

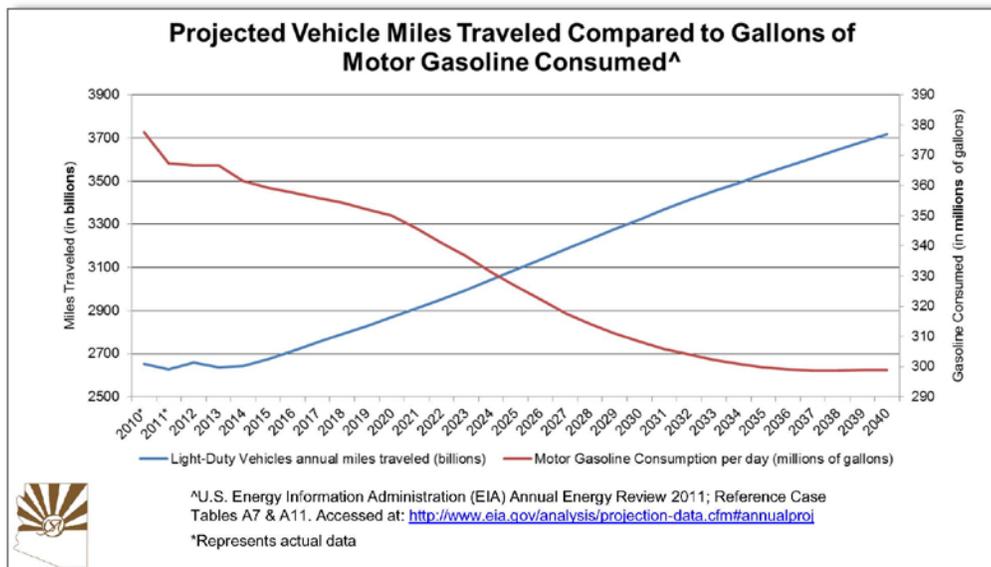
Town of Pinetop Lakeside Road Repair and Maintenance Summary Analysis

Pinetop-Lakeside has approximately 60 miles of roads – many of them in declining and failing condition with potholes and other problems. Safe streets connect people to work, school, doctors’ offices, grocery stores; places that are vital to everyone’s well-being. According to a national study conducted by AAA, bad roads and potholes can cost drivers hundreds of additional dollars per year due to wear and tear on their vehicles. Providing smooth streets is essential to reducing the cost of road induced damage to residents’ vehicles. In addition, the Town’s streets are also essential in getting children to school safely and people to work on time.

To address this issue, Town Council and Staff have proposed a sales tax increase to be used for road repairs and street safety improvements. On September 21, 2017, the Town Council will be voting on an ordinance to increase the sales tax by 0.5% from 2.5% to 3%.

History of Town Road Funding

- Historically, the Town of Pinetop Lakeside has primarily funded all road repairs and street maintenance with state-shared funds from Highway User Revenue Fund (HURF). State-shared and Federal transportation revenues are generated through taxes on gas and diesel fuel. The buying power of these taxes has been eroding for two decades. At the same time, road construction and repair costs have increased and vehicles have become more fuel efficient (see chart below). Over the last several years, the state has authorized sweeps of highway funds, to pay for other State services, which have directly reduced the Town’s annual revenues.
- Adjusted for inflation, a dollar in fuel taxes in 1991 (the last time there was an increase to the State fuel tax) was only worth the equivalent of 30 cents in 2014. In the same time period, the number of streets maintained by the Town increased by 43 percent, coupled with a corresponding increase in the cost to build and maintain roads; in other words, costs are going up, but revenues to pay for roads are going down. The steady erosion of these major funding sources is straining street and road budgets for all levels of government (city, town, county and state) including the Town of Pinetop Lakeside.



