

Regional Area Road Fund Maricopa Transportation Excise Tax

**Fiscal Year 2003
Year-End Report**



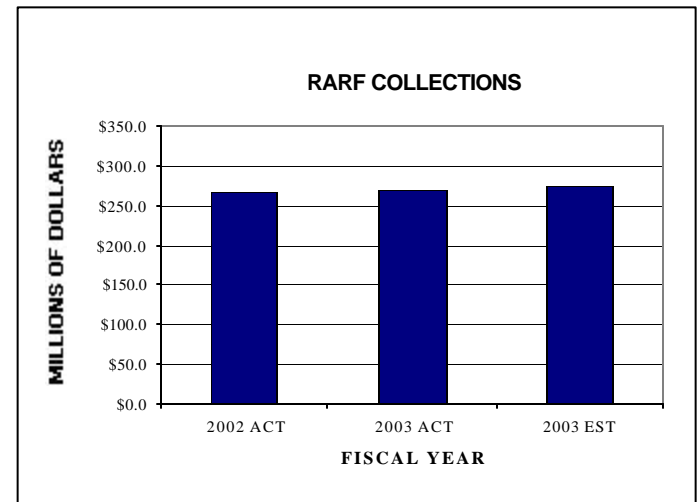
**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2003**

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.

FY 2003 Maricopa County transportation excise tax collections totaled \$268.7 million, an increase of 0.4 percent over FY 2002, but 2.5 percent below the forecast. The 0.4 percent growth represents the slowest growth rate since the inception of the tax in FY 1986. The growth was centered in the retail sales, restaurant and bar and rental of real property revenue categories.

The economic picture in Maricopa County remained clouded during FY 2003 due to limited job growth and geopolitical issues. Although some new jobs were being created, Maricopa County was hit particularly hard over the last two years with significant job losses in the manufacturing, business services and hospitality sectors.

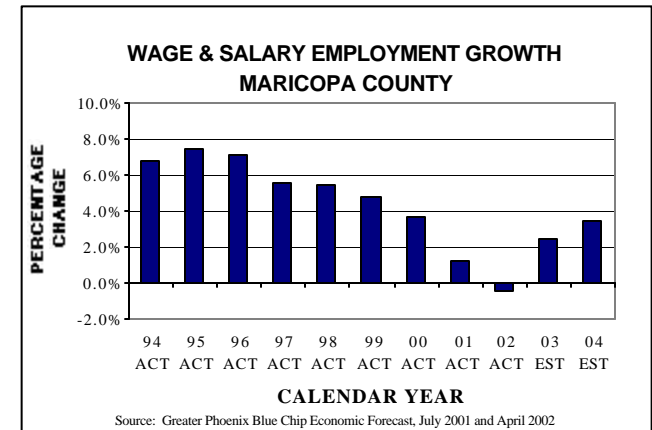
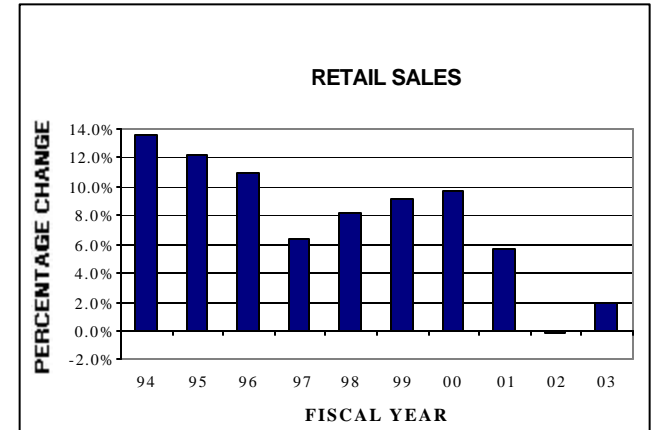


PERFORMANCE BY CATEGORY

RETAIL SALES:

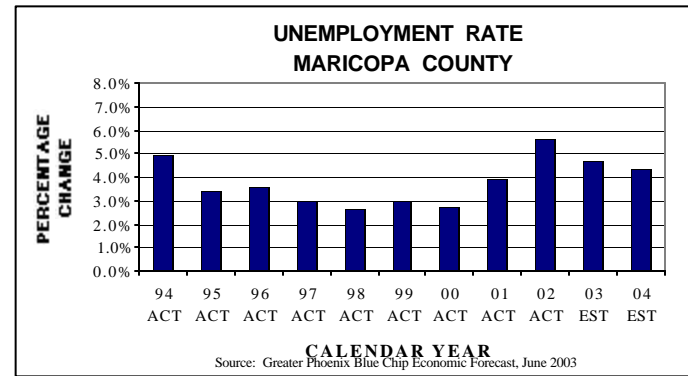
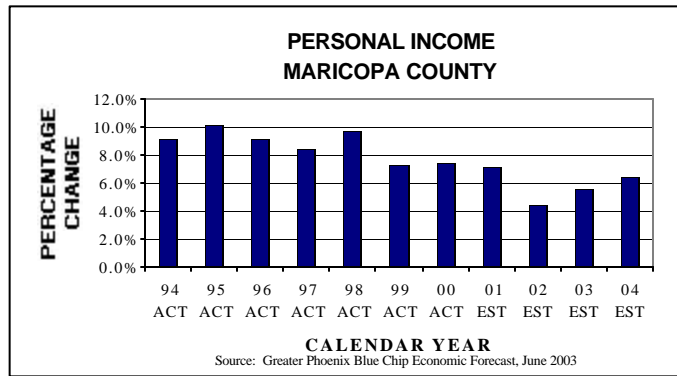
Retail sales revenue amounted to \$133.9 million in FY 2003, an increase of 1.9 percent over FY 2002, but 1.2 percent below the forecast. Retail sales rebounded from the FY 2002 negative growth, however, the growth was significantly below the historical average. The weak economy continued to impact consumer and business spending habits leading to the slow growth in FY 2003. Retail sales growth was also influenced by lower inflation and slower population growth in Maricopa County.

Retail sales in Maricopa County are forecasted using three economic indicators, wage and salary employment, personal income and unemployment. The June 2003 Greater Phoenix Blue Chip consensus estimates show that the Maricopa County economy hit its low point in Calendar Year (CY) 2002 but will improve slightly in CY 2003. However, the CY 2003 estimates may be overly optimistic considering through the first six months the local economy remained stagnate due to the lack of job growth and geopolitical issues. The forecast for wage and salary employment growth shows an increase from 2.5 percent in CY 2003 to 3.4 percent in CY 2004. CY 2001 and CY 2002 actual growth was 1.2 and a negative 0.5 percent, respectively.



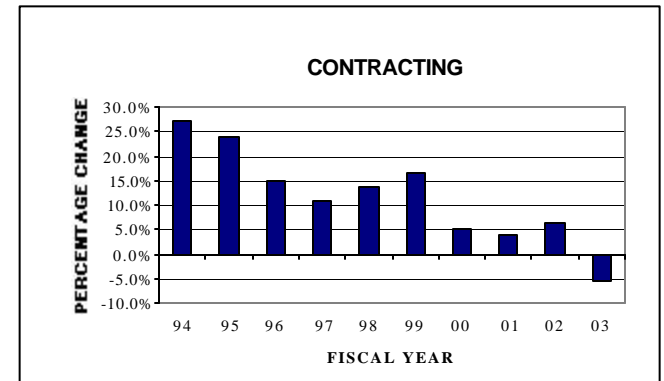
RETAIL SALES: Continued

Personal income is estimated to grow by 5.6 percent in CY 2003 and 6.4 percent in CY 2004. There remains a level of uncertainty in the estimates for Maricopa County personal income growth for CY 2003. The growth in personal income for CY 2001 and CY 2002 was 5.9 and 4.4 percent, respectively. The Maricopa County unemployment rate remained relatively unchanged during the past twelve months with the June 2003 figure at 5.1 percent according to the Arizona Department of Economic Security. The Maricopa County unemployment rate is estimated at 4.7 percent in CY 2003 and 4.3 percent in CY 2004, per the June 2003 Greater Phoenix Blue Chip.



