



Board of Supervisors Memorandum

February 6, 2018

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

Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Primary Property Tax Rate Reduction

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

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

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

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

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

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

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

Draft Sales Tax Implementation Plan Ordinance

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

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

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

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

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

Table 2
Estimated 10 Year Sales Tax Revenue Distribution by Jurisdiction

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

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

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

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

Commitment to Low-Income Programs and Services

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

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

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

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

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

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

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

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

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

Summary

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

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

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

Sincerely,



C.H. Huckelberry
County Administrator

CHH/dr (January 10, 2018)

Attachments

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

ATTACHMENT 1



MEMORANDUM

Date: November 28, 2017

To: Chairman and Members
Pima County Sales Tax Advisory Committee

From: Ramón O Valadez
Pima County Supervisor, District 2

A handwritten signature in blue ink, reading "Ramón O Valadez", is written over the typed name and title.

Re: **Alternative Proposal for Consideration**

As you may be aware, during the Board of Supervisors meeting of Tuesday, November 21st, The Board openly discussed the possible new sales tax for Transportation (see video of Board meeting at http://pima.granicus.com/ViewPublisher.php?view_id=7). During that discussion, we gave the County Administrator direction to return to the Board as well as the Sales Tax Advisor Committee a draft proposal for discussion with the following items:

1. A written plan to complete all pavement preservation and repair of roads in the Region of Pima County. As part of this direction I asked for a detailed plan that can assure County residents that the roads, under county jurisdiction, will be fully repaired in 10 years.
2. Include measured increasing property tax relief which would reduce primary property taxes for all (business and residential) taxpayers over the period of the plan and to continue this tax relief indefinitely.
3. Assure that programs to benefit low income members of our community will continue at their present levels, or increase, and funds for said programs will not be diverted or diminished.
4. Draft an ordinance for Board consideration that would put these policies in effect and void any sales tax revenue increase to fund road repair and property tax relief if this Board or any future Board tries to use funds for any other purpose.

As part of the discussion, my fellow-board members expressed some concern about the administration of this program through the Regional Transportation Authority (RTA) and the administrating cost of such. This proposal neither includes nor excludes that possibility, but recognizes

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that Arizona law, to the best of my understanding, does not allow the Board to delegate its authority to collect a sales tax nor decide on its allocation to a third-party.

I applaud Supervisor Christy for advancing this discussion with his plan. I now would like to add to the present discussion this plan. As noted during the meeting I am perfectly willing to add fund components identified by Supervisor Miller in the discussion for your consideration. The purpose of this proposal is to give the Board and your Committee more options for dialogue about a solid and tangible plan.

C: Chuck Huckelberry, County Administrator

ATTACHMENT 2

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

I. Purpose

The purpose of the Pima County Roadway Pavement Repair and Preservation Plan (“Plan”) is to fully repair and preserve Pima County maintained roadways in unincorporated Pima County within 10 years. To illustrate the scale of the problem, approximately 70 percent of the 1,867 miles of unincorporated Pima County maintained roadways are in poor or failed condition.

It should be noted that asphaltic roadways require extensive preventative maintenance (“pavement preservation”) due to degradation by multiple factors including solar radiation, wheel loading, drainage and subbase erosion, such that a treatment is required every four to five years. Reconstructing roadways without subsequent application of regularly scheduled maintenance results in rapid loss of the asset investment as regularly scheduled pavement preservation costs approximately 28 percent of reconstruction costs. In order to maximize return on investment and save taxpayer costs, this plan includes the necessary annual pavement preservation budget.

II. Roadway Pavement Repair and Preservation Definition

The Plan constitutes activities solely related to the repair and maintenance of public flexible and rigid paved roadways to ensure that a Pavement Surface Evaluation and Rating (PASER) of at least 6 is achieved for each road sometime during the plan period and to maintain each road at or above a PASER 6 following the plan period. The PASER scale runs from 1 to 10, with 1 being a road in failed condition and 10 being a road in very good condition. A PASER 6 is a road in fair condition. Qualifying repair and preservation treatment activities include fog sealing, chip sealing, micro-surfacing, mill and overlay, and reconstruction. Under this definition, reconstruction of roadways is only applicable to the pavement section and associated edge protection on uncurbed roadways to include shoulders or headers, with the exception of Americans with Disabilities Act (ADA) infrastructure improvements required by the application of a particular repair or preservation treatment.

