

MINUTES

ARKANSAS BLUE RIBBON COMMITTEE ON HIGHWAY FINANCE

Thursday, June 25, 2009

10:00 A.M.

Room 151, State Capitol

Little Rock, Arkansas

The Arkansas Blue Ribbon Committee on Highway Finance met Thursday, June 25, 2009, in Room 151 of the State Capitol in Little Rock, Arkansas.

Legislative committee members in attendance: Senators John Paul Capps, Chairman; Gilbert Baker, and Paul Miller; Representatives John Lowery, Allen Maxwell, Vice Chairman; and Bill Sample

Non Legislative committee members in attendance: William Fletcher, Wes Fowler, Wayne Hartsfield, Mark Lamberth, Bill Lynch, David Malone, Mark McBryde, Jim McKenzie, Tab Townsell, and Mike Wilson

Also attending: Senators Gene Jeffress and Jimmy Jeffress; Representatives Bill Abernathy, Eddie Cooper, Monty Davenport, Curren Everett, Billy Gaskill, Nathan George, Willie Hardy, Donna Hutchinson, Ray Kidd, Andrea Lea, Buddy Lovell, Mark Martin, James McLean, Robert Moore, George Overbey, Mike Patterson, Roy Ragland, Gregg Reep, J. R. Rogers, Garry Smith, Randy Stewart, John Paul Wells, Robbie Wills, and Jon Woods

Senator Capps called the meeting to order and recognized Representative Maxwell for opening remarks.

Representative Maxwell referenced an article entitled *Butch's Battle* (Handout #1) regarding roads in Idaho considered the worst roads in the United States. Idaho's Governor desired to fix the problem but was unable to get a bill passed by the legislature. The legislature later passed a small bill during a special session. Representative Maxwell discussed the importance of public buy-in to address the issue of having the worst highways and not having enough money to fund a highway program. He noted the Fayetteville Shale severance tax as a source of funding for the Arkansas Highway and Transportation Department (AHTD). Another possible source of funding to AHTD could be a severance tax on lignite, if developed, of which there is a tremendous amount in south Arkansas.

Consideration to approve Minutes of May 21, 2009 (Exhibit C)

Without objection, the minutes were approved.

Discussion of current County Tax Levies (Exhibit D)

Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research (BLR), was recognized. He presented requested information identifying the counties not levying the full 3 mil road tax.

Mr. Eddie Jones, Executive Director, Association of Arkansas Counties (AAC), was recognized and explained that counties are constitutionally limited on property tax levies to 3 mils for roads and 5 mils general. Most of the millage is for schools. The general public seems to have the most dislike for property tax although Arkansas's property tax is one of the lowest in the nation.

In response to a question from Representative Sample concerning the reduction in millage collected by some counties, Mr. Jones replied that in some cases the county makes a deal with the electorate in trying to raise additional revenues. For example, a county will try to pass a sales tax and tell voters that property tax will not be raised or will be reduced by a certain amount if the sales tax is passed. Another answer

may be road millage reduction while, at the same time, the general millage is increased by that same amount thereby not a decrease in the property tax millage for county operations but a shift from road to general. This increases the amount of revenue for a county because the county road millage has to be shared with the municipalities of that county. Municipalities, as a general rule, receive half the millage for all the property valuations within the corporate city limits. Cities have the ability to levy a general millage but the street millage is a share of the county road millage. At the request of Representative Sample, AAC will provide information on whether counties took these mills only off roads or off roads and general both.

Mr. Hartsfield suggested a review of how cities and counties divide the 3 mills for roads between the cities and counties based upon the city's population as a percentage of the total county population.

In response to a question from Mr. McKenzie, Mr. Jones stated Amendment 59 requires an automatic rollback of property millage every time there is a reappraisal if the growth is of such magnitude. Amendment 59 came into effect during the time when counties were being forced, through court action, to bring property values up to market. Amendment 59 was passed so that no tax entity could gain more than 10%. The millage was then rolled back to the point that any tax entity would not gain more than 10%. At that time, nearly every county was at the maximum of 5 and 3 mills. Since that time many counties have raised their levies back up over a course of time.