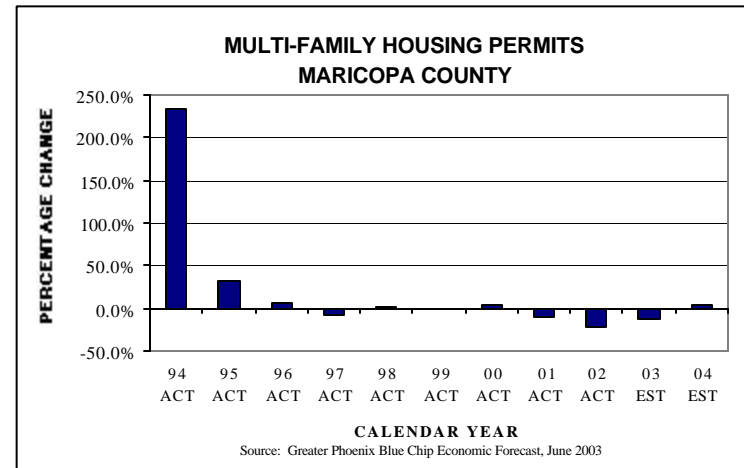
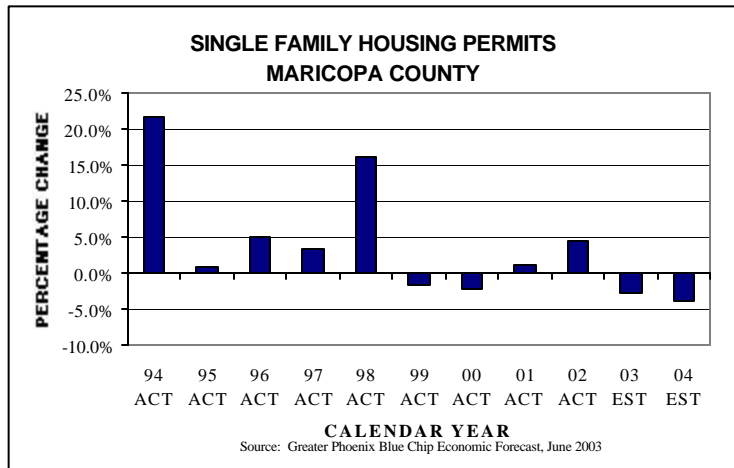
CONTRACTING:

Contracting collections totaled \$38.9 million, a decrease of 5.6 percent from FY 2002 and 7.6 percent below the forecast. Local economists had been predicting a slowdown in construction for the last three years that never materialized until CY 2002. The actual slowdown began in the second half of FY 2002 and carried over into FY 2003. The residential construction sector remained strong in Maricopa County but was overshadowed by a sharp decrease in mutli-family, office and retail construction activity. As noted above by the revenue performance, the construction sector experienced a contraction with a 6.9 percent decrease in the value of building permits in CY 2002, according to Arizona Business, March 2003.



