

**RECOMMENDATION OF THE
REVENUE TRANSFER SUBCOMMITTEE
TO THE
BLUE RIBBON COMMITTEE ON HIGHWAY FINANCE
JANUARY 13, 2010**

The Revenue Transfer Subcommittee of the Blue Ribbon Committee on Highway Finance is recommending to the full Blue Ribbon Committee the creation of the Highway Trust Fund. The newly created special revenue fund shall consist of the revenues collected from the state's general revenue portion of the sales and use taxes levied on the sale of new and used motor vehicles, trailers, and semitrailers required to be licensed within the State. As well as, the state's general revenue portion of the sales and use taxes collected on automobile repair parts, automobile services, retail tire and battery sales.

Based on Fiscal Year 2008 revenues, the Highway Trust Fund is estimated to collect \$435.1 million annually.

REVENUE TRANSFER SUBCOMMITTEE
OF THE
BLUE RIBBON COMMITTEE ON HIGHWAY FINANCE
DECEMBER 16, 2009, 10:30 A.M.
OLD SUPREME COURTROOM, STATE CAPITOL
MINUTES

The Revenue Transfer Subcommittee of the Blue Ribbon Committee on Highway Finance met Wednesday, December 16, 2009 at 10:30 a.m. at the State Capitol, Old Supreme Courtroom. Representative John Lowery, Chairman, presided.

Members present were Representative John Lowery, Allen Maxwell, Bill Sample, Senator Paul Miller, Mayor Tab Townsell, Judge Wes Fowler, and Mr. Madison Murphy. Other invited guest was Representative Eddie Cooper.

Representative Lowery opened the meeting. The minutes of the October 14, 2009 and November 18, 2009 Revenue Transfer Subcommittee of the Blue Ribbon Committee on Highway Finance meeting were approved by acclamation.

Representative Lowery recognized Mr. Judge Fowler to discuss his revenue transfer option. His exhibit (C-2) recommends transferring all sales taxes collected on new and used vehicles from general revenue to special revenue to be distributed to the Arkansas Highway Department. The AHTD shall then distribute 15% to counties and 15% to cities. A one-time trigger will be in place after the first year general revenue collection increase by 3% or more, then transfer 20% annually of said revenue for five years until all sales tax is transferred.

Representative Lowery recognized Mr. Murphy to discuss his revenue transfer option. His exhibit (C-1) provided scenarios recommending two year and three year transfers that do not have a trigger. Scenario A1 and A2 recommends transferring 4.5% sales tax attributed to collections on the sales of new and used vehicles. Scenario B1 and B2 recommends 4.5% sales tax attributed to collections on auto repairs, parts and services. Scenario C1 and C2 recommends 4.5% sales tax attributed to collections on new and used vehicles, auto repairs, parts and services.

