MEMORANDUM

Date: August 1, 2014

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

From: C.H. Huckelberry
County Administrator

Re: **A Plan for Funding Street and Highway Repairs in Pima County**

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I. BACKGROUND

I previously advised the Board of Supervisors that a report regarding funding for street and highway repairs in Pima County would be provided. This memorandum discusses the financial challenges faced by Pima County – as well as those of the other Arizona counties, other states and our national transportation system – and makes funding recommendations to address our pavement preservation and maintenance problems within the next 10 years.

The dismal state of repair of the streets and highways in the unincorporated area is no secret. Their conditions are worse now than they have ever been, and conditions will not improve without a new and self-reliant approach to funding street and highway repairs. We attempted a global approach for street and highway repairs by supporting legislative action that would enact or refer to the voters a 10 cent per gallon gasoline tax increase or an increase in user fees. This request, as well as a request to end diversions of Highway User Revenue Funds (HURF) for other State purposes, has not resulted in significant progress. There has been no action on any effort to enact a local authority gasoline tax, a local authority sales tax on gasoline, a study commission on increasing transportation revenues, or referral of any of these proposals to the voters in the last legislative session.

Only minimal progress was made at reducing or eliminating HURF diversions. While the Arizona Legislature did reduce a portion of HURF diversions for other State purposes by $30 million, the net impact in Pima County was to increase our revenues by only $1.75 million for Fiscal Year (FY) 2014/15. Total State diversions of HURF monies for other than street and highway repairs have exceeded $900 million over the last decade alone. Given the complete lack of progress in solving this problem on a statewide level, it is appropriate to explore local options that may be available to the Board of Supervisors.

II. THE PROBLEM

The acute problem of failing streets and highways in Pima County became readily apparent over the last 5 to 10 years. The problem was exacerbated when HURF diversions by the State left the County with no money to continue trying to repair a failing highway system.

A March 18, 2014 study indicated that bringing all of Pima County's paved streets and highways in the unincorporated area up to a reasonable standard would cost $264 million. Because of the magnitude of this problem, the Board has supplemented transportation revenues with allocations of County General Funds in amounts greater than ever made in the past. Recently, $10 million of the County General Fund Balance was allocated to street and highway maintenance, and an additional $5 million of property tax levy from the General Fund was provided this year. Another allocation for FY 2014/15 will be made, but future allocations are very unlikely.

Given the rate of deterioration of the transportation system, it is likely these incremental $5 million investments are allowing the County to simply tread water. The overall system is likely not worsening, but it is also not improving. Allocating $5 million in General Fund property tax allocations to the problem is not a solution. An allocation of approximately $30 million per year will generally bring all streets and highways in the County up to good or fair standards within 10 years. Such is an appropriate level of investment given the magnitude of the problem.

It is also important to understand that the lifecycle of pavement preservation from fully repaired to deteriorated requiring additional investment is no more than 10 years. Hence, any solution that addresses the current problem over more than a 10-year cycle is not a solution; it simply prolongs the problem.

III. REASON FOR THE PROBLEM

The State has been disinvesting in transportation infrastructure for 23 years, and the federal government has been doing the same since 1993. The traditional and most tax equitable transportation funding source is user fees, which have not been sufficiently increased to cover the cost of transportation system expansion, repair, or rehabilitation. The per gallon gas tax in Arizona is 18 cents, and the last time it was increased was 1991. The federal gas tax stands at 18.4 cents per gallon and has not been increased in 21 years.

Inflation and growth have both decreased the purchasing power of our transportation revenues in Arizona. The inflation adjusted HURF per capita revenue to Arizona cities, towns and counties has decreased from $184.39 in FY 1990/91 to $84.41 in FY 2012/13; a 54-percent reduction. Diversions to balance the State budget in Arizona also put a significant hole in transportation revenues. Between FY 2002/03 and FY 2012/13, roughly $830 million was diverted for other State purposes, and Pima County lost $37.9 million. The problem is obvious; there are insufficient transportation revenues available to meet repair and maintenance obligations, let alone system-wide capacity improvements for economic competitiveness.

