

Maricopa County Transportation Excise Tax

Fiscal Year 2006 Year-End Report



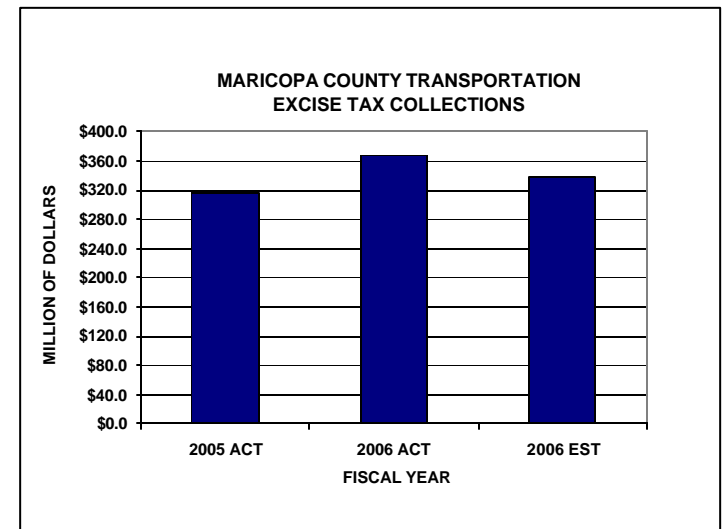
Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2006

MARICOPA COUNTY 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. Under Proposition 300, 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 through December 31, 2005. In November 2004, Maricopa County's voters approved Proposition 400, Maricopa County Transportation Excise Tax, which extends the 1/2 cent sales tax for another 20 years through December 31, 2025. The sales tax extension will be used for construction of new freeways, widening of existing freeways and highways, improvements to the arterial street system, regional bus service and high capacity transit services such as light rail.

In FY(fiscal year) 2006, Maricopa County transportation excise tax collections amounted to \$367.6 million, an increase of 16.0 percent above FY 2005 and 8.3 percent over the estimate. FY 2006 transportation excise tax collections registered the highest year-over-year percentage growth since the excise tax became effective in January 1986. Strong growth in employment, personal income and population out weighed the effect of higher interest rates and fuel prices.

All transportation excise tax revenue categories posted year-over-year double digit-growth rates with contracting and retail sales revenue categories leading the way at 23.9 and 15.3 percent, respectively.



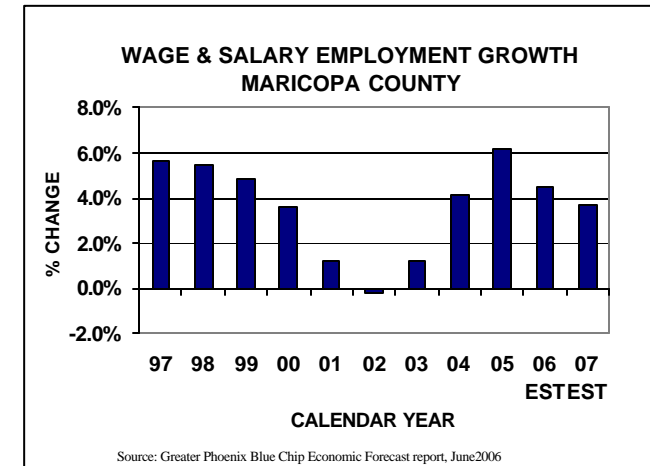
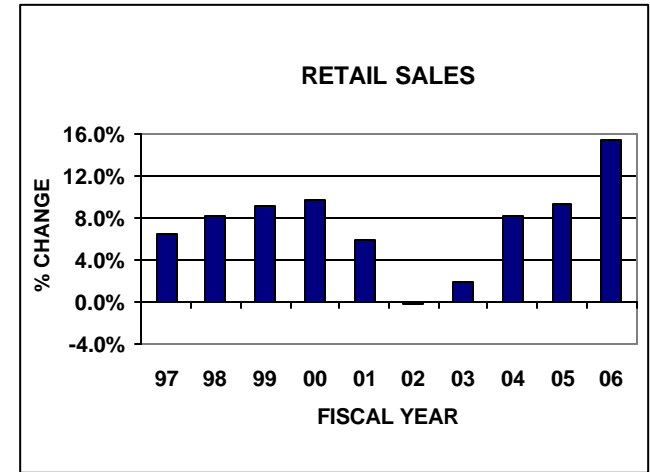
PERFORMANCE BY CATEGORY

RETAIL SALES:

FY 2006 retail sales revenue totaled \$182.4 million, an increase of 15.3 percent over FY 2005 and 7.0 percent above the forecast. Maricopa County consumers continued spending even with high fuel prices. Retail sales revenue benefited from healthy employment and population growth.