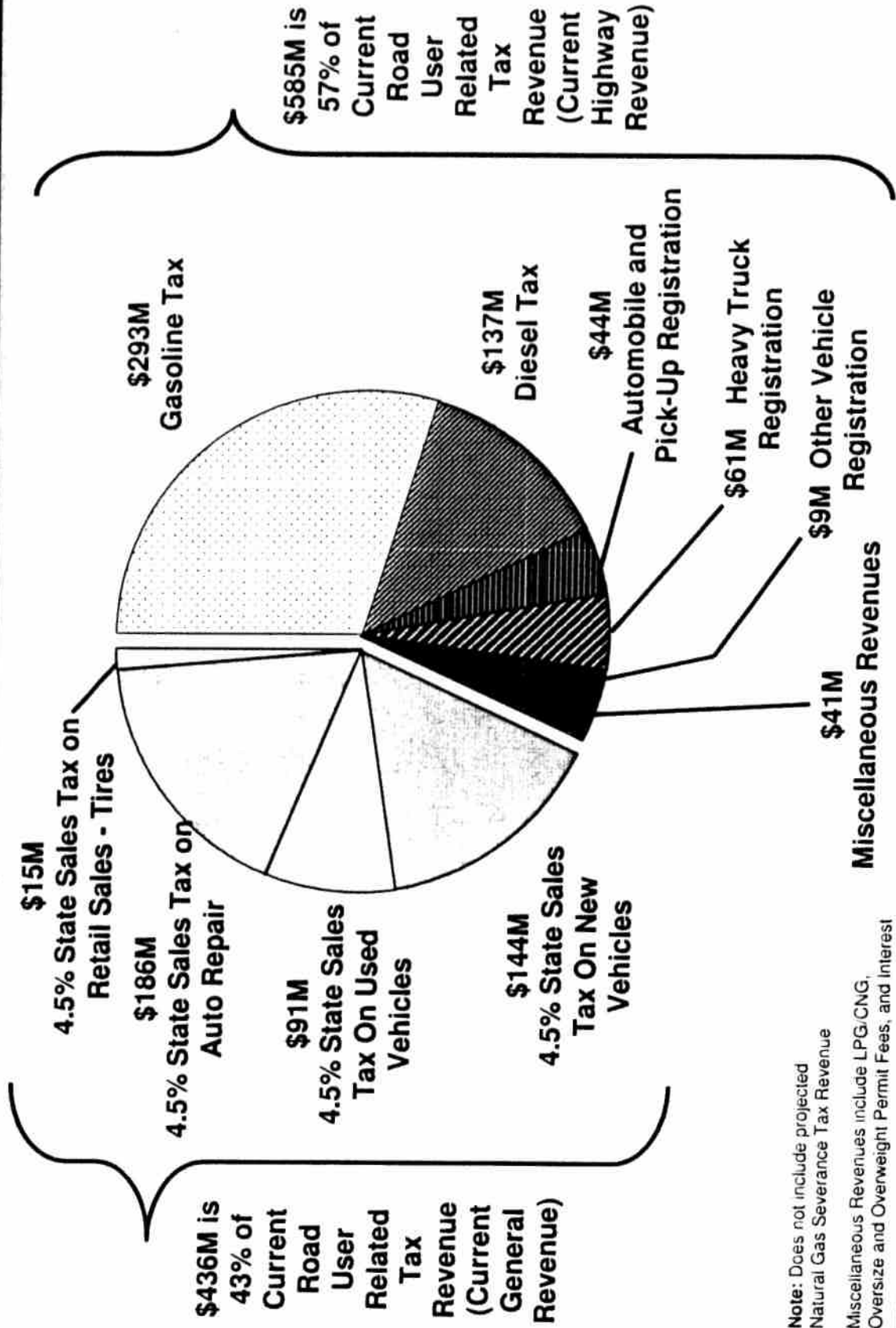
Representative Lowery explained his revenue transfer option. His exhibit (C-3) explains in bill form an act to dedicate funds from the sales and use tax on new and used vehicles over a 10 year period based on 3% growth effective July 1, 2011. He said his option did not include a trigger mechanism but could be added later depending on economic growth.

There was lengthy discussion from subcommittee members regarding the impact of the different proposals on the State's budget, other State Agencies and replacement of transferred revenues. There was discussion that transfers of existing revenues need to go to the Arkansas Highway Transportation Department sooner rather than later because of the current condition of our highway infrastructure. Several subcommittee members feel that phasing in any transfers over ten years would not address the highway system's needs. The discussion included remarks that

Revenue Generated by:

	<u>TOTAL</u>	<u>AHTD</u>	<u>CITIES/COUNTIES</u>
• Add'l 1¢ gasoline tax	\$14.1M	\$9.6M	\$2.1M
• Add'l 1¢ diesel tax	\$6.6M	\$4.5M	\$1.0M
• Add'l \$10 reg. (cars and p'ups)	\$22.3M	\$15.1M	\$3.2M
• Add'l \$150 reg. (In-State trucks)	\$12.7M	\$8.6M	\$1.8M
• Add'l \$150 reg. (hvy. trucks)	\$4.6M	\$3.1M	\$0.7M
• Remove sales tax exemption on motor fuels (gasoline and diesel)	\$233.3M	\$158.4M	\$33.9M
• Transfer 4.5% sales tax on:			
New vehicles	\$143.6M	\$97.5M	\$20.9M
Used vehicles	\$90.7M	\$61.6M	\$13.2M
Auto repair parts, services	\$186.3M	\$126.5M	\$27.1M
Retail tire sales	\$14.5M	\$9.9M	\$2.1M
• \$1 battery fee	\$0.6M	\$0.4M	\$0.1M
• \$1 tire fee	\$2.8M	\$1.9M	\$0.4M
• Add'l 1% general sales tax	\$469.0M	\$318.4M	\$68.2M

Road User Related State Tax Revenue (SFY 2008)

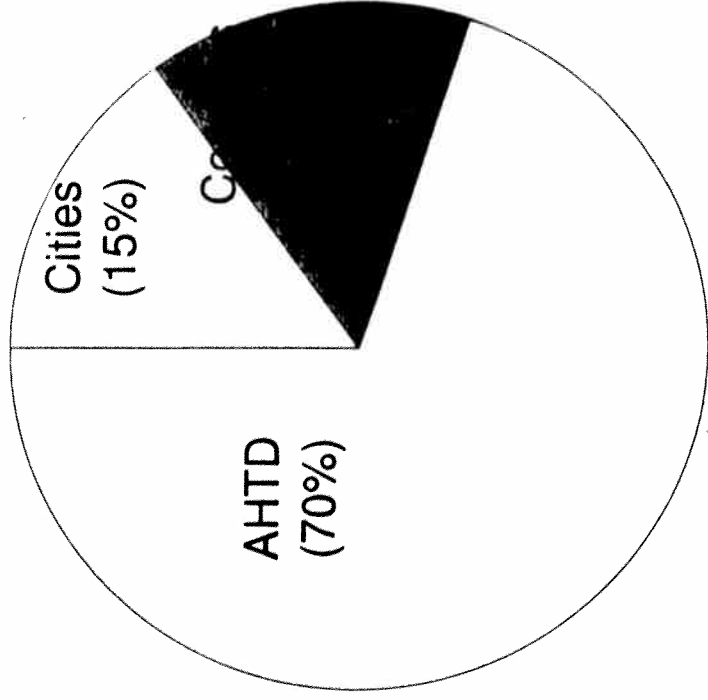


Note: Does not include projected Natural Gas Severance Tax Revenue. Miscellaneous Revenues include LPG/CNG, Oversize and Overweight Permit Fees, and interest.

State Highway Revenue Distribution Formula

- 3% to Central Services Fund

- Balance is 70/15/15



Stricken language will be deleted and underlined language will be added.

1 State of Arkansas
2 87th General Assembly
3 Fiscal Session, 2010
4

A Bill

DRAFT MMC/MMC
HOUSE BILL

5 By: Representative <NA>
6
7

For An Act To Be Entitled

9 AN ACT TO DEDICATE FUNDS FROM THE SALES AND USE
10 TAX ON NEW AND USED VEHICLES FOR THE
11 CONSTRUCTION, RECONSTRUCTION, AND MAINTENANCE OF
12 ROADWAYS IN THE STATE; TO PROVIDE A PORTION OF
13 THE TOTAL SALES AND USE TAX REVENUE TO BE USED
14 FOR THE CONSTRUCTION, RECONSTRUCTION, AND
15 MAINTENANCE OF ROADWAYS IN THE STATE; AND FOR
16 OTHER PURPOSES.

