



**Blue** Ribbon  
Committee  
on Highway Finance

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**BlueRibbonHighways.com**

## OPTIONS FOR RECOMMENDATIONS

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## **INTRODUCTION**

In the Interim Study of Highway Finance, dated July 1, 2010, the following objectives of providing means to adequately finance improvements to Arkansas' system of highways, roads and streets are presented:

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

The Interim Study further states that the Blue Ribbon Committee on Highway Finance may also determine the framework in which recommendations designed to meet these objectives will be made, how the recommendations relate to various maintenance and construction plans, and the possibility of requiring approval by the general electorate or legislative action on new and/or restructured financing methodologies. The contents of this report provide options for recommendations to meet these objectives, including the impact of additional revenue options on highway improvement programs and the necessary steps for approving the additional revenue options.

It should be noted that all options for additional revenue maintain the historic revenue distribution of 70% to highways, 15% to counties and 15% to cities since no study has been conducted to justify any revisions to this distribution formula.

## **NO ACTION OPTION**

This option is meant to provide a baseline of improvements that could be made should current highway revenue levels be maintained in the future and no additional revenue be generated. Under this option, it is estimated that approximately \$4.1 billion will be available for highway improvement programs over the next 10 years. The buying power for this funding is expected to continue to erode over that timeframe, with an assumption that inflation will result in cost increases of approximately 4% annually.

It should be noted that this option is not adequate to maintain "status quo" for highway congestion, pavement and bridge conditions, maintenance, administration, and operations. Should no action be taken to increase highway revenue, congestion and pavement and bridge conditions on state highways will progressively worsen.

## INTERSTATE REHABILITATION BOND PROGRAM

In the 1999 IRP, the Department issued \$575 million in bonds. Using this bond revenue in addition to other revenue sources allowed over 50% (356 miles) of the Interstate System to be improved with a total cost of \$1.6 billion. Upon completion of the 1999 IRP, Arkansas' 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 Department 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, 7.35 miles were in poor condition by 2010.

Act 511 of 2007, the "Arkansas Interstate Highway Financing Act of 2007" provided the mechanism to allow the Department 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 issued remains at \$575 million (similar to the 1999 program).
- The last series of bonds must be issued by December 31, 2015.
- The proposed bond program must be passed by a vote of the people.

It is estimated that \$575 million in bonds, coupled with additional available Federal-aid funds and State match, would generate a \$998.6 million construction program. Based on current analyses, this program would result in the ability to fund improvements to 440 miles of Interstate Highways over a 14-year period.

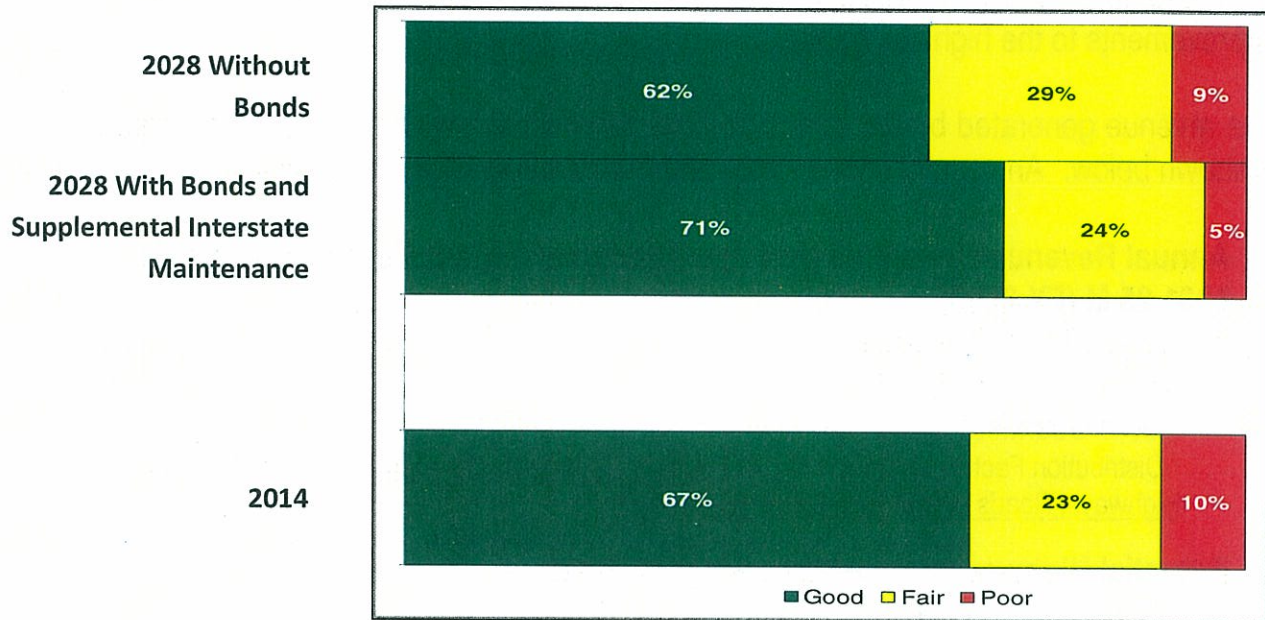
As a financing tool, issuing bonds would allow for accelerated improvements. This would also serve as a hedge against anticipated cost inflation by making improvements now.

