

ARKANSAS GENERAL ASSEMBLY

Senator John Paul Capps
Chairman



Representative Allen Maxwell
Vice-Chairman

BLUE RIBBON COMMITTEE ON HIGHWAY FINANCE

December 1, 2010

Pursuant to Act 374 of 2009, the Blue Ribbon Committee on Highway Finance presents this Final Report of its finding and recommendations.

Committee members and Stakeholders Task Force members spent 18 months gathering information and conducting research which culminated in this final report. Dedicated agency personnel and concerned citizens provided valuable assistance to the work of the Committee by providing testimony, recommendations, advice, and information. The joint consensus of all is that Arkansas's system of funding its state highways, county roads, and city streets is systemically flawed and woefully inadequate.

The Final Report contains the Committee's recommended revenue proposals, other legislative recommendations for consideration by the Arkansas General Assembly, and recommended studies that can provide additional information that may prove beneficial in the future.

We believe this report can and should be a valuable tool in re-shaping the way Arkansas funds its state highways, county roads, and city streets.

Respectfully submitted,

A handwritten signature in cursive script, reading "John Paul Capps".

Senator John Paul Capps, Chairman



Blue Ribbon
Committee
on Highway Finance

BlueRibbonHighways.com

FINAL REPORT

December 1, 2010

Presented to:

The Honorable Mike Beebe, Governor
House Interim Committee on Public Transportation
Senate Interim Committee on Transportation, Technology and Legislative Affairs
House Interim Committee on Revenue and Taxation
Senate Interim Committee on Revenue and Taxation
Arkansas Legislative Council
Arkansas State Highway Commission
Association of Arkansas Counties
Arkansas Municipal League

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CHAIRMAN'S COMMENTS AND SUMMARY OF RECOMMENDATIONS

The first step in addressing any problem is recognizing that one exists.

The 2009 General Assembly recognized that problems exist in the way Arkansas funds its state highways, county roads, and city streets and voted overwhelmingly, by a combined total of 127-2, to begin addressing the problem by creating the Blue Ribbon Committee on Highway Finance (Act 374 of 2009).

The Blue Ribbon Committee consists of legislators; former legislators; city, county, and state officials; financial and construction industry representatives; and other concerned citizens. A Transportation Stakeholders Task Force was also created to lend even more expertise and opinions to the discussions. Some Committee members have vast knowledge of road funding issues, some very little, and the presentations and discussions of the past 18 months have been enlightening and insightful. All led the Committee to a unanimous consensus – Arkansas's system of funding our state highways, county roads, and city streets is both systemically flawed and woefully inadequate, and the problem escalates at an alarming rate each year that it is ignored.

Confirming the extent of the problem was the easy part of the Committee's work as far as state highways are concerned. But it became extremely difficult to focus on the transportation problems facing counties and cities due to an overwhelming lack of data. This prevented the Committee from developing a comprehensive set of solutions based on quantified needs of the counties and cities.

Identifying and debating a vast array of potential solutions, then narrowing those to the list of recommendations contained in this report was the crux of the Committee's charge. As you will see from this report, the Committee not only recommends funding sources and methods, but also recommends other legislation and studies that will be beneficial in crafting a funding mechanism that best addresses Arkansas's specific state highway, county road, and city street needs.

There are many factors that are contributing to Arkansas's road funding dilemma. The most obvious is the fact that 70% of our highway, road and street funding comes from a consumption-based tax, while it is a national goal to reduce consumption. The trend of stagnant to declining road-user revenues, combined with the trend of increasing vehicle miles traveled and increasing fuel efficiency, is simply a losing proposition. We're moving backwards. Add double-digit inflation in the construction industry to the mix and the problem compounds even further. Failure to address these issues will mean further

declines in road conditions and safety for our motorists and will keep Arkansas at a competitive disadvantage in the regional and national marketplace.

Following is a summary of the funding recommendations, other recommended legislation, and further study recommendations of the Blue Ribbon Committee. Recognizing the absence of quantified needs on Arkansas's system of county roads and city streets, the Committee concluded that all the funding recommendations would continue to adhere to the traditional revenue distribution of 70% to the Arkansas State Highway and Transportation Department (AHTD), 15% to counties and 15% to cities. A more detailed analysis of each recommendation can be found in the report pages that follow this summary.

Funding Recommendations

- **A 10-year phased-in transfer of the sales tax that is currently collected on the sale of new and used vehicles, tires, batteries, and vehicle parts and services** – *moving these road-user revenues to the Highway Fund strengthens the road-user based support of improvements to highways, roads and streets, and is currently being done by several other states; phasing it in over 10 years will minimize or negate the negative impact to our state's general revenues.*
- **Indexing the current per-gallon tax on motor fuels to Arkansas's Highway Construction Cost Index** – *per-gallon motor fuel taxes are an equitable but declining revenue source due to the combination of inflation, conservation, greater fuel efficiency, technology (hybrid and electric vehicles), and the increasing cost of fuel; indexing to Arkansas's Highway Construction Cost Index provides elasticity to this major revenue source.*
- **Allowing the citizens to vote on a temporary 10-year, ½-cent general sales tax dedicated to a statewide, bond-financed highway improvement program** – *Arkansas has many immediate roadway needs, some with high estimated costs, and the citizens expect to see quick results; this temporary, results-oriented mechanism can help address immediate needs in a timely manner.*
- **Implementing a new excise tax on the wholesale price of motor fuels** – *this percentage-based levy, used by many states, provides a new revenue stream and, with its elasticity, a better hedge against inflation than consumption-based sources.*
- **Authorizing, by public vote, the reissuance of GARVEE bonds to improve our Interstates using the revenue stream already in place for that purpose** – *allowing the same mechanism that was used ten years ago to improve our Interstates from being some of the worst in the country to being among the best;*

additional improvements are needed, but no additional revenue and no new taxes are needed, just a vote of the people.

- **Modifying funding for the current State Aid County Road Program and creating a new State Aid City Street Program** – *continuing dedicated funding for the successful State Aid program for counties, creating a mirror-image, equally-funded program for city streets, and providing revenue growth for these programs through indexing to the Arkansas Highway Construction Cost Index.*

Other Recommended Legislation

- **Requiring annual reporting on the use of City and County turnback funds** – *greater accountability, similar to what is required for the State Aid program, is needed regarding the use of these funds.*
- **Requiring a county minimum tax effort before a county or cities within that county can receive additional highway turnback funds** – *this would require counties to levy a minimum road tax on themselves before being allowed to share in the growth of highway turnback funds paid by others.*
- **Referring a Constitutional Amendment to allow counties to raise the 3-mill limit on their road tax by a vote of the people** – *counties should be allowed to levy a road tax of greater than 3 mills (which is the current cap) if the voters of that county approve it; this requires a Constitutional Amendment.*
- **Modifying current laws for Regional Mobility Authorities and Multi-County Taxing Authorities** – *counties within a Regional Mobility Authority need more latitude in their ability to generate revenue for local projects.*

Other Study Recommendations

- **Heavy Truck Cost Allocation Study** – *a study should be conducted to compare the revenue generated by and damage caused by heavy trucks to that of other vehicles to determine if all vehicle classes are paying their fair share.*
- **Vehicle Registration and License Fee Study** – *a study should be conducted to see how Arkansas compares to other states on this; is our system outdated and should it be simplified?*

- **State Highway System Reduction Study** – *a study should be conducted to determine if the State Highway System contains highways that should be turned over to local control, either city or county.*
- **Study the possible creation of Regional Transportation Districts** – *an interim study should be conducted to see what other states are doing on this, and to see if their creation may be applicable or beneficial in Arkansas.*

Further Monitoring and/or Studies Needed

- **Vehicle Miles Traveled (VMT) Tax** – *this revenue source based on miles traveled may become the predominant revenue generator in the future when the technology is fully developed and national standards are established.*
- **Public-Private Partnerships and Tolling** – *Arkansas should continue to monitor these financing tools and utilize when and where applicable.*

There is no one single solution to Arkansas's long-standing road funding problems. Multiple funding sources and mechanisms must be implemented and refined. Enactment of all or any combination of these recommendations will be a positive step forward for Arkansas. However, by no stretch of the imagination will this be enough to address the total needs of our state highways, county roads and city streets.

As previously stated, the first step in addressing a problem is recognizing that one exists. The 2009 legislature recognized the problem and took the first step by creating the Blue Ribbon Committee on Highway Finance. The task established by Act 374 of 2009 – to define an equitable and adequate funding mechanism for our state highways, roads, and streets – was large but not insurmountable, and the Committee worked diligently to propose the recommendations contained in this report.

There have been many comments concerning managing a tight state budget in a struggling economy and the current economy's impact on the possibility of raising taxes or even diverting existing collections from the general treasury to road-building. However, according to An Economic Analysis of Infrastructure Investment, published by the Department of the Treasury with the Council of Economic Advisers on October 11, 2010:

- One study found that almost 19 out of 20 Americans are concerned about America's infrastructure and 84 percent support greater investment to address infrastructure problems.

- A recent analysis by the Congressional Budget Office found that additional investment in infrastructure is among the most effective policy options for raising output and employment.
- In 2008 alone, over 80 percent of the 59 transportation infrastructure programs proposed in local referenda were approved by the public. Even more striking is that over 98 percent of the funds requested for these programs were approved by the voting public.
- Public support for infrastructure is not surprising, given that for the average American family, transportation expenditures rank second only to housing expenditures. The average American annually spends one-third more on transportation than food, and more than two times as much as on out-of-pocket healthcare expenses. Considering how much Americans spend on transportation, public investments which lower the cost of transportation could have a meaningful impact on families' budgets. Decreasing the need for vehicle maintenance due to poor road conditions and reducing fuel consumption by decreasing congestion would benefit Americans and allow them to spend less money on transportation.
- Although infrastructure investments are expensive, it is even more expensive for the nation if we skimp on infrastructure. There are real costs associated with not investing in infrastructure, including increased congestion and foregone productivity and jobs.

I believe the recommendations in this report, if enacted, will provide a bold step forward in addressing the systemic flaws and sustainability issues that exist today in funding Arkansas's roads.

The citizens of Arkansas deserve action on this, and they stand to benefit greatly through improvements to safety, mobility, and the economy.

I sincerely appreciate the members of the Blue Ribbon Committee on Highway Finance and the Stakeholders Task Force for working cooperatively to recommend solutions for restructuring Arkansas's highway funding system. Enacting any or all of these recommendations will benefit all who live and travel in this great State.

John Paul Capps
*State Senator, and
 Chairman of the
 Blue Ribbon Committee on Highway Finance*

INTRODUCTION

The work of the Blue Ribbon Committee on Highway Finance has been guided by the purpose stated in Act 374 of 2009 – to define an equitable and adequate system that will properly finance improvements to Arkansas's system of state highways, county roads and city streets; to actively involve the public as full and valued partners; and to recommend legislation to the Arkansas General Assembly for consideration in the 2011 Regular Session. A copy of Act 374 can be found in the Appendix.

