Current Hwy. Funding Sources

State

*Per-Gallon Motor Fuel Taxes*
*Vehicle Registration Fees*
*License/Permit/Inspection Fees*
*Severance Taxes*
*Temporary Sales Tax Increase*
Total Road User Revenue
$1.219 Billion

Distribution:

General Revenue
$528.7 Million (43%)

Highway Revenue
$690.7 Million (57%)
Average Annual Highway User Revenue Distribution

Cities

- $110M (15.9%)

Counties

- $110M (15.9%)

Other*

- $32M (4.7%)

$438M (63.5%)

*Constitutional & Fiscal Agencies and Non-Highway Uses.

Note: May not add due to rounding
Percent of Highway vs. General Revenue

- General Revenue
- Net Highway Revenue

1985 Fuel Tax Increase: 14.4% ($139M)
1991 Fuel Tax Increase: 11.3% ($202M)
1999 Fuel Tax Increase: 9.4% ($297M)

Fiscal Year:
- 1980
- 1985
- 1991
- 1999
- 2004
- 2012
- 2016

Billions
- $0.0
- $1.0
- $2.0
- $3.0
- $4.0
- $5.0
- $6.0
- $7.0

Excludes County & City Aid funds | Excludes CAP funds
Where We’ve Been

ARKANSAS HIGHWAY NEEDS AND FINANCES 1979 to 1980 FOR STATE HIGHWAYS, COUNTY ROADS AND CITY STREETS

A REPORT TO:
THE ARKANSAS HIGHWAY NEEDS STUDY COMMITTEE, ARKANSAS LEGISLATIVE COUNCIL

SEPTEMBER, 1979

BY:
R. J. HANSEN ASSOCIATES, INC.
4110 Executive Boulevard
Rockville, Maryland 20852

BlueRibbonCommittee on Highway Finance
BlueRibbonHighways.com

FINAL REPORT
December 1, 2010

Presented to:
The Honorable Mike Beebe, Governor
House Interim Committee on Public Transportation
Senate Interim Committee on Transportation, Technology and Legislative Affairs
House Interim Committee on Revenue and Taxation
Senate Interim Committee on Revenue and Taxation
Arkansas Legislative Council
Arkansas State Highway Commission
Association of Arkansas Counties
Arkansas Municipal League

GOVERNOR’S WORKING GROUP ON HIGHWAY FUNDING
Short-Term Recommendation

December 15, 2015

Presented to:
The Honorable Asa Hutchinson, Governor

Compiled and drafted by:
Chairman Duncan Baird, State Budget Administrator
Tori B. Gordon, Policy Advisor, Office of Governor Asa Hutchinson
“There are relatively few, if any, acceptable new state-level revenue sources for funding highways, roads, and streets… One of the more significant revenue sources being used by other states for revenue purposes includes the gross receipts or sales tax on new and used motor vehicles sales…”
“... 70% of our highway, road and street funding comes from a consumption-based tax, while it is a national goal to reduce consumption. The trend... is simply a losing proposition. We’re moving backwards.”

-Final Report, Dec 2010
Blue Ribbon Committee Recommendations

• Reissue GARVEE Bonds for Interstate Rehabilitation Program

• State Aid Programs for Cities

• Temporary One-Half Cent General Sales Tax to Fund a Multi-Year Construction Program

• Transfer Sales Tax on New and Used Vehicles, Auto Repair Parts and Services, Tires and Batteries
HB 1418 Revenue Transfer

Transferred sales tax on new and used vehicles to the Highway Department fund phased in over 10 years.

FAILED TO GET OUT OF THE HOUSE COMMITTEE

90 SPONSORS
HB 1346 REVENUE TRANSFER

Transferred sales tax on new and used vehicles to the Highway Department fund phased in over 10 years AND transferred the natural gas severance tax revenue from the Highway Department fund into a newly created higher education workforce development fund.

PASSED THE HOUSE COMMITTEE

PULLED BEFORE A VOTE ON THE HOUSE FLOOR
An efficient transportation system is critical for Arkansas’ economy and the quality of life of the state’s residents.
Funding Targets

- Immediate: $50 Million
- Short-term (0-3 years): $110 Million
- Mid-term (3-5 years): $250 Million
- Long-term (6-9 years): $400 Million

