



MAYOR & COUNCIL MEMORANDUM

November 19, 2024

Subject: Discussion and Direction Relating to Funding for Mass Transit Operations including Sun Link, Sun Tran, and Sun Van (City Wide) Page: 1 of 6

Issue – At the Study Session on April 9, 2024, staff presented Mayor and Council with data regarding potential transit funding options. Discussions ensued and the Mayor and Council requested to revisit the topic of funding for mass transit operations in the latter half of 2024. This item is to allow the Mayor and Council to receive an update from staff and continue discussions related to transit funding strategies.

City Manager's Office Recommendation – Time has been set aside for the Mayor and Council to continue the discussion on funding for mass transit operations and provide direction as appropriate.

Background – At the Study Session on April 9, 2024, staff presented Mayor and Council with an overview of options to fund mass transit operations. Those funding options are shown below, categorized into two distinct groups: “Consider” and “Act Now” –

Consider – these options can be considered if the associated caveats are addressed:

- *Transportation Utility Fee (TUF)*: requires a change to the Arizona Revised Statutes (ARS) to allow for the authorization of an assessment of a transportation user tax/fee on real property of a municipality in Arizona.
- *Special Taxing District*: requires a change to the ARS to include transit as an authorized use of these special taxing districts (municipal improvement districts).
- *Impact Fees*: requires a change to the ARS to grant municipalities the ability to use impact fee revenues to fund public services provided by the municipality, including transit services.
- *Rental Car Tax*: requires a change to the Arizona Constitution to be usable by a municipality to fund transit operations. At a county level, the ARS allow for the formation of a Sports Authority District. Acting in this role, Pima County currently imposes a rental car surcharge of \$3.50, the proceeds of which must be used for County sports facilities. There could be an opportunity for the City of Tucson, Pima County, and tourism-focus nonprofit organizations to explore a partnership/strategy to allow for regional car rental tax revenues to be reallocated for transit operations in a manner which is compliant with the ARS.
- *Formation of a Metropolitan Public Transit Authority (MPTA)*: requires amendments to the ARS to clearly define what type of entity an MPTA is; the scope of the authority of an MPTA to engage in transit operations; and the process for legal authorization of funding sources (property taxes, bonds) that would be available to an MPTA.

Act Now – the following represent options that can be acted upon immediately:

- *Partnership Agreements*: these public-private partnerships can play a key role in ensuring the sustainability of transit operations as they help lessen the burden on the General Fund through contributions from community partners.
- *Hotel/Motel Surcharge*: any increase to the Hotel/Motel Surcharge (Tucson City Code (TCC) 19-66(b)), which is currently at \$4.00/night, has the flexibility to be used for any General Fund purpose. It is worth noting that every \$1.00/night collects approximately \$2M.
- *Public Utility Tax (PUT)*: Mayor and Council has the capacity to increase the PUT. The current PUT is at 6% (*). Finally, TCC Sec. 19-1000(c) requires any franchise payments from the utility to be credited toward the PUT.

(*) 6% refers specifically to telecommunication utilities which use City of Tucson right-of-way. The remaining utilities (non-telecommunications) are taxed at a rate of 4.5%. A more detailed explanation is provided in the Present Considerations section below.

Present Consideration(s) – Given the listed options for sustained funding of mass transit operations, staff would like to present Mayor and Council with additional data to help inform the decision-making process:

Partnership Agreements:

In the spring of 2023, Mayor Romero sent a letter to regional educational institutions including Pima Community College (PCC), Tucson Unified School District (TUSD), and the University of Arizona (UA), outlining the value of transit services for students, faculty, and staff, and requesting support for the continued delivery of services. Ridership data demonstrates that all three organizations receive a substantial benefit from the transit system and the City has remained committed to maximizing this benefit through sustained systemwide investments. Though the City was unable to achieve a partnership upon the initial request, there has been a willingness by the education partners to re-engage in conversations on ways to enhance transit operations. The City Manager’s Office is actively pursuing discussions with the leaders of each agency; as those conversations evolve, staff will provide briefings to the Mayor and Council.

