

Regional Area Road Fund Maricopa Transportation Excise Tax

**Fiscal Year 2004
Year-End Report**



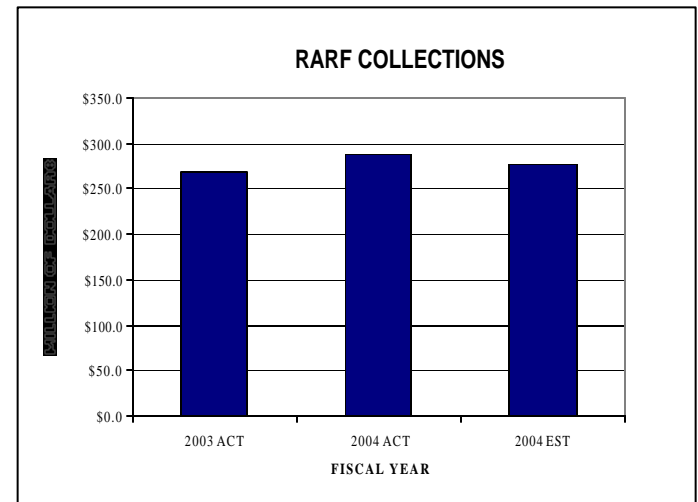
**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2004**

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.

In FY 2004, Maricopa County transportation excise tax collections totaled \$288.6 million, an increase of 7.4 percent over FY 2003 and 4.2 percent above the forecast. All revenue categories posted increases over FY 2003 revenue levels, except rental of personal property and "other". The FY 2004 RARF revenues included a one-time \$0.6 million from the tax amnesty program for previous fiscal years activity.

RARF revenues benefited from an improved Maricopa County job market and tourism activity, population growth and low interest rates.

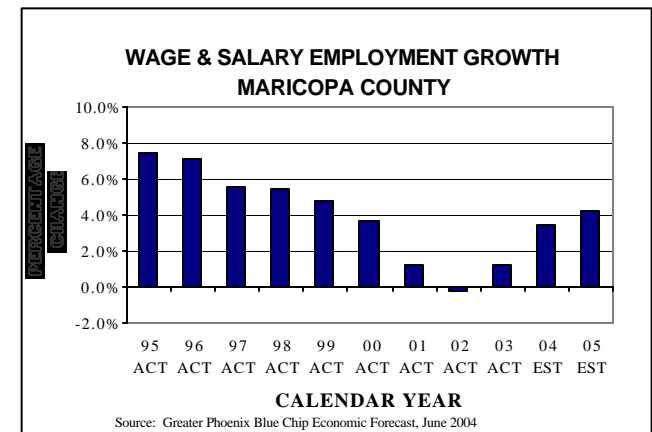
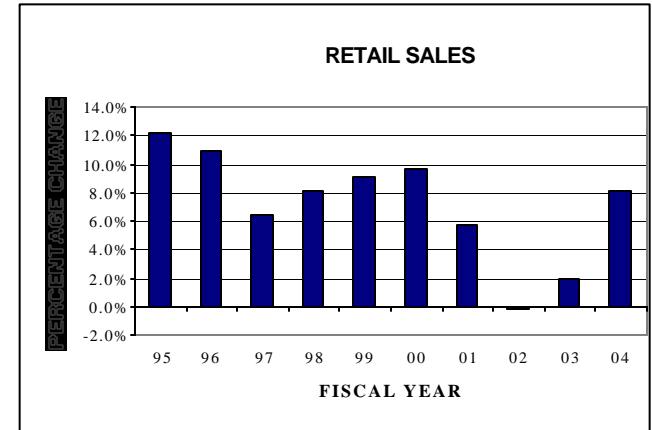


PERFORMANCE BY CATEGORY

RETAIL SALES:

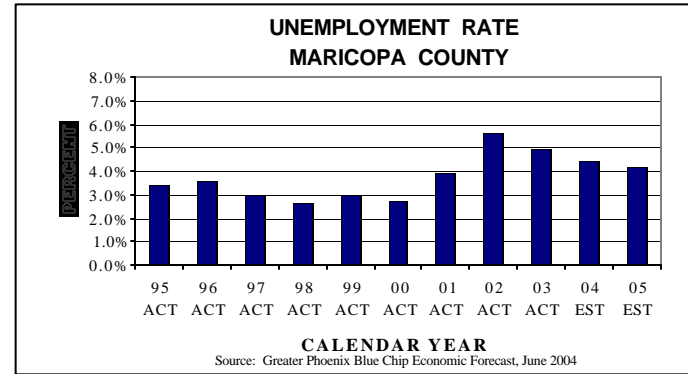
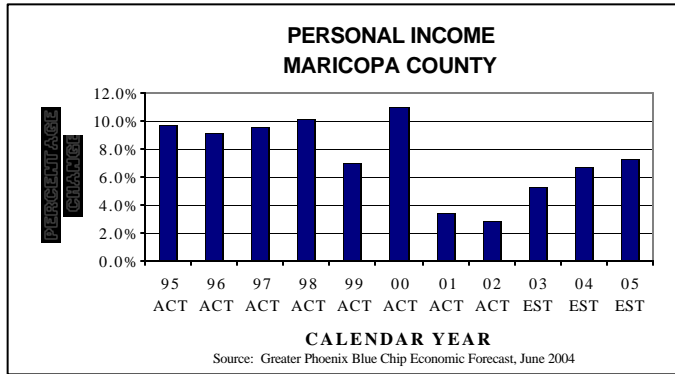
Retail sales revenue totaled \$144.8 million in FY 2004, an increase of 8.1 percent over FY 2003 and 3.7 percent above the forecast. As noted in the chart on the right, retail sales continued to improve from the negative growth experienced in FY 2002. FY 2004 retail sales growth accelerated due to an improved economy, a federal tax credit given to families and improved consumer confidence.

Retail sales in Maricopa County are forecasted using three economic indicators: wage and salary employment, personal income and unemployment. In June 2004, the Greater Phoenix Blue Chip consensus estimates show that the Maricopa County economy continues to expand due to job growth, which triggers population growth. According to the Arizona Department of Economic Security, job growth increased in the leisure, hospitality, education and health service areas, but decreased in the manufacturing and information industries during the first half of CY 2004. With population growth and an improved economy, the panel expects retail sales to grow by 6.4 and 6.8 percent in CY 2004 and 2005, respectively. Wage and salary employment growth is estimated to increase from 1.3 percent in CY 2003 to 3.5 and 4.2 percent in CY 2004 and 2005, respectively.



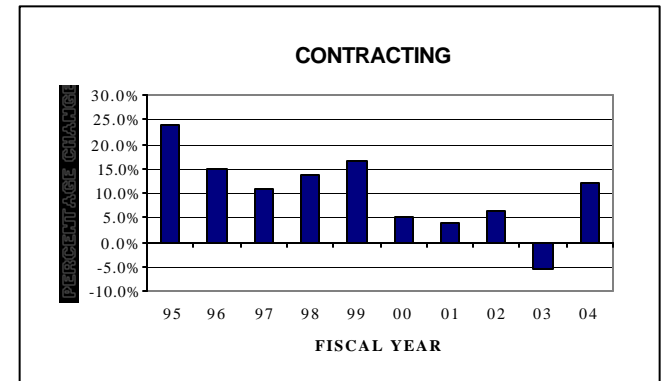
RETAIL SALES: Continued

In addition, growth in Maricopa County personal income is estimated to reach 6.7 percent in CY 2004 and 7.3 percent in CY 2005 up from 4.4 and 5.3 percent in CY 2002 and CY 2003, respectively. Also, the Blue Chip panel expects the Maricopa County unemployment rate to decrease to 4.4 percent in CY 2004 and 4.2 percent in CY 2005 from its peak of 5.6 percent in CY 2002 and 4.9 percent in CY 2003.



