



MEMORANDUM

Date: December 2, 2013

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "C.H. Huckelberry", is written over the typed name and title.

Re: **User Fee Increase to Fund Transportation Infrastructure**

In support of the resolution passed by the Board of Supervisors asking the Arizona Legislature to increase revenues available for transportation purposes, staff prepared the attached information. This information is straightforward and convincingly justifies an increase in the statewide transportation user fee – the gas tax.

States across the country, as well as the United States Congress, are recognizing the inadequacy of existing revenues dedicated to transportation and that efficient, productive transportation systems are directly tied to economic development and economic expansion. This relationship is so obvious it needs little elaboration.

The attachments fully document the facts supporting the need for an increase in user fees related to transportation. The information also illustrates the steady decline in Highway User Revenue Funds (HURF) to improve Arizona's highways. In fact, the deflated value of the HURF fund is 20 percent less than it was the last time the gas tax was increased in Arizona in 1991.

Compounding this problem is the diversion of HURF monies by the Arizona Legislature. These diversions, over time, as documented in the attached information, total over \$1.5 billion statewide.

Further, Arizona's population continues to grow and has grown substantially since the last gas tax increase; and the per capita deflated value of transportation revenues is 55 percent less than it was at the time of the last gas tax increase. This is compelling evidence that a user fee increase is not only warranted, it is absolutely necessary if we are to compete with neighboring states for economic development and expansion.

I have also included data regarding the average retail price per gallon of gasoline in the United States over the years since the gas tax was increased in Arizona. This data indicates the price of fuel, as we know from our consumption at the pumps today, has stabilized and actually decreased over the last one to two years. The national forecast by

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IHS Global Insight indicates this trend will likely continue for another two to three years. Now is the absolute best time to increase user fees.

The following three principles are important and will be stressed in any legislative discussions occurring regarding increasing the transportation user fees in Arizona:

- First, the increases should be gradual and measured over time, perhaps as long as two years, increasing at two cents per gallon per calendar year quarter; or some other schedule that gradually increases user fees over an appropriate period of time of at least one to perhaps two years.
- Second, I have assumed that any increase in transportation user fees will have to be approved by the voters; hence, the voters should also approve safeguards that prevent the Arizona Legislature from diverting these funds for any other purpose in the future. The funds must be used for transportation purposes, not to balance State budgets or fund State police agencies.
- Lastly, we must address the issue of the free riders; the all-electric vehicles that travel on our state, county and city highways but pay no gas taxes. An appropriate surcharge must be imposed on all-electric vehicles as an in-lieu fuel tax in addition to any vehicle license or registration fees that are also imposed.

These three principles should guide any legislative discussions regarding a referral package to the voters for transportation user fee increases.

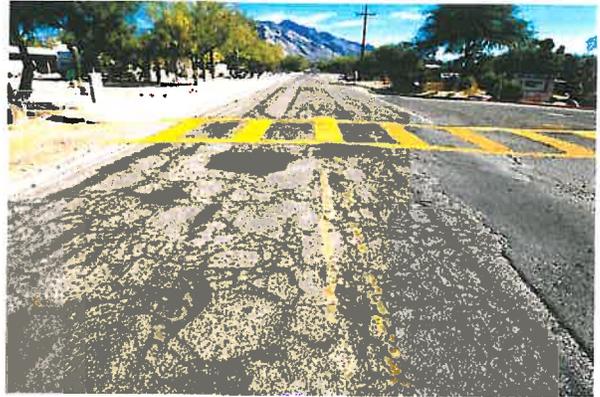
CHH/mjk

Attachments

- c: Martin Willett, Chief Deputy County Administrator
Hank Atha, Deputy County Administrator for Community and Economic Development
John Bernal, Deputy County Administrator for Public Works
Jan Leshar, Deputy County Administrator for Medical and Health Services
Michael Racy, Racy Associates, Inc.

