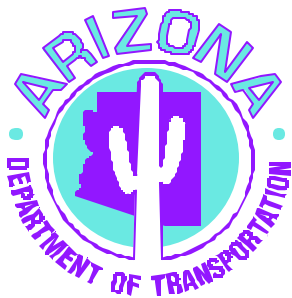


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# **HIGHWAY USER REVENUE FUND FISCAL YEAR 1998 YEAR-END REPORT**



**PREPARED BY:**

**ARIZONA DEPARTMENT OF TRANSPORTATION  
FINANCIAL MANAGEMENT SERVICES  
OFFICE OF FINANCIAL PLANNING  
AUGUST 1998**

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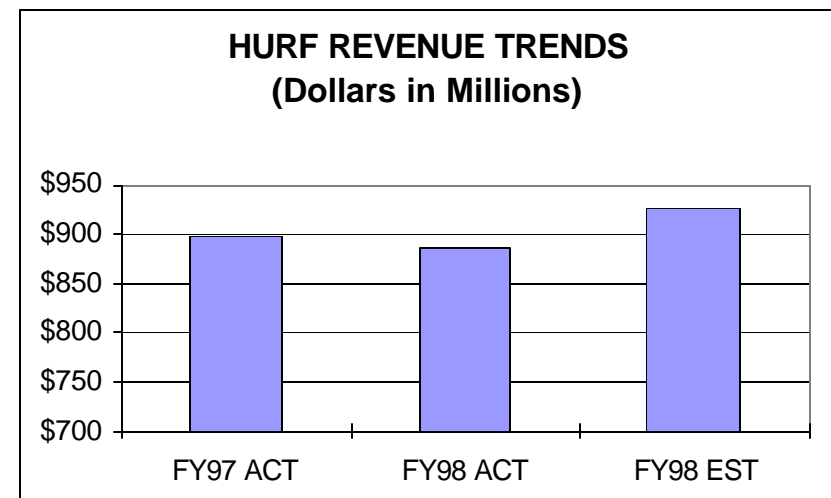
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# HIGHWAY USER REVENUE FUND EXECUTIVE SUMMARY

The State of Arizona taxes motor fuels and collects a variety of fees and charges relating to the registration and operation of motor vehicles on the public highways of the state. These collections include gasoline and use fuel taxes, motor carrier taxes, vehicle license taxes, motor vehicle registration fees, and other miscellaneous fees. These 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 represent the primary source of revenues available to the state for highway construction and improvements and other related expenses.

HURF collections totaled \$887.5 million in FY 1998, compared to the estimate of \$925.8 million. The results lagged the forecast by 4.1 percent and represented a decrease of 1.1 percent compared to the FY 1997 total.

This is the first year since FY 1992 that revenues have fallen below forecast. Four major factors have impacted the results this year. First are the significant legislative changes mandated as a result of last year's Motor Carrier and Fuel Tax legislation (SB 1144 and 1398). Second are changes brought by the Motor Vehicle Division's (MVD) revenue acceleration programs and a Vehicle License Tax accounting revenue recognition change. Third is the change to a staggered registration program for commercial vehicles registered in the state. Fourth is a policy change from utilizing a more conservative revenue forecast (60 percent probability level) to a somewhat less conservative forecast (50 percent probability level).

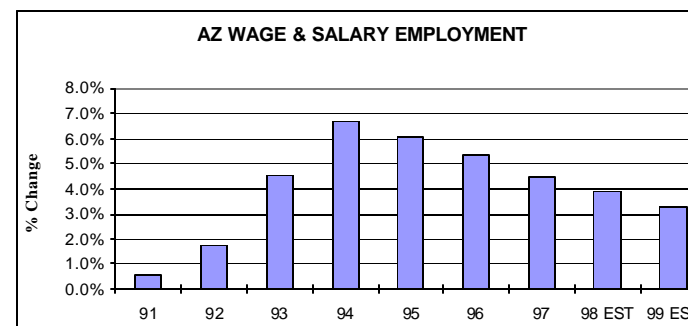
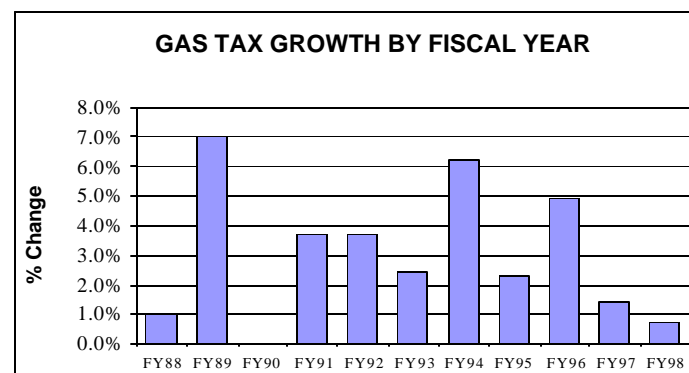


# PERFORMANCE BY CATEGORY

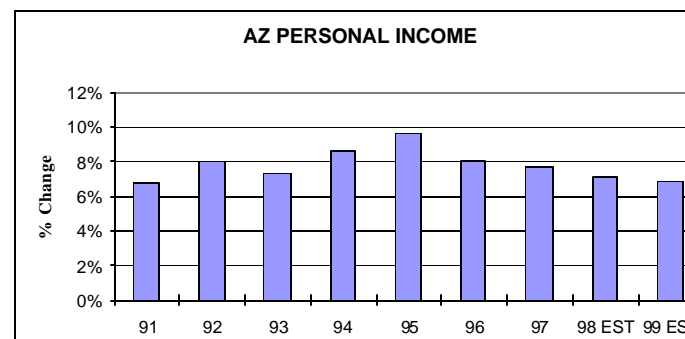
## GAS TAX:

Gasoline taxes represent the largest component of HURF collections, accounting for approximately 41.3 percent of total receipts in FY 1998. Gasoline taxes contributed \$366.4 million in revenues, exceeding FY 1997 collections by 0.7 percent, but were below the forecast by 2.4 percent. The decrease was impacted by the acceleration of tax-exempt fuel imported into Arizona, which totaled approximately \$4.3 million and SB 1398, which moved the legal collection point of taxation. The implementation of SB 1398 on January 1, 1998 caused a one-time loss of approximately \$7.4 million due to distributors having tax paid fuel in inventory.