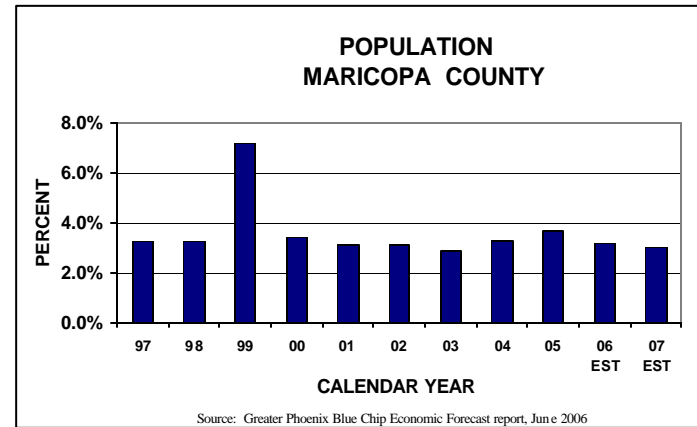
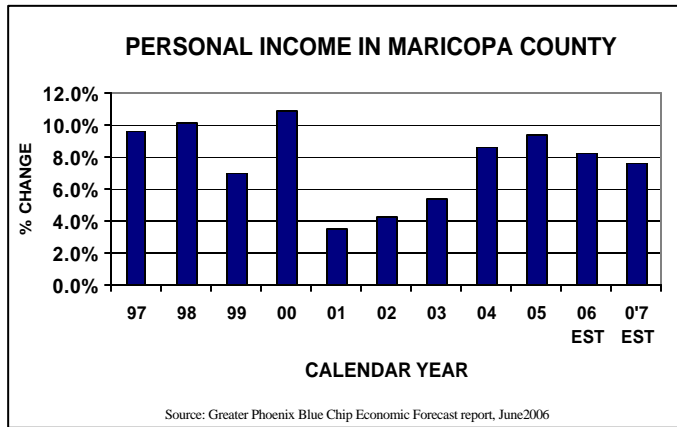
The June 2006 Greater Phoenix Blue Chip economic expert panel predicts the Maricopa County economy will continue to expand but at a slower pace in calendar year (CY) 2006 and CY 2007. The expert economists expect the retail sales to grow by 8.0 percent in CY 2006 and another 7.0 percent in CY 2007. FY 2007 retail sales are expected to benefit from employment and population growth but be somewhat impacted by higher mortgage rates and fuel costs.

The June 2006 Greater Phoenix Blue Chip panel also expects wage and salary employment to grow by 4.5 percent for CY 2006 and then slow to 3.7 percent in CY 2007 from a high of 6.2 percent in CY 2005. In CY 2005, metropolitan Phoenix led the nation in job growth with 83,200 new jobs.



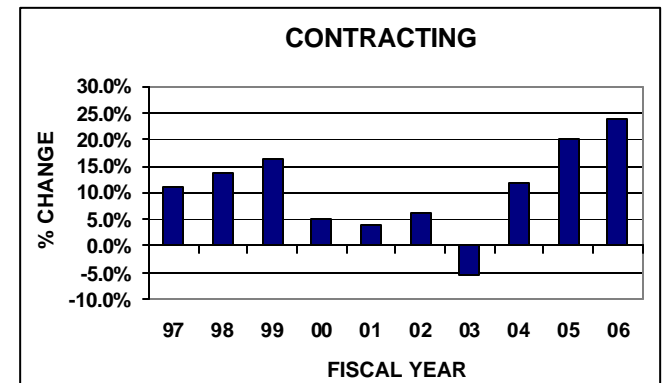
RETAIL SALES: Continued

The Blue Chip panel estimates personal income growth for Maricopa County to be 8.2 percent in CY 2006 and 7.6 percent in CY 2007 compared to a high of 9.4 percent in CY 2005. Maricopa County population grew by 3.7 percent in CY 2005 up from 3.3 percent in CY 2004. The Greater Phoenix Blue Chip panel expects population to continue to grow by 3.2 and 3.0 percent in CY 2006 and 2007, respectively.