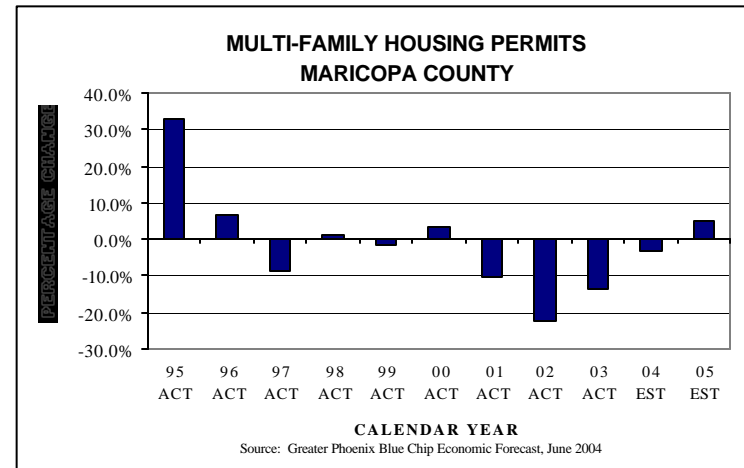
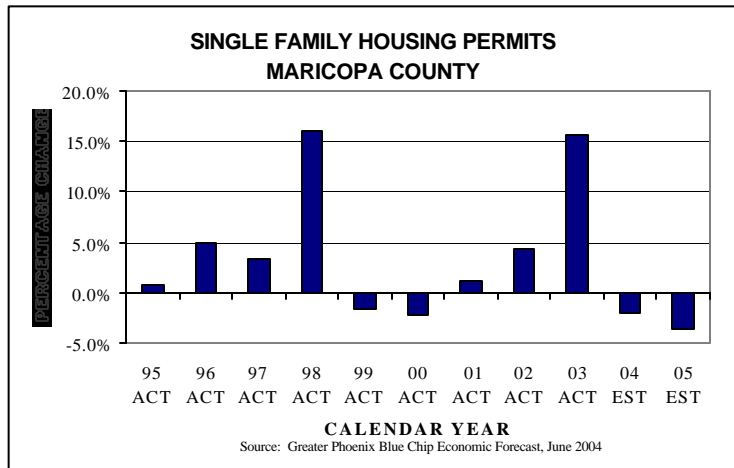
CONTRACTING:

Contracting collections totaled \$43.5 million, an increase of 11.9 percent from FY 2003 and 16.7 percent above the forecast, which was quite a contrast from last fiscal year. Population growth and low interest rates fueled the increase in contracting revenues. According to the June 2004 issue of the Greater Phoenix Blue Chip, the boom in single family housing is continuing and vacancy rates are declining in the apartments, commercial offices and industrial buildings sectors.



