

# Pinal County Transportation Excise Tax

## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Subject

The Pinal County Transportation Excise Tax is a half-cent sales tax providing funding for street, road and bridge construction, repair, and roadside development. Enacted for 20 years, it first became effective in 1987. In 2005, voters renewed the tax through 2026.

### Our Conclusion

The County and the cities and towns that receive excise tax revenue have used the tax to help resolve transportation problems. However, to make better use of the revenue, two cities need to improve their transportation planning processes. Finally, we identified a few small, inappropriate expenditures of tax monies by three cities.



2006

## The County and Cities and Towns Can Demonstrate Excise Tax Impact on Streets and Roads

In 1986, residents of Pinal County voted to approve a half-cent sales tax, lasting for 20 years, to help improve streets and roads in the County and its incorporated cities and towns. Although projected to generate \$125 to \$200 million, the tax had generated only \$107.7 million as of the end of 2005. In 2005, the voters renewed the tax through 2026. Because of the tremendous growth in Pinal County, the new tax is estimated to generate \$951.8 million through 2026.

**Revenue distributions**—The revenue is distributed to Pinal County and ten incorporated cities and towns in the County based on their population.

In addition to the excise tax, counties, cities, and towns also receive road revenues from:

- **HURF**—The Highway User Revenue Fund, which is funded by state gasoline taxes, and
- **LTAFF**—The Local Transportation Assistance Fund, which is funded from state lottery revenues.

The excise tax represents about **24 percent** of the County's total road revenues and more than **39 percent** of the cities' and towns' total road revenues.

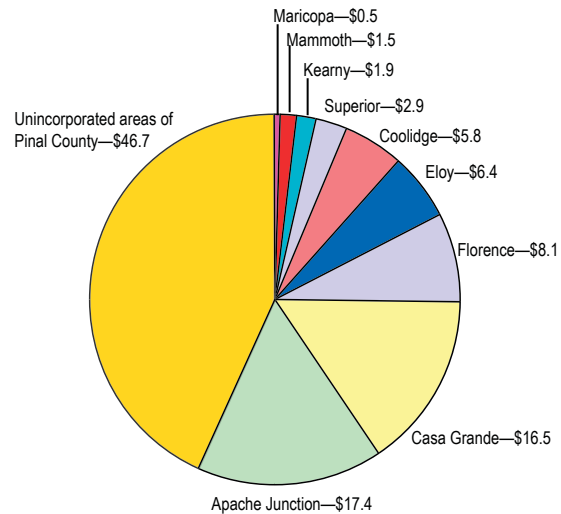
**Tax has significant impact**—According to the County and its



Source: Pinal County

incorporated cities and towns, the excise tax has had a significant impact in addressing their transportation needs and problems. This includes constructing new roads, repairing existing roads, paving dirt roads, and constructing sidewalks and storm drains.

Transportation Excise Tax Distributions of \$107.7 Million<sup>1</sup>  
 Calendar Years 1987 through 2005 (in Millions)  
 (Unaudited)



<sup>1</sup> The Town of Queen Creek also received \$30,128 in excise tax distributions between calendar years 2001 and 2005. The Town is located primarily in Maricopa County; however, it annexed land in Pinal County in 1998 and 2002, and was therefore eligible to receive excise tax monies for the portion of the Town's population residing in Pinal County.

Source: Auditor General staff analysis of excise tax data from the Pinal County Treasurer's Office.

**Table 1:** Types of Projects Funded with Excise Tax Monies Between 2000 and 2005

Jurisdiction	Major Uses
Pinal County	New road construction and major reconstruction
Apache Junction	Repaving existing roads and paving dirt roads
Casa Grande	Improving and expanding existing roadways
Coolidge	Repairing and constructing streets; purchasing equipment
Eloy	Improving existing roadways
Florence	Repairing streets and roads, constructing sidewalks and storm drains
Kearny	Resurfacing and repairing streets, installing new street lights
Mammoth	Installing sidewalks, railing and curbing; patching roads
Queen Creek	Paving dirt roads; paying for equipment
Superior	Making payments on street bonds

For example, Apache Junction reports that it was able to reduce its number of dirt roads by half. See Table 1 above for examples of the types of projects that each of the jurisdictions have used excise tax monies for.

