Board of Supervisors Memorandum

Date: May 19, 2016

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

From: C.H. Huckelberry
County Administrator

Re: **Supervisor Ally Miller's Plan to Repair the Roads in Pima County**

As requested by the Board of Supervisors at the end of the May 17, 2016 Transportation Budget Hearing, a cursory review was conducted of Supervisor Ally Miller's road repair plan posted at www.allyforsupervisor.com/roads (Attachment 1). The plan purports to be based on 1) no tax increase and 2) no issuance of remaining 1997 Highway User Revenue Funds (HURF). Other parts of the plan are identical to the County Administrator's plan provided to the Green Valley Council on April 21, 2016 (Attachment 2), which is essentially an option to grow out of the problem over time based on decreasing State HURF transfers, revenue bond debt retirement, and growth in HURF and Vehicle License Tax revenues forecasted by the Arizona Department of Transportation.

Requires a Tax Increase, and is 10 Years Too Late

The cornerstone of Supervisor Miller's plan is a half-cent sales tax taking place after the 2026 expiration of the current voter-approved Regional Transportation Authority sales tax. It is uncertain how such could be characterized as "not a tax increase." Extension of any tax and the receipt of additional tax revenues for other those originally authorized by voters is a tax increase. Hence, the cornerstone of Supervisor Miller's plan is a tax increase in the sales tax post-2026. There is nothing wrong with a half-cent sales tax for road repair. In fact, I suggested such should occur sooner; as early as 2016, be limited to 10 years and repair all of the roads in Pima County for cities, towns and the County. The Miller proposal is 10 years too late.

Inequitable Property Tax Transfer to Repair Roads

The Miller Plan also calls for funding salaries and overhead of the Department of Transportation from the County General Fund; similar, as she states, to the Town of Marana. Doing so would require a Countywide property tax increase of $0.3947 to cover the salaries, benefits and overhead of the Department of Transportation. This is a substantial and significant Countywide property tax increase for repairing roads in only the unincorporated area of Pima County. This property tax would be paid for by residents of other incorporated places; cities and towns that would receive no benefit from the property tax. For example, the residents of Continental Ranch in Marana or those in Rancho Vistoso in Oro Valley would pay property taxes to repair roads in the Catalina Foothills. This is grossly inequitable.

While Supervisor Miller would like to compare the County General Fund to the Marana General Fund, they are completely incomparable. The County General Fund's primary revenue source is property tax. The Marana General Fund primary revenue source is sales tax. These are entirely different revenue sources. The Marana sales tax is already the highest sales tax of any municipality in the region, with the slowest service times. In addition, Marana charges fees that are also a revenue source for their General Fund, and their fees are already the highest of any municipality in the region. Further, it is only recently that Marana began paying any portion of their transportation salary expenses from their General Fund. Even doing so is entirely different when the Town pays these expenses using sales tax revenues that are, in large part, contributed by nonresidents of Marana; as opposed to a geographically fixed property tax. To pay for road repairs as Supervisor Miller suggests is poor public policy and even worse tax policy. Such a proposal violates the basic principle of fairness.

Bait and Switch Plan

Another key component of the Miller plan is not to issue any additional voter authorized 1997 HURF revenue bonds. This would mean the projects that remain, primarily in the City of Tucson (Broadway Boulevard, $23.7 million; Houghton Road, $12.3 million; 22nd Street, $9.2 million), would not be funded and would require a Bond Ordinance Amendment telling the voters the County does not intend to comply with their intent when they authorized and voted for the 1997 HURF bonds. This would be a serious mistake and result in a "bait and switch" of projects and programs from those originally approved by voters, and I would not recommend such to the Board. Supervisor Miller justifies such a switch by saying 1997 bonds were not adequately explained to the voters; however, it is very clear the intent of the voters was to provide mobility at the time the bond program was conceived and then approved by the voters in the November 1997 General Election.

A Real No-tax-increase Plan

If Supervisor Miller truly wants a no-tax-increase plan, then a section in my most recent report that has been discussed on numerous occasions in the past, would be appropriate. This would simply be to reallocate State-shared HURF revenue to more equitably allocate transportation funds to the County. This would change the State's distribution of HURF and weight it more toward unincorporated population than it is presently. Historically, HURF distribution was based 100 percent on origin of fuel sales. In 1996, Pima County led a successful legislative effort for more equitable distribution of HURF revenues; resulting in the present distribution formula that, unfortunately, remains inequitable. It is presently weighted 28 percent unincorporated population and 72 percent origin of fuel sales. If it were weighted at 50 percent unincorporated population and 50 percent fuel sales, the County would receive up to an additional $182 million in HURF over the next 20 years. This, along with HURF growth ($121 million over 10 years) and reduced debt service payments ($67.2 million over 10 years), would more than adequately allow the County to repair our roads.

CHH/mjk

Attachments

c: John Bernal, Deputy County Administrator for Public Works
Nanette Slusser, Assistant County Administrator for Policy, Public Works
Priscilla Cornelio, Director, Transportation Department

ATTACHMENT 1


Supervisor Ally Miller, District 1

Pima County Board of Supervisors

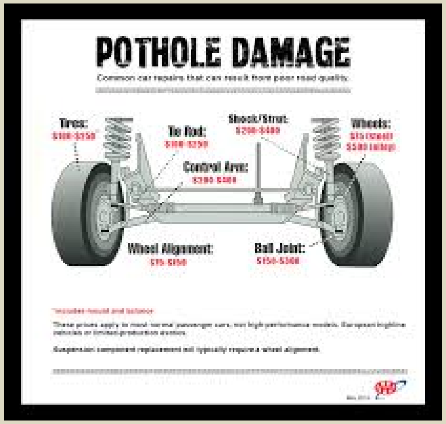
Plan to Fix Our Roads

Pima County Has a Choice

Bad Roads are a Regional Issue

- **Disastrous roads are a regional problem**
  - Stifling economic growth
  - Pima County has no “Curb appeal”

- **Poor Roads are costing all of us**
  - Poor Roads are a safety issue
  - According to AAA the average cost to repair damage from a pothole is **$306**



- **Estimates vary on Cost to Fix roads**
  - $300M in **Unincorporated** Pima County
  - $500M in City of Tucson

http://publicaffairsresources.aaa.biz/wp-content/uploads/2016/02/Pothole-Fact-Sheet.pdf

Framework for a Road Repair Plan

1. **Must NOT Raise Taxes!**
   - **Overburdened Taxpayers**

2. **Must Fix all Roads** – All districts: Both Neighborhood and Arterial roads
3. **Must be Sustainable** – No Short Term Gimmicks
   - **Bonds are a gimmick/Not Sustainable**

4. **Must be Fair and Equitable** to **ALL** taxpayers
5. **Must provide CERTAINTY**
   - ✓ **No monies moved or promises broken!**

Road Plan Must Follow This Framework

Road Repair Plan Summary

- **Is a Regional Plan -** will fix all roads (County and Cities) ✓
- **Does Not raise taxes** ✓
- **Is a 20 year plan** – Provides for sustainable road repair ✓
- **Generates over 1 Billion additional $'s for road repair** ✓
- **Puts 130 M$ to road repair the First 5 years** – More than the failed 2015 Bond would have done ✓
- **Restrictions on $$** - insures fairness to all Taxpayers ✓

