

Highway User Revenue Fund

**Fiscal Year 2005
Year- End Report**



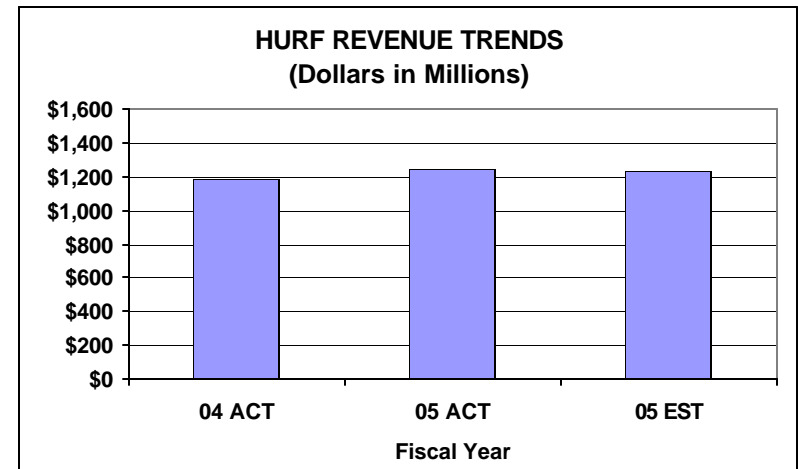
**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2005**

Highway User Revenue Fund

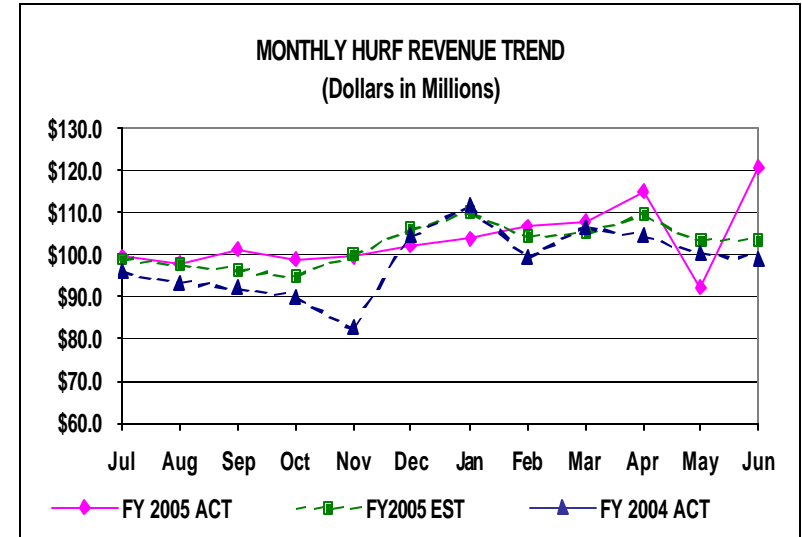
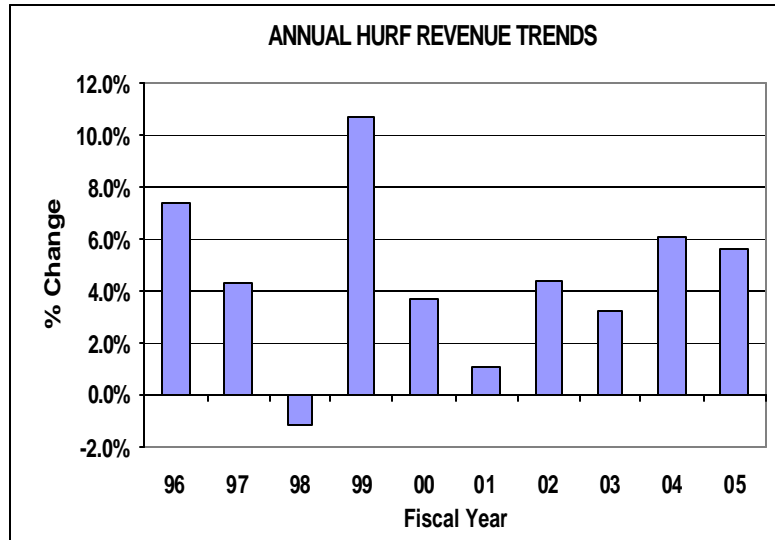
Executive Summary

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.

FY 2005 HURF revenues posted a 5.6 percent increase over FY 2004 even with the price of fuel reaching an all-time high. HURF collections totaled \$1,245.6 million and finished the year 1.4 percent above the estimate. All major revenue categories posted year-over-year growth. The strongest growth was centered in the use fuel tax and commercial registration revenue categories. The continued strength in the state and national economies have spurred the growth in HURF revenues for two straight years.



Revenue Trend Analysis



HURF collections have averaged an annual growth rate of 4.2 percent over the last ten years and recorded only one year with negative growth during this period. The negative growth in FY 1998 was due mainly to the implementation of certain fuel tax and commercial registration legislation. This legislation had the effect of deferring significant revenues into FY 1999, accounting for the 10.7 percent growth that year. FY 2005 HURF collections posted above average growth which was a result of the continued strong employment and population growth in Arizona and the unexpected increase in fuel consumption despite higher fuel prices.

FY 2005 HURF revenues finished the year 1.4 percent or \$16.6 million above the forecast. The dip in May HURF collections was mainly due to timing from the commercial registration and vehicle license tax (VLT) revenues as noted by the rebound in June.