Reissuance of the bonds would also not require any additional taxes or fees as they will continue to be funded by the Interstate Maintenance funds and the existing diesel tax revenues approved in 1999.

Conversely, if further improvements cannot be made to the Interstate System, funds that are currently being used to improve other highways may have to be redirected to the Interstates. Subsequently, redirection of these funds could lead to significant deterioration of facilities off the Interstate.

The chart below 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 (pay-as-you-go), and in 2028 with a new bond issue.

**Forecast Condition of the Interstate System**



**INDEXING MOTOR FUELS TAX**

This option includes the implementation of the indexing of the Motor Fuels Tax as proposed by the New Revenue Subcommittee. Although it is difficult to project the additional revenue that would be generated by this option, an assumption is made that that costs due to inflation will increase at 4% annually, while additional revenue will increase at 2% annually. The purpose would be to allow revenue to increase as construction costs increase to lessen the “shrinking highway dollar” effect that has been realized over the past.

This option could be implemented by the General Assembly.

It should be noted that this option is not adequate to maintain “status quo” for highway congestion, pavement and bridge conditions, maintenance, administration, and operations. Under this option, congestion and pavement and bridge conditions on state highways will progressively worsen.

## 1/2-CENT SALES TAX FOR BOND PROGRAM

This option would implement a ½-cent General Sales Tax increase as presented in the Possible Options for Generating Additional Revenue for Highways, Roads, and Streets (June 16, 2010). This revenue would be used for a 5-year construction program funded with revenue bonds, and the General Sales Tax would be “sunset” upon the retirement of the bonds in 10 years. This option would allow for the expedited implementation of major improvements to the highway system.

The revenue generated by this option and the potential highway improvement program size is shown below. An assumption is made that this revenue will increase at 4% annually.

- **Annual Revenue Generated from the Additional ½-Cent General Sales Tax: \$231.25 M (FY 2009)**
  - Net to AHTD: \$157.02 M
  - Net to Cities\*: \$33.6 M
  - Net to Counties\*: \$33.6 M

\* Distribution Factors were included in Possible Options for Generating Additional Revenue for Highways, Roads and Streets (June 16, 2010).
  
- **Potential Highway Improvement Program Size:**
  - **5-Year Bond Issue**
    - 5 series (bonds issued over a 5-year period; construction lettings over 5-year period)
    - Total payoff in 10 years – ***tax “sunsets” after bonds are retired***  
**Total highway construction program would be \$1.794 B**

While an additional ½-cent General Sales Tax could be implemented by the General Assembly, the use of bond financing for a highway improvement program would have to be approved by a vote of the people. As an alternative, this option could be structured so that the General Sales Tax increase would not be implemented unless the bond program was approved by the people.

If implemented as a standalone option, this projected revenue is not adequate to maintain “status quo” for highway congestion, pavement and bridge conditions, maintenance, administration, and operations although some major highway improvements could be expedited. Under this option, congestion and pavement and bridge conditions on state highways will progressively worsen.

## **TRANSFER OF SALES TAX ON NEW AND USED VEHICLES, AUTO REPAIR PARTS AND SERVICES, TIRES AND BATTERIES**

This option would implement the Transfer of Sales Tax on New and Used Vehicles, Auto Repair Parts and Services, Tires and Batteries, phased in over a 10-year period. This option was presented in the Possible Options for Generating Additional Revenue for Highways, Roads, and Streets (June 16, 2010), and is a variation of the option recommended by the Revenue Transfer Subcommittee.

The revenue generated by this option and the potential highway improvement program size is shown below. An assumption is made that this revenue will increase at 4% annually.

- **Annual Revenue Generated from the Transfer of the Sales Tax on Road User Items: \$429.6 M** (FY 2009 Revenue – or 7.725% of the General Revenue available for Distribution)
  - Net to AHTD: \$29.2 M (10% during the first year)
  - Net to Cities\*: \$6.2 M (10% during the first year)
  - Net to Counties\*: \$6.2 M (10% during the first year)
  - **Total of \$2.039 B available over 10 years to AHTD (assuming 4% annual growth and phase-in of 10% annually over 10 years)**

\* Distribution Factors were included in Possible Options for Generating Additional Revenue for Highways, Roads and Streets (June 16, 2010).

This option could be implemented by either the General Assembly or an Initiated Act.

