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

April 21, 2016

I. INTRODUCTION

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

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

II. HOW DID WE GET TO WHERE WE ARE?

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

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

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

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

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

Each of these factors is discussed below.

A. Transportation revenues are not growing or shared equitably.

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

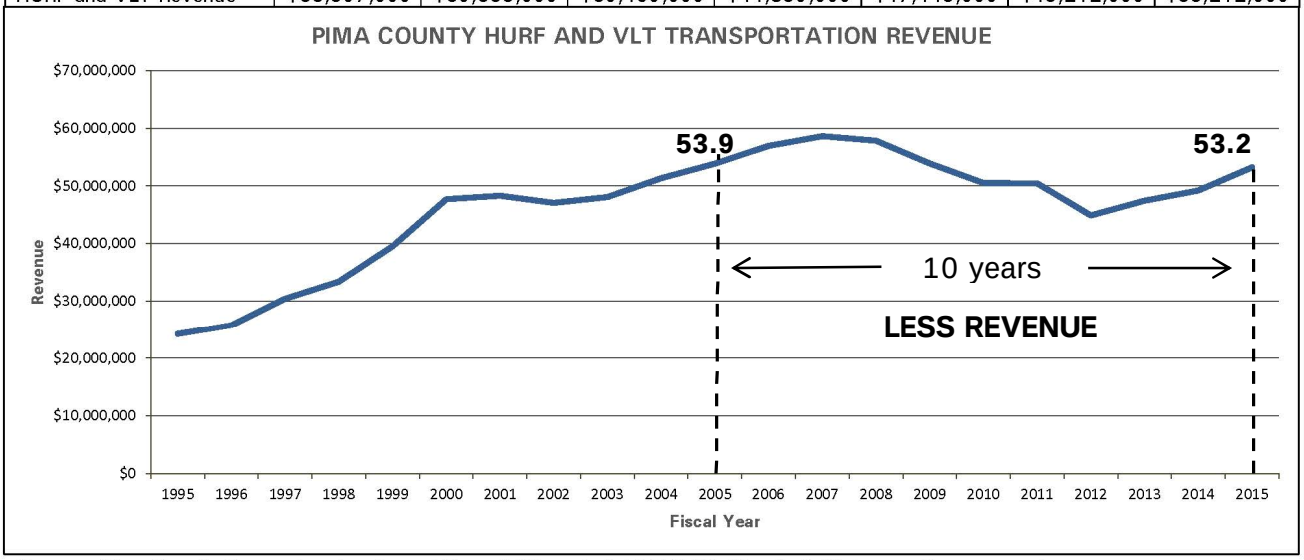
[1] Arizona Department of Administration July 1, 2015 Population Estimates. https://population.az.gov/population-estimates. Accessed April 12, 2016.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Mobility investment of the 1997 HURF Bond Program.

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

---

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

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

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

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

Table 2: 1997 HURF Bond Expenditures by District.