The lack of sufficient resources is compounded by the fact that purchasing power of these resources continues to shrink. The Construction Cost Index, which reflects transportation related costs, has increased 96 percent since 1991; hence, the same dollar of HURF in 1991 purchases only 51 cents worth of highway improvements today. Transportation revenues have also been adversely affected by a 40 percent increase in fuel efficiency and fewer miles being driven, as well as a 21-year inflation value loss.

IV. THE PROBLEM IS NATIONAL AND STATEWIDE

Pima County is not alone in the poor condition of streets and highways. City of Tucson roadways are likely in worse shape. Newer local communities – Marana, Oro Valley and Sahuarita – have streets that are in relatively good condition simply because they were built by developers recently. In another 10 to 15 years, the streets in these communities will be in the same condition as the County's and the City's.

Every county in Arizona is having similar problems regarding insufficient revenue for maintenance of their highway systems. A 2013 report prepared by the American Society of Civil Engineers indicates 52 percent of Arizona roads are in poor to mediocre condition; and Smart Growth America's March 2014 report shows that Arizona spent the third least of all states on road repairs – only 17 percent of total revenues.

More than half the states report 50 percent or more of their roads are in poor condition. The Federal Highway Trust Fund is nearing insolvency this summer. There is a national looming transportation funding crisis. Arizona's user fee or gasoline tax is among the lowest in the nation; only eight states have a lower gas tax. Alaska has the lowest combined federal, state and local gas tax at 31 cents per gallon. Arizona's combined tax per gallon is 37 cents. Some states have significant local gas taxes. For example, Florida has a combined total gas tax of 54 cents per gallon, which includes a 32-cent local tax. Pennsylvania has a 42-cent per gallon local gas tax and a total combined gas tax of 60 cents per gallon.

Local, state, and federal user fees or the lack of an adequate level of user fee support is the root cause of the present poor and mediocre conditions of our local, state and national highways.

V. COST COMPARISON OF TRANSPORTATION OR FUEL TAXES TO MONTHLY UTILITIES AND COMMUNICATIONS COSTS

To demonstrate the gross inadequacy of transportation revenues available for local, state and national highways, it is appropriate to compare the cost of user fee taxation at both the state and national levels to other service fees typically paid without comment, concern or reservation.

Recently, the American Road and Transportation Builders Association compared the average household's monthly payments for federal and state gas taxes to utility and communications costs. Table 1 below shows these monthly costs that are deemed to be, in most cases, normal and essential.

Table 1: Average Household Monthly Services Expenses.

Service Description	Monthly Cost
Electricity and Gas	$160
Cell Phone	161
Cable and Internet Access	124
Federal and State Gas Taxes	**$46**

Comparing these costs with the average cost for combined federal, state and local gasoline taxes or fuel taxes paid illustrates the disparity in funding. In essence, the mobility enjoyed by our interconnected surface transportation system is viewed as almost a free commodity, which may explain the substantial resistance to user fee increases. When we freely pay more than triple for mobile telephones, transportation is clearly and significantly underfunded.

The 10-cent per gallon fee or gasoline tax increase the Board endorsed and asked the Arizona Legislature to act upon, either through enactment or referral, would have cost the average driver less than $1.00 per week in increased taxes – not even enough to buy a cup of coffee. It is a gross distortion and an incorrect application of economic principles to assert that a user fee on gas tax is regressive.

VI. EXISTING COUNTY TRANSPORTATION FUNDING SOURCES

I previously reported to the Board in great detail the funding sources available to the County for street and highway development, operation and maintenance. The most common funding source has been the State distributed HURF and Vehicle License Tax (VLT). Table 2 below shows these revenues for the last six fiscal years. These revenues are decreasing – not increasing – causing our transportation problems to worsen.

