

Regional Area Road Fund

Maricopa Transportation Excise Tax

Fiscal Year 2001
Year-End Report



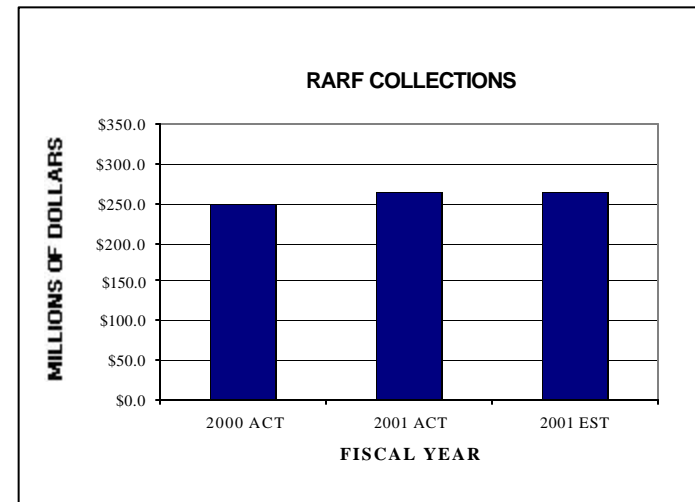
Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2001

REGIONAL AREA ROAD FUND MARICOPA TRANSPORTATION EXCISE TAX EXECUTIVE SUMMARY

The Maricopa County Transportation Excise Tax, often referred to as the "1/2 cent sales tax", is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. The transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal source of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design and construction of controlled access highways. The tax is expected to yield \$3.8 billion for the period January 1986 through December 2005.

For FY 2001, the Maricopa County transportation excise tax collections totaled \$264.7 million, an increase of 6.5 percent over the FY 2000 revenue level and 0.3 percent above the forecast. This represents the slowest growth in excise tax collections since the recession in FY 1992. Growth in FY 2001 occurred in "other" at 11.4 percent, rental of real property at 9.2 percent and utilities at 8.7 percent.

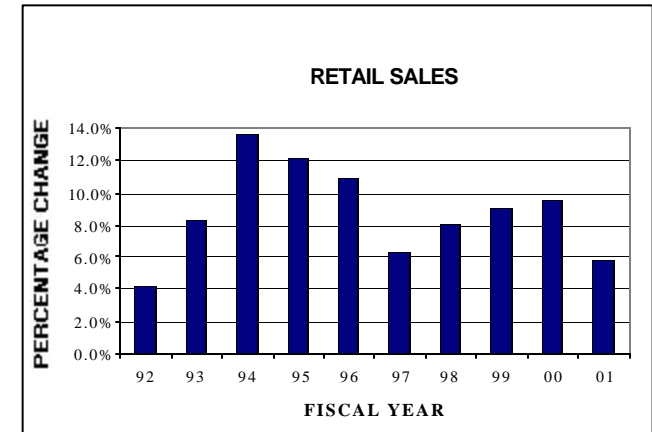
The U.S. economic environment changed significantly in FY2001 with a sharp decline in the stock market along with reduced business and consumer spending. These factors played a key role in the slower growth in excise tax collections in Maricopa County. The Federal Reserve has aggressively reduced interest rates since January 2001, which has aided the already strong residential and commercial construction sectors.



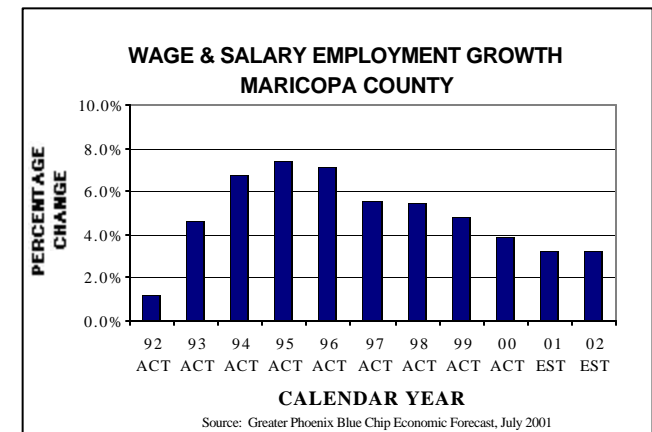
PERFORMANCE BY CATEGORY

RETAIL SALES:

Retail sales revenue was \$131.6 million in FY 2001, an increase of 5.8 percent over FY 2000 and 1.1 percent below the estimate. As noted on the chart to the right, the retail sales growth rate slowed significantly to its lowest point since FY 1992. The heavy consumer spending during FY 1998-2000 was deflated the second half of FY 2001 by the sharp downturn in the stock market and the resulting economic uncertainty. Retail sales growth occurred in staples such as clothing and food stores. In addition, vehicle sales remained strong.



