



# Blue Ribbon Committee

on Highway Finance

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## EXECUTIVE SUMMARY

### Reports from the Subcommittees Report from the Public Meetings June 16, 2010

*(Editor's Note: The purpose of the Executive Summary is to provide a quick reference to the key recommendations from the New Revenue Subcommittee, the Revenue Transfer Subcommittee and the report on the series of Public Meetings. In an effort to be concise, only the subcommittees' recommended options will be listed. Those options considered, but not recommended, can be found in the complete reports to the full committee.)*


#### **New Revenue Subcommittee**

The subcommittee established criteria against which a number of revenue sources were measured. The criteria were:

- Elasticity
- Ability to phase in
- User-based
- Yield
- Ease of administration

Revenue sources reviewed were:

- Income Tax
- General Sales Tax
- Removal of the Sales Tax Exemption on Motor Fuels
- Special Sales Tax on New and Used Autos
- Special Sales Tax on Auto Parts and Service
- New Excise Tax on the Wholesale Price of Motor Fuels
- Indexing the Current Gas and Diesel Excise Taxes
- Vehicle Miles Traveled (VMT) Tax
- Carbon Tax
- Weight Distance Tax
- Public Private Partnerships/Tolling



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The subcommittee developed Policy Briefs on each revenue source, as well as a matrix that measured each source against the criteria. In addition, the subcommittee set a revenue target. The target was represented by the revenue necessary to restore the purchasing power of the excise tax base to 2005 levels and to protect that purchasing power through 2020.

The result of the subcommittee's deliberations produced revenue options categorized into five categories. The "Strongly Recommended" and "Recommended for Consideration" options are listed here.

### ***Strongly Recommended***

- Indexing the Gas and Diesel Excise Tax – Indexing the existing gas and diesel excise taxes to the Construction Cost Index three-year trailing average was recommended to protect the purchasing power of the main highway revenue base. The base year would be 2005. The Department of Finance and Administration would perform the annual administrative function, with increases capped at 2¢ per year.
- New Excise Tax on the Wholesale Price of Motor Fuels – New revenue over and above protecting the current tax base through indexing was recommend as a way to realize most of the strengths of otherwise removing the sales tax exemption on the retail sale of motor fuels. The new tax was viewed by the subcommittee as a user fee; elastic; with ease of administration, and able to be phased in.

### ***Recommended for Consideration***

- Special Sales Tax on New and Used Autos – A special sales tax on top of the current sales tax on new and used autos was recommended for consideration, dedicating the special tax for "transportation." A special sales tax of 1% was used by the subcommittee for review purposes.



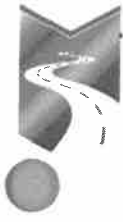
## Revenue Transfer Subcommittee

The administration mechanism of the subcommittee's recommendations is the establishment of a Highway Trust Fund. Revenues from the state's general revenue portion of the sales and use taxes levied on the sale of new and used motor vehicles, trailers, semitrailers, automobile repair parts, automobile services, and retail tire and battery sales would be deposited into the new fund. The resulting benchmark annual revenue was estimated to be \$435.1 million.

In the subcommittee's report, a chart illustrated that 43% of road-user-related taxes are today unavailable for highway funding, while 53% of road-user-related taxes currently make-up the primary funding for Arkansas highway revenue. The subcommittee also provided a recap of the distribution formula for state highway revenue showing the current 3% off the top going to the Central Services Fund, with the balance dedicated to the state, cities and counties allocated through a 70%-15%-15% split.

The transfer of revenue from the general fund into a special fund (trust fund) was recommended to be phased in via various options. The options considered by the subcommittee included beginning the transfer through a trigger initiated after the first year that General Revenues increase by 3% or more, and thereafter transferring 20% of selected auto-related sales taxes per year for five years; a 10-year transfer triggered by 3% General Revenue growth; and non-triggered transfers over two, three, five or 10 years. The transfers included all sales taxes collected on the sale of new and used vehicles, and a 4.5% sales tax on either new and used vehicles; auto repairs, parts and service, or both categories.

Projected growth of the non-highway-related General Revenue categories of state funding was viewed by the subcommittee as adequate to absorb revenue transfers over time, so as not to negatively impact on-going state programs.



## Public Meetings

The report on the series of five, statewide meetings was organized based on participants' comments. Comments were expressed in terms of general perceptions of Arkansas and the current status of the state's roads and highways; perceived impact of the road and highway system on the Arkansas economy; adequacy, fairness and sustainability of current funding; expressed funding ideas and options; strategic planning and political reality; responsibility; and next steps.

