MEMORANDUM

Date: January 31, 2018

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

From: C.H. Huckelberry
County Administrator

Re: **Additional Information – February 6, 2018 Board of Supervisors Agenda Item Regarding the Draft Sales Tax Implementation Ordinance and Road Repair Plan for Discussion**

I previously transmitted a draft sales tax implementation plan ordinance and road repair plan to you for discussion on February 6, 2018. This information was in response to a request from Supervisor Valadez and builds upon ongoing discussions the Board has had regarding Supervisor Christy's plan. The proposal would allocate the full amount of sales tax revenues to road repairs in the first year. In subsequent years, the road repair portion of sales tax revenues would be reduced by 2.5 percent annually with that amount going toward property tax reduction. After year 10, the full sales tax revenues would be applied to property tax reduction. By year 11, this proposal would have the effect of reducing the Pima County primary property tax rate by 31 percent. The 10 years' worth of road repair funds would be shared with cities and towns, based on their proportional population. The road repair funds allocated to unincorporated Pima County roads would be combined with growth in HURF revenues, additional HURF resulting from reductions in debt-service, and Transportation Department cost saving measures, to fully fund the repair and regular maintenance of all County-maintained paved roads in unincorporated Pima County.

Since this proposal was transmitted to you, staff have prepared a sample Board resolution. A resolution would be the method by which the Board would approve levying a sales tax. To be clear, the sales tax implementation plan ordinance could be approved by a majority vote of the Board as it does not approve a sales tax; it simply approves a plan for implementing a sales tax if the Board later chooses to approve levying a sales tax. The resolution would require unanimous approval of the Board to actually levy the sales tax. The agenda item for February 6 is only for continued discussion and direction to staff, not Board action.

Attached is the sample Board resolution. This resolution would direct the County Administrator to work with the Regional Transportation Authority (RTA) to develop an intergovernmental agreement (IGA) under which the RTA would oversee the County's and municipalities' road repair and pavement preservation programs that receive funding from the County sales tax. This oversight would include; (1) annual audits to ensure the required percentage of sales tax revenue is deposited into the road repair fund, and that the use of

the monies in the road repair fund comply with authorized uses specified in the resolution; (2) the establishment of performance standards and best practices for road repair and pavement preservation programs; and (3) evaluation of the County's and municipalities' road repair and pavement preservation programs based on such standards and practices.

In addition to the audit by a certified public accountant and retained by the RTA, the Arizona Office of the Auditor General would also audit the County's financial statements annually. If either audit concludes that the sales tax revenues allocated for road repair were less than the percent required in the resolution, or that the funds were spent for uses other than those authorized in the resolution, the County would be required to reimburse the road repair fund in the same Fiscal Year (FY) as the audit was finalized. If the next FY audits concluded that the violation was not cured by the County's reimbursement of funds, the sales tax would terminate at the end of that FY and the County would be required to notify the Arizona Department of Revenue that the tax should no longer be collected. The only exception to this is that the County would be obligated to continue levying the tax until any debt obligations associated with the sales tax were repaid. The only debt obligations contemplated at this time would be for short 2-3 year terms to overcome the statutory expenditure limitations necessary to allow for the sales tax to be spent on road repair.

Also attached is a January 31, 2018 memorandum to the Pima County Sales Tax Advisory Committee concerning the possible impact of a County half-cent sales tax on low-income households and opportunities the Board could consider for mitigating this impact. This includes more details regarding expansion of United Way's free income tax return preparation program, as well as a proposal to allocate one-percent of the sales tax revenues annually to programs and services that increase the financial stability of low-income households via the County's existing Outside Agency Program and/or interdepartmental Addressing Poverty Now working group.