Now is the time for a gas tax increase

- The gas tax was set at **18 cents in 1991**. It is still 18 cents **22 years later**.
- In that time, the construction cost index jumped 96 percent. The same 1991 dollar is now worth **51 cents** in transportation improvements.
- HURF revenues provided \$184 per person to cities, towns, counties and the state in 1991. Today, it is \$84, or **55 percent less**.
- 52 percent of Arizona roads rated in **poor to mediocre condition**; American Society of Civil Engineers, 2013.
- Pima County region rated **fifth worst in nation** among large metro areas, according to national research group, TRIP, 2013.
- Transportation investment is key to economic expansion. Even the smallest delay in the supply chain can cause massive ripples throughout the system and lead to **lower profitability for companies**.
- U.S. Chamber and other business interests support an increase in the gas tax to **fund key infrastructure investment**.
- There are important corridors that must be financed, including the **proposed Interstate 11**, which will strengthen international trade and solidify Southern Arizona's potential as a robust logistics hub.
- No additional money is available for expansion, let alone the \$268 million it would take just to bring Pima County roads up to standard. The Highway Trust Fund is expected to be **insolvent in 2015**. The state can no longer pay for capital improvements using Highway User Revenue Funds.
- The **average motorist** would pay about \$75 extra a year if the tax were increased 10 cents. Residents in Pima County are already paying far more than that – an **estimated \$723 a year** in increased damages, repairs, fuel consumption and tire wear.
- Average tax of surrounding states is **29.7 cents per gallon**. Other states are having this same discussion: Wyoming recently increased its gas tax from **14 cents to 24 cents in July 2013**.
- It is essentially a user fee, with consumers **paying in direct proportion to the benefit** they receive from the system.
- Increase can be spread over quarters or even years to **phase in impact**.
- Retail **gasoline prices** over the next three years **will decline slightly**, according to IHS Global, so a tax increase can be more readily absorbed.



Transportation: We Have a Problem

Our roads are in bad shape.

And that's not the worst news. Our finances for maintaining and expanding our roads to keep up with our basic needs are in worse shape.

Why?

Traditionally, transportation improvements have been funded through a variety of sources. The bulk of road maintenance and construction money has come from state fuel taxes – user fees - with some federal sources added to the revenue stream. If we add all these sources together, they don't come close to meeting even our basic needs.

It isn't just a local problem.

The federal Highway Trust Fund is tapped out. The Arizona Department of Transportation is essentially at a maintenance-only budget for state highways, with no wiggle room for capital improvements. And the amount of gas tax revenues available to cities and counties has been steadily eroding.

This isn't just a matter of having our own cars and trucks and buses deteriorate from our roads. Economic growth of the entire region is tied to strong transportation networks that build connectivity and foster the ability to efficiently transport products and materials. Bad roads diminish our competitiveness in the current and future economic markets.