Subtitle

17
18
19 TO DEDICATE A PORTION OF THE REVENUE
20 FROM SALES AND USE TAX AND ALL OF THE
21 SALES AND USE TAX ON NEW AND USED
22 VEHICLES FOR THE CONSTRUCTION,
23 RECONSTRUCTION, AND MAINTENANCE OF
24 ROADWAYS IN THE STATE.
25
26

27 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:
28

29 SECTION 1. Arkansas Code Title 19, Chapter 5, Subchapter 11 is amended
30 to add an additional section to read as follows:

31 19-5-1139. Highway Trust Fund.

32 (a) There is created on the books of the Treasurer of State, the
33 Auditor of State, and the Chief Fiscal Officer of the State a special revenue
34 fund to be known as the "Highway Trust Fund".

35 (b) Beginning July 1, 2011, the fund shall consist of twenty-four
36 thousandths percent (0.024%) of the portion of revenues as generated by §§

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1 (3) Seventy percent (70%) of the amount to the State Highway and
2 Transportation Department Fund.

3 (f)(1) All funds credited to the State Highway and Transportation
4 Department Fund under this section shall be used for the construction,
5 reconstruction, and maintenance of highways and roads of the state.

6 (2) All funds credited to the County Aid Fund under this section
7 shall be used for construction, reconstruction, and maintenance of highways,
8 roads, and their extensions located within the county.

9 (3) All funds credited to the Municipal Aid Fund under this
10 section shall be used for the construction, reconstruction, and maintenance
11 of highways, roads, and streets located within the municipality.

12 (4) The State Highway Commission, each county, and each
13 municipality shall provide to each member of the General Assembly on the
14 first Monday in January, 2012, and annually thereafter, a report indicating
15 how the funds provided by this section were spent, which roads were worked
16 on, and what other progress was made regarding the plan outlined to the
17 General Assembly by the commission during the debate on this section.

18
19 SECTION 2. Arkansas Code § 26-52-510, concerning the direct payment of
20 tax by the consumer-user of new and used motor vehicles, trailers, or
21 semitrailers, is amended to add a new section to read as follows:

22 (h) All taxes, interest, penalties, and costs received by the director
23 from the taxes levied by this chapter on the sale of new or used motor
24 vehicles, trailers, or semitrailers required to be licensed in this state
25 shall be deposited into the State Treasury as follows:

26 (1) Beginning July 1, 2011:

27 (A) Seventy-six and six-tenths percent (76.6%) of the
28 taxes, interest, penalties, and costs received by the director shall be
29 deposited as follows:

30 (i) Seventy-five percent (75%) shall be deposited as
31 general revenues; and

32 (ii) Twenty-five percent (25%) shall be deposited as
33 special revenues as follows:

34 (a) Fifteen percent (15%) to the County Aid
35 Fund;

36 (b) Fifteen percent (15%) to the Municipal Aid

1 as special revenues as follows:

2 (a) Fifteen percent (15%) to the County Aid
3 Fund;

4 (b) Fifteen percent (15%) to the Municipal Aid
5 Fund; and

6 (c) Seventy percent (70%) to the State Highway
7 and Transportation Department Fund;

8 (B) Eight and five-tenths percent (8.5%) of the taxes,
9 interest, penalties, and costs received by the director shall be deposited
10 into the Property Tax Relief Trust Fund; and

11 (C) Fourteen and nine-tenths percent (14.9%) of the taxes,
12 interest, penalties, and costs received by the director shall be deposited
13 into the Educational Adequacy Fund; and

14 (4) Beginning July 1, 2014:

15 (A) Seventy-six and six-tenths percent (76.6%) of the
16 taxes, interest, penalties, and costs received by the director shall be
17 special revenues and deposited as follows:

18 (i) Fifteen percent (15%) of the amount to the
19 County Aid Fund;

20 (ii) Fifteen percent (15%) of the amount to
21 the Municipal Aid Fund; and

22 (iii) Seventy percent (70%) of the amount to
23 the State Highway and Transportation Department Fund;

24 (B) Eight and five-tenths percent (8.5%) of the taxes,
25 interest, penalties, and costs received by the director shall be deposited
26 into the Property Tax Relief Trust Fund; and

27 (C) Fourteen and nine-tenths percent (14.9%) of the taxes,
28 interest, penalties, and costs received by the director shall be deposited
29 into the Educational Adequacy Fund.