	Pima County	City of Tucson	South Tucson	Oro Valley	Marana	Sahuarita	Total
First 5 Years	$100,000,000	$24,626,270	$267,609	$1,941,774	$1,655,321	$1,195,954	$129,686,929
Years 6 to 10	$136,351,063	$102,256,966	$1,111,207	$8,062,933	$6,873,478	$4,966,024	$259,621,671
Years 11 to 15	$167,677,967	$111,858,857	$1,215,549	$8,820,039	$7,518,895	$5,432,332	$302,523,639
Years 16 to 20	$176,302,539	$117,564,782	$1,277,554	$9,269,950	$7,902,434	$5,709,436	$318,026,695
Total	**$580,331,570**	**$356,306,875**	**$3,871,918**	**$28,094,697**	**$23,950,128**	**$17,303,746**	**$1,009,858,934**

Note: Does not include any HURF dollars already going into pavement preservation

All Jurisdictions allocated Road Dollars

Plan Strategy

Plan Utilizes 3 sources of Revenue

1. **Extend RTA and dedicate 50% of sales Tax to Road Repairs**
   - Generates $250M for Pima County
   - Generates $429M for Cities within Pima County
2. **Don’t issue anymore 1997 HURF Bonds**
   - Generates $257M
   - Frees up HURF dollars as debt is paid off
3. **Allocate HURF Money to Road Repairs – $73M**
   - $73M Initial funding to “Jump start effort”
   - Put road money (HURF) dollars back were they belong

Generates 1B$ for road repair over 20 years

RTA Plan Overview

- **Current RTA**
  - Expires in 2026 – 20 year plan
  - Funded primarily by a county wide ½ cent sales tax
  - No monies used for road repair
  - Is authorized by state Law and was voter approved

- **Proposed RTA**
  - Extend to 2036 – adds 10 more years (30 year total)
  - Keep the same county wide ½ cent sales tax
    - 50% goes to original RTA plan
    - 50% goes to road repairs
  - Generates $680M for pavement preservation
  - Adds $257M for new roads above original RTA plan
  - Stretching out RTA makes sense due to 2008 economic downturn
  - Allocate Monies to County & Municipalities based on population
  - Will require changes to state Law and voter re-approval

Generates $680M for road repair over 20 years

RTA Plan Details

Election To Reauthorize

5 years to fully transition to 50% dollars to Road Repairs

RTA Sales Tax % to Road Repairs	Total RTA Tax * Dollars Collected		Tucson	Oro Valley	Marana	Sahuarita	South Tucson	Unincorporated
0%	$75,005,630	**2016**	$0	$0	$0	$0	$0	$0
0%	$75,755,686	**2017**	$0	$0	$0	$0	$0	$0
0%	$76,513,243	**2018**	$0	$0	$0	$0	$0	$0
10.00%	$77,278,376	**2019**	$4,050,174	$319,355	$272,243	$196,693	$44,012	$2,845,360
20.00%	$78,051,159	**2020**	$8,181,351	$645,097	$549,932	$397,320	$88,905	$5,747,627
30.00%	$78,831,671	**2021**	$12,394,746	$977,322	$833,146	$601,941	$134,691	$8,707,655
40.00%	$79,619,988	**2022**	$16,691,591	$1,316,127	$1,121,970	$810,613	$181,384	$11,726,309
50.00%	$80,416,188	**2023**	$21,073,134	$1,661,611	$1,416,488	$1,023,399	$228,998	$14,804,465
50.00%	$81,220,349	**2024**	$21,283,865	$1,678,227	$1,430,652	$1,033,633	$231,288	$14,952,509
50.00%	$82,032,553	**2025**	$21,496,704	$1,695,009	$1,444,959	$1,043,970	$233,601	$15,102,034
50.00%	$82,852,878	**2026**	$21,711,671	$1,711,959	$1,459,409	$1,054,409	$235,937	$15,253,055
50.00%	$83,681,407	**2027**	$21,928,788	$1,729,079	$1,474,003	$1,064,953	$238,296	$15,405,585
50.00%	$84,518,221	**2028**	$22,148,076	$1,746,370	$1,488,743	$1,075,603	$240,679	$15,559,641
50.00%	$85,363,403	**2029**	$22,369,556	$1,763,833	$1,503,630	$1,086,359	$243,086	$15,715,237
50.00%	$86,217,038	**2030**	$22,593,252	$1,781,472	$1,518,666	$1,097,222	$245,517	$15,872,390
50.00%	$87,079,208	**2031**	$22,819,185	$1,799,286	$1,533,853	$1,108,195	$247,972	$16,031,114
50.00%	$87,950,000	**2032**	$23,047,376	$1,817,279	$1,549,192	$1,119,277	$250,451	$16,191,425
50.00%	$88,829,500	**2033**	$23,277,850	$1,835,452	$1,564,683	$1,130,469	$252,956	$16,353,339
50.00%	$89,717,795	**2034**	$23,510,629	$1,853,806	$1,580,330	$1,141,774	$255,485	$16,516,873
50.00%	$90,614,973	**2035**	$23,745,735	$1,872,345	$1,596,134	$1,153,192	$258,040	$16,682,041
50.00%	$91,521,123	**2036**	$23,983,192	$1,891,068	$1,612,095	$1,164,724	$260,621	$16,848,862
	$1,668,064,759	**Total**	**$356,306,875**	**$28,094,697**	**$23,950,128**	**$17,303,746**	**$3,871,918**	**$250,315,520**

*1% per year escalation in sales tax collections assumed

Dollars collected go back to Jurisdictions Based on Population (2010 Census Numbers)

	Population	% Pima County
Tucson	520,116	52.4%
Oro Valley	41,011	4.1%
Marana	34,961	3.5%
Sahuarita	25,259	2.5%
South Tucson	5,652	0.6%
Unincorporated	365,396	36.8%

- New Plan will Add $257M more to RTA for new Road Construction
  * Will delay implementation of some projects

RTA Plan Details

- **Restrictions will be placed on the use of the money**
  - Can only be used for road repair
    - Cannot be used for engineering, or employee salaries
  - 50% of dollars used for arterial roads
  - 50% of dollars used in neighborhood streets

- **Pima County**
  - Allocated to each district based on miles of roads in failed or poor condition
- **City of Tucson**
  - Allocated to each Ward based on miles of roads in failed or poor condition
- **Oro Valley, Marana, Sahuarita, South Tucson**
  - No wards, districts, or precincts exist
  - Given to the city

Implementation Plan

- **Current RTA is enabled by state statutes**
  - Will require state Legislature to change current RTA statutes
  - Will require an approval vote of the residents of Pima County
- **Include Restrictions in state law to insure that Monies are fairly distributed**
- **Getting state law passed will be challenging**
  - **Current Board has created a hostile relationship with Legislature**
    - Currently suing the state over property taxes
    - Blame state for bad roads (the infamous “state swept our HURF $$’s)

❖ **Ally Miller has a strong relationship with the state leadership – she can be a Catalyst to get legislation passed!**

This Will Require a lot of Work to Get This Done!