The Committee and subsequently created Stakeholders Task Force members are as follows:

Legislative Members:

- Senator John Paul Capps, Chairman
- Representative Allen Maxwell, Vice Chairman
- Senator Paul Miller
- Senator Gilbert Baker
- Representative Bruce Maloch
- Representative Bill Sample
- Representative John Lowery

Non-Legislative Members:

- Mr. Charles Dains
- Mr. William "Bill" Fletcher
- County Judge Wes Fowler
- Mr. Bill Lynch
- Mr. Mark Lamberth
- Mr. Mark McBryde
- Mr. Jim McKenzie
- Mr. David Malone
- Mr. Madison Murphy
- Mayor Tab Townsell
- Mr. Mike Wilson

Stakeholders Task Force Members:

- Mr. Paul Benham, III
- Mr. Johnnie Bolin
- Mr. Greg Carman
- Mr. Al Heringer, IV
- Mr. Dennis Teague
- Mr. Steve Williams

Committee members and their colleagues on the Stakeholders Task Force have discussed proposals, reports, concepts, testimony, and comments from a number of sources including the Federal Highway Administration, the Council of State Governments, and the Texas Transportation Institute. As part of the Committee's charge to involve the public as valued partners, five public meetings in the form of focus-group discussions were held during May 2010. The locations of the meetings were North Little Rock, Hot Springs, Fort Smith, Jonesboro, and El Dorado. Comments in the public focus groups were received from among those responsible for the planning, construction, maintenance and funding of state

highways, county roads and city streets; local and regional transportation experts; state and local political, business and civic leaders; legal counsel; finance experts; representatives from transportation industry-related associations; economic developers; tourism officials; general road and highway users; and the public at large.

To help facilitate public access to Committee activity and documents, promote information related to transportation infrastructure, and solicit public input, a Committee-sponsored website, www.BlueRibbonHighways.com, was established and publicized. A brief video presentation was produced explaining the responsibility of the Committee along with providing background information regarding traditional highway finance and its inability to fund present and future needs. The video was played as an introduction to each public focus-group discussion and continues to be offered for viewing on the Committee website.

The significant needs on Arkansas's highway system have been well-documented over time. Although not documented formally, it is apparent that needs also exist on the State's county road and city street systems. The question that remains, which has been the major focus of the Committee, is how to adequately and equitably finance improvements to Arkansas's system of highways, roads and streets.

This final report presents a history of the increasing highway needs in Arkansas, the problem of the way highway revenue is currently structured, including the loss of buying power of highway funding, why investment in the transportation system is critical to the success of Arkansas and its residents, and the recommendations of the Blue Ribbon Committee on Highway Finance.

HIGHWAY NEEDS – HISTORIC INFORMATION

The Arkansas State Highway and Transportation Department (AHTD) has conducted numerous highway needs studies in the past. The following table shows how the needs have increased over the last several years while anticipated revenue has remained relatively constant.

HISTORY OF STATE HIGHWAY NEEDS VS. REVENUE (billions)							
Year	NEEDS					Funds Available	Total Shortfall
	Capacity	System Preservation	Economic Development Connectors	High Priority Corridors	Total Needs		
1998	\$7.2		\$3.4 *	\$3.6	\$14.2	\$3.9	\$10.3
2003	\$3.1	\$7.0	\$1.3	\$4.7	\$16.1	\$4.3	\$11.8
2006	\$3.4	\$8.8	\$1.7	\$5.2	\$19.1	\$4.1	\$15.0
2009	\$3.7	\$10.8	\$1.6	\$7.5	\$23.6	\$4.1	\$19.5

* These were based on public involvement and are not explicitly Economic Development related improvements.

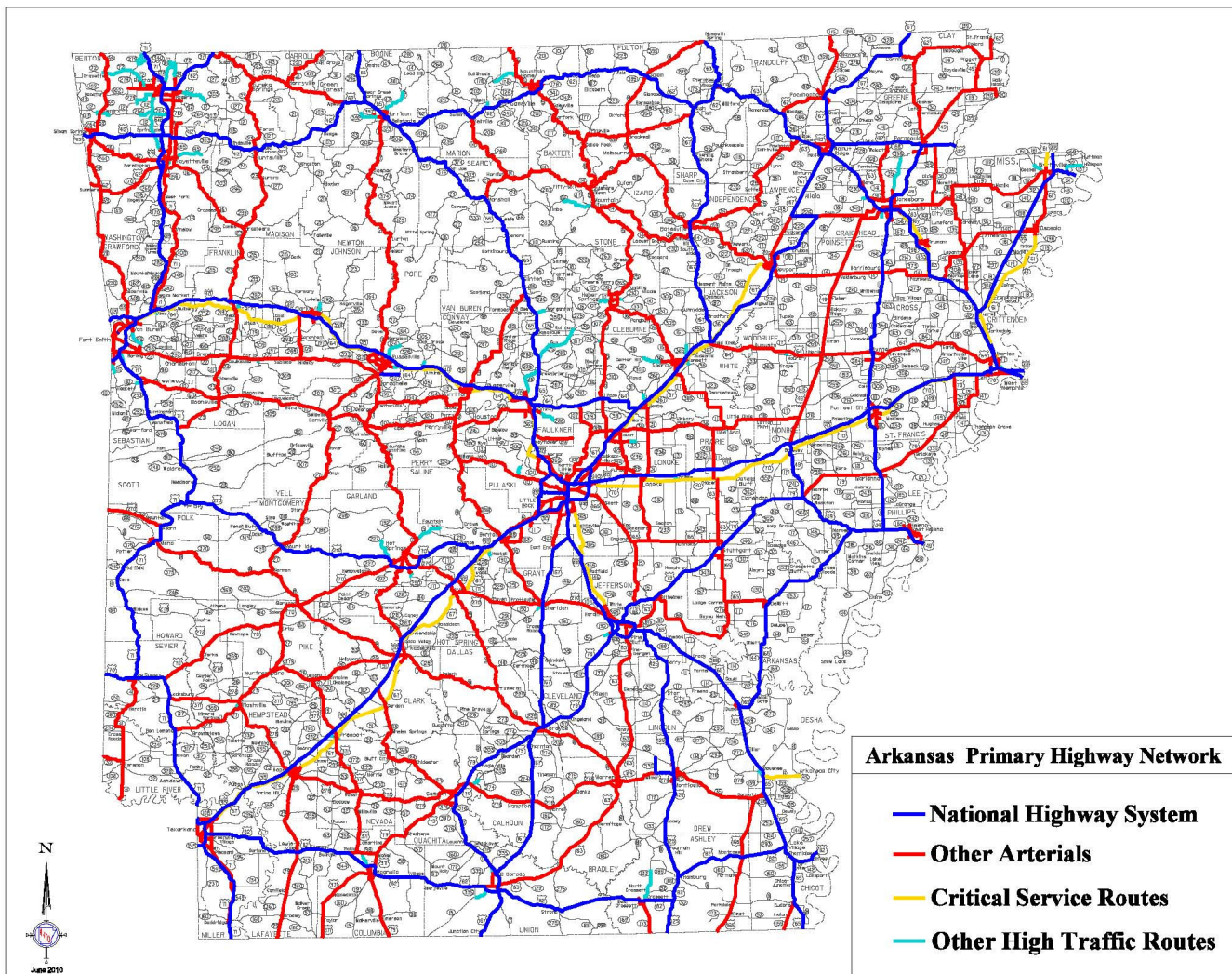
Two-thirds of the current needs (not including High Priority Corridors) are related to system preservation (reconstruction, rehabilitation, resurfacing, bridge rehabilitation / replacement). One-third of the current needs (not including High Priority Corridors) are related to congestion relief (widening and new location construction). It should be noted that the needs projected in 2009 do not include the damage that has been sustained in the Fayetteville Shale area due to natural gas exploration and production activities. Likewise, the anticipated revenue does not include the projected revenue from the natural gas severance tax. According to recent studies by the AHTD, over \$450 million is needed to return the highways impacted by activities in the Fayetteville Shale to the condition they were in prior to the activity beginning. Approximately \$35 million had been received by the AHTD from the Natural Gas Severance Tax through the end of State Fiscal Year 2010, which is far less than original estimates.

It is estimated that an additional \$200 million annually (in current dollars – net revenue to AHTD) at a minimum is needed over the next 10 years for highway congestion, pavement and bridge conditions, maintenance, administration and operations to remain at current levels (cost of maintaining “status quo”).

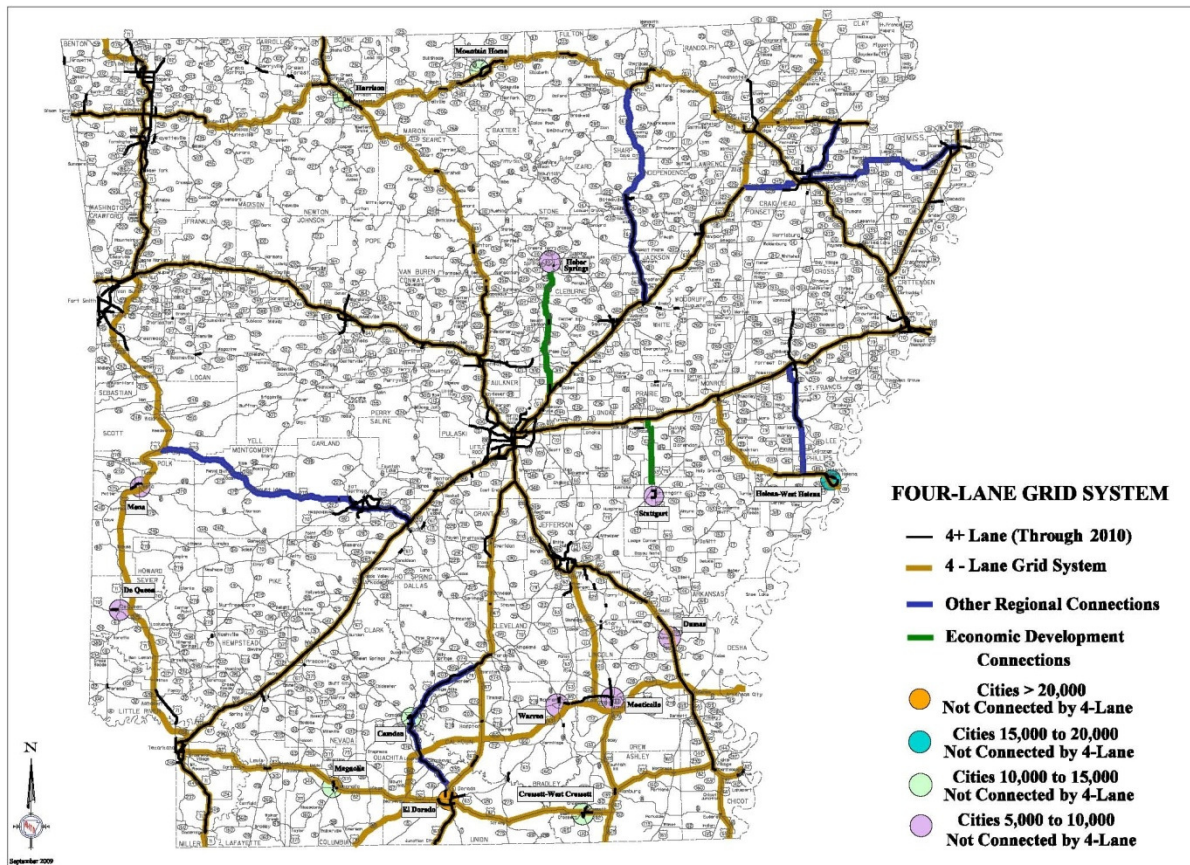
In Arkansas, the State Highway System includes 16,443 miles of highways. It is the 12th largest State Highway System in the United States, comprising 16% of Arkansas’s public roadways and carrying 76% of our total annual vehicle miles traveled, including 95% of all heavy-truck travel. However, Arkansas ranks 42nd in the ability to fund improvements to the

highway system. Being faced with such a formidable discrepancy between responsibility and funding, the AHTD and the Arkansas State Highway Commission developed and adopted the Arkansas Primary Highway Network (APHN).

