

Surface Transportation
Funding Task Force
Final Report
December 31, 2016

Recommendations to the Legislature for:

- Dedicated funding sources for Arizona's principal interstate highways;
- Dedicated incremental funding sources for HURF;
- Dedicated funding sources for highway patrol;
- Dedicated funding options for regional state highway system needs; and
- Dedicated funding options for local city, town and county roads and streets.

Membership

- John Ragan, Chairman
- Alan Maguire
- Kevin McCarthy
- Grant Nülle
- Julie Pastrick
- Jim Rounds, Vice-Chairman
- Mary Peters
- Michael Tully
- David Williams

Process

- Seven meetings at the State Senate
- September through December, 2016
- Studied individual committee charge components
- Presentations from government and business around the state
- Two final meetings to discuss and adopt recommendations

Limitations

- Policy implications
- Requested time frame
- General recommendations
- Not endorsing tax proposals

Guiding Principles

Adopted Recommendations

Guiding Principles

- Transportation infrastructure funding, or related services funding, should have a reasonable nexus with the group served by the infrastructure or services.
- All else equal, new tax options should be as simple as deemed reasonable.
- Any new considered taxes should be distributed over a wide range of beneficiaries, if possible, and not heavily weighted toward a small group of beneficiaries.
- Tax options should be designed to minimize economic distortions, including those related to significantly changing people's behavior, unless that is a clearly stated goal.
- New taxes to pay for transportation-related expenses should be developed in consideration of current taxes that are already being efficiently used for local or regional transportation purposes.

Guiding Principles

- Consideration for proposals should take into account both the ease of administering the tax, fee or program, and the probability for evasion or fraud.
- New tax proposals should ensure equitable burden and effort across the entire state.
- The state should continue to expand considerations of public-private-partnerships as potential financing mechanisms and the potential for delivering major transportation projects more cost efficiently and effectively.
- Tax options should anticipate major changes in economic behavior that may render certain tax structures obsolete. Accordingly, proposed tax options should be relevant to where the economy is heading, not where it has been.

Statement of Limitations

Adopted Recommendations

Statement of Limitations

"The duty of the Task Force was to make recommendations to the Legislature on five defined areas of surface transportation. This substantial and complex assignment, accompanied by a myriad of policy implications, has been accomplished within the requested short timeframe.

The included recommendations are intended to provide broad, general guidance to policymakers. The recommendations reflect discussions and testimony from Task Force meetings, including a mixture of taxes and fees that could be used to meet each of the five transportation need categories. The Task Force is not recommending any tax or fee increases. That decision rests with policymakers and elected officials..."

Statement of Limitations

“...This report reflects the Task Force’s general recommendations to policymakers of how tax and fees might best be increased, if the decision is made, by policymakers, to raise taxes and fees in order to meet any or all of the categories of need identified in the authorizing legislation.

Given the short timeframe of the Task Force, the recommendations have not been researched, vetted or validated to the level or degree that we, as members of the Task Force, would typically undertake in each of our own professional capacities. Consequently, we urge policymakers to complete a more rigorous analysis of any proposal to raise taxes or fees.”

Revenue Structure

Adopted Recommendations

Principal Interstate Highways

A dedicated fund for Arizona's principal interstate highways sufficient to meet projected interstate freight capacity needs for 20 years, consisting of monies derived from the following:

- Increase and index, or further adjust the motor fuel and use fuel tax, in order to reflect changes in fuel efficiency and purchase power of monies collected, at a rate to produce approximately \$10 billion over 20 years. An increase in both fuel taxes of approximately 16¢, phased in at 2¢ per year each year from 2020 through 2027 and indexed to increase at the rate of the gross national product implicit price deflator is projected to generate between \$9.9 billion and \$12.4 billion over 20 years.
- Additional annual registration fee on alternative-fuel vehicles at an amount equivalent to the estimated annual motor fuel tax paid on gasoline-powered vehicles.
- Impose a new sales tax on the sale of motor fuel and use fuel at a rate estimated to produce approximately \$10 billion over 20 years. A Transaction Privilege Tax on all fuel, based on the price including federal and state fuel taxes of approximately 5% beginning in 2020 is projected to generate between \$10.1 billion and \$12.6 billion over 20 years.

Highway User Revenue Fund (HURF)

A dedicated fund for HURF consisting of monies derived from the following:

- Increase and index, or further adjust the motor fuel and use fuel tax, in order to reflect changes in fuel efficiency and purchase power of monies collected, at a rate to produce approximately \$13 billion over 20 years. An increase in both fuel taxes of approximately 20¢, phased in at 2¢ per year each year from 2020 through 2029 and indexed to increase at the rate of the Gross National Product Implicit Price Deflator is projected to generate between \$11.2 billion and \$14 billion over 20 years.
- Additional annual registration fee on alternative-fuel vehicles at an amount equivalent to the estimated annual motor fuel tax paid on gasoline-powered vehicles.
- Impose a new sales tax on the sale of motor fuel and use fuel at a rate estimated to produce approximately \$13 billion over 20 years. A Transaction Privilege Tax on all fuel, based on the price including federal and state fuel taxes of approximately 6% beginning in 2020 is projected to generate between \$12.1 billion and \$15.2 billion over 20 years.
- Increases to the license, registration and other fees at rates estimated to produce approximately \$13 billion over 20 years. An increase in the both the vehicle registration fee and the title fee of approximately \$100 beginning in 2020 is projected to generate between \$12.2 billion and \$15.1 billion over 20 years.

Highway Patrol Costs

- Increase the VLT at a rate sufficient to meet the projected annual budget for the highway patrol function within the Arizona Department of Public Safety. An increase in the vehicle license tax of approximately 15% beginning in 2020 (subject to annual adjustment) is projected to generate between \$111 million and \$139 million per year in 2020.

Other Considerations

- The Legislature should continue to perform more rigorous analysis of all options listed and other dedicated funding sources that may be used for surface transportation funding needs for 20 years.
- ADOT should continue to monitor any VMT pilot programs relating to passenger vehicles occurring in any other states and any relevant research and technological advancements.
- Counties and/or Regional Transportation Authorities, as appropriate, should be provided additional local options to fund local transportation projects.
- ADOT, in conjunction with appropriate law enforcement agencies, should examine the safety and law enforcements considerations of the possible issuance of second license plates, the schedule for replacing existing license plates and related issues.
- The existing reduced VLT for alternative-fuel vehicles and other fee reductions should be reviewed.
- Existing taxes on gasoline and use fuels should be proportionately extended to include Compressed Natural Gas and Liquefied Natural Gas vehicles.

Regional and Local Needs

- The Task Force did not adopt recommendations to address these areas.
- Increased funding through HURF may be sufficient to meet regional state highway system and local street needs.

John Ragan, Chairman

Surface Transportation Funding Task Force