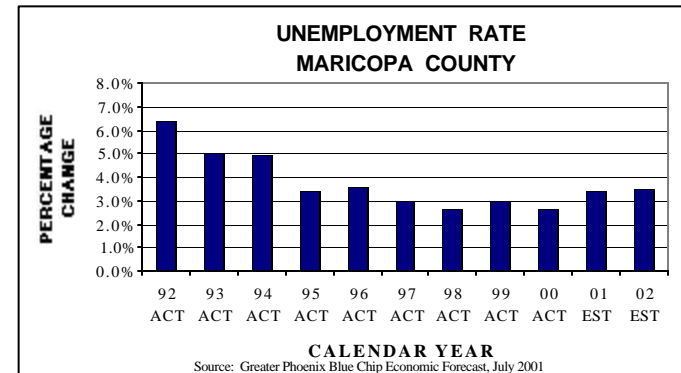
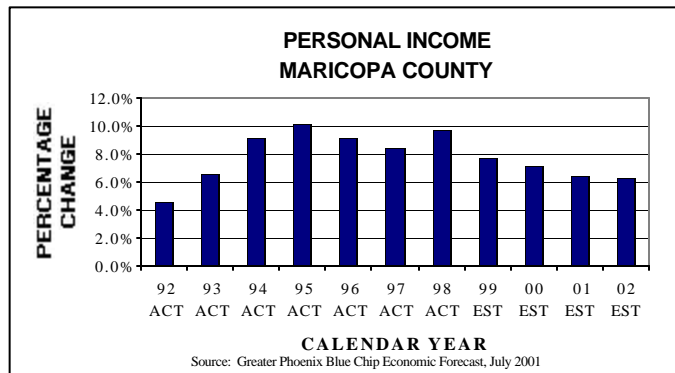
Retail sales for Maricopa County are predicted using three economic indicators, wage and salary employment, personal income and unemployment. The July 2001 Greater Phoenix Blue Chip consensus estimates that the Maricopa County economy is expected to grow but at a slower rate. The forecast for wage and salary employment growth is estimated to be 3.2 percent in Calendar Year (CY) 2001 and CY 2002 compared to 4.8 and 3.9 percent in CY 1999 and CY 2000, respectively.



Growth in personal income is estimated to be 6.4 percent in CY 2001 and 6.3 percent in CY 2002. This represents a mild softening in the

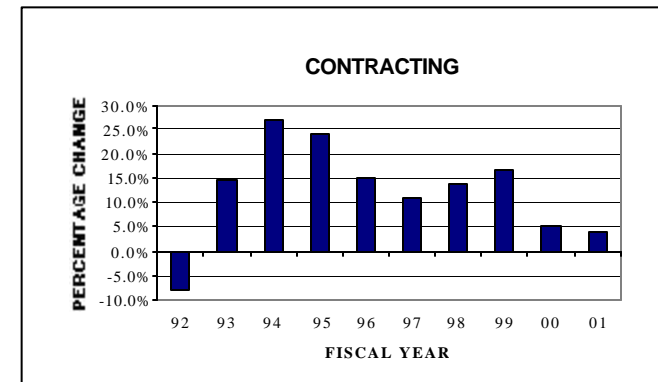
RETAIL SALES: Continued

personal income growth for Maricopa County, which ultimately leads to slower consumer spending. The growth in personal income was 7.7 percent in CY 1999 and 7.1 percent in CY 2000. The unemployment rate is estimated to reverse and move upward due to recent job cuts in the manufacturing and service sectors. The Maricopa County unemployment rate is estimated at 3.4 percent in CY 2001 and 3.5 percent in CY 2002, which is lower than was predicted in the Greater Phoenix Blue Chip consensus estimate dated June 2000.