The Arizona economy has been favorably impacted by increases in wage and salary employment and personal income since the early 1990's. Although these economic indicators have moderated since the mid-1990's, above average growth is projected. The Blue Chip Consensus estimates a 3.9 percent increase in Arizona Wage and Salary employment for calendar year 1998, and 7.1 percent growth for Arizona personal income.

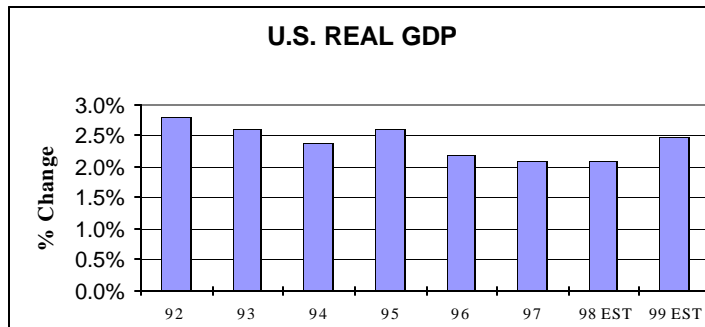
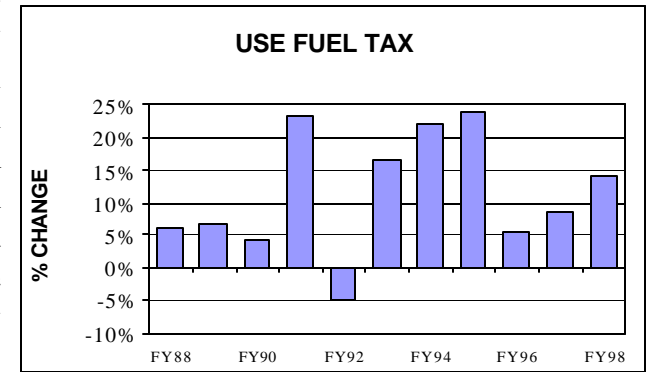


SOURCE: BLUE CHIP CONSENSUS - 7/98



## USE FUEL TAX:

Use Fuel tax revenues increased from \$124.7 million in FY 1997 to \$142.2 million in FY 1998, a 14 percent gain. The collections were significantly impacted by SB 1144 and 1398. As a result of the weight distance tax elimination, SB 1144 repealed the Use Fuel surcharge (\$0.08 per gallon) on October 1, 1997. On January 1, 1998, the base Use Fuel Tax was raised from \$0.18 per gallon to \$0.27 per gallon. SB 1398 changed the point of collection of Use Fuel Tax, as a result, the Department estimated collections would increase approximately 10 percent annually. However, this provision of the law only became effective January 1, 1998, so the fiscal impact of this law change for FY 1998 was approximately half. In addition, higher speed limits have reduced fuel efficiency for some truck traffic.

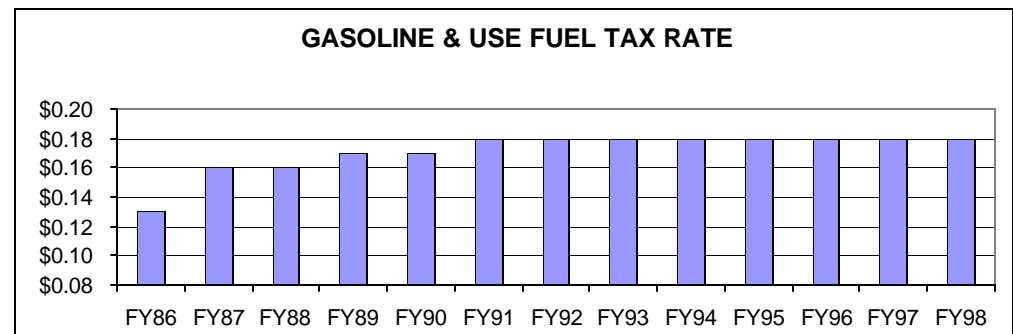


SOURCE: Blue Chip Consensus - 7/98

Increased commerce and truck traffic brought by the continued strong national economy has also contributed to the growth. Calendar year 1997 U.S. Real GDP grew at a rate of 2.1 percent. This followed a calendar year 1996 growth rate of 2.2 percent, and a calendar year 1995 growth rate of 2.6 percent. The Blue Chip Consensus estimates that the U.S. Real GDP will grow at a rate of 2.1 percent during calendar year 1998.

## GASOLINE AND USE FUEL TAX RATES:

The chart to the right shows the tax rates per gallon in effect at the beginning of each fiscal year for gasoline and use fuel. This chart does not include the increased 9 cent per gallon tax imposed on use fuel consumed by "use class" vehicles as of January 1, 1998.



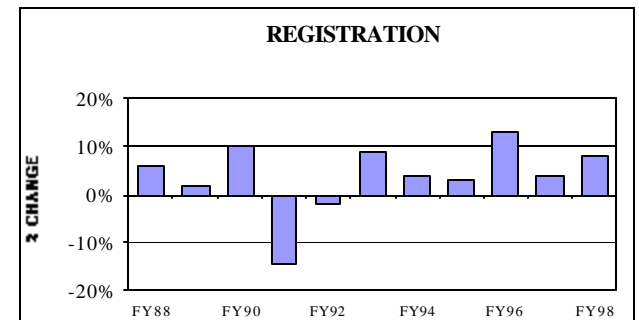
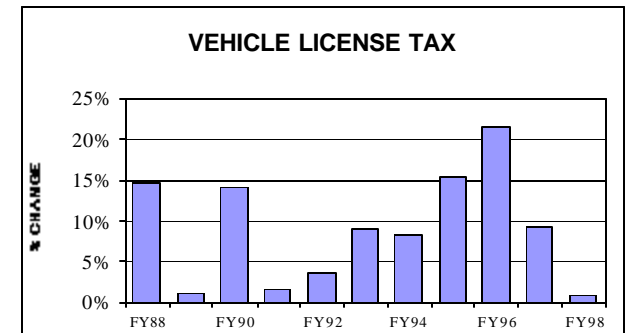
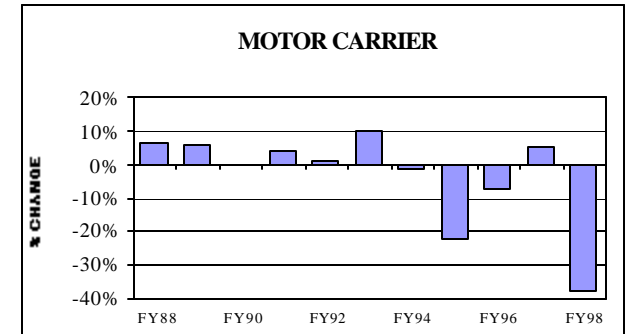
## MOTOR CARRIER:

Motor Carrier tax revenues totaled \$56.1 million, 37.8 percent below last year. A decrease was expected due to the October 1, 1997 implementation of SB 1144, which eliminated the weight-distance tax and replaced it with a motor carrier fee and increased truck registration and weight fees.

However, the decrease was greater than expected due to four issues. First, all Motor Carrier tax collections received through the International Registration Program (IRP) were deposited into the Registration category because the IRP does not distinguish between registration and motor carrier fees in its reporting. Second, the States of California and Oklahoma have not begun remitting the increased registration and motor carrier fees mandated by SB 1144. The negative impact is estimated at \$12 million from both States. Third, Arizona and several other states have implemented staggered registration programs for commercial vehicles which negatively impacted Motor Carrier tax revenues by an estimated \$3 million for FY 1998. Fourth, The original estimate of motor carrier fees to be replaced was underestimated by approximately \$5 million. Taken together, the total estimated negative impact is \$20 million, about 58.8 percent of the negative variance of motor carrier revenues for FY 1998.

## VEHICLE LICENSE TAX:

The HURF portion of VLT revenues totaled \$177.0 million in FY 1998. This was 1.0 percent above last year's total of \$175.3 million. The actual HURF VLT collections lagged the estimate by \$8.0 million. This variance was a result of a one-time change in revenue recognition procedures implemented in November 1997.



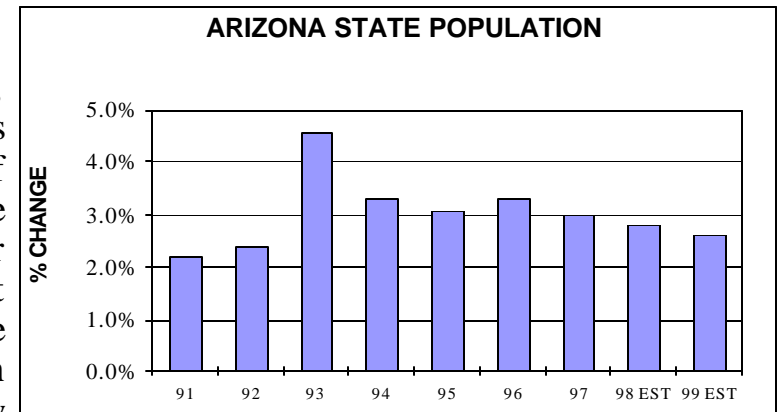
## REGISTRATION:

Registration collections were 7.8 percent above FY 1997 receipts, bringing in \$109.4 million. The majority of the increase was contributed by \$45.5 million in Prorate Registration, an increase of 28.8 percent over FY 1997. The increase was due to the implementation of SB 1144, which increased registration fees on motor carriers. However, the registration fees received through IRP were not divided out between the motor carrier fee and prorate fee, so the prorate fee revenues are over stated by an estimated \$7 million with this adjustment. The registration collections were 5.8 percent below the estimate. As stated in the motor carrier section, California and Oklahoma have not remitted the higher registration fees of SB 1144, thus decreasing the projected registration collections.

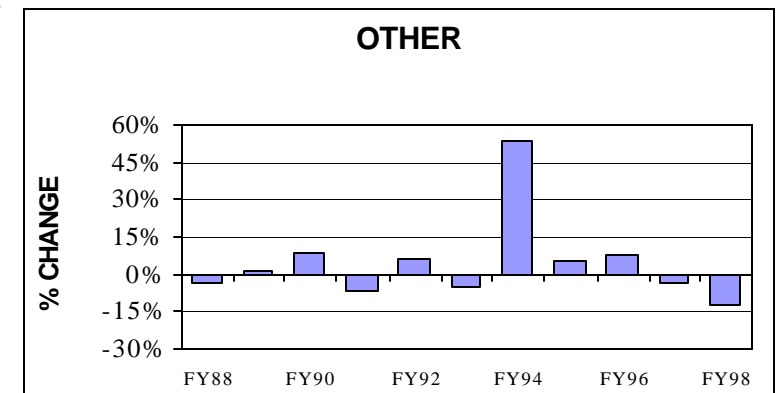
The increase in State's population has also contributed to the increase in registration collections, more specifically, the county registration collections. Arizona population was 4.5 million in 1997, which amounted to a 3.0 percent gain over the previous year. It is estimated that Arizona's population will increase 2.8 percent in 1998.