III. Road Selection Treatments and Schedule

Attachment A, posted at www.pima.gov/salestax under the “Resources” tab, includes a repair and pavement preservation treatment schedule for all unincorporated Pima County maintained roadways by PASER level, over the 10 year Plan. The following criteria were used in developing this schedule:

Roadway Repair and Preservation Selection Criteria

- Determine PASER for all paved public roadway segments
- Aggregate segments requiring similar mitigation grouped by Township, Section & Range, street name and address range to create work zones and then sorted by address range to align segments into collections
- Enable logic based on functional class, zoning and construction year to determine the number and location of ADA curb ramps to be constructed
- Rank roads based on PASER level

- Create routine roadway pavement preservation schedule
- Treatment types are allocated based on available annual repair and preservation budgets (Table 3)
- PASER 1-3 roadways are prioritized to repair as soon as possible
- PASER 4 roadways are allowed to deteriorate to PASER 3 prior to repairing
- PASER 5 roadways are rolled into pavement preservation schedule
- PASER 6 roadways are rolled into pavement preservation schedule in year 9
- PASER 7 roadways are treated in year 10, with the exception of 35.6 miles not scheduled to receive a treatment until year 11 at which time their condition will be PASER 3-5
- PASER 8 -10 roadways are rolled into pavement preservation schedule in year 1

**Table 1
Roadway Miles Treated per PASER per Year**

Original PASER	Treatment	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
10	Fog Seal				0.2						
9	Fog Seal	5.6									
8	Fog Seal	22.4									
7	Major SC										18.7
6	Major SC									139.5	
5	Major SC	69.8	31.5								
	Mill/Fill			32.5	45.4	38.8	40.1	50.4	16.7		
4	Mill/Fill						24.8	142.8	144.3	147.3	155.9
3	Fog Seal							101.7	110.5	129.4	
	Mill/Fill			101.7	110.5	129.4	114.4				
2	Fog Seal					15.2	120.7	0.9			
	Minor SC									15.2	120.7
	Mill/Fill	15.2	120.7	0.9							
1	Fog Seal					82.4					
	Minor SC									82.4	
	Mill/Fill	82.4									
TOTAL	-	195.4	152.2	135.1	156.1	265.8	300.0	295.8	271.5	513.8	295.3

Table 2
Summary Data of Roadways Repaired and Preserved During the 10-Year Plan Period

Year	Miles of Local Roads Repaired	Miles of Local Roads Preserved	Miles of Collector & Arterial Roads Repaired	Miles of Collector & Arterial Roads Preserved
1	73.6	66.2	24.1	31.6
2	89.4	21.2	31.9	10.3
3	81.9	0	53.2	0
4	103.4	0.2	51.8	0
5	109.8	73.6	58.9	24.1
6	112.3	89.4	67.0	31.9
7	107.7	59.9	85.5	42.7
8	103.8	67.4	56.7	42.4
9	92.5	256.6	54.9	110.3
10	84.8	102.2	71.1	37.8
TOTAL*	959.2	736.7	555.1	331.1

* Totals from Table 1 result in a 1.1 mile difference from totals in Table 2 due to rounding differences.

IV. Cost Estimates

The total cost over 10 years to bring the unincorporated Pima County roadways that are in poor and failing condition into at least a fair condition is estimated at \$372 million, including inflation¹. The total cost to preserve roads that are in fair and good condition over this 10 year time period, is estimated at \$155 million, also including inflation. Table 3 shows these cost estimates on an annual basis over the 10 year plan.

Note that the cost estimates in Table 3 do not include the financing costs, including issuance and interest costs, associated with Certificates of Participation (COPs) or revenue obligations, that will be necessary to enable the County to expend the revenues that otherwise would exceed the annual expenditure limitations for the County.

Table 3 assumes that the annual cost today to preserve all Pima County maintained roadways, if all roads were in fair to good condition, is estimated at \$27 million a year. Currently only 30 percent of the roads are in fair or good condition, and therefore the cost estimate assumes 30 percent of \$27 million for year 1. Table 4 shows the percent that was used for each year to arrive at the pavement preservation cost.