Performance By Category

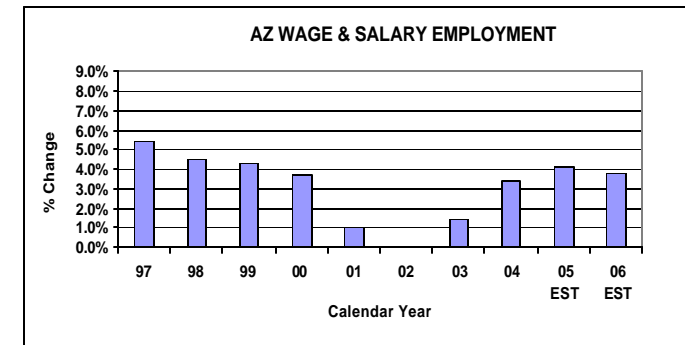
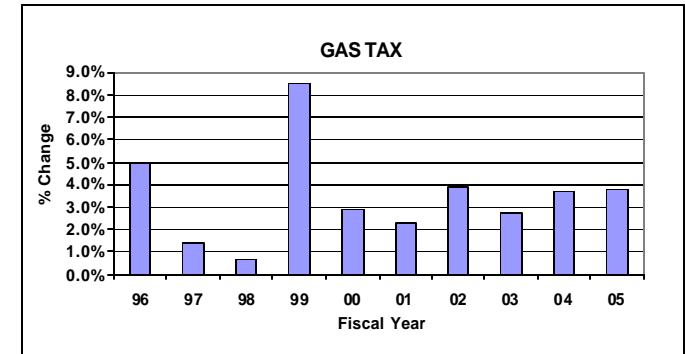
Gas Tax:

FY 2005 gas tax revenue amounted to \$481.3 million, a year-over-year increase of 3.8 percent and 0.9 percent above the estimate. The gas tax revenue category continued to be the largest component of HURF revenues, contributing 38.6 percent. The growth in the gas tax revenue was attributable to the continued strength in employment and population growth.

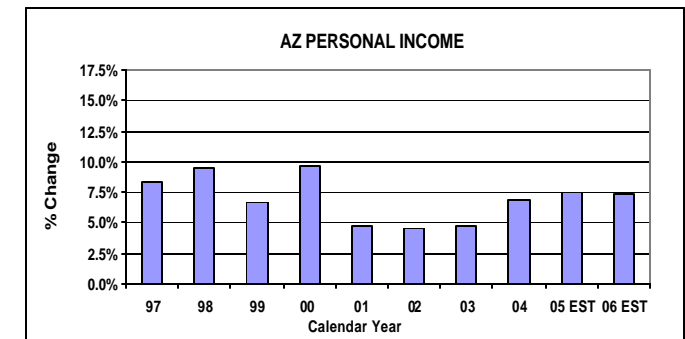
As noted in the FY 2004 HURF Year-End Report, past studies have concluded that the price of gas is relatively inelastic. Although the price of gas reached an all-time high in FY 2005, it had little impact on gas tax revenues due to the price being mostly inelastic.

According to the June 2005 Arizona Blue Chip Forecast, the wage and salary employment growth rate improved from 1.4 percent CY 2003 to 3.4 percent in CY 2004. The Arizona Blue Chip economists expect Arizona's wage and salary employment to have above average growth during the next two years. The consensus panel estimates for CY 2005 and CY 2006 are 4.1 and 3.8 percent, respectively.

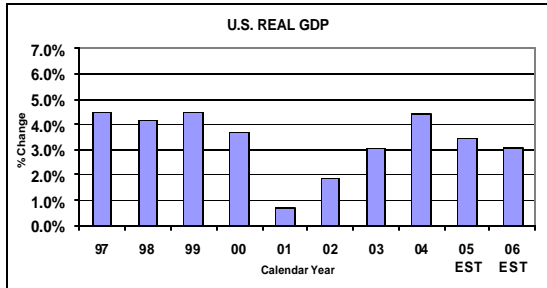
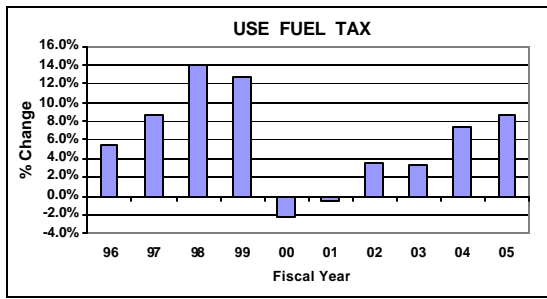
Over the next two years, Arizona is expected have its strongest growth in personal income since CY 2000. The June 2005 Arizona Blue Chip Forecast lists the consensus panel estimates for Arizona personal income growth in CY 2005 and CY 2006 at 7.5 and 7.4 percent, respectively.