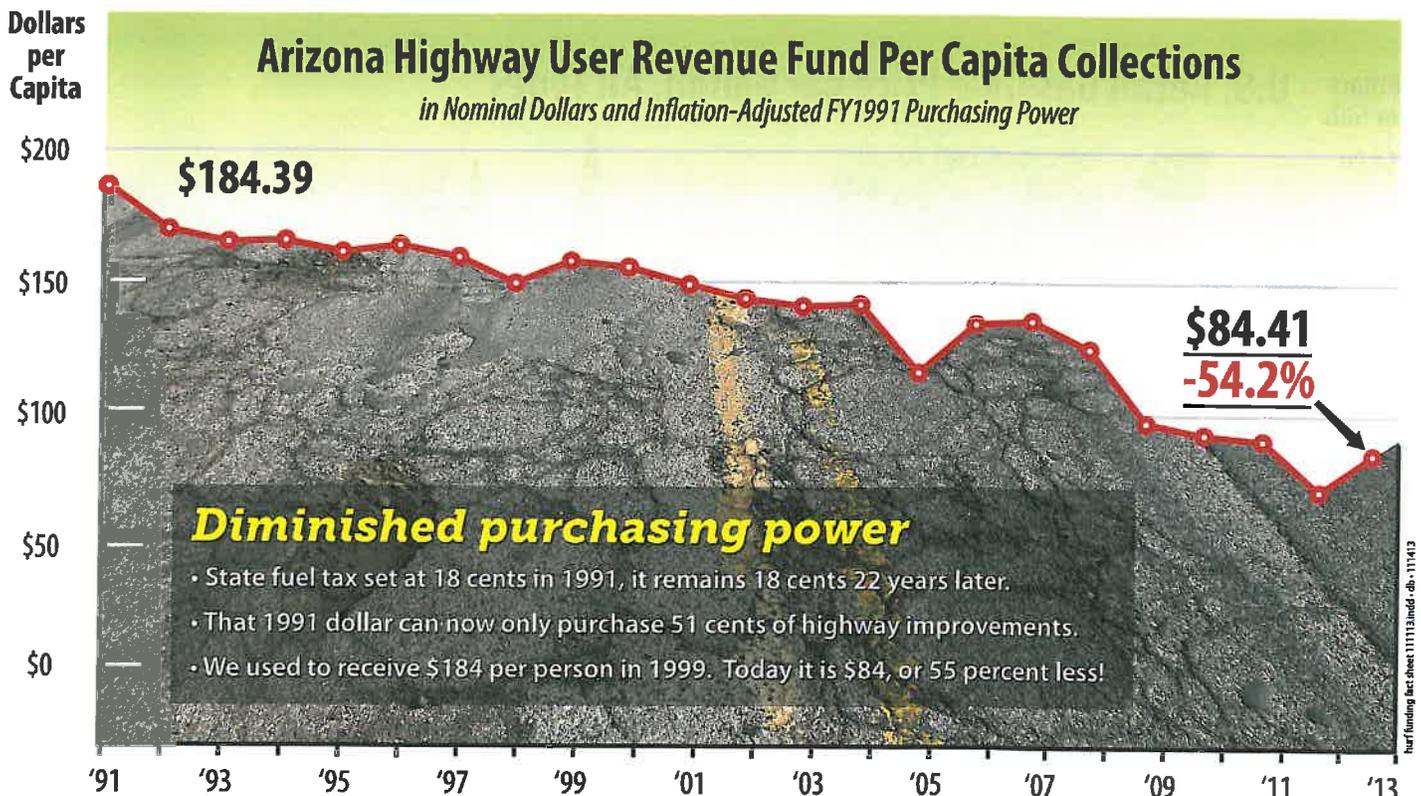


What can we do?

Start funding the real costs of maintaining and improving our roads.

We can start by adjusting the gasoline tax by 10 cents. That would bring our total to 28 cents per gallon, a little less than the existing average tax of surrounding states, at 29.7 cents per gallon.

The average motorist would pay about \$75 a year.



Now is the time to increase our roadway user fees

The cost to improve roads that are rated failed, poor or fair within the unincorporated area requires a future investment of \$268 million. We can't wish that gap away.

Fuel prices appear to have stabilized over the past two years and are slightly declining over time.

The IHS Global Insight Forecast suggests that retail gasoline prices over the next three years will decline slightly, making now an opportune time to increase user fees to support investments that will reduce vehicle damage and allow economic expansion.

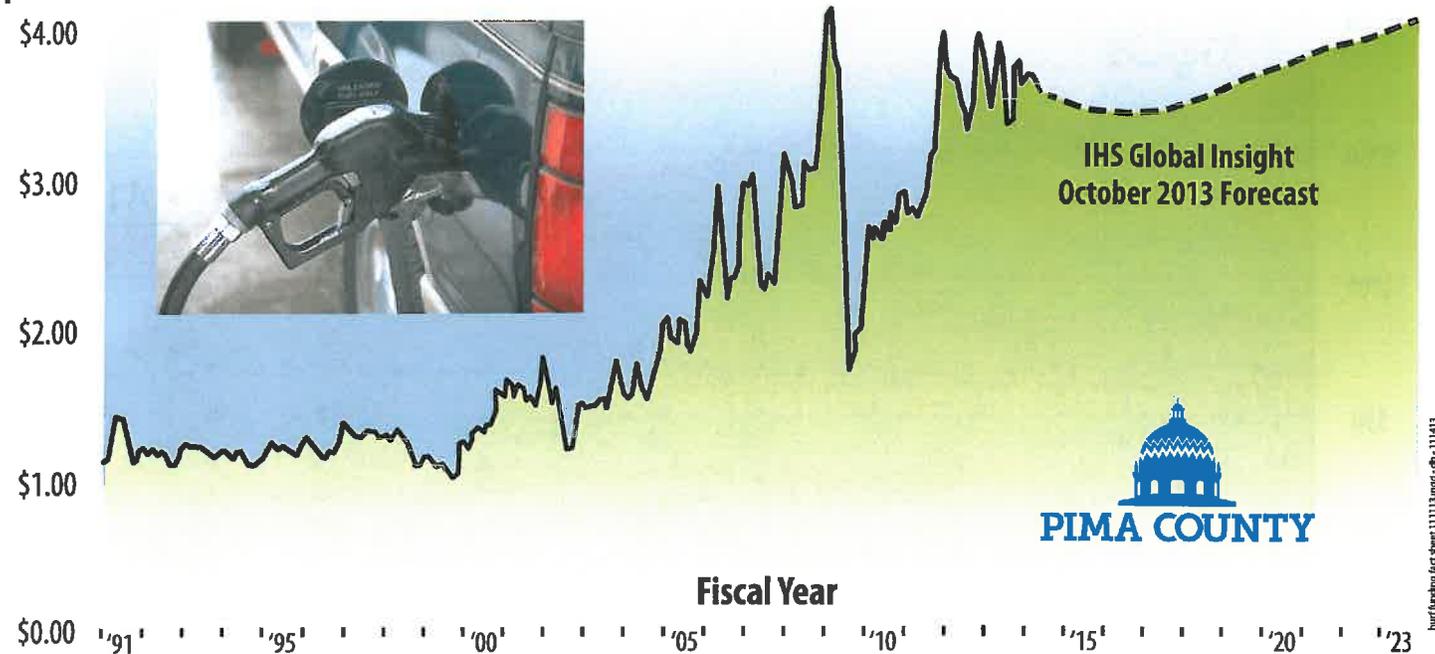
Highway revenues have simply not kept pace with demand. Twenty-two years is too long a time period to effectively ignore transportation investment obligations.