Table 2: State-distributed HURF and VLT Revenue History.

FY	HURF Revenue	VLT Revenue	Total
FY 2008/09	$41,209,550	$12,696,627	$53,906,177
FY 2009/10	$38,739,414	$11,795,778	$50,535,192
FY 2010/11	$38,973,544	$11,486,419	$50,459,963
FY 2011/12	$33,664,646	$11,225,110	$44,889,756
FY 2012/13	$36,859,950	$10,588,826	$47,448,776
FY 2013/14 (estimated)	$38,127,680	$11,765,600	$49,893,280
FY 2014/15 (budget)	$37,568,408	$11,580,941	$49,149,349

The largest single expense associated with our highway system is repaying revenue bond indebtedness. Table 3 below shows the last five years' payments to repay bonds issued for capital improvements, which is essentially widening the existing streets and highways within Pima County.

**Table 3:
Transportation Revenue Bond
Debt Service Five-year History.**

FY	Budgeted Debt Service
2014/15	$18,883,769
2013/14	$17,578,019
2012/13	$18,441,703
2011/12	$16,579,804
2010/11	$16,417,530

Today, approximately 38 percent of total transportation revenues are used to pay revenue bond debt service for primarily highway capacity improvements, the majority of which were constructed in District 1 (62.44 percent). Clearly, aggregate revenues are declining; the largest single expense is increasing, and fewer and fewer dollars are available for street and highway repair and maintenance.

The County also collects impact fees from new development; however, the use of these funds for street and highway maintenance is restricted by State law. These funds can only be used to improve street and highway capacity for those major streets and highways in the general area where the impact fee was collected.

Recently, the County has used General Funds to supplement transportation funding; but in the past, these have been limited to paying the County's operating transit obligations for the Regional Transportation Authority's (RTA) Maintenance of Effort (MOE) requirements. Our annual payment to the RTA for the transit MOE is shown in Table 4 below.

Table 4: Transportation Fund Expenditures for RTA Transit MOE.

FY 2014/15 Budget	$6,067,394
FY 2013/14 Budget	$5,871,772
FY 2012/13 Actual	$5,763,833
FY 2011/12 Actual	$5,753,043

Based on this, over 12 percent of the total transportation budget is paid to the RTA for transit. Over half of all transportation revenues are used for repaying issued 1997 HURF bonds and payments to the RTA for MOE for transit operations. Remaining revenues are used primarily for operating and maintenance expenses. Little, if any, money remains to make any major or significant street and highway repairs.

VII. PRESENT PUBLIC VIEW ON TRANSPORTATION

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 regional transportation 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 a 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. Less than 20 percent of the respondents support such an increase.

The PAG survey shows a dramatic shift in priorities from mobility to maintenance. The 1997 bond issue 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 never arose in the debate over whether to enact a half-cent sales tax to increase mobility through increased highway and transit capacity.

Clearly, there has been a shift in attitudes among the public regarding the condition and adequacy of our roads. There is also 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 is a local property tax.

VIII. FUNDING SOURCES FOR RESOLVING THE PROBLEM IN 10 YEARS OR LESS

There are generally three funding sources that could be available for significant additional investments in street and highway repairs. Two of these funding sources are under the direct control of the Board of Supervisors, while the other would require State legislation. These funding sources are as follows:

A. Countywide property tax,
B. Countywide half-cent sales tax,
C. Local gas or sales tax on the sale of gasoline.

Each of these alternatives is discussed below, as well as the magnitude of the tax increase necessary to resolve the County street and highway repair problem within 10 years.

A. Property Tax.

The Board of Supervisors can levy a countywide property tax and use the proceeds of such a levy for street and highway repairs. This has been done in an extremely modest amount in the last several years. A $5 million annual property tax investment for street and highway repair is equivalent to solving approximately 1.9 percent of the problem per year. The biggest drawback to this solution is that it results in serious tax inequities in that city and town residents will be paying the tax but receiving no benefit. In order to make a property tax equitable, any proceeds raised from the tax should be distributed by the Board and used by the Board to repair streets and highways in cities and towns within the County, as well as the unincorporated area. Such should be proportionate to each community's assessed value for maximum tax equity. The 2014 residential property secondary net assessed value of each community and the unincorporated area is shown in Table 5 below.

