STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL
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Arizona Department of Transportation—
Transportation Revenues

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

The Arizona Department of Transportation (Department) is responsible for planning, constructing, and maintaining the State's highway infrastructure. However, the Department's projected transportation revenues fall short of estimated transportation needs. The purchasing power of fuel tax revenues—the Department's largest revenue source—has diminished over time while, simultaneously, revenue collections have remained relatively flat since the 2000s. The Department estimates that state transportation system needs will total $88.9 billion for fiscal years 2010 through 2035 while projected transportation revenues will total $26.2 billion, a $62.7 billion shortfall. The Legislature should consider convening a task force to study and propose transportation funding options to address transportation revenue needs.

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Department's projected transportation revenues fall short of estimated needs

Department plans, constructs, and maintains Arizona's highway infrastructure— Every 5 years the Department develops and submits to the State Transportation Board (Board) a long-range transportation plan that identifies anticipated highway system needs for the next 20 years. The Department also prepares a 5-year construction program for board approval that identifies specific construction projects that will be conducted based on anticipated funding. This 5-year construction program is updated annually and includes preservation, modernization, and expansion projects.

Department transportation funding sources include federal aid, which mostly consists of federal fuel taxes, including the 18.4 cents per gallon gasoline tax and the 24.4 cents per gallon diesel/kerosene tax; the State Highway Fund, which includes revenues from various state taxes, such as the 18 cents per gallon gasoline tax, the two-tiered 18 or 26 cents per gallon diesel tax, and the vehicle license tax (VLT), which varies based on vehicle ownership and value; the Regional Area Road Fund for use in Maricopa County, which consists of a Maricopa County half-cent sales tax; and debt proceeds.

Sufficient revenue is important for a viable transportation system—Transportation revenues are necessary for maintaining and expanding the state transportation system. As of calendar year 2014, about 88 percent of pavement the Department maintained was in good or fair condition, while 98 percent of department-maintained bridges were in good or fair condition as of calendar year 2013. Timely maintenance saves the State money because maintaining roads is cheaper than reconstructing roads. According to the Department, it needs to spend $260 million on preservation projects each year between fiscal years 2016 and 2025 to maintain the existing system in its current condition, but competing construction needs and priorities make that expenditure unlikely. Consequently, the Department reported that it has a backlog of maintenance projects and is falling further behind on maintenance every year. As of 2015, driving on roads in need of repair costs Arizona drivers an estimated $1.5 billion annually in extra vehicle repairs and operating costs, according to the American Society of Civil Engineers (ASCE).

Transportation system expansion can address population growth, alleviate congestion, and may help the economy. The State's population increased from more than 3.6 million to more than 6.6 million people between fiscal years 1990 and 2014. Congested streets cost drivers money in the form of wasted time and fuel costs, and 41 percent of Arizona's major urban highways are congested, according to the ASCE. Finally, according to a department report, a well-designed transportation system increases the mobility of goods in and out of the State, and transportation spending directly impacts the economy and job market.

Transportation revenues fall short of estimated needs—The Department's most recent long-range transportation plan anticipates total transportation revenues of $26.2 billion that will be available for use on the state transportation system between fiscal years 2010 and 2035. However, the plan's projected state transportation system needs over that same time period total $88.9 billion, resulting in a $62.7 billion potential shortfall.

Fuel tax revenues lack long-term sustainability—The Department's primary source of transportation revenues are federal and state fuel taxes, which have not been raised since the early 1990s. Since then, the purchasing power of these revenues has diminished. Simultaneously, fuel tax revenues have remained relatively flat since the 2000s. Fuel tax revenues have also been affected by decreased demand for fuel. For example, gasoline sales in Arizona declined by approximately 200 million gallons between fiscal years 2008 and 2009, and remained at or below this level during fiscal years 2010 through 2014. Factors contributing to this decline include increases in fuel efficiency, reduced growth in vehicle miles traveled, and the increased use of alternative fuels.

Lack of anticipated revenues affects transportation planning—The Department reported that it has had to modify the timing, scope, and type of construction projects included in its 5-year construction program because of the lack of anticipated transportation revenues. In addition, areas of the State without a region-specific revenue source, such as a county transportation excise tax, are more affected by the lack of anticipated revenues.

Legislature should consider task force to study options to address transportation revenue needs

Several options may address the transportation revenue shortfall—The most common approach other states have used to address transportation revenues has been to alter fuel taxes. This could include increasing the cents-per-gallon taxes, making the gas tax a percentage of the price of fuel tax, or indexing fuel taxes to inflation. Another option is a tax based on vehicle miles traveled (VMT), which Oregon pioneered in 2015. Under this option, a driver is charged according to miles driven, which can be tracked by a Global Positioning System or other device.

Other revenue options include creating toll roads or lanes, increasing existing or creating new vehicle fees and taxes, and imposing a fee on alternative fuel vehicles. Under the toll option, a driver pays a fee to access a road or lane. Although not in use, Arizona allows the use of toll options but only on new highways, bridges or tunnels, or newly constructed lanes/high occupancy vehicle lanes. Vehicle fees and taxes in Arizona include a registration fee between $4.50 and $9 and the VLT, which averaged $126 per year in fiscal year 2014. Arizona has not established a fee on alternative fuel vehicles.

A final alternative is to impose a sales tax or to use general fund monies for transportation. Sales taxes tend to receive stronger support than other local tax options and can generate significant revenues. Although 32 other states use general fund monies to fund transportation, the Department receives almost no State General Fund monies.

Legislature should consider forming a task force—Other states have benefited from having such a task force to research the various transportation revenue options. For example, Oregon's task force recommended the voluntary VMT tax. Based on a legislative committee's recommendations, South Dakota raised fuel taxes by 6 cents per gallon, increased the vehicle excise tax and license plate fees, and allowed counties to increase property taxes for local transportation.

Recommendation

The Legislature should consider forming a task force to study and propose options for addressing the Department's transportation revenue needs to ensure a safe, efficient, and economically viable state transportation system.