

Pinal County Transportation Excise Tax

County, cities, and towns used excise tax monies we reviewed in accordance with State law and were able to demonstrate their impact, and all previous recommendations have been implemented

Performance Audit

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Report 21-106

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General



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June 30, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Pinal County Board of Supervisors and Manager

Incorporated Cities' and Towns' Council and Managers

Transmitted herewith is the Auditor General's report, a performance audit of the Pinal County Transportation Excise Tax. The report was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Department of Transportation

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County, cities, and towns used excise tax monies we reviewed in accordance with State law and were able to demonstrate their impact, and all previous recommendations have been implemented

Audit purpose

To determine whether Pinal County (County) and its 10 incorporated cities and towns used excise tax monies in accordance with State law and were able to demonstrate their impact in solving transportation issues within the County, and also to follow up on outstanding recommendations from our previous Pinal County Transportation Excise Tax audit (Report 16-106) to determine their implementation status.

Key findings

- The County, cities, and towns used excise tax monies we reviewed consistent with statute for various highway and street purposes.
- The County, cities, and towns demonstrated the impact of their use of excise tax monies in solving transportation problems within the County.
- All outstanding recommendations from our previous report—directed at the Towns of Superior and Mammoth—have been implemented.



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INTRODUCTION

The Arizona Auditor General has completed a performance audit of the Pinal County Transportation Excise Tax (excise tax). This report addresses whether excise tax monies were used in accordance with State law and provides examples of their impact in solving transportation problems within Pinal County (County).

Transportation excise tax history

In 1986 and again in 2005, pursuant to Arizona Revised Statutes (A.R.S.) §42-6107, County voters passed a half-cent sales tax to pay for highway and street improvements and transportation projects in the County and its 10 incorporated cities and towns (see Figure 1). The County, cities, and towns maintain 7,354 lane miles of road (see Table 1 on page 2).

Figure 1
County map showing cities and towns that receive excise tax revenue



¹ Apache Junction and Queen Creek are located in both Maricopa County and Pinal County.

Source: Auditor General staff reproductions of <https://www.google.com/maps/place/Pinal+County,+AZ>.

County, cities, and towns received \$90.8 million in excise tax revenue

During calendar years 2016 through 2020, the period this audit covered, the County, cities, and towns received \$90.8 million in excise tax revenue. Table 1 below shows the excise tax revenue distributed to the County, cities, and towns during this period. The Arizona Treasurer’s Office distributes collected excise tax revenues to the Pinal County Treasurer. The revenues are allocated to the County, cities, and towns proportionately based on population. The Pinal County Treasurer retains the County’s portion of the revenues and distributes the remaining revenues to the cities and towns. In addition to excise tax revenue, the County, cities, and towns rely on other revenue to complete highway and street projects, such as highway user revenue fund monies (HURF).

Table 1
Excise tax revenue, population, and lane miles maintained by jurisdiction
Calendar years 2016 through 2020

Jurisdiction	Excise tax revenue	Population	Lane miles maintained
Pinal County—Unincorporated	\$44,394,187	233,785	4,147
Apache Junction	9,254,992	41,782	406
Casa Grande	11,731,424	58,880	883
Coolidge	2,862,065	13,212	417
Eloy	4,036,387	17,002	584
Florence	6,310,610	27,220	239
Kearny	471,036	2,131	29
Mammoth	369,944	1,559	35
Maricopa	10,503,918	57,765	540
Queen Creek	109,818	11,503	20
Superior	737,688	3,093	54
Total	\$90,782,069	467,932	7,354

Source: Auditor General staff analysis of County transportation excise tax revenue distribution data obtained from the Arizona Treasurer’s Office for calendar years 2016 through 2020; population estimates, as of July 1, 2020, from the Arizona Commerce Authority website; and lane miles reported by the Central Arizona Governments on May 13, 2021.