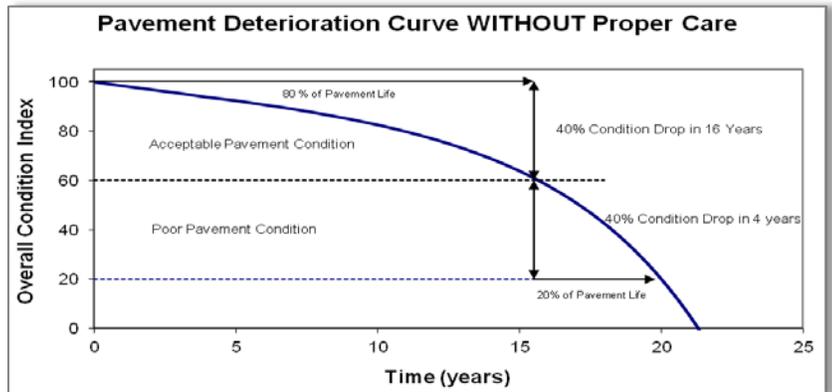
Projected National Trend and Its Potential Impact on Pinetop-Lakeside

- Arizona ranks 41st of the 50 States in combined Federal and State gasoline tax rates.
- Since 2005, the State has swept State-shared highway revenues that would otherwise have come to the Town due to transfers for other State services.
- The Town is not authorized to collect its own fuel tax. Thus, dependent on state funding.
- The Town’s state-shared highway taxes are used to pay for general street maintenance operations including: snow plowing, street sweeping, street lighting, traffic signal, drainage, signs and markings. The proposed sales tax increase will help us with the reconstruction of failed roads and pavement preservation maintenance.

Condition of Town Streets and Principle of Proper Care

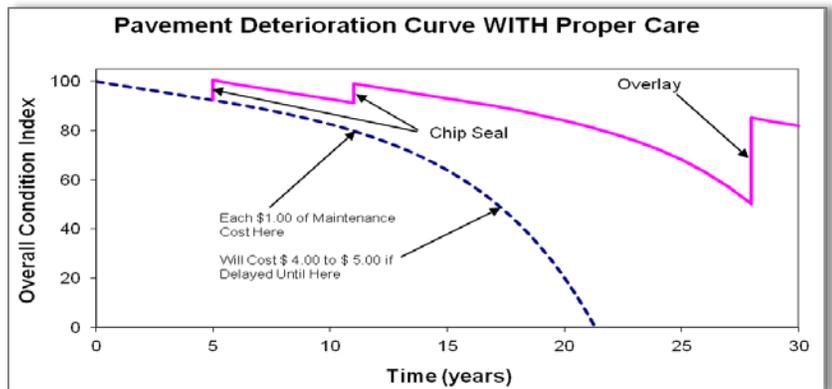
- The last time the Town was able to afford major street renovations was in 1994. At that time, the Town took out a loan in the form of revenue bonds and paved a significant number of streets.

- As the condition of the streets deteriorates, travel becomes less safe and the cost to restore streets increase.
- Streets in acceptable condition last longer and cost less to maintain. Roads in good condition (within 80% of like-new condition) cost 75% less to maintain than streets in poor condition.