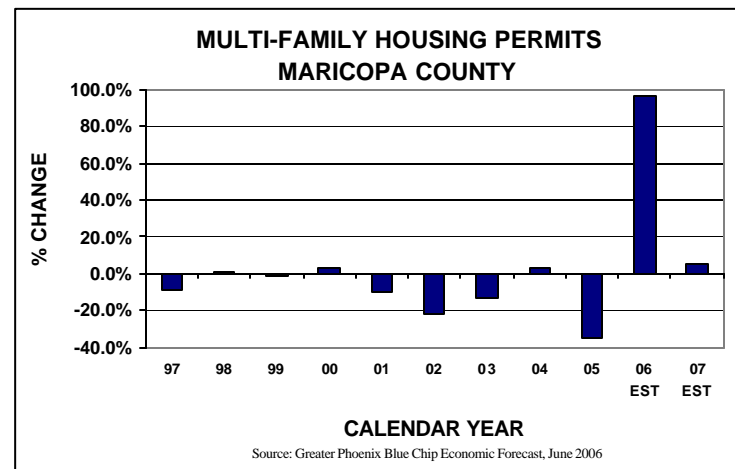
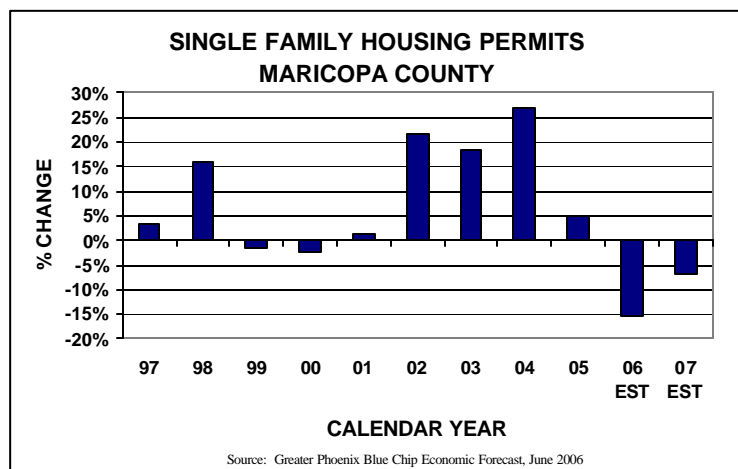
CONTRACTING:

FY 2006 contracting collections totaled \$64.8 millions, an increase of 23.9 percent over FY 2005 and 14.1 percent above the estimate. This represents the second highest percentage year-over-year increase since the Maricopa County Transportation Excise Tax was implemented in 1986. Employment and population growth along with the strengthening of retail and commercial construction sectors fueled construction activities in Maricopa County in FY 2006. In CY 2005, metropolitan Phoenix led the nation in housing permits with 63,570 new home permits. Single family housing permits were pushed higher by new residents and out-of-state investors during CY 2005. However, the Greater Phoenix Blue Chip panel forecasts single family permits to decline by 15.3 percent in CY 2006 and another 6.8 percent in CY 2007 due to higher interest rates and fewer real estate investors.



CONTRACTING: Continued

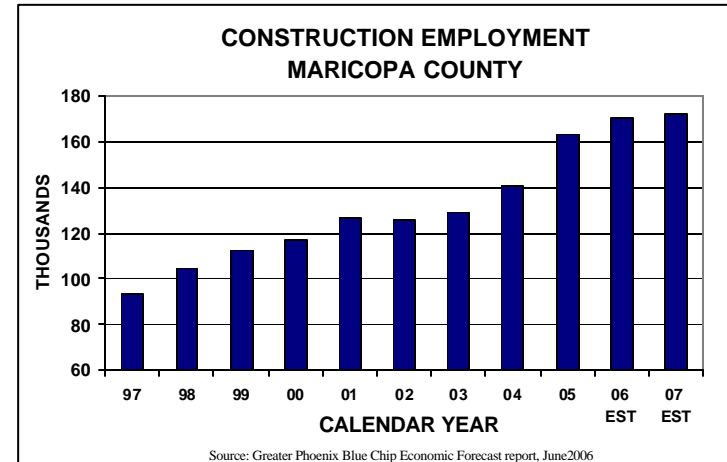
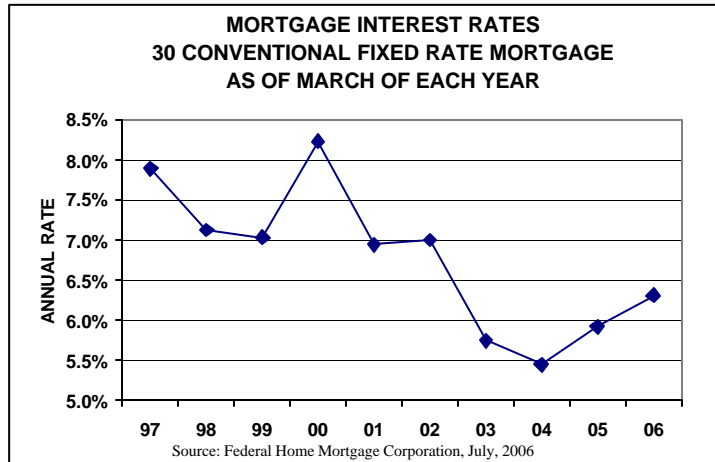
Multi-family permits declined by 35.0 percent in CY 2005 but are expected to increase by 96.0 percent in CY 2006 and 5.3 percent in CY 2007, respectively. The conversion of rental units to condos and the slowdown in construction of new apartments reduced the supply of multi-family units in CY 2005 which then lowered vacancy rates and pushed rents higher justifying new construction of multi-family units in CY 2006. Vacancy rates in office buildings decreased from 18.2 percent in CY 2004 to 12.9 percent in CY 2005 and are expected to continue to decline modestly to 12.4 percent in CY 2006 due to continued employment and population growth. Retail construction activities are expected to stay strong in response to population growth in the Phoenix metro area. Vacancy rate for retail space is expected to be 6.1 percent in CY 2006 and 6.2 percent in CY 2007. According to the Blue Chip panel, the industrial construction sector enjoyed lower vacancy rates at 8.5 percent in CY 2004 and 5.6 percent in CY 2005. The panel expects the vacancy rate for the industrial sector to be 6.5 percent in CY 2006 and 6.4 percent in CY 2007.