All it takes is a trip down our current street system to prove it.

Roadway funding facts:

- Since 1991, Arizona lawmakers have siphoned off more than \$1.5 billion of your taxes that otherwise were earmarked to cities, counties and the state to pay for our roads.
- Tucson and Pima County were recently ranked as having the fifth-worst streets and highways in the nation.
- This region was pegged as the seventh-highest in the annual cost to motorists of driving on rough roads.
- Increased damages and repairs, fuel consumption and tire wear costs the average resident \$723 a year, almost double the national urban driver average of \$377.

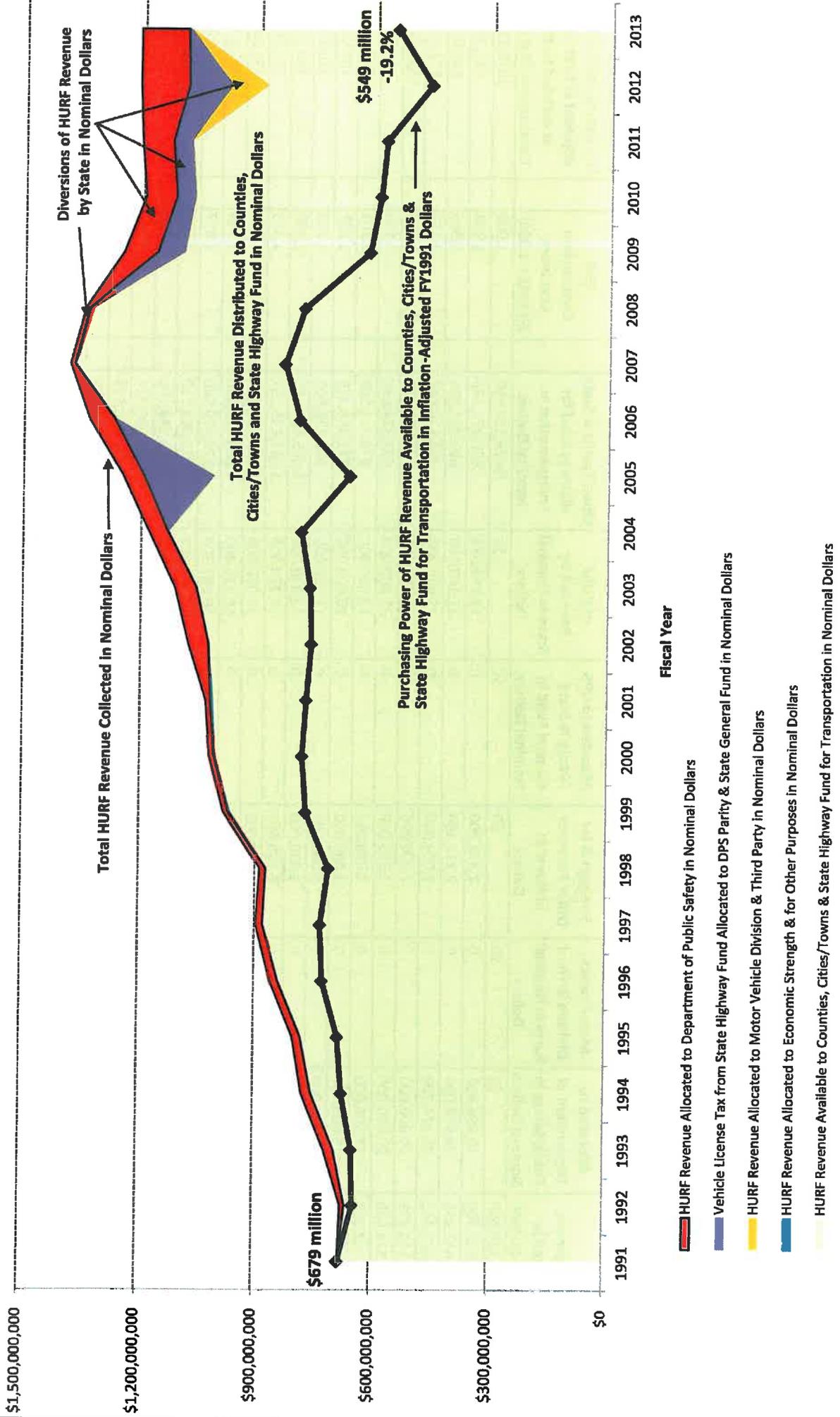
Dollars per Gal. U.S. Retail Gasoline Price per Gallon, All Types