Hotel/Motel Surcharge:

The Arizona Department of Revenue (ADOR) provides data on tax rates for cities and towns across the state (link: [ADOR tax rates](#)). Table 1 shows a comparison of hotel/motel tax rates for listed cities and towns within the state. Except for Tucson, the other municipalities listed have two tax rates that apply to hotel/motel charges: a “regular” privilege tax rate (generally the same as their retail tax rate), and the “hotel/motel (additional tax)” rate which is an additional amount they have chosen to impose. The sum of those rates are represented in the column “Total Hotel Tax Rate”. The City of Tucson has a hotel tax rate of 6% as well as an additional bed surcharge of \$4 per night, per room.

Since the City’s additional hotel tax is on a per night basis, it requires additional calculations to make the amount comparable to other jurisdictions. The additional hotel tax rate shown for Tucson in Table 1, 2.68% (**), is an estimated amount based on an analysis of the average annual room

rates for hotel/motel charges. As room rental charges are constantly in flux, the additional rate calculation for the \$4 bed surcharge will similarly change from year to year.

To tie the bed surcharge back to an estimated additional hotel tax rate, a \$1 increase to the bed surcharge yields an approximate increase of 0.67% to the total hotel tax rate. It is worth noting that every \$1.00/night in the bed surcharge collects approximately \$2M. For fiscal year 2023, the total amount collected for both hotel charges (hotel tax + bed surcharge) were **\$22,692,767**.

Jurisdiction	Population (2020 census)	Primary Hotel Tax Rate [%]	Additional Hotel Tax Rate [%]	Total Hotel Tax Rate [%]
Phoenix	1,608,215	2.30	3.00	5.30
Tucson	542,658	6.00	2.68**	8.68
Mesa	504,296	2.00	5.00	7.00
Chandler	276,011	1.50	2.90	4.40
Gilbert	267,931	1.50	2.80	4.30
Glendale	248,403	2.90	5.00	7.90
Scottsdale	241,340	1.75	5.00	6.75
Peoria	190,991	1.80	3.80	5.60
Marana	51,904	2.50	6.00	8.50
Oro Valley	47,070	2.50	6.00	8.50
Sahuarita	34,102	2.00	2.00	4.00

Table 1: Comparison of hotel/motel tax rates for listed Arizona municipalities.

Public Utility Tax (PUT):

The Tucson City charter authorizes a tax on the gross sales by public utilities and telecommunication providers operating without a franchise to consumers within the city limits. For the purposes of this tax, a public utility means a person (individual, firm, partnership, joint venture, association, corporation, estate, trust, receiver, syndicate, broker, the federal government, this state, or any political subdivision or agency of this state) carrying on a utility service or telecommunication service (TCC Sec. 19-700). A utility service is defined as producing, providing, or furnishing of electricity, electric lights, current, power, gas (natural or artificial), or water to consumers or ratepayers (TCC Sec. 19-700). A telecommunication service means any service or activity connected with the transmission or relay of sound, visual image, data, information, images or material over a communications channel or any combination of communications channels (TCC Sec. 19-700).

The tax is paid monthly on gross income with a provision allowing credit against the public utility tax for any franchise fees paid to the City. The public utility tax, which is currently at 6%, is in addition to the 2.6% city sales tax. As previously noted, 6% refers specifically to telecommunication utilities which use City of Tucson right-of-way. Other utilities (non-telecommunications) are taxed at a rate of 4.5%.

Under the terms of voter-approved franchises granted to Tucson Electric Power and Southwest Gas for use of public rights-of-way, the City collects 2.25% of the gross sales of electricity and 3.0% from the natural gas consumed within the City. The franchise fee payments received from Tucson Electric Power and Southwest Gas reduces their public utility tax. Monies received from public

utility taxes and utility franchise fees may be used to pay any expense legally chargeable to the General Fund (source: [2022 Budget Book](#)).

Jurisdiction	Population (2020 census)	Utility Tax Rate [%]	Public Utility (Additional Utility) [%]	Total Utility Tax Rate [%]
Phoenix	1,608,215	2.70	-	2.70
Tucson	542,658	2.60	6.00	8.60
Mesa	504,296	2.00	-	2.00
Chandler	276,011	2.75	-	2.75
Gilbert	267,931	1.50	-	1.50
Glendale	248,403	2.90	-	2.90
Scottsdale	241,340	1.75	-	1.75
Peoria	190,991	3.30	-	3.30
Marana	51,904	4.00	-	4.00
Oro Valley	47,070	4.00	-	4.00
Sahuarita	34,102	4.00	-	4.00

Table 2: Comparison of utility tax rates for listed Arizona municipalities.