CONTRACTING: Continued

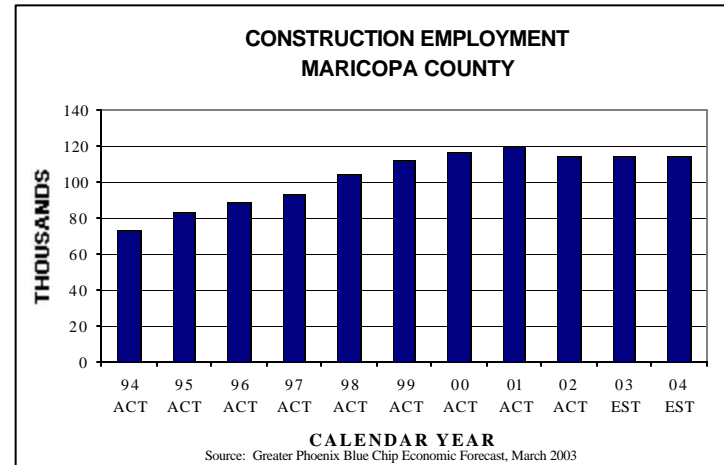
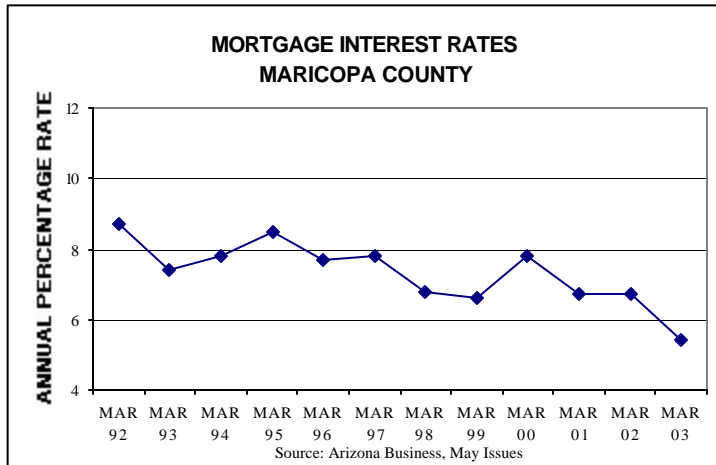
Maricopa County single-family housing permits increased by 1.1 percent in CY 2001 and 4.4 percent in CY 2002. With low mortgage rates and average population migration, the local housing market remained strong. Single family housing permits are projected to decrease 2.8 percent in CY 2003 and 4.0 percent in CY 2004. Assuming interest rates stay low, the CY 2003 and CY 2004 estimates may be too pessimistic. Multi-family housing permits declined 10.1 and 22.1 percent in CY 2001 and CY 2002, respectively. The multi-family housing sector is in an overbuilt stage and the low interest rates have lured people to buy instead of rent. Looking forward, the estimates for multi-family housing permits show a decrease of 13.5 percent in CY 2003 and an increase of 4.8 percent in CY 2004. Apartment vacancy rates are expected to be 9.5 percent in CY 2003 and 8.9 percent in CY 2004.



The Federal Reserve lowered interest rates two times in FY 2003. The conventional 30 year fixed rate mortgage decreased from 6.7 percent in March 2002 to 5.4 percent in March 2003. The Greater Phoenix new housing starts was on a record pace over the past year due to lower interest rates which allowed more people to buy homes for the first time and existing homeowners to refinance or “move-up”.

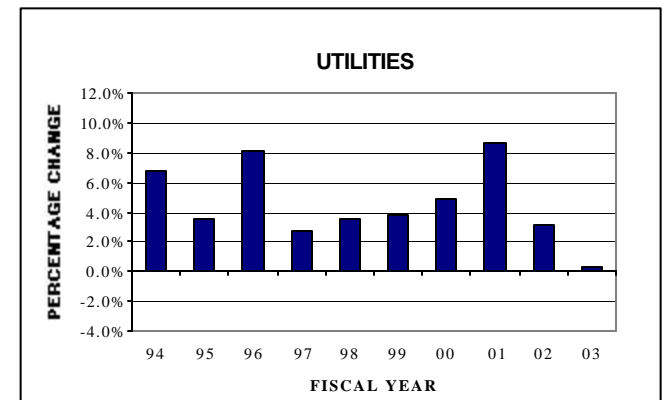
CONTRACTING: Continued

Construction employment increased 2.3 percent in CY 2001 but decreased 4.0 percent in CY 2002. Although the residential construction sector has remained strong due to the near record level number of single family permits being issued, the commercial and industrial sectors have lagged. Office building vacancy rates have increased sharply since CY 2000 to around 20 percent. Construction employment projections show a slight decrease of 0.8 percent in CY 2003 and no growth in CY 2004.