The APHN is comprised of significant routes that have been identified as important to the State's transportation service on the basis of their characteristics and performance. The APHN is a system of 7,740 miles (approximately 50% of the total highway mileage) that carries approximately 90% of all travel on the State Highway System. Priority for investing the limited amount of funding available is given to projects on the APHN. With the APHN carrying the vast majority of the traffic on the State Highway System, this clearly results in "the money following the cars." The balance of the State Highway System must also be maintained for safe travel, although the scope of work on non-APHN routes is typically much smaller and much less expensive than improvements to APHN routes. Following is a map of the APHN.



As a subset of the APHN, a potential Four-Lane Grid System has been identified to facilitate the movement of people and goods and economic development among all areas of the State. This system, which is shown in the following map, includes the Interstate System, High Priority Corridors and other routes that have been identified as regionally significant.



The estimated cost for developing the Four-Lane Grid System is approximately \$10.4 billion.

- Four-Lane Grid System\$9.5 billion
- Other Regional Connections\$0.6 billion
- Economic Development Connections\$0.3 billion

HIGHWAY REVENUE – A STRUCTURAL PROBLEM

The modern era in Arkansas highways began in the mid-1950s with reform of the State Highway Commission, the passage of the Interstate Highway System Act and the establishment of the Federal Highway Trust Fund. During that time, the State Highway System has grown 64% (including 655 miles of Interstate highways), the State population has grown 40%, and the total vehicle miles traveled (VMT) has grown an amazing 590%.

By comparison, Arkansas's per gallon motor fuel tax was 6.5¢ in 1955, and today's gasoline tax is 21.8¢ per gallon. However, Arkansas's gasoline tax would have to be 52.6¢ per gallon today to have the same purchasing power that it had in 1955, yet it is less than half that. The Committee realizes that, as per gallon consumption is trending downward, this discrepancy between Arkansas's motor fuel tax and its purchasing power will only continue to grow. It can therefore be concluded that, by any measure, Arkansans have received a real bargain in mobility over the past five decades.

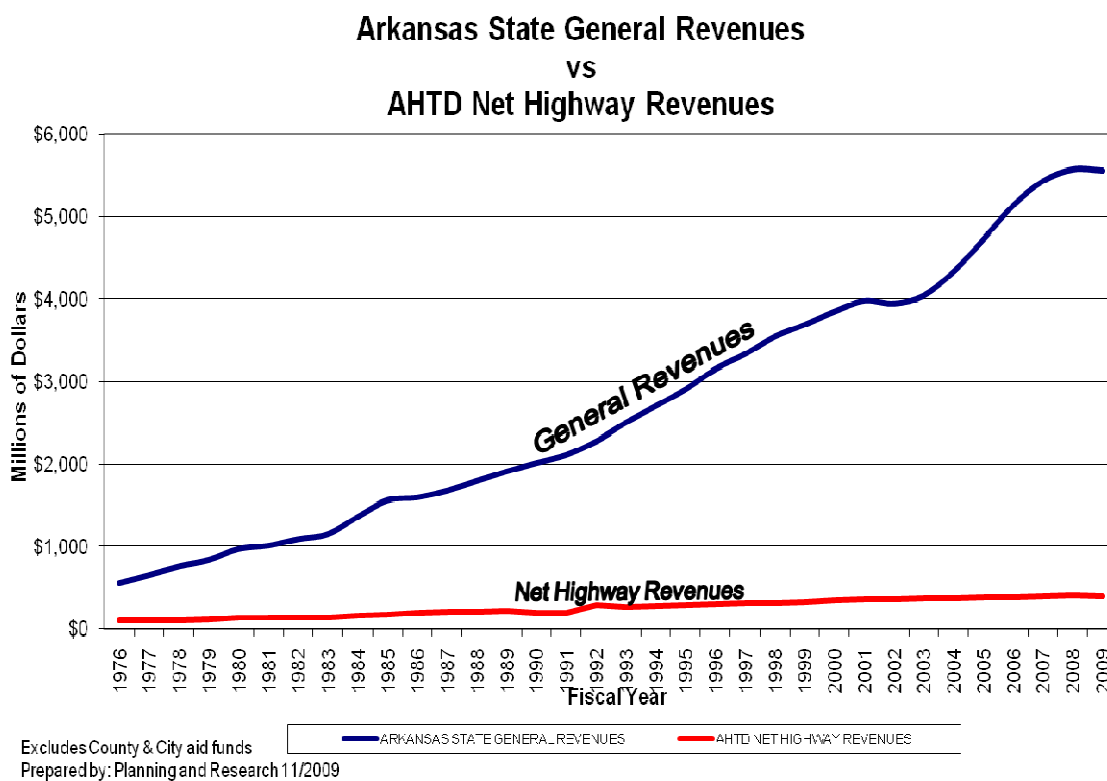
The current formula of public roadway funding in Arkansas has, in the past, been relatively successful because of four basic factors:

- vehicle miles traveled increased;
- motor fuel was relatively inexpensive;
- motor vehicle fuel efficiency was not a factor and did not dramatically improve; and
- highway revenues stayed relatively close to the Arkansas Highway Construction Cost Index.

Each of those factors changed in the first decade of the 21st Century, and that change is likely to be permanent. The consequence is that the system of funding Arkansas's highways, roads and streets, fueled by the rapid increase in auto ownership and use over the past 50 years, will not be sustainable in the near term or the long term.

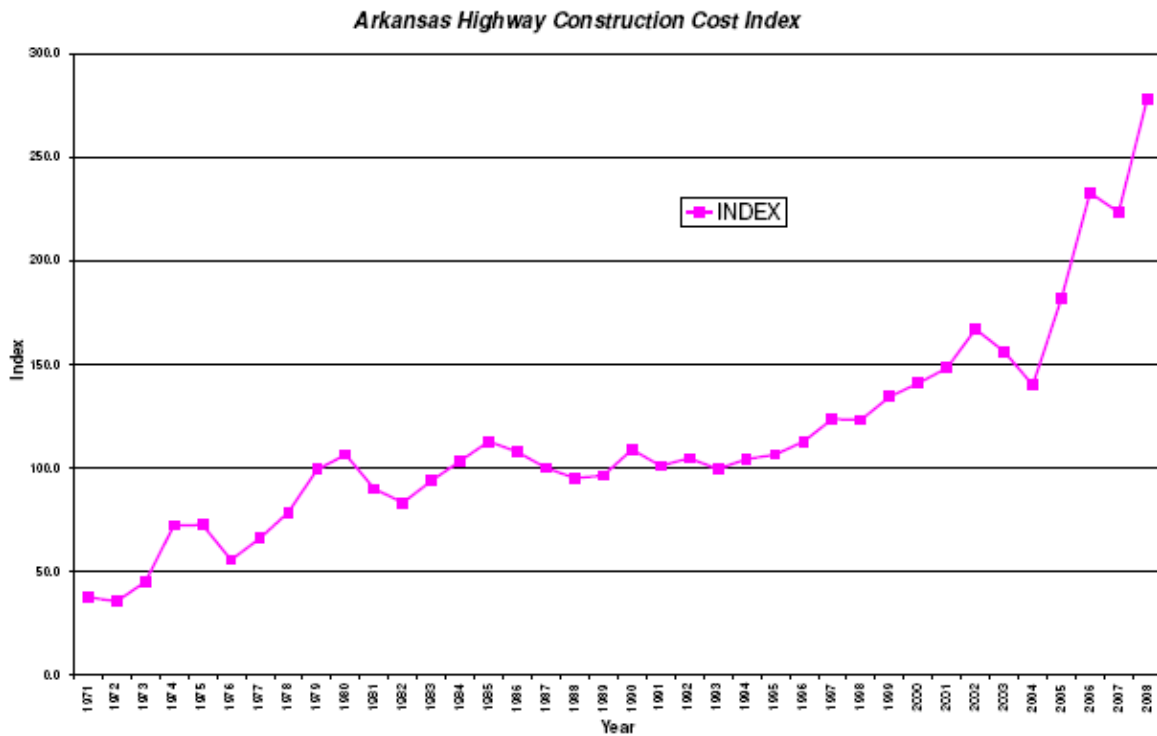
The Revenue Gap

Arkansas general revenue has, for the past 30-plus years, consistently increased. The chart below shows year-over-year increases – an average of 6.6% annual growth over the most recent five-year period – as the tax base broadens and our State revenue continues to grow. Gross highway revenues, however, have remained relatively flat, inching up an average of 1.4% during the same most recent five-year period. Any highway revenue growth has generally been the result of increased taxes and fees, rather than natural growth due to increased consumption of motor fuels, which is the backbone of the financing system. The following graph shows the comparison of Arkansas state general revenues and AHTD net highway revenues from 1976 through 2009.



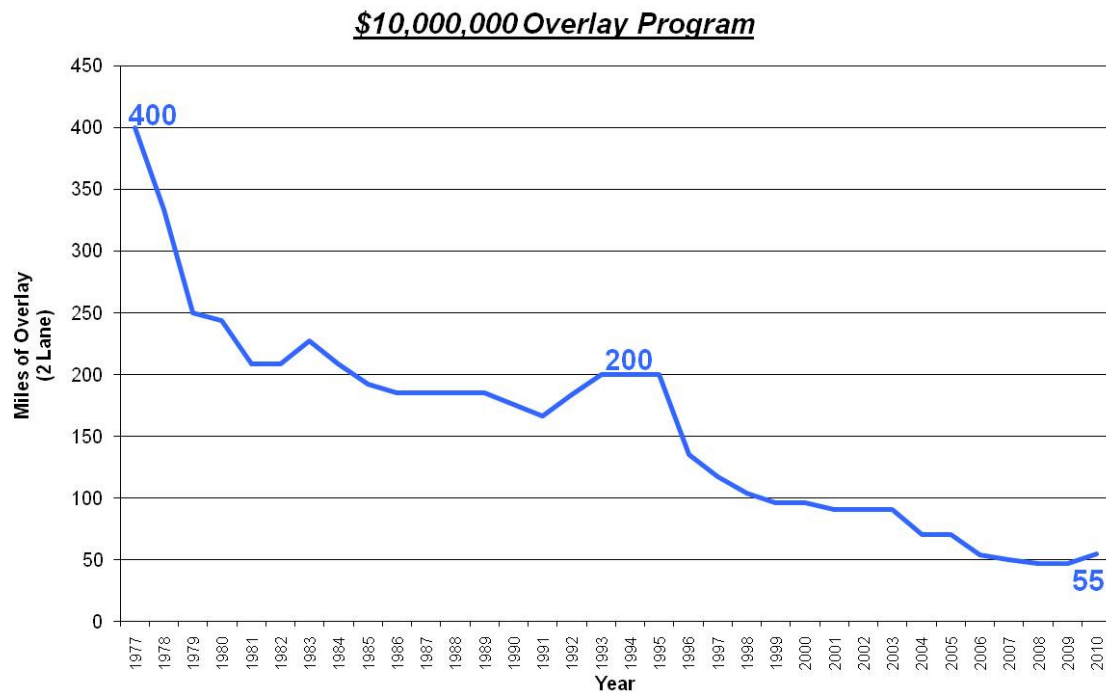
Purchasing Power Collapse

The Committee recognizes that the growth in funding and the cost of maintenance and construction are mismatched, with costs consistently increasing, while funding from the current system of fuel taxes and registration fees lags. The Arkansas Highway Construction Cost Index, or the recognized measurement of highway construction costs specific to Arkansas, is reflected in the following graph.