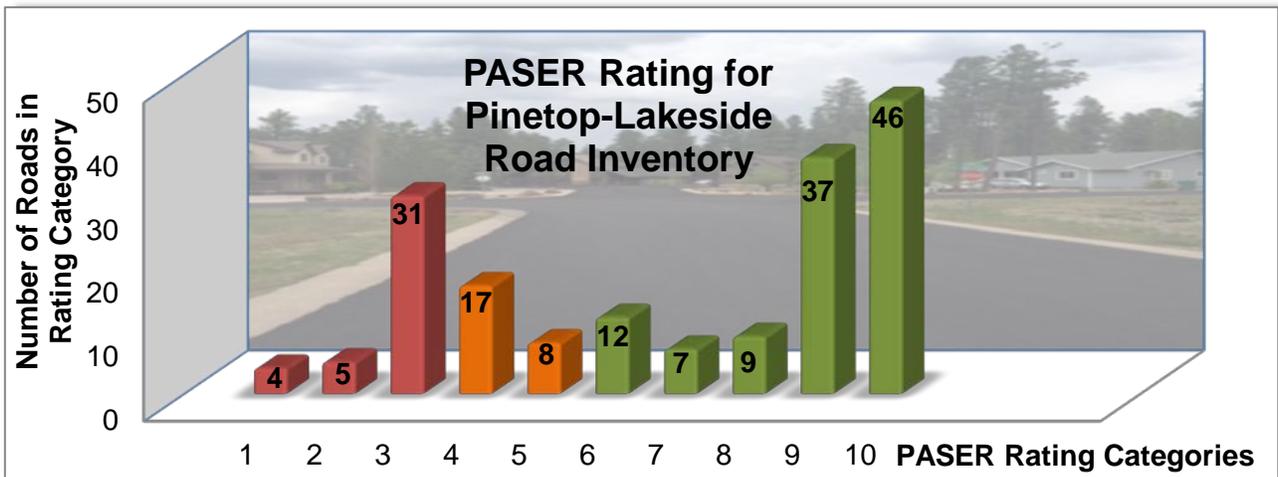
- A road in acceptable condition takes 16 years to deteriorate 40% in its overall condition. However, a road in poor condition only takes 4 years to deteriorate 40% in its overall condition.

- The negative impact of the freeze/thaw cycles is heightened by the worsening conditions of the road. Roads in better condition are more resilient to weather related impacts and deteriorate at a slower rate. During a typical winter in Pinetop-Lakeside, the number of freeze/thaw cycles significantly exceeds the national average. Freeze/thaw cycles cause faster deterioration of roads.



- If necessary repairs to Town roads are delayed by 5 years, the cost will increase by an estimated 60% for a total of \$20 million, due to excessive deterioration.
- The adjacent graphs show how the condition of streets deteriorates with and without proper repairs and preservation.
- The first graph shows that proper care (in the form of chip seals and surface overlays) can extend the life expectancy of streets.
- The curve in the second graph shows how streets without proper care deteriorate from an acceptable condition in the 16th year to pavement failure after 20 years.

- The graph below shows where the Town of Pinetop-Lakeside is as of today, based on the Paser Rating System from 1 being failed to 10 being excellent. In 2017, 22.7% of all roads in Pinetop Lakeside fall in the “failed” category.



Description of the Proposed Sales Tax Rate Increase and Dedicated Use of Proceeds

Funds from the proposed sales tax increase will be dedicated to new uses related to road and street maintenance, improvements, and pavement preservation. Finally, the Town will ensure that the sales tax revenues collected are applied only for these purposes. Annual review of expenditures and project planning related to the dedicated sales tax are a part of the Town’s existing budget development process, which requires a Public Hearing and Town Council approval annually. The proposed sales tax increase will fund street improvements (reconstruction and resurfacing) and the ongoing preservation of streets (pavement preservation) in the Town, such as:

- **Road reconstruction** is necessary when the roadway has reached the end of its life cycle due to the effect of weather and traffic. It can no longer be rehabilitated, and a new road must be constructed. All existing pavement is removed and replaced;
- **Resurfacing (surface overlays)** is done when deterioration of streets requires greater surface repair than routine preservation and involves the addition of a new surface overlay of the roadway;
- **Pavement preservation** happens through practices known as surface treatments, such as chip sealing, that can extend the life and improve the surface quality of the street. These methods can include crack sealing, patching potholes, and correcting depressions, bumps, and other defects in Town’s streets followed by seal-coating the surface.

Road Repair and Street Safety Tax Facts

- **Rate** – The rate will be one-half of one percent, which is equivalent to 50 cents on a \$100 purchase. The additional rate associated with the increased sales tax will bring the Town’s total sales tax rate to 3 percent (3.00% or approximately \$3.00 on a \$100 purchase).
- **Revenue generation** - The increased sales tax is projected to generate an estimated \$600,000 each year. The amount actually generated will be dependent on economic conditions.

