MEMORANDUM

Date: June 14, 2018

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

From: C.H. Huckelberry
County Administrator

Re: **General Obligation Bond Voter Authorization for Regional Road Repair**

This memorandum responds to a request of Supervisor Ramon Valadez dated June 8, 2018 (Attachment 1) regarding a funding alternative for road repair in the event the sales tax alternative fails on June 19, 2018.

I. Overview

If on June 19, 2018 the Board fails to adopt by unanimous vote the half cent sales tax for road repair, the Board could consider as the last possible option for road repair a general obligation bond election. The County could issue bonds in the amount necessary to fully fund road repair across the region within 10 years, and could do so without increasing property taxes. The Board could ask the voters to authorize either $430 million or $860 million in bonds. The secondary tax rate would be held consistent at $0.69 during the repayment period. If $430 million in bonds were authorized they would be fully repaid in 10 years along with the existing remaining debt. The average repayment period for each road repair bond issuance would be 3.4 years. If $860 million in bonds were authorized they would be fully repaid in 15 years along with existing remaining debt. The average repayment period for each road repair bond issuance would be 8.9 years. Finally, for both options, the overall County tax rate would decrease with the elimination of the current 25 cent road repair property tax.

II. Introduction

With likely failure (because of lack of a unanimous vote by the Board) of a County General Excise Tax designated for road repair on June 19, 2018, and because of the failure by the legislature to give the Regional Transportation Authority (RTA) authority for an additional half-cent transportation excise tax for the purpose of road repair in this last Legislative Session, only one option remains for achieving contemporary (within 10 years) road repair of all paved roads within Pima County, including those in the unincorporated area and the various municipalities in Pima County.

The only option now available is for the Board to refer a general obligation bond issue to the voters in November 2018. Such would allow the voters of Pima County to decide whether or not to repair their roads. This option would continue the present debt service property tax rate of $0.69 authorizing the issuance of general obligation bonds to either complete regional road repair within 10 years, or make significant progress in doing so. This tax rate would be continued but not increased. This is the last and only option the Board of Supervisors has regarding achieving road repair in a reasonable timeframe.

III. State and Federal Transportation Funding Failures

A. Failure of Federal and State Governments to Adequately Fund Transportation

The federal gas tax, which funds the Highway Trust Fund, stands at 18.4 cents per gallon and has not been increased since 1993. The 18 cent Arizona State gas tax, that primarily funds the Highway User Revenue Fund (HURF) in Arizona, of which counties and municipalities rely on primarily for funding transportation needs, has not been increased since 1991. Previous to 1991, the State Legislature, on regular intervals increased the gas tax in Arizona to provide for transportation investment for mobility, safety and economic development. It is clear the federal government will not act on any meaningful infrastructure investment in the near future. A similar conclusion can be made about the Arizona State Legislature.

If we normalize the 18-cent State gas tax with the construction cost index change from 1991 to the present, and couple that with the increase in vehicle fuel efficiency, the 1991 State gas tax is now equivalent to 7 cents or less, a reduction of 61 percent. To compound this problem, the Legislature has swept over $1 billion of HURF to balance the State budget since the Great Recession. This fund sweep and the funding of the State police agency from HURF is scheduled to be phased out by 2020 based on recent legislation to increase the Vehicle License Tax to pay for the State policy agency. While this provides minor relief, it is years too late and will not raise significant revenues for road repair.

B. The Most Recent State Legislative Failures

Pima County, in our annual Legislative Agenda, has advocated for additional transportation revenues since at least 2005, or for the past 13 years. These requests have essentially fallen on deaf ears with the Legislature.

The closest we have come to legislative relief was this session when Senate Bill 1147 was introduced and passed by transportation committees of the House and Senate. This was also passed by the Senate, but was unfortunately amended in the House to require a

unanimous vote of the Board of Supervisors even to allow the voters to decide whether to impose an additional tax for transportation.

A bill, House Bill 2162, identical to the original SB 1147, was passed through the Senate, but fell victim to political bargaining and bickering in the last hours of the Legislative Session. Hence, there is no legislative relief in sight. Passing such legislation next year is again unlikely.

Hence, meaningful and timely road repair will not likely be achieved through legislative action.

IV. Transportation Advisory Committee and the Sales Tax Advisory Committee Recommendations for Immediate Actions

Both the Board of Supervisors appointed Transportation Advisory Committee (TAC) and Sales Tax Advisory Committee (STAC) have recognized the magnitude of the present problem of road repair. In an October 30, 2017 letter to the Board (Attachment 2), TAC stated that they:

> *"unanimously supported the position that the current property tax approach is severely inadequate to repair roads within any reasonable period of time…We implore the BOS to explore all possible road repair funding options and to unanimously enact funding solution that will fully meet the identified needs in a reasonable time period. All input received by neighborhood associations, HOAs and citizens uniformly complain about road conditions and something must be one as soon as possible to realistically resolve the issue of Pima County's failing and failed roads."*

In addition, STAC held 13 public meetings and public hearings throughout the community, and consulted with transportation experts. Again, by a unanimous vote, STAC recommended the Board adopt a general half-cent sales tax for the purpose of funding regional road repair. For your information, Attachment 3 is STAC's February 2018 report and recommendations which includes a March 8, 2018 transmittal letter. The report documents in a detailed manner the road repair crisis and the systematic process STAC used to reach its conclusions and recommendations. STAC states in their letter:

> *"…it is clear that the people of Pima County want and expect you to fix the roads, and they want you do so now…Please don't pass on this opportunity to lead on this critical and most basic issue that is clearly your responsibility."*

These Board appointed committees clearly recognize the need for immediate action regarding road repairs and have requested specific actions of the Board to achieve regional road repair in a timely manner.

V. Review of County Road Repair Funding Options

A. HURF and Transportation VLT – Insufficient

The existing state shared HURF and Transportation VLT revenues are insufficient to fund all of the County's transportation needs. Over a third of our HURF and Transportation VLT revenues are currently being spent to pay off debt authorized by voters in 1997 to expand the capacity of our roadways due to traffic congestion. These debt service payments will see a sizeable decline five years from now, and significant decline within 10 years, freeing up revenues to then allocate to road repair. But until then, only a minor amount of HURF and Transportation VLT revenue will be available for road repair.

B. Road Repair Property Tax - Insufficient

The Board has adopted one option to accelerate regional road repair, that being levying a $0.25 primary property tax rate increase to finance regional road repair. This property tax is the maximum allowed by Statute A.R.S § 28-6712. This levy generates approximately $20 million per year and is divided among the various jurisdictions by assessed value on the principle of tax equity. For the unincorporated area, that means approximately $9 million per year. At the current backlog of road repairs, it will take at least 35 years to repair Pima County's roads, assuming no further deterioration occurs, which is unlikely. Hence, while the $0.25 maximum road repair property tax rate is helpful, it is not an adequate solution as the Transportation Advisory Committee clearly stated in its October 30, 3017 letter to the Board.

As the Board knows, the County began levying a $0.25 road repair property tax last year and I have recommended this tax continue for Fiscal Year 2018/19. The law authorizing this tax levy, Statute A.R.S § 28-6712, contains three paragraphs. One paragraph could likely be interpreted as a property tax limitation; hence, a possible General Fund limitation on expenditures for road repairs. The Statute allows the County to levy a property tax of "not more than $0.25 per $100 of assessed valuation." If the County were to dedicate additional or substantial other General Fund revenues, such could be problematic since the property tax makes up 70 percent of the County General Fund. In essence, the County would be levying and using more than $0.25 per $100 of property tax rate to repair roads and could be in violation of A.R.S §28-6712 (C).

C. Supervisor Miller's 30-Day Challenge – Not Viable

It has been suggested by Supervisor Ally Miller that there are plenty of County funds that could be dedicated for road repair, and it is just a matter of priority. In fact, Supervisor Miller issued a 30-day challenge identifying a number of options the Board could implement to fund road repair. Each of these options were reviewed and analyzed to determine viability and responses to her suggestions have been made. The Sales Tax Advisory Committee, in their final report to the Board, referenced Supervisor Miller's extensive efforts to identify revenues within the County budget and the responses we provided regarding each, and concluded that Board action on a new revenue source is the "sole realistic solution". The present funding alternatives posted on her web page are a repeat of past options none of which are viable.

D. Reduce Other General Fund Expenditures – Unrealistic

It has been suggested that the Board could allocate additional General Fund monies to road repair. However, if the problem is to be resolved in a reasonable timeframe of 10 years, over $40 million per year would need to be allocated for this purpose just to fix the roads in unincorporated Pima County. This additional allocation would have to ignore the implied limit of property taxes for road repairs, per A.R.S § 28-6712.

Historical budget discussions always focused on mandated versus non-mandated services when discussing the County's budget, with the common belief that mandated services were more of a priority than non-mandated. At the onset, I would like to state I do not agree with this philosophy as it puts in jeopardy some of the most desirable services for typical taxpayers.

The best example of a desirable service is our General Fund support of the Natural Resources, Parks and Recreation Department. The General Fund support in this year's budget is approximately $18 million. Hence, you could eliminate the entire department and still not have enough funds for road repair. Another area that could be determined non-essential is the General Fund support of our Pima Animal Care Center functions. This year, that support is approximately $4 million.