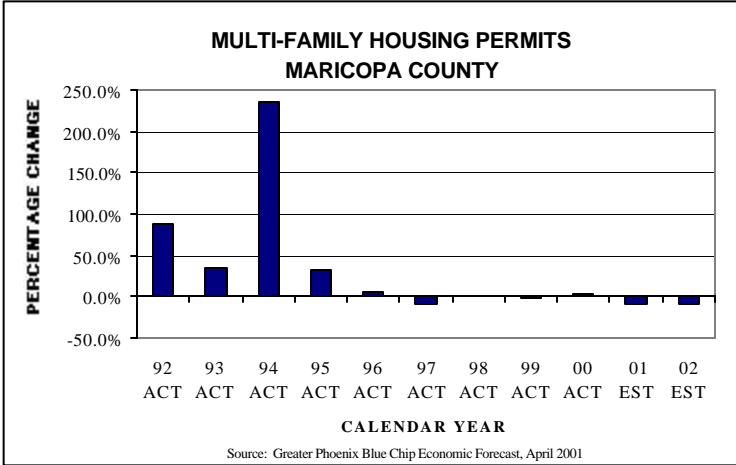
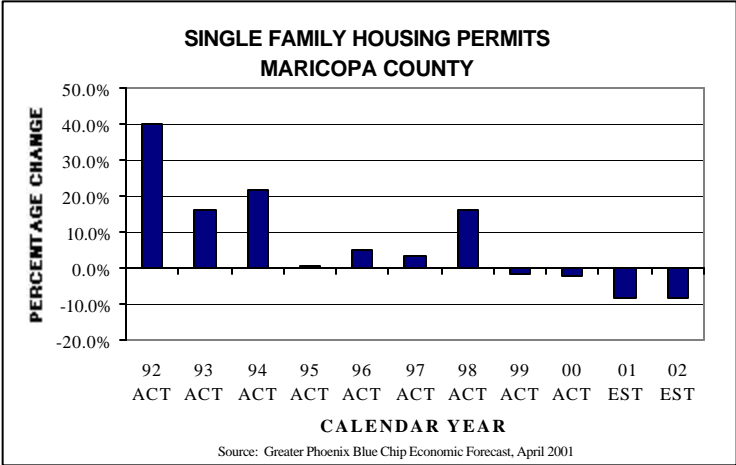
CONTRACTING:

Contracting collections totaled \$38.8 million in FY 2001, an increase of 3.8 percent over FY 2000 and 1.8 percent above the estimate. Similar to the retail sales category, this growth represents the lowest year-over-year growth since FY 1992. However, the contracting revenue growth in FY 2001 was the big surprise for excise tax collections since local economists were predicting negative growth. The residential and commercial construction sectors provided the unexpected growth during the fiscal year.



CONTRACTING: Continued

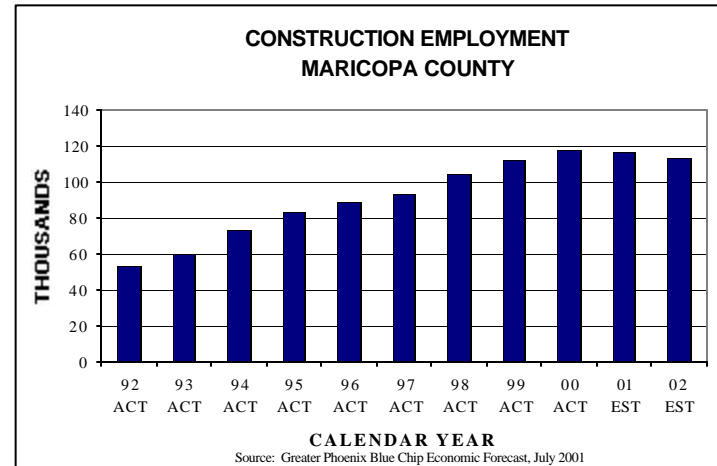
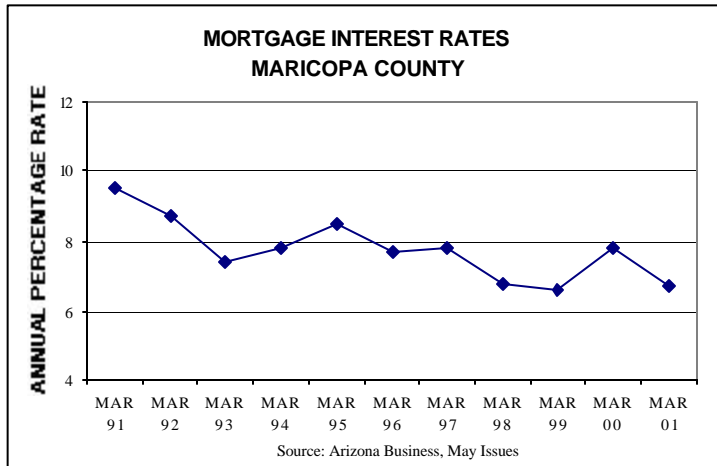
Maricopa County single-family housing permits decreased by 1.7 percent in CY 1999 and 2.2 percent in CY 2000. With the help of lower mortgage rates and the continued influx of new residents, the downturn in the single-family housing sector has been lower than expected. Single family housing permits are projected to decrease 8.2 percent and 8.4 percent in CY 2001 and CY 2002, respectively. However, these estimates may be a bit pessimistic if mortgage rates continue to move lower. Multi-family housing permits saw a 3.2 percent increase in CY 2000 and are estimated to decrease by 8.9 percent in CY 2001 and 9.4 percent in CY 2002. Apartment vacancy rates are expected to increase to 7.1 percent in CY 2001 and CY 2002 from 6.8 percent in CY 2000.