Sources: U.S. Bureau of Labor Statistics monthly U.S. retail gasoline prices, all types and IHS Global Insight U.S. Macro Forecast October 2013

FIGURE 1

ARIZONA HIGHWAY USER REVENUE FUND COLLECTIONS AND DIVERSIONS
in Nominal Dollars and Inflation-Adjusted FY1991 Purchasing Power



Source: Arizona Department of Transportation, Highway User Revenue Fund Distribution Summary, monthly reports from July 1990 through June 2013.

TABLE 1



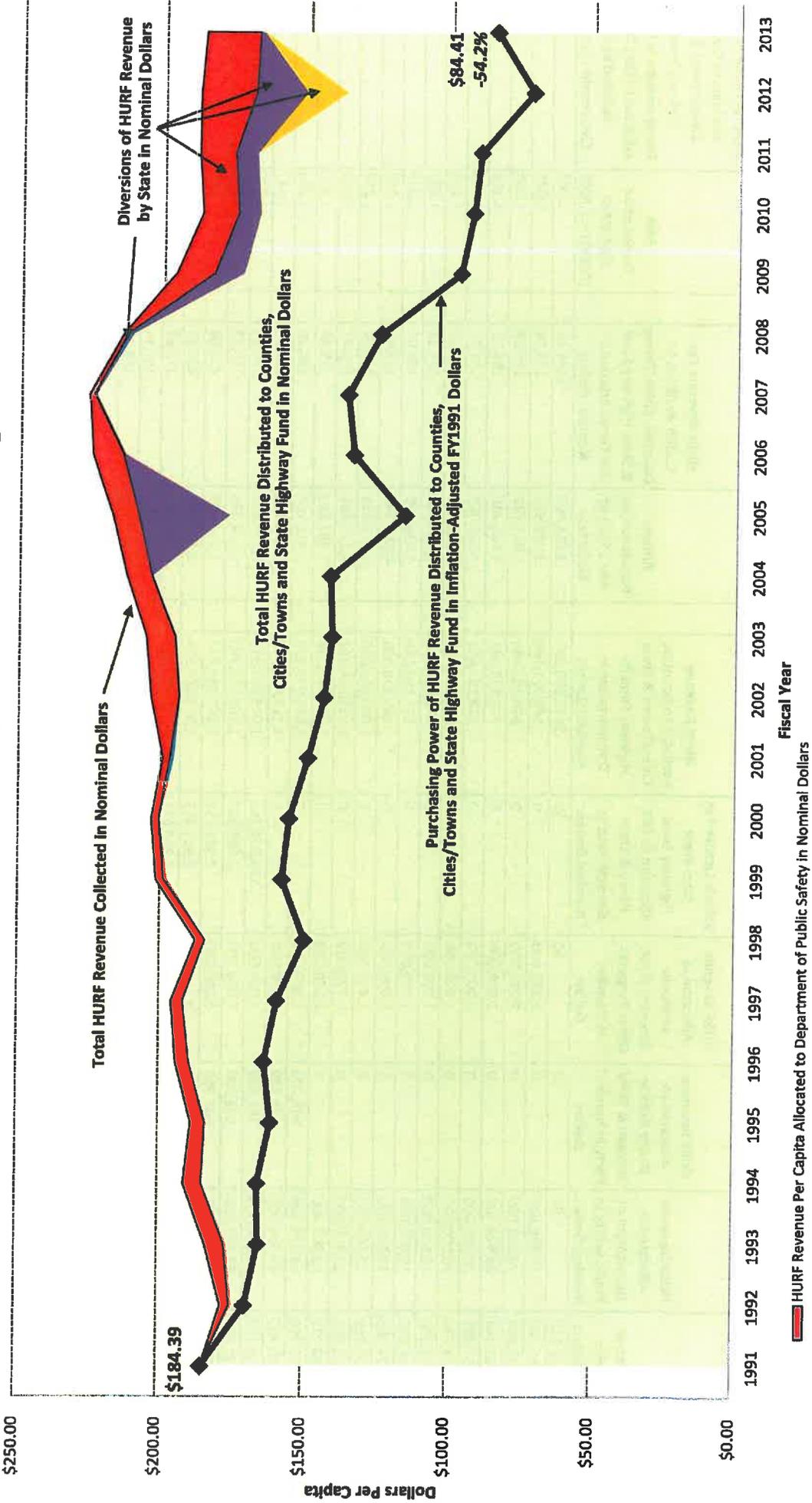
HIGHWAY USER REVENUE FUND - Nominal Dollars & Inflation Adjusted Dollars