It is unrealistic to believe that we can fund road repair by decimating the existing County Budget.

E. Primary Property Tax Increase – Likely a Violation of State Law and Unacceptable

Ignoring the possible property tax limitation of A.R.S § 28-6712(C), another road repair option the Board has is to increase the primary property tax rate to its Constitutional limit. In my Fiscal Year 2018/19 Recommended Budget, I recommended a primary property tax

rate of $4.31 which includes the $0.25 cent road repair property tax. The Constitutional rate limit is $5.21; hence, the Board could increase the primary property tax rate by $0.90, generating $73 million per year. This rate increase represents a property tax increase of over 20 percent in a single year, something I believe the taxpayers would find unacceptable.

VI. The 2015 Bond Election Continuing Road Repair Bonds– No Comparison With this Proposal

You may remember that the County's 2015 bond election included a proposal for $160 million for road repair and pavement preservation. It was part of Proposition 425 that included an additional $40 million for two other roadway projects. The proposition failed, as did the other six propositions. The description of the $160 million road repair project included the following:

> *"The purpose of the Road Repair and Pavement Preservation Program is to fund the repair and preservation of public roadways in Pima County. Funding for pavement repair and preservation over the past eight years has been significantly insufficient, resulting in a roadway system with 53 percent of roads in poor or failed condition according to pavement condition ratings provided by each city and town, as well as Pima County. This bond funding is significantly insufficient to repair all of the public roadways throughout Pima County and additional funding will be necessary. The most appropriate funding source for these repairs is the traditional user fee – the gas tax, which has not been increased in Arizona in 24 years. General obligation bond funding is an emergency funding measure since other funding sources are not available."*

The same is true today, but today the miles of poor and failed road has increased to 70 percent, and it's now been 27 years since the state increased the gas tax.

I do not believe that the failure of this 2015 bond proposition is representative of the public sentiment for a road repair bond issue today, because:

- The 2015 road repair project was included with two other projects that may have impacted its passage. The proposition was also on the ballot with six other bonds propositions, totaling 99 projects, and any of those propositions or projects could have impacted public sentiment for the road repair project.

- The 2015 road repair project was insufficient to address the need. It included a map with arterial and collector roadways that would have been repaired, and local roads would have been selected after the bond election by cities, towns and a county advisory committee. Today, we have a detailed road repair plan that shows we can

address this issue completely within 10 years, along with a detailed budget that includes state shared transportation revenues, and a map and list of every road segment and when it would be scheduled for treatment during the 10 years and the type of treatment. After the 10 years, the road conditions will have been improved to a condition that regular maintenance and preservation will be manageable and funding from state shared transportation revenues will be sufficient to support the regular maintenance and preservation so that we do not face this situation again. Similar plans will be required of our municipalities and developed into a regional plan.

- The 2015 road repair project was added by the Board at the last minute at the request of the business community and therefore did not receive the public scrutiny received by today's road repair plan. Over the past year, through our committees, other speaking engagements, and at Board meetings, we've heard clearly that the public wants us to fix the roads immediately and most are willing to pay more in taxes to see that happen.

- Concern Over repayment period – During the 2015 election, concerns were raised about going into debt for road repair improvements. This concern was unfounded then, and would be even more unfounded under the current bond proposal, as the 2015 bonds would have been repaid in 10 years or less, and the current bond proposal includes repayment terms as which average 3.4 years for the $430 million option.

I believe a significant bond issue for road repair is the only viable option left for Board consideration. Such would leave it up to the voters to decide on road repair.

VII. November 2018 Voter Authorized General Obligation Bonds Either $860 Million or $430 Million

In the following section I detail an option that allows the Board to:

a) Fund complete regional road repair within 10 years

b) Decrease the County primary property tax rate by $0.25 and

c) Not increase the County's debt service property tax rate of $0.69 per $100 of assessed value.

A. General Obligation Bond Capacity for Road Repair holding Secondary Debt Service Tax Rate Constant

The secondary property tax rate for debt service will begin to substantially decrease in two years. This is because of Board policy to only issue short term debt; meaning debt with repayment terms of 15 years or less. This is considered by rating agencies as very rapid debt repayment compared to most other local governments. In fact, these short repayment terms contribute to our outstanding AAA rating for general obligation bonds, which is the highest possible rating available, which in turn reduces the cost of the bonds. Table 1 below shows the pay off debt service rates for our outstanding voter authorized general obligation debt.

Table 1

Fiscal Year	Secondary Tax Rate
18/19	$0.6975
19/20	$0.6940
20/21	$0.5214
21/22	$0.4768
22/23	$0.3246
23/24	$0.2206
24/25	$0.1448
25/26	$0.1406
26/27	$0.0937
27/28	$0.0533
28/29	$0.0085

Hence, our existing debt will be completely repaid in 10 years. The rapidly falling debt service tax rate allows for significant new bond issuance opportunity without increasing debt service tax rates from their present level.

Figure 1, shows the secondary property tax rate since 1986. It has been as high as $1.10 and as low as $0.60 over this period. Since 1986 $1 billion in general obligation bonds have been authorized by the voters. After this fiscal year bond debt repayment, $276 million in bonds will be outstanding. This debt will be reduced by 75 percent in 5 years, and completely repaid in 11 years.

B. <u>$860 Million or $430 Million Option</u>

I am providing the Board with two options regarding the amount of general obligation bonds that could be authorized, either $430 million or $860 million. Either amount could be issued - $430 million authorized over 9 years or less, $860 million over 10 years. Both would subject to the following constraints:

- The secondary property tax rate would be held at $0.69 and never be exceeded (no tax increase).

- The repayment period for the $430 million bond authorization would average 3.4 years per bond issuance.

- The repayment period for the $860 million bond authorization would average 8.9 years per bond issuance.

- The $430 million authorization will include annual bond issuances over 9 years, or less. The bonds could be issued in less than 9 years under this option if the tax base continues to grow, interest rates are lower, and contractors have the ability to deliver at higher volumes.

- The $860 million authorization will include annual bond issuances over 10 years.

The authorization options of the $430 million and $860 million provide the Board with a choice to either (A) completely ($860 million) repair our roads over a 10 year period or (B) make substantial progress ($460 million) based on the assumption that other options for increased transportation funding will be addressed by the Legislature and Governor.

It is very important to understand that the short payback period, 3.4 years for $430 million and 9 years for the $860 million, is significantly less than the useful life of the repairs. In fact, repairs that include reconstruction and heavy overlays have a useful life of between 20 and 30 years.

What makes this proposal so attractive is the very short repayment period. For example, bonds issued under $430 million program will be fully repaid in 3.4 years without increasing the debt service tax rate.

Figure 2, shows how the current $0.69 bond tax rate would be continued, but not increased, for both the $860 million and $430 million options, and when those bonds would be fully repaid. In addition, Figure 2 shows how the total county property tax rate would be reduced by eliminating the $0.25 cent primary road property tax. Without additional revenues to repair roads the $0.25 property tax rate for road repair will be or should be levied indefinitely. If a substantial general obligation bond issue is authorized by voters for road repair, the $0.25 property tax rate can be discontinued. The present debt service property tax, without additional bond authorization, is also scheduled to decrease annually in the future. The present schedule has the tax rate decreasing by this amount in three to four years, and therefore if voters authorize bonds for road repair there will be an immediate property tax reduction that would not have been achieved for approximately four years if the bonds were

not authorized. Hence, the actual tax impact by authorizing bonds is a property tax reduction for the first four years and then simply paying the secondary property tax at the same rate as it is today, but longer.

Attachment 4 shows the issuances, interest rate assumptions, number of years to repay, and average secondary property tax rate to repay, for the $430 million and $860 million authorizations.

VIII. Detailed 10-Year Road Repair Plan for Unincorporated Pima County and Continued delay is costly

Over the past 6 months, the County's Department of Transportation has developed and refined a detailed plan to repair every paved road in unincorporated Pima County within 10 years, while also ensuring repaired roads continue to be maintained and don't fall into disrepair again. The plan and an interactive map and list showing when each road segment would be repaid within the 10 years, can be found at www.pima.gov/roadrepairplan. The budget for the plan relied upon proposed sales tax revenues for almost 60 percent of the total cost. The other 40 percent would be funded by HURF and Transportation VLT. According to the Department of Transportation, each year that implementation of this plan is delayed, adds $40 million to the cost. This plan currently fixes the worst roads first, while also preserving the best roads first. It will continue to be refined between now and its inclusion in a Bond Implementation Plan Ordinance that must be approved prior to the election.

General obligation bond funds at the $860 million level provide equivalent funding to the half-cent sales tax and would result in a fully funded 10 year road repair plan. At $430 million in funding, substantial progress will be made but additional funding will be necessary for complete road repair. If the $430 million authorization amount is selected by the Board, and the Legislature and Governor continue to fail to sufficiently fund transportation needs in Arizona, I will recommend the Board ask the voters to authorize additional funding, which could be done while still not increasing the debt for service tax rate due to the short repayment periods. This will meet our commitment to repair all of our roads with or without the assistance of the Legislature. Both options continue to assume that funding is shared with municipalities based on their proportional property valuation and population.