1997 HURF Bond Plan Overview

- **Current 1997 HURF Bond ordinance**
  - Voter approved in 1997 – 350M$ for new road construction
  - Bonds are repaid with HURF Monies (current payment -18.7 M$ per year)
  - HURF monies should be used for Road repair/Pavement Preservation
  - $80M left to issue
  - Current County Plan does not issue any more Bonds until at least 2022

- **Proposed 1997 HURF Bond ordinance**
  - Don't issue any additional 1997 HURF bonds
  - As existing bonds are paid off - move HURF dollars back to road repair
  - Was voter approved
  - Put back on Ballot - ask voters to approve changes
  - Same as RTA Reauthorization

Generates $256M for road repair over 20 years

1997 HURF Bond Plan Details

Currently 18.7M$ of HURF Revenue dedicated to Pay back 1997 HURF Bonds

Back on Ballot for Voter Approval

Year	Principal	Interest	Total Payment	Money Freed up As Bonds Paid
2016	$ 13,210.00	$4,711.00	$17,921.00	$ -
2017	$ 14,585.00	$4,146.00	$18,731.00	$ -
2018	$ 15,245.00	$3,497.00	$18,742.00	$ -
2019	$ 14,160.00	$2,825.00	$16,985.00	$ 1,757,000.00
2020	$ 14,875.00	$2,204.00	$17,079.00	$ 1,663,000.00
2021	$ 10,020.00	$1,555.00	$11,575.00	$ 7,167,000.00
2022	$ 10,480.00	$1,171.00	$11,651.00	$ 7,091,000.00
2023	$ 5,495.00	$ 752.00	$ 6,247.00	$ 12,495,000.00
2024	$ 5,705.00	$ 545.00	$ 6,250.00	$ 12,492,000.00
2025	$ 2,785.00	$ 330.00	$ 3,115.00	$ 15,627,000.00
2026	$ 2,885.00	$ 232.00	$ 3,117.00	$ 15,625,000.00
2027	$ 2,970.00	$ 142.00	$ 3,112.00	$ 15,630,000.00
2028	$ 1,455.00	$ 49.00	$ 1,504.00	$ 17,238,000.00
2029	0	0	0	$ 18,742,000.00
2030	0	0	0	$ 18,742,000.00
2031	0	0	0	$ 18,742,000.00
2032	0	0	0	$ 18,742,000.00
2033	0	0	0	$ 18,742,000.00
2034	0	0	0	$ 18,742,000.00
2035	0	0	0	$ 18,742,000.00
2036	0	0	0	$ 18,742,000.00
Total				$ 256,721,000.00

Implementation Plan

- **The 1997 HURF bonds were Voter Approved**
- **Effectively trades New roads for road repairs**
  - This was not explained to the public in 1997
  - We've all seen what 20 years of this has done to the community
- **It was voter approved in 1997**
  - It should ended by Voter Approval
  - Put back on the ballot

This Bond Was the Start of Road Conditions Declining

Allocate HURF Fund $’s

- **We have a 1.2B$ County Budget, yet allocate 0$’s to pavement Preservation**
- **This is all about priorities**
- **The RTA changes will take until 2019 to get monies to our roads**
- **The 1997 HURF bond changes will not generate monies until 2019**
- **We Need Money NOW!!**

- **My Plan Moves HURF Fund dollars Back to Pavement Preservation**
  - Starts pavement preservation immediately
  - **REMEMBER - This is all about priorities**

Allocates $73M for Pavement Preservation

Examples of Non-essential Spending

- **$30 million gift to UMC for Graduate Medical Education (5/13/14)**
- **Purchased $16.5 million worth of vacant land. (7/1/14)**
  - **$8.75 million ($10 million with interest)** land Purchase by Kino stadium
  - **$7.75 million ($8.3 million with interest)** land purchase West Side
- **Purchased $931,000 vacant Land (12/8/2015)**
- **$30 million gift to UMC for Graduate Medical Education (4/19/2016)**
- **$16.5 million for world View building & spaceport ($20 mil with interest)**

- These Purchases were all voted on and Approved by the Board of Supervisors
  - **I voted no on all believing Road repair more important!**

Board approved $99M of Non-essential Spending over last 2 years

HURF Plan Details

(Distribution from State annually)

	HURF Dollars
2017	$ 20,000,000
2018	$ 20,000,000
2019	$ 15,397,640
2020	$ 12,589,373
2021	$ 4,125,345
2022	$ 1,182,691
2023	$ -
2024	$ -
2025	$ -
2026	$ -
2027	$ -
2028	$ -
2029	$ -
2030	$ -
2031	$ -
2032	$ -
2033	$ -
2034	$ -
2035	$ -
2036	$ -
	$ 73,295,050

At this point RTA & 1997 HURF generate adequate funding

Long Term (past 2036) We need to restore all HURF Funds to Road repair

HURF Plan Details

- Restrictions will be placed on the use of the money
  - Can ONLY be used for pavement preservation
    - Can't be used for Employee Salaries/Overhead
    - Marana Uses General Fund Monies for Salaries and Overhead
  - 50% of dollars used for arterial roads
  - 50% of dollars used in neighborhood streets
  - Allocated to each district based on miles of roads in failed or poor condition

It's all About Priorities !!

Total Plan Summary

Road Repair Dollars for County Roads

County Portion				
	HURF Revenue	HURF Bonds ($18.7M)	RTA (Sales Tax)	Total by Year
2016			$ -	
2017	$ 20,000,000.00	$ -	$ -	$ 20,000,000.00
2018	$ 20,000,000.00	$ -	$ -	$ 20,000,000.00
2019	$ 15,397,640.11	$ 1,757,000.00	$ 2,845,359.89	$ 20,000,000.00
2020	$ 12,589,373.01	$ 1,663,000.00	$ 5,747,626.99	$ 20,000,000.00
2021	$ 4,125,345.11	$ 7,167,000.00	$ 8,707,654.89	$ 20,000,000.00
2022	$ 1,182,691.42	$ 7,091,000.00	$ 11,726,308.58	$ 20,000,000.00
2023	$ -	$ 12,495,000.00	$ 14,804,464.58	$ 27,299,464.58
2024	$ -	$ 12,492,000.00	$ 14,952,509.23	$ 27,444,509.23
2025	$ -	$ 15,627,000.00	$ 15,102,034.32	$ 30,729,034.32
2026	$ -	$ 15,625,000.00	$ 15,253,054.66	$ 30,878,054.66
2027	$ -	$ 15,630,000.00	$ 15,405,585.21	$ 31,035,585.21
2028	$ -	$ 17,238,000.00	$ 15,559,641.06	$ 32,797,641.06
2029	$ -	$ 18,742,000.00	$ 15,715,237.47	$ 34,457,237.47
2030	$ -	$ 18,742,000.00	$ 15,872,389.85	$ 34,614,389.85
2031	$ -	$ 18,742,000.00	$ 16,031,113.75	$ 34,773,113.75
2032	$ -	$ 18,742,000.00	$ 16,191,424.88	$ 34,933,424.88
2033	$ -	$ 18,742,000.00	$ 16,353,339.13	$ 35,095,339.13
2034	$ -	$ 18,742,000.00	$ 16,516,872.52	$ 35,258,872.52
2035	$ -	$ 18,742,000.00	$ 16,682,041.25	$ 35,424,041.25
2036	$ -	$ 18,742,000.00	$ 16,848,861.66	$ 35,590,861.66
Total	**$ 73,295,049.65**	**$ 256,721,000.00**	**$ 250,315,519.94**	**$ 580,331,569.59**