CHH/mp

Attachments

c: Jan Lesher, Chief Deputy County Administrator
Tom Burke, Deputy County Administrator for Administration
Carmine DeBonis, Deputy County Administrator for Public Works
Keith Dommer, Director, Finance and Risk Management
Ana Olivares, Director, Transportation Department
Yves Khawam, Deputy Director, Transportation Department
Andrew Flag, Chief Civil Deputy County Attorney
Regina Nassen, Deputy County Attorney
Nicole Fyffe, Executive Assistant to the County Administrator

RESOLUTION NO. 2018 - ____

A RESOLUTION OF THE PIMA COUNTY BOARD OF SUPERVISORS LEVYING A GENERAL EXCISE TAX

The Board of Supervisors of Pima County, Arizona, finds:

A. Pima County has authority, under A.R.S. § 42-6103, to adopt a general excise tax by a unanimous vote of the Board of Supervisors. The tax rate specified in the statute equates to one-half percent for most transactions and applies to the same transactions subject to the State of Arizona's sales tax. It applies to transactions within cities and towns as well as those in unincorporated areas of the county levying the tax.

B. Pima County has the highest property tax rate of all Arizona counties. It is the only County that has not levied a sales tax.

C. The State Legislature has not raised the gas tax in over 25 years, and the amount of Highway User Revenue Funds distributed to Pima County is inadequate to pay for needed road repair and maintenance as well as important capital projects.

D. Approximately 70 percent of the 1,867 miles County-maintained roadways in unincorporated Pima County are in poor or failed condition. It would cost approximately $527 million, over a ten year period, to bring all paved and maintained roads within unincorporated Pima County up to a fair or better condition based on the Pavement Surface Evaluation and Rating ("PASER") system.

E. Imposition of a general excise tax under A.R.S. § 42-6103, in order to provide funding for road repair and maintenance for County maintained roadways and those maintained by its incorporated municipalities, and in order to reduce the County's property tax levy, would support and enhance countywide services.

F. The Board of Supervisors adopted the Sales Tax Implementation Plan Ordinance No. ____2018 on ____, 2018.

NOW, THEREFORE, BE IT RESOLVED as follows:

1. Tax Levy. The Board of Supervisors of Pima County hereby orders the levy of a county general excise tax under A.R.S. § 42-6103, at a rate that is ten percent of the rates prescribed by A.R.S. § 42-5010(A) on each class of business subject to the tax imposed by Title 42, Chapter 5, Article 1 of the Arizona Revised Statutes and A.R.S. § 42-5352(A) (the "County Sales Tax").

2. Allocation of Revenue. The Arizona Department of Revenue will collect the County Sales Tax revenue and the State Treasurer will transmit the revenue to the Pima County Treasurer, as provided by A.R.S. § 42-6103. The Pima County Treasurer will deposit the revenue in two funds, according to the percentages shown in the table below. The percentage allocated to road repair will be deposited in a separate, restricted fund (the "Road Repair Fund"), and the remainder of the revenue will be deposited in the Pima County General Fund.

Year	Percentage for Road Repair	Percentage for Property Tax Reduction
1	100%	0.0%
2	97.5%	2.5%
3	95.0%	5.0%
4	92.5%	7.5%
5	90.0%	10.0%
6	87.5%	12.5%
7	85.0%	15.0%
8	82.5%	17.5%
9	80.0%	20%
10	77.5%	22.5%
Year 11 and After	0.0%	100%

3. Use of Revenue in Road Repair Fund.

   a. Authorized Uses. The County Sales Tax revenue deposited in the Road Repair Fund may be used only for the maintenance, repair, and rebuilding of roads within the County, and for the payment of debt service and financing costs on any debt obligations issued by the County for such purposes. Qualifying repair and preservation treatment activities include fog sealing, chip sealing, micro-surfacing, mill and overlay, and reconstruction, including repair, reconstruction, or installation of associated shoulders and headers, edge protection, curbing, and any Americans with Disabilities Act (ADA) infrastructure improvements required by the application of a particular repair or preservation treatment.

   b. Distribution of Road Repair Sales Tax Revenues Among Municipalities and Pima County. The County Administrator is directed to develop and implement a program for distributing a share of the revenues in the Road Repair Fund to each incorporated municipality within the County based on the municipality's population expressed as a percentage of the County's total population, and to develop, with the assistance of the County Attorney's Office, appropriate intergovernmental agreements between the County and each municipality, as stated in the Sales Tax Implementation Plan Ordinance.

