



Board of Supervisors Memorandum

February 6, 2018

Draft Sales Tax Implementation Plan Ordinance and Road Repair Plan for Discussion

Background

At the Board's November 21st meeting, Supervisor Valadez requested a draft proposal for Board consideration to include (1) funding for the repair of roads across the region, and in particular, a detailed plan to fully repair all unincorporated Pima County roads within 10 years, (2) reduction of the Pima County primary property taxes within this 10-year period and continued property tax relief indefinitely, (3) assurances that low-income programs would continue at present levels or greater, and (4) a draft ordinance that would put these into effect and would condition approval of the sales tax on use of the revenues for road repair and property tax reduction only. Supervisor Valadez's memorandum to the Sales Tax Advisory Committee outlining his request is included as Attachment 1 to this memorandum.

Draft 10-Year Road Repair and Pavement Preservation Plan for Unincorporated Pima County

Attachment 2 includes a draft plan to improve and preserve the condition of every single unincorporated Pima County maintained paved roadway within 10 years. The plan includes a link to a searchable spreadsheet for each unincorporated roadway. The spreadsheet is organized by street name and address segment, the current condition of the roadway (Pavement Surface Evaluation and Rating (PASER) level 1 is the worst and 10 is the best), and the type of treatment or treatments to be provided over the 10 year plan period. The text of the plan details how the roads were prioritized and scheduled for treatment, taking both a worst first and best first approach – meaning roads in failed PASER 1 condition are scheduled for treatments in Year 1, as are good roads (PASER 8,9,10) as they cost the least to maintain in good condition.

It must be remembered that our often quoted cost to fix all of the roads in unincorporated Pima County was \$330 million. That estimate was in current dollars, not adjusted for inflation over a repair period. In addition, it was only for improving roads to a fair condition. Adjusting for inflation and initiating a maintenance program over the repair period will raise the total cost of the plan. The following costs are now included in this plan, which is estimated to cost \$527 million over the 10 years:

1. Inflation, as treatments would be scheduled over 10 years (\$42 million on a base cost of \$330 million for the road repair portion of the cost estimate).
2. Annual pavement preservation and maintenance costs for roads that are in fair condition or better, to prevent these roads from deteriorating (\$155 million, including inflation).

See pages 3 and 4 of the plan for more detailed costs by year.

Funding sources include sales tax revenues, additional Highway User Revenue Funds (HURF) as HURF bond debt decreases and HURF revenues grow, unallocated 1997 HURF bond funding, and Department of Transportation operational savings (page 5 of the plan). Use of sales tax revenue would be limited to construction costs associated with road repair and preservation, and financing costs.

It should be noted that financing costs are not yet included in this plan and are typically not significant. The expenditure of these new revenues would exceed the County's annual expenditure limitation. However, this can be overcome by issuing short term debt because neither the spending of borrowed funds, nor the making of debt-service payments, counts against the expenditure limit. Similar to how the County is implementing the 25-cent-property-tax road-repair program, the County could, on an annual basis, issue Certificates of Participation, or obligations backed by a pledge of the sales-tax revenue, with a three-year repayment term. These financing costs could be funded out of the road repair allocation of sales tax revenue before sharing the revenues with the cities and towns.

This 10 year plan for funding road repair and pavement preservation for unincorporated Pima County roads also assumes that the County's Transportation Advisory Committee would continue to provide oversight, reviewing annual treatment schedules, as well as reviewing annual status report from the year prior.

Determining Sales Tax Allocations for Road Repair versus Primary Property Tax Rate Reduction

For the purposes of this proposal, staff considered several different scenarios to determine how much of the sales tax revenue should be used for road repair versus property tax reduction over the first 10 years. Key drivers for the scenarios were the cost to fully repair roads in unincorporated Pima County within 10 years, and the available funds given the County's intent to share road repair funding with cities and towns based on population, and increase the share of sales tax revenue used for property tax reduction each year. The recommended scenario allocates 100 percent of the sales tax revenue for Year 1 to road repair, with that percentage decreasing by 2.5 percent each year through Year 10. Starting in year 11, zero is allocated to road repair. Conversely, the allocations for property tax reduction start at 2.5 percent in Year 2, and increase by 2.5 percent per year through Year 10, then increase to 100 percent in Year 11 and remain at 100 percent, permanently. Table 1 shows these allocations over a 15 year time period, but the proposal is for a permanent sales tax that would continue after the 15-years shown in Table 1.