Mortgage rates rose in FY 2006 and may negatively impact the contracting sector over the next year or two. The conventional 30 year fixed rate mortgage increased from 5.9 percent in March 2005 to 6.3 percent in March 2006. The Blue Chip panel expects new single family residential permits to slow to 53,370 in CY 2006 and 49,760 in CY 2007. The estimates may be a bit optimistic if mortgage rates continue to rise above the current level. In the commercial construction sector, the panel estimates growth to continue due to the growing economy and the need for more retail space to support population growth.

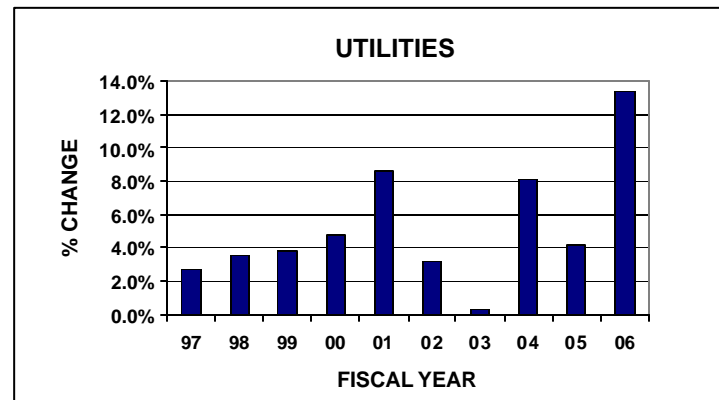
CONTRACTING: Continued

Total construction employment increased to 163,100 in CY 2005 from 140,900 in CY 2004. Construction employment is estimated to increase by 4.7 percent in CY 2006 and 0.8 percent in CY 2007. The shortage of construction workers over the past two years will soften the impact on construction employment in CY 2006 and CY 2007.



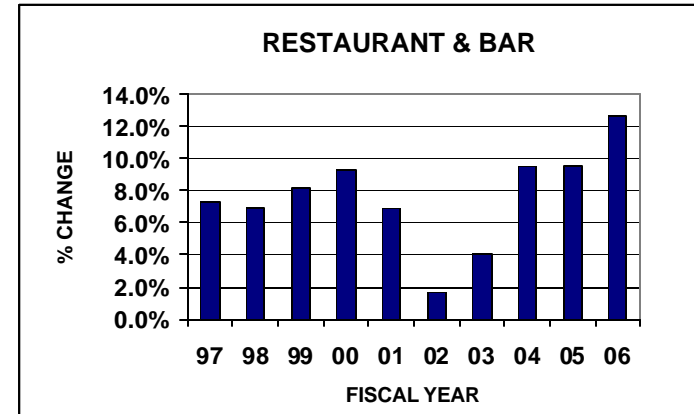
UTILITIES:

In FY 2006, utility tax revenues amounted to \$23.6 million, compared to \$20.8 million in FY 2005, an increase of 13.4 percent above FY 2005 and 6.8 percent above the estimate. The increase in utility collections was due mainly to the record number of new residential housing permits along with recent utility rate increases.