Cross-State Comparison of Arkansas' Highway Financing and Infrastructure Quality (PowerPoint Presentation and Exhibit E)

Mr. Michael Brown, Legislative Analyst, Policy Analysis and Research Services, BLR, was recognized and gave a PowerPoint presentation. He advised that the research staff was asked to compare Arkansas with surrounding states in terms of highway financing, infrastructure quality (road quality), and state dollars flowing into the states in terms of highway financing. The staff reviewed the last 25 years' worth of data. Values are presented in real terms; adjusted for inflation. The graphs show actual real dollars AHTD received in terms of funding minus inflation. Mr. Brown added the inflation index was a good measure of highway construction costs until 2005 when Hurricane Katrina hit. Arkansas's total highway revenue has remained relatively flat over the 25 year period covered in this research. Total highway revenue for the State has grown an average of 3.10% over the last 25 years. Two measures in making cross-state comparisons were per capita funding of total highway funding and funding per roadway mile. Arkansas has a slightly upper trend in per capita funding and ranks 7th in funding per mile.

The research staff was also asked to review road quality across the seven states within the region. Staff used the International Roughness Index, which was the most objective measure that allowed cross-state comparisons with a reasonable level of accuracy. However, there is a level of variance within this measure. Based on the roughness index, the staff computed a score value for each state depending on how each of their roughness indexes is weighted. Arkansas has a .72 score and 5th place ranking in the region in terms of road quality of rural roads and a .64 score and 4th place in urban areas. If rural and urban areas are weighted by the number of highway miles in each of these states, an overall score will be reached in terms of quality. In the final analysis, Arkansas is above the national average in terms of highway quality as measured by this index.

Other factors of road quality are truck traffic, number of vehicle miles, and the number of cities within the area. When looking at the overall study, it was discovered there was a 3.10% increase in highway funding since 1982. Among the surrounding states, Arkansas ranks 4th in per capita funding, 7th in funding per highway mile and 3rd in overall road quality as measured by the International Roughness Index. Arkansas has a road quality above the national average in many categories.

Mr. Lynch questioned if any of those states had a public/private partnership law in place. Mr. Brown responded he did not specifically investigate that aspect.

Mr. McKenzie stated he would like to see the upper spike in the construction inflation index correlated with the cost of petroleum per barrel and the increased demand from India and China for steel, Portland cement, and petroleum. Mr. Brown noted this is one of the things being seen in tangent with economic development. Hurricane Katrina was the impetus behind the spike but there are other factors in the economy affecting the construction inflation index.

Mr. Lamberth commented that, as a contractor, he saw natural gas increase from \$3 to \$14 and the cost of asphalt and cement triple, all of which affect construction cost. Although prices have somewhat abated, they are still very high.

Research proposals and options available to the Blue Ribbon Committee (Handout #2)

Dr. Wayne Miller, Professor, Cooperative Extension Service, University of Arkansas (UA), and Dr. Greg Hamilton, Senior Research Specialist, Institute for Economic Advancement, University of Arkansas at Little Rock (UALR), were recognized. Dr. Miller noted that approximately a year ago Representative Maxwell inquired about replicating Missouri's work on the economic impacts of its highway projects. Dr. Miller stated that he and Dr. Hamilton are here to present several possibilities (Handout #2). Items 1 and 2 are fairly straightforward and would be a study similar to the Missouri study. For more regional studies, other organizations would be recruited to contribute to the research. As number of transportation studies have been done in the State, there is no need to "reinvent the wheel" but rather to collect, synthesize, and produce information already available in a manner that a non-technical person can understand. Estimated values of highway investments have been done at the state and federal levels (item 3). The research group would propose looking at studies already done and try to interpret the information as best they can for Arkansas. Mr. Miller explained they want to provide information in the context of the current highway system and spending in the State. He noted Dr. Hamilton and the Institute did a "gap analysis" study two (2) years ago so information is available regarding the projected transportation expenditures and what actually exists. Other issues regarding funding for highways in Arkansas would also be researched.

Dr. Greg Hamilton discussed corridor analysis studies they would do as part of the research. His group was asked to address the economic impact of the highway system on Arkansas's economy. There are a number of ways to do this. One is an overall review of highway funding and cost savings through transportation and improved highways. Another approach is to review corridor analysis and development of economic activity along corridors in line with the Missouri model. A third approach is to reassess earlier studies on corridor analysis to see how successful those studies have been. Depending on their success, those factors could be integrated into current studies about future impacts for more up-to-date information.