**Two cities can improve how they prioritize projects**—According to city officials, the Coolidge City Council has historically relied on the City's public works director to identify and propose transportation projects. However, in February 2006,

Coolidge partnered with the Town of Florence to complete a small area transportation study that will guide transportation planning for 20 years. It also hired a consultant to develop a capital improvement plan. Coolidge will be able to use the study and plan to help prioritize transportation needs and identify projects that excise tax monies will fund.

According to town officials, the Town of Mammoth has also relied on its public works director to identify transportation needs, but also provides opportunity for public input regarding these needs. However, Mammoth could benefit from a process for inspecting and rating the condition of town roads, similar to those the Town of Kearny adopted. This would allow it to more effectively prioritize projects. In addition, Mammoth does not keep records of projects completed or the maintenance performed. This lack of records makes it difficult to demonstrate the impact of the tax.

### Recommendations

- Coolidge should use its small area transportation study and capital improvement plan to identify and prioritize projects.
- Mammoth should formalize its transportation planning process and keep records of completed projects and maintenance.

## Improved Policies and Procedures Needed To Ensure Appropriate Excise Tax Use

### Street and Highway Purposes

Include right-of-way acquisitions, construction, reconstruction, maintenance and repair, and roadside development of streets, roads, and bridges.

Source: Arizona Constitution Article IX, Section 14.

State statute restricts the use of the transportation excise tax to street and highway purposes. These restrictions are similar to those placed on the HURF monies by the Arizona Constitution.

Based on an analysis of various risk factors, auditors selected Pinal County, the City of Apache Junction, and the Towns of Mammoth and Superior for a review of either excise

tax or road fund expenditures, which includes excise tax monies. (Some cities/towns appropriately commingle excise tax monies with HURF monies in a single fund.)

**County expenditures appropriate**—A review of a sample of Pinal County excise tax expenditures did not identify any inappropriate use of excise tax monies.

**Small, inappropriate expenditures**—However, auditor review of a sample of

expenditures in the three cities and towns found that they have made some small, inappropriate expenditures using excise tax or road fund monies. Specifically:

- **Town of Mammoth**—Inappropriately used restricted road funds for small Christmas bonuses for Mammoth employees and \$50 for breakfast for employees working overtime, which are both unconstitutional gifts of public monies; \$459 in credit card purchases for unknown purposes; and to pay a \$350 charge for wastewater services. In addition, Mammoth does not track employee time and cannot ensure that employees working on other public works projects are not charged to the road fund, or that expenditures for gasoline, utilities, and insurance are properly shared with other town departments.
- **Town of Superior**—Had two inappropriate expenditures including \$29 for food for a utilities committee meeting, which is an unconstitutional gift, and \$322 for pesticide for another department that appears to have been mistakenly charged to its road fund.

- **Apache Junction**—Inappropriately purchased a \$33 plant for an employee, which is an unconstitutional gift, and spent \$23 for other items for employee recognition. It also may have incorrectly charged \$200 for an underground storage tank inspection fee to its road fund that should have been allocated among several department funds.

Our two previous audits of the excise tax in 1998 and 2001 also found some inappropriate expenditures. These continuing problems suggest that a lack of policies and procedures may contribute to inappropriate, unsupported, and mistaken expenditures. Therefore, the cities and towns should develop written policies and procedures to ensure that the monies are used only for authorized purposes. The statutes, voter publicity pamphlets, and published guidance by the Arizona League of Cities and Towns could help in the creation of such policies and procedures.

## Recommendations

The Town of Mammoth should:

- Repay its road fund for the Christmas bonuses and breakfast and seek further legal counsel regarding how it should repay these monies;
- Document the purpose of the credit card purchases and make adjustments to the road fund as needed; and
- Implement a time accounting system or other mechanism to track employee time and use it to appropriately allocate personnel costs and other shared costs to its road fund.

The Town of Superior should:

- Repay the expenditures for food and seek further legal counsel regarding how these monies should be repaid; and
- Correct the mistaken charge for pesticide.

The City of Apache Junction should:

- Repay inappropriate expenditures for the plant and employee recognition items and seek further legal counsel regarding how it should repay these monies; and
- Ensure that it appropriately allocates shared costs to its road fund.

Cities and towns in Pinal County should:

- Develop and implement policies and procedures outlining the appropriate uses of restricted road funds.

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