Business 101 – State Chamber of Commerce
Tuesday, December 11, 2018
**Challenges**

- *12th* largest system in the country
- *42nd* in highway revenue per mile.
- *$9.3 billion* in needs
- *$4.5 billion* in available revenue
Percent of Highway vs. General Revenue

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Highway Revenue</th>
<th>General Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$139M</td>
<td>$139M</td>
</tr>
<tr>
<td>1985</td>
<td>$202M</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>$297M</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>$377M</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>$434M</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>$423M</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$423M</td>
<td></td>
</tr>
</tbody>
</table>

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

- General Revenue
- Net Highway Revenue
- Highway Revenue at 14.4% of General Revenue

Excludes County & City Aid funds | Excludes CAP funds
Highways: Investing In An Asset
Arkansans Major Public Asset
Transportation Infrastructure

<table>
<thead>
<tr>
<th>State Highway System</th>
<th>Gross Replacement Value</th>
<th>Average Annual Investment to Maintain State of Good Repair</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>$58.1 Billion</td>
<td>$387 Million (0.67%)</td>
</tr>
<tr>
<td>Bridges</td>
<td>$11.0 Billion</td>
<td>$117 Million (1.06%)</td>
</tr>
<tr>
<td>Total</td>
<td>$69.1 Billion</td>
<td>$504 Million (0.73%)</td>
</tr>
</tbody>
</table>

Based on Arkansas DOT Transportation Asset Management Plan and Legislative Audit Report
Economic Impact of Infrastructure Investment

• Increased Property Values
• Attraction to Businesses
  ✓ Higher Wages
  ✓ More Job Opportunities
• Less Expense on Vehicle Wear and Tear = Greater Expendable Income
• Safety Benefits
  ✓ Reduced Fatalities
  ✓ Reduced Property Damage
Economic Impact of Infrastructure Investment
Consequences of Delayed Maintenance

Apartment Complex Analogy

• **Construction Funding - Investment**
  ✓ Income Generator
  ✓ Monthly Rent

• **Maintenance Funding – Unavailable**
  ✓ Roof Leaks
  ✓ Roof Deck is Damaged
  ✓ Mold Develops
    o Monthly Rent Income Decreases
    o Resale Value Decreases

• **Final Result**
  ✓ Health Department Shuts Down
    o Monthly Rent Income Completely Lost
    o High Cost to Replace/Renovate

“Assets become a liability without adequate funding.”
~ Commissioner Tom Schueck
Quality of Life is Directly Linked to:

- Reliable Access to:
  - Housing
  - Family, Friends, Spirituality
  - Employment
  - School
  - Health Care
  - Recreation/Entertainment
  - Consumer Goods
  - Consumer Services
Level of Investment?
“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 for state highways.
Arkansas Legislative Audit

- May 16, 2017 – Arkansas Legislative Audit - Review of Highway Funding
- Purpose:
  - To review and verify ARDOT information, estimates and calculations related to highway funding
- Report Objectives:
  - History of funding sources
  - History of construction and maintenance costs
  - State match needed for Federal funds
  - Additional State revenue to meet system preservation needs
  - History of bond activities
Report Released
August 31, 2017

Presented to
Legislative Joint
Audit Committee in
September 2017
### 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>$387,000,000</td>
<td>$137,000,000</td>
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<td>117,000,000</td>
<td>90,000,000</td>
<td>27,000,000</td>
</tr>
<tr>
<td>Total System Preservation</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>
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<tr>
<td>Safety Improvements</td>
<td>86,000,000</td>
<td>44,000,000</td>
<td>42,000,000</td>
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<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>
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<tr>
<td>Facilities upgrades</td>
<td>8,000,000</td>
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<tr>
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<td>3,000,000</td>
<td></td>
<td>3,000,000</td>
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<tr>
<td>Total Maintenance</td>
<td>30,000,000</td>
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<tr>
<td><strong>Totals</strong></td>
<td><strong>$925,000,000</strong></td>
<td><strong>$447,000,000</strong></td>
<td><strong>$478,000,000</strong></td>
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*Note: Amounts shown are rounded.*

$447,000,000
Arkansas Legislative Audit

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Does Not Include Capital Improvement Projects

$925,000,000
### Exhibit III

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*Note: Amounts shown are rounded.*

*Total: $478,000,000*
Return On Investment?
$478 Annual Investment Results

• **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
Highway vs. General Revenue Compared to Employment Levels

Excludes County & City Aid funds | Excludes CAP funds
Is there Public Interest?
Citizens Opinion Survey

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
☐ Family or Friend
☐ Website/Search Engine
☐ Other:

Optional:
Name:
Address:
City, State, Zip:

Online Form Available Here:
Are you satisfied with the condition of the existing highway system?