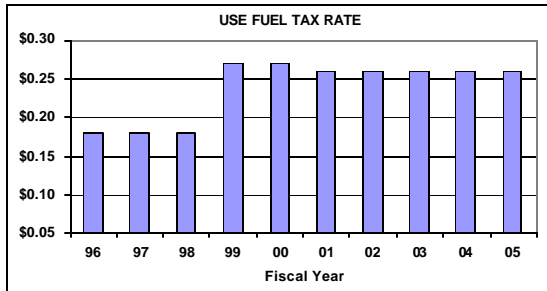
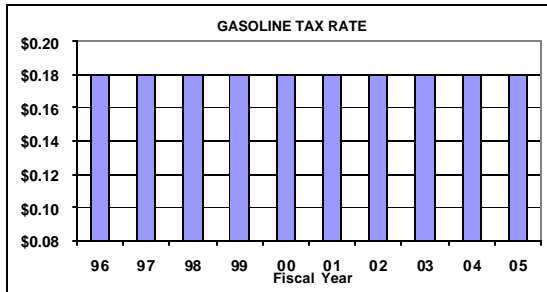
Source: Arizona Blue Chip Forecast, 6/05



Source: Arizona Blue Chip Forecast, 6/05



Source: Bureau of Economic Analysis July 2005 and Global Insight 1st Quarter 2005



USE FUEL TAX:

Use fuel tax collections totaled \$194.4 million, an increase of 8.6 percent over FY 2004 and 4.7 percent above the estimate. The state and national economies continued to show healthy growth resulting in higher consumer demand for goods in FY 2005. Studies that found the price of gas as relatively inelastic have found use fuel (diesel) to be somewhat elastic. As the price of use fuel increases demand tends to decrease. Although use fuel prices were at an all-time high, consumer demand for goods has forced the trucking industry to continue to modernize its fleet and monitor speed to lower fuel usage.

Arizona economic activity is expected to be strong but with modest slowing in CY 2005 and CY 2006 based on the U.S. gross domestic product (GDP). The GDP is the national economic barometer for business activities on the national level. The U.S. real GDP for CY 2004 posted a strong gain of 4.4 percent compared to 3.0 percent in CY 2003. Based on the First Quarter 2005 issue of Global Insight, the U.S. real GDP is projected at 3.4 percent in CY 2005 and 3.1 percent in CY 2006.

GASOLINE TAX RATE:

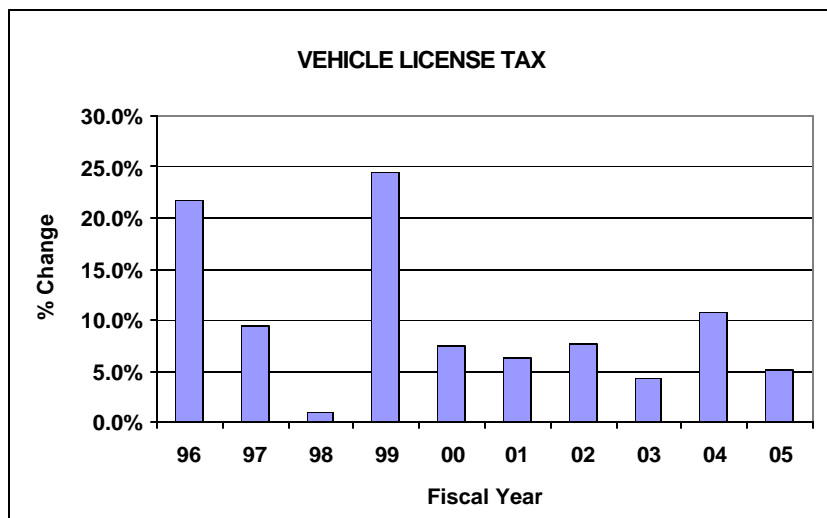
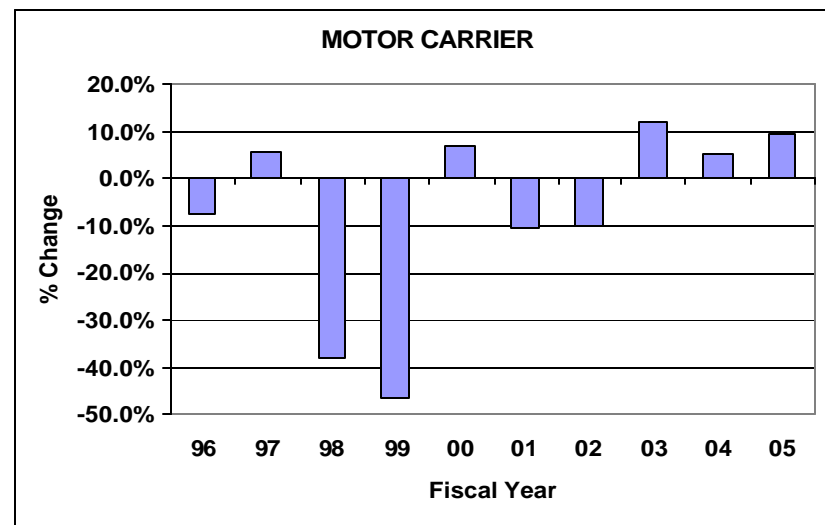
The gasoline tax rate chart on the left shows the state gasoline gas tax of \$0.18 per gallon. The last gasoline tax rate increase was \$0.01 in FY 91.

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:

FY 2005 motor carrier fee revenues amounted to \$38.0 million, an increase of 9.7 percent over FY 2004 and 6.1 percent above the estimate. The continued demand for goods movement at the state and national level has caused the strong growth in motor carrier fee revenues. In addition to the motor carrier revenues, use fuel tax and a portion of the registration revenues are all related to the trucking industry.