CONTRACTING: Continued

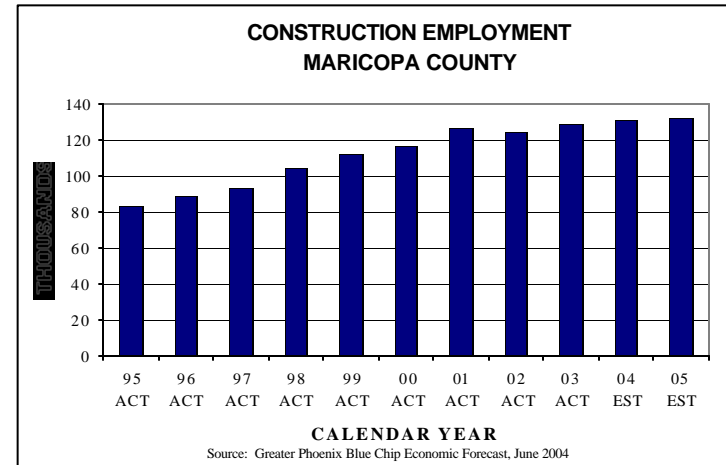
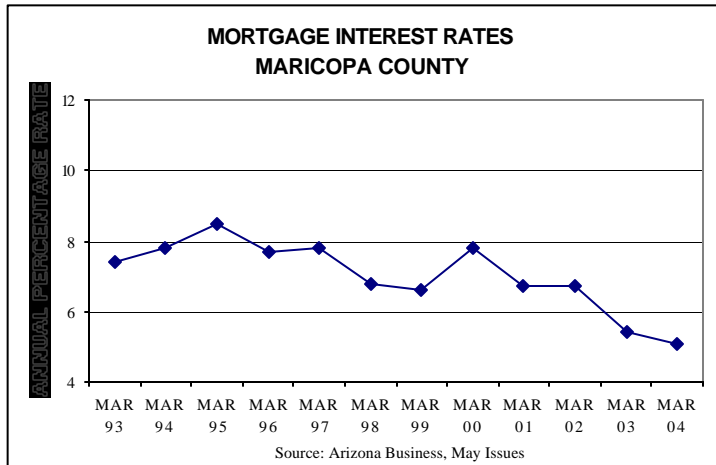
Maricopa County single-family housing permits increased by 4.4 percent in CY 2002 and 15.6 percent in CY 2003. However, the Greater Phoenix Blue Chip estimates single family housing permits will decline by 2.0 percent in CY 2004 and 3.6 percent in CY 2005. If mortgage interest rates stay between 5.5 to 7.0 percent, the CY 2004 and CY 2005 estimates would be somewhat conservative since Maricopa County housing sales will probably set another record year for single family housing permits in CY 2004. Multi-family housing permits declined 22.1 and 13.8 percent in CY 2002 and CY 2003, respectively. Looking into the future, multi-family housing permits are expected to decrease by 3.2 percent for CY 2004, but increase by 5.2 percent in CY 2005. The apartment vacancy rate is predicted to decline to 9.8 percent in CY 2004 and 9.3 percent in CY 2005.



The conventional 30 year fixed rate mortgage decreased from 5.4 percent in March 2003 to 5.1 percent in March 2004. With the help of low mortgage rates and higher job growth, home buyers sent the residential housing market to a record sales level in CY 2003. The first increase in interest rates by the Federal Reserve since June 2000 occurred in June 2004, which may slow the future growth in residential housing permits.

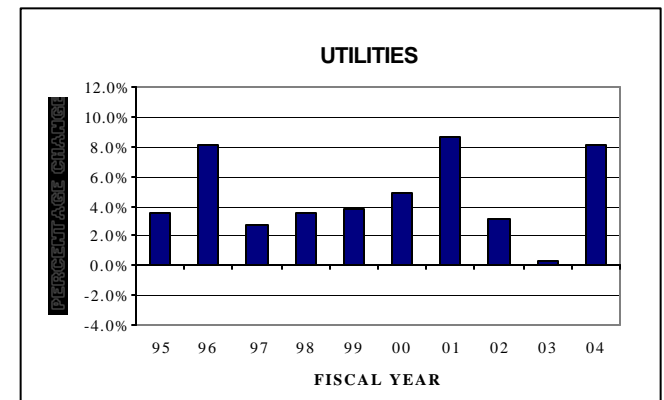
CONTRACTING: Continued

In CY 2003, construction employment increased by 3.3 percent and the Blue Chip panel predicts it will continue to increase by 1.8 and 0.8 percent in CY 2004 and 2005, respectively. The commercial office vacancy rate was 18.7 percent in CY 2003 and is expected to decrease to 18.5 percent in CY 2004. In the retail sector, the vacancy rate for CY 2003 was 7.4 percent and is estimated to increase by 9.0 percent in CY 2004. There was tremendous growth in the residential housing market in FY 2004, but it did not follow through to the commercial office and retail sectors. With the expectation of higher interest rates, construction employment is expected to level off in CY 2004 and CY 2005.



