

Highway User Revenue Fund

**Fiscal Year 2004
Year- End Report**



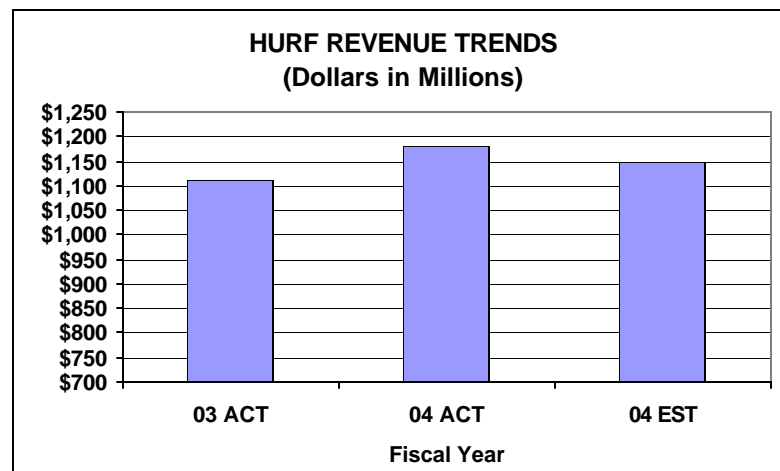
**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2004**

Highway User Revenue Fund

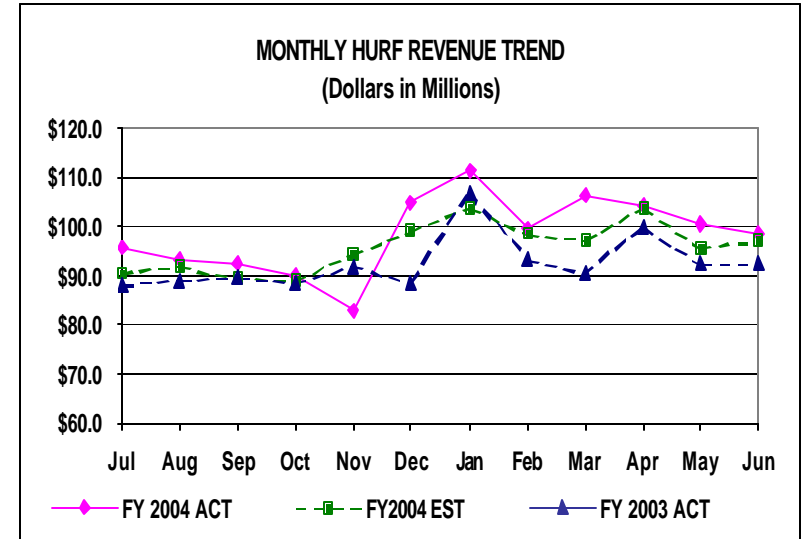
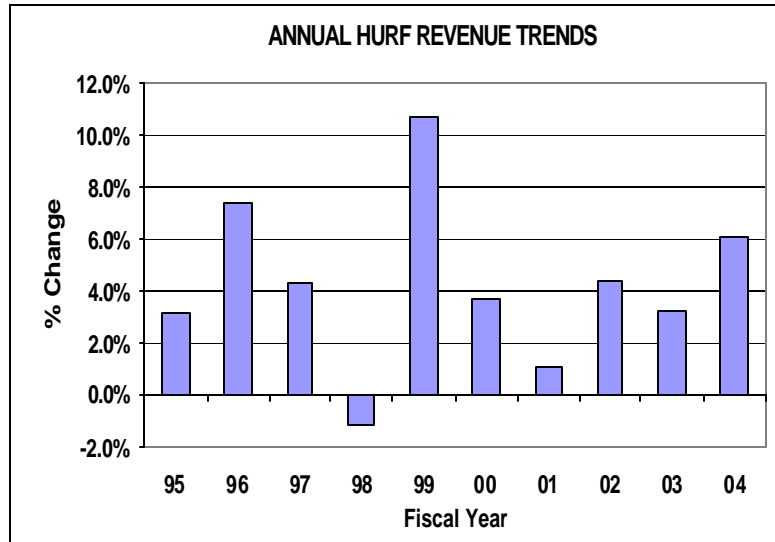
Executive Summary

The State of Arizona taxes motor fuels and collects fees relating to the registration and operation of motor vehicles, including gasoline and use fuel taxes, motor carrier fees, motor vehicle registration fees, vehicle license taxes (VLT), and other miscellaneous fees. Revenues are deposited in the Arizona Highway User Revenue Fund (HURF) and are then distributed to the cities, towns and counties and to the State Highway Fund. These taxes and fees are a major source of revenue to the state for highway construction, improvements and other related expenditures.

HURF collections in FY 2004 recorded the highest year-over-year growth since FY 1999 due mainly to the improved state and national economies and population growth. HURF collections amounted to \$1,179.6 million, an increase of 6.1 percent over FY 2003 and 2.6 percent above the estimate. The growth in collections was broad based with all major revenue categories posting gains over FY 2003 revenue levels. The gas tax, VLT and use fuel tax revenue categories provided the strength for the year.



Revenue Trend Analysis



HURF collections over the last ten years have posted year-over-year growth in every year except FY 1998. FY 2004 HURF revenues benefited from an improved job market, population growth and a stronger trucking industry despite higher fuel prices.

FY 2004 HURF revenue growth was steady throughout the year with unexpected fluctuations in November through January due to late fuel report filings by several suppliers. HURF revenues finished the year 2.6 percent or \$29.7 million above the forecast.