VEHICLE LICENSE TAX:

VLT revenue in FY 2005 totaled \$328.2 million, an increase of 5.1 percent over last year but 1.8 percent below the estimate. The below average growth was attributable to two new statutory programs passed in FY 2002 and FY 2004. The first program mandates that 50 percent of the increase in VLT from the MVD registration enforcement program shall be transferred from VLT to the state general fund per Laws 2002, Chapter 328 (HB 2708). The second program allows MVD to issue refunds for unused VLT credits per Laws 2004, Chapter 333 (SB 1233). The two programs reduced the VLT by \$9.7 million in FY 2005.

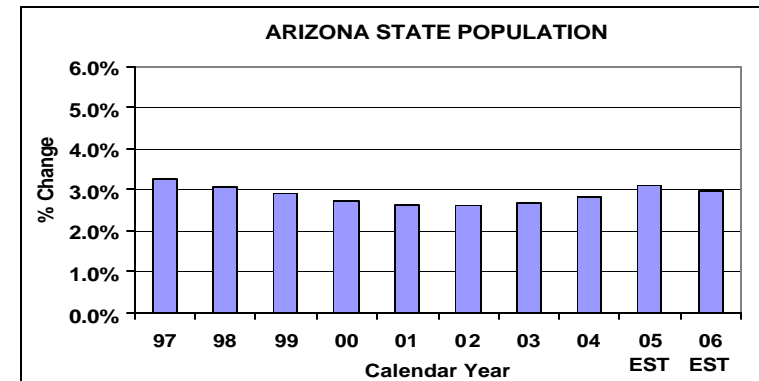
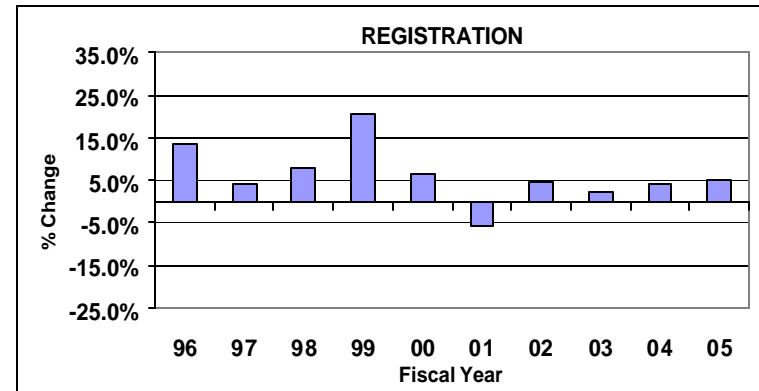
REGISTRATION:

Registration collections in FY 2005 reached \$154.1 million, an increase of 5.1 percent over FY 2004 and 2.1 percent above the estimate. The growth was evenly split between commercial and non-commercial registration.

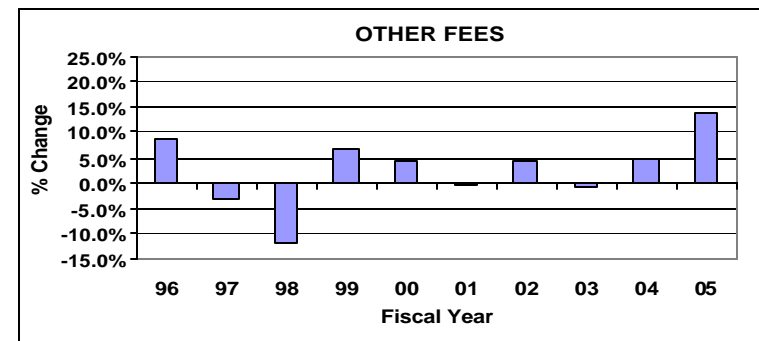
According to the June 2005 issue of the Arizona Blue Chip Forecast, Arizona's population totaled 5.7 million in CY 2004, an increase of 2.8 percent over CY 2003. The strong employment growth in Arizona has led the Arizona Blue Chip consensus panel to increase their Arizona population growth estimates to 3.1 percent in CY 2005 and 3.0 percent in CY 2006. The projected growth is expected to bring approximately 360,000 new residents to Arizona through CY 2006.

OTHER FEES:

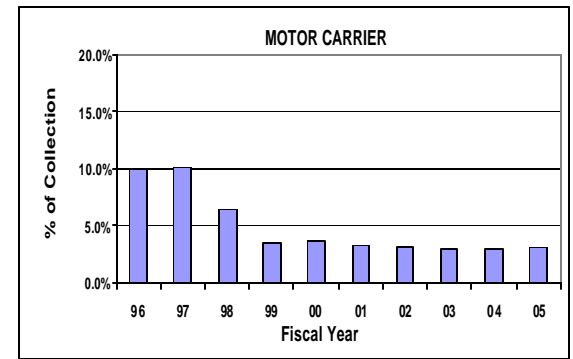
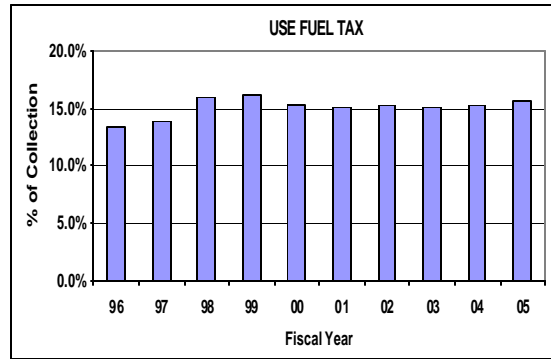
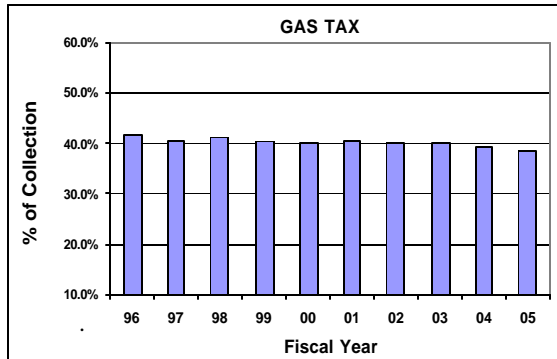
The "other fees" collections totaled \$49.6 million in FY 2005, an increase of 13.9 percent over FY 2004 and 9.2 percent above the estimate. The growth was centered in the inquiry fees, station fuel fees and miscellaneous fees categories. The increase in the miscellaneous fees category was due to the implementation of Laws 2004, Chapter 333 (SB 1233) which allows MVD to retain a \$12 processing fee with each VLT refund processed.