Table 5: Population Distribution and Net Assessed Value of Residential Property.

Jurisdiction	July 1, 2013, Population (Arizona Dept. of Administration)	Population Percentage of Total	Secondary Net Assessed Valuation (January 31, 2014, Assessment Roll)	Secondary Net Assessed Valuation Percentage
Marana	38,610	3.88	$ 260,707,981	5.46
Oro Valley	41,668	4.18	420,841,164	8.81
Sahuarita	26,768	2.69	151,515,533	3.17
South Tucson	5,674	0.57	5,964,909	0.12
Tucson	525,154	52.72	1,669,542,615	34.97
Unincorporated County	358,172	35.96	2,266,122,986	47.46
Total Pima County	**996,046**	**100.00**	**$4,774,695,188**	**100.00**

Since companies, corporations and others who have businesses or stores within a particular jurisdiction pay taxes but may not be residents of the jurisdiction, the most equitable way to distribute property tax proceeds in proportion to local resident contribution would be based on residential assessed value. At least $30 million needs to be raised per year for the unincorporated area; therefore, the total increase in the annual property tax levy, assuming equity of all jurisdictions, would need to be $63.1 million per year.

With this annual levy, based on the current assessed value, the property tax would have to be increased by 84 cents per $100 of primary assessed value, which would be an increase of 19.6 percent. More importantly, it is likely such a significant increase in the property tax would exceed the maximum levy limit's primary property tax rate of $4.9720 per $100 of primary assessed value by nearly 15 cents. The maximum primary levy is $373.8 million, and the proposed 84-cent increase would exceed this amount by about $11.3 million. Hence, while a property tax is certainly possible, it would appear difficult to implement given constitutional property tax levy and rate limits.

B. Half-cent Sales Tax.

The County has had half-cent sales tax authority since 1990. Every county in Arizona except Pima levies a sales tax for one purpose or another. In fact, some counties have multiple sales taxes for health districts, jail districts, general purposes, and roads. These sales taxes are primarily what lower property tax rates and levies in other counties. For example, the Maricopa County jail tax raised $121.5 million in FY 2012/13 to support and upgrade the Maricopa County Adult Detention Center (jail) whereas the Pima County Adult Detention Center is supported entirely with property taxes from the General Fund (the primary property tax rate and levy). This year, over $62.6 million will be used for the jail in Pima County. This amount equals 84 cents of our primary property tax rate.

The levy of a half-cent sales tax requires a unanimous vote of the Board. If enacted, a half-cent sales tax would raise approximately $76 million in the first full year of collections – an amount sufficiently significant to repair the County's streets and highways within 10 years at $30 million per year. This sales tax could provide significant additional funds to repair other streets and highways within cities and towns throughout the County as directed by the Board.

C. Local Gas Tax or a Sales Tax on Gasoline

A 10-cent per gallon gas tax, as proposed by the County, would increase the County's share of the HURF over the base distribution of $39.3 million. If the 10-cent per gallon increase applied only to the gasoline tax, the HURF distribution would increase by $8.3 million each year; while an increase in both the gasoline tax and the use fuel tax would increase the distribution by $10.7 million per year. Raising the County HURF distribution by $30 million per year would require a gas tax increase of approximately 36 cents per gallon, assuming the tax applies to gasoline only, or 28 cents per gallon if the increase applies to both gasoline and use fuel. One of the benefits of a state gas tax increase would be that other cities and towns throughout Arizona would also receive additional transportation revenues for the repair and maintenance of the streets and highways under their jurisdiction.