IX. Timeline for November 2018 General Obligation Bond Authorization Election

Table 2 below lists key dates and a possible timeline for calling a general obligation bond authorization election for November 6, 2018. Given the date of the possible authorization of a half-cent sales tax by unanimous vote of the Board scheduled for June 19, 2018, the Board will need to act quickly if there is a desire to instead send a road repair bond question

to the voters. Based on this timeline the Board will need to call for a general obligation bond question to be placed before the voters at the July 3, 2018 meeting of the Board or ask for a special meeting on or before July 10, 2018. I would suggest that the Board direct staff to prepare the necessary documents for Board action calling a November 6, 2018 bond election for road repair at the meeting of July 3, 2018. In addition, County code requires the Bond Advisory Committee to provide recommendations with respect to the amount and projects to be bond funded. The Committee could be asked to meet prior to the Board's July 3, 2018 meeting and should be directed to consider the option forwarded to them by the Board.

Table 2

June 19	Board of Supervisors to vote on sales tax and provide direction to staff on how to fund road repair if the sales tax fails
Before July 3	Bond Advisory Committee meeting
July 3	Board of Supervisors meeting to consider calling election and approving deadline to file arguments for or against the bond proposition
July 9-20	Filing period for arguments
September	Board considers Bond Implementation Plan Ordinance after public hearing noticed at least 15 days prior
September 17	Voter information pamphlet mailed
October 9	Voter registration deadline
October 10	Regular early voting starts
October 26	Last day to request early ballot by mail
November 6, 2018	Election Day

It should be noted that because this is a general election, adding a County bond proposition to the ballot can be done with minimal costs as compared to a special election. The added cost is the printing and mailing of the voter information pamphlet, which is estimated to cost about $200,000.

X. Bond Implementation Plan Ordinance

County code requires the Board adopt a detailed Bond Implementation Plan Ordinance prior to early voting, and after a required notice and public hearing. This Bond Ordinance is the place for addressing the other items requested by Supervisor Valadez, including auditing and oversight, requirements for municipalities to develop road repair plans, and the role of the Pima Association of Governments or the Regional Transportation Authority in setting performance standards for the region.

XI. Request Board Direction

I request the Board provide direction on the following:

1. Should staff prepare the necessary documents for Board consideration of an $860 million or $430 million bond authorization, and at which dollar amount?

2. Should the action to call for a bond election be placed on the Board's July 3 meeting agenda, or should the Board hold a special meeting on or before July 10 to consider calling for a bond election?

3. Should the 25 cent primary property tax for road repair be eliminated for FY19/20 if voters approve a bond authorization?

4. Direct staff to schedule a meeting of the Bond Advisory Committee to consider this issue.

5. Direct staff to update the Transportation Advisory Committee regarding this issue.

CHH/mp

Attachments

c: Jan Lesher, Chief Deputy County Administrator
Carmine DeBonis, Jr. Deputy County Administrator for Public Works
Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director Finance and Risk Management
Ana Olivares, Director Transportation Department
Michelle Campagne, Interim Director Finance and Risk Management
Nicole Fyffe, Executive Assistant to the County Administrator

Pima County General Obligation Bond Debt Service Secondary Property Rate Since FY86/87

Since 1986, voters have authorized Pima County to sell $1 billion in general obligation bonds to fund capital improvements across the region. The County sold the remainder of these bonds in early 2017. For FY2018/19, the County's outstanding general obligation bond debt will total $276 million. Without additional voter-authorization, this debt will be reduced by 75 percent in 5 years and completely paid off in 11 years. The tax rate necessary to generate the property tax revenue to repay these bonds has varied from as high as $1.10 to as low as $0.60 and has remained steady at $0.69 since 2014.

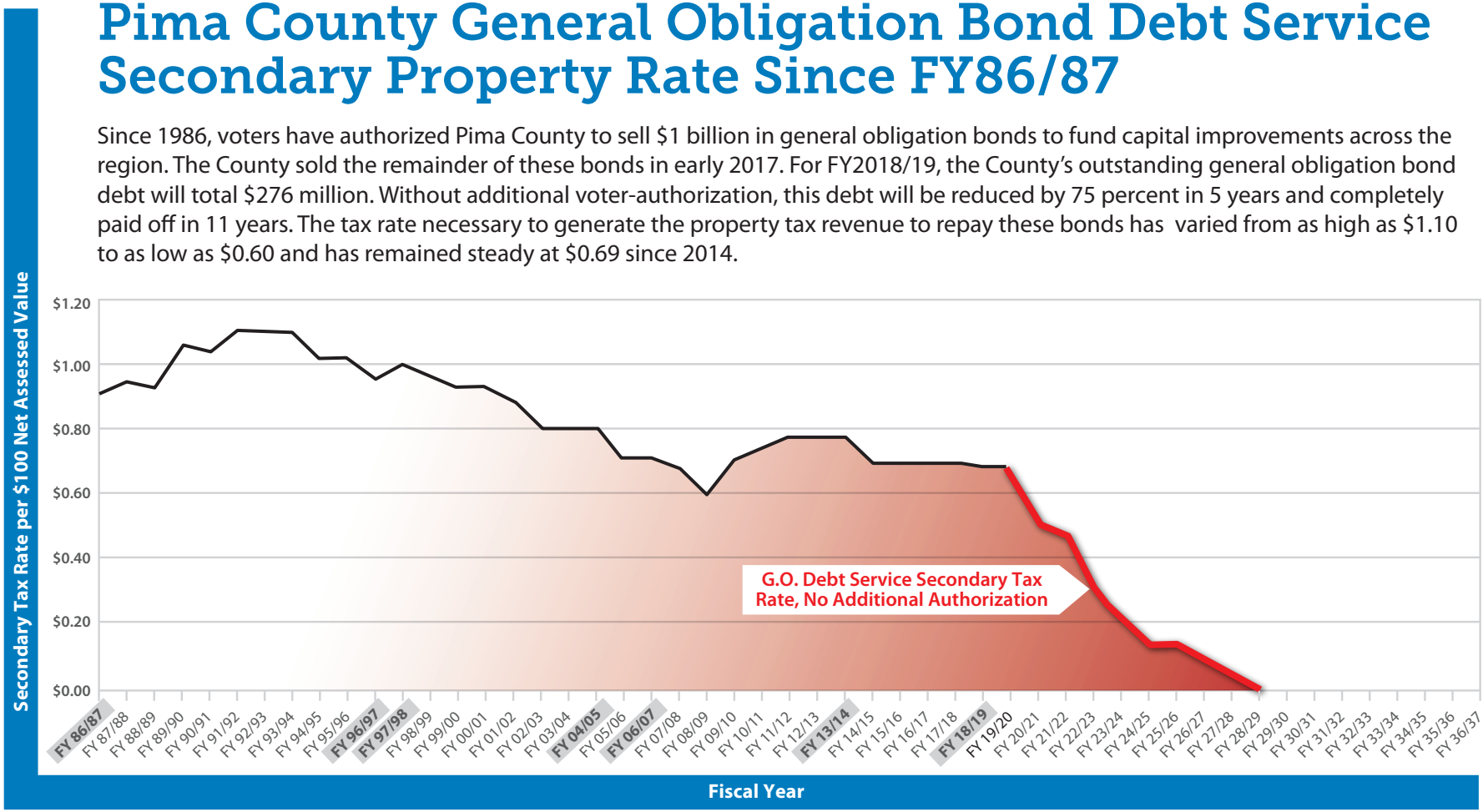


FIGURE 1

Road repair possible without increasing the County's bond tax rate

The County's secondary property tax to pay off voter-approved bonds has held steady since **FY2014**. If voters approve a bond for road repair in **FY2019** for **$860 Million** it will remain steady until the bonds are paid off in **FY2036**. If voters approve a bond for **$430 Million**, it will remain steady until the bonds are paid off in **FY2030**.