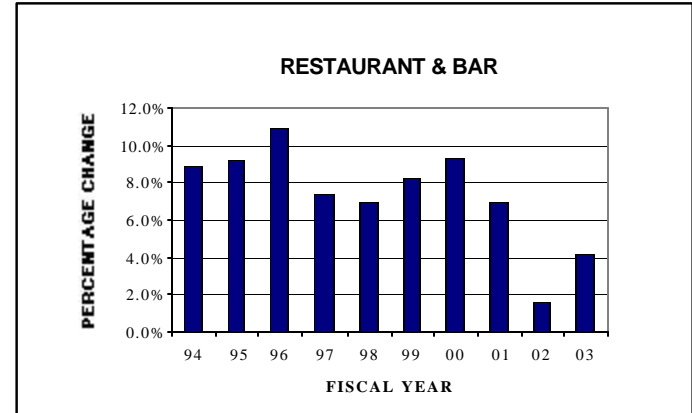
UTILITIES:

Utility tax collections amounted to \$18.5 million in FY 2003, a modest 0.3 percent increase over FY 2002, but was 2.7 percent below the forecast.



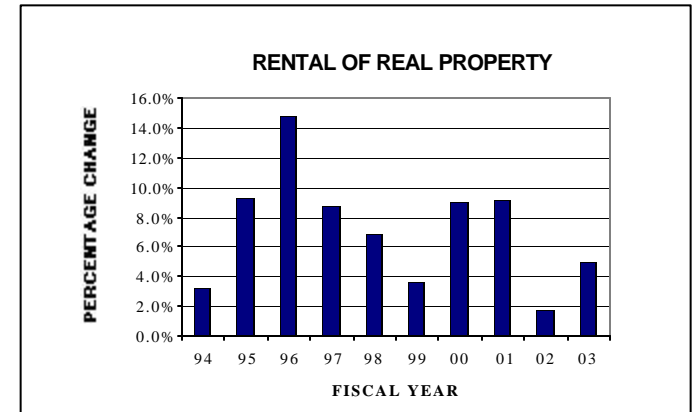
RESTAURANT AND BAR:

One of the bright spots for FY 2003 was the growth in restaurant and bar collections which totaled \$22.6 million, an increase of 4.1 percent over FY 2002 and 0.2 percent above the forecast. Although the economy was weak, consumers gave higher priority to dining-out while the hospitality industry experienced some improvement over FY 2002, which was impacted by the tragic events in September 2001. The hospitality industry benefited from the college football national championship game in January and improved attendance at spring training baseball games in March.



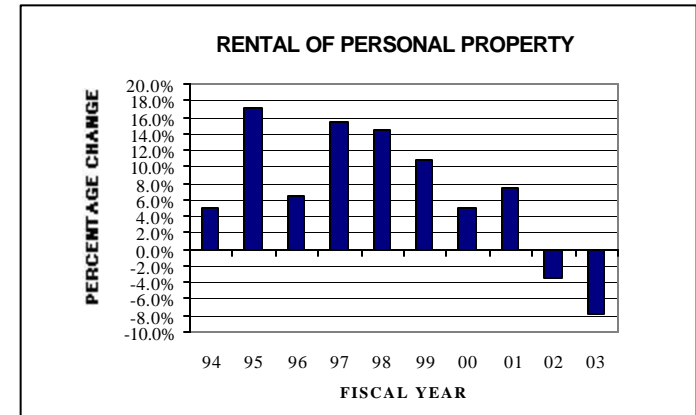
RENTAL OF REAL PROPERTY:

Another bright spot for FY 2003 was the rental of real property tax collections which amounted to \$25.7 million, an increase of 5.0 percent over FY 2002 and 1.0 percent above the forecast. This revenue category was sharply impacted in FY 2002 by the tragic events in September 2001. The Maricopa County hotel/motel business benefited from the college football national championship game in January and spring training in March, which drew near record crowds. This revenue category was one the hardest hit in FY 2002 after the events in September 2001. This category includes rental of commercial, residential and transient lodging (hotel/motel) facilities.