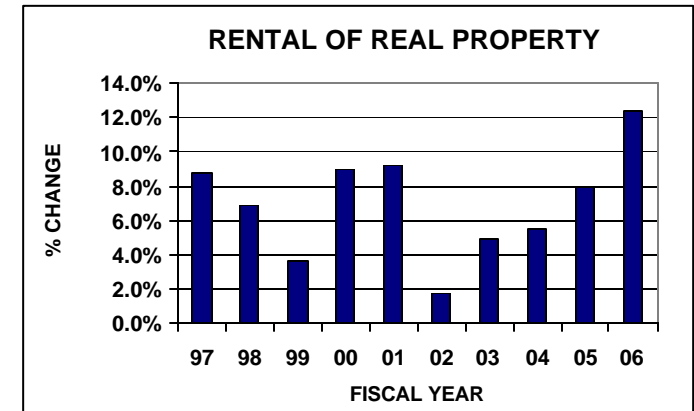
RESTAURANT AND BAR:

Restaurant and bar collections in FY 2006 totaled \$30.7 million, an increase of 12.7 percent above FY 2005 and 4.6 percent over the estimate. Personal income, population and employment together with higher tourism and convention activities contributed to the growth in restaurant and bar revenues.



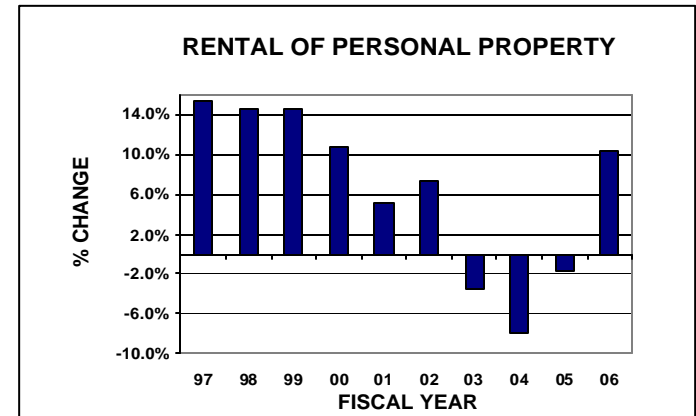
RENTAL OF REAL PROPERTY:

FY 2006 rental of real property tax revenues amounted to \$32.9 million, an increase of 12.4 percent over FY 2005 and 5.6 percent above the forecast. Rental of real property benefited from strong hospitality and leisure activities including rental of commercial and transient lodging (hotel/motel) facilities. As noted in the construction section, the increase in multi-family housing in CY 2006 should bode well for future rental of real property revenues.



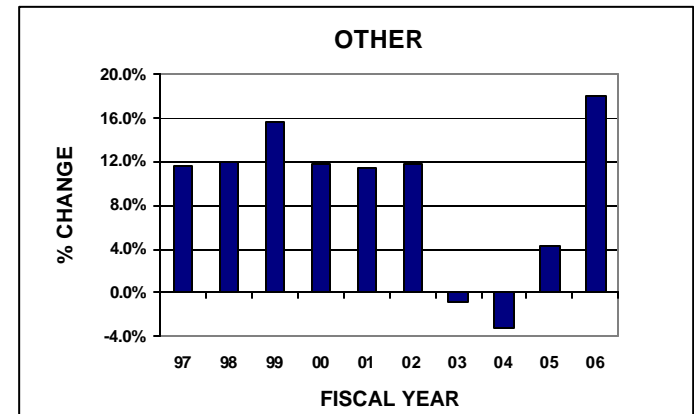
RENTAL OF PERSONAL PROPERTY:

Rental of personal property revenues in FY 2006 totaled \$13.9 million compared to \$12.6 million in FY 2005, which represents an increase of 10.3 percent over FY 2005 and 9.6 percent above the estimate. Rental of personal property category benefited from strong economic activities and tourism. Demand for leased business and construction equipment, motor vehicles, and tangible personal property were higher in FY 2006. Higher interest rates have encouraged increased leasing of equipment and motor vehicles.