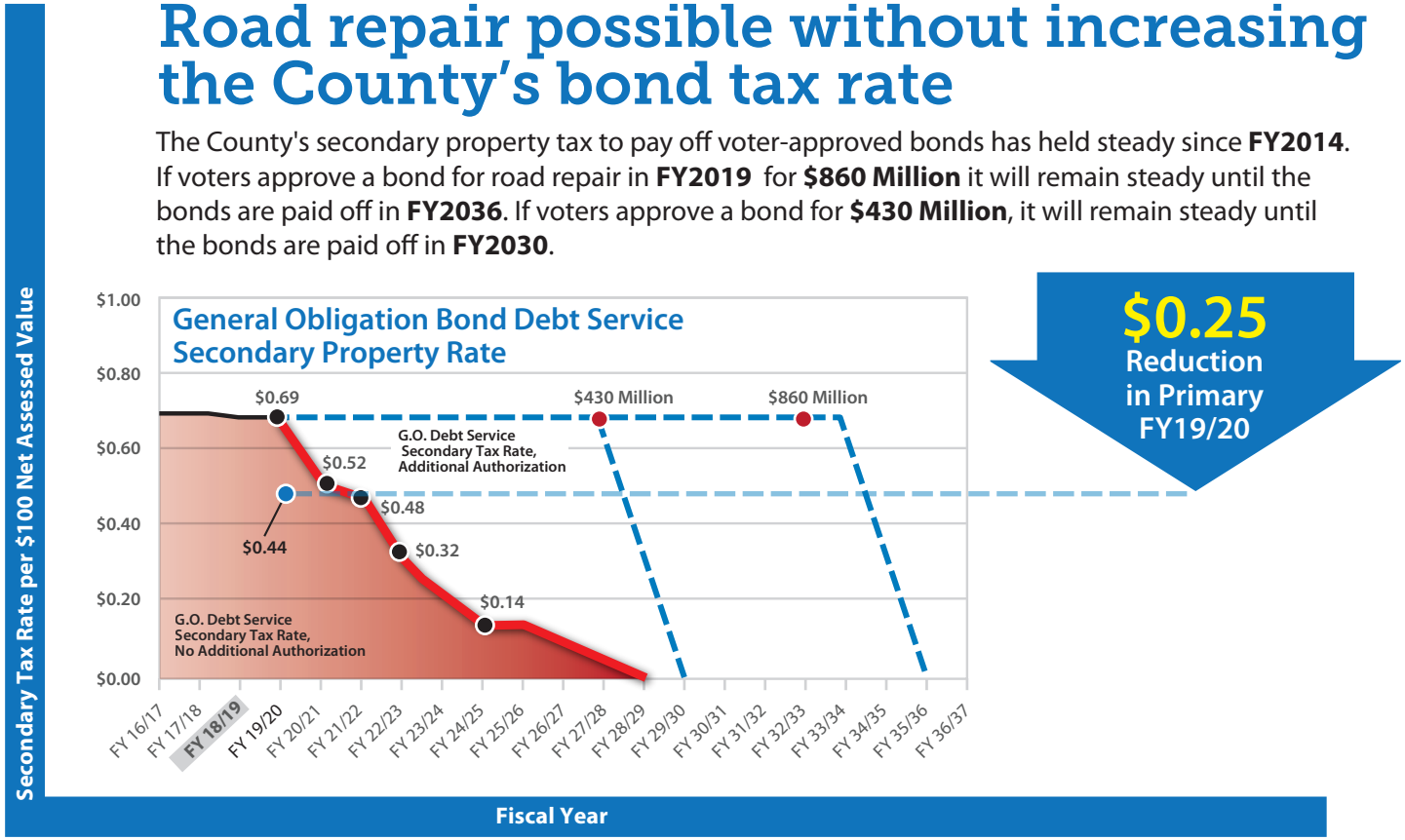


FIGURE 2

ATTACHMENT 1

PIMA COUNTY

MEMORANDUM

DATE: June 8, 2018

TO: C.H. Huckelberry, County Administrator

FROM: Ramón Valadez, County Supervisor, District 2

SUBJECT: Further Road Issue Consideration

Considering the urgency and need for additional funding for our roads, it is my belief that in the event that the vote on the Half Cent Sales Tax Resolution on June 19th fails to garner a 5-0 vote, we will need to have an alternative prepared and ready for discussion.

At this time, I believe that the only alternative left open to Pima County will be that of using existing bond capacity to fund road preservation. Please consider this memo direction to develop alternatives for Board consideration.

In developing these alternatives, please include the following:

- Vary for consideration of the board the overall size of the program. For our consideration, please look at funding the overall costs of bringing today's roads to a minimum standard for the region as well as funding only part of that cost with the expectation that the State of Arizona or the federal government will do part of that cost.
- Ensure that Pima County residents see no increase in their secondary property taxes as a result of this program.
- Recommend an auditing and oversight process for the program. Also, recommend process for ensuring on budget, on standard and on time project delivery by all jurisdictions.
- Develop the plan for bringing unincorporated roads to the universal minimum standard within the period of the plan and recommend a process to ensure all jurisdictions develop their plans.
- Ensure that a universal minimum standard, similar to the plan under consideration in the half-cent sales tax, is developed by the RTA and used by all jurisdictions.

As the vote on the Half Cent Sales Tax Resolution will take place on June 19th, please have alternatives ready for discussion and consideration on that same agenda.

ATTACHMENT 2

PIMA COUNTY

Transportation Advisory Committee

130 W. Congress, 10th Floor, Tucson, Arizona 85701 • Phone: 520-724-8661 • Fax: 520-724-8171

Members

District 1
Reggie Drout
Christopher DeSimone

District 2
Dan Eckstrom
Eric Ponce

District 3
Amber Smith
Rick Price

District 4
Lucretia Free
Sergio Arellano

District 5
Dan Castro
Bob Gugino

County Administrator
John Bernal
Tom McGovern
Curtis Lueck

October 30, 2017

Honorable Chair and Members
Pima County Board of Supervisors
130 W. Congress Street
Tucson, AZ 85701

Re: Request for Board of Supervisors to Identify Adequate Funding for Road Repair Needs

Dear Honorable Chair and Members,

The 13-member Pima County Transportation Advisory Committee (TAC) was formed by the Board of Supervisors (BOS) to, among other things, provide a recommendation to the BOS on the prioritization of road repairs using the approximately $19.5 million from the recently enacted road property tax. The TAC has met five times since August 1, 2017 to receive information from the Pima County Department of Transportation and representatives from the other jurisdictions in our region, and to gather input from the public. The TAC has reviewed road prioritization proposals from the Town of Oro Valley, Town of Sahuarita, City of South Tucson, Town of Marana, and the City of Tucson and has approved them for recommendation to the BOS.

In addition to these presentations, the TAC has received information from County staff on the condition of roads in the unincorporated area, various prioritization methodologies and a staff recommended approach for selecting roads to repair. At the September 26, 2017 TAC meeting, the Committee provided direction on the prioritization approach for unincorporated local roads. The direction included using the staff proposed methodology of focusing on roads with a Pavement Surface Evaluation Rating of 5 (Poor) and prioritizing them based on traffic volume, with an allowance for subsequent committee adjustments to include roads with other ratings. A final TAC road prioritization recommendation will be submitted for BOS consideration in December.

At the same meeting, the TAC received a presentation by County staff indicating the total cost to bring all arterial, collector and local roads in the unincorporated area up to a Fair condition exceeded $300 million. The TAC was also informed that when combined with the road repair needs of the City of Tucson, the total cost exceeds $1 billion. The presentation included a summary of various potential funding options outlined in the County Administrator's September 19, 2017 correspondence to the Pima County Sales Tax Advisory Committee. Many of these options have the potential to generate significantly more revenue annually for road repair than the recently enacted road property tax.

Based on this information, the ensuing TAC discussion focused heavily on the shortcomings of the property tax transportation funding initiative generating approximately $20 million per year, if approved as part of the annual budget, to address a regional road repair problem that exceeds $1 billion. The TAC unanimously supported the position that the current property tax approach is severely inadequate to repair roads within any reasonable period of time. The likely outcome of the TAC's recommended list of roadways receiving the property tax revenues will result in a miniscule effort to improve the overall roadway network condition.

PIMA COUNTY

Transportation Advisory Committee

130 W. Congress, 10th Floor, Tucson, Arizona 85701 • Phone: 520-724-8661 • Fax: 520-724-8171

Members

District 1
Reggie Drout
Christopher DeSimone

District 2
Dan Eckstrom
Eric Ponce

District 3
Amber Smith
Rick Price

District 4
Lucretia Free
Sergio Arellano

District 5
Dan Castro
Bob Gugino

County Administrator
John Bernal
Tom McGovern
Curtis Lueck

Therefore, your constituents will be further frustrated with Pima County's inability to invest in the roadways of concern to them for many years in the future.

As such, the TAC informs the BOS that our assignment of distributing this fiscal year's property tax revenues for road repairs is a futile exercise. We are deciding the content of a two-year list of roadways to improve without having any assurance that property tax funding will be made available beyond the current fiscal year. We implore the BOS to explore all possible road repair funding options and to unanimously enact funding solutions that will fully meet the identified needs in a reasonable time period. All input received by neighborhood associations, HOAs and citizens uniformly complain about road conditions and something must be done as soon as possible to realistically resolve the issue of Pima County's failing and failed roads.

This request is respectfully submitted for your consideration and action.

