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# MEMORANDUM

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Date: March 31, 2017

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

From: C.H. Huckelberry  
County Administrator 

Re: **Problems with Diversion of Highway User Revenue Funds to the State and any Possible Legislative Relief**

## Introduction

I previously communicated to the Board of Supervisors regarding the annual diversion of Highway User Revenue Funds (HURF) by the Arizona Legislature using the "notwithstanding" language where they are able to divert taxes or funds raised for one purpose to another. This long-term diversion has certainly contributed to the deterioration of the County's highway system.

Last year, the Legislature restored \$30 million that had previously been diverted. This restoration led to an increased pavement preservation investment by the County in our arterial and collector road system of \$1.7 million. Unfortunately, this year, the Governor in his Recommended Budget re-diverted these funds to education. The County has consistently supported any legislation that would end the diversion of HURF so that the concept of "truth in taxation" that the County is bound by, also binds the Legislature and Governor.

One of the impediments to increasing the gas tax in Arizona is voter distrust because of these past diversions. These diversions lead the average voter to conclude why raise the gas tax if the Legislature will just divert the money for another purpose?

## Legislative Efforts this Session to End HURF Diversions Entirely

This Legislative Session, Senator Bob Worsley sponsored legislation by amending SB 1146 to essentially end HURF diversions. HURF sweeps have varied widely over the years from as low as \$10 million in FY 2008 to as high as \$211.8 million in FY 2012. This year they are projected to be \$96 million. Hence, if the Arizona Department of Public Safety Highway Patrol Division was entirely funded by this legislative effort and any other additional diversions were ended, an additional \$96 million of HURF would be available to distribute to the Arizona Department of Transportation, counties, cities and towns. This would undoubtedly increase our annual investment in pavement preservation by several million dollars than we have been able to add with simply the \$30 million redirected to HURF last year by the Legislature.

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The core legislative principle in this legislation was to have those vehicles that rely partially or entirely on alternative energy sources, other than traditional gasoline or diesel fuel to pay taxes equivalent to what they would have paid had they been using traditional fuels. This would apply to natural gas powered vehicles, electric vehicle and hybrid vehicles. The owner of such vehicles would still receive substantial fuel costs savings but would pay their fair and proportionate share of wear and tear on the highway system based on what they would have paid had they been operating a vehicle that was taxed at 0.18 per gallon for gasoline or 0.26 per gallon for diesel fuel. Such is fair, reasonable and appropriate and, again strikes down one of the objections of raising the States gas tax because those who drive alternative fuel vehicles essentially get a free ride when it comes to highway maintenance costs.

Reduced Vehicle License Taxes for Alternative Fuel Vehicles

To provide an incentive for their use and hence reduce dependence on fossil fuels, the Legislature enacted incentives to purchase alternative fueled vehicles. One of the incentives was the reduce the Vehicle License Tax (VLT) from what would otherwise be paid by similarly valued vehicles using fossil fuels as the propulsion source. Below is a table of all electric vehicles, their list price, the amount paid in reduced VLT and what they would have paid had they not received this benefit.

<b>Vehicle Make and Model</b>	<b>List Price</b>	<b>Alt Vehicle Registration Year 1*</b>	<b>Non-Alt Vehicle Registration Year 1**</b>	<b>Amount Less Paid by Alt Vehicle</b>
2017 Tesla Model X Max	\$ 140,000	\$ 1,400.00	\$ 2,352.00	\$ 952.00
2017 Tesla Model S Max	\$ 135,700	\$ 1,357.00	\$ 2,279.76	\$ 922.76
2017 Tesla Model X Min	\$ 90,000	\$ 900.00	\$ 1,512.00	\$ 612.00
2017 Tesla Model S Min	\$ 69,200	\$ 692.00	\$ 1,162.56	\$ 470.56
2017 BMW i3	\$ 43,395	\$ 433.95	\$ 729.04	\$ 295.09
2017 Mercedes-Benz B250e	\$ 40,825	\$ 408.25	\$ 685.86	\$ 277.61
2017 Chevrolet Bolt EV	\$ 37,495	\$ 374.95	\$ 629.92	\$ 254.97
2017 Fiat 500e	\$ 32,780	\$ 327.80	\$ 550.70	\$ 222.90
2017 Nissan Leaf	\$ 31,545	\$ 315.45	\$ 529.96	\$ 214.51
2017 Ford Focus Electric	\$ 29,995	\$ 299.95	\$ 503.92	\$ 203.97
2017 Mitsubishi i-MiEV	\$ 23,845	\$ 238.45	\$ 400.60	\$ 162.15

\*Alt Vehicle Registration = 1% of car value depreciated at 15% a year

\*\*Non-Alt Vehicle Registration = 60% \* 2.8% of car value depreciated at 16.25% per year

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Clearly, electric vehicles have a financial advantage in registration yet they drive the same amount or perhaps even more annual vehicle miles on the transportation system; hence, their impact in congestion, wear and tear is equivalent or more than a conventional powered vehicle.

Although the bill passed the Committee of the Whole in the Senate, a majority the membership and the leadership of the Legislature has elected to not allow the bill to move forward. Hence, the fundamental and underlying issues causing voter distrust when considering increases of the gas tax in Arizona persist. Only when HURF diversions by the Legislature for purposes other than transportation purposes end and alternative fueled vehicles start paying their fair share of transportation system costs, will voters feel comfortable increasing fuel taxes to improve transportation.

CHH/anc

c: Michael Racy, Racy Associates, Inc.