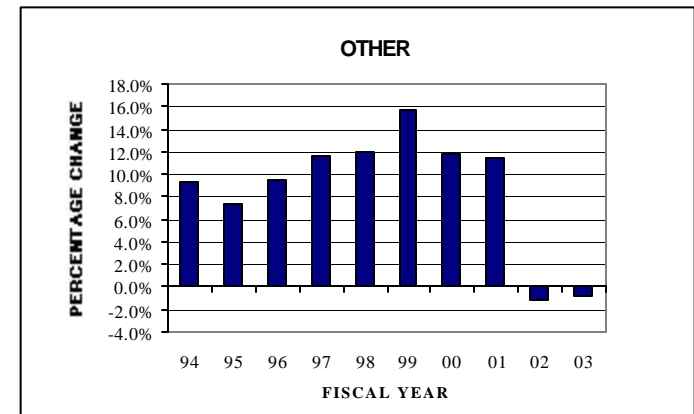
RENTAL OF PERSONAL PROPERTY:

FY 2003 rental of personal property revenues totaled \$12.8 million, a decrease of 7.9 percent from FY 2002 and 9.6 percent below the forecast. This revenue category was impacted by the decrease in construction activity which created less demand for commercial construction equipment leasing. In addition, with the continued financial incentives being offered by domestic car manufacturers, many consumers have opted to purchase rather than lease new vehicles. Finally, spending on leased business equipment has fallen, thus reducing rental of personal property revenue growth.

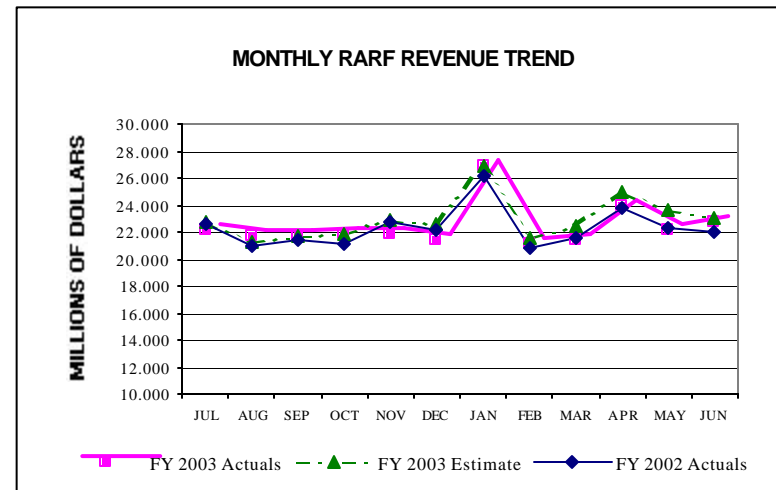
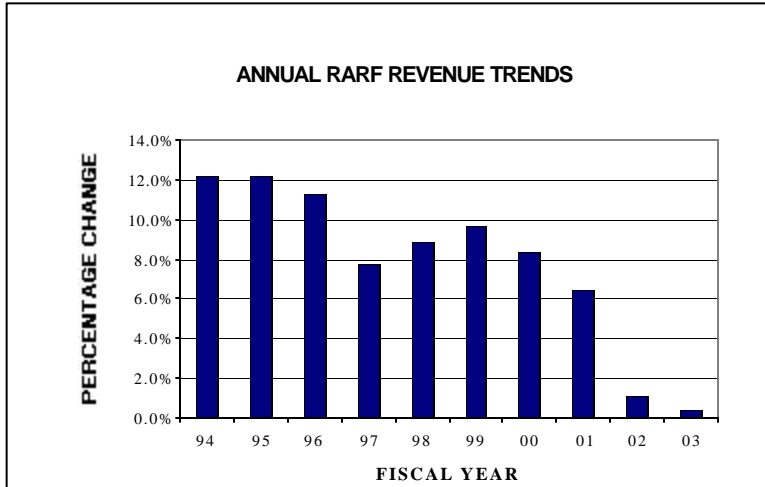


OTHER:

"Other" revenues amounted to \$16.2 million in FY 2003, a decrease of 0.7 percent from FY 2002 and 2.5 percent below the forecast. The modest decline in revenues was attributable to a sharp decrease in communication revenues which was partially offset by strong gains in the "miscellaneous other" revenue. The "other" revenue category also includes collections from communications, amusements, and pipelines for oil and gas.