$580M for County Road Repairs over 20 yrs

Road Repair Dollars for Cities

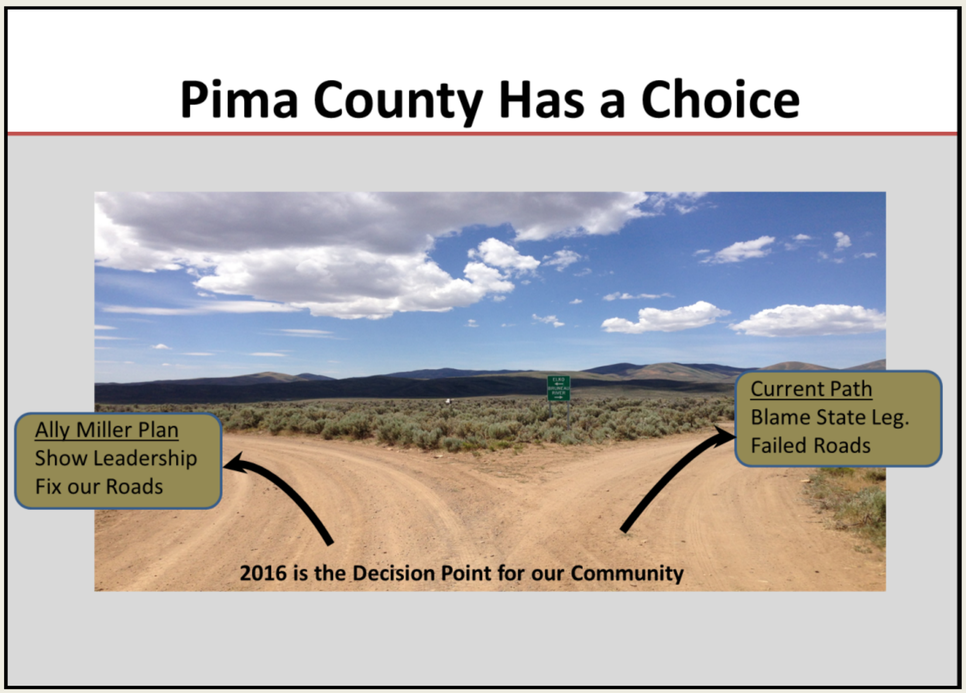
All Cities
$0
$0
$0
$4,882,478
$9,862,605
$14,941,846
$20,121,686
$25,403,629
$25,657,665
$25,914,242
$26,173,385
$26,435,118
$26,699,470
$26,966,464
$27,236,129
$27,508,490
$27,783,575
$28,061,411
$28,342,025
$28,625,445
$28,911,700
$429,527,364

$430M for City Road Repairs over 20 yrs

Provides over $1B for Regional Road Repair over 20 yrs

Next Steps

- Sound Framework for a Plan
- Created a Plan that Fits within the Framework
  - Meets Regional Road Repair needs
  - It is a great starting point for debate on the details



Questions/Contact Info

- ✓Allyforsupervisor.Com
- ✓520-744-2554
- ✓Email: Allyforsupervisor@gmail.com
- ✓Volunteer
- ✓Donate
- ✓Spread the Word
- ✓VOTE

ATTACHMENT 2

ROAD REPAIRS IN UNINCORPORATED PIMA COUNTY
Chuck Huckelberry, Pima County Administrator

April 21, 2016

I. INTRODUCTION

This report summarizes the issues and potentially available actions to resolve the road repair funding dilemma in Pima County. It will highlight the County Highway User Revenue Funds (HURF) and Vehicle License Taxes (VLT) used to operate, maintain and build a transportation system in the unincorporated area of Pima County. Roadway and surface transportation responsibility in Arizona is divided between the State, counties, and cities and towns. Counties in Arizona are responsible only for the transportation system in the unincorporated area.

Pima County is unique among Arizona's 15 counties, as we have the largest unincorporated area population in the State at 361,023, and therefore, the largest service demand.[1] Our unincorporated population exceeds that of Maricopa County by 67,145.

II. HOW DID WE GET TO WHERE WE ARE?

There are four primary reasons why Pima County's roads are in the condition they are in today.

1. Transportation revenues are not and have not been shared equitably within the State for years.

2. The Arizona Legislature has diverted highway funds for their own purposes, primarily to balance the State budget.

3. Transportation revenues have not been increased for 25 years while vehicle fuel efficiency has dramatically increased; meaning transportation revenues are stagnant and have actually declined dramatically in purchasing power for highway maintenance.

4. The County made a conscious decision in 1997 to invest in transportation capacity improvements to enhance regional mobility using HURF bonding.

Each of these factors is discussed below.

A. Transportation revenues are not growing or shared equitably.

Because Pima County has the largest unincorporated population of any county in Arizona, we have, by direct correlation, the highest need for transportation mobility investment of

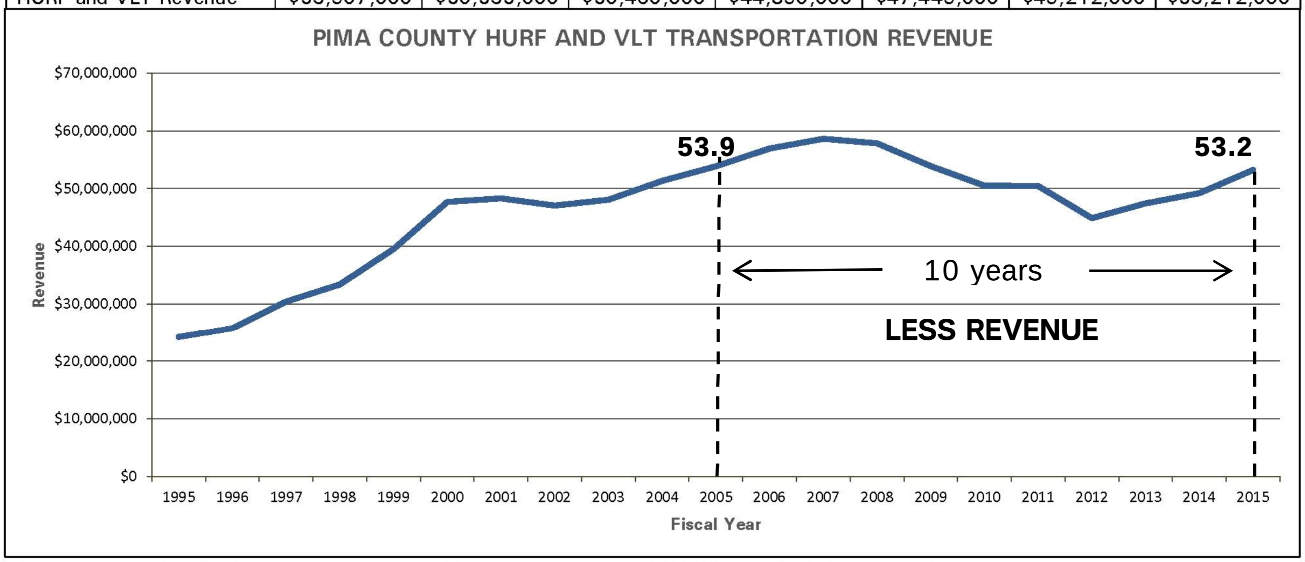
[1] Arizona Department of Administration July 1, 2015 Population Estimates. https://population.az.gov/population-estimates. Accessed April 12, 2016.

any county in Arizona. Yet, the State law that distributes State-collected revenues (HURF largely derived from gas taxes) to counties has been and continues to be based on antiquated distribution formulas and methodology. Previous to 1996, the distribution of HURF among counties was based totally on the proportion of origin of fuel sales in the county to origin of fuel sales in the State. Clearly, Maricopa County dominated all other counties in this distribution formula. Recognizing this formula was inequitable, the Arizona Legislature in 1996 modified the distribution formula to include a weighting factor for unincorporated population, since such has a direct correlation to transportation investment needs.[2]

Figure 1 below shows the amount of HURF and Vehicle License Tax (VLT) received by Pima County from 1995 through 2015. The graph shows a significant increase in the distribution of HURF to Pima County following the implementation of the HURF Equity Legislation. While this was significantly beneficial to Pima County in the past, it is far from equitable today. Today, our highway revenues are less than they were 10 years ago.

FIGURE 1: PIMA COUNTY HURF AND VLT FOR TRANSPORTATION REVENUE, 1995 THROUGH 2015.