¹ Road repair and pavement preservation costs indexed for inflation by Chained Price Index for State & Local Investment in Highways and Streets” reported by the U.S. Bureau of Economic Analysis.

**Table 3
Cost Estimates**

Year	Road Repair Cost Estimates For Road in Poor & Failing Condition	Pavement Preservation Cost Estimates for Roads in Fair & Good Condition	Total*
1	\$ 26,139,531	\$ 8,100,000	\$ 34,239,531
2	\$ 32,972,159	\$ 8,299,623	\$ 41,271,782
3	\$ 28,156,038	\$ 10,130,379	\$ 38,286,416
4	\$ 30,447,359	\$ 12,056,794	\$ 42,504,154
5	\$ 37,625,762	\$ 14,021,012	\$ 51,646,774
6	\$ 39,865,516	\$ 16,049,432	\$ 55,914,948
7	\$ 43,072,879	\$ 18,175,083	\$ 61,247,962
8	\$ 44,140,462	\$ 20,381,489	\$ 64,521,951
9	\$ 44,102,717	\$ 22,657,482	\$ 66,760,199
10	\$ 45,628,550	\$ 25,009,657	\$ 70,638,208
Total	\$ 372,150,974	\$ 154,880,952	\$ 527,031,926

*Does not yet include financing cost associated with issuance of COPs or revenue obligations

**Table 4
Pavement Preservation Cost Estimates for Roads in Fair and Good Condition**

Year	Annual Cost Estimate for Full Pavement Preservation if All Roads in Fair to Good Condition	% Preservation allocation	Inflation rate	Pavement Preservation Cost Estimates for Roads in Fair & Good Condition
1	\$ 27,000,000	30%	0.00%	\$ 8,100,000
2	\$ 27,000,000	30%	2.46%	\$ 8,299,623
3	\$ 27,000,000	36%	4.71%	\$ 10,130,379
4	\$ 27,000,000	42%	7.17%	\$ 12,056,794
5	\$ 27,000,000	48%	9.33%	\$ 14,021,012
6	\$ 27,000,000	53%	11.45%	\$ 16,049,432
7	\$ 27,000,000	59%	13.77%	\$ 18,175,083
8	\$ 27,000,000	65%	16.13%	\$ 20,381,489
9	\$ 27,000,000	71%	18.47%	\$ 22,657,482
10	\$ 27,000,000	77%	20.82%	\$ 25,009,657
TOTAL				\$ 154,880,952

V. Funding Sources

Funding sources for this 10-year plan include:

1. Revenue from a possible County Sales Tax, to be allocated per the Pima County General Sales Tax Implementation Plan Ordinance;
2. HURF revenues, including additional HURF revenues that become available as HURF bond debt decreased, additional HURF revenues based on three percent growth annually in HURF revenues, and \$16 million in unallocated HURF bond authorization from the 1997 HURF bond program (contingent upon approval of a bond ordinance amendment by the Bond Advisory Committee and Board reallocating these bonds to road repair).
3. Department of Transportation operational savings overtime, based on a December 28, 2017 plan.

Table 5 shows the allocation of revenue from a possible County Sales Tax for unincorporated Pima County Roads, according to the draft Pima County Sales Tax Implementation Plan Ordinance. The draft ordinance includes allocations for road repair for 10 years. After that, no County Sales Tax revenue is proposed for road repair and instead 100 percent of the revenue shifts to property tax reduction. The draft ordinance also specifies how the County Sales Tax road repair allocations will be distributed to unincorporated Pima County versus municipalities, based on U.S. Census Bureau population estimates for July 1, 2016, to be updated after the 2020 population count is made available. As of July 1, 2016, the estimate for Pima County’s unincorporated population accounts for 35.8 percent of the total County population estimate.