## OTHER FEES:

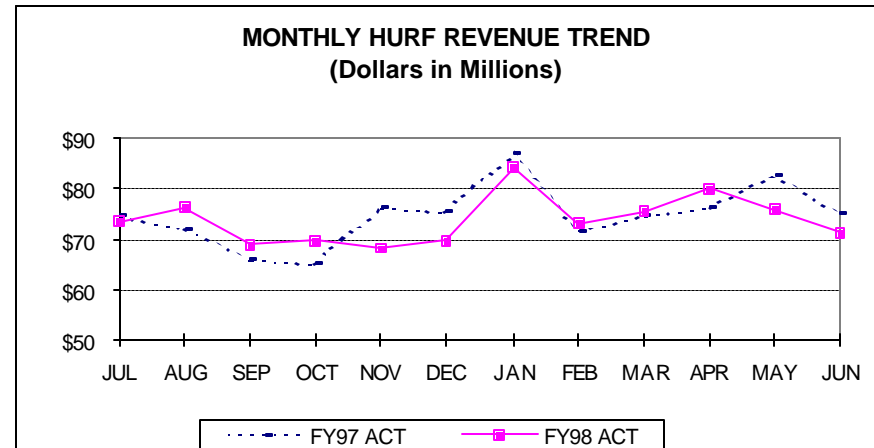
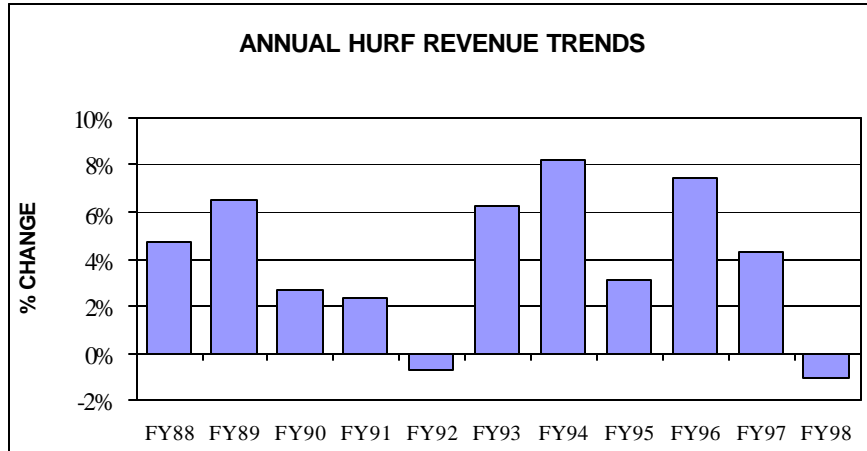
Other revenues totaled \$36.4 million in FY 1998, a decrease of 11.8 percent from FY 1997, but 2.6 percent above the forecast. In FY 1998, operator license revenue was 34.3 percent below last year's revenue due to the full implementation of the extended drivers license program, and new legislation that requires proof of authorized presence when obtaining an operator's license. Miscellaneous fees increased 25.4 percent over last year due to some added fee adjustments.



SOURCE: BLUE CHIP CONSENSUS - 7/98



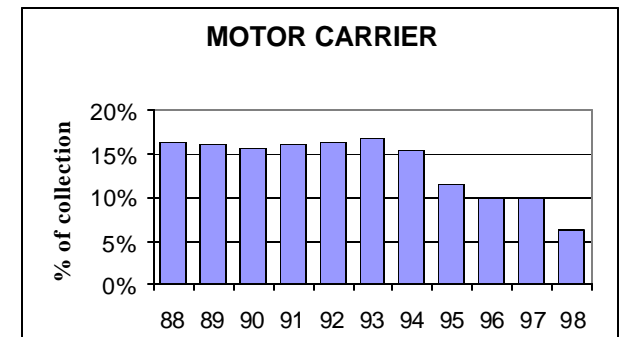
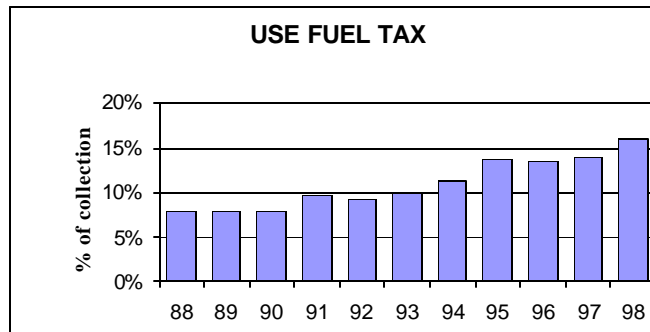
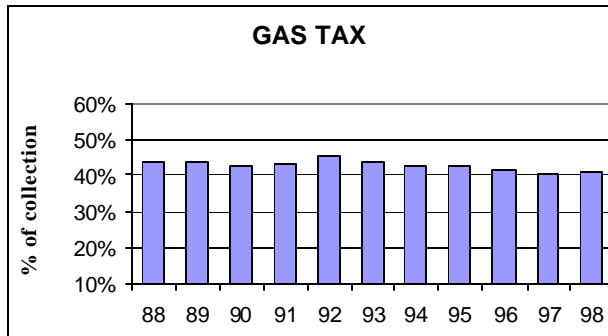
# REVENUE TREND ANALYSIS



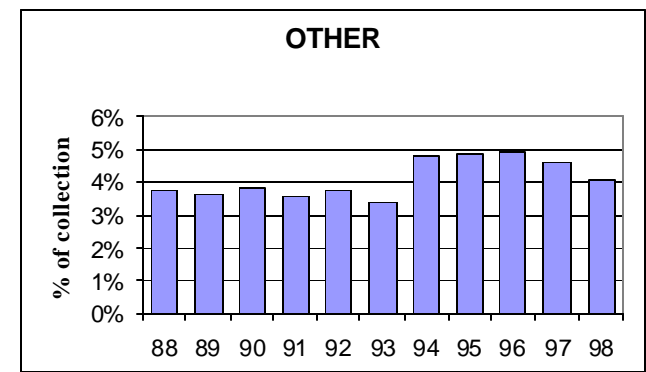
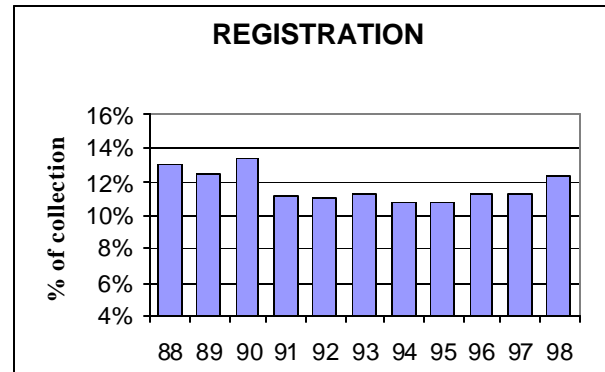
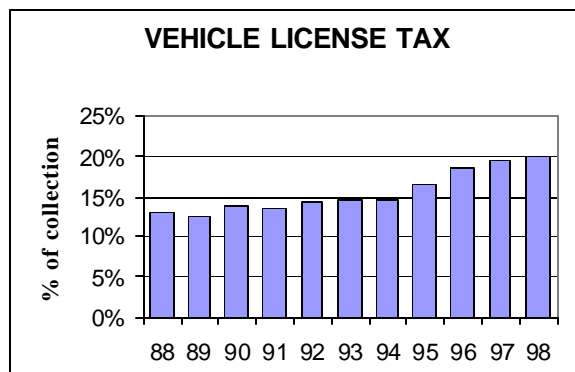
HURF collections totaled \$887 million in FY 1998, a decrease of 1.1 percent compared to FY 1997 revenue level. FY 1998 is the first year since FY 1992 that revenues have posted a decrease over the previous year. Four major factors contributed to the result: significant legislative changes mandated as a result of last year’s Motor Carrier and Fuel Tax legislation (SB 1144 and 1398); a MVD’s revenue accelerated program and a Vehicle License Tax accounting revenue recognition change; a staggered registration program for commercial vehicles registered in the state; and a policy change from utilizing a more conservative revenue forecast (60 percent probability level) to a somewhat less conservative forecast (50 percent probability level).