Fiscal Year	1995	1996	1997	1998	1999	2000	2001
HURF and VLT Revenue	$24,208,000	$25,764,000	$30,412,000	$33,370,000	$39,535,000	$47,699,000	$48,317,000
Fiscal Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
HURF and VLT Revenue	$47,071,000	$48,072,000	$51,334,000	$53,878,000	$56,937,000	$58,638,000	$57,847,000
Fiscal Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
HURF and VLT Revenue	$53,907,000	$50,535,000	$50,460,000	$44,890,000	$47,449,000	$49,212,000	$53,212,000



Source: Pima County Comprehensive Annual Financial Report, Exhibit D-12, Streets & Highways Revenue, various years.

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[2]Arizona Revised Statute 28-6540, Arizona highway user revenue fund distribution; state highway fund; county, city and town proportions. http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/28/06540.htm&Title=28&DocType=ARS, accessed April 18, 2016.

Today, the per capita revenue from HURF varies widely among counties. Table 1 below shows Arizona's 15 counties, their unincorporated populations and the value of their currently received HURF on a per capita basis for FY 2014/15.[3]

Table 1: Fiscal Year 2014/15 Per Capita HURF Revenue by County.

County	County HURF Revenue Allocation	Unincorporated Population, 2010 Census	Per Capita HURF Revenue	Per Capita Rank
Apache	$ 6,396,769.27	61,192	$104.54	14
Cochise	7,586,843.95	52,410	144.76	07
Coconino	9,040,356.54	53,567	168.77	04
Gila	3,529,256.10	25,602	137.85	08
Graham	2,293,193.03	20,402	112.40	12
Greenlee	880,475.57	4,430	198.75	03
La Paz	3,653,987.72	13,729	266.15	02
Maricopa	97,698,476.39	284,404	343.52	01
Mohave	11,543,436.75	75,230	153.44	06
Navajo	7,653,220.50	68,097	112.39	13
Pima	40,762,362.68	353,264	115.39	11
Pinal	18,291,170.86	187,517	97.54	15
Santa Cruz	3,216,374.35	25,670	125.30	10
Yavapai	10,918,936.01	83,782	130.33	09
Yuma	9,775,872.69	60,013	162.90	05
Statewide Total	**$233,240,732.41**	**1,369,309**	**$158.27**	

Statewide Average Per Capita County HURF Revenue = $158.27.
Source for FY 2015 HURF = ADOT.

B. Legislative Use of HURF Funds for Purposes Not Related to Highways

The Arizona Legislature has also been diverting significant funds in the order of magnitude of now over $1.2 billion of HURF to balance their own budget.[4] They have used the "notwithstanding" section of law to justify their diversion; something no city or town would be permitted to do. The Arizona Legislature has made a few feeble attempts to stop robbing the HURF Fund; but, apparently, it has no serious intention of doing so. Hence, city, towns and the State transportation department must continue to endure legally sanctioned diversion of HURF for purposes other than to maintain and construct highways in Arizona.

[3] Huckelberry, C.H. Memorandum to the Pima County Board of Supervisors, *Equitable Allocation of Highway User Revenue Funds Among Counties*, Page 1. February 17, 2016.
[4] Pima Association of Governments.

Even though the current State budget appears to have a significant surplus,[5] the Arizona Legislature has taken no action to stop the diversion of HURF monies, which would help the State, cities and counties meet the transportation needs and obligations of their communities. If the nearly $100 million in annual HURF diversions by the Legislature were stopped, our region would gain approximately $11.3 million per year in HURF revenue, and the County would gain $3.6 million per year.

C. Lack of revenue increases for 25 years and increasing vehicle fuel efficiency.

The primary source of revenue for transportation has been the gas tax; both state and federal. The state gas tax has not been increased in 25 years, and the federal gas tax has not been increased for 23 years. Both are roughly 18 cents per gallon. Due to population growth and inflation, per capita transportation revenues have decreased 54 percent.[6]

In addition, over the same period vehicle fleet efficiency has increased significantly. Increasing vehicle fleet efficiency means fewer gallons of gasoline are purchased and tax receipts are lower. The average new light vehicle fleet fuel efficiency has increased from 19.84 miles per gallon to 23.64 miles per gallon, an increase of 20 percent. This means the same quantity (or less) fuel can be purchased, but wear and tear on the highway system increases by 20 percent without a corresponding increase in revenue to operate and maintain the highway system.

These factors combined results in the dollar of transportation revenues in 1991 now buying only approximately 51 cents worth of transportation improvements in 2016. If adjusted for both inflation and additional vehicle fuel efficiency, the value of a 1991 gas tax would be more than 70 percent less today.

D. Mobility investment of the 1997 HURF Bond Program.

In 1996 and 1997, the common theme heard most often from residents in the unincorporated area of Pima County was mobility, or the lack thereof. Former rural two-lane roadways were becoming clogged with suburban traffic congestion. Not a single concern was ever expressed over a lack of maintenance of the County highway system; it was always mobility and the need to widen and improve the County arterial and collector highways. Armed with increased revenue from the HURF resulting from the HURF Equity Legislation, the County asked the voters to approve $350 million in HURF bonds to improve the most critical roadway segments in Pima County. This resulted in a vast number of rural two-lane roadways being converted to four- and six-lane urban arterial streets at substantial cost and investment. Attachment 1 shows the resulting improved

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[5]Pitzl, Mary Jo. *Arizona ends budget year with $266 million surplus.* http://www.azcentral.com/story/news/arizona/politics/2015/07/20/arizona-reports-surplus/30444483/. Accessed April 15, 2016.

[6] Huckelberry, C.H. Memorandum to the Board of Supervisors, *A Plan for Funding Street and Highway Repairs in Pima County*. August 1, 2014.

arterial highway system in Pima County as a result of the 1997 HURF bond program. The five supervisorial district boundaries are also shown.

Table 2 below shows the supervisorial district beneficiaries of this HURF bond program investment.[7]

Table 2: 1997 HURF Bond Expenditures by District.

District	Amount*	Percent of Total
1: Miller	$156,746,801	62.44
2: Valadez	33,259,241	13.25
3: Bronson	10,369,023	4.13
4: Carroll	27,427,653	10.93
5: Elías	23,234,605	9.25
Totals	**$251,037,323**	**100.00**