Dr. Miller noted his understanding that requested information is for a non-technical audience so that the general public can be informed about the issue of highways in Arkansas. His research team is open to what the Committee identifies as priorities for research.

Senator Capps asked for members' thoughts on the type of research needed. He added the charge of the Committee is to recommend a funding source for AHTD. He asked Dr. Hamilton and Dr. Miller if they are making a proposal on the type of research they can do for the Committee.

Dr. Miller replied his proposal would be some type of overview of the economic and fiscal impact on the proposed highway funding. The study would show how this would affect the economy and fiscal impact on the State. He suggested regional studies of regional projects such as expansion of Highway 412 and I-540 from Fort Smith to Texarkana. His group could also summarize existing information regarding some of the other topics previously identified and, emphasizing that information, disseminate it to a non-technical audience.

Representative Lowery commented the Committee could lose focus very easily. He added that AHTD has gathered information, identified needs, and presented it to the public. Also, each region of the State is represented by a highway commissioner. The Committee's focus should be on meeting those needs and assessing revenue sources. It is important not to become inundated with too much information.

Mr. Lynch noted that the number of studies on highway financing over the years has produced information that may need to be "massaged". He asked if the Committee should pull some of those research studies and at least review them. He commented on conversations regarding public/private partnerships with a native Arkansan and former Public Affairs Director, Federal Highway Administration, during the Bush Administration. Specifically mentioned was Virginia, very successful in this area, and a project in Houston. Mr. Lynch stated he would like to see more research in the public/private partnership area.

Mr. Fletcher stated a solution is futile without a plan and resources available to sell it to the public. The State has done a very poor job of educating the public on the seriousness of this problem. He suggested a message on television and something the public will understand in 30 seconds. Mr. Wilson noted the general public needs to be shown the cost of doing nothing and how this would impact the State's economy. He suggested developing that approach in addition to the other suggestions.

Mr. McBryde noted that counties and municipalities in the State are stymied in terms of implementing projects such as jails, hospitals, and water and sewer systems. There are several studies on how other states funded these needs. The conclusion was that a local option sales tax would be very helpful. He noted considerable correlation between what was done then and what needs to be done now in terms of focusing on a funding source. Much information can be gleaned from other states.

Mayor Townsell asked what would be the timeline for getting the research done if UALR is requested to conduct this research. Dr. Miller replied it would depend on what information is needed and when it is needed. Depending on priorities, the information could probably be provided by the end of March, 2010. Representative Sample noted if the Committee utilizes a study, it should be completed by January in order to have enough time to digest the information.

Senator Capps stated he sees this as a three phase operation. Phase one should be done within six (6) months during which the Committee would gather information, complete the studies, disseminate the research, find out what is going on at the federal level (ask at least two (2) of our congressmen to come and address what they see happening at the federal level). During phase two, in March and April, the Committee would hold several regional town hall meetings and present the results obtained from the studies and research. The public would be asked for advice and opinions on the research and studies. During phase three, using public input and research results, the Committee would narrow the information down into a broad general recommendation and subsequently a final recommendation of specifics for presentation to the Governor and the 88th General Assembly.

Mayor Townsell questioned if the 2010 fiscal legislation session would impact the Committee's ability to meet to which Senator Capps replied that he did not think there would be a problem with Committee meetings during the fiscal session.

Senator Baker commented that as soon as the Committee has some proposals on the table, it can move forward. He added that the Committee needs some hard, fast, ideas on the table quickly.

Senator Miller pointed out the current state of the automobile industry affects views in relation to how automobiles will be powered in the future. Electric cars will soon be a reality. The Committee should not consider statistics that would include an increase in fuel prices. He suggested looking at property tax increases and how much money is needed.

Mr. Wilson made a motion to ask UALR in cooperation with AHTD to make a short, brief, quick, and concise study of the cost of deferring highway spending for use as a basis for defending the Committee's recommendations. Without objection, the motion carried.

Mr. Dan Flowers, Director, AHTD, was recognized and stated a great deal of local and national information is available regarding the issue of deferring maintenance and improvements.

Representative Lowery stated the subject of tax exemptions was brought up during the first interim meeting of the Revenue and Taxation Committees. He feels there will be information discussed by the Revenue and Taxation Committees that can be intertwined and made available to the Blue Ribbon Committee.

Mr. Fletcher suggested the focus of the study be on developing information that can be used in a publicity selling program to the average person.