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

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

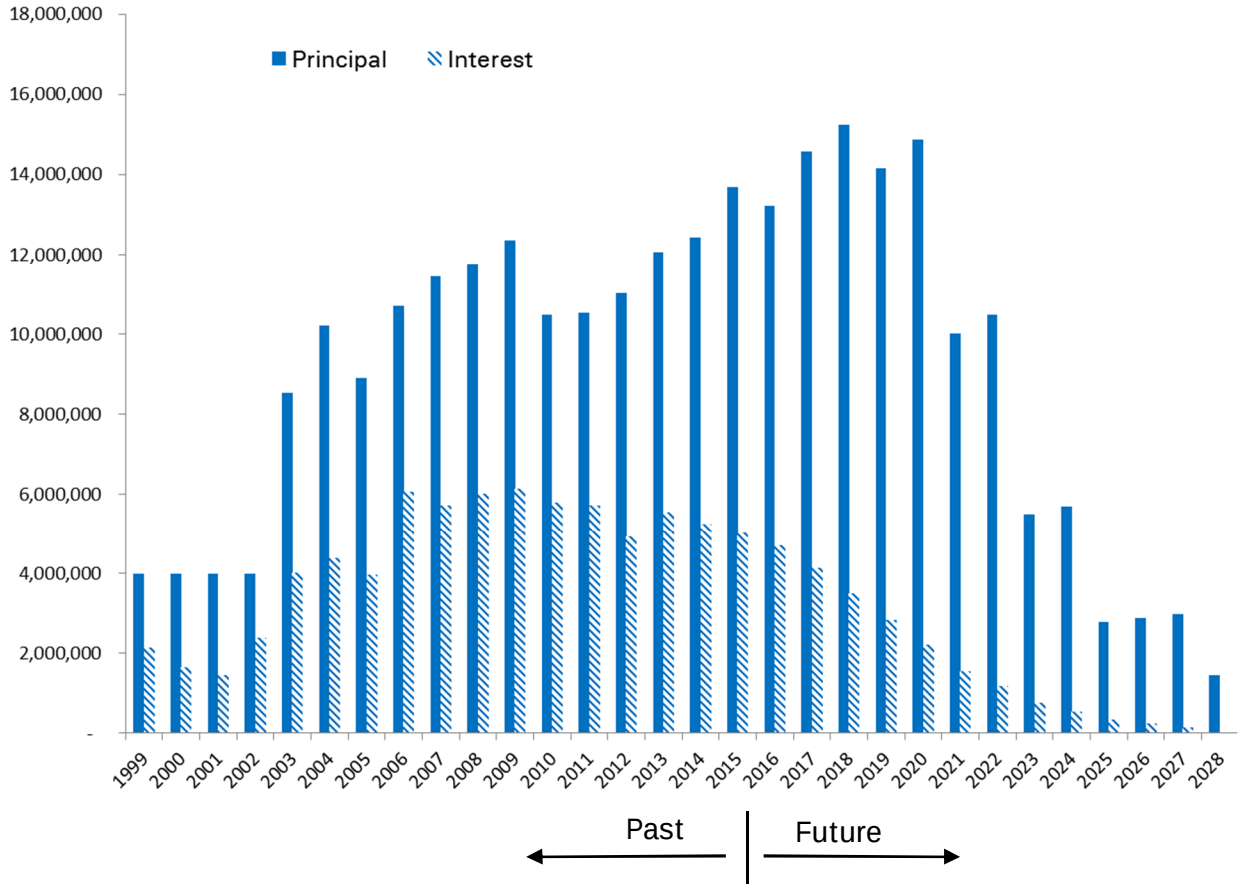
The 1997 HURF bond program has been a major success in providing needed and demanded mobility for the residents of unincorporated Pima County.

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

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

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

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



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

IV. WHAT ARE OUR OPTIONS GOING FORWARD?

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

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

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

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

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

The Legislature has not responded to a single proposal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. A REGIONAL APPROACH IS LIKELY BEST

To immediately begin addressing our pavement repair problem, I also believe a half-cent sales tax proposal is worth pursuing at the legislative level, with such being a limited 10-year sales tax dedicated exclusively to roadway repair and distributed among the County jurisdictions based on population. Such a program would be administered by the successful Regional Transportation Authority building on the success of the 2006 voter-approved plan. This will raise the nearly $300 million needed to adequately repair Pima County's roads and provide another $500 million to the City of Tucson, which would substantially resolve their road issues. This tax would allow the various transportation jurisdictions to repurpose and rededicate their transportation revenues to maintaining the

highway system. None of the proceeds from the sales tax could be utilized for engineering or administrative purposes, and all roadway maintenance projects would be completed through private contracting.

VII. SELF HELP

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

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

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

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

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

[1]Assumes four percent interest on principal.