   c. Role of Regional Transportation Authority. The County Administrator is directed to work with the Regional Transportation Authority (the "RTA") to develop an intergovernmental agreement under which the RTA will oversee the County's and municipalities' road repair and pavement preservation programs that receive funding from the Road Repair Fund; cause the Road Repair Fund to be audited annually by a certified public accountant as described in paragraph 3(d) below; establish performance standards and best practices for road repair and pavement preservation programs; and review and comment on County and municipal road repair and pavement preservation programs.

   d. Reporting and Auditing. The County Administrator or their designee will track and report the amount of revenue received from the County Sales Tax, the amounts deposited to the Road Repair Fund, and all expenditures of monies in the Road Repair Fund, as well as all expenditures of the proceeds of any obligations issued by the County, the debt service on which is to be paid from the Road Repair Fund, in the County's financial statements that are audited annually by the Arizona Auditor General's Office. The County Administrator or their designee will also report this information in separate financial schedules, and will

cause those schedules to be audited annually by an independent certified public accountant retained by the RTA per paragraph 3(c), who will attest that the schedules fairly represent Pima County's deposits to and expenditures of the monies in the Road Repair Fund; that the appropriate percentage of the County Sales Tax revenue, as set forth in the table in Section 2 above, was deposited in the Road Repair Fund; and that the use of the monies in the Road Repair Fund complied with the restrictions in paragraph 3(a) above.

e. Cure. If an audit report issued by the Auditor General or by an independent certified public accountant under paragraph 3(d) above indicates that the deposits to the Road Repair Fund less were than they should have been, or that any expenditure of monies in the Road Repair Fund was improper, and if this finding is not reversed after consultation with the County, the County will, during the then-current fiscal year, deposit additional monies into the Road Repair Fund to cure any shortfall in the deposits and reimburse the Road Repair Fund the amount of any improper expenditure, provided that sufficient funds are legally available to the County to be used for that purpose. The first annual independent audit that is conducted after this reimbursement will certify that the prior violation was cured.

f. Sunsetting. If an improper use of monies in the Road Repair Fund is reported as provided in paragraph 3(d) above, and the following annual independent audit does not certify that the monies have been replaced as provided in paragraph 3(e) above, the levy of the County Sales Tax will lapse and cease as of the end of the fiscal year in which that audit is conducted, except that the levy will continue so long as any obligations that are secured by a pledge of the County Sales Tax revenue, or for which the County Sales Tax revenue is the identified debt-service funding source, are outstanding. The County Administrator or their designee will cause the appropriate notices terminating the collection of the Sales Tax to be delivered to the Arizona Department of Revenue.

4. Use of Revenue for Property Tax Reduction. Each year, the Board will include an estimate of the anticipated County Sales Tax revenue in the County's estimated revenues and expenses, as required by A.R.S. §§ 42-17101 and 42-17102. The amount allocated to property tax reduction will reduce the total amount of the primary property tax levy. This determination will be made by the Board as part of the annual budget process.

PASSED, ADOPTED AND APPROVED by the Pima County Board of Supervisors this ___ day of _____, 2018.

_____
Richard Elìas
Chairman, Pima County Board of Supervisors

ATTEST:

_____
Julie Castañeda
Clerk of the Board

APPROVED AS TO FORM:

_____
Deputy Pima County Attorney

MEMORANDUM

Date: January 31, 2018

To: Chair and Members
Pima County Sales Tax Advisory Committee

From: Nicole Fyffe
Executive Assistant to the
County Administrator

Re: **Additional Information Concerning a Proposed County General Sales Tax and the Impact to Low-Income Households**

1. Background

This memorandum is in response to questions and comments from Sales Tax Advisory Committee (Committee) members during and after discussion of this topic at the Committee's January 9, 2018 meeting. It expands upon information provided in the memorandum dated December 8, 2017.

2. Estimated Cost of the Sales Tax by Household Income

Materials provided to the Committee and the public often cite an estimate of $91 a year ($7.58 a month) as the cost of a half-cent sales tax to a household with the average income in Pima County, which is $65,000. The median household income as estimated by the U.S. Census Bureau for 2016 is $46,764, which is lower than the average.