Table 2 shows the utility tax rates for the listed municipalities, based on ADOR reporting (source: [ADOR tax rates](#)). Of the cities and towns listed, the City of Tucson is the only jurisdiction that includes an additional public utility tax line item, beyond the baseline utility tax. Some of the other jurisdictions listed have a utility tax equal to their retail sales tax, while others use a higher rate than the retail sales tax rate but do not include this additional rate as a separate line item in the way that the City uses the “public utility (additional utility)” line. The 6% additional public utility tax imposed by the City represents the sum of a 4.5% tax on all utilities that report under the baseline utility tax as well as a 1.5% tax on telecommunication providers for the use of City right-of-way.

In fiscal year 2023, the City collected approximately \$27.2M in revenues from the public utility tax (source: [FY2023 Annual Comprehensive Financial Report](#)). Historic trends for PUT revenue collection are shown in Figure 1. If adjustments to the PUT are considered, increasing the 4.5% component of the tax would have the greatest impact, as the 1.5% public utility right-of-way tax is only levied upon telecommunications and not all utilities. The PUT was most recently approved for an increase by Mayor and Council at the June 7, 2016, Regular Session, when the rate was adjusted from 4% to 4.5%. This increase went into effect at the beginning of fiscal year 2017, on July 1, 2016. Table 3 shows the 5-year average revenue collected by the PUT. Based on the 5-year averages, the increase in revenues from the .5% rate adjustment are approximately \$1.7M.

PUT Rate Increase from 4% to 4.5% beginning FY2017	
5-year average revenues before increase (FY2012-FY2016)	\$ 22,920,451
5-year average revenues after increase (FY2017-FY2021)	\$ 24,660,351
Change in revenues after .5% rate increase	\$ 1,739,901