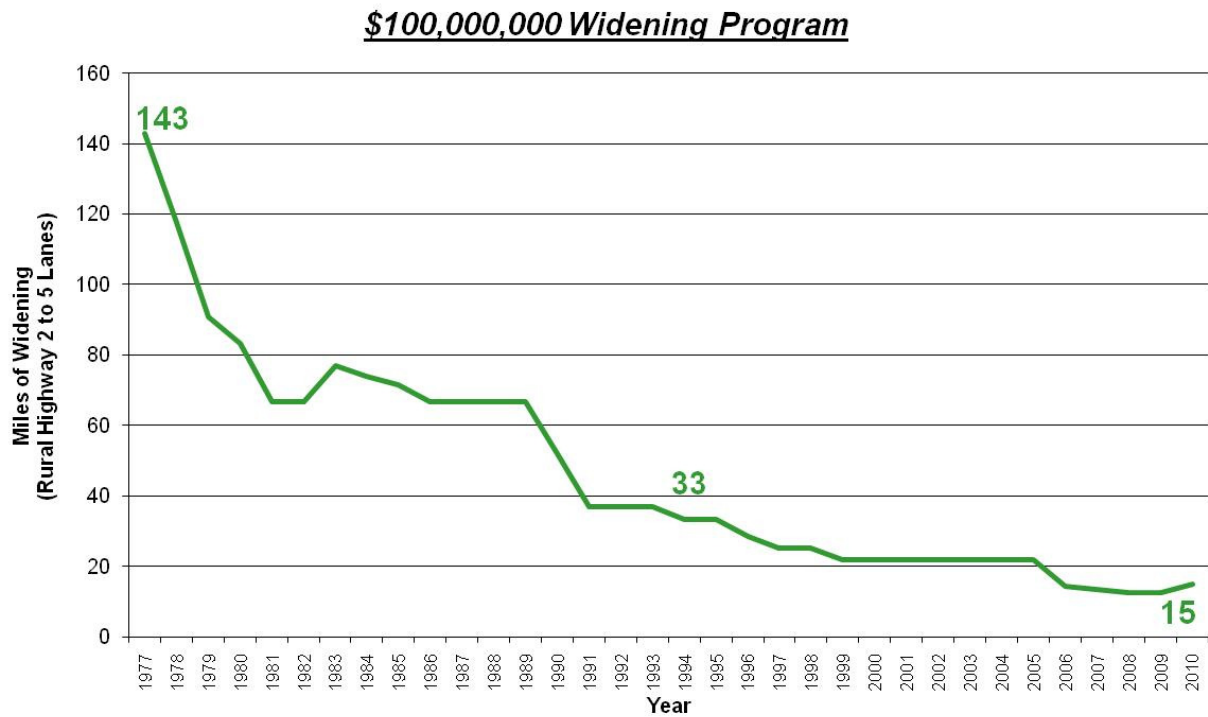


Increasing needs are further compounded by the loss of buying power that has occurred in the past. The following graphs display the inequality between cost and revenue by providing a comparison of the amount of work – miles of widening or overlay, and the number of bridges improved – that could have been achieved with a set amount of funds.

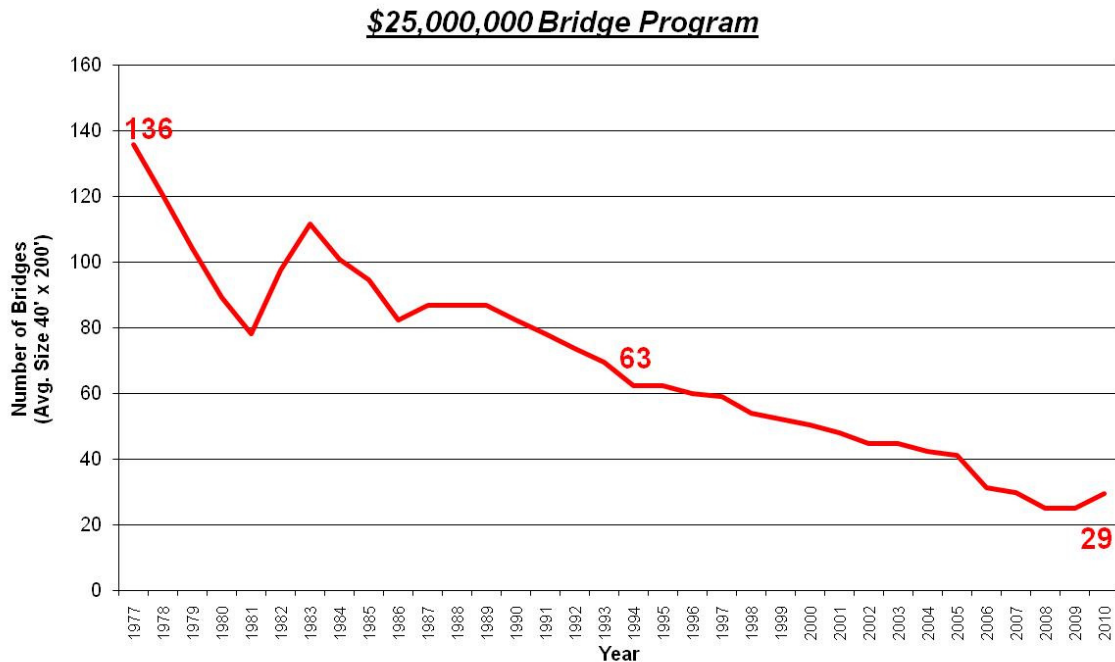
- A \$10 million overlay program resurfaced...
 - 400 miles in 1977;
 - 167 miles in 1991; but only
 - 55 miles in 2010. (*55 miles represent 14% of the mileage resurfaced in 1977 and 33% of the mileage resurfaced in 1991.*)



- A \$100 million widening program improved...
 - 143 miles in 1977;
 - 37 miles in 1991; but only
 - 15 miles in 2010. (*15 miles represent 10% of the mileage widened in 1977 and 41% of the mileage widened in 1991.*)



- A \$25 million bridge program rehabilitated or reconstructed...
 - 136 bridges in 1977;
 - 78 bridges in 1991; but only
 - 29 bridges in 2010. (29 bridges represent 21% of the number of bridges rehabilitated or replaced in 1977 and 46% of the bridges rehabilitated or replaced in 1991.)



Another way to explain the loss of buying power is to compare unit costs for transportation improvements made to the State Highway System. The following table of costs per mile of various types of improvements further illustrates the impact of inflation on highway revenue.

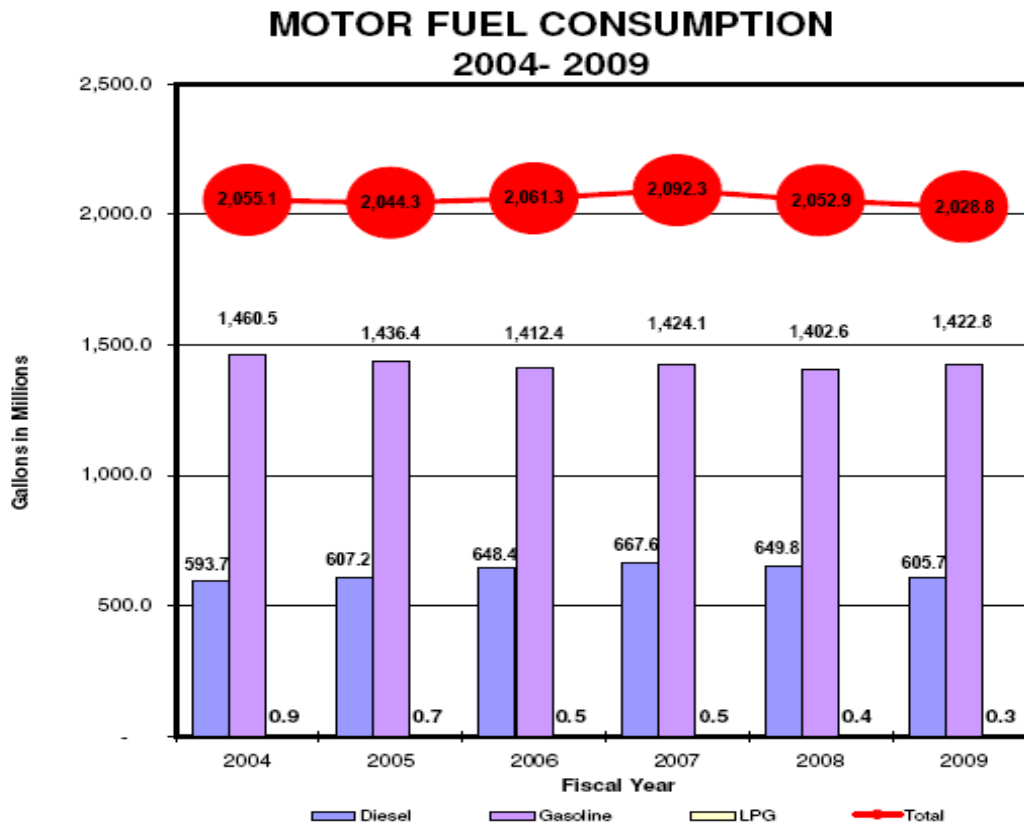
Type of Improvement	2000	2005	2010
Major Widening (Two to Five-Lanes)	\$3.8 million	\$3.8 million	\$4.7 million
New Location Freeway	\$6.5 - \$8.0 million	\$7.2 - \$8.8 million	\$8.0 - \$10.9 million
Overlay (Resurfacing) (cost per lane mile)	\$45,000	\$63,000	\$83,500
New Location (Rural Two-Lane)	\$1.9 million	\$2.1 million	\$2.8 million

The clear result is the collapse in purchasing power of the “highway tax dollar.” This shrinking buying power went into free fall when construction costs spiked beginning in 2005,

and are projected to continue to shrink as the global economy recovers from the recession and drives the cost of building materials higher over the coming decade.

Fuel Consumption Decline

In 2008-2009, vehicle miles traveled (VMT) actually decreased in reaction to the global economic recession. The following chart shows motor fuel consumption in Arkansas from 2004 through 2009.



Vehicle miles traveled has since begun growing again, but is forecast to grow only at the same rate as our State population growth (projected to be 1.7% per year through 2020). However, increased fleet fuel efficiency will more than offset that growth. The result will be a decrease in nominal revenues through the end of the decade. Absorption of higher efficiency vehicles into the fleet will increase in pace after 2020. Petroleum prices are forecast to rise steadily through 2020 and are a main driver in highway construction cost inflation.

The long-term trend of reduced consumption will be guaranteed by the recently enacted increase in Corporate Average Fuel Economy (CAFÉ) standards (federally mandated fuel efficiency) that require the light duty fleet, cars and light trucks, to average 35 miles per

gallon by 2016. After 2016, heavy trucks will be included in the CAFÉ standards for the first time. Additionally, the United States Department of Transportation and the United States Environmental Protection Agency have just released a fact finding on the next round of CAFÉ standards that will require the light duty fleet to achieve an average of between 47 and 63 miles per gallon by 2025.