Note that these estimates are per household, not per person. The U.S. Census Bureau estimates an average of 2.47 persons per household for Pima County. Prior to the City of Tucson's sales tax election last year, City materials included an estimated cost of $3 per month per person, which is almost identical to the County's estimate of $7.58 a month per household for the average income households at 2.47 persons per household ($3.07 per person).

Table 1 was provided to the Committee in the previous memorandum and shows how the estimated cost of the sales tax varies by household income. Again, this is per household, not per person. The source data for Table 1 is the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. The data does have limitations. For example, household income may be under reported and does not include student loans, savings, and the value of food stamps/SNAP program benefits, which means that the households access to funds to purchase goods and services may be under represented. For our purposes, it also means that households included in the lower-income categories may include students and retirees that may have access to funds not shown and therefore may not be as impacted by an increased sales tax. But regardless of the limitations, this consumer expenditure survey data is the primary source of data available if we want to relate the expenditures of consumers to their incomes.

Regarding the impact of the sales tax on lower-income households, Table 1 shows the estimated cost would range from about $3 to $6 a month for households with incomes below the median household income of $46,764.

Table 1

Estimated County Half-Cent General Sales Tax Cost Per Household By Household Income

Income Before Taxes	**Less than $15,000**	**$15,000 to $29,999**	**$30,000 to $39,999**	**$40,000 to $49,999**	**$50,000 to $69,999**	**$70,000 to $99,999**	**$100,000 to $149,000**	**$150,000 to $199,999**	**$200,000 and more**
Avg. Income Before Taxes*	**$8,388**	**$22,167**	**$34,703**	**$44,589**	**$59,369**	**$83,595**	**$120,512**	**$170,704**	**$345,002**
Avg. Annual Taxable Expenditures*	$7,362	$9,614	$13,088	$13,890	$16,151	$19,727	$24,913	$31,238	$40,817
Sales Tax Rate	.005	.005	.005	.005	.005	.005	.005	.005	.005
Annual Cost of Half-cent Sales Tax	**$36.81 ($3.07 month)**	**$48.07 ($4.01 month)**	**$65.44 ($5.45 month)**	**$69.45 ($5.79 month)**	**$80.76 ($6.73 month)**	**$98.63 ($8.22 month)**	**$124.56 ($10.38 Month)**	**$156.19 ($13.02 month)**	**$204.09 ($17.01 month)**
Annual Cost as % of Income	0.44%	0.22%	0.19%	0.16%	0.14%	0.12%	0.10%	0.09%	0.06%

*National level data from the Consumer Expenditure Survey 2016, U.S. Bureau of Labor Statistics

3. Number of Low-Income Households in Pima County

The Committee may be interested in how many households fall within these various income categories. Table 2 shows the estimated number of households by household income, according to data from the U.S. Census Bureau. While the income categories don't line up perfectly with the income categories in Table 1, the data shows that roughly one third, or 128,000 households in Pima County have incomes below $30,000. Those households are estimated to pay approximately $3 or $4 a month more in sales tax if the County were to adopt a half-cent sales tax.

Table 2
Number of Households in Pima County by Household Income

Household Income	Estimated Number of Households	Percent of Total Households
Less than $10,000	32,118	8%
$10,000 to $14,999	24,478	6%
$15,000 to $19,999	23,828	6%
$20,000 to $24,999	25,202	6%
$25,000 to $29,999	22,502	6%
$30,000 to $34,999	22,621	6%
$35,000 to $39,999	19,643	5%
$40,000 to $44,999	20,891	5%
$45,000 to $49,999	17,654	4%
$50,000 to $59,999	31,928	8%
$60,000 to $74,999	38,781	10%
$75,000 to $99,999	44,846	11%
$100,000 to $124,999	26,987	7%
$125,000 to $149,999	15,864	4%
$150,000 to $199,999	14,980	4%
$200,000 or more	13,067	3%
Total:	395,390	100%

Source: U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates, Household Income in the past 12 months in 2016 inflation adjusted dollars

4. Number of Households in Poverty In Pima County

Pima County's poverty rate as of 2016 was 18.4 percent and the City of Tucson's poverty rate was 24 percent. These are down slightly from 2015 but up significantly from 2007 and the start of the Great Recession. Poverty guidelines (the household income level for which those with incomes below the level are considered to be in poverty) are set at the Federal level and depend on family size, as shown in Table 3.