Performance By Category

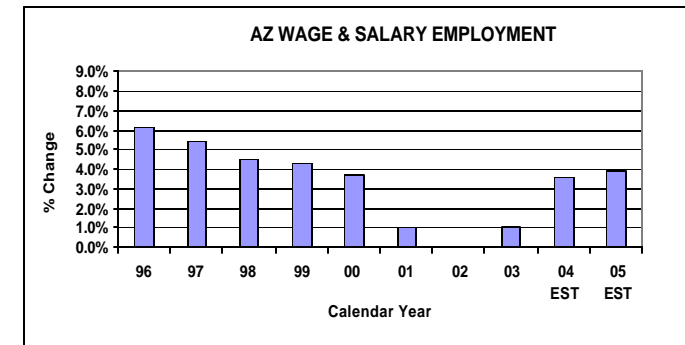
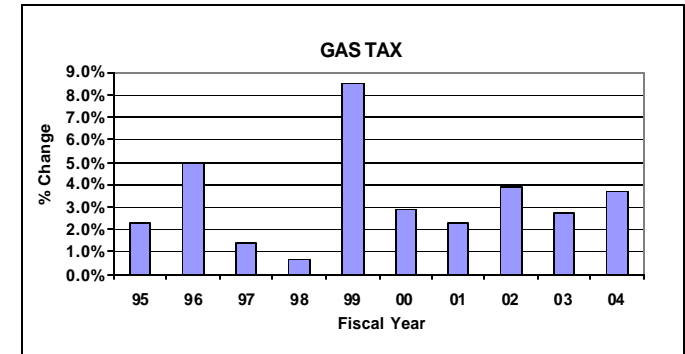
Gas Tax:

Gas tax revenue totaled \$463.5 million in FY 2004, an increase of 3.7 percent above FY 2003 and 0.8 percent above the estimate. The gas tax revenue category continued to be the largest component of HURF revenues, contributing 39.3 percent. The gas tax revenue growth in FY 2004 was attributable to the increase in the population which tends to follow job growth.

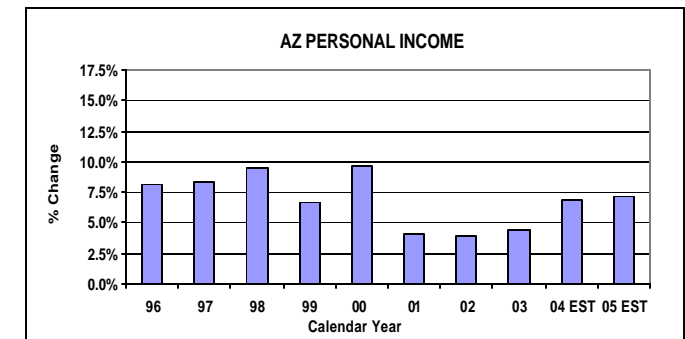
Gas tax revenue was not impacted by the August 2003 temporary fuel shortage in Maricopa County or the sharp increase in fuel costs in the spring of 2004. Past studies have concluded that the price of gas is relatively inelastic.

The June 2004 Arizona Blue Chip Forecast reports the wage and salary employment growth rate improved slightly from no growth in CY 2002 to 1.1 percent in CY 2003. For CY 2004 and CY 2005, the Arizona Blue Chip economists expect Arizona's economy to rebound with stronger job growth. The consensus panel estimates for CY 2004 and CY 2005 are 3.6 and 3.9 percent, respectively.

After three years of subpar growth, Arizona personal income is expected to return to near average growth. In the June 2004 Arizona Blue Chip report, the consensus panel estimates Arizona personal income growth for CY 2004 and CY 2005 of 6.9 and 7.2 percent, respectively

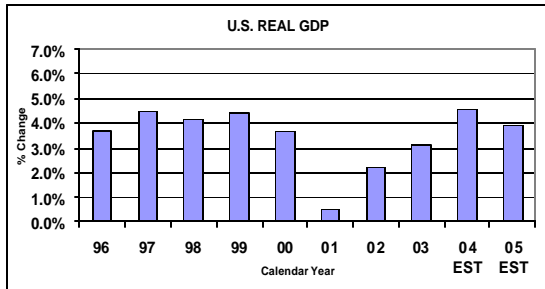
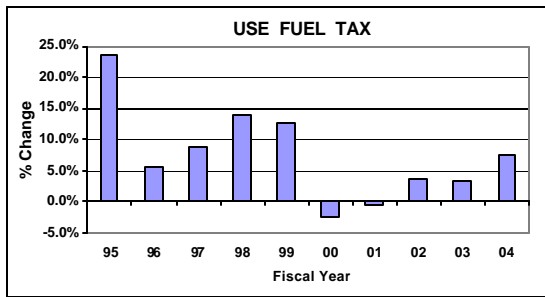


Source: Arizona Blue Chip Forecast, 6/04

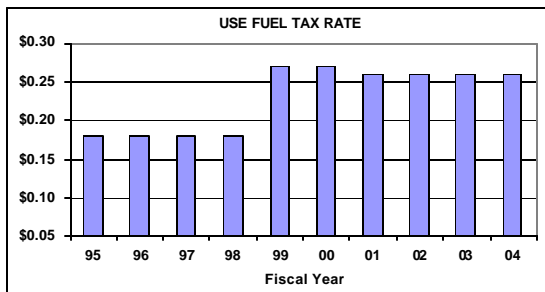
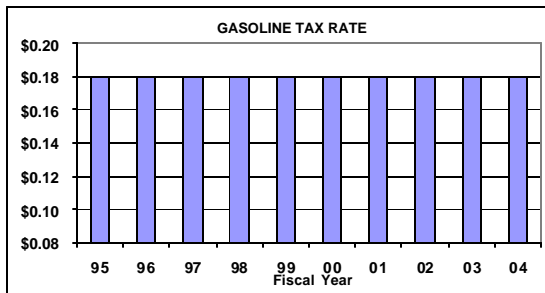


Source: Arizona Blue Chip Forecast, 6/04

USE FUEL TAX:



Source: Bureau of Economic Analysis and Global Insight, July 2004



FY 2004 use fuel tax collections reached \$179.0 million, an increase of 7.4 percent over FY 2003 and 4.1 percent above the estimate. This represents the strongest year-over-year growth since FY 1999. The improvement in the national economy and the trucking industry's increased market share for goods movement fueled the strong use fuel tax growth in FY 2004. The studies that found the price of gas as relatively inelastic also found that the price of use fuel (diesel) is somewhat elastic. As the price of use fuel increases demand tends to decrease. However, the trucking industry is very competitive and continues to modernize its fleet and monitor speed to lower fuel usage.