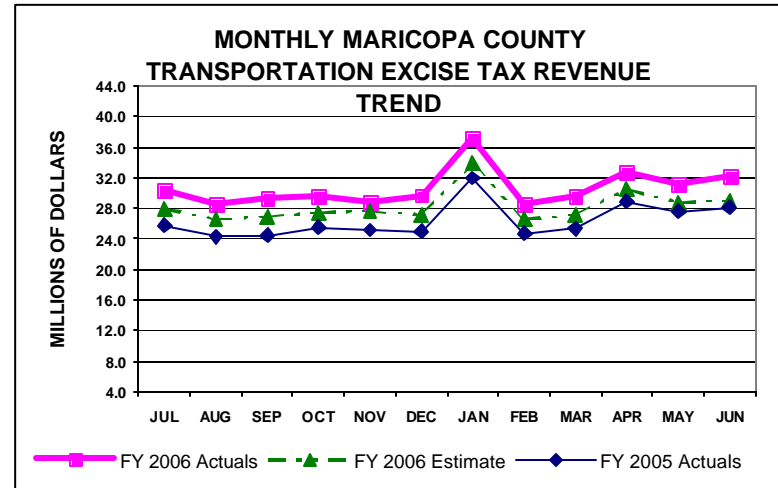
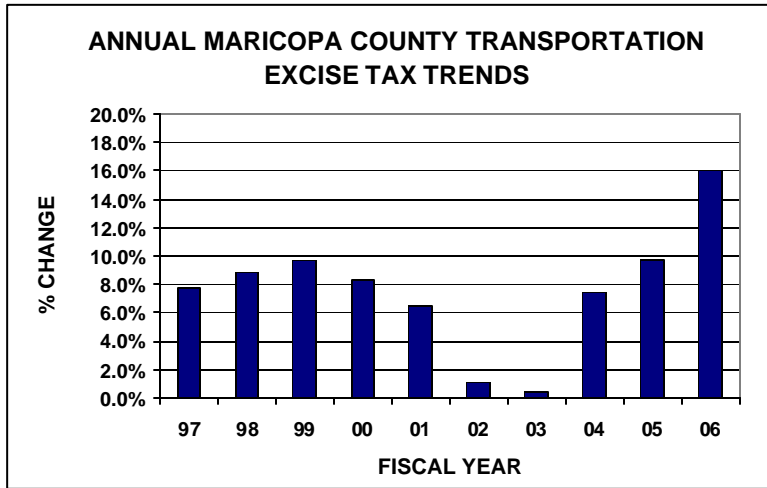


OTHER:

FY 2006 "Other" revenues amounted to \$19.3 million, an increase of 18.0 percent over FY 2005 and 13.6 percent above the forecast. The increase in "other" revenues was due to higher miscellaneous other revenues, communications, amusement and printing collections. The "other" revenue category includes collections from transportation and towing, communications, railroad and aircraft, private rail and pipeline, publishing, printing, amusement, jet fuel tax and miscellaneous other revenues.



REVENUE TREND ANALYSIS



Building on the momentum from FY 2005, the Maricopa County transportation excise tax revenues finished FY 2006 with a record \$367.6 million. Every revenue categories posted a double-digit year-over-year growth rates in FY 2006 with the contracting and retail sales revenue categories providing the strongest growth.

The monthly seasonality trend of transportation excise tax revenues continues to follow a consistent trend. Holiday retail sales pushed up the January collections while baseball spring training and winter visitors along with tourism activities lifted the April collections.

