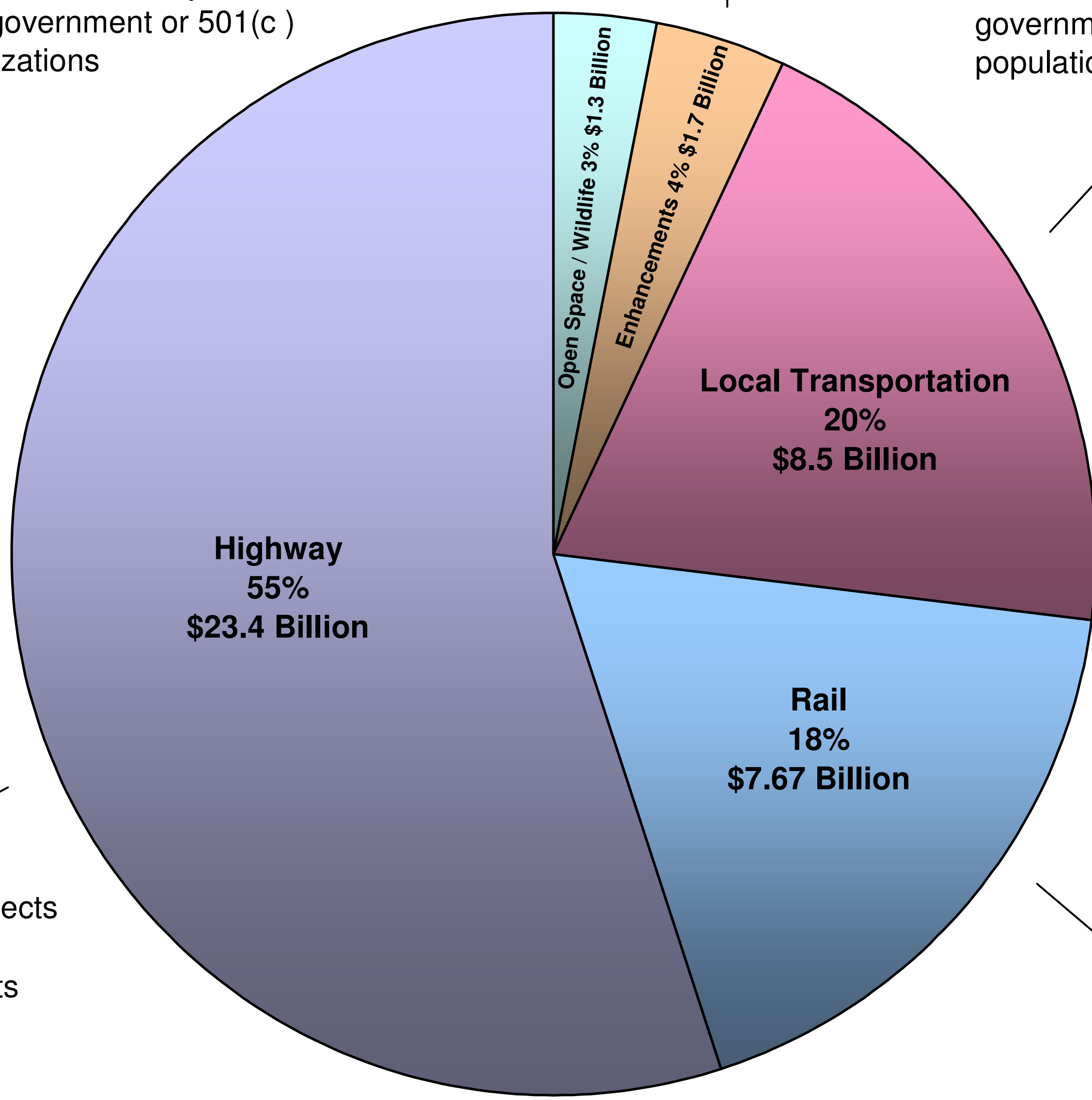
T.I.M.E
1% Sales Tax for 30 Years

Open Space/Wildlife:
Grants distributed by ADOT to local government or 501(c) organizations

Enchancements:
Passed through local governments according to population

Local Transportation:
- 60% to Maricopa local governments according to population
- 38% to all other local government based on HURF formula
- 2% to Indian tribes outside of Maricopa



Highway:
- 49% Maricop County Projects
- 39% Rural Projects
- 12% Pima County Projects

Rail:
- 8% to RPTA
- 5% to RTA
- 87% to statewide Rail

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ARIZONA TAX RESEARCH ASSOCIATION

TIME Initiative

Summary of key provisions:

The initiative calls for a one-cent increase in the state sales tax beginning January 1, 2010 through December 31, 2039. If passed, the monies will be spent on interstate highway improvements, passenger rail systems, local and regional roads, buses and light rail, transportation enhancements, and preservation of open space and wildlife habitat. The Arizona Department of Transportation (ADOT) estimates the tax will raise $43 billion over 30 years. ADOT's estimate is adjusted for inflation as well as interest associated with borrowing (5% annually). Using ADOT's growth estimates, the nominal dollars actually raised will be almost three times that estimate at $120 billion.