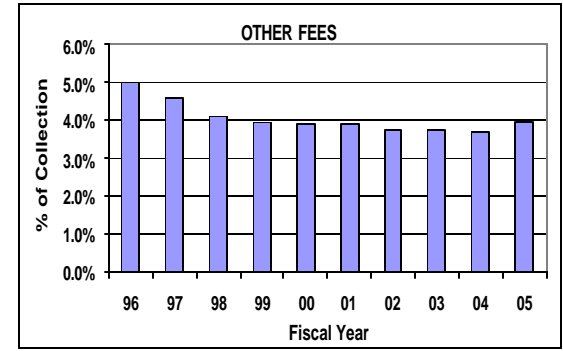
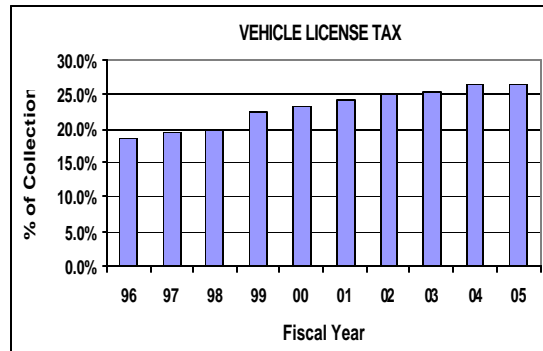
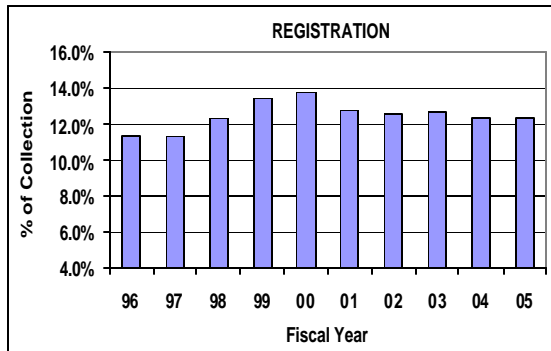
Source: Arizona Blue Chip, .6/05



Revenue Composition Comparison



The composition of HURF collections has varied over the years due to legislation, fuel efficiency and inflation. The largest HURF revenue generator continues to be the gas tax, but its contribution has decreased from 41.8 percent in FY 1996 to 38.6 percent in FY 2005. Although the gas tax share of HURF revenues has decreased over the years, its average annual growth rate over the last ten years has been 3.3 percent or slightly above the population growth. 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 VLT revenue category benefits from the inflationary pressure on new car prices over time. The ‘other fees’ category saw an increase in FY 2005 due mainly to legislation that allowed MVD to retain a \$12 processing fee with each VLT refund.