From January 1, 2001 through June 30, 2001, the Federal Reserve has lowered interest rates six times which has impacted mortgage rates during the second half of FY 2001. In March 2001, the interest rate for a conventional 30 year fixed rate mortgage was 6.7 percent compared to 7.8 percent in March 2000. This 1.1 percent decrease in interest rates has provided and will continue to provide for the better than expected growth in the Greater Phoenix housing market.

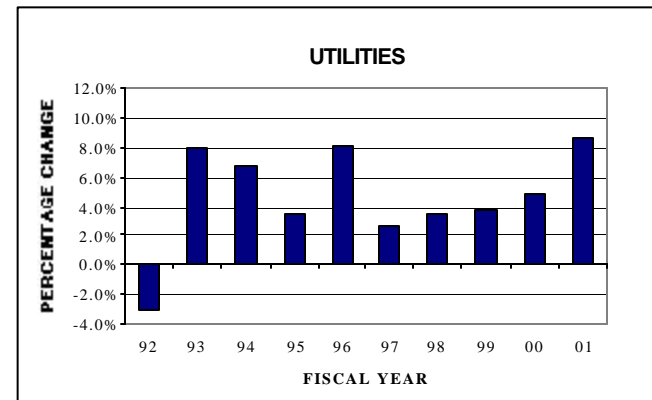
CONTRACTING: Continued

Construction employment increased 5.0 percent in CY 2000 compared to 7.6 percent in CY 1999. This is attributable to the strong residential and commercial construction sectors. The forecast for construction employment shows a decrease of 1.2 percent in CY 2001 and 2.4 percent in CY 2002.



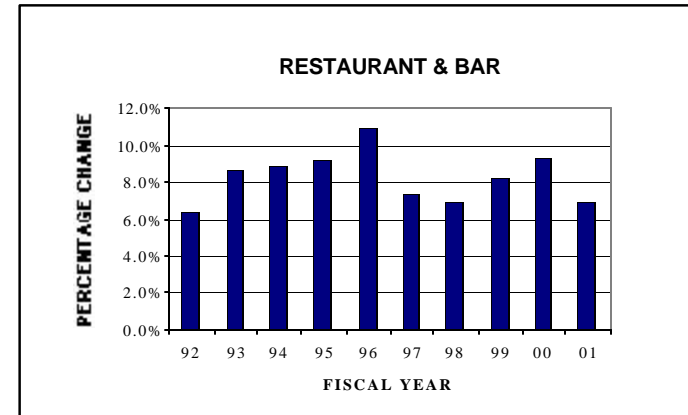
UTILITIES:

For FY 2001, utility tax collections amounted to \$17.9 million, an increase of 8.7 percent over FY 2000 and 5.0 percent above the estimate. The growth in utility tax revenue has benefited from the healthy residential and commercial construction sectors along with higher customer usage.