Each year, 375 to 380 million gallons of gasoline are sold in Pima County. This represents more than $1.2 billion of road-related activity when gas prices average $3.30 per gallon during the year. If a five-percent local option sales tax were enacted on gasoline sales, $59 to $61 million of sales tax revenue would be available for road maintenance and repair.

IX. BEST OPTIONS FOR ADDRESSING THE PROBLEM FROM A COUNTY PROSPECTIVE

The best and most tax equitable option is either an increase in fuel taxes or a sales tax on the sale of gasoline. However, both of these options require legislation; and given the past inaction of the Arizona Legislature, neither of these options is reasonably viable.

The only options that are within the power of the Board of Supervisors to act upon are the property tax or a sales tax. Pima County has already been criticized because of our high property tax rated compared to other counties, even though all other counties have an adopted sales tax, which lowers their property tax rate. Hence, increasing the property tax for street repairs is likely the least desirable option.

The remaining and best option available to the County is adoption of a general half-cent sales tax.

X. SALES TAX FACTS AND PROPERTY TAX REDUCTION

Pima County is authorized by Arizona Revised Statutes (A.R.S. § 42-6103) to impose a county general excise tax (or sales tax) to support and enhance countywide services. Adoption of a county sales tax requires unanimous approval by the Board of Supervisors. If adopted, the sales tax would generally be levied on taxpayers at the rate of 0.50 percent and is often referred to as a "half-cent sales tax." Taxpayers in both the incorporated and unincorporated areas of Pima County would be subject to this tax.

Pima County is the only county of the 15 counties in the State of Arizona that does not collect some type of a sales tax. Table 6 below shows a breakout of the various types of excise taxes levied by counties in Arizona.

Table 6: Arizona County Excise Taxes and Tax Rates.

County	General Excise Tax %	Jail Excise Tax %	Hospital/ Health Services Excise Tax %	Capital Projects Excise Tax %	Judgment Excise Tax %	County Road Excise Tax %	Total Excise Taxes %
Apache	0.50						0.50
Cochise	0.50						0.50
Coconino	0.50	0.50		0.125			1.125

Table 6: Arizona County Excise Taxes and Tax Rates.

County	General Excise Tax %	Jail Excise Tax %	Hospital/ Health Services Excise Tax %	Capital Projects Excise Tax %	Judgment Excise Tax %	County Road Excise Tax %	Total Excise Taxes %
Gila	0.50					0.50	1.00
Graham	0.50						0.50
Greenlee	0.50						0.50
La Paz	0.50	0.50			1.00		2.00
Maricopa		0.20					0.20
Mohave	0.25						0.25
Navajo	0.50						0.50
Pima							0.00
Pinal	0.50		0.10			0.50	1.10
Santa Cruz	0.50	0.50					1.00
Yavapai	0.50	0.25					0.75
Yuma	0.50	0.50	0.112				1.112

Excise tax rates from July 1, 2013 through July 1, 2014.
Sources: Arizona Department of Revenue and individual county websites.

Of the 15 counties in Arizona, only Pima County and Maricopa County do not levy a general sales tax. Maricopa County is precluded by statute from levying this tax due to its population. Maricopa County does, however, levy a Jail Excise Tax, which supports General Fund activities.

Pima County, by not levying a sales tax, is limiting the diversity of its revenue base. Without a sales tax, the County is forced to rely more on primary property taxes levied in the County to fund the various services and programs provided by its General Fund. In FY 2014/15, the primary property tax levy is funding 62 percent of our General Fund expenditures. The County's reliance on the primary property tax is the highest of any county in Arizona and is a direct result of not levying a sales tax. Table 7 below summarizes primary property tax levy and excise tax information for Arizona's 15 counties based on FY 2013/14 budgets and levies.

Table 7: FY 2013/14 County General Fund, Primary Property Tax and Excise Tax.