**These amounts do not include projects that cross multiple districts.*

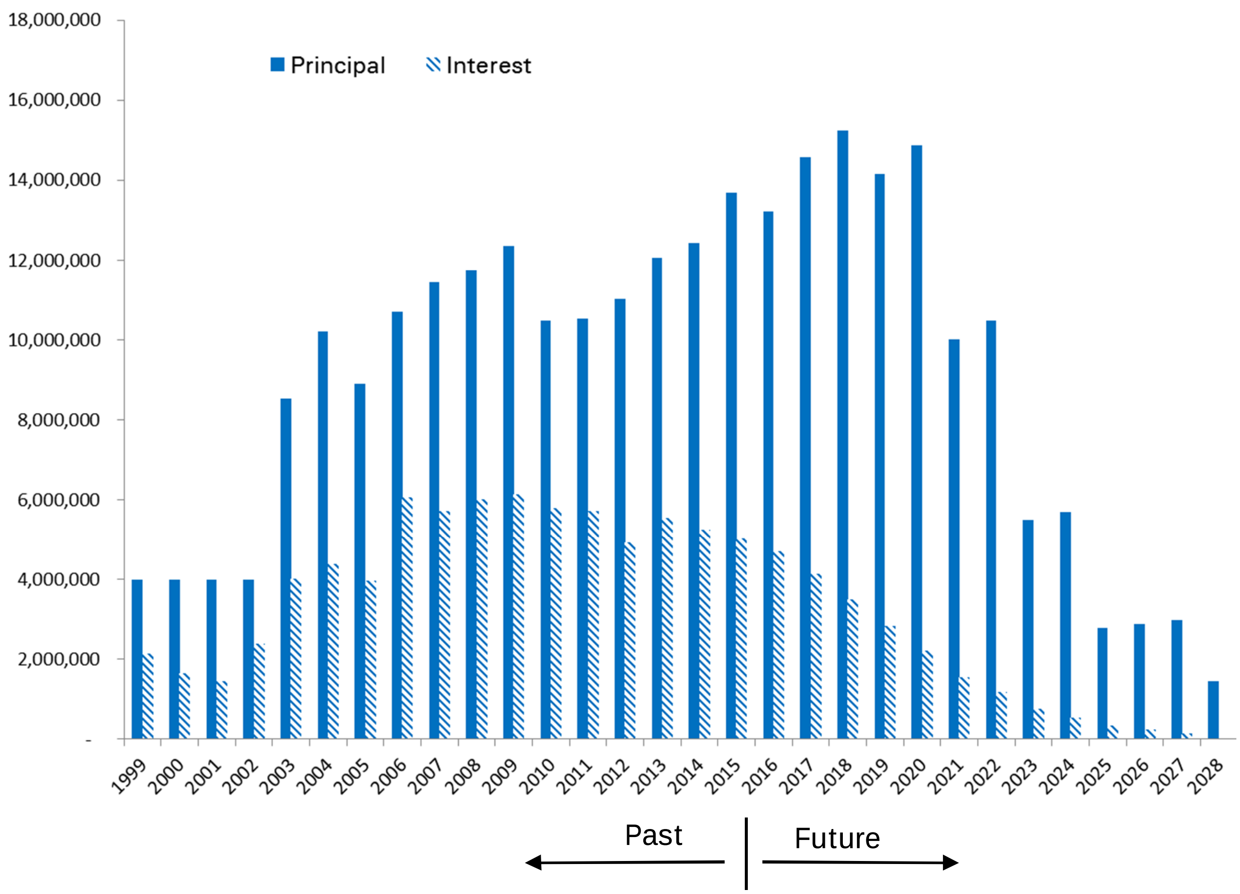
The 1997 HURF bond program has been a major success in providing needed and demanded mobility for the residents of unincorporated Pima County.

III. WHAT DOES THE 1997 HURF BOND PROGRAM HAVE TO DO WITH ROADWAY MAINTENANCE?

The answer is "everything." County HURF monies that are spent on debt service, both principal and interest to retire bonds issued from the 1997 voter authorization, cannot be spent on maintenance or road repair. They must be spent as a first priority on repaying the bond holders who lent Pima County the money to make the roadway capacity improvements sorely needed in 1997. Therefore, these funds are not available for roadway repair or roadway maintenance. To date, the total principal and interest payments of HURF paid to repay bonds issued equals $254 million. Today, it is estimated the total cost to repair all local arterial and collector streets is approaching $300 million. Hence, the amount dedicated for principal and interest payments on bonds issued for highway capacity is 85 percent of this obligation; a substantial amount. Put another way, the interest payments alone on this debt equal $81 million; again, a substantial amount. Figure 2 below shows the 1997 HURF authorization debt service principal and interest payments by fiscal year until the present debt is retired, assuming no further bonds are issued.

[7] Huckelberry, C.H. Memorandum to the Pima County Board of Supervisors, *Additional Transportation Investment Information Requested by the Board of Supervisors at the Meeting of February 18, 2014*, Page 5, Table 4. March 18, 2014.

Figure 2: 1997 HURF authorization debt service principal and interest payments.



Perhaps we should have opted for pay-as-you-go financing of our highway capacity improvements, but any elementary highway user cost/benefit analysis would clearly indicate the overall aggregate user benefits greatly outweigh – by a factor of 10 or more – the lost investment benefit from interest payments. Hence, the clear economic rationale to bond for capacity improvements.

IV. WHAT ARE OUR OPTIONS GOING FORWARD?

A number of options to resolve our transportation dilemma have been proposed, but none have been acted upon. The County legislative agenda has for three years called upon the Arizona Legislature to increase the statewide gas tax by 10 cents per gallon.[8] The County

[8] Huckelberry, C.H. *2016 Recommended Legislative Agenda*. December 15, 2015. *Supplemental Information Related to the Board of Supervisors November 18, 2014 Agenda Item Regarding the 2015 Legislative Agenda and Transportation Funding*. November 12, 2014. *Recommended Legislative Agenda for 2014*. November 12, 2013.

legislative agenda over the same period has called for the Arizona Legislature to stop the diversion of HURF so that counties, cities and towns, as well as the State highway system, can use the diverted HURF money for roadway repair. Nothing has been acted upon by the Legislature.

Options have been discussed to increase the County property tax; however, the use of property taxes for road repair is fundamentally inequitable to 64 percent of the region's population, since the County levies a property tax countywide but is only responsible for road maintenance in the unincorporated area.

The County has asked for a more equitable distribution of HURF revenues and has asked the Legislature to consider authorizing a 10-year, half-cent sales tax that would be administered by the Regional Transportation Authority for roadway repair.

The Legislature has not responded to a single proposal.

V. WHAT ARE OUR BEST OPTIONS FOR HELPING OURSELVES, ASSUMING THE STATE AND STATE LEGISLATURE WILL CONTINUE TO AVOID THE PROBLEM?

Since there is no effort or discussion in the Legislature to address transportation funding issues, even though Arizona is falling far behind adjacent states in economic competitiveness, I will remove from the list of options any revenue enhancements by the Arizona Legislature.

However, there is light at the end of the tunnel, but it is likely 10 years away. The "light" is defined as a substantial improvement in the pavement surface condition of all Pima County roadways: arterial, collector and local.

Table 3 below shows the existing debt service schedule over the next 10 years for the HURF bonds that remain outstanding. As these payments begin to decrease, the reduction can be dedicated to roadway maintenance. In addition, we believe there is a strong argument to be made that based on Arizona's improving economy, HURF diversions should stop, and stop now. Eliminating the State HURF diversion would add another approximately $3.6 million each year to the funds available for road repair. In addition, it is likely HURF and VLT revenues will continue to increase modestly.

Table 3: HURF authorization 10-year debt service reduction.

FY	Total Principal and Interest	Savings	Debt Service Reduction Available for Road Repair
2016	17,900,000		
2017	18,700,000	0	0
2018	18,700,000	0	0
2019	17,000,000	900,000	900,000
2020	17,000,000	900,000	1,800,000
2021	11,600,000	6,300,000	8,100,000
2022	11,700,000	6,200,000	14,300,000
2023	6,200,000	11,700,000	26,000,000
2024	6,300,000	11,600,000	37,600,000
2025	3,100,000	14,800,000	52,400,000
2026	3,100,000	14,800,000	67,200,000

Table 4 below shows the forecasted increase in HURF and VLT revenues due the County over the 2016 base year.

Table 4: Forecasted Increase in Pima County HURF and VLT Revenues Through FY 2026.

FY	Projected HURF and VLT Transportation Revenue (millions)	Projected Funding Available Over 2016 Base Year (millions)
2016 (base year)	$55.44	$ 0
2017	57.12	1.7
2018	57.80	4.1
2019	60.30	8.9
2020	63.00	16.4
2021	65.81	26.8
2022	68.13	39.5
2023	71.10	55.2
2024	74.21	74.0
2025	77.40	96.0
2026	80.73	121.3

FY2016 reflects actual HURF and VLT revenues and distributions through March 2016. Projections for FY2017 through FY2025 are based on ADOT, Financial Management Services, "Arizona Highway User Revenue Fund, Forecasting Process & Results, FY2016-2025," September 2015.