County, cities, and towns complied with statutorily allowable excise tax uses for transactions we reviewed

A.R.S. §28-6392 requires that excise tax monies be used only for highway and street purposes, which include highway and street improvements, such as construction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. Excise tax monies can also be used for administrative expenses that indirectly support the functions of highway and street purposes, such as transportation department management and administrative payroll; central services costs for accounting or information technology support; and utilities associated with highways and streets.

Our review of a sample of 162 excise tax transactions from 2016 through 2020 found that the County, cities, and towns used excise tax monies consistent with statute for various highway and street purposes, including improvements such as paving and resurfacing roads and building bridges, and administrative uses, such as paying electricity expenses for streetlights. Table 2 on page 3 shows total excise tax expenditures during 2016 through 2020 by the County, cities, and towns in the 2 categories: highway and street improvements and administrative uses.

Table 2
Excise tax expenditures by jurisdiction and category
Calendar years 2016 through 2020

Jurisdiction	Highway and street improvements ¹	Percent of total	Administrative uses ²	Percent of total	Total ³
Pinal County—Unincorporated	\$52,094,469	96%	\$1,919,797	4%	\$ 54,014,266
Apache Junction	5,932,874	86	986,692	14	6,919,566
Casa Grande	7,980,349	78	2,313,233	22	10,293,582
Coolidge	4,636,584	100		0	4,636,584
Eloy	3,601,161	91	377,580	9	3,978,741
Florence	6,864,472	88	957,290	12	7,821,762
Kearny	550,542	85	96,384	15	646,926
Mammoth	1,046,158	92	96,123	8	1,142,281
Maricopa	11,653,475	100		0	11,653,475
Queen Creek	112,563	100		0	112,563
Superior	1,111,771	89	136,069	11	1,247,840
Total	\$95,584,418	93%	\$6,883,168	7%	\$102,467,586

¹ Highway and street improvements include construction, reconstruction, maintenance, repair, and roadside development of roads, streets, and bridges; rights-of-way acquisitions; transportation studies; and environmental studies, if required, before road construction. This includes associated personnel costs.

² Administrative uses include general expenses that support highway and street improvement, such as the electricity expenses for streetlights and costs for centralized services, such as accounting and information technology support.

³ The total excise tax use exceeded excise tax revenue during the audit period (see Table 1 on page 2) because the County, cities, and towns had available transportation excise tax monies at the beginning of the audit period.

Source: Auditor General staff analysis of County transportation excise tax expenditures from the County's, cities', and towns' general ledger for calendar years 2016 through 2020.

County, cities, and towns used various methods to identify highway and street needs

The County, cities, and towns used various methods to identify appropriate projects and uses of excise tax monies. The following describes some of the methods used:

- The County uses a 5-year capital improvement plan to determine which projects to carry out with excise tax monies. The plan is updated annually. In addition, the County has a Transportation Advisory Committee that meets 3 times a year to discuss planning, construction, and maintenance of transportation projects for the County.
- Apache Junction uses pavement-management software in conjunction with annual visual inspections to determine its pavement's remaining service life and identify potential projects. Apache Junction also considers other factors, such as significance of the street, public safety, and citizen complaints when prioritizing projects.
- Casa Grande uses a 5-year capital improvement plan. The city selects and prioritizes the projects based on projected revenues for the period, road conditions, and public input.
- Superior uses a Pavement Assessment Study that was completed by the Arizona Department of Transportation (ADOT) in June 2017 to identify and prioritize projects. The study includes short-, medium-, and long-term recommendations. During calendar year 2021, Superior is on year 3 of 5 of the short-term recommendations. These recommendations consist of maintenance and repairs of roads that are in greatest need of repair.