Business activity in Arizona is expected to improve in CY 2004 and CY 2005 based on national economic activity. An indicator for business activities on the national level is the gross domestic product (GDP). The U. S. GDP for CY 2003 grew by 3.1 percent compared to 2.2 percent in CY 2002. For CY 2004 and CY 2005, the July 2004 issue of Global Insight predicts the U.S. real GDP will grow at 4.6 and 3.9 percent, respectively.

GASOLINE TAX RATE:

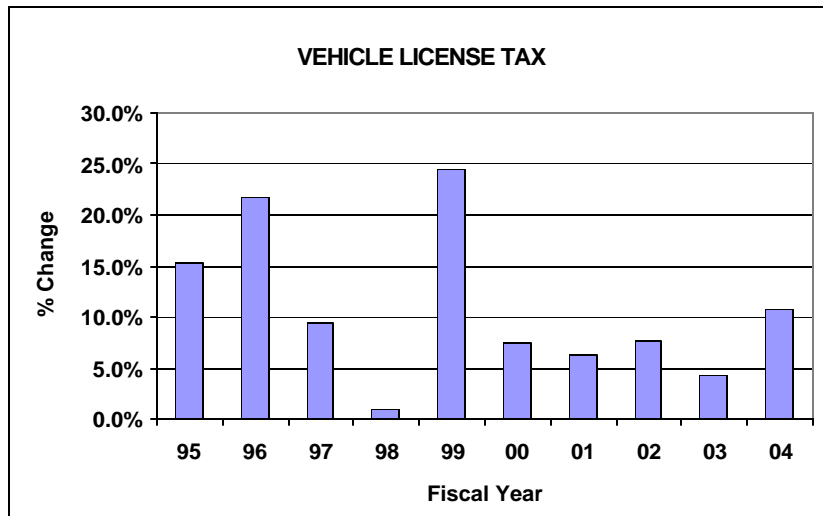
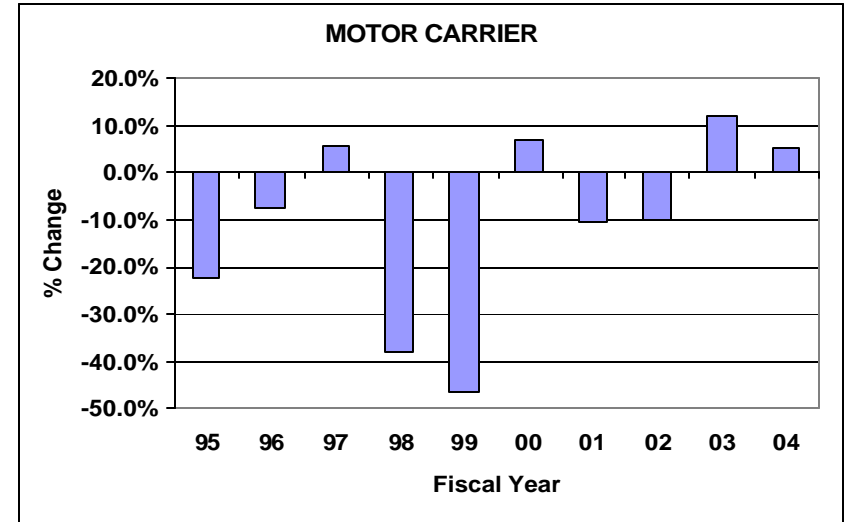
The gasoline tax rate chart on the left shows the state gasoline gas tax of \$0.18 per gallon. The last gasoline tax rate increase was \$0.01 in FY 91.

USE FUEL TAX RATE

Presently, the state use fuel tax rate is \$0.26. The large increase in FY 1999 includes a \$0.09 per gallon tax increase imposed on use fuel consumed by "use class" vehicles per Laws 1997, Chapter 8. This increase replaced the \$0.08 per gallon surcharge on use fuel from January 1, 1994 through September 30, 1997, which is not reflected in this chart. As of July 1, 2000, the use fuel tax rate was reduced from \$0.27 to \$0.26 per gallon as part of the 1997 legislation.

MOTOR CARRIER FEE:

Motor carrier fee revenues totaled \$34.6 million in FY 2004, an increase of 5.4 percent over FY 2003 and 3.6 percent above the estimate. The improved national economy has increased demand for the movement of goods which increased trucking activity in Arizona. The motor carrier fee, apportioned fees in the registration revenue category and use fuel tax are all related to the trucking industry.



VEHICLE LICENSE TAX:

FY 2004 VLT revenue amounted to \$312.3 million, an increase of 10.8 percent over FY 2003 and 4.6 percent above the estimate. This represents the strongest year-over-year growth since FY 1999. The growth was primarily attributable to a significant increase in registered vehicles (236,000) over FY 2003.

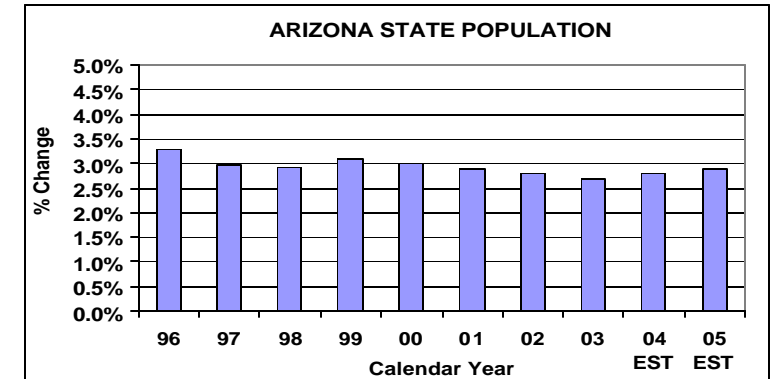
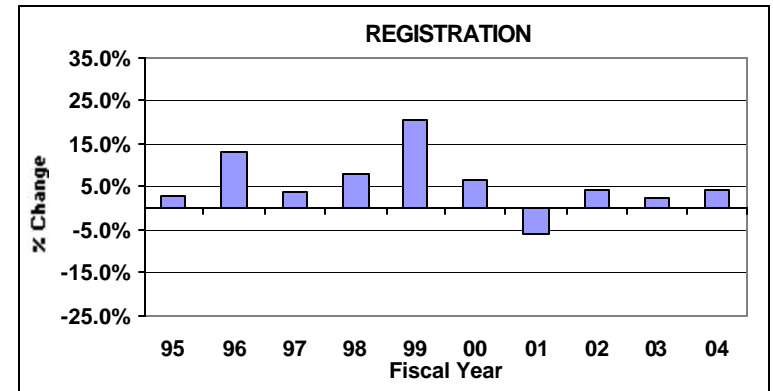
REGISTRATION:

Registration collections in FY 2004 totaled \$146.6 million, an increase of 3.8 percent over FY 2003 and 1.6 percent above the estimate. The majority of the growth occurred in the county registration category.

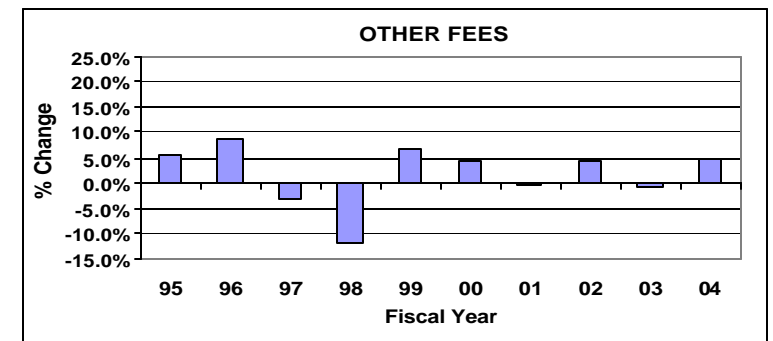
According to the June 2004 issue of the Arizona Blue Chip Forecast, Arizona's population grew to 5.6 million in CY 2003, an increase of 2.7 percent over CY 2002. With the rebound in the Arizona job market, the Arizona Blue Chip consensus panel estimates that Arizona's population growth will increase by 2.8 percent in CY 2004 and 2.9 percent in CY 2005. This growth amounts to approximately 160,000 new residents to Arizona each year which should lead to continued growth in county registration revenues.

OTHER FEES:

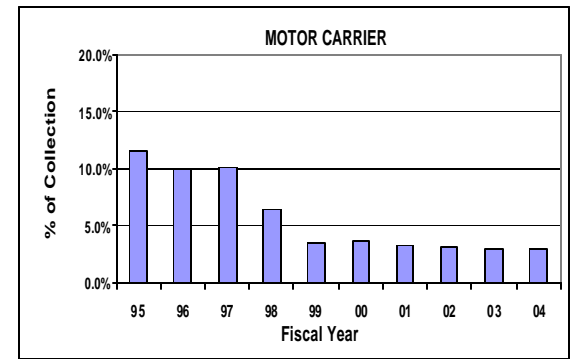
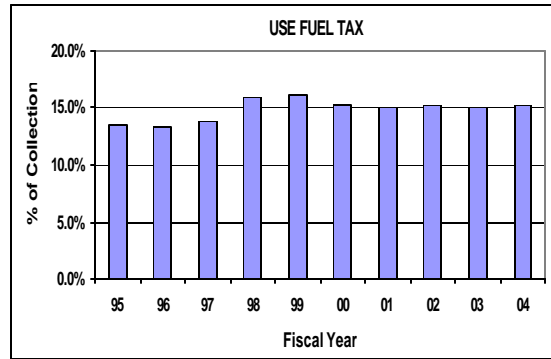
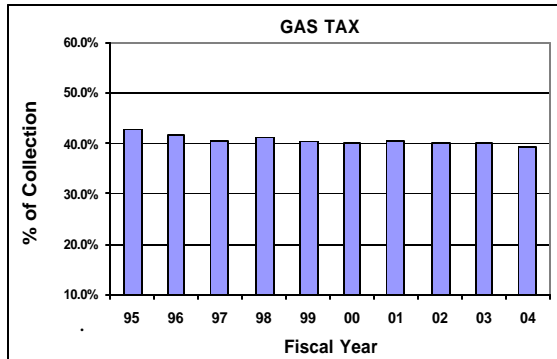
The "other fees" collections totaled \$43.5 million in FY 2004, an increase of 4.9 percent over FY 2003 and 3.8 percent above the estimate. The main contributors to the growth were operator licenses and miscellaneous fees. The growth was muted by the increase in credit card reimbursement payments and lower investment interest income.



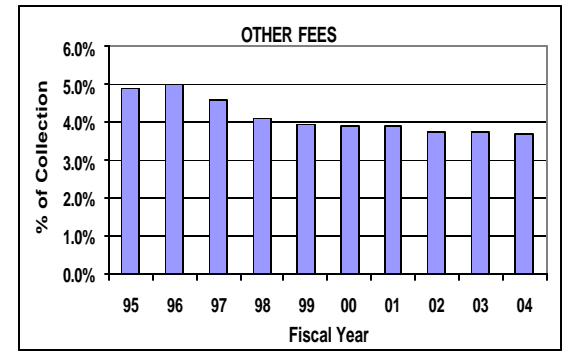
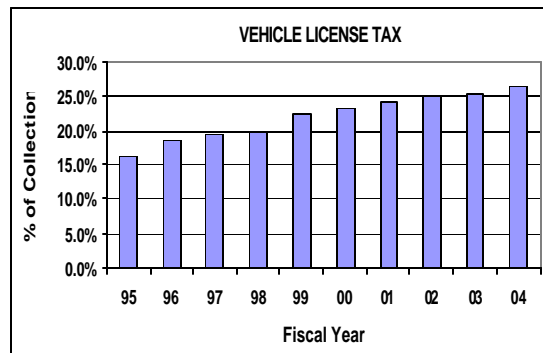
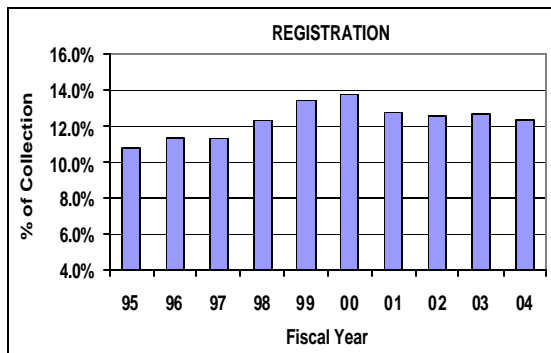
Source: Arizona Blue Chip, /6/04