Table 1
Sales Tax Allocations for Road Repair and Property Tax Reduction

Year	Estimated Sales Tax Revenue Collections	% Sales Tax Revenue Allocated to Road Repair	Estimated Sales Tax Revenue Allocated to Road Repair Regionally	% Sales Tax Revenue Allocated to Property Tax Reduction	Estimated Sales Tax Revenue Allocated to Property Tax Reduction
1	\$67,736,457	100.0%	\$67,736,457	0.0%	\$ -
2	\$78,543,338	97.5%	\$76,579,755	2.5%	\$1,963,583
3	\$82,258,993	95.0%	\$78,146,043	5.0%	\$4,112,950
4	\$85,054,410	92.5%	\$78,675,329	7.5%	\$6,379,081
5	\$88,106,205	90.0%	\$79,295,585	10.0%	\$8,810,621
6	\$91,189,922	87.5%	\$79,791,182	12.5%	\$11,398,740
7	\$94,290,379	85.0%	\$80,146,822	15.0%	\$14,143,557
8	\$97,307,671	82.5%	\$80,278,829	17.5%	\$17,028,842
9	\$100,129,593	80.0%	\$80,103,674	20.0%	\$20,025,919
10	\$103,033,351	77.5%	\$79,850,847	22.5%	\$23,182,504
11	\$106,021,318	0.0%	\$ -	100.0%	\$106,021,318
12	\$109,095,936	0.0%	\$ -	100.0%	\$109,095,936
13	\$112,259,718	0.0%	\$ -	100.0%	\$112,259,718
14	\$115,515,250	0.0%	\$ -	100.0%	\$115,515,250
15*	\$118,865,192	0.0%	\$ -	100.0%	\$118,865,192

*Proposal is for a permanent sales tax that would continue beyond Year 15.

Primary Property Tax Rate Reduction

Even though no sales tax revenue would be allocated to property tax reduction in Year 1, this proposal does assume that the 25-cent road primary property tax levy would be eliminated as of Year 1. Assuming property values grow at four percent a year, which is similar to today's growth rates, and Pima County's primary property tax levy in future years is only increased for inflation and population growth, then between years 1 and 10, the County's primary property tax rate is estimated to decrease by an additional five cents a year. But for year 11, when 100 percent of the sales tax revenue begins to be allocated to property tax reduction, the County's primary property tax rate is estimated to decrease by an additional 70 cents. Over this 11 year period, it is estimated that the County's primary property tax rate would drop from \$4.4596 per \$100 of taxable value to \$3.0824 per \$100 of taxable value; a \$1.38 drop in the tax rate, or 31 percent. Currently Pima County's primary property tax rate is the highest amongst Arizona counties. If Pima County's primary rate was \$3.0824 today, it would be fifth highest.

What does this reduction in the primary property tax rate mean for owners of an average valued home or a commercial property valued at \$500,000?

Year 1: Under the plan, the Pima County primary property tax rate would be lowered by at least 25-cents per \$100 of taxable value in Year 1, when the primary property road tax is eliminated. This initial reduction is estimated to decrease Pima County primary property taxes by \$41 for the owner of a home valued at \$165,000, the average home value in Pima County for Tax Year 2017. For a commercial property valued at \$500,000, the elimination of this 25-cent road property tax is estimated to decrease Pima County primary property taxes by \$225.

Years 2 through 10: A 5 cent decrease per year in the tax rate for a \$165,000 valued home is estimated to reduce primary property taxes by another \$8 a year. A 5 cent decrease for a \$500,000 valued commercial property is estimated to reduce primary property taxes by another \$45 a year.

Year 11: A 70 cent decrease in the tax rate for a \$165,000 valued home is estimated to reduce primary property taxes by another \$116 a year. A 70 cent decrease for a \$500,000 commercial property is estimated to reduce primary property taxes by another \$630 a year.

Cumulatively over these 11 years: If the primary property tax rate was reduced as proposed, the cumulative savings over 11 years for a \$165,000 valued home is estimated to total \$988. For a \$500,000 valued commercial property the cumulative savings over 11 years is estimated to total \$5,389.