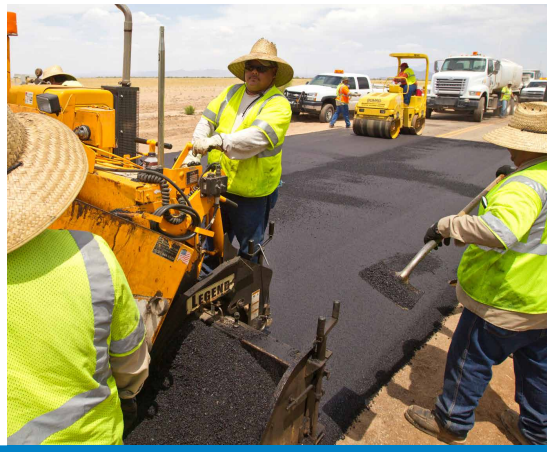
Sincerely,

Lucretia Free
Chairperson, Pima County Transportation Advisory Committee

c: C.H. Huckelberry, County Administrator
Carmine DeBonis Jr., Deputy County Administrator for Public Works
Ana Olivares, Interim Director, Department of Transportation

ATTACHMENT 3

Report and Recommendations



Sales Tax Advisory Committee

February 2018

PIMA COUNTY

Sales Tax Advisory Committee

Members

Wendell Long, Chair

Michael McDonald, Vice-Chair

Allan Cameron

Mark Clark

Dan Eckstrom

Larry Gibbons

Bob Gugino

Larry Hecker

Curtis Lueck

Robert Medler

Mark Miller

Dennis Minano

Anita Smith-Etheridge

Mark Van Buren

Charles Wetegrove

March 8, 2018

The Honorable Chair and Members
Pima County Board of Supervisors
130 W. Congress
Tucson, Arizona 85701

Re: **Final report and recommendations from the Sales Tax Advisory Committee**

Dear Supervisors:

We present to you the final report and recommendations of the Sales Tax Advisory Committee and request your immediate action to adopt a temporary, 10-year half-cent sales tax for road repair and property tax relief, in the manner outlined in the four recommendations on Page 11, which includes taking actions to lessen the impact such a tax will have on low-income households.

As you know, 70 percent of roads in unincorporated Pima County and the City of Tucson are in poor or failed condition. Poor road conditions are estimated to cost Tucson drivers an extra $542 a year and are a disincentive to encouraging businesses investment and job growth in Pima County, as is Pima County's high property tax rate.

The cost to fix the roads to at least a fair condition is well over $1 billion. Current revenues sources are inadequate. With current revenues it would take at least 35 years to fix the roads in unincorporated Pima County. State-shared Highway User Revenue Funds relied upon by local governments to maintain and improve roads, have been diverted by the State for other purposes and have not kept up with the growing needs. The gas tax as the main source of these revenues has not been increased in 27 years, and more fuel efficient vehicles are using less gas and generating less tax revenue. In the past four years alone, 26 other states have raised their gas tax. All other Arizona counties have a sales tax except Pima County. Six Arizona counties specifically use all or a portion of their sales tax revenue to fund road maintence and improvements. A half-cent sales tax is projected to generate an average of $80 million a year, whereas the current property tax for road repair only generates $19 million a year.

A half-cent sales tax for 10 years, plus other existing revenues, has been shown to be enough to fix and adequately maintain all of the paved roads in unincorporated Pima County in 10 years, and make significant improvements

to roads in cities and towns. Your transportation staff developed a detailed draft 10-year plan with each road listed by condition, treatment type and schedule for treatment, proving that this is a plan that can work.

It has been an honor to serve on this Committee over the past seven months, to travel to many different communities and municipalities in Pima County, to listen to what people had to say, and to talk with them about these important policy matters, including the County's need to mitigate the disproportional impact that this sales tax will have on low-income households. It has also been a real pleasure to serve with such a diverse membership who asked good questions, made meaningful information requests, and were willing to consider issues that may not have initially been a priority for them. Finally, your staff have been extremely helpful and provided all the support the Committee needed to do its job.

In short, it is clear that the people of Pima County want and expect you to fix the roads, and they want you to do so now. When you created this Committee, you did so by unanimous vote and hopefully with a genuine willingness to receive our recommendations and the input of the public who participated, without already having a predetermined stance on the issue. Please don't pass on this opportunity to lead on this critical and most basic issue that is clearly your responsibility.

Sincerely,

Wendell Long, Chair

Michael McDonald, Vice-Chair

Attachment

C: Members of the Pima County Sales Tax Advisory Committee
Chuck Huckelberry, Pima County Administrator

Date: February 28, 2018

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

From: Chair and Members
Pima County Sales Tax
Advisory Committee

Re: **Report and Recommendations from the Sales Tax Advisory Committee approved at the February 28, 2018 Committee Meeting**

I. Committee Systematic Review

First, as you review this report and its recommendations it is important to emphasize that the Committee considered and reviewed a significant amount of data, scenario analysis, reports and credible information as a basis for this report and these recommendations. This includes information provided by Pima County professional staff, other organizations, the public, and stakeholders. We have footnoted this report extensively so that those reading it can locate the documents reviewed by the Committee, as well as meeting summaries of the Committee's discussions, all of which have been posted on the County's website at www.pima.gov/salestax. The footnotes at the bottom of each page of this report are also hyperlinked so readers can click on the links to review the specific information without having to scroll through the website.

II. Sales Tax Advisory Committee – Composition and Origin

In our view, your unanimous vote to commission this Sales Tax Advisory Committee reflects a concerted view by each of you that our roads need to be fixed and that the recent addition of a 25-cent property tax for road repair was inadequate. You appointed a broad based commission with representation from businesses groups that would be impacted by a sales tax, advocates for the low-income and elderly communities that would be disproportionately impacted, and those with expertise in this region's transportation issues. Attached is a list of each Committee member and who we represent. The Committee reflects years of experience with issues that impacted the scope of these recommendations, and a personal commitment to a better community.

III. Committee Charge

You commissioned our Committee to seek out public input, apply our perspectives, and make recommendations to you on the following specific questions:

Should Pima County adopt a half-cent general County sales tax?
Should the sales tax revenue be used for road repair and/or property tax reduction?

Should the sales tax be temporary or permanent?

This Committee undertook a process to confirm the extent of the road condition problem, consider a range of solutions, and consider critical ancillary issues such as the high Pima County property tax rate, the disproportionate impact of a sales tax on low-income households, and the need for mechanisms to assure the public that the funding is spent as stated.

IV. Findings

A. Road Conditions are an Extensive Problem that Require Board of Supervisors Action

It is indisputable that the Committee, government entities, business and advocacy groups and the public have concluded that the roads are in terrible condition and action must be taken now. The public confirmed this in public hearings, meetings and online comments.[1]

Tucson Association of Realtors confirmed this in a recent poll.[2] A majority of respondents rated the condition of roads in Pima County as poor and responded that there is some need or a great need to increase the current level of funding for roads and highways in Pima County.

The Tucson Metro Chamber confirmed this during surveys of their member businesses between 2014 and 2017.[3] The 2014 survey asked 570 major employers in Pima County to identify what they like most about doing business here and what they like least. "At the top of the list of dislikes was dissatisfaction with the condition of our streets and roads. These employers made it clear that they wanted our roads fixed and wanted them fixed now."[4]

Members of the Site Selectors Guild, representing major industries and corporations looking for relocation/expansion opportunities, visited Tucson and Southern Arizona in February. According to Sun Corridor, the group provided constructive feedback on areas to strengthen as a community, including the "Need to dramatically improve surface road conditions."[5]

A recent poll by the Arizona Daily Star confirmed this.[6] "In the poll, 68 percent said they are somewhat or extremely dissatisfied with road maintenance where they live..." "Of the 1,700 people who participated in the poll, nearly 7 in 10 said they would, or might be willing to, pay more taxes for road maintenance."

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[1] Summary of Public Input Regarding Possible Pima County Sales Tax
[2] Tucson Association of Realtors November 27-29, 2017 Poll
[3] February 12, 2017 Sales Tax Advisory Committee meeting summary, presentation by M. Varney
[4] The Chamber Edge, Winter 2018, Why NOW Is the Time to Fix Our Streets, page 12
[5] Sun Corridor Inc., Presidents Memo, Site Selectors Revisit Southern Arizona – What did they think?
[6] Arizona Daily Star Poll: Good roads a top priority for many local residents, February 24, 2018

Pima Association of Governments (PAG) and Regional Transportation Authority (RTA) staff confirmed this during a presentation to the Committee.[7] Pima County and City of Tucson Transportation staff estimate that 70 percent of the roads in unincorporated Pima county and the City of Tucson are in poor or failing condition.[8,9] The dollars needed to repair the roads to at least a fair condition has been confirmed. Pima County Transportation staff have identified the specific roads, including which treatments are needed and when, and have provided an estimated cost of $527 million to repair and routinely maintain unincorporated County paved roads over 10 years.[10] City of Tucson Transportation staff estimated that it would cost at least $800 million to repair the roads within the City of Tucson to at least a fair condition.[11]

Business representatives, the Tucson Association of Realtors and members of the public commented on how our bad road conditions and high property taxes are a disincentive to encouraging businesses to relocate or expand in Pima County.[12,13] In addition, it is estimated that our poor road conditions cost Tucson drivers $542 in additional vehicle operating costs.[14]

B. Funding Road Repair – Board of Supervisors Action is the Sole Realistic Solution

County officials and elected representatives of the County over years have examined multiple non-County sales tax options to secure the funding necessary to repair the roads. However, no acceptable mechanism has been agreed upon to date.[15,16] These include, but are not limited to, general obligation bonds funded with property taxes that were rejected by Pima County voters in 2015; insufficient State-shared Highway User Revenue Funds (HURF) that largely fund voter-approved debt issued by the County to expand the capacity of roadways throughout the region; and multiple legislative efforts to increase the state gas tax that was regularly increased until 1990 and has not been increased since then, and to stop the legislature from continuing to sweep HURF funds for other purposes reducing the amount available to local governments. During our deliberations Supervisor Miller undertook an extensive effort to find revenues for road repair within the County's existing budget. However, the Committee received several detailed memorandums from the County Administrator stating that the funding is simply not available as much of it is legally restricted