REVENUE TREND ANALYSIS



Transportation excise tax collections totaled \$268.7 million, an increase of \$1.2 million or 0.4 percent over FY 2002. This represents the slowest growth rate since the inception of the tax in FY 1986. The revenue categories posting growth over FY 2002 included retail sales, restaurant and bar, and rental of real property. The fiscal year results were dampened by the weak economy and geopolitical issues. Limited job growth in Maricopa County had the greatest impact on the slow growth. On the positive side, consumers did continue to spend on new homes and motor vehicles, which was mainly driven by low interest rates and other financial incentives.

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

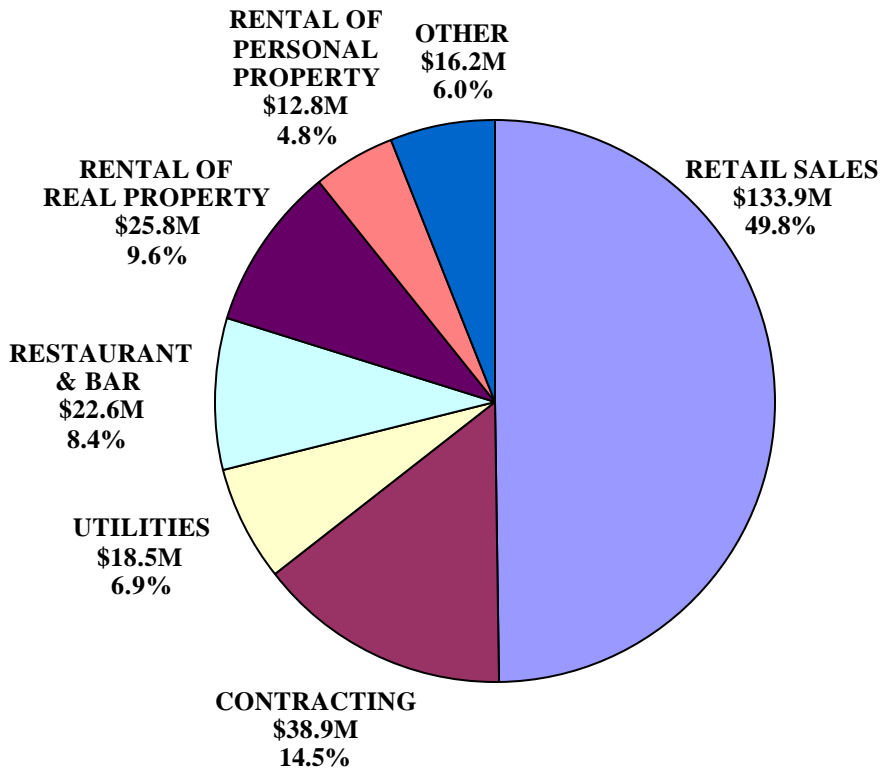
REVENUE PERFORMANCE

MARICOPA COUNTY TRANSPORTATION EXCISE TAX

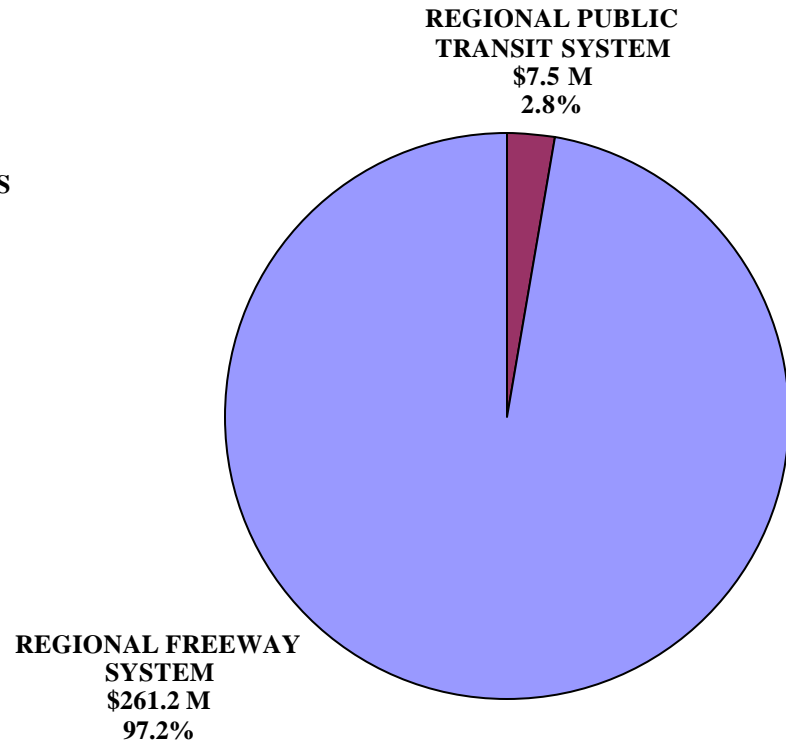
FY 2003 ACTUAL

TOTAL= \$268.7 MILLION

SOURCES



DISTRIBUTIONS



MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX REVENUE COMPARISON STATEMENT FY 2003

| CATEGORY | FY 2002 ACTUAL | FY 2003 ACTUAL | CHANGE | FY 2003 ESTIMATE | CHANGE |
|-----------------------------|----------------------|----------------------|-------------|----------------------|--------------|
| RETAIL SALES | \$131,393,323 | \$133,922,028 | 1.9% | \$135,600,000 | -1.2% |
| CONTRACTING | 41,217,803 | 38,893,686 | -5.6% | 42,100,000 | -7.6% |
| UTILITIES | 18,431,792 | 18,484,778 | 0.3% | 19,000,000 | -2.7% |
| RESTAURANT & BAR | 21,748,268 | 22,645,998 | 4.1% | 22,600,000 | 0.2% |
| RENTAL OF REAL PROPERTY | 24,529,320 | 25,747,438 | 5.0% | 25,500,000 | 1.0% |
