

Blue Ribbon Committee talks funding (June 15, 2009) – by Deborah Horn, Freelance Writer

In what might be described as moving from a broad discussion to a more narrowed focus, the Arkansas Blue Ribbon Committee on Highway Finance met for the third time last Wednesday in Room 171 at the Arkansas State Capitol.

While the Arkansas State Highway and Transportation Department (AHTD) benefited from the American Recovery and Reinvestment Act of 2009 (also known as the Stimulus Package), and a state severance tax on natural gas that went into effect Jan. 1, it's been left with a major shortfall in funding. As operating and construction costs are rising, gas tax revenues are shrinking because motorists are curtailing their driving. And months ago, Governor Mike Beebe said that the state's 2009 general budget is stretched so tightly that any additional highway funding isn't possible.

So earlier this year, the Arkansas State Legislature put together a 19-member committee to study the state's roadway system. It's tasked with the job of finding adequate funding for the state's 99,811 miles of state, county and city roadways. Funding needs are estimated at more than \$19 billion.

Committee members include: State Sen. John Paul Capps, Searcy, committee chairman; State Rep. Allen Maxwell, Monticello, committee vice chairman; State Sen. Paul Miller, Melbourne; State Sen. Gilbert Baker, Conway; State Rep. Bruce Maloch, Magnolia; State Rep. Bill Sample, Hot Springs; and State Rep. John Lowery, El Dorado.

Non-legislative members include: Charles Dains of Conway; Bill Fletcher of Hot Springs; Wayne Hartsfield of Searcy; Mark Lamberth of Batesville; Bill Lynch of Heber Springs; David Malone of Fayetteville; Mark McBryde of Little Rock; Jim McKenzie of Little Rock; Mike Wilson of Jacksonville; and Arkansas Highway Commission member Madison Murphy, Conway; Mayor Tab Townsell and Madison County Judge Wes Fowler.

The committee will present its findings to the 2011 General Assembly.

At 10 a.m., Sen. John Paul Capps, committee chairman, called its third meeting to order, and as the first order of the day, the commission approved the minutes of the Thursday, June 25 meeting.

As asked by the committee at its last meeting to provide statistical information to the University of Arkansas at Little Rock for study, AHTD Director Dan Flowers told the committee his department had prepared a study that included several factors impacting the cost of road construction and maintenance, the effect of roads on the local and state economies, and safety.

This information was given to Dr. Wayne Miller, a professor with UALR's Cooperative Extension Service, and Dr. Greg Hamilton, UALR Senior Research Specialist for Economic Advancement, who are overseeing the study. Flowers also provided the researchers with 12 national studies, looking at preservation and developing economic and high priority connectors.

It's obvious that costs continue to increase, Flowers said. From 2003 to 2009, his department has experienced a 47 percent increase in costs while the amount of annual funding his department received went from \$4 million six years ago to \$4.1 million this year.

After categorized spending, such as maintenance, allocations and sub-allocations, safety projects, bridge funds, planning, enhancement walking trails and other expenses, his department is left with about \$267 million for new road construction. This isn't enough money to allow his department to do any roadway preservation, which would reduce future costs.

We're not making any advances, he explained. And, by kicking upgrades and renovations down the road, it costs Arkansas more when the highway department finally tackles the work.

In addition to this information, Director Flowers presented the committee with a revenue menu, which broke down the various avenues of highway funding, including property tax, gas and diesel fuel and sales taxes, registration fees, and taxes on new and used vehicles and tires.

He also told the group about discussions he had had with other states and federal agencies about alternative funding sources. Unfortunately, some funding sources, such as toll roads, wouldn't work outside of the central or northwest areas of the state.

Mr. Flowers said his department needed a funding source that will grow instead of remain stagnant.

His department needs about \$200 million more annually, but this doesn't include a yearly percentage increase to cover rising costs. This means his current estimate might not be enough to cover costs five years from now.

Jim McKenzie said a more reasonable increase might be in the neighborhood of 10 percent.

Bill Fletcher asked if there was a way to look at the recent increases of concrete and steel.

Overall, costs have increased by 47 percent in the last couple of years, Flowers said.

Arkansas Association of Counties Executive Director Eddie Jones handed committee members a copy of the report they had requested concerning the funding of county roads and bridges in Arkansas.

The information was also made available to Dr. Miller and Dr. Hamilton for their study.

In Arkansas, there are 75 counties, with a county road network consisting of 68,832 miles and 4500 bridges. Each county averages 719 miles of roads, ranging from wide, well-drained blacktop roads to poorly-drained dirt roads. In addition, 38 percent of the state's bridges fall under county care.