Fiscal Year	HURF Revenue Collected in Nominal Dollars	Divisions of HURF Revenue by State						HURF Revenue Available to Counties, Cities/Towns & State Highway Fund for Transportation in Nominal Dollars	ENR Construction Cost Index (FY1991 = 1.000)	HURF Revenue Available for Counties, Cities/Towns & State Highway Fund for Transportation in Inflation Adjusted FY1991 Dollars as deflated by ENR Construction Cost Index
		HURF Revenue Allocated to Department of Public Safety in Nominal Dollars	HURF Revenue Allocated to Motor Vehicle Division & Third Party in Nominal Dollars	HURF Revenue Allocated to Economic Strength & for Other Purposes in Nominal Dollars	Vehicle License Tax from State Highway Fund Allocated to DPS Parity & State General Fund in Nominal Dollars	Total Diversions of HURF Revenue by State in Nominal Dollars	HURF Revenue Available to Counties, Cities/Towns & State Highway Fund for Transportation in Nominal Dollars			
		\$0	\$0	\$0	\$0	\$0	\$0			
1991	\$679,320,650	\$0	\$0	\$0	\$0	\$0	\$679,320,650	1.000	\$679,320,650	
1992	673,540,700	10,896,634	0	2,372,900	0	13,269,534	660,271,166	1.028	642,390,246	
1993	717,442,998	24,928,000	0	2,212,100	0	27,140,100	690,302,898	1.068	646,641,982	
1994	776,063,343	24,924,700	0	1,000,000	0	25,924,700	750,138,643	1.115	672,735,653	
1995	800,151,891	20,000,000	0	2,000,000	0	22,000,000	778,151,891	1.138	683,848,532	
1996	859,574,636	20,000,000	0	1,000,000	0	21,000,000	838,574,636	1.158	724,263,766	
1997	896,962,198	17,500,000	0	1,000,000	0	18,500,000	878,462,198	1.203	730,123,591	
1998	887,486,845	15,000,000	0	1,000,000	0	16,000,000	871,486,845	1.228	709,627,966	
1999	982,778,906	12,500,000	0	5,000,000	0	17,500,000	965,278,906	1.253	770,196,222	
2000	1,019,599,069	12,500,000	0	1,430,000	0	13,930,000	1,005,669,069	1.289	780,354,638	
2001	1,030,965,251	12,500,000	0	6,770,000	0	19,270,000	1,011,695,251	1.313	770,762,906	
2002	1,076,394,716	52,065,600	0	1,000,000	0	53,065,600	1,023,329,116	1.350	758,283,289	
2003	1,111,255,790	54,528,200	648,200	1,000,000	0	56,176,400	1,055,079,390	1.384	762,157,695	
2004	1,179,560,880	48,698,000	383,300	1,000,000	0	50,081,300	1,129,479,580	1.437	785,921,712	
2005	1,245,553,193	52,216,300	383,300	1,037,000	178,854,283	232,490,883	1,013,062,310	1.529	662,540,762	
2006	1,331,624,697	63,999,300	633,300	1,000,000	2,693,307	68,325,907	1,263,298,790	1.595	791,938,860	
2007	1,382,473,916	10,000,000	607,300	1,000,000	2,982,792	14,590,092	1,367,883,824	1.645	831,644,338	
2008	1,344,476,990	10,000,000	617,000	7,847,600	2,913,415	21,378,015	1,323,098,974	1.692	781,828,111	
2009	1,248,582,939	84,949,500	617,000	(5,697,600)	68,950,681	148,819,581	1,099,763,359	1.785	616,114,348	
2010	1,194,416,517	78,626,200	617,000	1,000,000	46,327,298	126,570,498	1,067,846,018	1.811	589,547,384	
2011	1,205,073,118	79,215,700	620,400	1,000,000	46,937,106	127,773,206	1,077,299,912	1.874	574,764,574	
2012	1,210,586,447	123,210,600	89,353,600	1,000,000	111,577,843	325,142,043	885,444,404	1.924	460,114,401	
2013	1,210,024,079	119,965,000	(140,380)	907,971	6,650,355	127,382,945	1,082,641,134	1.974	548,568,066	
TOTAL	\$24,063,909,767	\$948,223,734	\$94,340,020	\$35,879,971	\$467,887,080	\$1,546,330,804	\$22,517,578,963		\$15,973,689,692	

Source: Arizona Department of Transportation, Highway User Revenue Fund Distribution Summary, monthly reports from July 1990 through June 2013.