Excise tax helped solve highway and street problems

The County, cities, and towns were able to demonstrate the impact the excise tax had in solving highway and street problems. Specifically, excise tax monies were used for projects to help address issues such as roadway safety and mobility and deteriorating roads. Some of the projects include:

- **Pinal County, Hunt Highway widening project, Phases 3 and 4**—The Hunt Highway widening project has been 1 of the County’s primary transportation priorities for several years. The project is being completed in 5 phases. During the audit period, the County completed phases 3 and 4, widening Hunt Highway from Gary Road to Magma Road and adding drainage infrastructure, pedestrian enhancements, and several new traffic signals to the highway. Phase 4 also included an extension of Gantzel Road to Hunt Highway, adding a north-south connection to southern San Tan Valley. The County expects to complete the final phase of the project during 2022. Phases 3 and 4 of the project cost a total of \$27.1 million, of which \$4.5 million was paid using excise tax monies. The remaining costs were paid with bond proceeds, HURF, and flood control monies.

Photo 1
Hunt Highway - Phase 3



Source: Photo courtesy of Pinal County.

- **Apache Junction, Idaho Road**—In fiscal year 2019, Apache Junction completed a repaving project of Idaho Road from Lost Dutchman Boulevard to McKellips Boulevard (see Photo 2). The project improved the remaining service life of the road and addressed numerous citizen complaints. The project cost a total of \$515,378, of which \$180,378 was paid using excise tax monies. The remaining \$335,000 was paid with city sales tax monies.

Photo 2
Idaho Road repaving project

Before



After



Source: Photos courtesy of Apache Junction.

- Maricopa, State Route 347 overpass**—In cooperation with ADOT, Maricopa completed a 6-lane, divided overpass with raised medians and sidewalks to carry traffic, bicyclists, and pedestrians over the railroad track in Maricopa (see Photo 3). The overpass serves approximately 31,000 vehicles per day and alleviates delays caused by train traffic. The project cost a total of \$55 million, of which Maricopa was responsible for \$13.8 million. Maricopa used \$1.4 million of excise tax monies, \$5.5 million of HURF monies, \$6.5 million of general revenues, and \$0.4 million of residential developer contributions.

Photo 3
State Route 347 overpass



Source: Photo courtesy of Maricopa.

- Florence, Florence Gardens repaving project, Phases 4 and 5**—This project addressed pavement and drainage issues identified as part of a pavement evaluation and analysis performed by contracted consultants (see Photo 4). The project was completed in 2018 and cost a total of \$1.9 million, which was paid for with the proceeds from pledged transportation excise tax revenue bonds.

Photo 4
Florence Gardens repaving project
Cochise Boulevard at Idaho Avenue

Before



After



Source: Photos courtesy of Florence.

- Superior, Stone Avenue repaving project**—Stone Avenue was identified as being in very poor condition in Superior’s Pavement Assessment Study. The project was completed in June 2020 and is one of Superior’s largest street projects completed in the last 5 years. It provided asphalt resurfacing along a 1-mile stretch of Stone Avenue. The project cost \$201,553, which was paid for with \$80,621 of excise tax monies and \$120,932 of HURF monies.

Followup

During this audit we also followed up on outstanding recommendations from our previous Pinal County Transportation Excise Tax audit (Report 16-106) issued in June 2016. The recommendations were directed at Superior and Mammoth. See Appendices A and B (pages a-1 through a-2 and b-1 through b-2) for the follow-up reports.



60-month follow-up report—Town of Superior

The June 2016 Pinal County Transportation Excise Tax performance audit found that the Town of Superior inappropriately loaned excise tax monies and did not have policies and procedures governing the use of excise tax monies. Superior’s status in implementing the recommendations is as follows:

Status of 5 recommendations:

Implemented: 5

Finding 1: Additional procedures and training needed to ensure excise tax monies used appropriately

1.1 The Town of Superior should repay its Road Fund for the inappropriately loaned restricted Road Fund monies and discontinue the practice of loaning restricted Road Fund monies, including excise tax monies, to other funds. If resources are not currently available to completely repay the loans, a repayment schedule should be developed and implemented.

