

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1346**

**Bill Subtitle: TO DEDICATE CERTAIN REVENUES FOR USE BY THE ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT AND THE STATE HIGHWAY COMMISSION; TO DEDICATE CERTAIN SEVERANCE TAX REVENUES FOR TRAINING AND EDUCATION; AND TO DECLARE AN EMERGENCY.**

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**Basic Change :** Sponsor: Representative Douglas

The proposal provides for a redistribution of the general revenue portion of the state sales and use tax to provide additional funding for state and local highways, streets and roads. Of the existing 6.5% state sales and use tax rate, the General Revenue component of the levy is 4.5%.

The proposal would provide for transfers from General Revenue to highways to begin on the first day of September following the issuance of an annual report by the State Treasurer to the Chief Fiscal Officer of the State indicating that the General Revenue portion of the state sales and use tax exceeded \$2,200,000,000 for the year. This transfer would increase incrementally over the next 10 years. The 10-year phase-in transfer of General Revenues would apply to: (1) The actual sales and use taxes collected on sales of motor vehicles from 10% to 100%; and (2) An amount representing the revenues collected on auto related road-user items and services. The estimated amount of existing revenues representing road-user items and services would begin at a transfer rate of 0.6% and grows through the 10-year phase-in period to 6% of total general revenues.

The ten-year phase-in transfer of the 4.5% General Revenue portion of the 6.5% state sales and use tax collected on motor vehicles and the estimated amount of tax collected on auto related parts and services would occur as follows:

### Motor Vehicles

Year 1	--- 90% General Revenue	--- 10% Highways	-- FY16 Est. \$ 23.3 million from GR to Highways
Year 2	--- 80% General Revenue	--- 20% Highways	-- FY17 Est. \$ 57.6 million from GR to Highways
Year 3	--- 70% General Revenue	--- 30% Highways	-- FY18 Est. \$ 89.0 million from GR to Highways
Year 4	--- 60% General Revenue	--- 40% Highways	-- FY19 Est. \$122.2 million from GR to Highways
Year 5	--- 50% General Revenue	--- 50% Highways	-- FY20 Est. \$157.3 million from GR to Highways
Year 6	--- 40% General Revenue	--- 60% Highways	-- FY21 Est. \$194.4 million from GR to Highways
Year 7	--- 30% General Revenue	--- 70% Highways	-- FY22 Est. \$233.6 million from GR to Highways
Year 8	--- 20% General Revenue	--- 80% Highways	-- FY23 Est. \$275.0 million from GR to Highways
Year 9	--- 10% General Revenue	--- 90% Highways	-- FY24 Est. \$318.6 million from GR to Highways
Year 10	--- 0% General Revenue	--- 100% Highways	-- FY25 Est. \$364.6 million from GR to Highways

### Transfer Representing Estimated Sales Tax on Auto Related Road User Items and Services

Year 1	--- 0.6% of State General Revenue	-- FY16 Est. \$ 11.5 million from GR to Highways
Year 2	--- 1.2% of State General Revenue	-- FY17 Est. \$ 29.0 million from GR to Highways
Year 3	--- 1.8% of State General Revenue	-- FY18 Est. \$ 44.8 million from GR to Highways
Year 4	--- 2.4% of State General Revenue	-- FY19 Est. \$ 61.6 million from GR to Highways
Year 5	--- 3.0% of State General Revenue	-- FY20 Est. \$ 79.3 million from GR to Highways
Year 6	--- 3.6% of State General Revenue	-- FY21 Est. \$ 98.0 million from GR to Highways
Year 7	--- 4.2% of State General Revenue	-- FY22 Est. \$117.7 million from GR to Highways
Year 8	--- 4.8% of State General Revenue	-- FY23 Est. \$138.6 million from GR to Highways
Year 9	--- 5.4% of State General Revenue	-- FY24 Est. \$160.6 million from GR to Highways
Year 10	--- 6.0% of State General Revenue	-- FY25 Est. \$183.8 million from GR to Highways

The State General Revenue transfers would be distributed Fifteen percent (15%) to the County Aid Fund; Fifteen percent (15%) to the Municipal Aid Fund; and Seventy percent (70%) to the State

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Highway and Transportation Department Fund.

The bill would also amend existing provisions for the distribution of severance taxes collected on natural gas severed in Arkansas. Under current law, 5% of the natural gas severance tax is deposited as state General Revenues with 95% deposited for highways. The proposal would change the distribution of the tax designated for highways to begin a phase-in transfer of the funds to support two-year colleges in Arkansas. The bill creates the "Highway Industry Workforce Development Fund" which would be used by the State Highway Commission to cooperate with technical colleges, two-year colleges and industry representatives to provide funding for careers and technical education programs related to highway construction, maintenance and operation of highway construction vehicles and maintenance. The proposal includes an emergency clause and would become effective July 1, 2015.

### Revenue Impact :

The bill transfers state sales and use tax general revenues to support funding of Arkansas highways if general revenue sales and use tax collection exceed \$2.2 billion. The current General Revenue forecast projects general revenue sales and use tax collections of \$2.195 billion in FY15. However, collections in the first 7 months are running \$10 million ahead of forecast and growing at 1.9%. At this rate, the FY15 collections will exceed the \$2.2 billion threshold and trigger the new distribution starting in September 2015. If the official FY15 general revenue sales and use tax collections fall short of \$2.2 billion, the new distribution would very likely begin September 2016, barring a recession or significant sales tax cut before then.

	Total Transfer from State General Revenues	Transfer Amount to State Highways	Transfer Amount to Cities	Transfer Amount to Counties
	(millions)	(millions)	(millions)	(millions)
FY2016	\$ -34.8	\$ 24.3	\$ 5.2	\$ 5.2
FY2017	-86.6	60.6	13.0	13.0
FY2018	-133.8	93.6	20.1	20.1
FY2019	-183.7	128.6	27.6	27.6
FY2020	-236.6	165.6	35.5	35.5
FY2021	-292.4	204.7	43.9	43.9
FY2022	-351.3	245.9	52.7	52.7
FY2023	-413.5	289.5	62.0	62.0
FY2024	-479.2	335.4	71.9	71.9
FY2025	-548.4	383.9	82.3	82.3

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**Taxpayer Impact :**

None

**Resources Required :**

None

**Time Required :**

None

**Procedural Changes :**

Implement transfers of State General Revenues to support Arkansas Highways.

**Other Comments :**

Section 4, page 7, the proposal directs revenue to a non-existent fund (Workforce Training Development Fund). The proposal should be amended to create the fund.

Section 7, page 9, the proposal directs revenue to be deposited to a non-existent fund (Skills Development Fund). The proposal should be amended to create the fund

**Legal Analysis :**

None