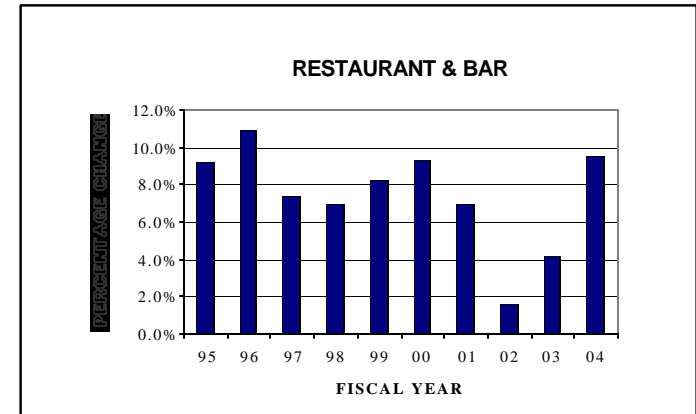
UTILITIES:

In FY 2004, utility tax collections totaled \$20.0 million, an increase of 8.1 percent above FY 2003 and 5.2 percent above the forecast. The utility tax revenue growth was fueled by the record number of new residential housing permits and homeowners higher energy usage.



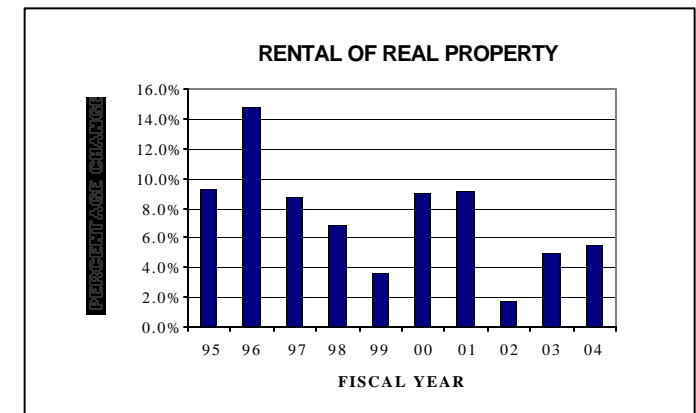
RESTAURANT AND BAR:

In FY 2004, restaurant and bar collections totaled \$24.8 million, an increase of 9.5 percent over FY 2003 and 4.2 percent above the forecast. In FY 2004, the restaurant and bar revenue category benefited from higher tourism activities, consumers willingness to dine-out more frequently and record baseball attendance at Cactus league spring training games.



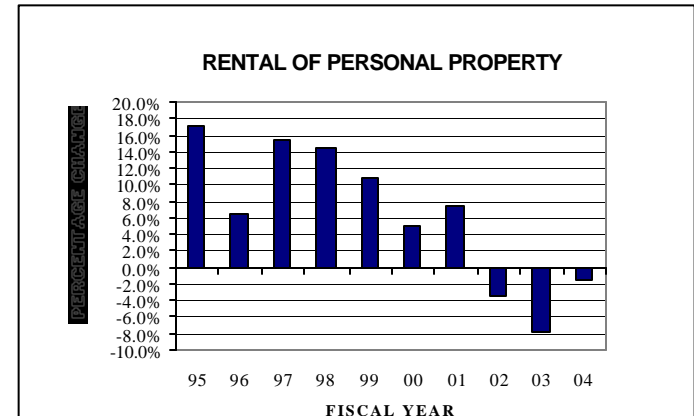
RENTAL OF REAL PROPERTY:

Rental of real property tax collections amounted to \$27.2 million, an increase of 5.5 percent over FY 2003, but 0.5 percent below the forecast. This category includes rental of commercial, residential and transient lodging (hotel/motel) facilities. Lodging activities continue to recover in Maricopa County from the low point in FY 2002. According to the Arizona Office of Tourism, the lodging occupancy rate for metro Phoenix decreased by 0.7 percent in CY 2002, but increased by 3.5 percent in CY 2003. In the first half of CY 2004, the increase in lodging activities was 6.9 percent higher than the same period last year.