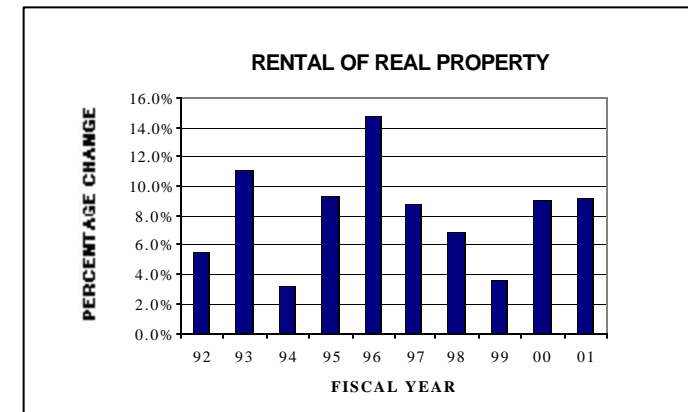
RESTAURANT AND BAR:

Restaurant and bar collections increased 6.9 percent to \$21.4 million in FY 2001 which was 0.1 percent below the estimate. However, restaurant and bar revenues were not immune to the economic slowdown in the second half of the fiscal year. The 6.9 percent revenue growth is comparable to FY 1998, which also experienced economic and financial uncertainty.



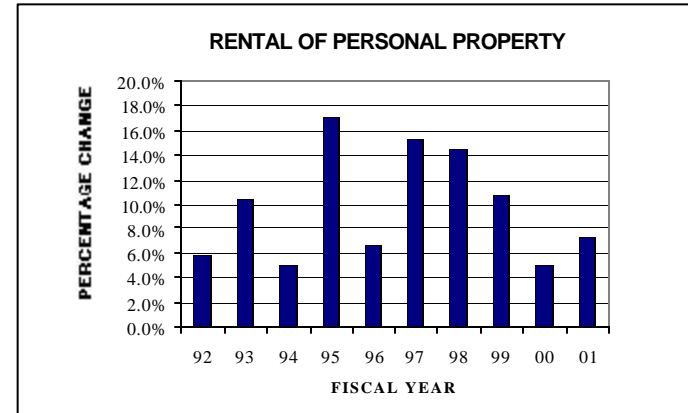
RENTAL OF REAL PROPERTY:

Rental of real property tax collections in FY 2001 totaled \$24.1 million, an increase of 9.2 percent over FY 2000 and 1.3 percent above the forecast. This stronger than expected growth can be attributed to the increasing number of current and new residents electing to live in apartment housing as well as the demand for new commercial structures. This category includes rental of commercial, residential and transient lodging (hotel/motel) facilities.



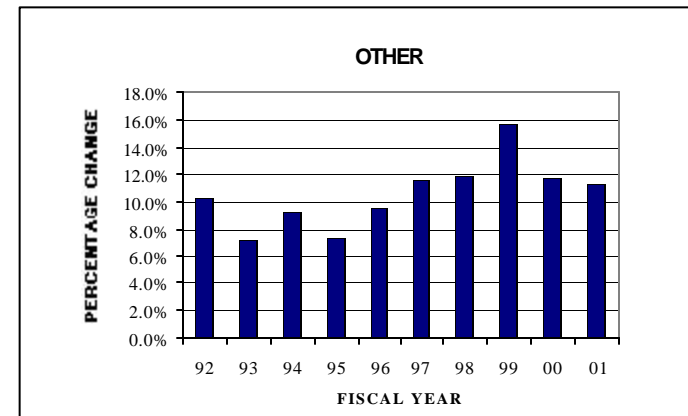
RENTAL OF PERSONAL PROPERTY:

Rental of personal property receipts in FY 2001 totaled \$14.4 million, an increase of 7.3 percent over the FY 2000 revenue level and 0.8 percent above the estimate. Collections continue to benefit from consumers opting for leasing motor vehicles, which accounts for approximately 25 percent of new car sales. In addition, the healthy residential and commercial construction sectors provided additional demand for construction equipment leasing.