**Table 5
County Sales Tax Revenue Allocated to Unincorporated Pima County Roads Per
Draft Pima County Sales Tax Implementation Plan Ordinance**

Year	Estimated Sales Tax Revenue Collections	% Sales Tax Revenue Allocated to Road Repair	Estimated Sales Tax Revenue Allocated to Road Repair Regionally	% Sales Tax Revenue Allocated to Unincorporated Pima Co Roads Based on % Population July 1, 2016	Estimated Sales Tax Revenue Allocated to Unincorporated Pima Co Roads Based on % Population July 1, 2016
1	\$ 67,736,457	100.0%	\$ 67,736,457	35.8%	\$ 24,249,652
2	\$ 78,543,338	97.5%	\$ 76,579,755	35.8%	\$ 27,415,552
3	\$ 82,258,993	95.0%	\$ 78,146,043	35.8%	\$ 27,976,284
4	\$ 85,054,410	92.5%	\$ 78,675,329	35.8%	\$ 28,165,768
5	\$ 88,106,205	90.0%	\$ 79,295,585	35.8%	\$ 28,387,819
6	\$ 91,189,922	87.5%	\$ 79,791,182	35.8%	\$ 28,565,243
7	\$ 94,290,379	85.0%	\$ 80,146,822	35.8%	\$ 28,692,562
8	\$ 97,307,671	82.5%	\$ 80,278,829	35.8%	\$ 28,739,821
9	\$ 100,129,593	80.0%	\$ 80,103,674	35.8%	\$ 28,677,115
10	\$ 103,033,351	77.5%	\$ 79,850,847	35.8%	\$ 28,586,603
TOTAL	\$ 887,650,319		\$ 780,604,523		\$ 279,456,419

Table 6 includes estimates for each of funding sources for the 10-year Plan.

**Table 6
Funding Sources for 10-Year Plan**

Year	Estimated Sales Tax Revenue Allocated to Unincorporated Pima Co. Roads	Additional HURF from Debt Decreases	Additional HURF from Increased Revenues	1997 HURF Bond Allocation	Department of Transportation Operational Savings	Total
1	\$ 4,249,652	\$ 176,416	\$ 1,813,463	\$ 8,000,000	\$ -	\$ 34,239,531
2	\$ 27,415,552	\$ 174,900	\$ 3,681,330	\$ 8,000,000	\$ 2,000,000	\$ 41,271,782
3	\$ 27,976,284	\$ 704,900	\$ 5,605,233		\$ 4,000,000	\$ 38,286,416
4	\$ 28,165,768	\$ 751,533	\$ 7,586,853		\$ 6,000,000	\$ 42,504,154
5	\$ 28,387,819	\$ 5,631,033	\$ 9,627,922		\$ 8,000,000	\$ 51,646,774
6	\$ 28,565,243	\$ 5,619,483	\$ 11,730,222		\$ 10,000,000	\$ 55,914,948
7	\$ 28,692,562	\$ 8,659,808	\$ 13,895,592		\$ 10,000,000	\$ 61,247,962
8	\$ 28,739,821	\$ 8,656,208	\$ 16,125,923		\$ 11,000,000	\$ 64,521,951
9	\$ 28,677,115	\$ 8,659,921	\$ 18,423,163		\$ 11,000,000	\$ 66,760,199
10	\$ 28,586,603	\$ 10,262,283	\$ 20,789,321		\$ 11,000,000	\$ 70,638,208
TOTAL	\$ 279,456,419	\$ 49,296,485	\$ 109,279,022	\$ 16,000,000	\$ 73,000,000	\$ 527,031,926

VI. Eligible Expenses

Expenses associated with management, design and delivery of work conforming to the definitions contained in this Plan, and costs associated with financing, are eligible expenses under this Plan. However, County Sales Tax revenue will only be used for construction costs related to preservation and repair, as well as financing costs.

VII. Role of the Pima County Transportation Advisory Committee (TAC)

- A. Review and recommend annual road repair and pavement preservation schedule and treatments for unincorporated Pima County to the Board of Supervisors**
- B. Review annual reports**

Pima County will provide annual reports to the TAC, by September 1, identifying how the County sales tax revenues, in particular, were spent for the prior Fiscal Year. The TAC will review these reports to ensure conformance to plan requirements, including eligible costs. Items not conforming to the program requirements and eligible costs will be reported to the County Administrator and Board of Supervisors for review and possible action.

VIII. Communicate Status of the Program to the Public

For unincorporated Pima County roadways, the Department of Transportation will create and maintain a webpage that shows the schedule and treatment type for repairing and preserving every paved Pima County-maintained roadway in unincorporated Pima County.