County	County General Fund	Primary Property Tax Levy	Primary Property Tax Levy as a % of General Fund Budget	Total Excise Tax Rate	Total County Excise Tax	Excise Tax as a % of General Fund Budget
Apache	$18,343,856	$2,414,647	13.2	0.50	$1,200,000	6.5
Cochise	80,459,349	26,446,148	32.9	0.50	7,000,000	8.7
Coconino	70,808,913	8,303,326	11.7	1.125	28,601,114	40.4
Gila	46,031,855	18,378,381	39.9	1.00	5,690,000	12.4
Graham	20,935,438	4,558,218	21.8	0.50	2,000,000	9.6
Greenlee	12,569,018	2,478,151	19.7	0.50	1,200,000	9.5
La Paz	16,318,525	4,251,708	26.1	2.00	4,491,946	27.5
Maricopa	942,780,433	409,775,397	43.5	0.20	131,106,321	13.9
Mohave	76,154,008	32,231,883	42.3	0.25	5,819,100	7.6
Navajo	39,984,750	6,318,553	15.8	0.50	6,211,839	15.5
Pima	503,524,831	277,155,468	55.0	0.00	0	0.0
Pinal	193,676,201	75,575,541	39.0	1.10	28,833,353	14.9
Santa Cruz	27,504,449	11,576,873	42.1	1.00	4,600,000	16.7
Yavapai	89,679,704	43,108,560	48.1	0.75	21,368,423	23.8
Yuma	77,258,446	22,916,250	29.7	1.112	26,949,982	34.9

Sources: Arizona Tax Research Association, FY 2014 Final Budget Review, and Arizona Department of Revenue, Annual Report.

For Maricopa County, the 0.20 percent jail excise tax is budgeted to collect $141,295,781 in FY 2014/15; 14 percent of its adopted General Fund expenditure budget.

Seven counties levy a sales tax in addition to their general county sales tax. These additional sales taxes pay for jails, hospitals, judgments, capital projects and roads. Without the additional sales taxes, the cost of these items would be paid by the counties' General Funds using property taxes.

Revenue Impact of a Pima County Half-cent Sales Tax

The levying of a half-cent sales tax would have a significant impact on Pima County's General Fund revenues. Table 8 below shows a five-year forecast of sales tax revenues, assuming an effective date of December 1, 2014.

Table 8: Estimated Pima County Half-cent Sales Tax Revenue.

Category of Taxpayer	FY2014/15*	FY2015/16	FY2016/17	FY2017/18	FY2018/19
Hotel/Motel	$839,000	$1,724,000	$1,769,000	$1,821,000	$1,876,000
Communications	1,135,000	2,382,000	2,512,000	2,647,000	2,778,000
Contracting	4,547,000	11,124,000	12,586,000	13,443,000	14,226,000
Restaurants and Bars	4,080,000	8,444,000	8,824,000	9,286,000	9,776,000
Rental – Personal Property	955,500	2,040,000	2,173,000	2,310,000	2,436,000
Retail	20,593,500	42,803,000	44,405,000	46,141,000	47,933,000
Utilities	3,632,000	7,466,000	7,715,000	7,904,000	8,112,000
Total Excise Tax Revenues	**$35,782,000**	**$75,983,000**	**$79,984,000**	**$83,552,000**	**$87,137,000**
Increase/(Decrease) from Prior Year	$35,782,000	$40,201,000	$4,001,000	$3,568,000	$3,585,000

**Note: 50 percent of full-year revenue shown for FY 2014/15, as county excise tax effective from and after December 1, 2014.*

FY 2015/16 represents estimated sales tax collections for a full fiscal year and totals nearly $76 million. This amount is approximately 15 percent of budgeted General Fund expenditures for FY 2014/15.

Sales Taxes Paid by Visitors and Businesses from Outside of Pima County

A significant difference between property taxes and sales taxes is that a portion of sales tax revenues is paid by individuals and businesses that do not reside in Pima County but who benefit from County services. Sales tax payments by nonresidents increase the net amount of funds available to provide these services.