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[7] PAG, the RTA and Regional Transportation Funding, November 13, 2017
[8] Attachment 2, Draft Pima County Roadway Pavement Repair and Preservation 10-year Plan for Unincorporated Pima County for Board discussion February 6, 2018
[9] Current State of Road Conditions and Road Repair Funding memo to Committee Sept.19, 2017
[10] Attachment 2, Draft Pima County Roadway Pavement Repair and Preservation 10-year Plan for Unincorporated Pima County for Board discussion February 6, 2018
[11] Current State of Road Conditions and Road Repair Funding memo to Committee Sept.19, 2017
[12] January 9, 2018 Sales Tax Advisory Committee meeting summary
[13] February 12, 2018, Sales Tax Advisory Committee meeting summary
[14] Tripnet.org 2016
[15] Current State of Road Conditions and Road Repair Funding memo to Committee Sept.19, 2017
[16] September 29, 2017 Sales Tax Advisory Committee Meeting Summary

for the purposes for which it is spent.[17, 18, 19, 20,21]

An independent evaluation by PAG has estimated the need for additional transportation funding for the region though 2045, has summarized possible funding options, and has concluded that the region has the opportunity to determine how to be self-sufficient using local revenue sources.[22] Local funding sources will generate more funding for our region than revenues raised by the state or federal government.[23] A long-awaited Federal infrastructure plan has now been proposed by the President and based on local match requirements it would be unlikely to help us at all.[24] While the County and RTA continue to support legislation that would result in funding for local road repair, it is clear that funding support from the state or federal legislatures is extremely remote in the near term, nor can it be assumed in the long term. [25, 26] To say otherwise would be providing false hope.

Even with the County's recent action to adopt a 25-cent property tax per $100 of assessed property valuation for road repair, the Pima County Transportation Advisory Committee (TAC) concluded unanimously by letter to you that the property tax was "severely inadequate to repair the roads in any reasonable period of time," expressed their frustration, and implored you to consider any and all road repair funding options.[27] The property tax is estimated to generate about $19 million a year for the region for repair of local roads only. At that rate, it is estimated to take at least 35 years to fix the roads, assuming the roads don't continue to deteriorate, which they will.[28, 29]

Municipalities across the Nation and other Arizona counties are also challenged by this issue and are seeking to find a solution that fits their needs.[30,31]

C. Members of the Board of Supervisors have Engaged with Solutions

Current analysis indicates that if a sales tax proposal is approved, and depending on the final structure, it can resolve the road repair funding dilemma within 10 years for unincorporated Pima County, and contribute largely to resolving the problem within the City of Tucson and

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[17] Pima County Supervisor Miller's 30-day Challenge to find Road Repair Money, Part 1, October 20, 2017
[18] Pima County Supervisor Miller's 30-day Challenge to find Road Repair Money, Part 2, October 31, 2017
[19] Pima County Supervisor Miller's 30-day Challenge to find Road Repair Money, Part 3, November 8, 2017
[20] Pima County Supervisor Miller's 30-day Challenge to find Road Repair Money, Part 4, December 4, 2017
[21] Pima County Supervisor Miller's 30-day Challenge to find Road Repair Money, Part 5, December 14, 2017
[22] Transportation Funding Options for Southern Arizona, PAG, provided to Committee Sept.19, 2017
[23] January 9, 2018 Sales Tax Advisory Committee meeting summary
[24] Federal Infrastructure Funding and the County's One-Half Cent Sales Tax, February 12, 2017
[25] Legislative Bills Authorizing Counties to Submit to Voters a Transportation Sales Tax, January 31, 2018
[26] Recommended Legislative Agenda for 2018, December 12, 2017
[27] Transportation Advisory Committee letter to Board of Supervisors, October 30, 2017
[28] September 29th Sales Tax Advisory Committee Meeting Purpose and Scope, September 19, 2017
[29] September 29, 2017 Sales Tax Advisory Committee Meeting Summary
[30] November 2017 Transportation Funding Ballot Measures, November 11, 2017
[31] Arizona Association of County Engineers, January 16, 2018

other cities and towns. The Committee and you, the Board, have been presented with two proposals, one authored by Supervisor Christy and one prepared at the request of Supervisor Valadez to include elements specified by Supervisor Valadez. Both also provide a measure of property tax relief.

1. Pima County Supervisor Steve Christy's "Just Fix the Roads" proposal [32, 33]

There are three fundamental elements to Supervisor Christy's proposal:

1) Board of Supervisors to repeal/de-authorize the 25-cent property tax for road repair.

2) Board of Supervisors enacts a one half-cent sales tax by a unanimous vote.

3) Board of Supervisors directs sales tax revenue to the RTA, with the mandate that the RTA develop, administrate and execute a 10-year countywide road repair plan.

2. Draft Sales Tax Implementation Plan Ordinance, Adopting Resolution and 10 year Road Repair Plan prepared at the request of Supervisor Valadez [34,35,36]

This proposal would eliminate the 25-cent property tax for road repair and allocate the full amount of sales tax revenues to road repairs in the first year. In subsequent years, the road repair portion of sales tax revenues would be reduced by 2.5 percent annually with that amount going toward property tax reduction. After year 10, the full sales tax revenues would be applied to property tax reduction. By year 11, this proposal would have the effect of reducing the Pima County primary property tax rate by 31 percent. The 10 years' worth of road repair funds would be shared with cities and towns, based on their proportional population. The road repair funds allocated to unincorporated Pima County roads would be combined with growth in HURF revenues, additional HURF resulting from reductions in debt-service, and Transportation Department cost saving measures, to ensure that all County-maintained paved roads in unincorporated Pima County are repaired to at least a fair condition and maintained within the 10 years. Transportation staff developed a detailed draft 10-year road repair plan with each road listed by condition, treatment type and schedule for treatment.[37]

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[32] Just Fix the Roads Program, as presented by Supervisor Christy at October 27, 2017 Committee meeting
[33] Pima County Supervisor Christy's District 4 webpage, summary of plan
[34] Draft Sales Tax Implementation Plan Ordinance and Road Repair Plan for Discussion, February 6, 2018
[35] Additional Information – Draft Sales Tax Sales Tax Implementation Plan Ordinance and Road Repair Plan for Discussion, January 31, 2018
[36] Supervisor Valadez's Plan Summary for Sales Tax Advisory Committee Meeting, February 12, 2018
[37] Draft Road List – 10 Year Road Repair Plan for Unincorporated Pima County

An ordinance could be adopted by a majority of the Board of Supervisors that specifies how the sales tax revenues would be allocated between road repair and property tax reduction, how the road repair portion would be allocated between the cities and towns, and would include a detailed 10 year plan for repairing and maintaining every unincorporated Pima County paved road. The ordinance could also include some method of mitigating the sales tax impact to low-income households.

A resolution, which could only be adopted by a unanimous vote of the Board of Supervisors, would require that the revenues be deposited into segregated funds for clear line of sight accounting and auditing (road repair fund and general fund); RTA to oversee county and municipalities road repair programs, including annual audits, establishment of performance standards and best practices for road repair, and evaluation of the road repair programs; additional annual audit by Arizona Auditor General's office; if either audit finds funds misspent, County has opportunity to reimburse the road fund, and if that does not occur, the sales tax is terminated.

D. Ancillary Issues Integral to a Broad Based Solution

1. Both of the scenarios proposed have the positive effect of reducing the Pima County primary property tax rate.

Clearly the public and the business community prioritized fixing the roads as the most important use of the sales tax revenues.[38, 39] But we also heard public support for using the sales tax revenue for a combination of road repair and property tax relief.[40] Tucson Association of Realtors favors this combination, and their 2017 poll showed that a slight majority responded in favor of a County half-cent sales tax for road repair and property tax reduction.[41] Those responding from Supervisorial Districts 1, 3 and 5 were slightly more in favor of a sales tax for road repair and property tax reduction than those in Districts 2 and 4.[42]

We heard from staff that Pima County has the highest primary property tax rate of all Arizona counties. All other Arizona counties have one or more sales taxes that fund a portion of their general funds or general fund-type expenses, diversifying their revenue base.[43,44] The idea of a sales tax for both road repair and property tax relief was not created by Pima County. Yavapai County, in 1994, adopted a general county sales tax to specifically reduce property

[38] Summary of Public Input Regarding Possible Pima County Sales Tax
[39] February 12, 2017 Sales Tax Advisory Committee meeting summary, presentation by M. Varney
[40] Summary of Public Input Regarding Possible Pima County Sales Tax
[41] Tucson Association of Realtors November 27-29, 2017 Poll
[42] February 12, 2017 Sales Tax Advisory Committee meeting summary, presentation by S. Huffman
[43] January 9, 2018 Sales Tax Advisory Committee meeting summary
[44] Sales Tax Advisory Committee Presentation, Supervisor Ramon Valadez, January 9, 2018

taxes and fund the construction/reconstruction of roads throughout the County.[45]