On a monthly basis, FY 1998 HURF revenues followed somewhat the trend of FY 1997.

# REVENUE COMPOSITION COMPARISON



Fluctuations in the share of HURF revenues contributed by Use Fuel tax is due to the implementation of HB 2170 in FY 1993, SB 1398 and 1144 in FY 1998, which changed the point of collection and raised the use fuel rate charged to “use class” vehicles. The decrease in Motor Carrier revenue was impacted by HB 2239 in FY 1994 which lowered the motor carrier rates each year until the implementation of SB 1144 on October 1, 1997. SB 1144 eliminated the weight-distance tax as of October 1, 1997 and replaced it with a new Motor Carrier Fee. The steady increase in VLT collections is a result of a healthy economy in Arizona and the revenue acceleration programs implemented by MVD.





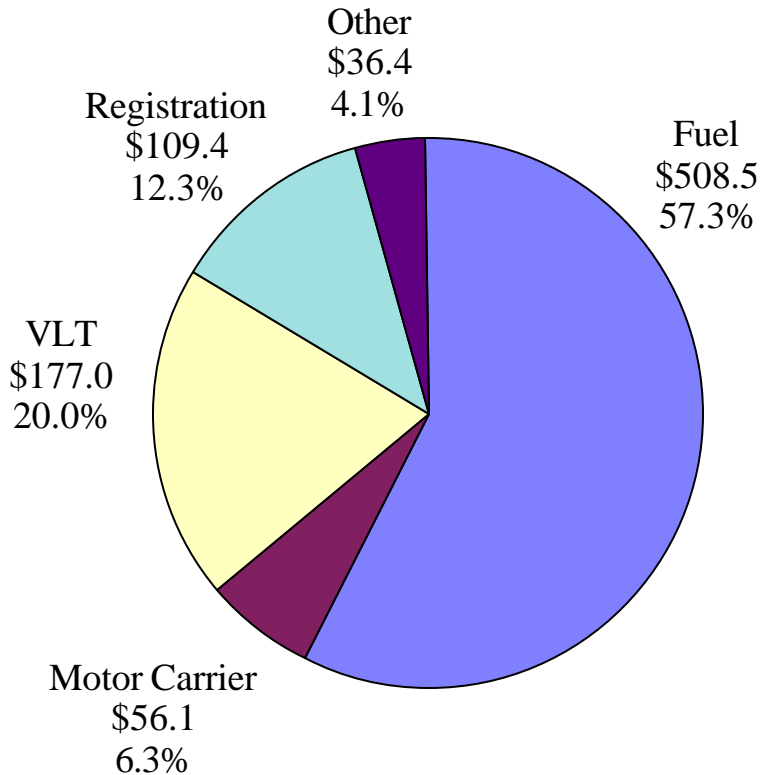
# ARIZONA HIGHWAY USER REVENUE FUND

## SOURCES AND USES OF FUNDS

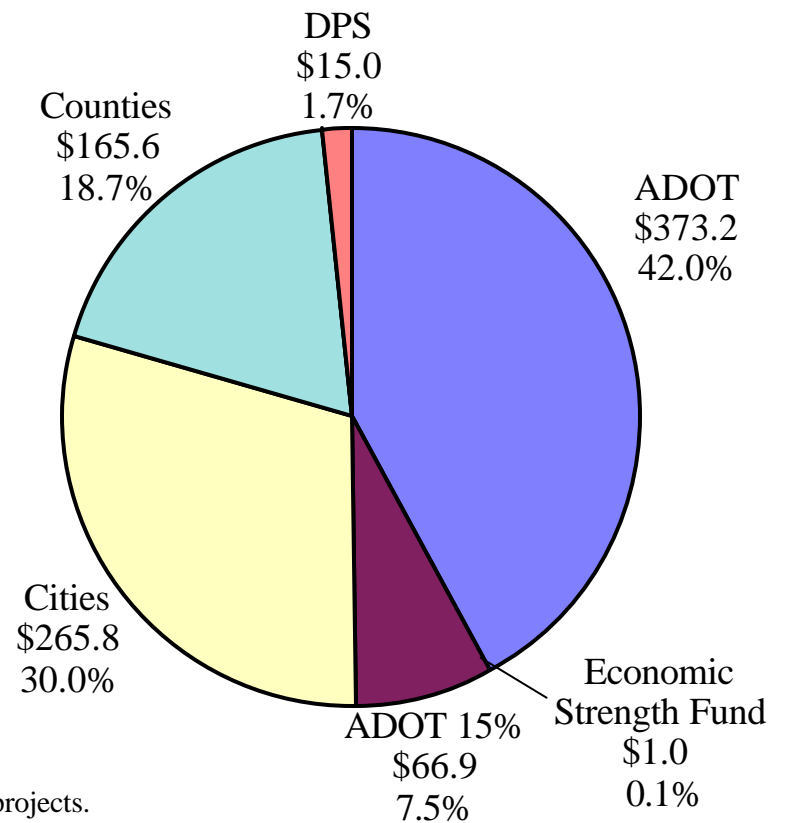
### FY 1998

### TOTAL: \$887.5 MILLION

### SOURCES



### DISTRIBUTION



NOTE: ADOT 15% represents ADOT's allocation of HURF for MAG and PAG regional projects.