Implemented at 60 months—As part of our 48-month followup, we reported that Superior had an outstanding inappropriate excise tax loan balance of \$256,799. We also reported that Superior did not meet the repayment requirements in A.R.S. §28-6392(B)(1). As a result, on September 30, 2020, ADOT notified the State Treasurer to withhold Superior’s excise tax revenues until Superior demonstrated that it spent monies for highway and street purposes from a general revenue source equal to the amount of excise tax monies it used inappropriately. (A.R.S. §28-6392[B][2]) The State Treasurer began withholding the excise tax revenues as of October 1, 2020.

As part of this audit, we examined Superior’s audited financial statements and financial records and determined it repaid its outstanding inappropriate excise tax loan balance and spent the repaid monies, as required by A.R.S. §28-6392(B)(2). As a result, we will notify ADOT that Superior has met its statutory requirements and is eligible to receive its withheld transportation excise tax revenues.

1.3 The Town of Superior should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify monies spent for purposes other than highways and streets or transportation projects. Once identified, the Town should repay the inappropriate expenditures.

Implemented at 36 months

1.4 The Town of Superior should develop and implement policies and procedures that, at a minimum:

- Define the allowable uses of excise tax monies.
- Outline step-by-step procedures for the review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies.
- Reconcile excise tax revenues recorded at least annually.

The Town should then train all individuals responsible for the use of excise tax monies on the new policies and procedures.

Implemented at 6 months

Finding 2: Most entities can adequately demonstrate impact; 2 towns need improvement

2.2 The Town of Superior should develop and implement a planning process to help identify and prioritize projects.

Implemented at 6 months

2.3 The Town of Superior should develop and implement policies and procedures detailing appropriate recordkeeping for the use of Road Fund monies.

Implemented at 6 months



60-month follow-up report—Town of Mammoth

The June 2016 Pinal County Transportation Excise Tax performance audit found that the Town of Mammoth inappropriately loaned excise tax monies and did not have policies and procedures governing the use of excise tax monies. Mammoth's status in implementing the recommendations is as follows:

Status of 6 recommendations

Implemented:	5
Implemented in different manner:	1

Finding 1: Additional procedures and training needed to ensure excise tax monies used appropriately

1.2 The Town of Mammoth should ensure it continues to repay its Road Fund for the inappropriately loaned restricted Road Fund monies. Also, Mammoth should ensure that it does not loan any restricted Road Fund monies, including excise tax monies, to other funds in the future.

Implemented at 60 months—As part of our 48-month followup, we reported that Mammoth had an outstanding inappropriate excise tax loan balance of \$216,415. We also reported that Mammoth did not meet the repayment requirements in A.R.S. §28-6392(B)(1). As a result, on September 30, 2020, ADOT notified the State Treasurer to withhold Mammoth's excise tax revenues until Mammoth demonstrated that it spent monies for highway and street purposes from a general revenue source equal to the amount of excise tax monies it used inappropriately. (A.R.S. §28-6392[B](2)) The State Treasurer began withholding the excise tax revenues as of October 1, 2020.

As part of this audit, we examined Mammoth's audited financial statements and financial records and determined it repaid its outstanding inappropriate excise tax loan balance and spent the repaid monies, as required by A.R.S. §28-6392(B)(2). As a result, we will notify ADOT that Mammoth has met its statutory requirements and is eligible to receive its withheld transportation excise tax revenues.

1.3 The Town of Mammoth should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify monies spent for purposes other than highways and streets or transportation projects. Once identified, the Town should repay the inappropriate expenditures.

Implemented at 60 months—Mammoth's Town Clerk analyzed expenditures from fiscal years 2011 through 2015 and did not identify any misuse. In addition, Mammoth corrected the misuse we identified in our June 2016 performance audit by reclassifying those expenditures from its Road Fund to its General and Water Funds.

1.4 The Town of Mammoth should develop and implement policies and procedures that, at a minimum:

- Define the allowable uses of excise tax monies.
- Outline step-by-step procedures for the review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies.
- Reconcile excise tax revenues recorded at least annually.