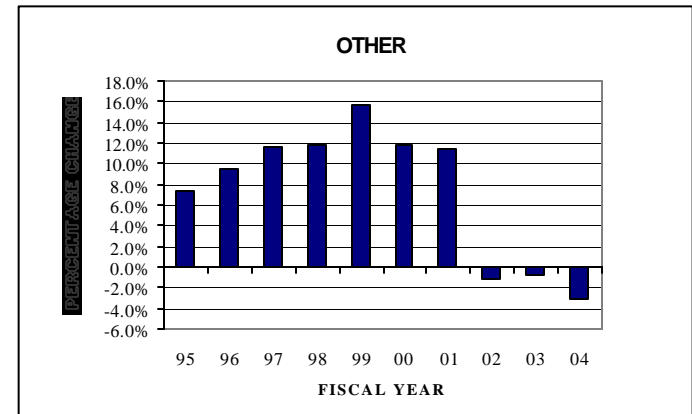
RENTAL OF PERSONAL PROPERTY:

Rental of personal property revenues in FY 2004 amounted to \$12.6 million, a decrease of 1.6 percent from FY 2003 and 3.6 percent below the forecast. This category includes rental vehicles, business and construction equipment leasing and rental of tangible personal properties. Due to the low interest rates in FY 2004, many consumers and business owners preferred to buy rather than lease new vehicles or business equipment. In addition, with the glut in office and commercial building spaces, there was less demand for commercial construction equipment leasing.

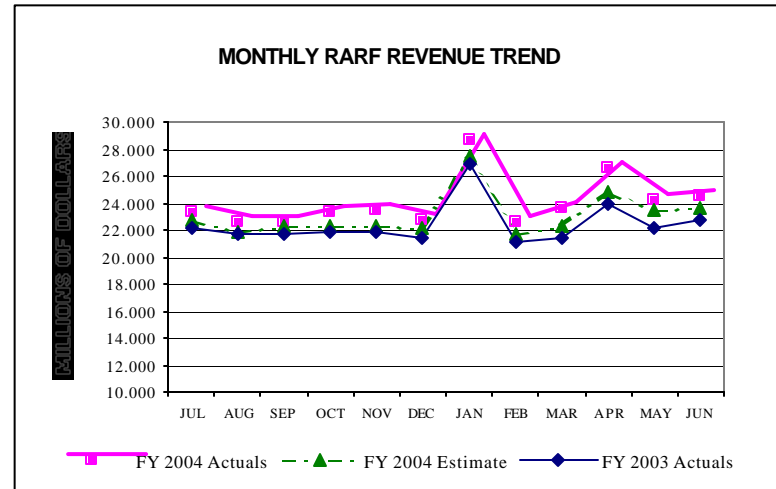
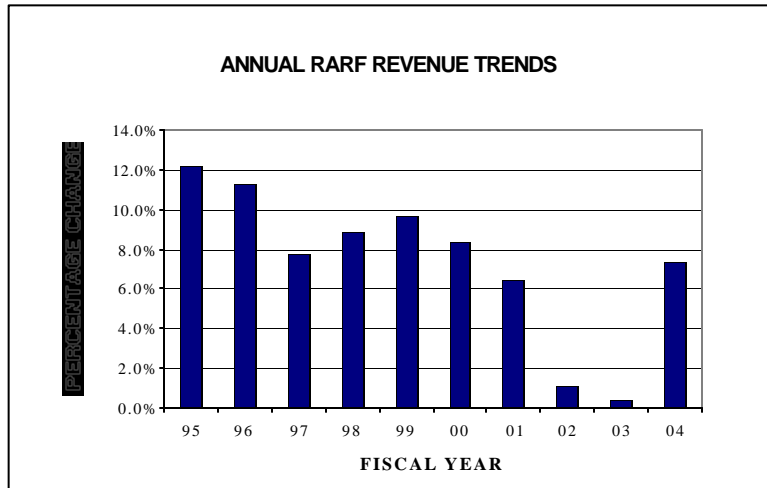