We heard from Tucson Association of Realtors that Arizona has one of the most complicated property tax systems in the nation; owner-occupied residential properties are heavily subsidized, powerful industries carve out special exemptions that reduce their property taxes, and many of the areas largest employers are governmental and therefore don't pay property taxes, all of which has the effect of increasing the tax burden the average business and renters.[46, 47]

We heard from the public and Tucson Association of Realtors that Pima County's high property tax rate is a barrier to business investment and job growth in Pima County.[48,49] Pima County's high property tax rate contributes to exceedances of the one percent Arizona constitutional limit on primary property taxes, largely for homeowners located in the City of Tucson and Tucson Unified School District (TUSD), costing the State and other taxpayers to subsidize property taxes for these homeowners.[50] This has led to efforts by the State legislature to pass millions of dollars of costs to the County, and to continued criticism of Pima County by the Arizona Tax Research Association – a powerful lobbying organization.[51]

The majority of respondents to the Tucson Association of Realtors poll agreed with the following statements: A half-cent sales tax is a small price to pay for better roads and lower property taxes; it is not fair that property and business owners are the only source of revenue for county services; and sales taxes are a good way to lessen the overall tax load on local residents by having visitors and tourists pay their fair share.[52] Up to 17 percent of the sales tax would be paid by visitors and businesses outside the County, lessening the tax burden on Pima County property tax payers.[53]

2. Sales taxes do disproportionately impact low-income households.

Your staff provided us with detailed information estimating the cost of the sales tax on households of various incomes, the regressive nature of sales taxes and property taxes in comparison to income taxes in Arizona, the number of low-income households and

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[45] Countywide Sales Tax Dedicated to Property Tax Relief and Local Pavement Preservation and Repair, June 20, 2017
[46] Tucson Association of Realtors, Arizona and Property Taxes
[47] February 12, 2017 Sales Tax Advisory Committee meeting summary, presentation by S. Huffman
[48] Summary of Public Input Regarding Possible Pima County Sales Tax
[49] February 12, 2017 Sales Tax Advisory Committee meeting summary, presentation by S. Huffman
[50] Half-cent Sale Tax for Road Repair and Property Tax Reduction Over 15 Years, October 18, 2017
[51] Arizona Tax Research Association Newsletter, September 2017
[52] Tucson Association of Realtors November 27-29, 2017 Poll
[53] Countywide Sales Tax Dedicated to Property Tax Relief and Local Pavement Preservation and Repair, June 20, 2017

households living in poverty in Pima County, and possible mitigation measures. [54,55] We discussed the issue at length during Committee meetings.[56,57] Our Vice-Chair provided concerning information about the 155,000 individuals in Pima County that are considered "food insecure" and accessed hunger relief services in a given year.[58]

While the cost of a County half-cent sales tax to the average income household in Pima County is estimated to be $91 a year or $7.58 per month, about one-third or 128,000 households in Pima County are estimated to have incomes below $30,000 and are therefore estimated to pay about $36 to $48 a year or $3 to $4 per month per household. While low-income households are disproportionally impacted by sales taxes, at least one-third of households at the lower-income levels own homes and would see a reduction in Pima County primary property taxes if some or all of the sales tax revenue is applied to property tax reduction. More than two-thirds of households at even the lowest income levels own cars and would see some reduction in vehicle maintence and repair costs if the funding went to road repair. The City of Tucson's 2017 voter-approved half-cent sales tax is set to expire in four years, at which time the total sales tax in the City would be reduced by a half-cent. There is a specific increased sales tax income tax credit in Arizona for low-income individuals and households that was established when voters increased the State sales tax for education in 2000. This shows that there is precedence for including mitigation measures with sales tax increases. You, the Board, could increase County support for the United Way's free tax filling assistance program to increase the number of households taking this credit. In addition, you, the Board, could consider allocating one-percent from a County half-cent sales tax to programs and services that increase the financial stability of low-income households that would be disproportionally impacted by the sales tax.

Business representatives, the Tucson Association of Realtors and members of the public commented on how our bad road conditions and high property taxes are a disincentive to encouraging businesses to relocate or expand in Pima County. Key to addressing poverty and raising incomes is growing good paying jobs.[59,60,61]

Low income residents pay property taxes whether they are renters or property owners. For Pima County to continue to rely exclusively on property taxes also has major consequences for renters as rental properties do not receive the State aid subsidies and property valuation

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[54] December 14, 2017 Agenda Item Concerning the impact of a Possible Sales Tax on Low-Income Households, December 8, 2017
[55] Additional Information Concerning a Proposed County General Sales Tax and the Impact to Low-Income Households, January 31, 2018
[56] January 9, 2018 Sales Tax Advisory Committee meeting summary
[57] February 12, 2018, Sales Tax Advisory Committee meeting summary
[58] December 14, 2017 Agenda Item Concerning the impact of a Possible Sales Tax on Low-Income Households, December 8, 2017
[59] January 9, 2018 Sales Tax Advisory Committee meeting summary
[60] February 12, 2018, Sales Tax Advisory Committee meeting summary
[61] Summary of Public Input Regarding Possible Pima County Sales Tax

growth limitations that significantly lower property taxes for homeowners in Arizona.[62] These higher property taxes are most assuredly passed on to renters.

3. Public confidence that the funding will be utilized as stated must be assured

We heard clearly from the public, those in support of a sales tax and those opposed, that there needs to be iron clad assurances that the funding will be spent for the stated purposes.[63] Supervisor Christy's plan attempts this by transferring all responsibility for administering the road repair programs to the RTA. While the County Attorney's office has determined that you, the Board, cannot delegate the decision on prioritizing roads for repair, that leaves many other administrative roles that could be delegated to the RTA.[64] The proposal prepared at the request of Supervisor Valadez attempts this by requiring two annual independent audits, one to be conducted by the RTA and one to be conducted by the State's Auditor General's Office, a termination clause if funding is misspent and not corrected, and RTA responsibility for evaluating County and municipal road repair programs based on best practices and standards.

V. Public Input

Several methods were used to solicit input from the public on a possible sales tax, the results of which were then regularly communicated to the Committee as a whole.[65] The majority of public comments were received at the seven public hearings held throughout the County, and through online feedback forms. Overall, there was generally more support for a sales tax than not. The far majority of those in support stated the funding should be used for road repair. There was some support for a combination of road repair and property tax reduction. There was little support for only property tax reduction. Public comments were split equally over the term of the sales tax – temporary or permanent. Those in support of a sales tax, and those opposed, clearly stated that there needs to be assurances that the funding is spent as stated. Those opposed often commented that taxes were too high already and/or the County should find funding for road repair within existing revenues. Feedback from the public has been incorporated throughout this report and is summarized in a separate report, Summary of Public Input Regarding Possible Pima County Sales Tax, which includes all of the public input received including summaries of each public hearing and meeting, a log of the online feedback forms showing each comment, and more.[66]

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[62] February 12, 2017 Sales Tax Advisory Committee meeting summary, presentation by S. Huffman
[63] Summary of Public Input Regarding Possible Pima County Sales Tax
[64] Letter to F. Moghimi, Executive Director, Pima Association of Governments/RTA, January 28, 2018
[65] Summary of Public Input Regarding Possible Pima County Sales Tax
[66] Summary of Public Input Regarding Possible Pima County Sales Tax

VI. Participation of the Board of Supervisors during our deliberations

Clearly this is an issue that you care about as you have continually discussed it during your Board meetings that occurred during the tenure of this Committee. We thank you for recognizing the importance of this issue, the urgency to act on this issue now, and for your unanimous decision to undertake this public process and create our Committee. We also thank Supervisor Christy and Supervisor Valadez, in particular, for developing proposals and presenting them to us and to you, their fellow Board members.

VII. Response to Committee Charge

Based on our deliberations, extensive public input and independent research, the Committee has the following response to the three basic questions that you posed to us:

Should Pima County adopt a half-cent general County sales tax? YES
Should the sales tax revenue be used for road repair and/or property tax reduction? BOTH
Should the sales tax be temporary or permanent? TEMPORARY

VIII. Recommendations

The following recommendations are based on all of the findings noted above, and in addition to the proposals and solutions presented to the Committee. It is the view of this Committee that the recommendations set forth below can be transformative as it relates to the road repair issue and other relevant issues important to the concerns and future needs of Pima County.

The days of acting purely sequentially on major policy issues are an artifact of the past. The road repair issue has been exhaustively studied for years and analyzed for every possible option. This is the singular time to address the road repair and related maintenance issue for the long term benefit of Pima County residents. The direct financial impact our poor road conditions have on vehicle repair and maintence costs are well known direct costs, and coupled with the high property tax rate for the County, create barriers we have to overcome presently to attract new jobs, economic development, and retain our employment base, as a desirable community.

RECOMMENDATION 1: Yes, you, the Pima County Board of Supervisors, should adopt a half-cent sales tax for road repair and maintenance across Pima County and within cities and towns, but it must be limited in duration. We recommend 10 years and all expenditures must be monitored through trusted mechanisms like independent agencies, independent audits, and ongoing community involvement such as the Transportation Advisory Committee, and these monitoring mechanisms must be institutionalized through County ordinances and resolutions. The allocation of sales tax revenues should be enough to result in the full repair and maintenance of unincorporated Pima County paved roads, and be shared with cities and towns based on their proportional population.