The initiative earmarks the revenue into the following five funds based on the following percentages:

- 55% - Highway Time Fund
- 18% - Rail Time Fund
- 29% - Local Transportation Purposes
- 4% - Transportation "Enhancements"
- 3% - Open Space and Wildlife Fund

The Highway TIME Fund (55%) is estimated to raise $23.42 billion ($66.3 billion in nominal dollars) over 30 years. The revenues in this fund are earmarked for interstate highway improvements, acceleration of state highway projects, improvements to facilitate wildlife movement, funding for public private partnerships, and any other transportation related purpose. TIME Fund monies can also fund additional employees, equipment, services, and facilities necessary to complete projects funded by the tax. The monies in the Highway TIME fund will be under the control of the Director of the Department of Transportation and earmarked for projects in the following regions:

- 49% for projects located in Maricopa County
- 39% for projects in rural counties
- 12% for projects in Pima County

The Rail TIME Fund (18%) is estimated to raise $7.67 billion ($21.7 billion in nominal dollars) over the life of the tax and the revenues are earmarked for the following purposes: passenger rail systems of statewide significance; freight rail improvements that enhance passenger rail; direct distributions and state matching grants for projects that facilitate passenger rail systems including light rail; direct distributions and grants for programs that provide transportation of passengers along a roadway, including bus, Para transit, carpools, vehicle, rideshare etc. The Rail TIME Fund monies can also fund additional employees, equipment, services, and facilities necessary to complete projects funded by the tax.

The monies in the Rail TIME Fund that are passed through to the Maricopa and Pima County transportation authorities will be spent by those agencies. The remainder of the monies in the Rail TIME Fund is controlled by the Director of the Department of Transportation. The initiative calls for the creation of a Passenger Rail Project Committee for each passenger rail project. The committee of ten members will provide recommendations to the State Transportation Board. The Board will determine the projects designated to be funded through the Rail Time Fund.

Rail TIME Fund monies are earmarked for distribution as follows:

- 8% to the Maricopa County transportation authority (RPTA)
- 5% to the Pima County transportation authority (RTA)
- 87% for any purpose authorized under the Rail Time Fund

The Local Transportation Purposes "Fund" (20%) is estimated to raise $8.52 billion ($24.1 billion in nominal dollars) and the revenues are earmarked for the following purposes: local roads; light Rail; bus; Para transit, carpool, vehicle, transportation enhancements; transportation safety; and other transportation related projects.

The monies in the Local Transportation Purposes "Fund" are passed through to the local governments and Indian tribes as follows:

- 60% to Maricopa County, cities and towns in Maricopa County, and Indian tribes according to population
- 38% to all other counties and cities and towns in those counties based on current HURF distribution formula
- 2% to Indian tribes outside Maricopa County based on population of tribe

The Transportation Enhancements "Fund" (4%) is estimated to raise $1.7 billion ($4.8 billion in nominal dollars) and the revenues are earmarked for the following purposes: acquisition of scenic enhancements; development of safe school routes; environmental mitigation (water pollution, wildlife mortality, habitat connectivity);

landscaping and scenic beautification; neighborhood mitigation; preservation of rail corridors; facilities for pedestrians and bikes; transit oriented development; and other enhancements determined by the Department.

The monies in the Transportation Enhancements "Fund" are passed through to counties (unincorporated population), cities and towns, and tribes according to population.

Open Space Conservation & Wildlife Habitat Fund (3%) is estimated to raise $1.3 billion ($3.6 billion in nominal dollars) and the revenues are earmarked for the following purposes: protect, maintain or recover wildlife habitats and open space that is affected directly or indirectly by transportation projects.

The Director of the Department of Transportation will administer the fund in consultation with the State Game and Fish Department and select projects based on priorities set by Arizona State Wildlife Action Plan and Arizona Game and Fish. The Department may issue grants to a political subdivision of the state, Indian tribe or 501(c).

ATRA Policy Concerns/Issues:

Earmarking Revenue

For decades, ATRA has expressed concerns about earmarking revenues outside the appropriations process through what is commonly referred to as "ballot box budgeting." Earmarking revenues and creating dedicated funding requirements does significant damage to the state's ability to do comprehensive budgeting and handcuffs state policymaker's ability to do comprehensive budgeting over time.

History has certainly vindicated ATRA's policy arguments against ballot box budgeting. Regrettably, determining state budget priorities at the ballot box has become so commonplace in Arizona that much of the flexibility needed to annually adopt a state budget has been stripped of the Legislature.

The TIME initiative will not only earmark billions of dollars outside the scrutiny and flexibility of the appropriations process for 30 years, it will also divert a large portion of the state's tax base that has supported the general fund away from that potential use for the next 30 years.

Impact on State and Local Tax System

The majority of Arizona's state and local tax revenue comes from three major taxes: sales tax; property tax; and income tax. Arizona relies most heavily on the sales tax and has consistently ranked in the top ten nationally in sales taxes per capita. In the near term, TIME would add an estimated $1.2 billion in annual sales tax collections – pushing Arizona into the top five nationally.