OTHER:

In FY 2004, "other" revenues totaled \$15.7 million, a decrease of 3.2 percent from FY 2003 and 6.7 percent below the forecast. The decrease in "other" revenues was due to lower "miscellaneous other" revenues in FY 2004 even though communications and amusement revenues were higher during the fiscal year. 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



In FY 2004, Maricopa Transportation excise tax collections totaled \$288.6 million compared to \$268.7 million in FY 2003. All revenue categories showed increases over last year’s revenue levels except for rental of personal property and “other” revenue categories. The stronger than expected RARF revenues were due mainly to the improved job market, low interest rates and the recovery in tourism activities. What was a limited job growth recovery in the second half of CY 2003 turned into a modest job growth in the first half of CY 2004.

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 and April due to tax refunds and credit.

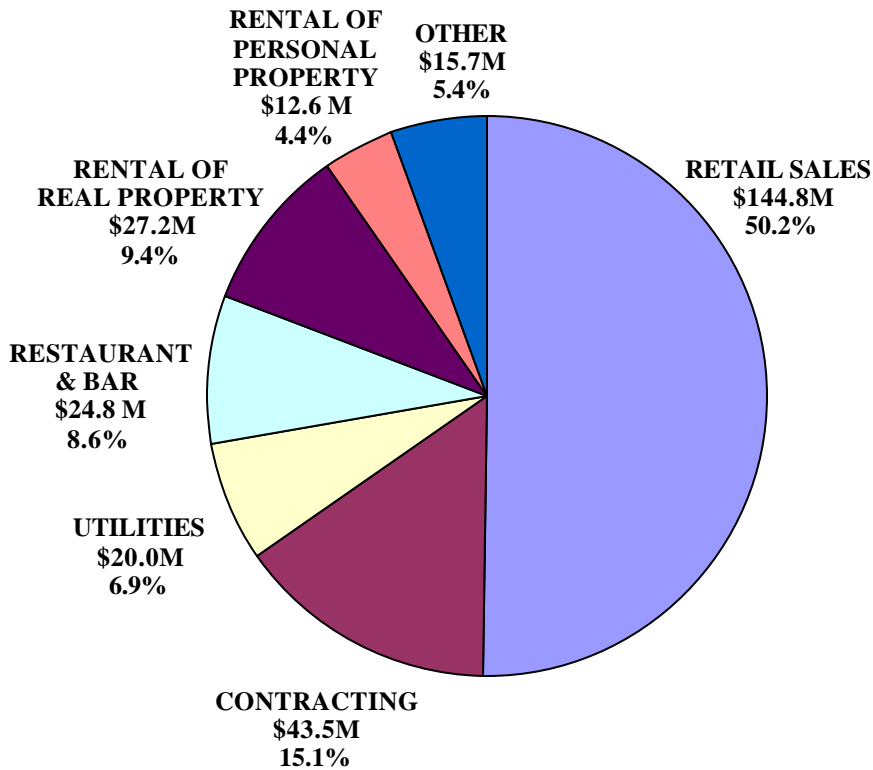
REVENUE PERFORMANCE

MARICOPA COUNTY TRANSPORTATION EXCISE TAX

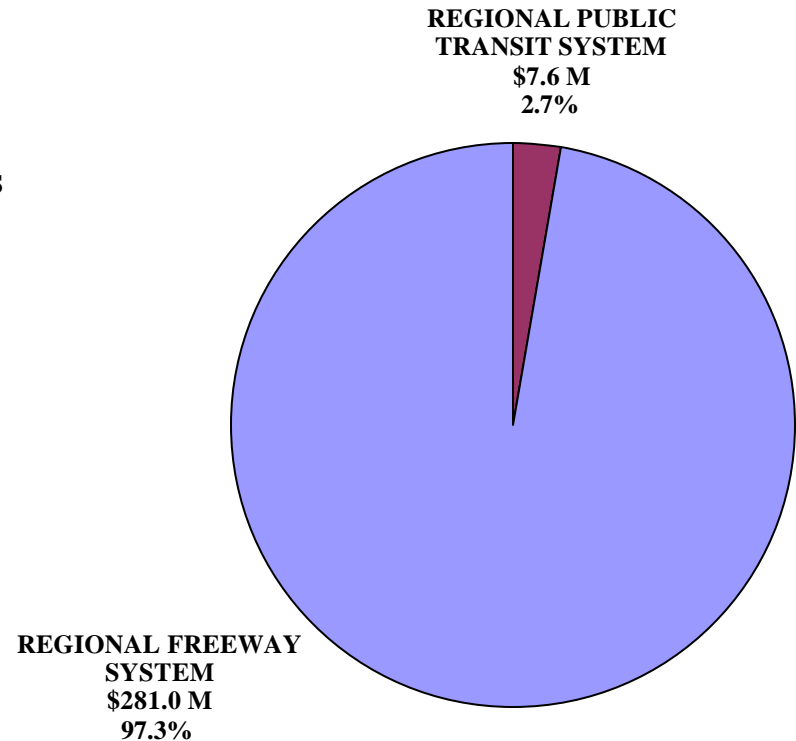
FY 2004 ACTUAL

TOTAL= \$288.6 MILLION

SOURCES



DISTRIBUTIONS



MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX REVENUE COMPARISON STATEMENT FY 2004

CATEGORY	FY 2003 ACTUAL	FY 2004 ACTUAL	CHANGE	FY 2004 ESTIMATE	CHANGE
RETAIL SALES	\$133,922,028	\$144,816,883	8.1%	\$139,700,000	3.7%