Revenue Composition Comparison



The composition of HURF revenues has changed over the years with the VLT revenue category share increasing from 16.4 percent in FY 1995 to 26.5 percent in FY 2004. The decrease in the motor carrier fee revenue category was a result of 1997 legislation that repealed the weight distance tax and replaced it with higher weight based registration fees on commercial vehicles. The gas tax and use fuel tax revenue categories have held steady while the ‘other fees’ category has decreased due to credit card reimbursement payments to MVD third parties. The VLT revenue category benefits from being the only HURF revenue category that reflects inflationary trends over time.

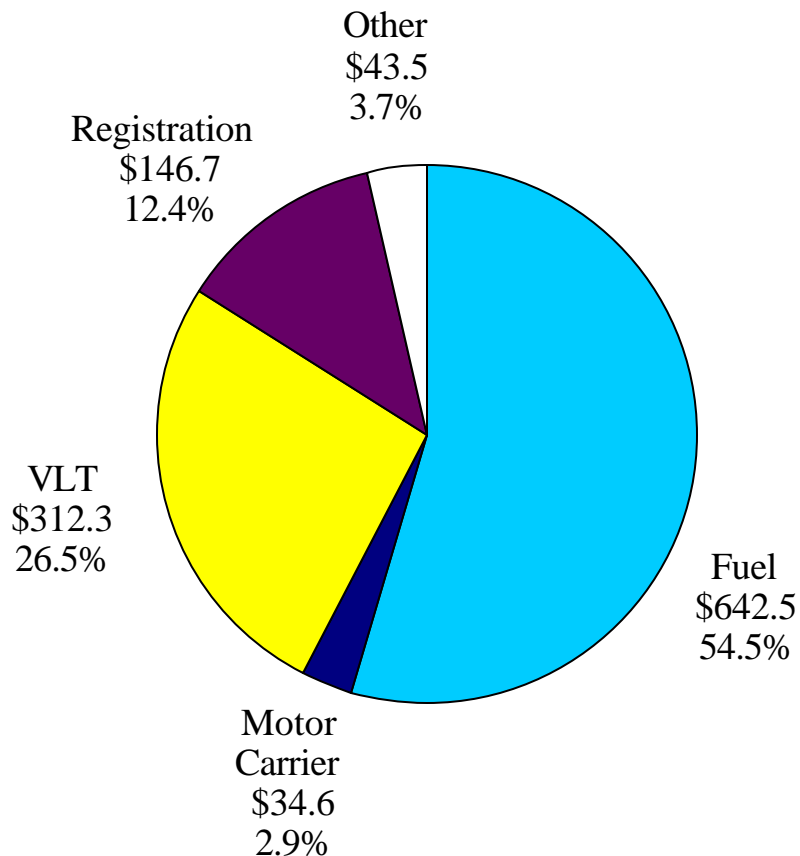


ARIZONA HIGHWAY USER REVENUE FUND SOURCES AND DISTRIBUTION OF FUNDS

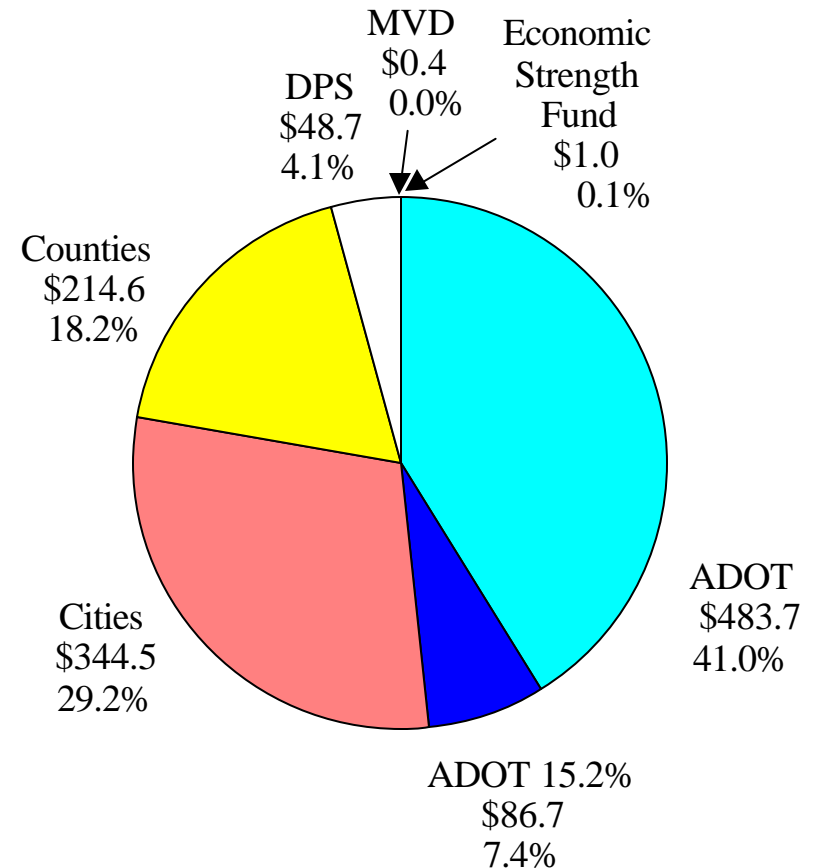
FY 2004

TOTAL: \$1,179.6 MILLION

SOURCES



DISTRIBUTION



NOTE: ADOT 15.2% represents ADOT's allocation of HURF for MAG and PAG regional projects.

