May 7, 2013

Transportation Funding Report

Executive Summary

Background

The American Society of Civil Engineers (ASCE) recently released its 2013 report card of the current state of America's infrastructure. This report indicates significant poor grades for most of our nation's infrastructure, including roads. Roads received an overall "D rating;" generally inadequate and requiring a significant investment.

Fifty-two percent of Arizona roads were rated in poor to mediocre condition, and driving on these poor roads costs Arizona motorists almost $887 million per year in vehicle repair and operating costs. In Pima County, this equates to $143 million based on the number of licensed motorists.

In Arizona, transportation systems; primarily highways and their construction, operation and maintenance; are funded through state-shared revenues known as Highway User Revenue Funds (HURF). HURF are a combination of transportation-related taxes, the largest single component being the gasoline tax, which is currently 19 cents per gallon (including a one-cent tax for environmental remediation of underground storage tanks). The gasoline tax has not increased since 1991. By comparison, the average tax of surrounding states is 29.7 cents per gallon.

During this 22-year period when gas taxes have not been increased, the Consumer Price Index has increased from 136 to 232, or 71 percent. More importantly, the index that actually reflects transportation-related costs, the Construction Cost Index, increased from 4,835 to 9,453, or 96 percent. Hence, the same dollar of HURF in 1991 can now only purchase 51 cents worth of highway improvements.

Transportation Revenue Trends

HURF revenues increased steadily through Fiscal Year FY 2006/07, and nothing in the forecast of future HURF would have predicted the present decline in HURF that is the result of a number of factors. HURF revenues for the Pima County Department of Transportation for road repair and maintenance are now lower than they were 13 years ago. Revenue bonds are unique in that they can only be issued based on the strength of future revenues. The decline in HURF growth, as well as the fund losses associated with legislative sweeps, has made the issuance of future HURF bonds very problematic.

The significant decline in HURF from FY 2007/08 through FY 2011/12 is due to a variety of factors. First, the decline of the national economy in the current Great Recession has stalled economic activity, such as the use of transportation systems and the purchase of fuel (generation of gasoline tax), the primary source of revenue for the HURF.

The very rapid rise in the price of fuel over time has also tempered the purchase and use of gasoline. Over the eight-year period from 2005 to today, the per-gallon price of fuel has nearly doubled.

Third, in response to the rapid rise in fuel cost, vehicle fleet efficiency has increased significantly over the last 10 years. The average new light vehicle fleet fuel efficiency over this period has increased from 19.84 miles per gallon to 23.64 miles per gallon, an increase of 20 percent. This means that 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.

Another significant factor in the decline of County HURF revenues in the past few years has been the legislative sweeps of funding where the State of Arizona, to balance their budget, diverted funds from HURF to pay for expenses that normally would have been paid through the State's General Fund. These legislative sweeps have been devastating to local governments' ability to adequately maintain their streets and highways. In Pima County, these legislative sweeps have resulted in an aggregate loss of $37.9 million for highway maintenance and repair.

Transportation Impact Fees

The County adopted transportation impact fees (TIFs) in 1997. Overall, TIFs have raised $109,463,840 through FY 2011/12 for transportation investments in the unincorporated area of Pima County. State law prohibits the use of TIFs on any highway improvements other than capacity improvements, and the roadway must be located in the unincorporated area of Pima County. TIFs have been used productively to augment transportation capacity improvements throughout Pima County; in total, $71,150,070 million have been spent through FY 2011/12.

The methodology for levying and collecting TIFs is highly restricted by state legislation and requires the fees to be deposited in accounts identified for very specific geographic benefit areas in the unincorporated area of Pima County and then allocated only to projects that improve capacity and are approved by the Board of Supervisors. By law, TIFs cannot be spent to repave, resurface or perform pavement preservation on any local street or highway, including arterials, within Pima County.

Insufficient Transportation Funding is Widespread

Transportation funding challenges are not unique to our region. The Maricopa Association of Governments' (MAG) March 29, 2013 Regional Transportation Plan Update cites the same factors adversely impacting revenue that are discussed in the accompanying report and also notes the increased conversion to alternative fuel sources such as electricity and compressed natural gas. The ASCE and MAG reports both indicate many other states face similar funding challenges and are implementing new strategies to increase funding, including increased per-gallon gas taxes and other changes in the calculation of fuel-related fees.

The future of financing the construction, operation and maintenance of transportation systems needs substantial review at the national, state and local levels. New transportation financing strategies must be developed for surface transportation, including highways; air transportation; transit systems; freight and rapid passenger rail systems. While reinventing our transportation financing system is beyond the scope of the attached report, it is very important to recognize that many of our transportation problems, whether due to a of lack of funding for adequate road maintenance; an inability to expand or develop new highway systems; or to provide rapid rail passenger transport, are all tied to a dysfunctional financing support system for this infrastructure component that is essential for economic growth and vitality. A solution to this problem must be the goal of every level of government and will require an unparalleled level of cooperation between governments in the future.

The cost to improve those roads that are rated Failed, Poor or Fair in the aggregate within the unincorporated area of Pima County requires a future investment of $268 million. This is a considerable investment and can only be made over a period of time.

Recommendations

There is no single recommendation that will significantly resolve our existing highway maintenance investment dilemma. We need to focus on the problem using multiple strategies and continue to stress the need for long-term, stable and consistent funding for transportation. This is not a problem unique to Pima County; it is a problem for every local government within our region. Some local government transportation problems are more acute than others and vary directly in proportion to the age of their transportation infrastructure.

The recommendations below, which are discussed more fully in the attached report, are intended to attempt to manage the problem, not solve it. Only comprehensive transportation funding reform will solve the problem.

- Continue the $5 million annual allocation from the General Fund to the Department of Transportation for road maintenance.

- Continue to request that the State Legislature partially or fully return HURF revenues swept since 2002.

- Ask the Arizona Legislature to pass legislation to maintain the one-cent per gallon tax previously earmarked for leaking underground fuel tank remediation and provide the annual revenue from this tax to the state, cities, towns and counties for pavement improvement programs.

- Request that the Arizona Legislature increase the state gas tax by 10 cents to coincide with the 29.7-cents per gallon average gas tax of surrounding states.

- Consider in any new funding initiative, such as renewal of the Regional Transportation Authority tax, a significant allocation of new revenues toward pavement preservation and repair.

- Consider any of the funding options provided to the Board in my April 10, 2012 transportation report.

CHH/mjk

Attachment