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# ARIZONA HIGHWAY USER REVENUE FUND

## REVENUE COMPARISON STATEMENT

CATEGORY	FY 1997 ACTUAL	FY 1998 ACTUAL	CHANGE	FY 1998 ESTIMATE	CHANGE
<b>GAS TAX</b>	\$363,953,161	\$366,376,609	0.7%	\$375,500,000	-2.4%
<b>USE FUEL TAX</b>	124,748,225	142,166,607	14.0%	137,500,000	3.4%
<b>SUBTOTAL</b>	488,701,386	508,543,216	4.1%	513,000,000	-0.9%
<b>MOTOR CARRIER</b>	90,185,552	56,122,967	-37.8%	76,100,000	-26.3%
<b>VEHICLE LICENSE TAX</b>	175,252,612	176,950,257	1.0%	185,000,000	-4.4%
<b>COUNTY REGISTRATION</b>	56,481,717	53,500,373	-5.3%	52,200,000	2.5%
<b>PRORATE</b>	35,315,805	45,494,837	28.8%	53,800,000	-15.4%
<b>MISC. REGISTRATION</b>	9,730,815	10,449,565	7.4%	10,200,000	2.4%
<b>SUBTOTAL</b>	101,528,337	109,444,775	7.8%	116,200,000	-5.8%
<b>TITLE FEES</b>	5,459,373	5,510,295	0.9%	5,700,000	-3.3%
<b>OPERATOR LICENSES</b>	18,791,529	12,351,238	-34.3%	8,300,000	48.8%
<b>OVERSIZE PERMITS</b>	3,046,792	3,222,085	5.8%	3,200,000	0.7%
<b>INQUIRY FEES</b>	6,343,099	6,569,619	3.6%	9,600,000	-31.6%
<b>STATION FUEL FEES</b>	1,130,500	1,188,203	5.1%	1,300,000	-8.6%
<b>INVESTMENT INTEREST</b>	1,977,411	1,881,972	-4.8%	2,200,000	-14.5%
<b>MISCELLANEOUS FEES</b>	4,545,605	5,702,220	25.4%	5,200,000	9.7%
<b>SUBTOTAL</b>	41,294,309	36,425,632	-11.8%	35,500,000	2.6%
<b>TOTAL</b>	\$896,962,198	\$887,486,847	-1.1%	\$925,800,000	-4.1%

# ARIZONA HIGHWAY USER REVENUE FUND

## REVENUE COLLECTIONS BY CATEGORY

(DOLLARS IN THOUSANDS)

Fiscal Year	Vehicle						General Fund	Total /2
	Gas Tax	Use Fuel Tax	Motor Carrier	License Tax	Registration	Other	Transfer	
1988	\$267,318	\$47,610	\$98,707	\$79,240	\$79,090	\$22,996	\$12,422	\$607,383
1989	286,101	50,797	104,709	80,125	80,338	23,402	13,789	646,485
1990	286,240	52,876	104,343	91,390	88,536	25,474	15,198	664,057
1991	296,816	65,202	108,655	92,826	75,657	24,033	16,632	679,821
1992	307,879	61,910	109,573	96,146	74,180	25,507	0	675,195
1993	315,227	72,008	120,303	105,027	80,717	24,161	0	717,443
1994	334,643	87,913	118,530	113,990	83,826	37,161	0	776,063
1995	342,299	108,790	92,103	131,562	86,159	39,238	0	800,152
1996	358,961	114,780	85,433	160,145	97,601	42,654	0	859,575
1997	363,953	124,748	90,186	175,253	101,528	41,294	0	896,962
1998	366,377	142,167	56,123	176,950	109,445	36,425	0	887,487
<b>Total</b>	<b>\$3,525,814</b>	<b>\$928,801</b>	<b>\$1,088,665</b>	<b>\$1,302,654</b>	<b>\$957,077</b>	<b>\$342,345</b>	<b>\$58,041</b>	<b>\$8,210,623</b>

Note:

/1 Total for fiscal year 1989 includes a legal settlement of \$7,223,227.

/2 Details may not add to the totals due to individual rounding.

# ARIZONA HIGHWAY USER REVENUE FUND

## REVENUE DISTRIBUTIONS

(DOLLARS IN THOUSANDS)

FISCAL YEAR	ARIZONA HIGHWAY FUND	MAG CONTROLLED ACCESS	PAG CONTROLLED ACCESS	CITIES AND TOWNS	COUNTIES	DEPT. OF PUBLIC SAFETY/1	ECONOMIC	MANDATORY INSURANCE TRANSFER/3	BORDER AREA PROJECTS	TOTAL/4
							STRENGTH PROJECT FUND/2			
1988	\$243,799	\$36,726	\$12,242	\$197,472	\$117,144					\$607,383
1989	269,916	38,179	12,726	204,112	121,052		\$500			646,485
1990	277,445	39,190	13,063	209,767	124,092		500			664,057
1991	294,567	39,225	13,075	208,708	123,746		500			679,821
1992	288,991	38,111	12,704	201,394	119,068	\$12,453	1,000	\$1,473		675,194
1993	302,176	39,846	13,282	210,531	124,468	24,928	1,000	1,212		717,443
1994	328,151	43,270	14,423	228,606	135,157	24,925	1,000	532		776,064
1995	339,752	44,890	14,963	237,920	140,627	20,000	1,000		\$1,000	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			896,963
1998	373,206	50,171	16,724	265,803	165,583	15,000	1,000			887,487
<b>Total</b>	<b>\$3,459,212</b>	<b>\$468,788</b>	<b>\$156,262</b>	<b>\$2,489,232</b>	<b>\$1,489,607</b>	<b>\$134,806</b>	<b>\$8,500</b>	<b>\$3,217</b>	<b>\$1,000</b>	<b>\$8,210,624</b>

NOTE:

- 1/ In certain 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 statutory 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 Motor Vehicle Division for funding of mandatory insurance enforcement administration.
- 4/ Details may not add to the total due to individual rounding.