Representative comments and discussion included the following points:

- Arkansas roadways are perceived as somewhat or barely adequate, although not keeping pace with the state's overall growth.
- Specifically regarding public roadways, there was a general feeling the state is not effectively "joined together," fostering a sense of regionalism or "parochialism," rather than statewide connectivity.
- Agriculture, timber, tourism, manufacturing, general commerce and education all benefit from modern infrastructure. Conversely, Arkansas suffers when highway infrastructure funding is inadequate and inequitable, putting Arkansas at a competitive disadvantage with surrounding states.
- Fairness of current and future funding systems is a notion for which participants expect the state to continually strive, "across the board, and across the state."
- While user fees and motor fuel taxes are perceived as fair, because consumption includes an element of choice, they are not recognized as being adequate and are thought to be outdated.
- Using motor fuel taxes as the primary funding method will not "work going forward" because of declining consumption.
- "Restructuring of the funding system" is the desired outcome of the debate. Restructuring means looking at motor fuel taxes, sales taxes, bonds, new revenue sources and transfer of existing revenues.
- The per-gallon tax is no longer feasible as a primary funding source. A "percent-to-value tax" should be structured, or simply removing the sales tax exemption on the sale of motor fuels would "solve the long-term funding problem."
- Indexing fuel taxes to the cost of construction would make the necessary "correlation between construction and use."



- Local funding as part of the solution should not be ignored. A state-and-local partnership provides the necessary “local input to give all projects purpose and credibility as real needs are being addressed.”
- Regional authorities should be better connected to the state as a whole. No more “four lanes leading to two lanes” are needed. Regional transportation or “mobility” entities with local taxing authority, need to be part of the solution.
- Local bond issues could “augment” the state’s bond program.
- The current Interstate bond program could be renewed or expanded. Bonds could continue to be used for on-going Interstate maintenance.
- New revenue sources, or restructuring of existing sources, would allow dedicated revenue to fund specific construction projects, as well as a “percentage of revenue” to fund an on-going bond program for maintenance.
- Transfer of appropriate existing revenue not currently going to roads, highways and bridges should be considered, just as a wider variety of revenue in other states is “specifically dedicated to road programs in other states.”
- A comprehensive approach would be to levy “a ½¢ or 1¢ general sales tax and sunset it after 10 years.” The revenue from the temporary sales tax would be specifically dedicated to the highway fund. A percentage of it could be leveraged with a new bonding program. During the 10-year sales-tax period, vehicle-related sales taxes (cars, trucks, tires, batteries, etc.), would be “transferred from general revenue” to the highway fund. This 10-year, “phase-in period would allow general revenue’s natural growth to replace the transfer, lessening the impact on other state programs.” At the end of 10 years, the transferred vehicle-related sales taxes from general revenues to the highway fund, would begin to replace the temporary, 10-year general sales tax collection “that would then sunset.”
- Toll roads were part of the discussion. Representatives of the highway department cited numerous studies revealing that Arkansas traffic load would not support a dedicated toll-road program.
- The funding program should be based on a clear and concise overall strategy.
- Arkansas has limited resources and appears to have unlimited needs, or “wants.” A financing plan calls for hard choices that “cry out for a strategy.”
- New funding provisions should either be approved by the voters, or a plan decided on by the legislature and referred to the voters for approval.



- Because financing will require new fees, new taxes, or re-directing existing taxes, the general public must be involved in the decision-making process. “Whether we vote on it, or encourage our legislators to vote on it,” a new funding system must seek across-the-board input.
- Raising taxes is a tough vote. Arkansas’s elected representatives can decide on the plan, but Arkansans should decide on the passage of the plan.
- A strategy was described as a “two-pronged approach:” Deciding on the funding program; then deciding on the plan the program intends to fund.
- New or restructured revenue plans must enjoy credibility, believability and trust. One funding allocation system that has met with favor in the past is depositing all road revenues in a trust fund.
- Expressed at every meeting was the notion that “everyday Arkansans” don’t understand how highways, roads, streets and bridges are paid for. If so, then any strategic financing plan will require an information and education campaign.
- Education of Arkansas citizens should include information on how dollars are currently being spent, and “what we are getting for the money.”
- “The chicken-and-egg” dilemma – funding first, or leading with what projects or plans the funding supports – was included in the “two-pronged approach” discussed above. However, it is clear the committee’s purpose, mandate or task is limited to highway finance, rather than highway system planning.
- It is the responsibility of state government, or a coalition of public-private interests, to inform the public, rather than the public educating themselves.
- Credibility is a key factor in deciding who “carries the message” to the public.
- Each of the five meetings agreed that “leadership from the Governor’s office” was important to the success of any new funding program, as well as an effective statewide maintenance and construction plan.
- Understanding the committee’s responsibilities, comments focused on the meetings as a “step in the process.” As a “step,” the general desire of participants was to be kept informed of the next steps and the ultimate recommendations. Participants were interested in being included in whatever information and education program that may flow from the recommendations and the legislature’s ultimate consideration of the committee’s outcomes.