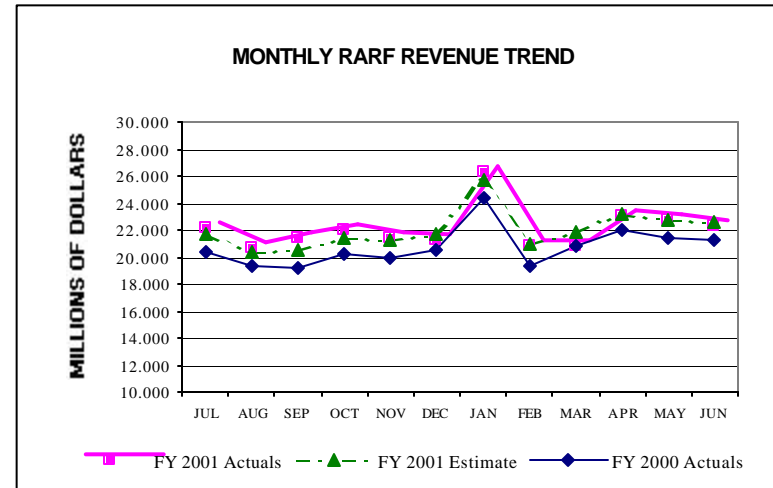
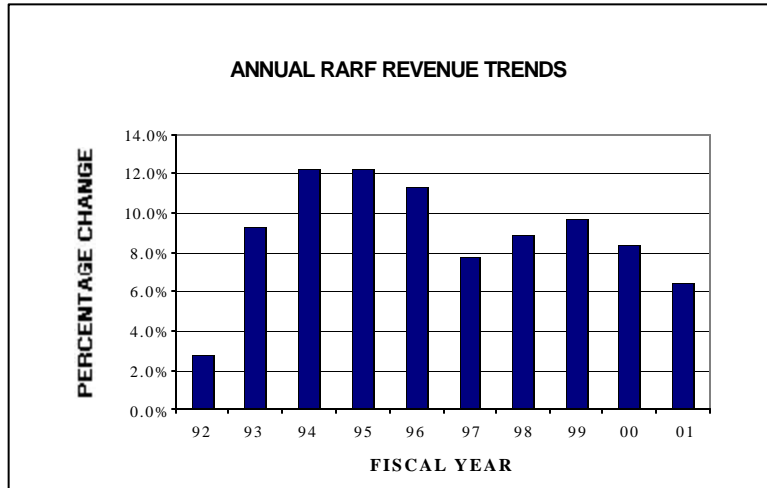


OTHER:

For FY 2001, "Other" revenues totaled \$16.5 million, an increase of 11.4 percent over FY 2000 and 1.2 percent above the estimate. The transporting/towing and communication sectors were the largest contributors to the growth in revenues during FY 2001, increasing 32.9 percent and 16.4 percent, respectively. The communications sector has benefited from the growth in cellular phone ownership along with consumer demand for voice mail and second phone lines. The "other" revenue category also includes collections from amusements, publishing and printing, advertising, and pipelines for oil and gas.



REVENUE TREND ANALYSIS



Transportation excise tax collections for FY 2001 amounted to \$264.7 million, an increase of \$16.1 million over FY 2000. FY 2001 excise tax receipts posted the slowest growth rate since FY 1992. All revenue categories showed increases over last year’s revenue levels. However, the first eight months of the fiscal year experienced strong to moderate year-over-year growth while the last four months saw significantly slower growth. This slower growth was attributable to the stock market downturn and the economic uncertainty. On the positive side, Maricopa County has continued to benefit from population growth and healthy residential and commercial construction activity.

The monthly seasonality of excise tax collections continues to follow consistent trends with sharp increases in revenues in the months of December and January due to holiday retail sales.