Arizona Highway User Revenue Fund

Revenue Comparison Statement

CATEGORY	FY 2003 ACTUAL	FY 2004 ACTUAL	CHANGE	FY 2004 ESTIMATE	CHANGE
GAS TAX	\$446,890,929	\$463,530,904	3.7%	\$459,900,000	0.8%
USE FUEL TAX	166,744,147	179,002,025	7.4%	172,000,000	4.1%
SUBTOTAL	613,635,075	642,532,929	4.7%	631,900,000	1.7%
MOTOR CARRIER	32,856,325	34,617,452	5.4%	33,400,000	3.6%
VEHICLE LICENSE TAX	281,946,636	312,262,023	10.8%	298,400,000	4.6%
COUNTY REGISTRATION	65,477,153	69,480,934	6.1%	68,200,000	1.9%
APPORTIONED	62,905,766	63,610,312	1.1%	63,800,000	-0.3%
MISC. REGISTRATION	12,944,523	13,547,195	4.7%	12,300,000	10.1%
SUBTOTAL	141,327,442	146,638,442	3.8%	144,300,000	1.6%
TITLE FEES	7,377,605	7,855,777	6.5%	7,500,000	4.7%
OPERATOR LICENSES	14,507,205	16,069,252	10.8%	15,100,000	6.4%
OVERSIZE PERMITS	5,113,344	5,372,413	5.1%	5,100,000	5.3%
INQUIRY FEES	9,652,553	9,519,342	-1.4%	9,300,000	2.4%
STATION FUEL FEES	1,306,366	1,531,750	17.3%	1,600,000	-4.3%
INVESTMENT INTEREST	1,223,454	319,877	-73.9%	1,200,000	-73.3%
SPECIAL PLATES	5,096,074	5,582,631	9.5%	5,200,000	7.4%
CREDIT CARD FEES	(3,269,590)	(3,958,373)	21.1%	(3,700,000)	7.0%
MISCELLANEOUS FEES	483,301	1,217,365	151.9%	600,000	102.9%
SUBTOTAL	41,490,312	43,510,034	4.9%	41,900,000	3.8%
TOTAL	\$1,111,255,790	\$1,179,560,880	6.1%	\$1,149,900,000	2.6%

Details may not add to the total due to individual rounding.

Arizona Highway User Revenue Fund

Revenue Collections By Category

(Dollars In Thousands)

FY 1995- 2004

Fiscal Year	Vehicle						Total /1	Percent Change
	Gas Tax	Use Fuel Tax	Motor Carrier	License Tax	Registration	Other		
1995	\$342,299	\$108,790	\$92,103	\$131,562	\$86,159	\$39,238	\$800,152	
1996	358,961	114,780	85,433	160,145	97,601	42,654	859,575	7.4%
1997	363,953	124,748	90,186	175,253	101,528	41,294	896,962	4.3%
1998	366,377	142,167	63,846	176,950	101,722	36,425	887,487	-1.1%
1999	397,463	160,312	34,150	220,126	131,952	38,775	982,779	10.7%
2000	409,137	156,599	36,563	236,547	140,345	40,409	1,019,599	3.7%
2001	418,400	155,859	32,678	251,613	132,269	40,147	1,030,965	1.1%
2002	434,818	161,507	29,347	270,641	138,210	41,873	1,076,395	4.4%
2003	446,891	166,744	32,856	281,947	141,328	41,490	1,111,256	3.2%
2004	463,531	179,002	34,617	312,262	146,638	43,510	1,179,561	6.1%
Total	\$4,001,830	\$1,470,508	\$531,779	\$2,217,046	\$1,217,753	\$405,815	\$9,844,731	

1/ Details may not add to the total due to individual rounding.

Arizona Highway User Revenue Fund

Revenue Distributions

(Dollars In Thousands)

FY 1995-2004

FISCAL YEAR	ARIZONA HIGHWAY FUND	MAG CONTROLLED ACCESS	PAG CONTROLLED ACCESS	CITIES AND TOWNS	COUNTIES	DEPT. OF PUBLIC SAFETY / 1	ECONOMIC	OTHER MISCELLANEOUS APPROPRIATIONS	TOTAL / 7
							STRENGTH PROJECT FUND / 2		
1995	\$339,752	\$44,890	\$14,963	\$237,920	\$140,627	\$20,000	\$1,000	\$1,000 /3	\$800,152
1996	365,016	48,607	16,202	256,988	151,762	20,000	1,000		859,575
1997	376,193	50,573	16,858	267,931	166,908	17,500	1,000		896,962
1998	373,206	50,171	16,724	265,803	165,583	15,000	1,000		887,487
1999	413,371	55,571	18,524	294,410	183,403	12,500	1,000	4,000 /4	982,779
2000	430,668	57,896	19,299	306,729	191,077	12,500	1,000	430 /5	1,019,599
2001	433,248	58,243	19,415	308,567	192,222	12,500	1,000	5,770 /5	1,030,965
2002	438,230	58,913	19,638	312,115	194,433	52,066	1,000		1,076,395
2003	451,827	60,741	20,247	321,799	200,465	54,528	1,000	648 /6	1,111,256
2004	483,688	65,024	21,675	344,491	214,601	48,698	1,000	383 /6	1,179,561
Total	\$4,105,199	\$550,630	\$183,544	\$2,916,754	\$1,801,081	\$265,292	\$10,000	\$11,584	\$9,844,730

Notes:

- 1/ In recent fiscal years, the legislature has authorized the distribution of Arizona Highway User Revenue to the Arizona Department of Public Safety for highway patrol expenditures.
- 2/ The Economic Strength Project Fund was statutorily established on May 17, 1989. Money in the fund is to be used for highway projects that provide economic benefits to the State or local jurisdictions.
- 3/ Appropriation to the Motor Vehicle Division for improvements to border area ports of entry.
- 4/ Appropriation to the Department of Commerce for Williams Gateway Authority roadway projects.
- 5/ Appropriation for the Prescott Regional Transportation Center.
- 6/ Appropriation to MVD for the vehicle registration enforcement program
- 7/ Details may not add to the total due to individual rounding.