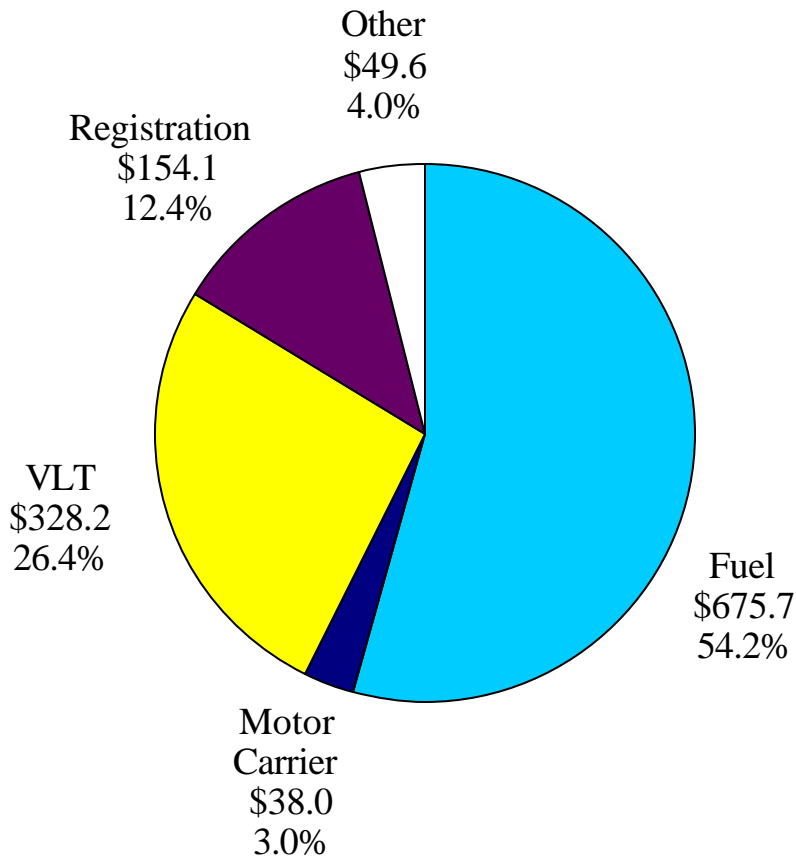


ARIZONA HIGHWAY USER REVENUE FUND SOURCES AND DISTRIBUTION OF FUNDS

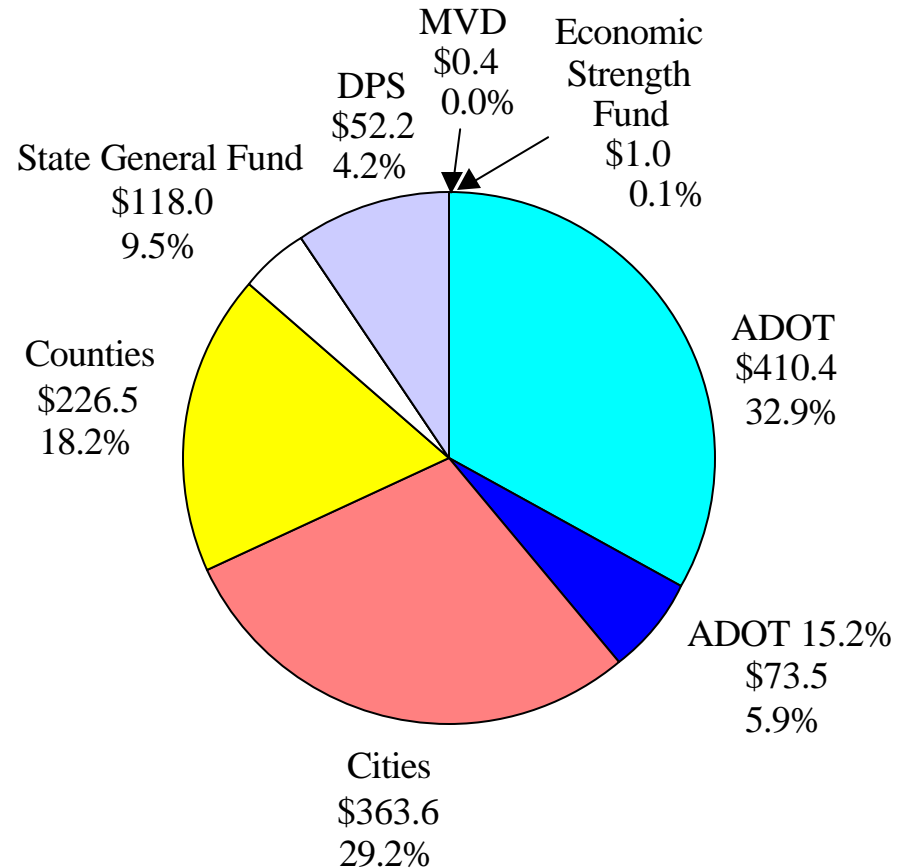
FY 2005

TOTAL: \$1,245.6 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 2004 ACTUAL	FY 2005 ACTUAL	CHANGE	FY 2005 ESTIMATE	CHANGE
GAS TAX	\$463,530,904	\$481,284,019	3.8%	\$476,900,000	0.9%
USE FUEL TAX	179,002,025	194,368,181	8.6%	185,600,000	4.7%
SUBTOTAL	642,532,929	675,652,200	5.2%	662,500,000	2.0%
MOTOR CARRIER	34,617,452	37,980,023	9.7%	35,800,000	6.1%
VEHICLE LICENSE TAX	312,262,023	328,231,521	5.1%	334,200,000	-1.8%
COUNTY REGISTRATION	69,480,934	73,507,413	5.8%	71,500,000	2.8%
APPORTIONED	63,610,312	67,851,736	6.7%	66,400,000	2.2%
MISC. REGISTRATION	13,547,195	12,763,197	-5.8%	13,100,000	-2.6%
SUBTOTAL	146,638,442	154,122,347	5.1%	151,000,000	2.1%
TITLE FEES	7,855,777	8,102,728	3.1%	8,200,000	-1.2%
OPERATOR LICENSES	16,069,252	16,588,438	3.2%	16,700,000	-0.7%
OVERSIZE PERMITS	5,372,413	6,080,060	13.2%	5,600,000	8.6%
INQUIRY FEES	9,519,342	11,118,943	16.8%	9,800,000	13.5%
STATION FUEL FEES	1,531,750	2,091,648	36.6%	1,600,000	30.7%
INVESTMENT INTEREST	319,877	953,921	198.2%	900,000	6.0%
SPECIAL PLATES	5,582,631	6,090,382	9.1%	5,900,000	3.2%
CREDIT CARD FEES	(3,958,373)	(4,785,146)	20.9%	(4,200,000)	13.9%
MISCELLANEOUS FEES	1,217,365	3,326,126	173.2%	900,000	269.6%
SUBTOTAL	43,510,034	49,567,101	13.9%	45,400,000	9.2%
TOTAL	\$1,179,560,880	\$1,245,553,193	5.6%	\$1,228,900,000	1.4%