REVENUE PERFORMANCE

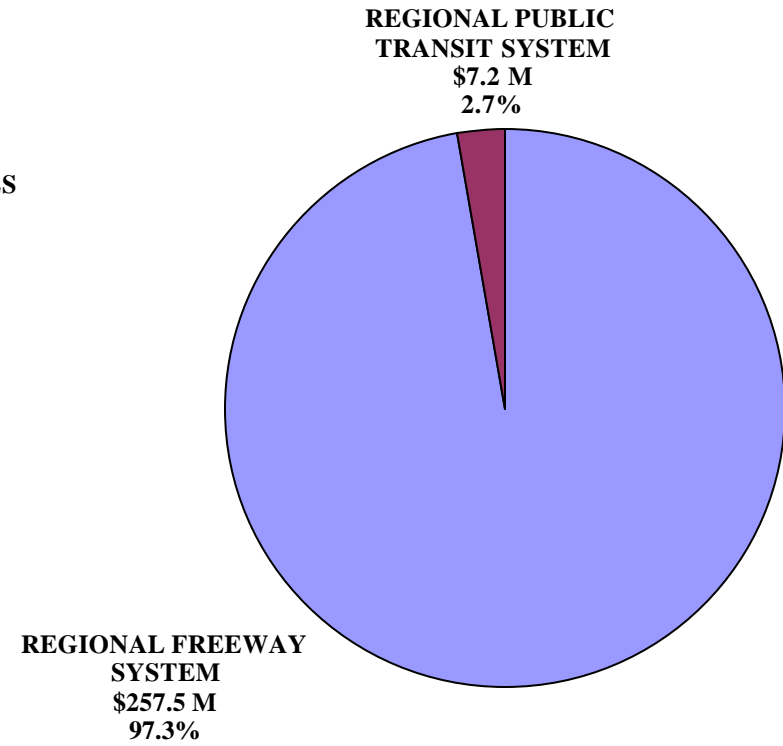
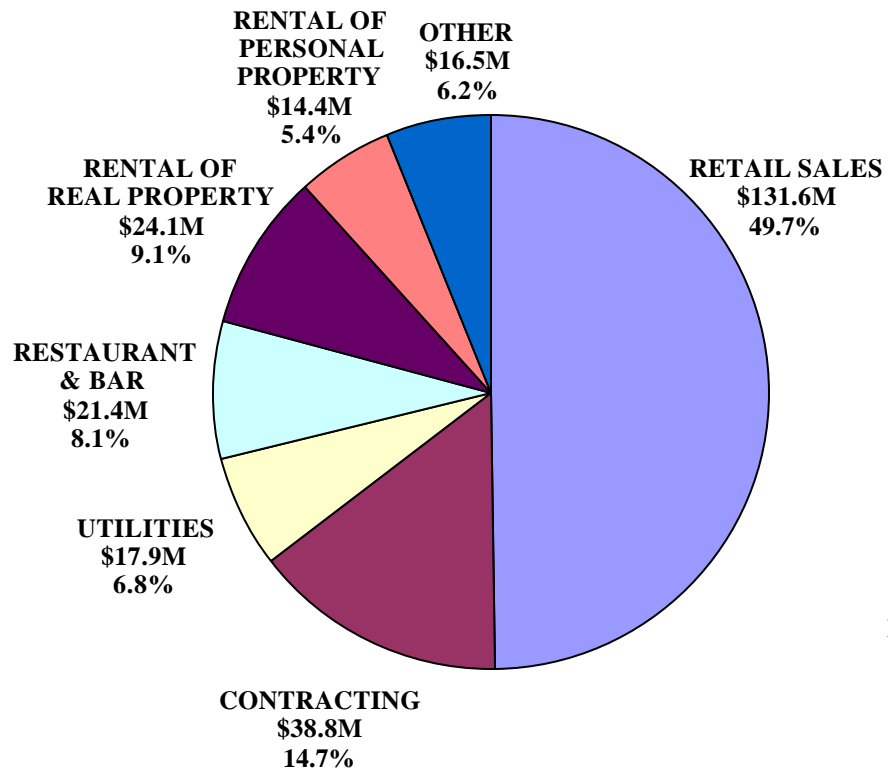
MARICOPA COUNTY TRANSPORTATION EXCISE TAX

FY 2001 ACTUAL

TOTAL= \$264.7 MILLION

SOURCES

DISTRIBUTIONS



MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX REVENUE COMPARISON STATEMENT FY 2001

CATEGORY	FY 2000 ACTUAL	FY 2001 ACTUAL	CHANGE	FY 2001 ESTIMATE	CHANGE
RETAIL SALES	\$124,428,395	\$131,607,841	5.8%	\$133,014,000	-1.1%
CONTRACTING	37,383,996	38,820,028	3.8%	38,132,000	1.8%
UTILITIES	16,437,080	17,861,545	8.7%	17,012,000	5.0%
RESTAURANT & BAR	20,005,337	21,394,911	6.9%	21,426,000	-0.1%
RENTAL OF REAL PROPERTY	22,080,079	24,111,944	9.2%	23,802,000	1.3%
RENTAL OF PERSONAL PROPERTY	13,434,147	14,416,217	7.3%	14,307,000	0.8%
OTHER	14,826,955	16,509,954	11.4%	16,310,000	1.2%
TOTAL	\$248,595,990	\$264,722,440	6.5%	\$264,003,000	0.3%

NOTE: Division of collections to business categories is imputed based upon reported taxable income.

