MINUTES

ARKANSAS BLUE RIBBON COMMITTEE ON HIGHWAY FINANCE

Wednesday, August 19, 2009
10:00 A.M.
Room 171, State Capitol
Little Rock, Arkansas

The Arkansas Blue Ribbon Committee on Highway Finance met Wednesday, August 19, 2009, in Room 171 of the State Capitol in Little Rock, Arkansas.

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

Non Legislative committee members in attendance: Charles Dains, Jr., William Fletcher, Wes Fowler, Mark Lamberth, Bill Lynch, David Malone, Jim McKenzie, Madison Murphy, and Tab Townsell

Also attending: Senator David Wyatt; Representatives Eddie Cooper, Monty Davenport, David Dunn, Curren Everett, Billy Gaskill, Nathan George, Frank Glidewell, Willie Hardy, Ray Kidd, Buddy Lovell, Walls McCrary, Mark Martin, Robert Moore, Gregg Reep, Johnnie Roebuck, Gary Smith, Randy Stewart, and John Paul Wells

Senator Capps called the meeting to order.

Consideration to approve Minutes of July 15, 2009 (Exhibit C)

Judge Fowler noted a correction in cost of a three inch gravel application should be $15 million rather than $35 million.

Without objection the Minutes of July 15, 2009 were approved as corrected.

Congressional comments regarding Federal Highway Financing

The Honorable Vic Snyder, 2nd Congressional District, U. S. House of Representatives, discussed federal highway financing and numerous challenges nationwide in addressing how to fund transportation infrastructure needs. Financing is impacted by the dramatic downturn in personal travel. Also, a fairly dramatic downturn in commercial travel due to a decrease in imports and exports means less product movement around the country. In addition, there has been no increase in the Federal Gas Tax since 1983.

Congressman Snyder explained the initiative to lower fuel consumption is impacting tax revenue. He predicted that within the next decade there will be substantial improvements in fuel efficiency and more resources put into mass transit. The challenge is convincing Americans to ride buses or fast trains more than drive cars, which would benefit the country as well as states trying to figure out how to fund transportation needs. On July 29, the President signed into law an act moving $7 billion from the general fund into the Highway Trust Fund to provide short-term relief. There are some differences between the Senate and House on what should be done for highway financing in the short-term. The Obama Administration and the Senate would like an 18 month extension which would involve moving approximately $20 billion from the general fund into the Highway Trust Fund. Jim Oberstar, House Transportation Chairman, wants to be very aggressive about looking ahead as his belief is an 18 month extension doesn't help Highway Commissioners and Highway Departments make the kind of decisions they need to make over long term in matters of contracting. Mr. Oberstar prefers a six year bill which would put $450 billion in the Highway Trust Fund over six years.

One of the challenges as a country is the fact that we are moving in the direction of more fuel efficiency and more alternative energy. Therefore, we cannot allow the only source of funding for transportation to be a per gallon gas tax. American expectations of highways and roads are greater now than years ago. Roads are expected to handle greater volumes of traffic, be safer, attractive, and more friendly for other uses, i.e., bicycles, walking, etc.

Congressman Oberstar is considering options to: restore the Highway Trust Fund for building transportation infrastructure only; issue Treasury Bonds to finance and increase highway infrastructure over the short term of the next few years; require reimbursement of fuel tax exemptions from the general fund; a per barrel fee on crude oil or imported gasoline and diesel; a transaction tax on speculative trading of crude oil futures; and a catch-all of user fees.

The issues this Committee is working on are also issues very important to members of Congress. They recognize these are issues they will be grappling with for some time to come and will not get easier; in fact it will become harder as the federal government pushes for more fuel efficient transportation.

In response to a question from Representative Glidewell, Congressman Snyder stated that for some time people have been looking at what the difference in revenue would be if the fuel tax was changed from a per gallon tax to a percentage of fuel cost and considering different options. **He noted his office can provide background on the different options being considered.**

In response to a question from Mr. Fletcher regarding a way for the Committee to find out the probability of all or any of these options being implemented and, if so, what it would mean to Arkansas, **Congressman Snyder stated he will talk to Congressman Oberstar personally and get the information back to the committee.** He noted he does not foresee much happening this year, but this is an important issue to members of Congress.