The increased revenues from declining debt service over the next 10 years could also be dedicated to roadway repair. Hence, as shown in Attachment 2, if 1) the reduced debt service payments on HURF bonds are dedicated to roadway repair for the next 10 years ($67.2 million); 2) the Legislature ceases their diversion of Pima County HURF ($36 million based on annual average of $3.6 million between FYs 2009 and 2014); and 3) growth in VLT and HURF receipts is dedicated to roadway repair for the next 10 years ($121.3 million), a total of $224.5 million could be made available for this purpose, meeting 75 percent of the County's documented road maintenance and preservation needs.

The primary question is whether there will be $224.5 million available for pavement maintenance and preservation in the next 10 years. This assumption relies on no further debt issuances associated with the 1997 Bond Program. While this is certainly possible, the answer is probably not. The City has been delayed in decisions related to bonding improvements related to Broadway Boulevard and other corridors. Until those decisions are made the County bonds will not be released; hence, it is likely safe to assume that in the next few years, decisions will be made that will release these authorized bonds.

In addition, is it safe to assume the Legislature will immediately reverse their HURF diversions? Likely not, but it is also significantly likely, given the pressure they will be under to restore dedicated funding to transportation they have diverted for other purposes by transportation special interest and lobbying groups.

Finally, do I believe the Arizona Department of Transportation's (ADOT's) forecast regarding growth in HURF and VLT? Again, I am very skeptical, given the HURF and VLT over the last 10 years has actually decreased. However, I do realize we have been through the longest recession in our history. I find it improbable these revenues will increase to the amount forecasted by ADOT. On the other hand, I have seen significant recent increases in these distribution amounts simply because of economic activity.

Hence, the question: how real is $224.5 million of revenues for pavement repair and maintenance in the next 10 years? It is certainly possible, but not highly probable.

VI. A REGIONAL APPROACH IS LIKELY BEST

To immediately begin addressing our pavement repair problem, I also believe a half-cent sales tax proposal is worth pursuing at the legislative level, with such being a limited 10-year sales tax dedicated exclusively to roadway repair and distributed among the County jurisdictions based on population. Such a program would be administered by the successful Regional Transportation Authority building on the success of the 2006 voter-approved plan. This will raise the nearly $300 million needed to adequately repair Pima County's roads and provide another $500 million to the City of Tucson, which would substantially resolve their road issues. This tax would allow the various transportation jurisdictions to repurpose and rededicate their transportation revenues to maintaining the highway system. None of the proceeds from the sales tax could be utilized for engineering or administrative purposes, and all roadway maintenance projects would be completed through private contracting.

VII. SELF HELP

Self-help provides the option for road repairs of local streets will be largely paid for by residents. Today, in Green Valley, approximately 60 percent of the subdivisions maintain their own private roads through homeowners' associations (HOAs). Thirty percent of the subdivisions have County roads but still have HOAs that assess annual dues. The remaining 10 percent have a combination of public and private roads. There is a marked difference in the dues paid by a homeowner where the County is obligated to maintain the roads versus where the HOA assumes maintenance responsibilities for their roadways.

The Green Valley Council provided a list of typical annual dues of a number of HOAs where the roads are maintained by the County and a number of HOAs that have private roads, which means the HOA assumes this responsibility. From the information provided, the average HOA dues where residents are required to maintain their own roadways is $430 per year, as opposed to $30 per year where the County has assumed road maintenance responsibilities. This is a substantial annual difference.

The County also reviewed repair costs of 12 different subdivisions within Green Valley where the County has maintenance responsibility for local roadways; estimated the cost for complete repair, which ranges from extensive removal and replacement of pavement section to maintenance seal and resurfacing. The estimated annual cost to a homeowner based on amortizing the capital cost over a 10-year period is provided in Table 5 below.

Table 5: Green Valley Subdivisions Community Facilities District or Improvement District Options for Failed Road Conditions.

Route	Length	Width	Area [yd²]	Treatment and Condition Rating	Engineer's Estimate	Aggregate Limited Net Assessed Value	Number of Parcels	Annual payment,10-year amortization[1]	Average tax increase on typical $150,000 home
Green Valley Townhomes/Tucson Green Valley Unit No. 1	6,964	30	23,213	Failed[2]	$324,987	$ 1,310,970	169	$39,480	452
Green Valley Country Club Estates Lots 1-154, Blks 1-14	12,466	38	52,634	Poor[3]	263,171	3,360,055	266	31,968	143
Green Valley Country Club Estates Lots 155-376, Blks 15-19	13,200	38	55,733	Poor[3]	278,667	3,303,624	264	33,852	154
Green Valley Country Club Vistas (1-229)	13,570	40	60,311	Poor[3]	301,556	2,514,657	229	36,636	219
Green Valley Country Club Vistas (230-482)	14,256	40	63,360	Poor[3]	316,800	2,859,080	253	38,484	202
Green Valley Desert Hills No. 4 (1-224)	1,679	38	7,089	Poor[3]	35,446	1,866,089	211	4,308	35
Green Valley Fairways (1-235)	10,560	36	42,240	Poor[3]	211,200	1,929,679	233	25,656	199
Green Valley Fairways No. 2 (236-474)	11,616	36	46,464	Poor[3]	232,320	2,463,366	239	28,224	172
Green Valley Fairways No. 3 (475-763)	15,048	36	60,192	Poor[3]	300,960	2,599,284	289	36,564	211
The Villages at Green Valley HOA	17,561	38	74,146	Poor[3]	370,732	4,080,934	482	45,036	166

[1]Assumes four percent interest on principal.

[2]For Poor (very cracked with tented joints) or Failed ratings, the traditional option is rehabilitation at $14 per square yard. This leaves the roads in new to good condition for about seven years.

[3]A crack/chip/fog seal will not improve the ride at $5 per square yard, but it will protect against potholes for eight to 10 years. Cracks will reflect through over time.

Unless there are new revenues provided, it is unlikely there will be significant public funds invested in local road repair in the next two to four years. In looking at the 12 subdivisions reviewed, the cost to substantially improve their roads would cost less, on an annual basis, than what it typically costs a member of an HOA that is responsible for their own private roads.

For homeowners who would like to finance road improvements for local public roads in their HOAs, several mechanisms are available and range from the traditional improvement district to a more contemporary community facilities district. The cost reflected in Table 5 above amortizes the initial capital over 10 years at an interest rate of four percent.

There are a number of options available to repair local roads. County public local roads will be repaired eventually, but our Department of Transportation has as their highest repair priority the arterial and collector roadway system.