As the Board knows, the County's primary property tax is one of many property taxes levied on properties within Pima County, and the County has no control over cities, towns, school districts, fire districts and other entities that set tax rates annually. However, based on a number of assumptions, this reduction in the County's primary property tax rate is estimated to contribute to eliminating the one percent Arizona constitutional property tax cap exceedance issue that currently occurs for owner-occupied residences located within Tucson Unified School District (TUSD), by Year 11¹. This would eliminate the need for the State's annual subsidy to homeowners within TUSD, an issue for which the State legislature and the Arizona Tax Research Association (ATRA) have shown much interest as the subsidy has grown in recent years.

Draft Sales Tax Implementation Plan Ordinance

If the Board chooses to adopt a County general sales tax, the action would require unanimous approval. However, before the Board considers a resolution levying the tax, the Board should approve an implementation plan that details how the revenues would be spent and accounted for. Such a plan can be adopted by ordinance, but not become effective if or until the Board

¹ Year 11 estimate is based on a scenario that assumes growth in property values of four percent a year, Pima County's and TUSD's primary property tax levies are only increased for inflation and population growth, TUSD's desegregation portion of its primary property tax levy is capped at its currently amount, City of Tucson and Pima Community College levy at their maximum amount, City of Tucson's involuntary tort judgment primary tax levy increases based on inflation, and growth in statewide property values for property existing on the previous year's tax roll continues at three percent for determining the State School Equalization Tax Rate.

approves a resolution adopting the sales tax. This would provide time in between for the public, the Board, and any other interested parties to review the plan.

Attachment 3 includes a draft Pima County Sales Tax Implementation Plan Ordinance. The ordinance specifies how the County Sales Tax revenues would be allocated on an annual basis between road repair and property tax reduction, how the revenues would be deposited into segregated funds for clear line of sight accounting, and how the revenues allocated to road repair would be distributed between municipalities and Pima County. It also proposes annual reporting of updated road conditions to the Pima Association of Governments, such the general conditions of roads and the costs to fix and maintain those roads can be tracked and communicated effectively for the region as a whole.

Since it will likely be of interest to our jurisdictional partners, Table 2 includes estimates of sales tax revenues for road repair over the 10 years for each incorporated city and town, and the unincorporated areas of Pima County. Note that any necessary financing costs would be taken out of the sales tax revenue allocation for road repair prior to distributing the funds, and therefore the amounts shown in Table 2 would be less. Since the distribution is proposed to be based on population, the City of Tucson would clearly receive the majority of funds, followed by Pima County. Distribution of the revenues would occur subject to intergovernmental agreements between the County and it's cities and towns.

Table 2
Estimated 10 Year Sales Tax Revenue Distribution by Jurisdiction

Jurisdiction	July, 1 2016 Census Population estimate	% Population	Estimated 10 Year Sales Tax Revenue Allocated to Road Repair Regionally	Estimated 10 Year Sales Tax Revenues Per Jurisdiction*
Marana	43,474	4.28%	\$780,604,523	\$33,409,874
Oro Valley	43,781	4.31%	\$780,604,523	\$33,644,055
Sahuarita	28,794	2.83%	\$780,604,523	\$22,091,108
South Tucson	5,645	0.56%	\$780,604,523	\$4,371,385
Tucson	530,706	52.22%	\$780,604,523	\$407,631,682
Unincorporated Pima Co.	363,806	35.80%	\$780,604,523	\$279,456,419
Total	1,016,206	100.00%	\$780,604,523	\$780,604,523

*To be reduced proportionally to fund financing costs that would be taken out of the sales tax revenue allocation for road repair prior to distributing the funds.

The ordinance includes reference to a sun-setting clause that could be included in the actual sales tax adoption resolution. I would also recommend that the Board adopt a sales tax conditioned upon the use of the tax for road repair and property tax reduction (as Yavapai

County has done for many years), and that if this Board or future boards spent the funds for other purposes, the tax would sunset (cease to continue to be levied). For this concept to be effective, the sales tax adoption resolution will need to include such text, along with a clear definition for eligible costs.

Commitment to Low-Income Programs and Services

Supervisor Valadez requested that this proposal include an assurance that low-income programs would continue at present levels or increase, and the funding for said programs would not be diverted or diminished. While it is possible to come up with a baseline for the amount of funding the County is currently spending on low-income programs and services, it may not be advisable to commit to such a baseline as service needs change over time, and federal funding for some of these programs can change significantly over time. Instead, my suggestion is that Board consider ways to offset or mitigate the impact of the sales tax on low-income households. The Sales Tax Advisory Committee discussed the impact of a sales tax on low-income households at their January 9th meeting. Committee members are concerned about this and I have asked our staff to continue to research options for mitigating the tax.