Arizona Highway User Revenue Fund

Distributions to Cities, Towns and Counties

FY2004

COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	
Apache		\$6,817,862.44		La Paz		\$3,482,245.72		Pima		\$39,829,978.53		
	Eagar		\$907,901.17		Parker		\$1,000,121.61		Marana		\$1,092,521.22	
	Springerville		\$444,681.58		Quartzite		\$1,069,076.69		Oro Valley		\$2,560,690.60	
	St. Johns		\$815,925.45						South Tucson		\$442,282.19	
				Maricopa		\$86,519,857.88			Tucson		\$46,712,006.24	
Cochise		\$7,757,348.33			Apache Junction		\$19,728.03		Sahuarita		\$261,322.22	
	Benson		\$393,074.21		Avondale		\$2,484,542.31					
	Bisbee		\$507,828.92		Buckeye		\$589,048.56		Pinal		\$11,515,102.88	
	Douglas		\$1,423,460.88		Carefree		\$202,157.83			Apache Junction		\$2,787,070.92
	Huachuca City		\$145,921.27		Cave Creek		\$258,017.56			Casa Grande		\$2,228,692.09
	Sierra Vista		\$3,154,432.74		Chandler		\$12,225,099.99			Coolidge		\$687,962.47
	Tombstone		\$125,428.44		El Mirage		\$527,561.37			Eloy		\$916,576.15
	Wilcox		\$311,587.97		Fountain Hills		\$1,400,448.16			Florence		\$1,331,322.48
					Gila Bend		\$137,210.59			Kearny		\$198,371.14
Coconino		\$9,456,018.26			Gilbert		\$7,594,672.02			Mammoth		\$155,109.42
	Flagstaff		\$6,975,350.72		Glendale		\$15,148,769.01			Superior		\$287,149.31
	Fredonia		\$137,314.02		Goodyear		\$1,309,368.78			Queen Creek		\$10,611.11
	Page		\$897,929.89		Guadalupe		\$362,420.84			Winkelman		\$197.98
	Williams		\$374,614.77		Litchfield Park		\$263,780.76			Maricopa		\$129,640.46
	Sedona		\$390,604.75		Mesa		\$33,640,946.14					
					Paradise Valley		\$945,965.54		Santa Cruz		\$3,097,135.94	
Gila		\$3,629,075.46			Peoria		\$7,501,865.23			Nogales		\$2,595,077.95
	Globe		\$834,605.15		Phoenix		\$111,756,744.89			Patagonia		\$109,919.23
	Hayden		\$99,384.41		Queen Creek		\$291,574.94					
	Miami		\$216,082.25		Scottsdale		\$14,034,411.74		Yavapai		\$10,529,477.00	
	Payson		\$1,517,333.76		Surprise		\$2,135,342.84			Camp Verde		\$888,191.35
	Winkelman		\$49,175.46		Tempe		\$10,981,726.18			Chino Valley		\$772,346.88
					Tolleson		\$345,131.53			Clarkdale		\$321,272.63
Graham		\$2,279,911.80			Wickenburg		\$351,088.58			Cottonwood		\$862,813.22
	Pima		\$155,970.70		Youngtown		\$207,920.93			Jerome		\$30,728.00
	Safford		\$724,806.06							Prescott		\$3,190,899.40
	Thatcher		\$315,257.28		Mohave		\$10,689,243.18			Prescott Valley		\$2,213,107.15
										Sedona		\$679,327.55
					Bullhead City		\$3,519,502.63			Peoria		\$53.18
Greenlee		\$803,059.82			Colorado City		\$347,124.55					
	Clifton		\$222,868.18		Kingman		\$2,091,776.53					
	Duncan		\$69,681.33		Lake Havasu City		\$4,371,506.13					
									Yuma		\$10,066,580.82	
					Navajo		\$8,128,222.21			Somerton		\$673,205.60
										San Luis		\$1,420,375.86
					Pinetop/Lakeside		\$562,057.63			Welton		\$169,324.91
					Holbrook		\$771,804.20			Yuma		\$7,198,891.24
					Show Low		\$1,209,403.24					
					Snowflake		\$700,773.12					
					Taylor		\$498,128.20					
					Winslow		\$1,496,171.48					