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

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

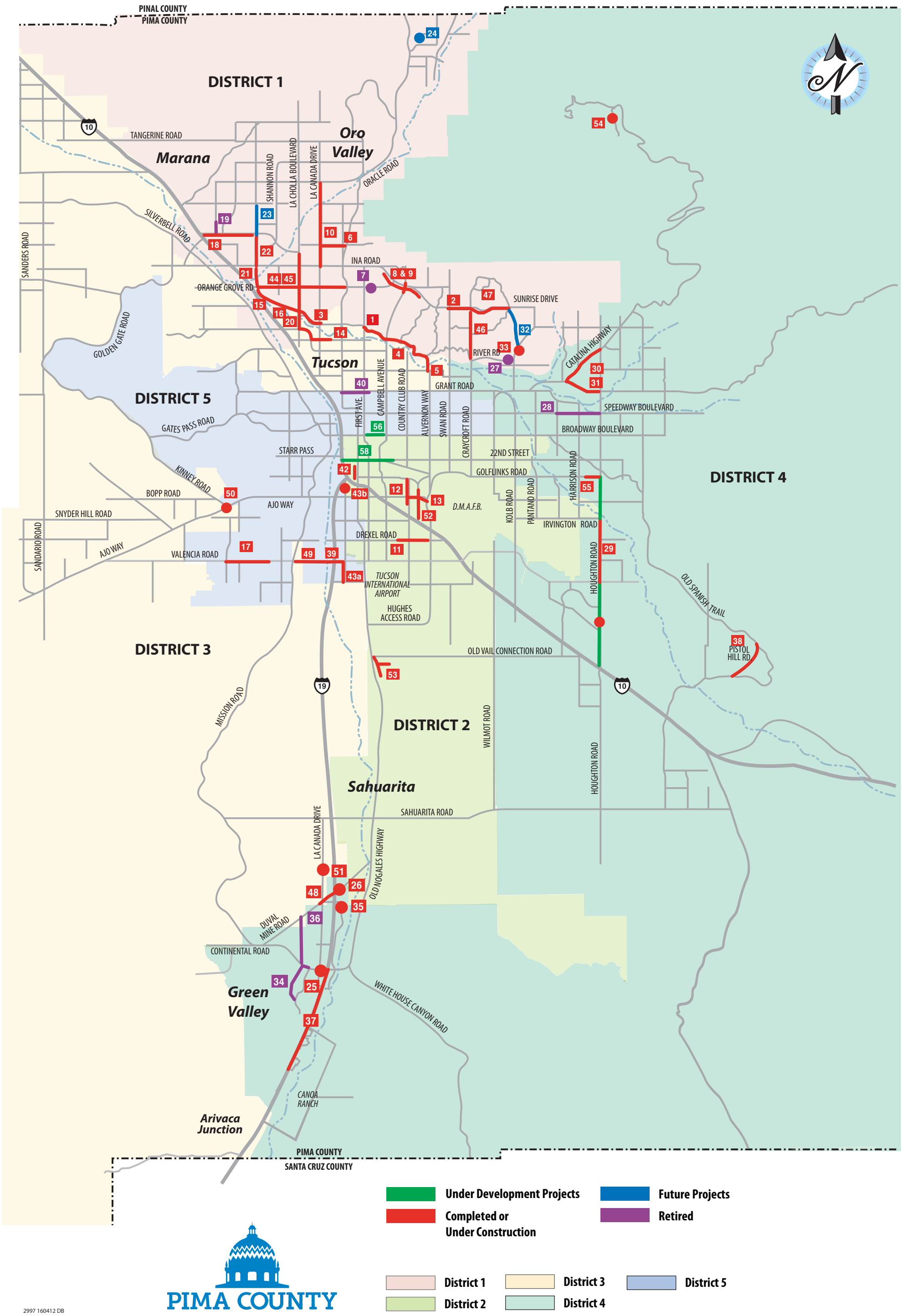
Unless there are new revenues provided, it is unlikely there will be significant public funds invested in local road repair in the next two to four years. In looking at the 12 subdivisions reviewed, the cost to substantially improve their roads would cost less, on an annual basis, than what it typically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