Between the rising petroleum prices and the mandated CAFÉ standard increases, both the demand and the supply side of the market for motor vehicles will be moving to much higher efficiency vehicles at an increasingly rapid pace over the coming decades.

Rural State Anomaly

In addition to the discovery of a highway, road and street funding methodology that no longer meets the needs of a growing state, Arkansas must be included in what can only be termed an anomaly applied to rural states. This inconsistency between the population of a state and a state's system of public roadways, places an inequitable burden on road-user taxpayers.

In Arkansas's case, the State system includes 16,443 miles of highways. It is the 12th largest State Highway System in the United States, comprising 16% of our public roadways and carrying 76% of Arkansas's total annual vehicle miles traveled, including 95% of all heavy-truck travel. There are 68,811 miles of county roads in Arkansas, making the county road system the 10th largest in the country, carrying 9% of the State's traffic. The balance is comprised of 14,778 miles of city streets, which carry 15% of the total annual traffic volume. The entire public roadway system in Arkansas includes 100,032 miles and carries 90,854,940 vehicle miles of travel each day or 3.3 billion vehicle miles of travel in a year.

The anomaly is revealed when we are reminded that the State's population of approximately 2.7 million people ranks 32nd in the nation. The result, typical of largely rural states, is that each Arkansas driver supports a larger number of road miles than in more populous regions of the country. With highway revenue generated from current state and federal sources, Arkansas ranks 42nd in the ability to fund improvements to the highway system. Although the inconsistency is not uncommon for many rural states, this fact does not make the Committee's task of defining an equitable and adequate funding formula any less daunting.

Conclusion

The current method of funding transportation systems in Arkansas is not sustainable and must be fundamentally changed. If Arkansans wish to maintain the freedom of mobility they currently enjoy, they must resolve to pay for it in a different way. The cumulative impact of

increased needs and decreased funding ability leads to an inability to maintain Arkansas's transportation system in an acceptable condition for the driving public.

Although the Committee noted the AHTD is ranked second lowest in the nation in administrative cost per mile (\$1,888 compared to the 2009 national average of \$8,801), resulting in the AHTD putting as much revenue into construction and maintenance as possible, the comprehensive deliberations of the Committee, nevertheless, have revealed an overriding structural problem in the funding methodology. This systemic failure of current financing has made clear to the Committee that the traditional approach to highway, road, street and bridge maintenance and construction funding is, in its present form, no longer sustainable when measured against a changing economic and technological environment, erosion of purchasing power, and continuing escalation of costs.

THE LINK BETWEEN TRANSPORTATION INVESTMENTS AND THE ECONOMY

Repeatedly, business leaders have expressed the need for a robust transportation system in our State to help with the collection and distribution of raw materials as well as the shipping and delivery of finished products. The most important factor considered when determining site selection for industrial development is often listed as the proximity of the proposed site to the Interstate System, or to a four-lane highway that connects to the Interstate System. Investments in infrastructure allow goods and services to be transported more quickly and at lower costs, resulting in both lower prices for consumers and increased profitability for firms.

State and national investment in transportation has measurable benefits to the economy, according to a study conducted by Cambridge Systematics, Inc. The benefits of transportation investments can be grouped into the following categories:

1. Transportation investment creates jobs while boosting industry competitiveness through a strong network for production and distribution by way of improved access to varied and productive labor sources, selection of inventory and raw materials, and a broad customer base. These savings allow companies to reinvest funds in additional workers, increased wages, and more investment in research and development.
2. Transportation investment enhances household well-being through access to higher-paying jobs, wider and more competitive selection of consumer goods and housing options, and improved access to affordable healthcare and human services. Improved roadway design, capacity expansion, and regular maintenance can reduce personal vehicle repair costs and help lower the crash rate. One recent study found that poor road conditions cost the average urban motorist over \$400 annually.
3. Transportation investment strengthens local, regional, and state economics through the direct expenditures. This, in turn, can energize local economies, help reduce the isolation of rural communities, and increase employment opportunities.
4. Transportation investment boosts state tax revenues through the additional economic activity resulting from the “trickle down” impact of spending. The additional activity increases state revenue from personal income, sales, motor fuel, and corporate/business taxes.
5. Transportation investment facilitates business and leisure travel by improving access to destinations such as conferences, trade shows, recreational areas, as well as everyday business meetings and social events.

6. Transportation investment reduces the economic losses associated with crashes by providing facilities that will have fewer crashes. Fewer crashes equates to fewer injuries and fatalities as well as less productivity losses and property damage.
7. Transportation investment reduces economic losses associated with congestion by reducing the time drivers spend in traffic. Investments that reduce traffic delays benefit businesses and households alike.
8. Transportation investment creates jobs through direct employment by contractors to indirect employment by subcontractors, suppliers, and support services. Recent figures from the Federal Highway Administration indicate that for every \$1 billion of highway capital investment, 27,800 jobs can be supported or maintained.

Additionally, the United States Department of Transportation, in its 2006 Status of the Nation's Highways, Bridges, and Transit: Condition and Performance Report, found that at current funding levels (2006), every dollar invested in the Nation's highway system yields \$5.69 in economic benefits in reduced delays, improved safety, reduced emissions, lower vehicle operating costs, and reduced maintenance costs. Also, a recent analysis by Moody's Analytics reports, "About forty cents of every (transportation) dollar spent is returned to the taxpayers."

By providing an adequate and robust transportation system statewide, all regions in the State will be on equal footing in terms of accessibility and distribution systems and all sectors of the economy benefit from lowered transportation costs that occur with improvements to the State Highway System.

REVENUE PROPOSALS

The impact of doing nothing could be felt for many years into the future. Congestion, pavement and bridge conditions, and safety on Arkansas's highways, roads and streets will progressively worsen. In addition, the State would continue at a competitive disadvantage in terms of potential economic development. As stated previously, there have been many comments concerning managing a tight state budget in a struggling economy and the current economy's impact on the possibility of raising taxes or even diverting existing collections from the general treasury to road-building. However, as stated by one Committee member, nothing will ever be done if you wait for the perfect conditions. Therefore, in structuring revenue systems to meet the needs of state highways, county roads and city streets, the Committee focused on the following objectives:

- to protect the existing tax base of highway, road, street and bridge funding from further erosion by highway construction cost inflation;
- to restore construction and maintenance purchasing power;
- to preserve, maintain and improve the operation and safety of existing state and local systems; and
- to add new capacity to state and local systems.

It should be noted that the following revenue proposals are in no particular order of priority. They are to be taken, however, as a menu of possibilities for the Arkansas General Assembly to consider for defining an equitable and adequate – a fair and sufficient – system to properly finance improvements to Arkansas's highways, county roads, city streets and the bridges that connect them. Enactment of all or any combination of these recommendations will be a positive step forward for Arkansas. However, by no stretch of the imagination will this be enough to address the total needs of our state highways, county roads and city streets.

All revenue projections are made assuming a 1.7% annual VMT growth over the coming decade, increased average fleet fuel efficiency of 2.8% per year over the same period, and gasoline and diesel prices based on the Moody's Econometrics projections. In addition, all revenue projections, unless otherwise noted, assume that 70% of net revenues will go to AHTD, 15% to the counties and 15% to the cities.

Transfer Sales Tax Revenue on New and Used Vehicles, Tires, Batteries and Auto Parts and Services from the General Fund to a New Highway Trust Fund

The Committee recommends that, beginning the first day of September following the issuance of the Treasurer of the State's annual report in which the gross collection of general revenue for sales and use tax exceeds \$2.2 billion, a ten-year phase-in of the sales and use tax estimated to represent auto related sales (tires, batteries, auto parts and services) and the actual sales and use tax on new and used motor vehicles, trailers or semi-trailers required to be licensed in this State, will begin.

Since the problem of providing adequate funding for highways, roads and streets is long term, extending this proposed transfer over 10 years would ameliorate the impact of the transfer from the General Fund and would put in place an ongoing funding stream for highway maintenance and repairs. In addition, the transfer over a longer period of time would allow the Streamlined Sales Tax Agreement to be fully implemented and replace at least a portion, if not all, of the transferred revenue.

Arkansas's highway system has traditionally been highway-user fee based. In 14 states, general sales taxes on new and used cars, tires and batteries and/or auto parts and services are used to support the highway program. Arkansas has historically used those highway-user related taxes to support General Fund agencies while relying primarily on excise taxes on motor fuels and license fees to support its highway program. This recommendation would simply be an adjustment to the allocation of current revenue sources to account for the sales tax on new and used vehicles, tires, batteries, and auto parts and services being road-user related.

The \$2.2 billion trigger represents a slightly higher number than the high point in the gross general sales and use tax receipts that occurred in 2007. Rather than require retailers to keep differentiated tax reports for these sales, the estimated percent of gross sales tax revenue attributed to tires, batteries and vehicle parts and services is recommended to be transferred to the Highway Fund phased in over a ten-year period. It is estimated that this gross sales tax revenue is approximately 6% of the State gross sales and use tax revenue. The sales of motor vehicles and trailers are already recorded separately. Therefore, the actual tax receipts would be transferred in phases over ten years. Once triggered, the phased-in transfer could only be stopped or delayed by legislative action.

Considering the recent proposal to remove an additional 0.5% of the current tax on groceries, the trigger date under current conditions is expected to be State Fiscal Year 2014. To the extent the General Assembly reduces sales and use tax revenue by further reducing or removing the tax from groceries, the trigger date would be pushed further into the future.