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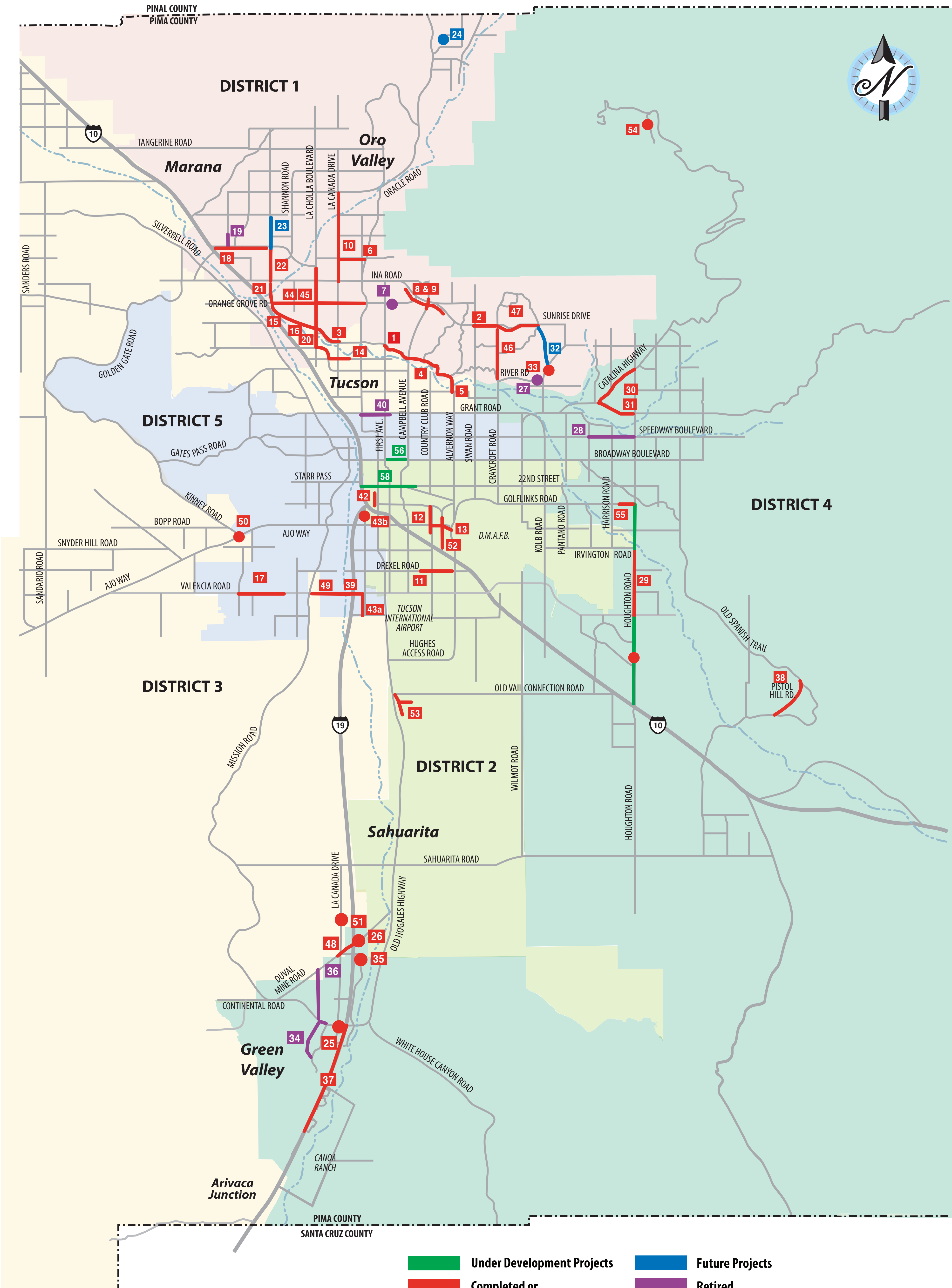
1997 Bond Program HURF Transportation Bond Issue
December 31, 2015 Status Report



- Under Development Projects
- Future Projects
- Completed or Under Construction
- Retired

- District 1
- District 2
- District 3
- District 4
- District 5

PIMA COUNTY

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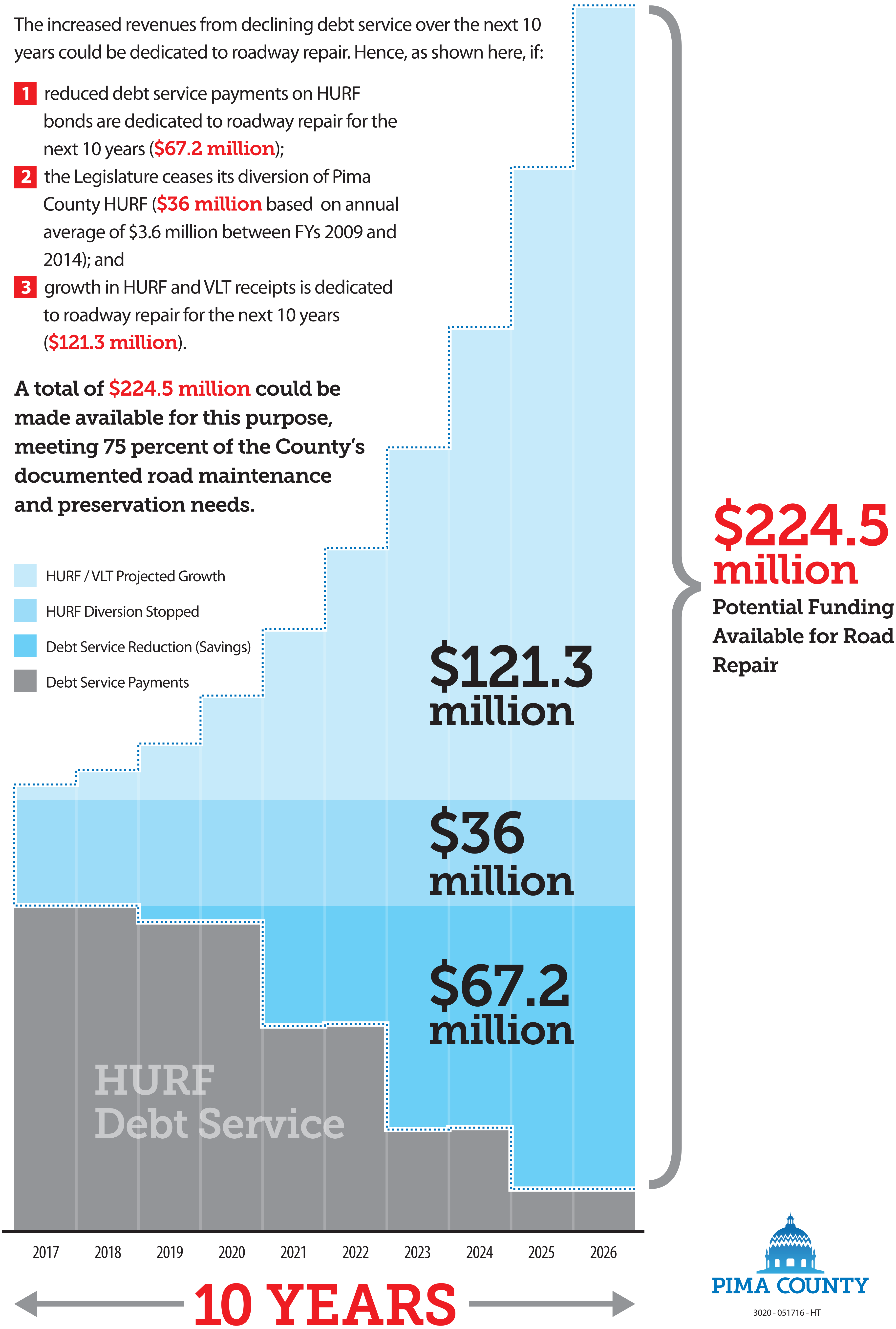
ATTACHMENT 1

Options to increase road repair funding over 10 years

The increased revenues from declining debt service over the next 10 years could be dedicated to roadway repair. Hence, as shown here, if:

1. reduced debt service payments on HURF bonds are dedicated to roadway repair for the next 10 years (**$67.2 million**);
2. the Legislature ceases its diversion of Pima County HURF (**$36 million** based on annual average of $3.6 million between FYs 2009 and 2014); and
3. growth in HURF and VLT receipts is dedicated to roadway repair for the next 10 years (**$121.3 million**).

A total of $224.5 million could be made available for this purpose, meeting 75 percent of the County's documented road maintenance and preservation needs.



PIMA COUNTY

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