revenues specific allowable uses. HURF and VLT are the primary revenue sources that fund the Department of Transportation. DOT works with Pima County Finance to monitor HURF and VLT collections on a monthly basis. These revenue sources are effected by general economic conditions and adjustments are frequently made mid-year in order to accommodate fluctuations in anticipated collections. HURF funding has not kept pace with inflation over the years, primarily due to Arizona not increasing the gas tax since 1991.

JKL/dym

Attachment

- c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
- Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer
- Steve Holmes, Deputy County Administrator
- Ellen Moulton, Director, Finance and Risk Management Department
- Kathryn Skinner, Director, Department of Transportation
- Michele Campagne, Senior Advisor, Pima County Administrator's Office

ARIZONA DEPARTMENT OF TRANSPORTATION FY 2022 HURF ACTUAL REVENUE DISTRIBUTION FLOW

NOTES:

- Arizona Revised Statutes 28-5926 and 28-5927 transfer 1.6 percent of gas tax revenues to the State Lake Improvement Fund (SLIF) and 0.55 percent of gas tax revenues to the Off-Highway Vehicle Recreation Fund (OHVRF). The \$537.9 million of gas tax revenue is before of a total \$11.6 million transferred to the above two funds.
- In FY 2022, \$701,600 was appropriated to MVD for the vehicle registration enforcement and 3rd party programs.
- Laws 2011, 1st Regular Session, Chapter 28 (SB 1616) transfers from the State Highway Fund share of HURF VLT generated the difference in the two-year and five-year VLT to the state general fund which totaled \$3.4 million in FY 2022. Laws 2010, 7th Special Session, Chapter 12 (HB 2012) an amount equal to 90 percent of the fees collected under 28-4802 (A) and 60 percent of the fees collected under 28-4802 (B) shall be transferred from the State Highway Fund share of HURF VLT to the State General Fund which totaled \$4.9 million in FY 2022.
- Per Arizona Revised Statutes 28-5808, 1.51 percent of the State Highway Fund share of HURF VLT is distributed to the DPS Parity Compensation Fund.
- The 12.6% (statutory) and 2.6% (non-statutory) allocations from the State Highway Fund share of HURF distributions.
- Revenues to the State Highway Fund are reduced by the amount retained by Authorized Third Parties for the collection of VLT.
- Per Laws 2021, Chapter 127 (SB 1823), \$3.3 million from the State General Fund was distributed in FY 2022 in the same manner as rental vehicle surcharge. As a recipient of rental vehicle surcharge, HURF received \$1.2 million in the VLT category as a result of this one-time transfer that was not from actual VLT activity.