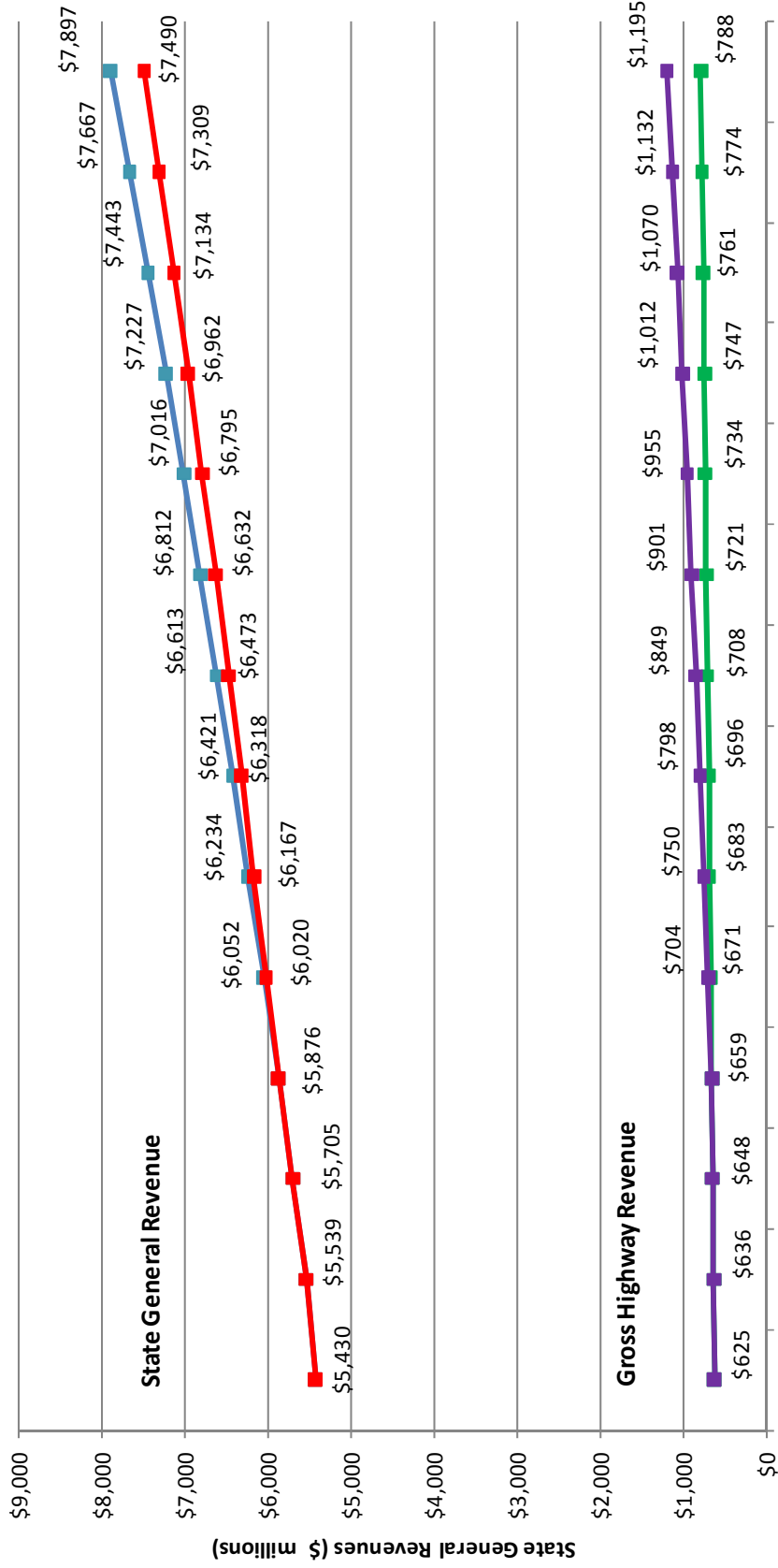
Finally, as traditional user fees wane at an accelerating rate due to higher average fleet fuel efficiency in the future, more of the tax burden for maintaining roads will have to fall on taxing the vehicle through sales taxes and license fees.

The following table shows a projection of the revenue that would be transferred to AHTD, counties and cities annually from 2014 through 2023 under this recommendation. The total revenue transferred over this 10-year period would be \$1.458 billion to AHTD and \$313 million each to counties and cities.

Revenue from Transferring 6% of the Gross State Sales and Use Tax (Representing Road-User Related Sales and Use Tax) and the 4.5% Sales and Use Tax on the Sale of New and Used Vehicles (in millions)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue to AHTD	\$23	\$47	\$ 72	\$98	\$126	\$155	\$185	\$217	\$250	\$285
Revenue to Counties	\$ 5	\$10	\$ 15	\$21	\$ 27	\$ 33	\$ 40	\$ 47	\$ 54	\$ 61
Revenue to Cities	\$ 5	\$10	\$ 15	\$21	\$ 27	\$ 33	\$ 40	\$ 47	\$ 54	\$ 61
Total	\$33	\$67	\$102	\$140	\$180	\$221	\$265	\$311	\$358	\$407

In addition, the graph on the following page shows the impact to both state general revenues and gross highway revenues from this recommendation.

Revenue from Transferring 6% of the Gross State Sales and Use Tax (Representing Road-User Related Sales and Use Tax) and the 4.5% Sales and Use Tax on the Sale of New and Used Vehicles
In millions -- Phased in Over Ten Years -- Beginning in 2014



Index Motor Fuel Excise Taxes

The Committee recommends indexing the existing gasoline and diesel excise taxes to the Arkansas Highway Construction Cost Index three-year trailing average using 2010 as the base year. The indexing should be an annual and automatic administrative function of the Department of Finance and Administration conducted as soon as practicable after the end of the fiscal year or calendar year, whichever is most advantageous. A cap of 2¢ per gallon per year should be set beyond which an automatic adjustment could not go. Also, a hard floor should be set at the previous year's indexed rate so that the excise taxes cannot be automatically reduced by administrative action, but only be reduced by action of the General Assembly.

Indexing the motor fuel taxes is a way to protect the purchasing power of the main highway revenue base from erosion by construction cost inflation. This option provides elasticity to the base, utilizes the existing and highly efficient tax collection system, and is highway-user based. The Arkansas Highway Construction Cost Index is directly related to the costs of building and maintaining roadways in Arkansas, and the three-year trailing average smoothes the volatility of any sudden price moves due to international events or weather related disaster.

The following table shows a projection of the revenue that would be generated for AHTD, counties and cities annually from 2012 through 2021 under this recommendation. The total revenue generated for this 10-year period would be \$3.614 billion for AHTD and \$773 million each for counties and cities. It should be noted that the revenue shown includes revenue from existing motor fuel excise taxes.

Revenue from Indexing the Motor Fuel Excise Taxes (in millions)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue to AHTD	\$293	\$333	\$357	\$365	\$367	\$371	\$376	\$380	\$384	\$388
Revenue to Counties	\$ 63	\$ 71	\$ 76	\$ 78	\$ 79	\$ 79	\$ 81	\$ 81	\$ 82	\$ 83
Revenue to Cities	\$ 63	\$ 71	\$ 76	\$ 78	\$ 79	\$ 79	\$ 81	\$ 81	\$ 82	\$ 83
Total	\$419	\$475	\$509	\$521	\$525	\$529	\$538	\$542	\$548	\$554

Temporary One-Half Cent General Sales Tax to Fund a Five-Year Construction Program

The 2011 General Assembly should refer a constitutional amendment to the voters at the 2012 general election that would (1) levy a one-half cent general sales tax for ten years and (2) authorize the issuance of general obligation bonds in five series to be retired from the proceeds of the ½¢ sales tax to fund a five-year construction program. The primary purpose of the construction program would be to build new state highway capacity on the Four-Lane Grid System – including capacity improvements on existing freeways. Fifteen percent of the sales tax revenue would go to cities and fifteen percent would go to counties for local roadway improvements and would not be bonded unless acted upon separately by individual cities and/or counties. Cities and counties should be allowed to use their allocations of this revenue for any surface transportation improvement.

Like the GARVEE bonds that were used for the 1999 Interstate Rehabilitation Program, a bond issue is a way of expediting improvements to preempt projected construction cost increases. The statewide sales tax would allow investment in strategic connectors that highway-user fees alone might not be able to fund in a timely manner.

AHTD estimates the projected revenue would support a \$1.794 billion construction program with bonds issued in five equal series beginning in 2012. Construction projects would be let to contract over the first five years, with the bonds being retired in 10 years. The following table shows a projection of the revenue that would be generated for AHTD, counties and cities annually from 2012 through 2021 under this recommendation. The total revenue generated for this 10-year period would be \$1.622 billion for AHTD and \$347 million each for counties and cities.

Revenue from the Levy of a ½-Cent General Sales Tax to Fund a Bond Issuance to be Sunset at the End of 10 years (in millions)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue Dedicated to Bond Repayment	\$159	\$159	\$161	\$161	\$162	\$163	\$163	\$164	\$165	\$165
Revenue to Cities	\$ 34	\$ 34	\$ 34	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35
Revenue to Counties	\$ 34	\$ 34	\$ 34	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35
Total	\$227	\$227	\$229	\$231	\$232	\$233	\$233	\$234	\$235	\$235

Levy a New Excise Tax on the Wholesale Price of Motor Fuels

The Committee recommends levying a new excise tax on the wholesale price of motor fuels as a method for raising new revenue over and above protecting the current tax base.

This option has most of the strengths of removing the sales tax exemption on motor fuels without the weaknesses. It is a user fee. It provides a new revenue source with elasticity. This option can be phased in and has the potential to raise substantial revenue. It can be levied at the same point in the supply chain as the current excise tax on fuel volume, and it is expected the administrative and collection costs will be comparably low. Since it is levied at a uniform rate statewide, it avoids some of the locational disruptions that removing the sales tax exemption would cause, and it does not force oil retailers to make expensive and disruptive changes to their method of operation.

For illustrative purposes it is assumed the tax would be phased in 1% per year up to the 6% State general sales tax beginning in State Fiscal Year 2012. The ultimate tax rate and the phase-in period are variables the General Assembly can adjust based on economic and budgetary considerations.

The following table shows a projection of the revenue that would be generated for AHTD, counties and cities annually from 2012 through 2021 under this recommendation. The total revenue generated for this 10-year period would be \$1.978 billion for AHTD and \$424 million each for counties and cities.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue to AHTD	\$41	\$ 82	\$124	\$169	\$215	\$262	\$266	\$270	\$273	\$276
Revenue to Counties	\$ 9	\$ 18	\$ 27	\$ 36	\$ 46	\$ 56	\$ 57	\$ 58	\$ 58	\$59
Revenue to Cities	\$ 9	\$ 18	\$ 27	\$ 36	\$ 46	\$ 56	\$ 57	\$ 58	\$ 58	\$59
Total	\$59	\$118	\$178	\$241	\$307	\$374	\$380	\$386	\$389	\$394

Reissue GARVEE Bonds for Interstate Rehabilitation

Act 511 of 2007, the “Arkansas Interstate Highway Financing Act of 2007”, provided the mechanism to allow the AHTD to reissue bonds for Interstate rehabilitation. Act 153 of 2009 extended the time period for the issuance of the bonds. The maximum amount of bonds that can be reissued remains at \$575 million (similar to the 1999 program). The last series of bonds must be reissued by December 31, 2015 and the proposed bond program must be passed by a vote of the people.

The Committee recommends that the proposed Interstate Rehabilitation Bond program be forwarded to a vote of the people as soon as practicable.

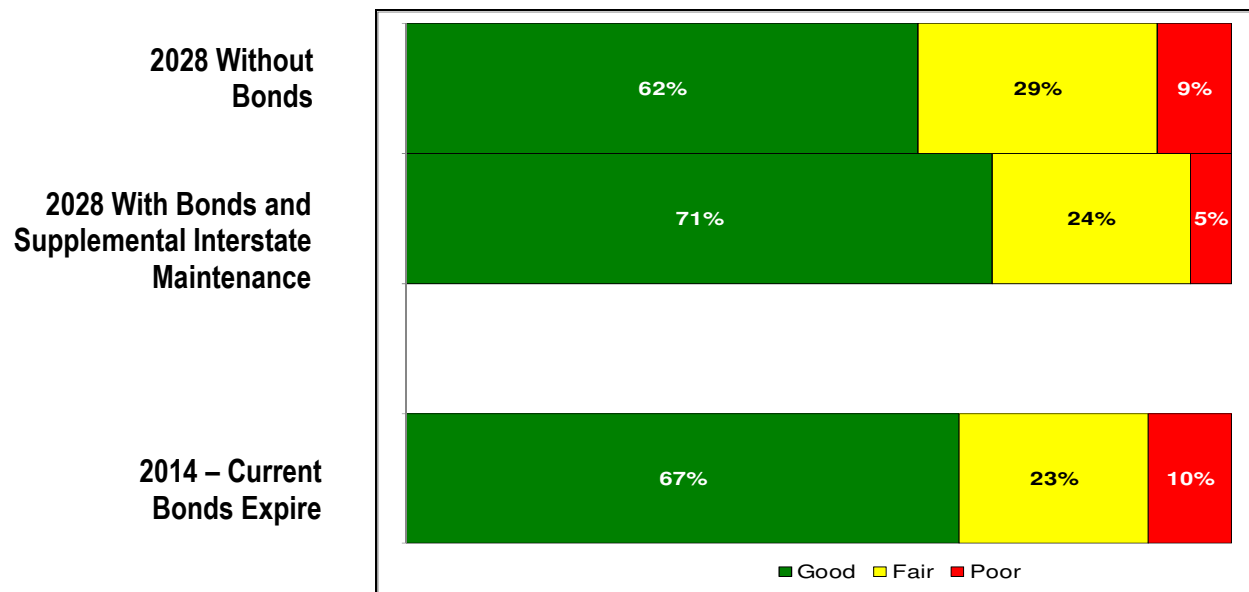
In the 1999 Interstate Rehabilitation Program (IRP), the AHTD issued \$575 million in bonds. Using this bond revenue in addition to other revenue sources allowed over 50% (356 miles) of the Interstate System in Arkansas to be improved with a total cost of \$1.6 billion. Upon completion of the 1999 IRP, Arkansas’s Interstates went from being some of the worst roads in the country to some of the best. Needs on the Interstate System still exist and are continuing to increase.