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

Arizona Highway User Revenue Fund

Revenue Collections By Category

(Dollars In Thousands)

FY 1996- 2005

Fiscal Year	Vehicle						Total /1	Percent Change
	Gas Tax	Use Fuel Tax	Motor Carrier	License Tax	Registration	Other		
1996	\$358,961	\$114,780	\$85,433	\$160,145	\$97,601	\$42,654	\$859,575	
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%
2005	481,284	194,368	37,980	328,232	154,122	49,567	1,245,553	5.6%
Total	\$4,140,815	\$1,556,086	\$477,656	\$2,413,716	\$1,285,716	\$416,144	\$10,290,132	

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

Arizona Highway User Revenue Fund

Revenue Distributions

(Dollars In Thousands)

FY 1996-2005

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 / 8
							STRENGTH PROJECT FUND / 2		
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 /3	982,779
2000	430,668	57,896	19,299	306,729	191,077	12,500	1,000	430 /4	1,019,599
2001	433,248	58,243	19,415	308,567	192,222	12,500	1,000	5,770 /4	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 /5	1,111,256
2004	483,688	65,024	21,675	344,491	214,601	48,698	1,000	383 /5	1,179,561
2005	410,362	55,167	18,389	363,535	226,464	52,216	1,000	118,420 /5 /6 /7	1,245,553
Total	\$4,175,810	\$560,906	\$186,970	\$3,042,368	\$1,886,918	\$297,509	\$10,000	\$129,652	\$10,290,132

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 jurisdiction.

3/ Appropriation to the Department of Commerce for Williams Gateway Authority roadway projects.

4/ Appropriation for construction of the Prescott Regional Transportation Center.

5/ Appropriation for the MVD vehicle registration enforcement program (\$383,300).

6/ Appropriation to MVD to implement special 30-day nonresidents permit (\$37,000).

7/ Laws 2004, Chapter 282 (SB 1413) transfers \$118 million of the state highway fund share of HURF VLT to the state general fund in FY 2005.

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

Arizona Highway User Revenue Fund

Distributions to Cities, Towns and Counties

FY2005

COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	
Apache		\$7,212,838.07		La Paz		\$3,828,130.20		Pima		\$41,755,890.43		
	Eagar		\$928,721.45		Parker		\$1,127,271.41		Marana		\$1,141,522.66	
	Springerville		\$455,089.90		Quartzite		\$1,205,344.98		Oro Valley		\$2,688,527.88	
	St. Johns		\$816,850.52						South Tucson		\$461,891.59	
				Maricopa		\$90,029,469.91			Tucson		\$48,864,152.38	
Cochise		\$8,289,489.47			Apache Junction		\$20,738.90		Sahuarita		\$273,124.31	
	Benson		\$423,308.73		Avondale		\$2,608,891.11					
	Bisbee		\$547,293.49		Buckeye		\$617,748.05		Pinal		\$12,745,719.50	
	Douglas		\$1,484,887.24		Carefree		\$212,520.13			Apache Junction		\$3,037,269.68
	Huachuca City		\$157,154.51		Cave Creek		\$271,244.58			Casa Grande		\$2,429,640.03
	Sierra Vista		\$3,394,782.22		Chandler		\$12,852,329.00			Coolidge		\$750,311.02
	Tombstone		\$135,077.78		El Mirage		\$553,475.94			Eloy		\$999,070.04
	Wilcox		\$335,548.05		Fountain Hills		\$1,471,031.88			Florence		\$1,601,024.91
					Gila Bend		\$144,245.61			Kearny		\$215,990.33
Coconino		\$9,920,341.31			Gilbert		\$7,975,940.51			Mammoth		\$169,069.47
	Flagstaff		\$7,171,383.26		Glendale		\$15,908,717.04			Superior		\$313,174.56
	Fredonia		\$140,395.22		Goodyear		\$1,374,321.82			Queen Creek		\$11,580.66
	Page		\$923,646.52		Guadalupe		\$380,504.62			Winkelman		\$232.63
	Williams		\$385,338.48		Litchfield Park		\$277,302.31			Maricopa		\$480,984.00
	Sedona		\$401,786.90		Mesa		\$35,369,648.75					
					Paradise Valley		\$993,324.78		Santa Cruz		\$3,196,690.05	
Gila		\$3,923,590.18			Peoria		\$7,878,923.73			Nogales		\$2,653,067.49
	Globe		\$912,019.72		Phoenix		\$117,464,022.60			Patagonia		\$112,442.17
	Hayden		\$108,740.05		Queen Creek		\$305,025.67					
	Miami		\$236,407.91		Scottsdale		\$14,738,291.98			Yavapai		\$10,986,692.54
	Payson		\$1,659,434.73		Surprise		\$2,242,575.37			Camp Verde		\$904,189.75
	Winkelman		\$53,794.09		Tempe		\$11,533,318.18			Chino Valley		\$780,752.34
					Tolleson		\$361,822.24			Clarkdale		\$326,801.23
Graham		\$2,458,180.67			Wickenburg		\$368,881.49			Cottonwood		\$877,686.41
	Pima		\$168,714.15		Youngtown		\$218,577.90			Jerome		\$31,271.86
	Safford		\$782,873.41							Prescott		\$3,244,734.83
	Thatcher		\$341,018.46		Mohave		\$12,065,003.01			Prescott Valley		\$2,250,226.67
						Bullhead City		\$4,041,879.39		Sedona		\$691,237.25
Greenlee		\$862,297.05				Colorado City		\$398,924.25		Peoria		\$53.80
	Clifton		\$238,695.75			Kingman		\$2,402,444.93		Dewey/Humboldt		\$193,361.87
	Duncan		\$74,630.43			Lake Havasu City		\$5,020,012.32				
					Navajo		\$8,474,895.69			Yuma		\$10,714,924.56
										Somerton		\$724,365.58
						Pinetop/Lakeside		\$577,485.35		San Luis		\$1,504,335.97
						Holbrook		\$793,038.96		Welton		\$179,500.46
						Show Low		\$1,241,090.56		Yuma		\$7,627,176.60
						Snowflake		\$719,708.70				
						Taylor		\$511,965.56				
						Winslow		\$1,535,606.68				
FISCAL YEAR 2004-2005 TOTALS:												
CITIES:			\$363,534,560.68									
COUNTIES:			\$226,464,152.64									