Table 3
2018 Poverty Guidelines

Persons in family/household	**Poverty guideline**
For families/households with more than 8 persons, add $4,320 for each additional person.	
1	$12,140
2	$16,460
3	$20,780
4	$25,100
5	$29,420
6	$33,740
7	$38,060
8	$42,380

5. Home-Ownership by Household Income

According to Table 4, even for the lowest income households, at least a third own their home and would therefore see their Pima County primary property taxes reduced under the proposals that the Committee and the Board have discussed to date.

Table 4
Owner-Occupied versus Rental Housing in Pima County by Household Income

Household Income	Total Housing Units	Owner-Occupied	% Owner-Occupied	Renter-Occupied	% Renter-Occupied
Less than $5,000	15,816	5,333	34%	10,556	67%
$5,000 to $9,999	16,211	5,090	31%	11,168	69%
$10,000 to $14,999	24,514	7,999	33%	16,370	67%
$15,000 to $19,999	23,723	10,423	44%	13,463	57%
$20,000 to $24,999	25,305	11,393	45%	13,769	54%
$25,000 to $34,999	45,074	24,240	54%	20,960	47%
$35,000 to $49,999	58,122	34,663	60%	23,561	41%
$50,000 to $74,999	70,775	47,995	68%	22,643	32%
$75,000 to $99,999	44,679	34,178	76%	10,709	24%
$100,000 to $149,999	42,702	35,633	83%	7,191	17%
$150,000 or more	28,073	25,452	91%	2,601	9%
Total	94,995	242,399	61%	152,991	39%

Source: U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates, Household Income in the past 12 months in 2016 inflation adjusted dollars

6. Analysis of Draft 10 Year Road Repair Plan

One of the suggestions we received from a member of the public via the online feedback form was to consider fixing roads in lower-income areas first. Staff ran an analysis comparing the estimated median household incomes of Census block groups across Pima County to the road treatment schedule contained in the Draft 10 Year Plan for Road Repair for Unincorporated Pima County. The analysis found that this current draft plan would not result in more road miles in low-income areas being treated in the early years. For the total County maintained paved road miles in areas where the median household income is estimated to be less than the median for the entire County ($47,000), one-third of the road miles are scheduled to be treated within the first 5 years of the program, and two-thirds of the road miles are scheduled to be treated within the last 5 years of the program. This plan is merely a draft and staff can certainly change inputs into the model. However, it is also worth considering that households, regardless of income, often drive outside of their immediate

neighborhoods to access schools, employment and services, and therefore may also benefit from road repairs occurring outside of their immediate neighborhoods.

7. City of Tucson's 5-Year Half-cent Sales Tax for Road Repair and Public Safety Equipment

City voters approved a temporary, five-year half-cent sales tax increase in May 2017, to fund road repair and public safety equipment. When the additional sales tax terminates, the City's sales tax would decrease by a half cent, which would then eliminate the impact of a County half cent sales tax for those who shop or conduct taxable business transactions in the City. A half-cent County sales tax would generate more annually for the City for road repair than the City's tax does, if the revenues are distributed to the City based on population, as proposed under the plans that the Committee and Board have discussed to date. That said, the City could still seek voter approval to continue the tax.

8. United Way's Voluntary Income Tax Assistance Program and the Arizona Income Tax Credit for Increased Excise (Sales) Taxes

The December 8th memorandum referenced the option of providing increased County assistance for the United Way's Voluntary Income Tax Assistance (VITA) program, with the goal of increasing the number of eligible households that claim the Arizona income tax credit for increased sales taxes. This tax credit, if not already taken, may completely offset the impact of a County's half-cent sales tax. The tax credit is $25 per person, with a maximum credit of $100 for a household of four or more, and those eligible include individuals or married couples filing separately with adjusted gross incomes of $12,500 or less, and single heads of households or married couples filing jointly with adjusted gross incomes of $25,000 or less.