PINETOP-LAKESIDE PROPOSED SALES TAX RATE INCREASE FREQUENTLY ASKED QUESTIONS

1. Why is the Town proposing a rate increase of the sales tax?

Safe and well-maintained streets are a key service provided by the Town. Recent budget constraints due to State sweeps of highway funds have limited the Town's ability to keep up with these needs. Delaying street repairs results in more costly repairs later.

2. How many miles of streets does the Town have to maintain?

Pinetop-Lakeside has over 60 lane miles of roads — many of them in declining and failing condition with potholes.

3. Why is this important to me?

Safe streets connect people to work, schools, grocery stores, doctors' offices; places that are vital to everyone's well-being. Town streets are essential to getting children to school safely and people to work on time. According to a national study conducted by AAA, bad roads and potholes can cost drivers hundreds of additional dollars per year due to wear and tear on their vehicles. Providing smooth streets is essential to reducing the costs of road induced damage to residents' vehicles and making streets safer.

4. What will the money from the proposed sales tax increase be used for?

The proposed sales tax increase will be dedicated to specific uses related to road repair and street safety improvements. Annual review of expenditures and project planning related to the proposed sales tax increase will be a part of the Town's existing budget development process. The proposed increased sales tax will fund street improvements (reconstruction and resurfacing) and the ongoing preservation of streets (pavement preservation) in the Town, such as:

- Road reconstruction, where the roadway has reached the end of its life cycle due to the effect of weather and traffic and can no longer be rehabilitated, a new road must be constructed. All existing pavement will be removed and replaced;
- Resurfacing (surface overlays), where deterioration of streets requires greater surface repair than routine preservation and involves the addition of a brand new overlay of the road; and
- Pavement preservation through practices known as surface treatments, where routine surface treatments, such as chip sealing, can extend the life and improve the surface of the street. This can include crack sealing, patching of potholes, correcting depressions, bumps, and other defects on town streets followed by seal-coating the surface of the street.

In addition to the uses described above, proceeds from the proposed sales tax increase may also be used for financing related to costs including interest and borrowing related costs.

5. What happened to all the federal and State money for streets?

State and federal transportation funding comes primarily from gas and diesel taxes that have been eroding for two decades due to inflation and as vehicles have become more fuel efficient. In addition, the State has authorized sweeps of highway funds to pay for other State services that directly reduced the Town's annual revenues. At the same time, road construction and repair costs have risen as has the number of miles of town streets and roads. For example, adjusted for inflation, a dollar in fuel taxes in 1991 (the last time there was an increase to the State gas tax) was only worth 30 cents in 2014. The long-term erosion in these major funding sources is straining government street and road budgets at all levels, including the Town of Pinetop-Lakeside.

6. Has the Town considered raising the fuel tax to pay for these road improvements?

The Town is not authorized by law to raise the fuel taxes. Only the Federal Government and the State can raise fuel taxes in Arizona.

7. What will be the rate of the proposed sales tax increase?

The rate increase will be one-half of one percent (0.50%), which is equivalent to 50 cents on a \$100 purchase. An example of how this tax would be calculated with respect to some common purchases include: A new washer that costs \$500 would have an additional \$2.50 in sales tax.

8. What will the Town's total sales tax rate be if the proposed sales tax rate increase passes?

If the proposed sales tax rate increase passes then the Town's total sales rate will be 3 percent (3.0%), or approximately \$3.00 on a \$100 purchase.

9. What will happen if the proposed sales tax rate increase is NOT APPROVED?

If the proposed sales tax rate increase is not approved then the Town will focus the existing limited funding (approximately \$600,000 a year for road repair) on the highest priority streets and defer repairs to other roads until sufficient resources become available.