30 (1)(1) All funds credited to the State Highway and Transportation
31 Department Fund under subsection (h) of this section shall be used for the
32 construction, reconstruction, and maintenance of highways and roads of the
33 state.

34 (2) All funds credited to the County Aid Fund under subsection
35 (h) of this section shall be used for construction, reconstruction, and
36 maintenance of highways, roads, and their extensions located within the

1 into the Property Tax Relief Trust Fund; and

2 (C) Fourteen and nine-tenths percent (14.9%) of the taxes,
3 interest, penalties, and costs received by the director shall be deposited
4 into the Educational Adequacy Fund;

5 (2) Beginning July 1, 2012:

6 (A) Seventy-six and six-tenths percent (76.6%) of the
7 taxes, interest, penalties, and costs received by the director shall be
8 deposited as follows:

9 (i) Fifty percent (50%) shall be deposited as
10 general revenues; and

11 (ii) Fifty percent (50%) shall be deposited as
12 special revenues as follows:

13 (a) Fifteen percent (15%) to the County Aid
14 Fund;

15 (b) Fifteen percent (15%) to the Municipal Aid
16 Fund; and

17 (c) Seventy percent (70%) to the State Highway
18 and Transportation Department Fund;

19 (B) Eight and five-tenths percent (8.5%) of the taxes,
20 interest, penalties, and costs received by the director shall be deposited
21 into the Property Tax Relief Trust Fund; and

22 (C) Fourteen and nine-tenths percent (14.9%) of the taxes,
23 interest, penalties, and costs received by the director shall be deposited
24 into the Educational Adequacy Fund;

25 (3) Beginning July 1, 2013:

26 (A) Seventy-six and six-tenths percent (76.6%) of the
27 taxes, interest, penalties, and costs received by the director shall be
28 deposited as follows:

29 (i) Twenty-five percent (25%) shall be deposited as
30 general revenues; and

31 (ii) Seventy-five percent (75%) shall be deposited
32 as special revenues as follows:

33 (a) Fifteen percent (15%) to the County Aid
34 Fund;

35 (b) Fifteen percent (15%) to the Municipal Aid
36 Fund; and

1 (4) The State Highway Commission, each county, and each
2 municipality shall provide to each member of the General Assembly on the
3 first Monday in January, 2012, and annually thereafter, a report indicating
4 how the funds provided by subsection (g) of this section were spent, which
5 roads were worked on, and what other progress was made regarding the plan
6 outlined to the General Assembly by the commission during the debate on
7 subsections (g) and (h) of this section.

8
9 SECTION 4. EMERGENCY CLAUSE. It is found and determined by the
10 General Assembly of the State of Arkansas that the highways, roads, and
11 streets of this state are in dire need of construction, reconstruction, and
12 maintenance; that well maintained roads are necessary for economic
13 development in this state; that dedicating a portion of the general revenue
14 that represents the sales and use tax on motor vehicle repair and the retail
15 sale of motor vehicle tires is necessary in order to help pay for the
16 construction, reconstruction, and maintenance of our roadways; that
17 dedicating the sales and use tax from the sale of new and used motor vehicles
18 will be needed in order to construct, reconstruct and repair those roadways;
19 and that in order to lessen the loss of this money from general revenue, the
20 transfer of these taxes will be phased in over a four year period.
21 Therefore, an emergency is declared to exist and this act being necessary for
22 the preservation of the public peace, health, and safety shall become
23 effective on July 1, 2011.

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