**MARICOPA COUNTY REGIONAL AREA ROAD FUND
TRANSPORTATION EXCISE TAX
REVENUES COLLECTED BY CATEGORY
FY 1986 - 2001
(Dollars in Thousands)**

FISCAL YEAR	RETAIL SALES	CONTRACTING	UTILITIES	RESTAURANT & BAR	RENTAL REAL PROPERTY	RENTAL PERSONAL PROPERTY	OTHER	TOTAL	PERCENT CHANGE
1986 *	\$19,244	\$5,716	\$3,073	\$3,682	\$1,923	\$1,733	\$1,615	\$36,986	
1987	48,085	14,849	8,542	7,579	6,822	4,172	4,782	94,831	
1988	51,405	14,188	9,535	8,379	5,994	4,728	4,961	99,190	4.6%
1989	53,927	13,947	10,336	8,795	8,952	4,883	5,410	106,250	7.1%
1990	55,798	13,286	10,685	9,282	10,808	5,289	5,653	110,801	4.3%
1991	56,769	12,715	11,353	9,655	11,091	5,708	6,044	113,335	2.3%
1992	59,108	11,688	10,999	10,280	11,707	6,043	6,671	116,496	2.8%
1993	64,033	13,385	11,874	11,171	12,993	6,672	7,145	127,273	9.3%
1994	72,737	17,039	12,680	12,166	13,414	7,002	7,808	142,846	12.2%
1995	81,546	21,107	13,132	13,291	14,660	8,198	8,384	160,318	12.2%
1996	90,454	24,284	14,198	14,739	16,822	8,734	9,183	178,413	11.3%
1997	96,281	26,948	14,583	15,821	18,298	10,074	10,252	192,257	7.8%
1998	104,073	30,610	15,101	16,917	19,552	11,539	11,472	209,263	8.8%
1999	113,528	35,632	15,680	18,304	20,266	12,787	13,272	229,470	9.7%
2000	124,428	37,384	16,437	20,005	22,080	13,434	14,827	248,596	8.3%
2001	131,608	38,820	17,862	21,395	24,112	14,416	16,510	264,722	6.5%
TOTAL	\$1,223,024	\$331,598	\$196,070	\$201,462	\$219,494	\$125,412	\$133,989	\$2,431,048	

COMPOUND ANNUAL GROWTH RATE (FY 1987 - FY 2001) = 7.6%

*The tax became effective January 1, 1986

ARIZONA TRANSACTION PRIVILEGE TAX EXCISE TAX RATES FY 2001

Taxable Activity	Percent of Total Maricopa County Transaction Privilege Tax Collections	Transaction Privilege Tax Rate	Transportation Excise Tax Rate
Retail Sales	49.72%	5.00%	0.50%
Contracting	14.66%	5.00%	0.50%
Rental of Real Property (including hotels & motels)	9.11%	1.82%*	0.512%
Restaurants and Bars	8.08%	5.00%	0.50%
Utilities	6.75%	5.00%	0.50%
Rental of Personal Property	5.45%	5.00%	0.50%
Communication	3.72%	5.00%	0.50%
Amusements	1.08%	5.00%	0.50%
Publishing and Printing	0.78%	5.00%	0.50%
Other	0.65%	5.00%	0.50%
Mining	0.00%	3.125%	0.3125%
Wholesale Feed	0.00%	0%**	0.00%

* In 1990 and 1993, legislation reduced the transaction privilege tax rate for real property rentals, however, for transportation excise tax purposes, the rate was retained at its prior level.

** In 1994, legislation repealed the transaction privilege tax for livestock and poultry feed, salts, vitamins and other additives for livestock and poultry. The tax rate was reduced to zero on July 17, 1994 and then the tax classification was repealed on October 1, 1994.

REVENUE CATEGORY DEFINITIONS

RETAIL SALES	Includes retail sales of automobiles, durable goods and other general merchandise, apparel, building materials, furniture and other tangible personal property. The tax on food was repealed in July, 1980.
CONTRACTING	Includes prime contracting and dealership of manufactured buildings and owner-builder operations.
UTILITIES	Includes producing and/or furnishing to consumers electricity, natural or artificial gas and water.
RESTAURANT AND BAR	Includes operations of restaurants and drinking establishments.
RENTAL OF REAL PROPERTY	Includes leasing or renting real property, hotels and motels.
RENTAL OF PERSONAL PROPERTY	Includes leasing or renting tangible personal property such as leased vehicles and construction equipment.
OTHER	Includes operations of amusement places, intrastate telecommunication services, job printing, engraving, embossing and publication, publication of newspapers, magazines and other periodicals, intrastate transportation of persons, freight or property, and intrastate operation of pipelines for oil or natural or artificial gas.