Table 3: Change in PUT revenue collection after .5% rate increase in FY2017

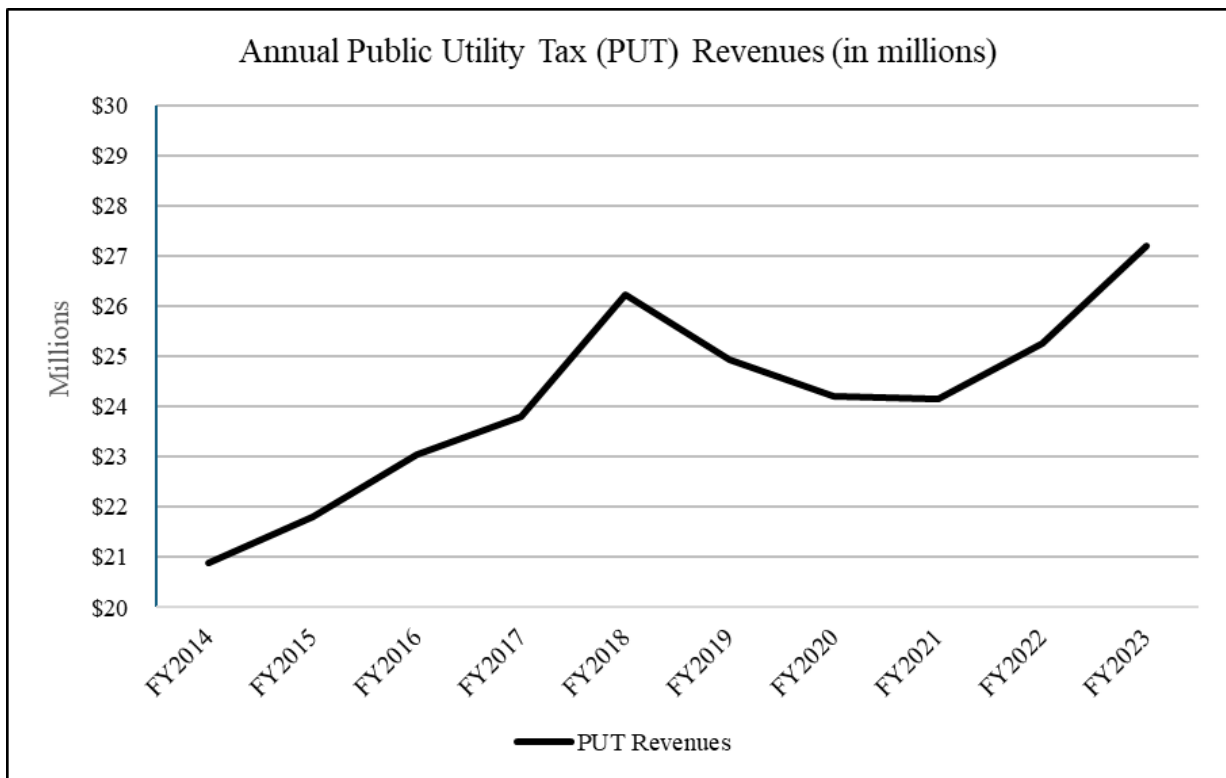


Figure 1: Annual Public Utility Tax (PUT) revenues by fiscal year (in millions of dollars)

In Summary, staff have provided three viable options for increasing funding for transit operations:

- Partnership Agreements: These agreements with our education partners can help add value to the transit system by providing funding for increased security, enhanced bus stops and other amenities like Wi-Fi on buses.
- Hotel/Motel Surcharge: Transit plays a key role in supporting tourism in the Tucson area. The hotel/motel surcharge could provide up to \$2M for every \$1/night increase.
- Public Utility Tax (PUT): The Mayor and Council have the authority to increase the PUT and direct the increased revenue to fund transit operations. It is estimated that for every 0.5% increase the PUT will generate approximately \$1.7M in additional funding that could be used to fund transit.

Plan Tucson Consideration(s) – The discussion of this item relates to the following Built Environment Goals and Policies:

Goal 22. Well-maintained public facilities and infrastructure that support coordinated cost-effective service delivery for current and future residents.

Public Infrastructure Policy 1. Invest in highest priority needs to manage and maintain public infrastructure and facilities that are fundamental to economic development and to sustaining and enhancing living conditions in the community.

Public Infrastructure Policy 2. Prioritize major public infrastructure investments in developed areas and for improvements of the existing infrastructure.

Land Use, Transportation & Urban Design Policy 13. Continue to explore and monitor opportunities to increase the use of transit, walking, and bicycles as choices for transportation on a regular basis.

Land Use, Transportation & Urban Design Policy 22. Participate in efforts to develop a coordinated regional, multi-modal transportation system that improves efficiency, safety and reliability of transporting people and goods within the region and to destinations outside of the region.

Financial Considerations – The General Fund transit system investment grand totals for fiscal year 2023 and 2024 were \$60.3M and \$70.4M, respectively. The fiscal year 2025 adopted budget includes a General Fund transit system total investment of \$73.1M.

Historic trends for General Fund investments in mass transit are shown in Table 4 below:

Transit GF Contribution and Federal Aid Programs from FY2019 to FY2025 (in millions)							
Source	FY2019 Actuals	FY2020 Actuals***	FY2021 Actuals***	FY2022 Actuals***	FY2023 Actuals	FY2024 Actuals	FY2025 Adopted Budget
General Fund Transit System Investment Total	\$ 46.0	\$ 23.1	\$ 32.2	\$ 20.4	\$ 60.3	\$ 70.4	\$ 73.1
Federal Aid Funds (CARES Act, CRRSAA, ARPA)	\$ -	\$ 31.0	\$ 31.0	\$ 46.8	\$ -	\$ -	\$ -
Total Transit Investment (GF and Federal Aid Funds)	\$ 46.0	\$ 54.1	\$ 63.2	\$ 67.2	\$ 60.3	\$ 70.4	\$ 73.1

Table 4: Transit General Fund and federal aid programs from FY2019 to FY2025 (in millions of dollars)

(***) From FY2020 through FY2022 the City of Tucson was able to use COVID-19 relief dollars to help fund transit services. These federal relief dollars came by way of grant monies associated with the CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the American Rescue Plan Act (ARPA).

Legal Considerations – Should Mayor and Council direct staff to move forward with any of the options outlined in this memorandum, the City Attorney’s Office will work with staff to ensure compliance with all applicable laws, codes, and regulations.

Respectfully submitted,

Kristina Swallow
 Assistant City Manager