At the time of the first bond issuance letting, Arkansas had 542 miles of Interstate highways. Since that time, the AHTD has added 114 miles to the system bringing the total mileage to 656 miles. The two routes that were added are Interstate 530 (formerly Highway 65 from Interstate 30 to Pine Bluff) and Interstate 540 from Interstate 40 to northwest Arkansas.

When Interstate 530 was added to the system, 10.6 miles were considered poor and 25.3 miles were considered fair. Likewise, of the 67 miles of Interstate 540 that were added to the system, 7.4 miles were in poor condition by 2010.

As a financing tool, issuing bonds would allow for accelerated improvements. This would also serve as a hedge against anticipated cost inflation by making improvements now. Reissuance of the bonds would not require any additional taxes or fees as they will continue to be funded by the Federal-aid Interstate Maintenance funds and the existing diesel tax revenues approved in 1999.

Conversely, if further improvements cannot be made to the Interstate System with these bond proceeds, funds that are currently being used to improve other highways may have to be redirected to the Interstates. The following chart shows the forecast condition of the Interstate System in 2014 (the year the existing bonds will be retired), in 2028 without a new bond issue, and in 2028 with a new bond issue.



It is estimated that \$575 million in bonds, coupled with additional available Federal-aid Interstate Maintenance funds and State match, would generate a \$998.6 million construction program. This does not represent new revenues, but is a valuable tool for managing the revenues and innovative financing tools that are available for Interstate condition improvements.

State Aid Programs for Counties and Cities

The Committee recommends levying 1¢ per gallon of new motor fuel excise tax to fund the County Aid Program, directing the revenue generated from the existing 1¢ per gallon funding into the Highway Fund and indexing the County Aid 1¢ per gallon to the Arkansas Highway Construction Cost Index three-year trailing average. The Committee further recommends levying 1¢ per gallon of new motor fuel excise tax to fund a new State Aid for Cities Program and indexing it to the Arkansas Highway Construction Cost Index three-year trailing average. The Arkansas State Highway and Transportation Department, in consultation with the Arkansas Municipal League, should be tasked with developing the criteria for fund allocation, project eligibility and project selection.

The State Aid Program for Counties was begun in 1973 with a \$9 million appropriation that has grown to a full 1¢ per gallon motor fuels tax generating approximately \$20 million per year today. However, adjusted for inflation, the original appropriation would require 2.25¢ per gallon of motor fuel tax to retain the same purchasing power. There are currently 15,000 miles authorized for the County Aid system, yet only 9,339 miles are currently designated, due in large part to the inadequate revenue available for it and the large amount of mileage not meeting the established criteria for the system.

The State Aid for Cities Program was authorized in 1973 using funds received by the State from Federal Revenue Sharing. However, Federal Revenue Sharing ended in 1981, thus ending the funding source for the State Aid for Cities Program. From 1973 through 1981, the State Aid for Cities Program received almost \$7.2 million.

Directing the existing revenue for the State Aid for Counties Program into the Highway Fund would result in all existing highway revenue being distributed at 70% to AHTD, 15% to counties and 15% to cities. Indexing these taxes would protect the purchasing power of this revenue in the future.

The following table shows a projection of the revenue that would be generated for the State Aid Programs for Counties and Cities annually from 2012 through 2021 under this recommendation. The total generated over this 10-year period would be \$245 million each for counties and cities.

Revenue for State Aid Programs for Counties and Cities (in millions)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
County Aid Indexed*	\$20	\$23	\$24	\$25	\$25	\$25	\$25	\$26	\$26	\$26
City Aid Indexed	\$20	\$23	\$24	\$25	\$25	\$25	\$25	\$26	\$26	\$26
Total	\$40	\$46	\$48	\$50	\$50	\$50	\$50	\$52	\$52	\$52

*This same revenue would be generated for the State Aid Program for Counties by simply indexing the existing 1¢ per gallon dedicated to this Program.

The following table shows a projection of the revenue from the existing 1¢ per gallon motor fuel tax as it would be distributed annually from 2012 through 2021 under this recommendation. This would represent an additional \$169 million for AHTD and an additional \$39 million each for counties and cities over the 10-year period shown.

Revenue from Existing State Aid Program for Counties Redirected into the Highway Fund (in millions)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue to AHTD	\$14	\$16	\$17	\$17	\$17	\$17	\$17	\$18	\$18	\$18
Revenue to Counties	\$ 3	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
Revenue to Cities	\$ 3	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
Total*	\$20	\$23	\$24	\$25	\$25	\$25	\$25	\$26	\$26	\$26

*NOTE: Totals may not add due to rounding.

OTHER RECOMMENDED LEGISLATION

In addition to the revenue proposals recommended by the Committee, the following sections show other legislation that the Committee recommends to the Arkansas General Assembly for consideration.

City and County Reporting on Turnback Expenditures

Cities and counties should be required to annually report turnback expenditures by location, amount and type of expenditure. AHTD, the Arkansas Municipal League and the Arkansas Association of Counties should jointly develop and recommend reporting formats and standards.

Unlike reporting of expenditures on the State Highway System and the existing State Aid Program for Counties, there is no reliable and comprehensive reporting of expenditures of highway turnback funds by counties and cities. Reporting on existing state aid expenditures (turnback and county/city aid programs) is the first step in establishing accountability for these funds.

Required County Minimum Tax Effort

There should be a minimum local tax effort required in order to receive highway turnback funds. In order for a county or the cities within that county to receive any turnback funds above that received in 2010, counties should be required to levy and maintain a county road tax millage of 2.5 mills or higher. If a county has a county sales tax dedicated by ballot language to roads and that tax generates an annual amount of funding equal to or greater than what would have been generated by the difference between 2.5 mills and the county road millage, it would be deemed to have met this requirement.

Only 47% of the 16,443-mile State Highway System nominally pays for itself based on the volume of traffic and the current tax rate. The clear purpose of the State primary highway system is relatively long-distance travel to get from place to place. User fees are clearly the most equitable way to pay for those roadways. The sole purpose of a great many of the other state, county and city routes is to provide access to property. Whether it is commercial property or simply the road that leads to your house, that property is increased in value by having adequate, safe, and well-maintained access. Property tax, in the form of the county road tax, is therefore an equitable way to pay for local roads whose primary purpose is access to property. Unfortunately, unlike the property tax levy for schools or libraries, the property tax millage for roads is capped by the Constitution at three mills.

While 40 of Arkansas's 75 counties levy 2.5 mills or greater for county road tax (33 levy the full 3.0 mills), 25 levy under 2.0 mills and 17 of those levy under 1.5 mills. In some cases,

the county road millage has been substituted for a local sales tax dedicated to roads. Of the 40 counties with a 2.5+ road millage, 45% also have a county sales tax dedicated to roads, and it is still inadequate. On the other hand, 71% of the counties with less than 2.5 mills tax levy a dedicated sales tax for roadways.

Constitutional Amendment to Raise 3.0 mill Limit for County Road Tax

A constitutional amendment should be offered to allow county quorum courts to remove the limitation on the amount of the county road tax provided any such tax levied over 3.0 mills must be approved by the voters of the county.

County quorum courts should still be allowed to levy up to 3.0 mills directly. However, county road millage above 3.0 mills should be allowed if referred to and approved by the electorate without limitation. It is true that local governments have significant local sales tax capacity. However, Arkansas roads have been primarily user fee supported. Low volume roadways benefit property, and property taxes are the most equitable means of supporting those roads. Adequate property tax capacity should be available to local governments if their citizens deem it preferable.

Regional Mobility Authority (RMA) Tax Capacity and Multi-County Taxing Authority

Regional mobility authorities currently authorized by law should be strengthened by providing additional local option taxing authority for the organizations, by providing start-up funding to incentivize their creation, by establishing an infrastructure bank to provide loan financing to RMAs, by establishing multi-county taxing authorities for the purpose of improving surface transportation facilities and services within the designated RMA region and by providing matching funds to RMAs for any regional funds raised during the first five years after RMAs are established. If multi-county special taxing districts cannot be accomplished legislatively, a constitutional amendment allowing their establishment should be proposed.

Arkansas's RMA legislation is in line with a national trend to create regional funding structures to provide specific transportation improvements to support the regional economy. It is robust legislation except in two areas. The first area involves the financing provisions. RMAs must rely on borrowing unused local sales tax capacity from their member local governments. Second, while RMAs may be composed of several counties, any taxes levied for the benefit of RMAs must be voted on and spent within the individual counties. Truly regional improvements, that may be primarily located in one county, cannot be financed by the entire region.

RMAs are voluntary associations. The Regional Transportation Districts recommended for interim study would be established statewide by legislative action. Both are an attempt to

bring more resources to the table. Several comments at our public hearings suggested that locally defined projects, referred to the voters, and funded with a sunseting tax have had and can have a high rate of success.

RECOMMENDED STUDIES

Heavy Truck Study

When the FHWA cost allocation study is published, the Arkansas State Highway and Transportation Department, in consultation with the Arkansas Trucking Association, should analyze diesel taxes and license fees for heavy trucks using Arkansas roads against the methods and standards put forth in the national study to determine if those trucks are fairly compensating the State for the damage they are estimated to be doing. AHTD should then recommend any corrective measures and tax or fee adjustments over and above those otherwise recommended in this report to the General Assembly.

The preferred method for determining the cost of the damage heavy trucks do to the public highways is a cost allocation study. Arkansas has never conducted a State specific cost allocation study. A new national cost allocation study was due from the Federal Highway Administration this year but has not been released by the time the Blue Ribbon Committee completed its work. Consequently, it has not been independently determined whether Arkansas is being adequately compensated for the damage that heavy trucks cause to our roadways.

The Committee believes that it is important that the industry and the custodian of the public's roads agree upon a fair and impartial method for accurately determining the answer to this question.

Vehicle Registration and License Fees Study

The Department of Finance and Administration should be instructed by the General Assembly to conduct a study on modernizing and simplifying Arkansas's license fee classification system. The study should also recommend a method of gradually raising Arkansas's light duty vehicle license fees to the regional average. Finally, the study should coordinate with the Heavy Truck Study, which could be conducted by AHTD, to recommend adjustments in license fees for heavy trucks.