Nonresidents and businesses located outside of Pima County will pay up to 17 percent of the revenue associated with a half-cent sales tax. This includes tourism and Mexican visitor spending. Persons outside of Pima County are estimated to pay as much as $13 million of the taxes estimated for FY 2015/16.

Property Tax Reduction

The absence of a sales tax to fund vital County services and programs inflates the primary property tax levy and primary property tax rate when compared to other Arizona counties that levy a sales tax.

The Board of Supervisors adopted a primary property tax rate of $4.2779 per $100 of primary net assessed value in FY 2014/15. This tax rate resulted in a primary property tax levy of $322 million.

If the Board of Supervisors, hypothetically, had levied a half-cent sales tax for a full year in FY 2014/15 and applied 50 percent of the collections to property tax relief, the primary property tax rate would have been reduced by nearly 50 cents per $100 of primary net assessed value to $3.7820. The associated primary property tax levy would have fallen by $37 million to $285 million.

If these hypothetical adjustments to the primary property tax rate and levy had occurred, the average primary residence home valued at $146,426 would have seen a reduction of $73 in the primary property tax bill from the adopted amount.

In future fiscal years, if sales tax revenues continue to grow as anticipated and all other budget factors remain the same, the primary property tax rate and property tax levy would be further reduced by the amount of the year-to-year increase in overall sales tax collections.

Cost Impact of Sales Tax on a Family of Four

The estimated impact of this sales tax on households in Pima County earning the median income before taxes would be approximately $70 per year; while a couple with two children earning the national average of $101,600 of income before taxes would pay $119. With an average savings of $73 in property taxes, the net impact would range from a zero dollar increase to a $46 increase.

XI. RECOMMENDATION

I recommend that any increase in revenues raised from a half-cent sales tax be used to reduce the primary tax rate and to improve Pima County roads. As detailed in the attached draft resolution, 50 percent of the revenues would be used to reduce the amount of primary property taxes levied, and 50 percent would be used for pavement preservation, reconstruction and repairs and maintenance of roads.

As discussed in previous memoranda, the current remediation cost to improve all arterial, collector and local roads in the unincorporated area of the County is $264 million. An ongoing plan to improve all existing and new roads in the unincorporated area over an ongoing 10-year period would require at least $30 million in revenue per year.

Dedicating one-half of the proposed sales tax would provide significant funding for this plan. It is anticipated the County would receive $76 million in net sales tax proceeds in FY 2015/16, the first full year of collections. $38 million of these proceeds would be dedicated to pavement preservation and reconstruction and repair and maintenance of roads.

On average, for every one million dollars of funding available, seven miles of roads can be rehabilitated. Thus, $38 million would address, at a minimum, the preservation of 266 miles of roads annually. The County currently maintains 1,855 miles of paved roadway; therefore, the initial rehabilitation of the County's roadways would actually be addressed in seven to eight years. After this initial rehabilitation cycle, I would recommend the full sales tax revenue be used for property tax reduction. However, to avoid deterioration of the roadway network to a similar unacceptable condition as exists today will require identification of a dedicated funding source for future pavement preservation efforts beyond the 10-year cycle envisioned by this proposal.

CHH/mjk

Attachment

c: John Bernal, Deputy County Administrator for Public Works
Priscilla Cornelio, Transportation Director
Tom Burke, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

RESOLUTION 2014 - ______

PIMA COUNTY, ARIZONA RESOLUTION ORDERING THE LEVY OF A COUNTY GENERAL EXCISE TAX UPON EACH PERSON ENGAGING OR CONTINUING IN BUSINESS IN PIMA COUNTY AND ORDERING ALL PROCEEDS RECEIVED BE ALLOCATED IN THE FOLLOWING PROPORTIONS – FIFTY PERCENT (50%) TO REDUCE THE AMOUNT OF PRIMARY PROPERTY TAXES LEVIED UPON REAL AND PERSONAL PROPERTY LOCATED WITHIN THE COUNTY AND FIFTY PERCENT (50%) TO PAVEMENT PRESERVATION, RECONSTRUCTION, REPAIRS AND MAINTENANCE OF ROADS LOCATED IN PIMA COUNTY.