The sales tax has always been the most important revenue source for the State of Arizona, accounting for 49% of the state's general fund revenue in Fiscal Year (FY) 2008. While there are no current specific proposals to raise taxes to support the state general fund, recent events (Prop. 301) suggest that if there were, they would be directed at the sales tax. The state's recently adopted FY2009 budget contains a structural deficit of $1.3 billion. With most budget gimmicks used up, the options available for closing the FY2010 budget deficit without increasing taxes are significantly decreased. Ironically, the TIME initiative proposes an increase in a state tax in an amount that is roughly equivalent to the current state deficit.

Arizona's toleration for the sales tax has resulted in a dramatic increase in sales tax rates of state and local governments over the last two decades as evidenced by the following average tax rates:

Average Retail Sales Tax Rates (1980-1990-2008)

1980

- State Rate = 4%
- Avg. City Rate = 1.2%
- **Total Avg. Rate = 5.2%**

1990

- State Rate = 5%
- Avg. City Rate = 1.6%
- Avg. County Rate = 0.5%
- **Total Avg. Rate = 6.8%**

2008

- State Rate = 5.6%
- Avg. City Rate = 2.4%
- Avg. County Rate = 0.7%
- **Total Avg. Rate = 8.7%**

Clearly, if the TIME initiative passes, the average state and local rate will be just shy of 10% – well above the national average of 8.5%. As a result, it is obvious that a significant increase in the state sales tax rate would affect both state and local governments for the foreseeable future. From a practical standpoint, it is clear that the state would be precluded from looking to the sales tax to raise revenues to meet general fund obligations. City governments, where sales taxes are the largest own source revenue, would also be impacted by the state taking a full one cent of capacity out of the system. Simply put, if successful, this 17.9% increase in the sales tax rate will ensure that future pressure for increased revenues at the state or local level will be directed at property or income taxes.

The revenue estimate

Some confusion regarding the TIME initiative relates to the estimate that the new tax will garner between 2010 and 2039. The proponents estimate that amount at $42.6 billion; however, that estimate is derived by discounting future sales tax collections back to FY2010 dollars, as well as backing out the costs of bonding. (ADOT staff discounted collections 5% over each of the 30 years.) The actual amount of sales taxes in nominal dollars collected over that time, using ADOT's growth estimates, will actually be in the neighborhood of $120 billion.

Accountability

A new tax that will garner an estimated $120 billion over the next 30 years naturally generates questions regarding the accountability for those revenues. Interestingly, the initiative provides no information on the specific transportation projects that will be funded. ADOT and the Governor have produced a planning document titled *Statewide Transportation Investment Strategy* that provides estimates of the projects that will be funded by county. The breakdown of the estimated expenditures for each fund, by county, is attached. It is important to note, however, that the *Statewide Transportation Investment Strategy* is not in the initiative nor is it even referenced. Further, the document doesn't indicate priorities for project funding.

Despite the fact that ADOT and the State Transportation Board have existed for decades and current statutes outline their duties and responsibilities, the initiative provides the ADOT director sweeping new powers separate from the control of the Board. For example, the Director is given the authority to "receive, allocate, control, and disburse all monies designated for state transportation systems by federal or state law or rule." In addition, the Director is given the power to negotiate contracts on behalf of the state with federal or local governments as well as enter into contracts for the "design, construction, operation, or maintenance of state transportation systems facilities or state public transportation systems."

ATRA Position: Oppose

T.I.M.E. Projects By County

County	Highway	Rail/Transit	Local Transporation	Enhancements	Total
Apache	$411,000,000	$29,691,494	$165,648,497	$20,587,905	***$626,927,896***
Cochise	269,398,000	50,373,972	182,797,373	36,778,352	***$539,347,697***
Coconino	1,891,000,000	49,597,587	254,425,589	36,426,577	***$2,231,449,753***
Gila	188,000,000	24,455,878	91,474,896	15,765,064	***$319,695,838***
Graham	143,519,000	19,319,942	51,787,137	9,894,323	***$224,520,402***
Greenlee	0	12,142,535	14,760,725	2,385,193	***$29,288,453***
La Paz	0	15,608,578	84,611,276	5,913,403	***$106,133,257***
Maricopa	11,434,750,000	3,171,006,668	5,112,000,000	1,032,819,778	***$20,750,576,446***
Mohave	1,057,000,000	68,448,459	285,566,860	52,474,508	***$1,463,489,827***
Navajo	250,000,000	40,844,690	208,856,941	30,693,021	***$530,394,652***
Pima	2,752,583,000	1,964,502,832	1,142,121,901	267,245,062	***$6,126,452,795***
Pinal	2,236,500,000	1,695,052,119	335,991,922	70,598,805	***$4,338,142,846***
Santa Curz	510,000,000	21,928,197	69,930,596	12,294,333	***$614,153,126***
Yavapai	1,828,250,000	427,595,916	261,101,424	57,244,902	***$2,574,192,242***
Yuma	450,000,000	66,931,130	258,915,884	52,877,771	***$828,724,785***
County Totals	***$23,422,000,000***	***$7,657,499,997***	***$8,519,991,021***	***$1,703,998,997***	***$41,303,490,015***