Vehicle registration fees comprise nearly 20% of the revenue to AHTD yet trail the national and regional averages by considerable amounts. Arkansas's system of charging for registering motor vehicles and issuing license fees has grown more complex over the years and could benefit from simplification. In several instances, the same type of vehicle is charged different fees based on its use rather than its damage to the roadways, a situation that should be corrected. Because of the complexity of this structure, a definitive revenue projection could not be made.

State Highway System Reduction Study

It is recommended that AHTD conduct a study to identify those current and planned new state highway routes that meet defined State strategic objectives. A target cap on State mileage should be proposed by the study that would reduce the state highway mileage strategic core.

The AHTD System Reduction Study should identify the specific roadways recommended to be transferred to city and county governments, the cost required to improve those roadways to a state of good repair prior to transfer, legal issues that may be raised by the transfer, and the amount of funds necessary to be provided the individual receiving jurisdictions in order to adequately maintain the roads over time. Because of their long design life and high costs, bridges on routes proposed to be transferred may need special consideration, which should be addressed in the study. The study should also consider whether and under what circumstances a local jurisdiction might refuse accepting a road proposed for transfer.

The study should specifically consider urban arterial mileage and low volume rural state highways that could be gradually transferred to the appropriate cities and counties over the period of a decade. Roadways that met the criteria would be included in the State Aid System that would be expanded to include urban arterial roadways. The roadways should be assumed to be in a state of good repair when transferred and the costs for that should be included in the study.

The purpose of the State Highway System is to connect the State – both destinations within the State and the State with the Nation. It is not to move people around within those destinations. However, the gradual accretion of old state highways within cities that now function as urban arterial roadways and low volume rural highways burden the State Highway System to such a degree that it does not have the resources to make needed strategic investments.

Shrinking the State Highway System to its strategic core will require a commensurate investment in local road systems to make any transfer a win-win proposition between AHTD and local governments.

Multi-County Regional Transportation Districts Study

An interim study should be undertaken on the desirability and methods for the establishment of special districts -- Regional Transportation Districts – throughout the State of Arkansas with broad local option taxing capacity to provide sub-State transportation facilities and revenues. The RTDs should have powers similar to the Regional Mobility Authorities, be established generally along commute sheds within the State to capture sub-State market

areas, and should have multi-county taxing authority subject to popular vote within each district.

The concept of regional transportation authorities is spreading internationally and in the United States and is currently focused mainly on metropolitan economic regions. In Arkansas, the Regional Mobility Authority Act establishes a framework for the voluntary establishment of such mobility authorities. To date only Washington and Benton counties have formed an RMA.

However, if the State divests itself of local and sub-regional roadways, some mechanism should be available to step into the gap. Indeed, it was suggested in at least two of the public hearings that the State concentrate on its strategic investments while more sub-State priorities could be dealt with better at the local or regional level since there would not be an issue of transferring locally levied taxes to other parts of the State.

The State of Georgia recently established multi-county special taxing districts for roadway improvements with special local (regional) option tax authority. This legislation might prove a beneficial model for developing other institutions to share the burden of roadway improvement with AHTD.

OTHER RECOMMENDATIONS

Vehicle Miles Traveled (VMT) Tax

The VMT tax is not recommended for consideration at this time because of uncertainties over collection methods and technologies, privacy issues and absence of federal standards. However, it is the consensus of opinion in the transportation profession and among the Committee members that because of shifts to hybrid, electric and alternative fueled vehicles in the future, a direct mileage charge for the light duty fleet will be necessary to maintain the transportation system. Average fleet fuel efficiency is projected to accelerate rapidly after 2020 and a national policy on VMT taxes is expected prior to that time.

From a long-term revenue perspective, it is recommended that AHTD begin planning for transitioning to a VMT tax in order to be prepared to move quickly once national standards are established. For planning purposes, it should be assumed that the transition would start by 2020. Absent federal preparation for a VMT tax, the committee recommends that AHTD work with the Texas DOT and other states that are actively working on VMT tax standards independent of federal action.

Public Private Partnerships and Tolling

Based on extensive analysis by AHTD, tolling existing and certain proposed new roadways is not currently viable. It is noted that future changes in federal policy regarding tolling existing freeways could make tolling a useful tool for some improvements to major facilities. Tolling and the use of public private partnerships to finance improvements should be regularly assessed by AHTD as to their usefulness as a partial funding mechanism for appropriate projects, including major roadways on new location and capacity additions to existing freeways.

APPENDIX

Stricken language would be deleted from and underlined language would be added to the law as it existed prior to this session of the General Assembly.

Act 374 of the Regular Session

1 State of Arkansas

2 87th General Assembly

3 Regular Session, 2009

A Bill

HOUSE BILL 1551

4
5 By: Representative Maxwell

8 For An Act To Be Entitled

9 AN ACT TO CREATE THE ARKANSAS BLUE RIBBON
10 COMMITTEE ON HIGHWAY FINANCE; AND FOR OTHER
11 PURPOSES.

13 Subtitle

14 TO CREATE THE ARKANSAS BLUE RIBBON
15 COMMITTEE ON HIGHWAY FINANCE.

16
17
18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

19
20 SECTION 1. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. The Arkansas Blue
21 Ribbon Committee on Highway Finance.

22 (a) There is created a legislative committee to be known as the
23 "Arkansas Blue Ribbon Committee on Highway Finance", to be composed of the
24 following members:

25 (1) Ten (10) members shall be residents of the state who are
26 knowledgeable in transportation, logistics, finance, business, industry,
27 civil engineering, or economic development;

28 (2) One (1) member shall be an elected county official who is a
29 member of the Association of Arkansas Counties and appointed by its Executive
30 Director;

31 (3) One (1) member shall be an elected city official who is a
32 member of the Arkansas Municipal League and appointed by its Executive
33 Director;

34 (4) One (1) member shall be a member of the State Highway
35 Commission;



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1 (5) One (1) member shall be the Chair of the House Committee on
 2 Revenue and Taxation;
 3 (6) One (1) member shall be the Chair of the Senate Committee on
 4 Revenue and Taxation;
 5 (7) Two (2) members who are the Co-chairs of the Joint Budget
 6 Committee;
 7 (8) One (1) member shall be the Chair of the Senate Committee on
 8 Transportation, Technology, and Legislative Affairs; and
 9 (9) One (1) member shall be the Chair of the House Committee on
 10 Public Transportation.
 11 (b)(1) The Governor, the President Pro Tempore of the Senate, the
 12 Speaker of the House of Representatives, the Chair of the House Committee on
 13 Public Transportation, and the Chair of the Senate Committee on
 14 Transportation, Technology, and Legislative Affairs shall each appoint two
 15 (2) of the ten (10) members as required under subdivision (a)(1) of this
 16 section.
 17 (2) The Governor shall appoint the members as required under
 18 subdivisions (a)(2) and (3) of this section.
 19 (3) The chair of the State Highway Commission shall appoint the
 20 member as required under subdivision (a)(4) of this section.
 21 (4) The appointments under this section shall be made within six
 22 (6) weeks after the effective date of this act.
 23 (c) If a vacancy occurs on the Arkansas Blue Ribbon Committee on
 24 Highway Finance, the vacancy shall be filled by the same process as the
 25 original appointment.
 26 (d) The Chair of the Senate Committee on Transportation, Technology
 27 and Legislative Affairs shall call the first meeting and serve as Chair of
 28 the Arkansas Blue Ribbon Committee on Highway Finance until the time, during
 29 the first meeting, the members of the committee shall elect from among
 30 themselves a chair.
 31 (e)(1) In carrying out its functions, the Arkansas Blue Ribbon
 32 Committee on Highway Finance may create advisory task forces as it deems
 33 necessary.
 34 (2) The memberships of these advisory task forces may include
 35 both members of the Arkansas Blue Ribbon Committee on Highway Finance and
 36 other persons drawn from sources other than the committee, all of whom shall

1 serve at the pleasure of the task force.

2

3 SECTION 2. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. Purpose.

4 The Arkansas Blue Ribbon Committee on Highway Finance shall:

5 (1) Seek to actively involve the public as full and valued
6 partners in determining adequate financing of the present and future needs of
7 the state highways, county roads, and city streets within the state;

8 (2) Define an equitable and adequate system to properly finance
9 improvements to the systems of state highways, county roads, and city streets
10 within the state; and

11 (3) Propose and recommend legislation for the 2011 Regular
12 Session of the General Assembly.

13

14 SECTION 3. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. Donations,
15 grants, and legislative appropriations.

16 The research, activities, and other mandates performed by the Arkansas
17 Blue Ribbon Committee on Highway Finance under the this act may be funded by
18 donations, grants, or legislative appropriations.

19

20 SECTION 4. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. Report.

21 The Arkansas Blue Ribbon Committee on Highway Finance shall submit a
22 report and its recommendations for any proposed legislation to the following
23 on or before July 1, 2010:

24 (1) The Governor;

25 (2) The House Committee on Public Transportation;

26 (3) The Senate Committee on Transportation, Technology, and
27 Legislative Affairs;

28 (4) The House Committee on Revenue and Taxation;

29 (5) The Senate Committee on Revenue and Taxation;

30 (6) The Arkansas Legislative Council;

31 (7) The State Highway Commission;

32 (8) The Association of Arkansas Counties; and

33 (9) The Arkansas Municipal League.

34

35 SECTION 5. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. Staff support.

36 (a) The Bureau of Legislative Research and the Arkansas State Highway

1 and Transportation Department shall provide staff support for the Arkansas
2 Blue Ribbon Committee on Highway Finance.

3 (b) Additional support shall be provided by all the appropriate
4 agencies of state government upon written request of the Chair of the
5 Arkansas Blue Ribbon Committee on Highway Finance.

6
7 SECTION 6. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. Per diem.

8 (a) Legislative members of the Arkansas Blue Ribbon Committee on
9 Highway Finance shall be entitled to per diem and mileage at the same rate
10 authorized by law for attendance at meetings of interim committees of the
11 General Assembly and shall be paid from the same source.

12 (b) Non-legislative members of the Arkansas Blue Ribbon Committee on
13 Highway Finance shall be entitled to per diem and mileage at the same rate
14 authorized by law for attendance by members of the General Assembly at
15 meetings of interim committees of the General Assembly, provided that funds
16 are available.

17
18 SECTION 7. TEMPORARY LANGUAGE. NOT TO BE CODIFIED. Expiration.

19 This act expires on January 1, 2011.

20
21 SECTION 8. EMERGENCY CLAUSE. It is found and determined by the
22 General Assembly of the State of Arkansas that recent information indicates
23 that the state has severe and pressing needs regarding the state's system of
24 state highways, county roads, and city streets; and that this act is
25 immediately necessary because a thorough review of the state's highway system
26 must be immediately undertaken to fully address needs relevant to the state's
27 system of state highways, county roads, and city streets. Therefore, an
28 emergency is declared to exist and this act being immediately necessary for
29 the preservation of the public peace, health, and safety shall become
30 effective on:

31 (1) The date of its approval by the Governor;

32 (2) If the bill is neither approved nor vetoed by the Governor,
33 the expiration of the period of time during which the Governor may veto the
34 bill; or

35 (3) If the bill is vetoed by the
36 Governor and the veto is overridden, the date the last house overrides the

1 veto.

APPROVED: 3/10/2009