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

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

THIS SHEET INTENTIONALLY BLANK

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



2997 160412 DB

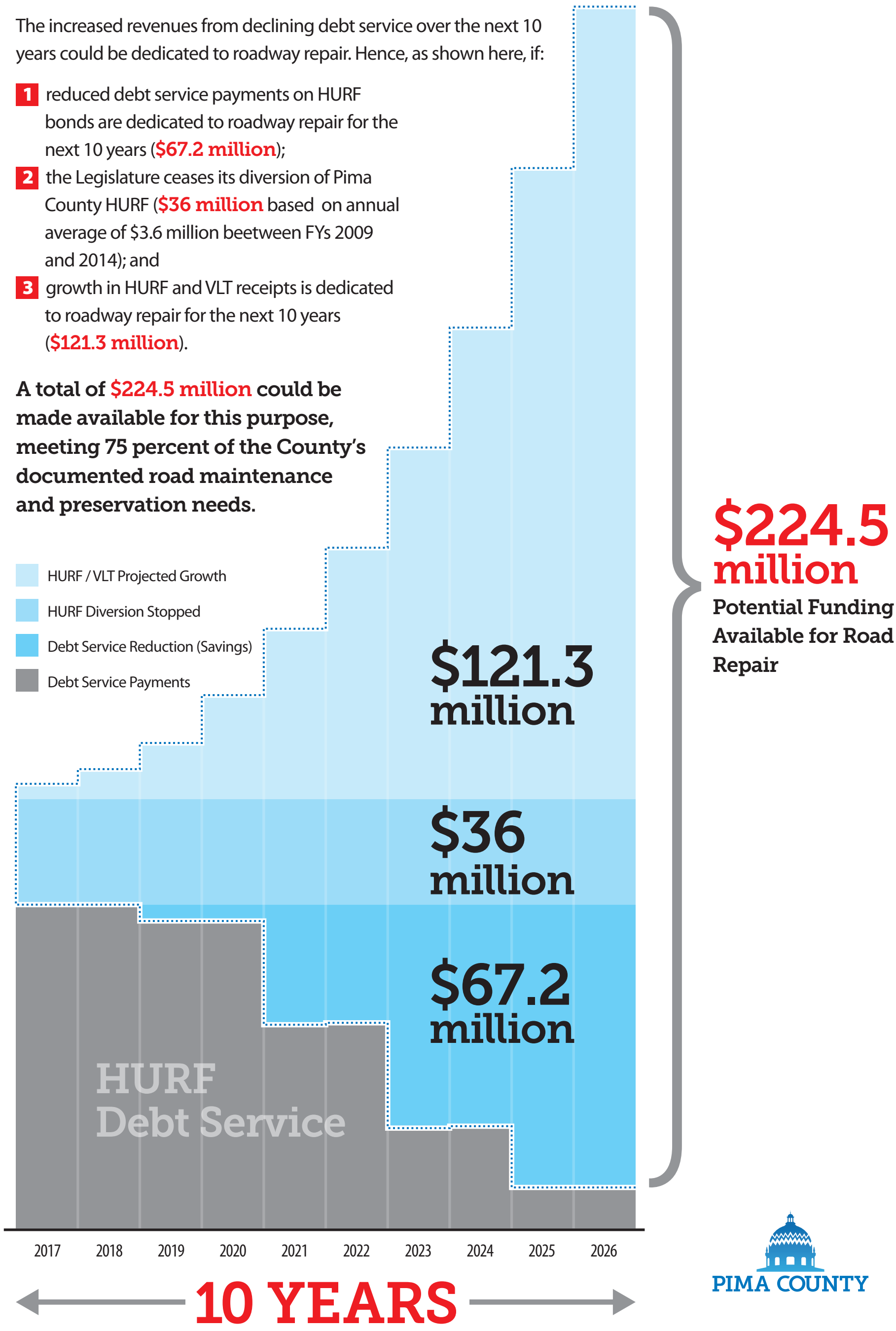
ATTACHMENT 1

Options to increase road repair funding over 10 years

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

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

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



PIMA COUNTY

ATTACHMENT 2