RECOMMENDATION 2: Upon passage of a half-cent sales tax, the 25-cent property tax for road repair must be eliminated.

RECOMMENDATION 3: The sales tax funds should be utilized, per the revenue projections over 10 years, and as demonstrated in the various scenarios presented to us, to also reduce the property tax rate in addition to eliminating the 25-cent property tax for road repair. This property tax reduction option, or some variant of it, should be further analyzed and adopted by you, the Board. We heard from the public and interested parties that Pima County's high property tax rate is a community concern, and while it cannot be fixed in one instance, this is a critical first step. It is further suggested that the funding from sales tax revenue could be used to reasonably moderate increases in property taxes and in a way that avoids a dramatic increase in the property tax after the sales tax terminates.

RECOMMENDATION 4: With passage of a sales tax, you, the Board, should take mitigation actions to lessen the disproportional impact such a tax will have on low-income households. While no one wants to pay more taxes, a sales tax and the revenue it would generate, if administered properly, has the potential to also fund such mitigation actions. Examples of mitigations actions you, the Board, should consider include increasing support for existing free tax filling assistance programs to increase the number of low-income households receiving the Arizona income tax credit for increased sales taxes, and allocating a portion of the sales tax funds to programs and services that increase the financial stability of low-income households though existing institutional frameworks.

In addition, by utilizing sales tax funds for property tax reduction, it is our understanding that at least one-third of households at the lower-income levels who own homes would see a reduction in County primary property taxes. By utilizing the funds for road repair, the more than two-thirds of households at the lower-income levels who own cars should see reductions in vehicle maintenance and repair costs. Also the City of Tucson's sales tax increase is set to expire in four years, reducing the sales tax in the City by an equivalent half-cent.

Pima County Sales Tax Advisory Committee Members as of February 28, 2018 Meeting

Member	District
Allan Cameron	1
Larry Hecker	2
Dennis Minano	3
Wendell Long	4
Transportation Advisory Committee Representatives	
Member	**District**
Dan Eckstrom	2
Bob Gugino	5
Dr. Curtis Lueck	County Administrator
Business Representatives	
Member	**Organization**
Robert Medler	Tucson Metro Chamber
Larry Gibbons	Southern Arizona Home Builders Association
Mark S. Miller	Pima County Small Business Commission
Charles Wetegrove Alternate: Mark Van Buren	Southern Arizona Lodging and Resort Association
Low-Income Families and Elderly Representatives	
Member	**Organization**
Michael McDonald	Community Food Bank of Southern Arizona
Anita Smith Etheridge	Tucson Urban League
Mark Clark	Pima Council on Aging

ATTACHMENT 4

GO Debt Analysis

Net Assessed Value (NAV)

Utilized NAV Assumptions from Finance and Risk Management

Debt Issuances

	$860M	$430M
2018-19		
2019-20	100,000,000	50,000,000
2020-21	80,000,000	50,000,000
2021-22	80,000,000	50,000,000
2022-23	80,000,000	50,000,000
2023-24	85,000,000	50,000,000
2024-25	90,000,000	50,000,000
2025-26	95,000,000	50,000,000
2026-27	95,000,000	50,000,000
2027-28	100,000,000	30,000,000
2028-29	55,000,000	
2029-30		
2030-31		
2031-32		
2032-33		
Total	**860,000,000**	**430,000,000**
# of Debt Issuances	10	9
Interest Rate Assumptions Used	3.50%	3.0%
Average Payback	8.9	3.4
Average Tax Rate	0.5369	0.4260

DRAFT

		Estimated Debt Retirement Schedule For Current Bonds Outstanding			Estimated Debt Retirement Schedule For the Proposed Bond Authorization				
Column 1	**Column 2**	**Column 3**	**Column 4**	**Column 5**	**Column 6**	**Column 7**	**Column 8**	**Column 9**	**Column 10**
Fiscal Year	**Projected Taxable Net Assessed Value**	**Principal**	**Interest**	**Projected Tax Rate per $100 Taxable Net Assessed Value**	**Principal**	**Interest**	**Projected Tax Rate per $100 Taxable Net Assessed Value**	**Total Debt Service**	**Projected Tax Rate per $100 Taxable Net Assessed Value**
2017-18	8,074,957,717	45,295,000	10,918,326	0.7000				56,213,326	0.7000
2018-19	8,333,892,906	48,655,000	9,470,672	0.6900				58,125,672	0.6900
2019-20	8,720,207,410	52,425,000	8,092,617	0.6900				60,517,617	0.6900
2020-21	9,128,292,979	40,945,000	6,646,987	0.5214	13,143,000	2,250,000	0.1686	62,984,987	0.6900
2021-22	9,547,162,228	40,350,000	5,173,294	0.4768	17,371,000	2,980,710	0.2132	65,875,004	0.6900
2022-23	9,972,361,171	28,810,000	3,561,282	0.3246	32,478,000	3,959,580	0.3654	68,808,862	0.6900
2023-24	10,271,532,006	20,215,000	2,448,181	0.2206	43,725,000	4,485,240	0.4694	70,873,421	0.6900
2024-25	10,579,677,966	13,630,000	1,692,981	0.1448	53,003,000	4,673,490	0.5452	72,999,471	0.6900
2025-26	10,897,068,305	14,160,000	1,164,282	0.1406	55,282,000	4,583,400	0.5494	75,189,682	0.6900
2026-27	11,223,980,354	9,910,000	609,419	0.0937	62,501,000	4,424,940	0.5963	77,445,359	0.6900
2027-28	11,560,699,765	5,905,000	255,569	0.0533	69,708,000	3,899,910	0.6367	79,768,479	0.6900
2028-29	11,907,520,758	985,000	29,550	0.0085	78,663,000	2,483,670	0.6815	82,161,220	0.6900
2029-30	12,264,746,381				4,126,000	123,780	0.0347	4,249,780	0.0347
2030-31	12,632,688,772								
2031-32	13,011,669,435								
2032-33	13,402,019,518								
2033-34	13,804,080,104								
2034-35	14,218,202,507								
2035-36	14,644,748,582								
2036-37	15,084,091,040								
	Total	321,285,000			430,000,000				

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		Estimated Debt Retirement Schedule For Current Bonds Outstanding			Estimated Debt Retirement Schedule For the Proposed Bond Authorization				
Column 1	**Column 2**	**Column 3**	**Column 4**	**Column 5**	**Column 6**	**Column 7**	**Column 8**	**Column 9**	**Column 10**
Fiscal Year	**Projected Taxable Net Assessed Value**	**Principal**	**Interest**	**Projected Tax Rate per $100 Taxable Net Assessed Value**	**Principal**	**Interest**	**Projected Tax Rate per $100 Taxable Net Assessed Value**	**Total Debt Service**	**Projected Tax Rate per $100 Taxable Net Assessed Value**
2017-18	8,074,957,717	45,295,000	10,918,326	0.7000				56,213,326	0.7000
2018-19	8,333,892,906	48,655,000	9,470,672	0.6900				58,125,672	0.6900
2019-20	8,720,207,410	52,425,000	8,092,617	0.6900				60,517,617	0.6900
2020-21	9,128,292,979	40,945,000	6,646,987	0.5214	10,318,000	5,075,000	0.1686	62,984,987	0.6900
2021-22	9,547,162,228	40,350,000	5,173,294	0.4768	13,713,000	6,638,870	0.2132	65,875,164	0.6900
2022-23	9,972,361,171	28,810,000	3,561,282	0.3246	27,478,200	8,958,915	0.3654	68,808,397	0.6900
2023-24	10,271,532,006	20,215,000	2,448,181	0.2206	37,369,000	10,840,928	0.4694	70,873,109	0.6900
2024-25	10,579,677,966	13,630,000	1,692,981	0.1448	45,125,000	12,551,763	0.5452	72,999,744	0.6900
2025-26	10,897,068,305	14,160,000	1,164,282	0.1406	45,699,000	14,166,138	0.5494	75,189,420	0.6900
2026-27	11,223,980,354	9,910,000	609,419	0.0937	51,034,000	15,891,673	0.5963	77,445,092	0.6900
2027-28	11,560,699,765	5,905,000	255,569	0.0533	56,134,000	17,474,233	0.6367	79,768,802	0.6900
2028-29	11,907,520,758	985,000	29,550	0.0085	62,531,000	18,615,793	0.6815	82,161,343	0.6900
2029-30	12,264,746,381				66,755,000	17,870,958	0.6900	84,625,958	0.6900
2030-31	12,632,688,772				71,631,000	15,534,533	0.6900	87,165,533	0.6900
2031-32	13,011,669,435				76,752,800	13,027,448	0.6900	89,780,248	0.6900
2032-33	13,402,019,518				82,132,000	10,341,100	0.6900	92,473,100	0.6900
2033-34	13,804,080,104				87,781,000	7,466,480	0.6900	95,247,480	0.6900
2034-35	14,218,202,507				93,712,000	4,394,145	0.6900	98,106,145	0.6900
2035-36	14,644,748,582				31,835,000	1,114,225	0.2250	32,949,225	0.2250
2036-37	15,084,091,040								
	Total	321,285,000			860,000,000				