<u>Administration comments regarding Federal Highway Financing</u>

Mr. Mark Sullivan, Senior Advisor, Office of Innovative Program Delivery, Federal Highway Administration (FHWA), discussed federal highway financing, noting Congressman Oberstar's bill would create an Office of Intermodalism in the Department of Transportation (DOT). He noted the Transportation Infrastructure Act of 1998 (TIFIA) was established as a credit program for projects of regional and national significance. To date, TIFIA has supported 18 projects with approximately $6.6 billion of credit assistance in the form of direct loans and loan guarantees. These loans have gone toward projects representing approximately $24 billion in infrastructure investment in the United States. Objectives of the TIFIA Program have always been to promote user charges and other dedicated revenues to support transportation investment and to fill market gaps for projects that would otherwise not be able to reach investors and attract new revenues and investment to transportation. The focus of the TIFIA Program is building the infrastructure system in the U. S. one project at a time. The principals behind TIFIA have been discussed extensively in the circles of reauthorization. The proposal for a national infrastructure bank draws many lessons from the TIFIA experience and will certainly influence the future of the TIFIA credit program.

Last year the FHWA created the Office of Innovative Program Delivery. This office is considered a one-stop shop for assistance with a variety of tools including innovative finance, working with public/private partnerships, congestion, pricing and tolling issues, major project oversight, and credit assistance.

In addition to the $7 billion transferred into the Highway Trust Fund late last month, another $8 billion transfer was required last year. These transfers were needed so the Trust Fund could pay for federal government commitments made to states several years earlier. These transfers of funds will keep the Trust Fund solvent through September 30, 2009, the end of the federal fiscal year, and also conclusion of the five-year authorization period for the Safe, Accountable, Flexible, Efficient Transportation Equity Act a Legacy for Users (SAFETEA-LU). SAFETEA-LU has been the authorization mechanism under which the Federal Highway Aid Program has operated The current funding system at the federal level is exhausted and significantly in need of some reconsideration and reconstruction.

Congressman Oberstar's bill is an ambitious reauthorization bill. However, it cannot advance beyond the committee level without figuring out a way to pay for substantial proposed increase in federal spending. The bill proposes spending $500+ billion over six years as compared to the SAFETEA-LU level of spending of $325 billion; the federal government can not even afford the current level of spending. The Administration and the Senate both favor more time to work on these problems and have proposed an extension for 18 months of SAFETEA-LU and would be prepared to move up to another $20 billion dollars out of general fund revenues into the Highway Trust Fund.

Mr. Sullivan suggested the nation is on the precipice of significant change to federal funding programs for surface transportation. The plan, as laid out in 2005 by SAFETEA-LU, was to spend down what was considered to be a large balance in the Highway Trust Fund. However, the revenue forecast for fuel tax collections were incorrect due to high gas prices and the recession reduced the amount of driving. The federal fuel tax was an acceptable user charge in 1956 and an efficient way of collecting revenues. However, it produces the best financial results when Americans are driving inefficient gas guzzlers over sprawling trips between home and work. As we move forward in meeting other national goals, i.e., developing alternative fuel sources, addressing congestion, and increasing mileage efficiency, this funding source performs less.

Congress and SAFETEA-LU established the National Transportation Policy and Revenue Study Commission to study this matter and propose a solution. Congress also authorized a second commission, the National Surface Transportation Infrastructure Financing Commission. Both groups have delivered their reports to Congress. Another group, the Bi-Partisan Policy Center, has established the National Transportation Project. This effort is being overseen by former elected officials and has produced its own report on the future of transportation funding. These three studies have been very extensive in looking at the issues and all are proposing, in the long term, some fundamental change. All three studies have concluded the highway system is under a great deal of stress. There is a clear philosophical desire to utilize user charges as a way of paying for the highway system. This has all three groups looking at a vehicle miles traveled (VMT) fee, which has the potential to be a true user charge. A host of technological, civil liberties and political issues need to be addressed and worked through before moving to a VMT tax. Everyone agrees the fuel tax is going to stay. Other issues brought up by these groups are defining interest to include rail and ports, cost benefit analysis developed for use by local communities, and the fact that transportation goals are linked to issues of energy independence and climate change.