CONTRACTING	38,893,686	43,523,844	11.9%	37,300,000	16.7%
UTILITIES	18,484,778	19,979,852	8.1%	19,000,000	5.2%
RESTAURANT & BAR	22,645,998	24,806,732	9.5%	23,800,000	4.2%
RENTAL OF REAL PROPERTY	25,747,438	27,163,395	5.5%	27,300,000	-0.5%
RENTAL OF PERSONAL PROPERTY	12,834,486	12,630,667	-1.6%	13,100,000	-3.6%
OTHER	16,192,486	15,678,427	-3.2%	16,800,000	-6.7%
TOTAL	\$268,720,901	\$288,599,800	7.4%	\$277,000,000	4.2%

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 - 2004 (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%
2004	144,817	43,524	19,980	24,807	27,163	12,631	15,678	288,600	7.4%
TOTAL	\$1,633,156	\$455,234	\$252,966	\$270,663	\$296,934	\$164,806	\$182,174	\$3,255,932	

COMPOUND ANNUAL GROWTH RATE (FY 1987 - FY 2004) = 6.8%

*The tax became effective January 1, 1986

ARIZONA TRANSACTION PRIVILEGE TAX

EXCISE TAX RATES

FY 2004

Taxable Activity	Percent of Total Maricopa County Transaction Privilege Tax Collections	Transaction Privilege Tax Rate	Transportation Excise Tax Rate
Retail Sales	50.18%	5.00%	0.50%
Contracting	15.08%	5.00%	0.50%
Rental of Real Property (including hotels & motels)	9.05%	1.82%*	0.512%
Restaurants and Bars	8.60%	5.00%	0.50%
Utilities	6.92%	5.00%	0.50%
Rental of Personal Property	4.38%	5.00%	0.50%
Communication	3.34%	5.00%	0.50%
Amusements	1.06%	5.00%	0.50%
Publishing and Printing	0.63%	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.