The proposal summarized in this memorandum includes allocating sales tax revenues to road repair and property tax reduction. Both of these uses of the sales tax revenue should benefit low-income households to some extent. Data cited in my December 8 memorandum to the Committee regarding this issue showed that the majority of low-income households own cars and are impacted to some extent by the additional costs that poor road conditions add to maintaining and operating a car. Also, as was mentioned by Committee members representing both the business community and low-income households, as well as public speakers, the key to addressing poverty in this community is to increase job opportunities. The Tucson Metro Chamber continues to argue that transportation improvements should be the number one priority for local governments to attract new businesses to our region and reduce the current cost of poor road conditions on existing businesses so they can afford to hire more employees. Furthermore, it is estimated that up to 17 percent of the sales tax revenues would be paid by visitors and businesses outside Pima County, which means there should be less of a burden on property tax payers, low-income property tax payers included, to fund County services.

The County could also increase its support for free tax return preparation assistance so that more low-income individuals and households could benefit from Arizona's income tax credit for increased sales taxes, which may completely offset the costs associated with the proposed half-cent sales tax increase. More research is necessary to estimate how many more eligible households could be assisted through this program, and how our additional funding support could be spent most effectively.

In addition, the Board's State Legislative Agenda for 2018 includes seeking legislative authorization to form a special healthcare taxing district, similar to Maricopa County's. This would enable Pima County to move the \$15 million spent annually to support Banner-University Medical Center (BUMC) South, from the primary property tax levy to the secondary property tax levy, and ensure a dedicated source of revenue for this hospital that

would no longer have to compete against other general funded programs and services. BUMC South is located in a medically underserved area of the County and services many low-income residents.

Finally, the City of Tucson's half-cent sales tax for road repair and public safety will terminate in four years. The City would be required to seek voter approval to reauthorize the tax, but may have no reason to do so if the County's sales tax for road repair is providing more revenue for City road repair than what would be generated by reauthorizing the City's sales tax. When the City's tax ends, the sales tax rate for the City of Tucson would drop by a half cent, canceling out the County's sales tax increase. It is estimated that 55 percent of the County's population lives in the City.

At this point, the attached draft ordinance does not include anything with regard to addressing this impact to low income households; however staff and members of the Committee will continue to identify opportunities and will transmit such to the Board at a later date.

Closing the Funding Gap Between the Estimated \$527 million Road Repair Plan Cost and the \$279 million Unincorporated Sales Tax Revenues

It should be noted that \$258 million of the funding for the \$527 million road repair plan is in addition to the estimated share of sales tax revenue for unincorporated Pima County roads. As the County continues to pay down debt on HURF bonds approved by voters in 1997 for mainly roadway capacity expansions, less of the County's HURF revenues would be allocated to debt service payments, resulting in an estimated \$49 million in additional HURF for the road repair plan. In addition, as the majority of HURF bond projects are now complete, we anticipate a surplus of \$16 million that is not allocated to capacity expansion projects, and will ask the Bond Advisory Committee and the Board this spring to approve a bond ordinance amendment allocating this \$16 million in HURF bonds to road repair. HURF revenues are also expected to grow over the next decade, resulting in an estimated additional \$110 million in HURF revenues to the County over the term of the road repair plan. Finally, the County's Department of Transportation is undergoing significant organizational changes as functions are automated and the Department's focus changes from capacity expansion projects to road repair and pavement preservation. This reorganization is expected to result in significant costs savings overtime, resulting in excess HURF revenues that could be allocated to funding the road repair plan. While these estimates for non-sales tax revenue funding are considered reasonable at this time, they are subject to change and we will continue to revisit and review these estimates at least annually to ensure sufficient revenue for the road repair plan.

Summary

This information on a plan requested by Supervisor Valadez is intended to facilitate the Board's continued discussions concerning whether or not to adopt a half-cent County general sales tax by providing many more details than have been available up until this point. It will also be provided to the Sales Tax Advisory Committee for consideration. I recommend that the Board continue to provide additional direction to staff regarding the proposal, including

The Honorable Chair and Members, Pima County Board of Supervisors
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the concept of adopting an implementation plan ordinance prior to considering the actual adoption of a sales tax.

I will place this matter on the Board agenda of February 6 for further discussion and direction.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/dr (January 10, 2018)

Attachments

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