IX. Annual Reporting and Program Evaluation

It will be the responsibility of the Pima County Department of Transportation to provide documentation detailing work conducted in the prior fiscal year by September 1 of each year. The report will contain sufficient detail to allow for full auditing against plan criteria and eligible costs, compare progress to baseline, and provide updated cost estimates and associated impact to schedule. Reports will be provided to the Transportation Advisory Committee for review and acceptance, and will then be transmitted to the Pima County Board of Supervisors and be posted on a dedicated County webpage for public viewing.

DRAFT

ATTACHMENT 3

Draft Pima County General Sales Tax Implementation Plan

ORDINANCE NO. 2018 - ____

**AN ORDINANCE OF THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA,
ADOPTING THE PIMA COUNTY GENERAL SALES TAX IMPLEMENTATION PLAN**

The Board of Supervisors of Pima County (the "Board") finds that:

- A. Pima County has authority, under A.R.S. § 42-6103, to adopt a general excise tax (the "County Sales Tax") by a unanimous vote of the Board.¹ The tax rate specified in the statute equates to one-half percent for most transactions and would apply to the same transactions subject to the State of Arizona's sales tax. It would apply to transactions within cities and towns as well as those in unincorporated areas of Pima County.
- B. The Board has, in recent public meetings, discussed the possibility of adopting such a County Sales Tax in order to provide additional funds for road repair, and in order to help reduce the primary property tax levy.
- C. Table 1 shows projected revenues from the County Sales Tax in Pima County, assuming the tax levy becomes effective July 1, 2018 and is levied for at least 15 Years.
- D. The Board wishes to enact a plan for use of the County Sales Tax revenues, subject to budgeting and appropriation laws, that would apply if and when the Board does in fact adopt a resolution levying the County Sales Tax. It is anticipated that the adopting resolution will require the tax revenue to be used for road repair and to cover expenses that would otherwise be funded by the primary-property-tax levy, and will provide for the tax to sunset under certain conditions.

¹ ARS 42-6103 County general excise tax; authority to levy; rate; distribution; use of proceeds

**Table 1
Estimated Half-cent County General Excise (Sales) Tax Revenues**

Year	Fiscal Year	Actual 12-Month RTA Excise Tax Revenue Adjusted For Classifications Not Subject To Half-Cent County General Excise Tax	Estimated Price Elasticity Effect On Demand Caused By Half-Cent Tax Rate Price Increase	Estimated Baseline Level Of County General Excise Tax Revenue Adjusted For Price Elasticity Effect	Annual Growth Rate For Half-Cent County General Excise Tax Revenues	Potential Full 12-Month Tax Revenue For Half-Cent County General Excise Tax	Discount Factor For Less Than 12 Months Revenue	Discount Factor Related To Pre-Existing Contracts Being Exempt From Half-Cent County General Excise Tax	Estimated Half-Cent County General Excise Tax Revenue Collected
0	2016/17	\$72,008,052	-0.463%	\$71,674,655					
0	2017/18				3.5%	\$74,183,268			
1	2018/19 (11 months)				3.6%	76,853,866	-8.100%	-4.095%	\$67,736,457
2	2019/20				3.6%	79,620,605	0.000%	-1.353%	78,543,338
3	2020/21				3.5%	82,407,326	0.000%	-0.180%	82,258,993
4	2021/22				3.3%	85,126,768	0.000%	-0.085%	85,054,410
5	2022/23				3.5%	88,106,205	0.000%	0.000%	88,106,205
6	2023/24				3.5%	91,189,922	0.000%	0.000%	91,189,922
7	2024/25				3.4%	94,290,379	0.000%	0.000%	94,290,379
8	2025/26				3.2%	97,307,671	0.000%	0.000%	97,307,671
9	2026/27				2.9%	100,129,593	0.000%	0.000%	100,129,593
10	2027/28				2.9%	103,033,351	0.000%	0.000%	103,033,351
11	2028/29				2.9%	106,021,318	0.000%	0.000%	106,021,318
12	2029/30				2.9%	109,095,936	0.000%	0.000%	109,095,936
13	2030/31				2.9%	112,259,718	0.000%	0.000%	112,259,718
14	2031/32				2.9%	115,515,250	0.000%	0.000%	115,515,250
15	2032/33				2.9%	118,865,192	0.000%	0.000%	118,865,192

Notes:

- 1/ Assumes current weighted average tax rate for combined state, RTA & municipal retail sales is 8.037%. Additional half-cent sales tax is equivalent to a price increase of 0.463%.
- 2/ Annual growth rates for half-cent County General Excise Tax assumed to be same as baseline forecast growth rates for RTA revenues as presented in University of Arizona Economic & Business Research Center's, "A Revenue Forecasting Model for the Pima RTA: Updated to 2016," February 15, 2017, page 22.
- 3/ County General Excise Tax effective from July 1, 2018, results in 11 months of accrued tax revenue for Fiscal Year 2018/19. Subsequent years are full 12 months of revenue.
- 4/ State statute exempts pre-existing contracts from any new or increased excise taxes. Discount factors shown in the table reflect impact of pre-existing contracts on revenues collected by the State's temporary 1% transaction privilege tax from June 1, 2010, through May 31, 2013.

BE IT ORDAINED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA:

Section 1. Effective Date

This Ordinance will become effective, subject to budgeting and appropriation laws, upon the Board's unanimous approval of a resolution adopting a County Sales Tax.

Section 2. Allocations per Year for Road Repair and Property Tax Reduction

The County Sales Tax revenues will be allocated over time for the purposes of repairing roads throughout the county and for the reduction of primary property taxes, according to the percentages set forth in Table 2, until the Board takes action to stop levying the tax.

**Table 2
Sales Tax Allocations for Road Repair and Property Tax Reduction**

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

Each year, the Board will include an estimate of the anticipated County Sales Tax revenue in the County's estimated revenues and expenses, as required by A.R.S. §§ 42-17101 and 42-17102. The amount to be allocated to property tax reduction, calculated by multiplying the estimated County Sales Tax revenue by the applicable percentage in Table 2, will reduce the total amount of the primary property tax levy. This determination will be made by the Board as part of the annual budget process.

Section 3. Revenue Funds

The Arizona Department of Revenue will collect the revenue and the State Treasurer will transmit the revenue to the Pima County Treasurer, as provided by A.R.S. § 42-6103. The Pima County Treasurer will deposit the revenues in two funds, according to the percentages shown in Table 2 of this ordinance: a dedicated fund for the revenues allocated to road repair, and the Pima County General Fund for the revenues allocated to property tax reduction.

Section 4. Distribution of Road Repair Sales Tax Revenues Between Municipalities and Pima County

The County will share the County sales tax revenues allocated to road repair with its incorporated cities and towns ("municipalities"). Distributions will be based on the U.S. Census Bureau population estimates for July 1, 2016 for Fiscal Years 2018/19, 2019/20, and 2020/21. The April 1, 2020 U.S. Census Bureau population count should be available in time to use for the Fiscal Year 2021/22 and will continue to be the basis for sales tax distributions to cities, towns and unincorporated Pima County through the end of Fiscal Year 2027/28.

Pima County will enter into intergovernmental agreements with the municipalities, which will memorialize expectations and commitments for eligible expenses, annual budgeting, transfer of funds, reporting and auditing. Each participating jurisdiction shall be responsible for contracting or performing work within their jurisdictional boundaries. Each participating jurisdiction will be required annually to report updated roadway condition ratings to the Pima Association of Governments (PAG). PAG will then have the ability to maintain a regional inventory of roadway conditions, such that the general conditions of roadways across Pima County and the associated costs to repair such roadways can be communicated effectively for the region as a whole.

Exhibit A includes a 10-year plan for expending the estimated sales tax revenues allocated for road repair within unincorporated Pima County. This plan will be updated by the County's Department of Transportation as needed to account for revised revenue estimates and changing road conditions.

Section 5. Reporting and Auditing

The County Administrator shall prepare an annual report showing the sales tax revenues allocated to property tax reduction and road repair. The report will also include updated projections for sales tax revenues and whether those projections will require modification of the road repair plan. The report will be transmitted to the Transportation Advisory Committee and Board, and will also be posted on the Pima County website. This report will be in addition to regular reporting on implementation of the 10-year Pima County Road Repair Plan.

The County shall properly report all sales tax revenue, spending, cash balances, and any related debt activity in the County's financial statements that are audited annually by the Arizona Auditor General's Office. Additionally, the County shall report all sales tax revenue, spending, cash balances, and any related debt activity in a separate annual financial schedules. The County shall annually cause an independent certified public accountant to review the schedules and attest to the fair presentation of each annual schedule and Pima County's compliance with this ordinance.