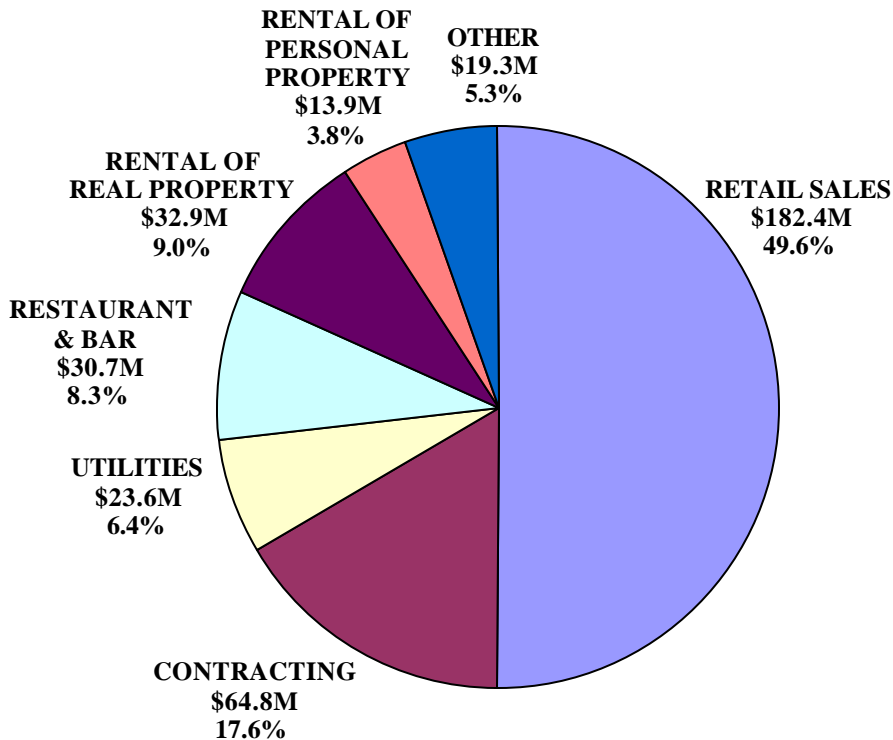
REVENUE PERFORMANCE

MARICOPA COUNTY TRANSPORTATION EXCISE TAX

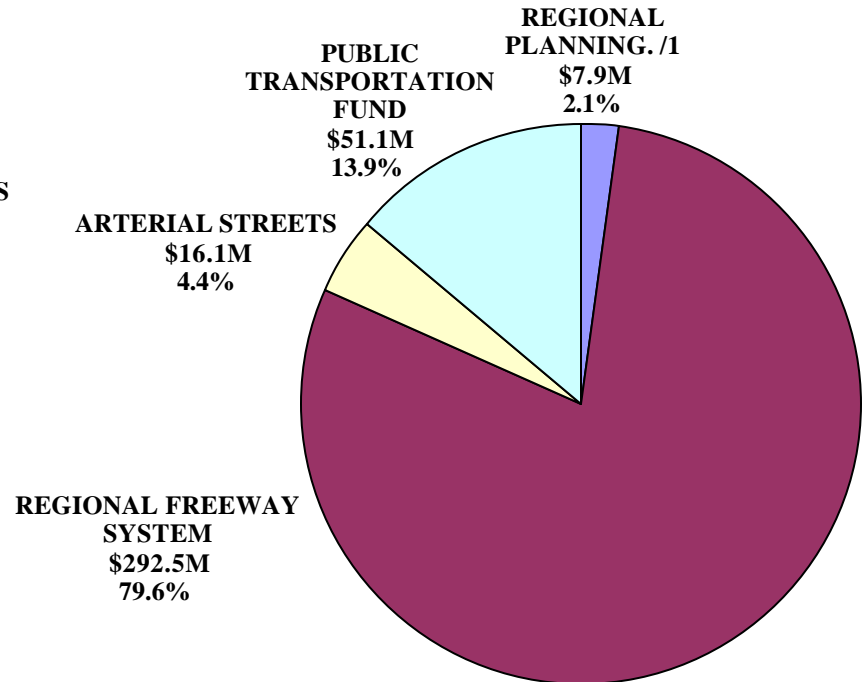
FY 2006 ACTUAL

TOTAL= \$367.6 MILLION

SOURCES



DISTRIBUTIONS



Note: 1/ Funds split evenly between Maricopa Association of Government and the Public Transportation Fund to be used for planning purposes.

MARICOPA COUNTY TRANSPORTATION EXCISE TAX REVENUE COMPARISON STATEMENT FY 2006

CATEGORY	FY 2005 ACTUAL	FY 2006 ACTUAL	CHANGE	FY 2006 ESTIMATE	CHANGE
RETAIL SALES	\$158,179,314	\$182,377,935	15.3%	\$170,500,000	7.0%
CONTRACTING	\$52,325,393	\$64,822,303	23.9%	56,800,000	14.1%
UTILITIES	\$20,813,151	\$23,600,464	13.4%	22,100,000	6.8%
RESTAURANT & BAR	\$27,190,928	\$30,655,980	12.7%	29,300,000	4.6%
RENTAL OF REAL PROPERTY	\$29,309,616	\$32,949,106	12.4%	31,200,000	5.6%
RENTAL OF PERSONAL PROPERTY	\$12,623,626	\$13,922,691	10.3%	12,700,000	9.6%
OTHER	\$16,363,534	\$19,308,917	18.0%	17,000,000	13.6%
TOTAL	\$316,805,562	\$367,637,396	16.0%	\$339,600,000	8.3%

NOTE: Division of collections to business categories is imputed based upon reported taxable income.
Total may not add due to rounding.

MARICOPA COUNTY TRANSPORTATION EXCISE TAX REVENUES COLLECTED BY CATEGORY FY 1986 – 2006 (Dollars in Thousands)