Ken Briggs oversees the VITA program for the United Way of Tucson and Southern Arizona, which provides free tax filing assistance to eligible individuals and households. According to Mr. Briggs, 2015 data from the Internal Revenue Service (IRS) for Pima County shows that there is a lot of opportunity to expand the VITA program. Expansion of the program would not only increase the number of households that can claim the increased sales tax credit and other tax credits such as the Earned Income Tax Credit, but would also eliminate the filing fees for those that currently pay an average of $250 to file but are eligible to file for free. While United Way and its partners have a limited number of IRS-certified tax return preparers, they are able to encourage people to file tax returns through free online software or through "Valet VITA". Valet VITA includes sites around the community that are staffed by volunteers that interview people and scan the required documents, which are then uploaded to a secure

server. IRS-certified preparers are then physically located at offsite locations and process these tax returns within about a week. Pima County's involvement in United Way's VITA program is specifically through Valet VITA, whereby Pima County's Community Service, Employment and Training Department provides sites and site coordinators for this service.

Mr. Briggs stated that Pima County could be most effective by increasing resources for targeted promotion of the program. If that promotion then leads to a considerable increase in those who use the program, Pima County could then consider providing more Valet VITA sites.

Pima County also provides sites at libraries and community centers for the American Associations of Retired Persons (AARP) to provide free tax filing assistance. The United Way's program and partners, along with AARPs, are the primary providers of this free tax filing assistance in Pima County.

9. Additional Support to Increase the Financial Stability of Low-income Households

Pima County provides assistance to low-income households through a variety of County and external agency programs and services, including a more recent initiative that is part of the County's Economic Development Plan: the Ending Poverty Now initiative. According to the County departments responsible for the majority of these services and programs, there is no practical way to offset the increase in sales tax to all the low-income households that would be impacted. However, the Committee and the Board may want to consider expanding assistance for programs and services that increase the financial stability for many such households. One idea is to commit, in the sales tax implementation plan ordinance, to allocate one percent of the annual sales tax revenues ($800,000 on average) to such efforts. The infrastructure for identifying annual needs in these areas, prioritizing those needs and requests, and allocating funding, already exists through the County's long-standing Outside Agency Program, which is overseen by a 6-member Committee appointed by the Board of Supervisors and the County Administrator. The departments responsible for the majority of the County services and programs collaborate through an interdepartmental Addressing Poverty Working Group associated with the Ending Poverty Now Initiative, which may also provide an effective way to direct these additional resources for emerging needs, cross discipline approaches, or multi-generational projects that have not been identified or funded through previous efforts.

10. Summary

While the estimated cost of a County half-cent sales tax to the average income household in Pima County is estimated to be $91 a year or $7.58 per month, about one-third or 128,000 households in Pima County are estimated to have incomes below $30,000 and are therefore estimated to pay about $36 to $48 a year or $3 to $4 per month per household. While low-income households are disproportionally impacted by sales taxes, at least one-third of households at the lower-income levels own homes and would see a reduction in Pima County primary property taxes if some or all of the sales tax revenue is applied to property tax reduction. The Draft 10 Year Plan for Road Repair for Unincorporated Pima County does not currently prioritize road repair in low-income areas, though it is assumed that households often travel outside of their immediate neighborhoods and therefore may benefit from road improvements in other areas. The City of Tucson's 2017 voter-approved half-cent sales tax is set to expire in 4 years, at which time the total sales tax in the City would be reduced by a half-cent, unless the City asks voters to continue the tax. The poverty rate in the City is significantly higher than the County as a whole. There is opportunity to expand the United Way's free tax filling assistance program and for Pima County to increase targeted proportion of the program. In addition, the Board could consider allocating one-percent, or about $800,000 a year, from a County half-cent sales tax to programs and services that increase the financial stability of low-income households that would be disproportionally impacted by the sales tax.

CHH/

c: Chuck Huckelberry, County Administrator
Jan Lesher, Chief Deputy County Administrator
Tom Burke, Deputy County Administrator for Administration
Carmine DeBonis, Deputy County Administrator for Public Works