All figures are annual amounts of new revenue for state highways.
<table>
<thead>
<tr>
<th>Activity</th>
<th>FFY16</th>
<th>FFY17</th>
<th>FFY18</th>
<th>FFY19</th>
<th>FFY20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016 Special Session</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Term Reserve Fund or Arkansas Rainy Day Fund</td>
<td>40.0</td>
<td>20.0</td>
<td>21.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Reserve Fund</td>
<td>1.5</td>
<td>1.7</td>
<td>20.0</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Redirect the $4 Million of the Diesel Tax that goes to General Revenue to Highways (70/30 split)</td>
<td>0</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Eliminate the State Central Services Deduction from 1/2 Cent Sales Tax (70/30 split)</td>
<td>5.4</td>
<td>5.8</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Allocate up to 25% of Future GR Surplus to Highways</td>
<td>3.9</td>
<td>0</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

| **Total Received**                                                                                                  | 41.5  | 31.3  | 50.4  | ?     | ?     |
| **Total Projected**                                                                                                | 41.5  | 76.1  | 76.1  | 76.1  | 76.1  |

| **Difference**                                                                                                      | 0     | (44.8)| (25.7)| ?     | ?     |
HB 1726 BOND ISSUE
Authorizes the State Highway Commission to issue bonds for highway maintenance and improvements, upon approval by voters in a statewide election.

HB 1727 GAS TAX
Establishes additional fuel sales tax at the wholesale level, to be levied, only if the State Highway Commission is authorized by a statewide vote to issue highway maintenance and improvement bonds.
…the figures [for highway needs] often total to amounts that are considerably in excess of current legislative provisions. This often has resulted in legislators apparently doubting the realism of the figures…”
Arkansas Legislative Audit

Review of Sources and Uses of Funds
Arkansas Legislative Audit

Report Released
August 31, 2017

INTRODUCTION
This report is presented in response to a request for Arkansas Legislative Audit (ALA) to review information, estimates, and calculations provided by the Arkansas Department of Transportation (ArDOT), formerly known as the Arkansas State Highway and Transportation Department, related to highway funding. ArDOT has indicated that additional state funding is needed to fully maximize available federal funds and to expand non-federal construction and maintenance projects.

OBJECTIVES
The objectives of this report were to:
1. Provide information regarding state funding sources and uses for highways, with associated construction and maintenance costs, for prior years.
2. Determine the amount of matching funds needed annually in order for ArDOT to receive the maximum federal aid available.
3. Determine the amount of additional state revenues needed to fund ArDOT’s proposed construction and maintenance program for roads and facilities.
4. Provide a history of bond issuances, including balances and associated costs.

SCOPE AND METHODOLOGY
This report was prepared by reviewing activities for state fiscal years ended June 30, 2010 through 2016, and projections and estimates for federal fiscal years ending September 30, 2017 through 2020. ALA staff reviewed audit reports from prior years, particularly revenues and expenditures related to construction, and determined future federal funding from reports obtained from the Federal Highway Administration. All information for additional construction and maintenance projects was provided by ArDOT and tested for accuracy and reasonableness by ALA staff.

The methodology used in preparing this report was developed uniquely to address the stated objectives; therefore, this report is more limited in scope than an audit or attestation engagement performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

BACKGROUND
ArDOT recognizes revenues from both federal and state sources. State revenues include motor fuel taxes, registration fees, natural gas severance fees, and overload permits and penalties. Many highway construction projects are funded with both federal and state monies. The percentage of state participation in these projects varies depending on the federal program involved, but most programs require a 20% match.
## Exhibit III

Arkansas Department of Transportation (ArDOT)
Summary of Annual State Funds Needed to Meet Proposed Highway Construction Plan Over a 10-Year Period

<table>
<thead>
<tr>
<th>Description</th>
<th>Annual Funds Needed for Highway Construction Plan</th>
<th>Annual Funds Available for Highway Construction</th>
<th>Additional Annual State Revenues Needed for Highway Construction Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>System Preservation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pavement</td>
<td>$367,000,000</td>
<td>$137,000,000</td>
<td>$250,000,000</td>
</tr>
<tr>
<td>Bridges</td>
<td>117,000,000</td>
<td>90,000,000</td>
<td>27,000,000</td>
</tr>
<tr>
<td><strong>Total System Preservation</strong></td>
<td>$504,000,000</td>
<td>$227,000,000</td>
<td>$277,000,000</td>
</tr>
<tr>
<td>Capacity Relief</td>
<td>305,000,000</td>
<td>157,000,000</td>
<td>148,000,000</td>
</tr>
<tr>
<td>Safety Improvements</td>
<td>86,000,000</td>
<td>44,000,000</td>
<td>42,000,000</td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment upgrades</td>
<td>19,000,000</td>
<td>19,000,000</td>
<td></td>
</tr>
<tr>
<td>Facilities upgrades</td>
<td>8,000,000</td>
<td>8,000,000</td>
<td></td>
</tr>
<tr>
<td>Intelligent Transportation System (ITS)</td>
<td>3,000,000</td>
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Note: Amounts shown are rounded.
## Arkansas Legislative Audit