Traditionally, most of the money for county roadwork, although not mandated by state law, is derived from three sources, including 3 mils from property taxes, user taxes collected at the pump, and county sales tax, he said.

In general, the county isn't alone when it comes to relying on these taxes for income. For instance, the money generated from property tax is shared with any cities within the county, and only 15 percent of the money collected at the pump goes to the county. Only 73 of the state's counties have a sales tax in place.

The state's county road maintenance budget totals about \$1.1 billion annually. The 2009 road budget slightly exceeds the 2008 budget, Jones said.

Because of high costs of maintaining a paved county road, which includes grating, asphalt, clearing vegetation and upkeep, Jones said, many rural counties are turning paved roads back into gravel roads.

Pavement can cost as much as \$500,000, or more depending the quality of the work, per one-half mile. Costs can run as high as \$1 million for the same half-mile.

He also told the committee his organization doesn't have a statewide county roadway plan, and no real way to gauge future financial needs.

But, he said, if we don't have a target, we can't get there.

Unlike the state's highway department, Arkansas' cities don't receive federal funds for street development despite the fact that their roads handle approximately 15 percent of the state's traffic, said Arkansas Municipal League Executive Director Don Zimmerman.

He handed committee members a copy 2009 Municipal Street Needs Survey Findings, a 17-page report that was requested by the committee and includes his department's findings of state's cities' roadway needs. The information was also made available to Dr. Miller and Dr. Hamilton for their study.

Even with their heavy traffic load, Zimmerman said the state's municipalities are under-funded when it comes to new street construction and maintenance.

Cities are the weak link in the state's roadways and are often the cause of congestion spots especially when a highway runs through one of the state's approximately 500 cities.

Currently, approximately \$88 million is spent on the state's city streets, with \$4 million coming from the Federal-aid Surface Transportation Program, \$2 million from the Federal-aid Bridge Program, and \$82 million from Highway Revenue Turnback funds. Because of Act 982 of 1975, cities received \$0 from the State-aid City Street Funds. Zimmerman suggested the state could raise additional State-aid funds, as much as \$233.3 million, by removing any sales tax exemptions qualifying businesses or organizations receive.

Conway Mayor Tab Townsell noted the report didn't include information from the state's 10 largest cities, meaning any funding estimates might be grossly underestimated.

We might be throwing nickels and dimes at Arkansas' cities when we should be investing thousands of dollars, Townsell said.

Mr. Zimmerman explained that none of larger cities chose to participate in the survey because they didn't have the time or personnel to spare.

Before a general discussion on funding, committee members asked questions concerning revenue options of Bureau of Legislative Research's Research Services Assistant Director Richard Wilson.

After a question about the possibility of raising new taxes from Representative Lowery, Wilson told the group one option would be the federal collection of an Internet state sales tax.

It's out there but not being collected, Wilson said. After all 50 states getting a share, he estimates Arkansas' portion could be as much as \$400 million annually. However, it would take an act of the U.S. Congress to initiate the tax.

There was also discussion of moving general funds from one category to another and while that might solve roadway funding, it would create deficits in other areas such as higher education or prisons, for example, said David Malone, former state senator from Fayetteville. He agreed that new revenues are needed.

After Wilson's talk, Jim McKenzie said, it's clear our state, county and city estimated roadway-funding needs are bigger than the state's ability to handle without additional funds. He said he believed \$200 million would barely cover minimum maintenance. Furthermore, the state needs to create a funding stream that has the capacity to grow over time.

He suggested looking at how other states are raising roadway funds.

Chairman Capps said he believed the committee was ready to focus on funding options, and suggested forming sub-committees for more in-depth discussions, and a day long roundtable discussion in which the Blue Ribbon Committee members would participate.

Sen. Gilbert Baker made a motion to create two subcommittees: one to study new revenue options and a second to consider all aspects of transferring general funds.

The motion passed unanimously, as well as a second that called for a daylong committee meeting. Baker said we will fail if we don't come up with a non-static type of funding recommendation.

Arkansas Highway Commission member Madison Murphy of El Dorado said we can't preclude any options and need to sell a solution to the legislature, public and governor.

David Malone, with 22 years of experience with the Arkansas State Legislature, said without a sense of fairness any funding measure wouldn't pass.

Chairman Capps didn't set a date for the fourth committee meeting in order to accommodate the schedules of U.S. Representatives Mike Ross, Fourth Congressional District, and Vic Snyder, Second Congressional District, both who want to attend the August meeting.