The Board of Supervisors of Pima County, Arizona finds:

1. Arizona Revised Statutes (A.R.S.) § 42-6103 allows the Board of Supervisors of any county having a population of less than one million five hundred thousand persons as of the most recent decennial census to levy a county general excise tax.

2. As of the most recent decennial census, the population of Pima County is less than one million five hundred thousand persons.

3. The Board of Supervisors of any county desiring to levy a general excise tax must unanimously approve the levy of such tax.

4. The Arizona Department of Revenue collects and the State Treasurer transmits net general excise tax collections to the County Treasurer.

5. The revenues raised from the levying of a county general excise tax are used to support and enhance countywide services.

NOW, THEREFORE, BE IT RESOLVED,

SECTION 1. LEVY OF TAX

The Board of Supervisors of Pima County, Arizona by unanimous adoption of this resolution orders the levy and collection of a County general excise tax in the amount of ten percent (10%) of the rates of taxation prescribed by A.R.S. § 42-5010, subsection A, and by A.R.S. § 42-5352, subsection A.

SECTION 2. AREA OF LEVY

The County general excise tax provided by this resolution is collected from each person engaging or continuing in the county in a business taxed under Chapter 5, article 1 of Title 42, Arizona Revised Statutes and A.R.S. § 42-5352 subsection A in both the incorporated and unincorporated areas of Pima County and shall be collected by the Arizona Department of Revenue in the manner provided in A.R.S. § 42-6103, subsection A.

SECTION 3. USES OF LEVY PROCEEDS

1. Deposit net county general excise tax proceeds collected between the effective date of the levy and June 30, 2015 into the County's General Fund.

2. Deposit net county general excise tax proceeds collected from and after July 1, 2015 into the County's General Fund to distribute and use as follows:

   a. Fifty Percent (50%) of all net proceeds to reduce the amount of primary property taxes levied upon real and personal property located within Pima County.

   b. Fifty Percent (50%) of all net proceeds dedicated to pavement preservation, reconstruction, repairs and maintenance of roads located in Pima County.

3. Beginning with the Fiscal Year 2015/16 budget, the Board of Supervisors shall determine the amounts that will be collected from the imposition of a County general excise tax and include these revenues in the final budget estimate of the County as required under A.R.S. § 42-17105. Upon determination of the anticipated annual collection amounts, the Board of Supervisors shall distribute the funds within the final budget as directed in items 2.a. and 2.b. of this Section 3.

4. <u>Reduction of Primary Property Taxes:</u> On or before the adoption of the final budget estimates of the County as required under A.R.S. § 42-17105, the Board of Supervisors shall reduce the total amount of primary property taxes which are levied upon the real and personal property located within Pima County by Fifty Percent (50%) of the difference between the forecasted collections for the upcoming budget year and the adopted budgeted collections for the previous fiscal year. Such determinations shall be made by the Board of Supervisors on an annual basis as part of the County's annual budget process.

5. <u>Pavement Preservation:</u> On or before the adoption of the final budget estimates of the County as required under A.R.S. § 42-17105, the Board of Supervisors shall allocate to pavement preservation, reconstruction, repairs and maintenance of roads located in Pima County an amount equal to Fifty Percent (50%) of the anticipated general excise tax collections budgeted for the upcoming budget year. Such determinations shall be made by the Board of Supervisors on an annual basis as part of the County's annual budget process.

The effective date of this County general excise tax is December 1, 2014.

Passed and adopted, this ____________day of______, 2014.

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Sharon Bronson, Chair, Pima County Board of Supervisors

ATTEST: APPROVED AS TO FORM

Clerk of the Board

Deputy County Attorney