Highway User Revenue Fund

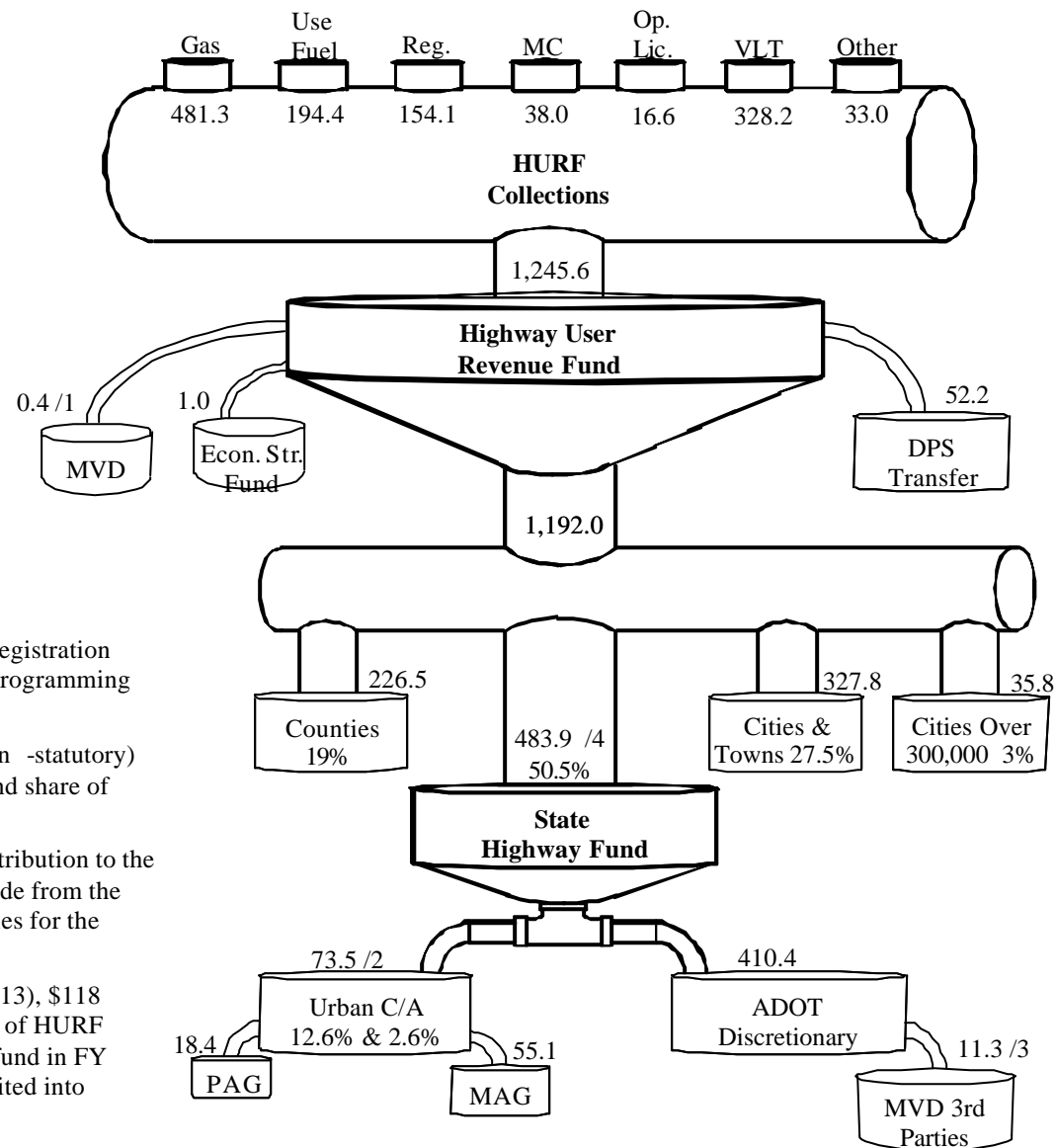
Distribution Overview

<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>
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Arizona Highway User Revenue Fund FY 2005 Actual Revenue Distribution Flow

(Dollars in Millions)



NOTES:

/1. Appropriation to MVD for vehicle registration enforcement program (\$383,300) and programming for legislative mandate (\$37,000).

/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.

/4. Per Laws 2004, Chapter 282 (SB 1413), \$118 million of the state highway fund share of HURF VLT is transferred to the state general fund in FY 2005. The \$118 million was not deposited into HURF before the transfer.

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.