| RENTAL OF PERSONAL PROPERTY | 13,928,408 | 12,834,486 | -7.9% | 14,200,000 | -9.6% |
| OTHER | 16,314,429 | 16,192,486 | -0.7% | 16,600,000 | -2.5% |
| TOTAL | \$267,563,343 | \$268,720,901 | 0.4% | \$275,600,000 | -2.5% |

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 - 2003 (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% |
| 2002 | 131,393 | 41,218 | 18,432 | 21,748 | 24,529 | 13,928 | 16,314 | 267,563 | 1.1% |
| 2003 | 133,922 | 38,894 | 18,485 | 22,646 | 25,747 | 12,834 | 16,192 | 268,721 | 0.4% |
| TOTAL | \$1,488,339 | \$411,710 | \$232,986 | \$245,856 | \$269,771 | \$152,175 | \$166,496 | \$2,967,333 | |

COMPOUND ANNUAL GROWTH RATE (FY 1987 - FY 2003) = 6.7%

*The tax became effective January 1, 1986

ARIZONA TRANSACTION PRIVILEGE TAX

EXCISE TAX RATES

FY 2003

| Taxable Activity | Percent of Total Maricopa County Transaction Privilege Tax Collections | Transaction Privilege Tax Rate | Transportation Excise Tax Rate |
|--|---|--------------------------------------|-----------------------------------|
| Retail Sales | 49.84% | 5.00% | 0.50% |
| Contracting | 14.47% | 5.00% | 0.50% |
| Rental of Real Property (including hotels & motels) | 9.58% | 1.82%* | 0.512% |
| Restaurants and Bars | 8.43% | 5.00% | 0.50% |
| Utilities | 6.88% | 5.00% | 0.50% |
| Rental of Personal Property | 4.78% | 5.00% | 0.50% |
| Communication | 3.45% | 5.00% | 0.50% |
| Amusements | 1.11% | 5.00% | 0.50% |
| Publishing and Printing | 0.70% | 5.00% | 0.50% |
| Other | 0.76% | 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. |