# HURF DISTRIBUTION TO ARIZONA CITIES AND COUNTIES FY 1997 - 98

COUNTY	CITY	COUNTY \$ 1\	CITY \$\$ 2\	COUNTY	CITY	COUNTY \$ 1\	CITY \$\$ 2\	COUNTY	CITY	COUNTY \$ 1\	CITY \$\$ 2\
Apache		\$4,747,087.23		La Paz		\$2,771,706.63		Pima		\$31,773,084.58	
	Eager		\$788,468.51		Parker		\$900,753.08		Marana		\$382,937.14
	Springerville		\$347,873.44		Quartzite		\$602,118.87		Oro Valley		\$1,415,780.73
	St. Johns		\$618,458.58						South Tucson		\$417,971.87
Cochise		\$6,397,954.10		Maricopa		\$67,335,363.52			Tucson		\$40,193,557.68
	Benson		\$324,273.61		Apache Junction		\$8,642.72		Sahuarita		\$159,340.05
	Bisbee		\$509,572.54		Avondale		\$1,432,158.42				
	Douglas		\$1,158,825.99		Buckeye		\$307,428.10		Pinal		\$8,272,108.94
	Huachuca City		\$152,446.50		Carefree		\$144,164.39		Apache Junction		\$1,620,219.04
	Sierra Vista		\$2,962,974.09		Cave Creek		\$192,191.38		Casa Grande		\$1,747,826.17
	Tombstone		\$110,826.93		Chandler		\$8,298,544.71		Coolidge		\$586,449.83
	Wilcox		\$277,825.80		El Mirage		\$363,849.80		Eloy		\$745,385.44
Coconino		\$7,356,104.18			Fountain Hills		\$887,411.59		Florence		\$943,528.16
	Flagstaff		\$5,371,445.91		Gila Bend		\$109,319.62		Kearny		\$205,577.40
	Fredonia		\$131,727.15		Gilbert		\$3,694,426.86		Mammoth		\$164,475.59
	Page		\$837,997.30		Glendale		\$11,507,807.10		Superior		\$288,482.80
	Williams		\$283,255.26		Goodyear		\$580,433.64		Santa Cruz		\$2,049,472.79
	Sedona		\$279,834.05		Guadalupe		\$340,234.11		Nogales		\$1,800,695.50
Gila		\$2,877,800.90			Litchfield Park		\$237,146.43		Patagonia		\$82,670.46
	Globe		\$734,275.94		Mesa		\$25,391,916.90		Yavapai		\$7,634,019.99
	Hayden		\$94,544.81		Paradise Valley		\$780,747.97				
	Miami		\$211,742.43		Peoria		\$4,675,405.12		Camp Verde		\$655,475.96
	Payson		\$1,122,783.61		Phoenix		\$88,302,405.29		Chino Valley		\$549,478.73
	Winkelman		\$70,438.53		Queen Creek		\$193,272.57		Clarkdale		\$227,080.54
Graham		\$1,793,779.22			Scottsdale		\$10,583,681.37		Cottonwood		\$572,453.50
	Pima		\$141,931.77		Surprise		\$672,943.04		Jerome		\$41,046.92
	Safford		\$662,061.85		Tempe		\$9,684,269.26		Prescott		\$2,686,280.56
	Thatcher		\$304,069.44		Tolleson		\$276,306.38		Prescott Valley		\$1,480,344.12
Greenlee		\$716,799.17			Wickenburg		\$300,140.25		Sedona		\$548,183.75
	Clifton		\$301,880.17		Youngtown		\$169,818.93		Yuma		\$7,738,595.67
	Duncan		\$72,975.22		Mohave		\$8,227,262.74				
					Bullhead City		\$2,678,276.73		Somerton		\$555,577.91
					Colorado City		\$313,123.88		San Luis		\$735,049.28
					Kingman		\$1,671,605.68		Welton		\$107,505.67
					Lake Havasu City		\$3,538,916.01		Yuma		\$5,768,653.87
					Navajo		\$5,891,360.98				
					Pinetop/Lakeside		\$428,989.58				
					Holbrook		\$691,234.68				
					Show Low		\$905,776.91				
					Snowflake		\$560,954.58				
					Taylor		\$361,498.65				
					Winslow		\$1,461,034.94				
			FISCAL YEAR 1997-98 TOTALS:								
			CITIES:		\$265,803,487.64						
			COUNTIES:		\$165,582,500.64						