FISCAL YEAR 2003-2004 TOTALS:	
CITIES:	\$344,491,271.87
COUNTIES:	\$214,601,120.27

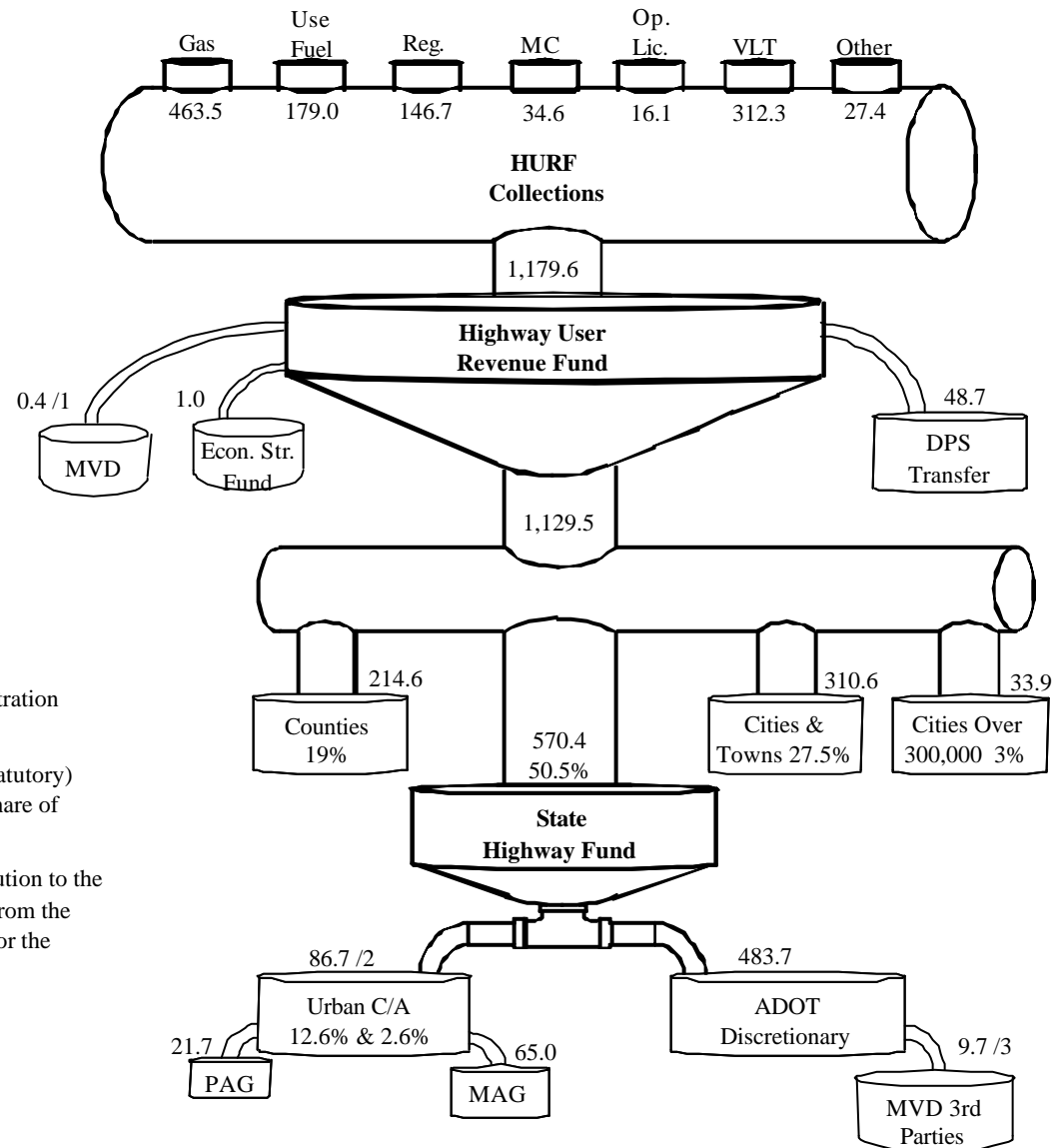
Highway User Revenue Fund

Distribution Overview

<p>Revenues from:</p> <p>\$.18 Gas Tax \$.26 Use Fuel Tax (7/00) Vehicle Registration Motor Carrier Fee 44.99% of VLT (12/00) Other</p>	<p>Distribution breakdown:</p> <p>50.5% to State Highway Fund</p> <p>27.5% to Cities & Towns</p> <p>3% to Cities over 300,000</p> <p>19% to Counties</p>	<p>Distribution formulas:</p> <p>7.67% to Maricopa and Pima Counties for Controlled Access with a 75% and 25% split respectively. (Statutory 12.6% & Special 2.6% money) 4 2.83% to ADOT Discretionary.</p> <p>One half distributed on basis of incorporated population and one half on the basis of county origin of gasoline sales and city or town population within each county.</p> <p>Distributed to Phoenix, Tucson and Mesa based on population.</p> <p>Distributed based on a portion of gasoline distribution and diesel fuel consumption and on a portion of unincorporated population. The split is as follows: 85/15 in FY 1997, 80/20 in FY 1998, 76/24 in FY 1999, and 72/28 in FY 2000 and thereafter)</p>
---	---	---



Arizona Highway User Revenue Fund FY 2004 Actual Revenue Distribution Flow (Dollars in Millions)



NOTES:

/1. Appropriation to MVD for vehicle registration enforcement program.

/2. The 12.6% (statutory) and 2.6% (non-statutory) allocations from the State Highway Fund share of HURF distributions.

/3. With the elimination of the VLT distribution to the state highway fund, a distribution is made from the state highway fund to MVD Third Parties for the collection of VLT.

REVENUE CATEGORY DEFINITIONS

GASOLINE TAX	A per-gallon tax imposed on gasoline used by vehicles on Arizona highways; presently this tax is \$0.18 per gallon.
USE FUEL TAX	Includes all gases and liquids used to propel motor vehicles on the highways in this state except for motor fuel (gasoline). Use fuel consists primarily of diesel fuel. Diesel fuel tax was \$0.27 per gallon, but dropped to \$0.26 per gallon on July 1, 2000 for “use class” vehicles. “Non-use class” vehicles continue to pay \$0.18 per gallon. Jet fuel is exempt from fuel and use fuel taxes.
MOTOR CARRIER FEE	A fee imposed on certain commercial carriers based on vehicle weight. Category also includes: Motor Carrier License Tax, Motor Carrier Tax Penalties, late fees and interest, and Motor Carrier Permits Tax, and application fees.
VEHICLE LICENSE TAX	An annual license tax imposed on registered vehicles in lieu of property taxes.
REGISTRATION FEES	<p>Is made up of three distinct components:</p> <p>County Registration - non-commercial and commercial vehicle registration, and commercial weight fees.</p> <p>Apportioned Registration - commercial registration fees allocated according to miles traveled in Arizona.</p> <p>Miscellaneous Registration - Non-resident Permits, Unassigned Registration, Prorate Stickers, and Registration Penalties.</p>
OTHER FEES	Includes Title Fees, Operator Licenses, Oversize/Overweight Permits and Highway Fines, Inquiry Fees, Use Fuel Permits and Fuel Tax Penalties, Investment Interest, Special Plates, and Other Miscellaneous Fees, less Credit Card Fees.