FIGURE 2

ARIZONA HIGHWAY USER REVENUE FUND PER CAPITA COLLECTIONS AND DIVERSIONS in Nominal Dollars and Inflation-Adjusted FY1991 Purchasing Power



Source: Arizona Department of Transportation, Highway User Revenue Fund Distribution Summary, monthly reports from July 1990 through June 2013.

TABLE 2

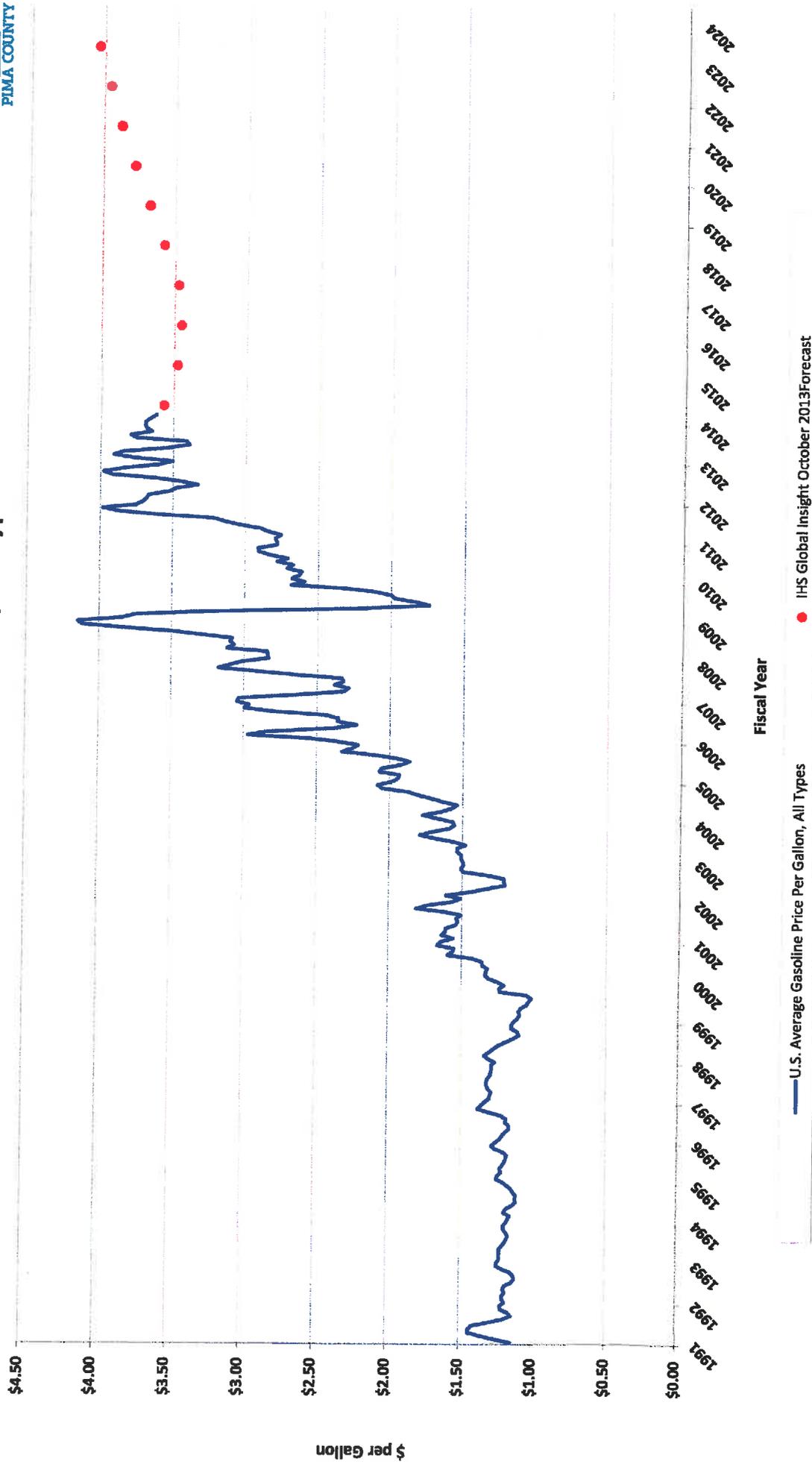


HIGHWAY USER REVENUE FUND PER CAPITA - Nominal Dollars & Inflation Adjusted Dollars