The problem of providing adequate funding for highways, roads and streets is long term. Extending the proposed transfer over a longer period of time would ameliorate the impact of the transfer from the General Funds 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.

In addition, more research is needed on possible conditions of General Fund receipts that could trigger this proposed transfer.

## **6% EXCISE TAX ON THE WHOLESALE PRICE OF MOTOR FUELS**

This option would implement the addition of a 6% Excise Tax on the Wholesale Price of Motor Fuels as proposed by the New Revenue Subcommittee, and could also be phased in over time.

The revenue generated by this option and the potential highway improvement program size is shown below.

- **Annual Revenue Generated from the imposition of a 6% Excise Tax on the Wholesale Price of Motor Fuels (phased in at 1% annually over 6 years): \$360.0 M** (FY 2012 Revenue, from the New Revenue Subcommittee)
  - Net to AHTD: \$40.7 M
  - Net to Cities\*: \$8.7 M
  - Net to Counties\*: \$8.7 M
  - **Total of \$1.976 B available over 10 years to AHTD (assuming phase-in of 1% annually over 6 years)**

\* Distribution Factors were included in Possible Options for Generating Additional Revenue for Highways, Roads and Streets (June 16, 2010).

This option could be implemented by the General Assembly.

If implemented as a standalone option, this projected revenue is not adequate to maintain “status quo” for highway congestion, pavement and bridge conditions, maintenance, administration, and operations. Under this option, congestion and pavement and bridge conditions on state highways will progressively worsen.

## **CITY AID PROGRAM**

This option includes the implementation of a City Aid Program similar to the existing County Aid Program. It is recommended that a new revenue option be proposed to generate approximately \$20 million annually, which would create a City Aid Program equivalent in size to the existing County Aid Program which is funded by an existing 1-cent/gallon Motor Fuels Tax.

It should be realized that the simple transfer of 1¢/gallon of the existing motor fuels tax would reduce the amount of funds that are now being distributed to the AHTD and to all cities and counties. A City Aid Program should not result in a loss of revenue to the AHTD or to the cities and counties. Therefore, this type of program should only be triggered by the approval of other additional revenue options for highways, roads and streets.

Consideration would have to be given to how a City Aid Program would be administered. Similar to the County Aid Program, design standards should be developed, and a City Aid Street System should be defined so that the size of the System eligible for funding is limited.

A process for distribution of City Aid Funds should be defined. Consideration would have to be given to whether minimum and/or maximum amounts should be provided to each city, whether there would be a means of ensuring that each city would receive City Aid Program



funds, whether there would be an application process required for receiving funds, and whether there would be any matching requirements of the cities.

Although the AHTD administers the County Aid Program for the 75 counties, it would require much additional staff and administrative costs to administer a City Aid Program for over 300 cities.

## **POSSIBLE HIGHWAY IMPROVEMENT PROGRAM IMPACTS**

There has been much discussion about the development of highway programs prior to the recommendation of options to generate additional revenue for highways, roads and streets. Although not the charge of the Blue Ribbon Committee on Highway Finance, the following information attempts to show the possible impacts on state highway improvement programs from generating additional highway revenue through various options.

The example highway program impacts shown are illustrative only. They do not represent exact proposals of highway programs, but rather attempt to show the magnitude of additional improvements that could be made with additional funding levels. At such time that a specific proposal for additional funding would be made to the Arkansas General Assembly, the Department would develop a proposed highway program tailored to that proposal, taking into consideration existing revenues and programs. Appropriate coordination with State and local officials would be a part of the development of a proposed highway program.

Since a proposed Interstate Rehabilitation Program is limited to a specific portion of the State Highway System, the possible improvements that could be made under this program were shown previously in this report and are not included in this section.

The following table shows an estimate of the miles of highway improvements that could be expected to be made over the next 10 years under the various options presented in this report. The mileage shown under the No Action option is meant to provide a baseline of highway improvements that could be made should current highway revenue levels be maintained in the future and no additional revenue be generated. The mileage shown under the options for generating additional revenue represent the highway improvements that could be made under each option in addition to the No Action Option.

It should be noted that these mileages could vary greatly depending upon the actual amount of funding received, increases in construction costs due to inflation, the actual distribution of funding among the various types of improvements, and the level of improvements.

OPTION	MILEAGE			
	TYPE OF IMPROVEMENT			TOTAL
	New Location	Major Widening (including Passing Lanes)	Roadway Rehabilitation	
No Action	209	419	2010	<b>2638</b>
Indexing Motor Fuels Tax	21	39	184	<b>244</b>
½-Cent General Sales Tax; Bond Program	45	189	750	<b>984</b>
Transfer Sales Tax on Road User Items	63	204	1155	<b>1422</b>
6% Excise Tax on Wholesale Price of Motor Fuels	53	196	1155	<b>1404</b>