FISCAL YEAR	RETAIL SALES	CONTRACTING	UTILITIES	RESTAURANT & BAR	RENTAL REAL PROPERTY	RENTAL PERSONAL PROPERTY	OTHER	TOTAL
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
1989	53,927	13,947	10,336	8,795	8,952	4,883	5,410	106,250
1990	55,798	13,286	10,685	9,282	10,808	5,289	5,653	110,801
1991	56,769	12,715	11,353	9,655	11,091	5,708	6,044	113,335
1992	59,108	11,688	10,999	10,280	11,707	6,043	6,671	116,496
1993	64,033	13,385	11,874	11,171	12,993	6,672	7,145	127,273
1994	72,737	17,039	12,680	12,166	13,414	7,002	7,808	142,846
1995	81,546	21,107	13,132	13,291	14,660	8,198	8,384	160,318
1996	90,454	24,284	14,198	14,739	16,822	8,734	9,183	178,413
1997	96,281	26,948	14,583	15,821	18,298	10,074	10,252	192,257
1998	104,073	30,610	15,101	16,917	19,552	11,539	11,472	209,263
1999	113,528	35,632	15,680	18,304	20,266	12,787	13,272	229,470
2000	124,428	37,384	16,437	20,005	22,080	13,434	14,827	248,596
2001	131,608	38,820	17,862	21,395	24,112	14,416	16,510	264,722
2002	131,393	41,218	18,432	21,748	24,529	13,928	16,314	267,563
2003	133,922	38,894	18,485	22,646	25,747	12,834	16,192	268,721
2004	144,817	43,524	19,980	24,807	27,163	12,631	15,678	288,600
2005	158,179	52,325	20,813	27,191	29,310	12,624	16,363	316,805
2006	182,378	64,822	23,600	30,656	32,949	13,923	19,309	367,637

COMPOUND ANNUAL GROWTH RATE (FY 1987 - FY 2006) = 7.4%

*The tax (Prop. 300) became effective January 1, 1986 and was extended (Prop. 400) on January 1, 2006 for another 20 years.

MARICOPA COUNTY TRANSPORTATION EXCISE TAX REVENUE DISTRIBUTION

FY 1986 – 2006

(Dollars in Thousands)

FISCAL YEAR	REGIONAL AREA ROAD FUND			PUBLIC TRANSPORTATION FUND	TOTAL
	FREEWAYS	RPTA/MAG /2	ARTERIAL STREETS		
1986/1	\$36,986				\$36,986
1987	89,831	\$5,000			94,831
1988	94,056	5,135			99,190
1989	100,963	5,287			106,250
1990	105,325	5,477			110,801
1991	107,652	5,683			113,335
1992	110,579	5,917			116,496
1993	121,141	6,132			127,273
1994	136,553	6,293			142,846
1995	153,864	6,454			160,318
1996	171,826	6,587			178,413
1997	185,507	6,750			192,257
1998	202,380	6,883			209,263
1999	222,450	7,020			229,470
2000	241,505	7,091			248,596
2001	257,529	7,194			264,722
2002	260,222	7,341			267,563
2003	261,219	7,502			268,721
2004	281,012	7,588			288,600
2005	309,092	7,713			316,805
2006/3	292,487	7,877	\$16,127	\$51,146	367,637
Total	\$3,742,177	\$130,925	\$16,127	\$51,146	\$3,940,375

- Notes: 1/ The Maricopa County transportation excise tax became effective on January 1, 1986 per Prop. 300. Prop. 300 collections total \$3,786,783,000 but will change over time as adjustments, refunds and audits occur.
- 2/ The Regional Public Transportation Authority received a portion of the excise tax funds for transit costs through December 31, 2006. On January 1, 2007 these funds are distributed evenly to the Maricopa Association of Governments and the Regional Transportation Fund to be used for planning purposes per Prop. 400. These funds are netted from the Freeway funds.
- 3/ The Prop. 400 became effective on January 1, 2006 and the distributions are as follows: Freeways 56.2%, Arterial Streets 10.5% and Public Transportation Fund 33.3%.

ARIZONA TRANSACTION PRIVILEGE TAX

EXCISE TAX RATES

FY 2006

Taxable Activity	Percent of Total Maricopa County Transaction Privilege Tax Collections	Transaction Privilege Tax Rate	Transportation Excise Tax Rate
Retail Sales	49.93%	5.00%	0.50%
Contracting	16.52%	5.00%	0.50%
Rental of Real Property (including hotels & motels)	9.25%	1.82%*	0.512%
Restaurants and Bars	8.58%	5.00%	0.50%
Utilities	6.57%	5.00%	0.50%
Rental of Personal Property	3.98%	5.00%	0.50%
Communication	3.20%	5.00%	0.50%
Amusements	1.05%	5.00%	0.50%
Publishing and Printing	0.61%	5.00%	0.50%
Other	0.31%	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 intrastate transportation of persons, freight or operations of property, intrastate telecommunication services, intrastate operation of pipelines for oil or natural or artificial gas, job printing, engraving, embossing and publication, publication of newspapers, magazines and other periodicals, operations of amusement places and miscellaneous other revenues