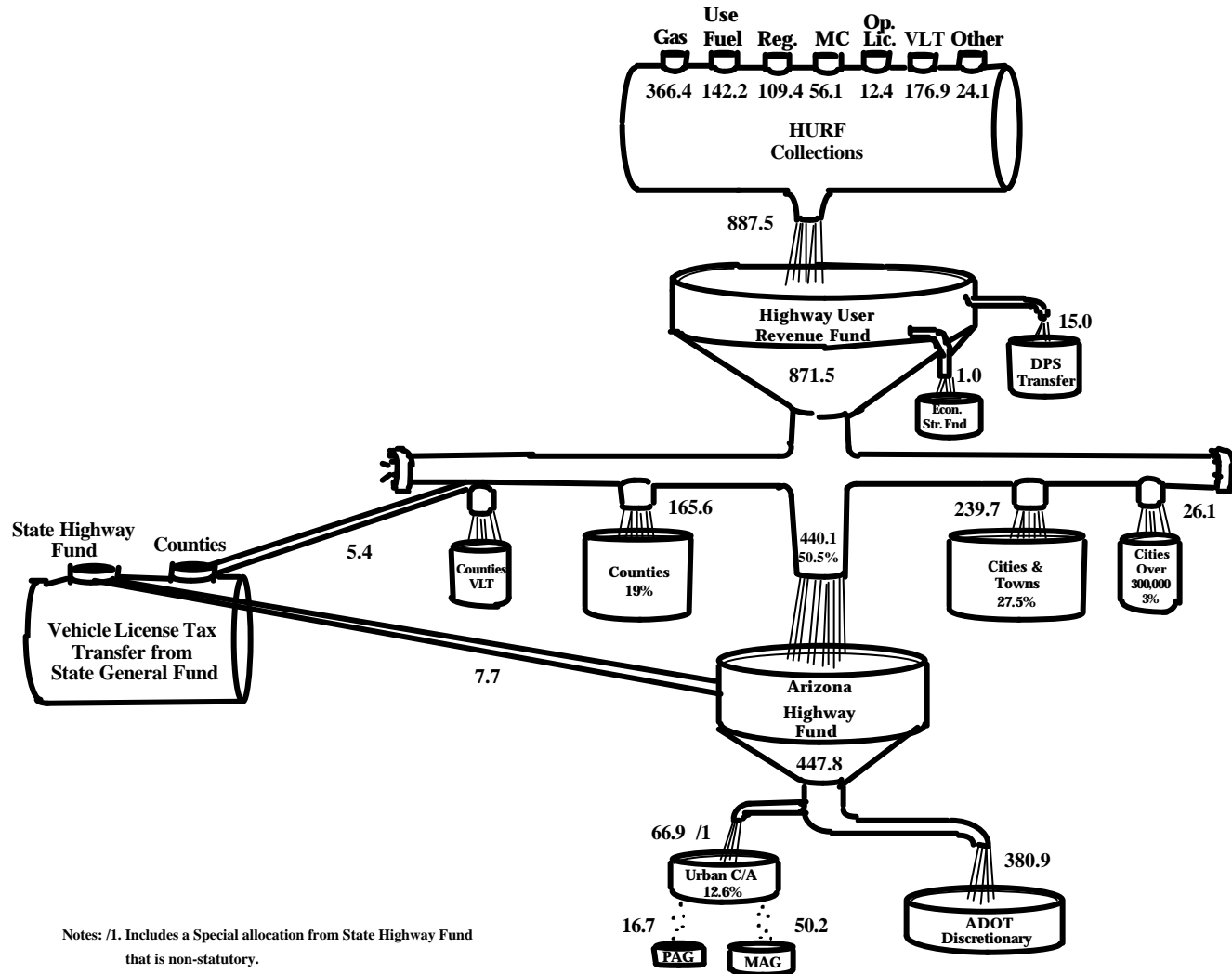
\* Data includes March 1998 mid-year Hold Harmless adjustments for cities and towns.

# HIGHWAY USER REVENUE FUND DISTRIBUTION OVERVIEW

<p><b><u>Revenues from:</u></b></p> <p><b>\$.18 Gas Tax \$.27 Use Fuel Tax (1/98) Vehicle Registration Motor Carrier 31.5% of VLT Other</b></p>	<p><b><u>Distribution breakdown:</u></b></p> <p><b>50.5% to State Highway Fund</b></p> <p><b>27.5% to Cities &amp; Towns</b></p> <p><b>3% to Cities over 300,000</b></p> <p><b>19% to Counties</b></p>	<p><b><u>Distribution formulas:</u></b></p> <p><b>7.67% to Maricopa and Pima Counties for Controlled Access with a 75% and 25% split respectively. (Statutory 12.6% &amp; Special 2.6% money) 42.83% to ADOT Discretionary.</b></p> <p><b>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.</b></p> <p><b>Distributed to Phoenix, Tucson and Mesa based on population.</b></p> <p><b>Distributed based on a portion of gasoline distribution and diesel fuel consumption and on a portion of unincorporated population. The split 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)</b></p>
<p><b><u>Revenues from:</u></b></p> <p><b>State General Fund Portion of VLT</b></p>	<p><b><u>Distribution breakdown:</u></b></p> <p><b>2% to State Highway Fund</b></p> <p><b>1.4% to Counties in FY 1998 3% to Counties in FY 1999 6% to Counties in FY 2000 and thereafter.</b></p>	<p><b><u>Distribution formulas:</u></b></p> <p><b>ADOT Discretionary</b></p> <p><b>Distributed based on unincorporated population.</b></p>

**NOTE: Section 28-1598, Arizona Revised Statutes includes a hold harmless clause that states if an incorporated city or town would receive less than what it received in FY 1996, the balance due the city or town shall be distributed proportionately from those cities and towns receiving more than received in FY 1996.**

# ARIZONA DEPARTMENT OF TRANSPORTATION FY 1997-98 HURF ACTUAL REVENUE DISTRIBUTION FLOW (Dollars in Millions)



Notes: /1. Includes a Special allocation from State Highway Fund that is non-statutory.

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# REVENUE CATEGORY DEFINITIONS

<b>GASOLINE TAX</b>	A per-gallon tax imposed on gasoline used by vehicles on Arizona highways; presently this tax is 18 cents per gallon.
<b>USE FUEL TAX</b>	Includes all gases and liquids used to propel motor vehicles except for motor fuel (gasoline): primarily diesel fuel which is presently 27 cents per gallon for “use class” vehicles and 18 cents per gallon for “non-use class” vehicles; jet fuel is exempt from fuel and use fuel taxes.
<b>MOTOR CARRIER TAX</b>	Includes Motor Carrier Tax- a tax imposed on certain commercial carriers based on vehicle weight and distance traveled. Also includes: Motor Carrier Licenses, Motor Carrier Tax Penalties, and Station Motor Carrier Fees.
<b>VEHICLE LICENSE TAX</b>	An annual license tax imposed on registered vehicles in lieu of property taxes.
<b>REGISTRATION FEES</b>	Is made up of three distinct components which are:  <b>County Registration</b> - non-commercial and commercial vehicle registration, and commercial weight fees.  <b>Prorate Registration</b> - commercial registration fees allocated according to miles traveled in Arizona.  <b>Miscellaneous Registration</b> - Non-resident Permits, Unassigned Registration, Prorate Stickers, and Registration Penalties.
<b>OTHER FEES</b>	Includes Title Fees, Operator Licenses, Oversize/Overweight Permits, Station Fuel Fees, Investment Interest, Fuel Tax Penalties, and other miscellaneous fees.