The Town should then train all individuals responsible for the use of excise tax monies on the new policies and procedures.

Implemented at 60 months—Mammoth has developed and implemented written policies and procedures that contain the items listed above. Specifically, the policies and procedures outline the allowable uses of excise tax revenues and assign accounting and recordkeeping responsibilities, including the review and approval of excise tax expenditures, to the Town Manager and Town Clerk. The Town Manager approved the policies and procedures, which require all applicable Town employees to be trained on their use.

Finding 2: Most entities can adequately demonstrate impact; 2 towns need improvement

2.1 The Town of Mammoth should consider conducting a transportation study to evaluate its road systems and identify the most critical current and future transportation needs to help it prioritize its use of excise tax monies.

Implemented in a different manner at 60 months—See response for recommendation 2.2.

2.2 The Town of Mammoth should develop and implement a planning process to help identify and prioritize projects.

Implemented at 60 months—Town personnel identify potential projects and evaluate and prioritize them for the use of excise tax monies. In 2020, Mammoth identified several streets in need of resurfacing and new curbing and sidewalks. In 2021, Mammoth is preparing to replace its water system, which will require several roads be replaced. Future excise tax monies are dedicated to this project. Mammoth is also working on a 5-year capital improvement plan that will include a transportation component, as needed. Mammoth determined this planning process was sufficient to identify transportation needs and did not complete a transportation study.

2.3 The Town of Mammoth should develop and implement policies and procedures detailing appropriate recordkeeping for the use of Road Fund monies.

Implemented at 60 months—See response for recommendation 1.4.



Scope and methodology

The Arizona Auditor General has conducted a performance audit of the Pinal County Transportation Excise Tax pursuant to A.R.S. §41-1279.03(A)(6). This statute requires a performance audit to be conducted in the tenth year that a county transportation excise tax has been in effect and every fifth year thereafter. This is the fifth performance audit of the County excise tax since its initial establishment in 1987.

We used various methods to evaluate this performance audit's objectives. Specifically:

- To determine compliance with State laws that require excise tax monies be spent only for highway and street purposes, we:
 - Obtained and analyzed the County's, cities', and towns' revenue and expenditure data for the period January 1, 2016, through December 31, 2020. We reconciled the State of Arizona's Treasurer's Office excise tax disbursements to the County's, cities', and towns' respective funds into which they deposit excise tax monies. To determine the revenue and expenditure data was complete and reliable, we compared the County-, city-, and town-provided general ledger data to their fiscal years 2016 through 2020 audited financial statements.
 - We analyzed the expenditure data and judgmentally or randomly selected samples of 1 to 44 excise tax transactions for each entity. For judgmental samples, we selected transactions for review based on project type, vendor name, transaction description, or types of transactions that had the greatest risk of noncompliance, such as operating transfers out or credit card transactions. For all transactions we selected, we obtained additional information, such as invoices, from the County, cities, and towns, to determine compliance with State law.
 - Our work on internal controls included reviewing the County's, cities', and towns' policies and procedures over excise tax monies and, where applicable, testing compliance with these policies and procedures on the sample items discussed above. Our work included reviewing the following components and associated principles of internal controls:
 - Control activities, including the design and effectiveness of activities that help ensure excise tax monies are used in compliance with State law.
 - Control environment, including management's commitment to complying with State law.
 - Information and communication, including the review of policies and procedures that define the allowable use of excise tax monies.

We did not identify any significant deficiencies in internal control.

- To determine the County's, cities', and towns' ability to demonstrate the impact of the excise tax in solving highway and street problems, we analyzed information related to highway and street projects completed during calendar years 2016 through 2020, including project costs, descriptions, and contract information. We also reviewed information related to future project planning and selection processes, including transportation studies, and minutes of County board or city/town council meetings, and discussed project planning with County, city, or town management.

We selected the previously indicated audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of the Pinal County Transportation Excise Tax in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

We express our appreciation to the County, cities, and towns for their cooperation and assistance throughout the audit.