Congressman Oberstar's bill defined the federal interest as a need to create a national strategic transportation plan and it is in the federal interest to improve safety, to bring the existing system to a state of good repair, facilitate goods movement, improving metropolitan mobility, expand access and choices in rural communities, and lessen the environmental impact of transportation. Congressman's Oberstar's proposal retains a number of characteristics of the existing federal aid system.

The Administration's position is that more time is needed to sort out these issues and wants an eighteen month extension of SAFETEA-LU to pursue various goals, such as investing in the future, bringing the transportation system into a state of good repair, making progress in halting growth of greenhouse gases, offering more choices of transportation, and taking advantage of new technologies. The Administration is also looking at some fundamental reforms in how we plan and execute our transportation investments. This calls for designing a system to meet the national needs for the 21st century and improve accountability through better use of performance measures. There is a strong likelihood that reauthorization will require eighteen months of hard work from the expiration of the existing bill.

Mr. Dan Flowers, Director, Arkansas Highway and Transportation Department, was recognized and voiced concerns over the Administration's proposed legislation and how it will affect rural states such as Arkansas.
Mr. Sullivan responded 70% of the national highway system (interstates and other major roads) exist in rural areas. Support for the existing infrastructure is support for rural areas as well as metropolitan areas. He suggested looking at the Bella Vista bypass as a tolling opportunity in combination with state funds.

Representative Maxwell asked if a VMT tax has any advantage over a gasoline tax and is a gasoline tax not exactly the same thing because you are still paying for the miles traveled. Mr. Sullivan responded the concern about the gas tax is the fact that alternative fuels are being promoted and are not taxed. The more efficient cars are, the less gas they will use.

Representative Maxwell asked if any surveys have been conducted which indicate the public understands the nation is under-insured and unable to deal with transportation issues and if the public would buy into an additional gas tax. He also asked if the public needs to be educated on the under-funding of the transportation system. Mr. Sullivan responded some surveys conducted by the Tolling Association show people would rather pay tolls than taxes. **He stated he would be happy to find out what is available and forward the information to the Committee.**

Representative Maxwell asked if Mr. Sullivan could provide the Committee copies of the reports from the three commissions who studied problems and solutions for funding transportation needs.

Mr. Lynch noted mileage traveled on the nation's highways is not equal and asked if consideration has been given to taxing the weight of vehicles traveling on the roads and highways in a different way or a different amount. Mr. Sullivan responded this has always been a sensitive issue and the truck size and weight studies get a tremendous amount of attention. Trucks now pay an annual registration fee and their fees are based on weight per axle.

<u>Subcommittee appointments</u>

Senator Capps noted at the last meeting, a motion was made to develop two subcommittees (to look at new revenues and revenue transfers). Mr. McKenzie will chair the New Revenues Subcommittee and Representative Lowery will chair the Revenue Transfer Subcommittee. The respective chairmen will decide on when the subcommittees will meet. Changes to subcommittee appointments are as follows: Revenue Transfer Subcommittee (Murphy,) New Revenue Subcommittee (Fletcher, Malone). Subcommittee Chairs should notify staff about times and dates of the subcommittee meetings.

Senator Capps noted that in the near future, a Public Information and Promotion Subcommittee will need to be formed.

<u>Set next meeting date</u>

The next meeting is set for September 16. Representative Lowery asked if the Subcommittees met in the morning on this date, then the full committee would meet in the afternoon. Senator Capps stated the full Committee will meet at 1:30 p.m. and the subcommittees can meet during the morning.

Senator Capps advised that Sean Slone, Council of State Governments, will give a synopsis of his report entitled "Transportation and Infrastructure Finance" during the next meeting.

Senator Capps encouraged members to recommend agenda items for the upcoming meetings.

<u>Other business</u>

Representative Maxwell reminded the Committee of the pending issue of dealing with University of Arkansas at Little Rock (UALR) and the Missouri plan and whether the Committee wants them to do this study. The Committee needs to move forward and maybe add it to the agenda for the next meeting so we can make a decision as soon as possible. Senator Capps suggested the two subcommittees may want to discuss this at their first meeting and maybe come up with a recommendation for the full committee as to what should be done in this regard.

With no further business, the meeting adjourned at 11:45 p.m.