Fiscal Year	HURF Revenue Collected in Nominal Dollars	HURF Revenue Allocated to Department of Public Safety in Nominal Dollars	HURF Revenue Allocated to Motor Vehicle Division & Third Party in Nominal Dollars	HURF Revenue Allocated to Economic Strength & for Other Purposes in Nominal Dollars	Vehicle License Tax from State Highway Fund Allocated to DPS Parity & State General Fund in Nominal Dollars	HURF Revenue Available to Counties, Cities/Towns & State Highway Fund for Transportation in Nominal Dollars	Arizona Population on July 1 Start of Fiscal Year	HURF Revenue Per Capita Available to Counties, Cities/Towns & State Highway Fund for Transportation in Nominal Dollars	ENR Construction Cost Index (FY1991 = 1.000)	HURF Revenue Per Capita Available to Counties, Cities/Towns & State Highway Fund for Transportation in Inflation-Adjusted FY1991 Dollars as deflated by ENR Construction Cost Index
1991	\$679,320,650	\$0	\$0	\$0	\$0	\$679,320,650	3,684,097	\$184.39	1.000	\$184.39
1992	673,540,700	10,896,634	0	2,372,900	0	660,271,166	3,788,576	174.28	1.028	169.56
1993	717,442,998	24,928,000	0	2,212,100	0	690,302,898	3,915,740	176.29	1.068	165.14
1994	776,063,343	24,924,700	0	1,000,000	0	750,138,643	4,065,440	184.52	1.115	165.48
1995	800,151,891	20,000,000	0	2,000,000	0	778,151,891	4,245,089	183.31	1.138	161.09
1996	859,574,636	20,000,000	0	1,000,000	0	838,574,636	4,432,449	189.19	1.158	163.40
1997	896,962,198	17,500,000	0	1,000,000	0	878,462,198	4,586,940	191.51	1.203	159.17
1998	887,486,845	15,000,000	0	1,000,000	0	871,486,845	4,736,990	183.97	1.228	149.81
1999	982,778,906	12,500,000	0	5,000,000	0	965,278,906	4,883,342	197.67	1.253	157.72
2000	1,019,599,069	12,500,000	0	1,430,000	0	1,005,669,069	5,023,823	200.18	1.289	155.33
2001	1,030,965,251	12,500,000	0	6,770,000	0	1,011,695,251	5,175,581	195.47	1.313	148.92
2002	1,076,394,716	52,065,600	0	1,000,000	0	1,023,329,116	5,287,510	193.54	1.350	143.41
2003	1,111,255,790	54,528,200	648,200	1,000,000	0	1,055,079,390	5,411,164	194.98	1.384	140.85
2004	1,179,560,880	48,698,000	383,300	1,000,000	0	1,129,479,580	5,554,235	203.35	1.437	141.50
2005	1,245,553,193	52,216,300	383,300	1,037,000	178,854,283	1,013,062,310	5,725,610	176.94	1.529	115.72
2006	1,331,624,697	63,999,300	633,300	1,000,000	2,693,307	1,263,298,790	5,924,476	213.23	1.595	133.67
2007	1,382,473,916	10,000,000	607,300	1,000,000	2,982,792	1,367,883,824	6,116,409	223.64	1.645	135.97
2008	1,344,476,990	10,000,000	617,000	7,847,600	2,913,415	1,323,098,974	6,274,981	210.85	1.692	124.59
2009	1,248,582,939	84,949,500	617,000	(5,697,600)	68,950,681	1,099,763,359	6,368,649	172.68	1.785	96.74
2010	1,194,416,517	78,626,200	617,000	1,000,000	46,327,298	1,067,846,018	6,389,081	167.14	1.811	92.27
2011	1,205,073,118	79,215,700	620,400	1,000,000	46,937,106	1,077,299,912	6,401,569	168.29	1.874	89.78
2012	1,210,586,447	123,210,600	89,353,600	1,000,000	111,577,843	885,444,404	6,438,178	137.53	1.924	71.47
2013	1,210,024,079	119,965,000	(140,380)	907,971	6,650,355	1,082,641,134	6,498,569	166.60	1.974	84.41

Sources: Arizona Department of Transportation, Highway User Revenue Fund Distribution Summary, monthly reports from July 1990 through June 2013. Population estimates from University of Arizona Economic & Business Research Center and Arizona Department of Administration, Office of Economic & Population Statistics.

U.S. Retail Gasoline Price Per Gallon, All Types



Sources: U.S. Bureau of Labor Statistics monthly U.S. retail gasoline prices, all types, and IHS Global Insight U.S. Macro Forecast October 2013.