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Does Not Include Capital Improvement Projects

$925,000,000
Arkansas State Legislative Audit

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Note: Amounts shown are rounded.
Percent of Highway vs. General Revenue

- **General Revenue**
- **Net Highway Revenue**

1985 Fuel Tax Increase: 14.4% ($139M)
1991 Fuel Tax Increase: 11.3% ($202M)
1999 Fuel Tax Increase: 9.4% ($297M)

Fiscal Year:
- 1980
- 1988
- 1996
- 2004
- 2012
- 2016

Billions:
- Excludes County & City Aid funds | Excludes CAP funds
Highway Revenue at 14.4% of General Revenue

Excludes County & City Aid funds | Excludes CAP funds
Highway vs. General Revenue Compared to Employment Levels

Excludes County & City Aid funds | Excludes CAP funds
Benefits of Increased Highway Funding

• Immediate Economic Benefits of Increasing Investment
  ✓ Supports $1.3 Billion in Economic Activity
  ✓ Supports 5,729 Jobs

• Neighbors Are Not Waiting
  ✓ Seven Have Raised State Gas Tax
  ✓ Six Have Variable Gas Tax
  ✓ Eight Have Electric Vehicle Registration Fees

• Significant Transportation Challenges
  ✓ Safety Needs
  ✓ Increasing Freight Demands
  ✓ Impacts From Congestion
Future Funding?
Possible Hwy. Funding Sources

State

Increase Motor Fuel Taxes
Increase Registration Fees
Sales Tax on Motor Fuels
Road User Revenue Transfer
Permanent Sales Tax Increase
Other???
### Options for Generating Additional Revenue for Highways

<table>
<thead>
<tr>
<th>Source</th>
<th>$400 Million for Highways&lt;sup&gt;(1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Tax</td>
<td>28.4¢</td>
</tr>
<tr>
<td>Sales Tax on Fuel (wholesale)</td>
<td>16.67%</td>
</tr>
<tr>
<td>Registration Fee</td>
<td>$208</td>
</tr>
<tr>
<td>General Sales Tax&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>1.16%</td>
</tr>
</tbody>
</table>

---

<sup>(1)</sup> Amount shown is annual net to highways – after deduction for CFA/CSF and 30% to cities and counties.

<sup>(2)</sup> Transfer of 4.5% (“general” portion of statewide sales tax)
Are you satisfied with the condition of the existing state highway system?

☐ Yes ☐ No

What highways in your area need improvements, and what type of improvements do they need?

Priority 1: ____________________________
Priority 2: ____________________________
Priority 3: ____________________________
Priority 4: ____________________________

If you want better highway conditions, the Arkansas State Highway and Transportation Department will need additional funds. Would you support a new highway program that would generate additional revenue?

☐ Yes ☐ No

Which of the following sources do you recommend be utilized in obtaining additional funds (check all that apply):

☐ Increase in gas tax
☐ Increase in diesel tax
☐ Increase in sales tax (dedicated to highways)
☐ Increase in registration fees
☐ Add sales tax on wholesale price of motor fuels
☐ Transfer existing sales and use tax on motor vehicles and related parts and service (currently collected but not paid to highways) ☐ Other: ____________________________

Would you be willing to sign a petition to put a highway revenue proposal on the 2018 general election ballot?

☐ Yes ☐ No

How did you hear about this survey

☐ Presentation ☐ TV/Radio/Print ☐ Social Media ☐ Other: ____________________________

☐ Website/Search Engine

Optional:

Name: ____________________________
Address: ____________________________
City, State, Zip: ____________________________

Online Form Available Here: ____________________________
Survey Results

Are you satisfied with the condition of the existing highway system?

No 77%
Yes 21%
No Answer 2%

Would you support a new highway program that would generate additional revenue?

Yes 74%
No 22%
No Answer 4%
Survey Results

Which of the following sources do you recommend be utilized in obtaining additional funds?

- Transfer existing sales and use tax: 2,842 (62%)
- Add on w/s price of motor fuels: 813 (18%)
- Increase Registration fees: 1,454 (32%)
- Increase Sales Tax: 1,190 (26%)
- Increase Diesel Tax: 2,038 (45%)
- Increase Gas Tax: 1,277 (28%)
Questions?
Arkansas Department of Transportation

- ARDOT.gov
- ConnectingArkansasProgram.com
- Vimeo.com/myARDOT
- IDriveArkansas.com
- Twitter.com @myARDOT