Mr. Lynch asked how many tax dollars are tied to highway-related expenditures such as tires, batteries automobiles, etc. Senator Capps noted that information is already available.

Representative Maxwell noted that with increases in the sale of electric cars comes the issue of electric and transmission generation. Building new generating plants is a very slow process and the United States is fairly maxed out on transmission/electric generation or transmission of electricity. If this is not addressed, parts of the country will begin experiencing brownouts. Representative Maxwell asked if AHTD has data on safety, travel time, consumer cost, lost time, and productivity. Mr. Flowers replied that AHTD does have some of this data. Speaking to the issue of understandable information on what it would cost to ride on rough roads and defer improvements, he advised the American Association of State Highway and Transportation Officials produced a national study entitled *Rough Roads Ahead - Fix Them Now or Pay for Them Later*. This study addresses each state's driving cost on rough roads per driver and indicates for every dollar spent now or sooner to improve roads, over \$7 dollars is saved in the future. There is a lot of information available which AHTD can provide to the committee in a short period of time.

Mr. Flowers commented on the presentation by Mr. Brown and cautioned the Committee on using only one element of road evaluation. He stated there are other considerations that should be in the analysis such as safety, congestion, bridges, and economic development. He further noted some states do use the Public/Private Partnerships (P3s). Traffic drives P3s and, because Arkansas does not have the traffic volume, spending a lot of time on this may not be very productive.

Mr. Lamberth noted the continued presence of advocacy groups at AHTD asking for better roads for their communities implies that the people of the State understand the problem. He added that the case for better roads has been made several times. All the studies already done should be brought together and the case made one more time. The information has been disseminated and the people of Arkansas are demanding that the State's infrastructure be maintained. This Committee's charge is not to allocate the money but to find ways to raise the money. The sooner we get to this business, the better.

Mr. Wilson asked if it is legally possible to tax internet sales to Arkansas residents and, if so, how much money would be generated.

Senator Capps asked that Mr. Wilson restate his motion previously adopted by the Committee. Mr. Wilson restated his motion as follows: ask AHTD and UALR to collaborate on a short, concise, brief, pointed study on the cost of doing nothing, that is, zero effort. Mr. Fletcher seconded the motion and, without objection, the motion carried.

Mayor Townsell noted the charge given to the Committee by the legislation indicates that state highways, county roads, and city streets have severe and pressing needs and a thorough review of the state's highway system must be undertaken immediately to fully address the needs of the state highways, county roads and city streets. It does not find that there is an inadequacy in funding.

Research Request (Exhibit G)

Mr. McKenzie was recognized and noted items mentioned in Exhibit G are self-explanatory. He advised that he has identified at least six additional items dealing with freight, safety, and other issues as a result of today's meeting. Judge Fowler noted Mr. McKenzie's questions are good questions but he thinks they will be hard to answer due to so many variances.

Senator Capps noted the Committee needs to be cautious and not overload Richard Wilson's research staff with individual research requests. He suggested that some type of steering committee be formed to receive and refer research requests.

Meeting frequency and location(s)

Senator Capps requested input from members regarding meeting frequency. The consensus of the Committee was to meet the 3rd Wednesday of each month at 10:00 a.m.

Mr. McKenzie suggested that Senator Capps and Representative Maxwell begin at July 1, 2010, and work backwards to determine, as times goes on, whether the Committee will need to meet twice monthly, during weekend retreats, etc. He stated this would give the Committee an idea of how to pace itself. Senator Capps agreed this should be done and also that, as time for the final report draws near, during perhaps the last three (3) months, the Committee may need to meet more frequently.

Other Business

Senator Capps discussed including other transportation stakeholders representing entities such as the Arkansas Good Roads Transportation Council, Education Department, etc., to serve on task forces.

Mr. McKenzie suggested members check out the Kansas Highway and Transportation Department website and see if such a website is something the Committee may want to consider.

Mayor Townsell asked if other meeting space could be utilized with seating that enables members to see each other.

Mayor Townsell made a motion that the Committee find that the state highway, county road and city street transportation systems are inadequately funded and therefore, have to be fixed, and that the Committee invite the Arkansas Municipal League and Association of Arkansas Counties to address the Committee on city and county needs. Mr. Fowler seconded the motion and, without objection, the motion carried.

With no further business, the meeting adjourned at 11:55 a.m.