- Yes: 21%
- No: 77%
- 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: 2,963 (64%)
- Add on w/s price of motor fuels: 822 (18%)
- Increase Registration fees: 1,479 (32%)
- Increase Sales Tax: 1,212 (26%)
- Increase Diesel Tax: 2,066 (45%)
- Increase Gas Tax: 1,304 (28%)
Road User Related Tax Revenue (SFY 2016)

Total Road User Revenue
$1.219 Billion

Distribution:

General Revenue
$528.7 Million (43%)

Highway Revenue
$690.7 Million (57%)
Possible Solutions?
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>$400 Million for Highways$^{(1)}</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>$208</td>
</tr>
<tr>
<td>General Sales Tax$^{(2)}</td>
<td>1.16%</td>
</tr>
</tbody>
</table>

---

1. Amount shown is annual net to highways – after deduction for CFA/CSF and 30% to cities and counties.
2. Transfer of 4.5% (“general” portion of statewide sales tax)
### Other Considerations

#### The Shrinking Highway Dollar

<table>
<thead>
<tr>
<th>Category</th>
<th>1997-2016 Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Cost Index</td>
<td>146 %</td>
</tr>
<tr>
<td>Overlays – Cost Per Lane Mile</td>
<td>145 %</td>
</tr>
<tr>
<td>Bridges Replacement – Cost Per Square Foot of Deck Area</td>
<td>131 %</td>
</tr>
<tr>
<td>Widening from 2 to 5 Lanes – Cost Per Mile</td>
<td>139 %</td>
</tr>
</tbody>
</table>

---

**Indexing?**

**Blue Ribbon Committee Recommendation:**
Indexing Current Per-Gallon Tax on Motor Fuels to Arkansas’ Highway Construction Cost Index

**Governor’s Working Group on Highway Funding Recommendation:**
Proposal #1 – Going forward, index the motor fuel tax. Limit any increase to 2 cents per gallon.
Proposal #3 – Adjust the existing motor fuel taxes to recoup the amount lost in recent years due to inflation and index to inflation in the future.
Alternative Fuels

**Definition**
- Methanol, Ethanol and other Alcohols
- Blends of Alcohol with Gasoline
- Compressed Natural Gas and Liquefied Natural Gas
- Liquefied Petroleum Gas (Propane)
- Hydrogen
- Electricity
- Pure Biodiesel

**Promotion Versus Parity Issue**
- Complex
- Annual Flat Fee
- How to Price Consumption?
- Vehicle Miles Traveled
- Taxes

---

![Image of fuel nozzles for different fuels (Biodiesel, Electricity, Ethanol, Hydrogen, Natural Gas, Propane)]
### Bond Financing Pros

- Funds immediately available

### Bond Financing Cons

- Interest costs erode your buying power

<table>
<thead>
<tr>
<th></th>
<th>Total Spent</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRP</td>
<td>$ 762.5 million</td>
<td>$ 575.0 million</td>
<td>$ 187.5 million</td>
</tr>
<tr>
<td></td>
<td>Interest as a percentage of total cost</td>
<td>24.60%</td>
<td></td>
</tr>
<tr>
<td>CAP</td>
<td>$ 620.2 million</td>
<td>$ 468.9 million</td>
<td>$ 151.3 million</td>
</tr>
<tr>
<td></td>
<td>Interest as a percentage of total cost</td>
<td>24.39%</td>
<td></td>
</tr>
</tbody>
</table>
Questions?
• ARDOT.gov
• ConnectingArkansasProgram.com
• Vimeo.com/myARDOT
• IDriveArkansas.com
• Twitter.com @myARDOT