



# Blueprint

## M I S S I S S I P P I

*Pathway to Progress*

## **TRANSPORTATION TASK FORCE**

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## 2014 Summary: Action on Transportation Funding

### PASSED

**Kentucky:** The Kentucky General Assembly passed the state's \$4.1 billion two-year road construction plan, just a few hours before adjournment of the 2014 legislative session in April. Kentucky has a floating fuel tax that that will increase by 2.1 cents in July.

**New Hampshire:** Passed 4.2-cent increase to the gas tax increase. The bill will increase the gas tax from 18 to 22.2 cents, the first increase since 1991. The increase will take effect on July 1.

**Vermont:** Vermont Gov. Peter Shumlin signed the largest transportation bill in state history earlier this month. The bill approves \$685.7 million in infrastructure improvements and maintenance. In 2013 Vermont raised the gas tax by 5.9-cents and the diesel tax by 2-cents. The tax will go up another 1-cent on July 1, 2014.

**Missouri:** Legislators passed a measure for a ballot initiative that will allow Missouri voters to decide later this year whether to raise the state sales tax to generate more than \$500 million annually for roads and other transportation projects. The proposed constitutional amendment would impose a three-quarters-of-a-cent sales tax that would be used for transportation. If approved by voters, the general sales tax increase would take effect in 2015 and run for 10 years. It would mark the first time that Missouri's roads have been funded with something other than a user fee, such as a gas tax or registration fees.

### PENDING

**Delaware:** Gov. Jack Markell is pushing for a 10-cent increase in Gas Tax. The tax increase would generate \$50 million. Coupled with \$50 million in additional borrowing, the plan would add \$100 million annually over five years. This is unlikely to pass.

**Michigan:** Lawmakers are considering gradually allowing the state's 19-cents-a-gallon gas tax to go as high as 32 ½ cents. Republican Gov. Rick Snyder has repeatedly called for measures to raise an extra \$1.2 billion a year or more to fix and maintain the state's roads and bridges. Lawmakers only have a only few days left in the session to determine the fate of this and other proposals. The changes proposed include increase the percentage tax at the wholesale level.

### FAILED

**Iowa:** Efforts to raise the gas tax by 10 cents failed in 2014 legislative session, however the Iowa Republican Party will consider the issue at its June 14 Convention.

**South Dakota:** Republican Gov. Dennis Daugaard has said he if elected to a second term he would be willing to consider raising taxes for maintaining and improving South Dakota's roads and bridges.

**Utah:** An effort to raise the gas tax to tax to 32 cents per gallon by July, 2018 failed. The proposal was predicted to generate \$111 million annually for the transportation budget. An Interim Transportation Committee is looking possibility of increasing the gas tax which stands at 24.5 cents per gallon.

**Washington:** Lawmakers proposed \$12.3 billion transportation revenue package that included an 11.5 cent gas tax increase... In addition to the gas-tax increase over the next three years, the plan would have sought to redirect sales-tax money from transportation projects to a transportation fund instead of the state's general fund. The effort failed.

## **Issue Brief: Is the Gas Tax Dying? Alternatives to Fund Transportation Infrastructure**

*August 2013*

States are running out of ways to pay for their crumbling roads and highways. Gasoline tax revenues – the primary financing mechanism for state transportation projects – have dwindled because gas tax rates in most states are not indexed to inflation and have not been raised in years. Experts say that lawmakers’ reluctance to raise the gas tax has reduced revenues available to fund transportation infrastructure by \$10 billion a year.<sup>1</sup> The current federal gas tax sits at 18.4 cents per gallon – unchanged for 20 years. But even if all gas taxes were pegged to keep pace with inflation, the improving fuel efficiency standards of modern cars and the advent of hybrid and electric vehicles spell eventual doom for states relying exclusively on the gas tax to fund transportation. This issue brief provides an overview of existing gas taxes as well as possible alternatives states might use to finance their transportation infrastructure.

“All states face a shortfall between existing transportation revenues and projected needs. The cumulative nationwide shortfall has been estimated at \$1 trillion through 2015, and the National Surface Transportation Policy and Revenue Study Commission estimated the next decade’s gap for maintaining and building highway, transit and rail infrastructure at \$155 billion to \$200 billion per year. Unless there are innovations and new money, roads, bridges and mass transportation systems will fall further into decline and disrepair.”<sup>2</sup>

### **Gasoline Taxes**

Facing the conflation of high gas prices and the Great Recession, both of which resulted in significant financial pressure on most households, legislatures are especially reluctant to raise their states’ gasoline tax rate. Nonetheless, earlier this year **Wyoming** became the first state to increase their gasoline tax rate in almost three years when its legislature approved a 10 cent rate hike. **Maryland**’s and **Massachusetts**’ gas taxes increased this year when their legislatures agreed to index their gas tax rate to inflation. Additionally, **Virginia** reformed its gas tax this year when the legislature replaced the state’s cents per gallon tax with a wholesale tax on gasoline. Today, only seventeen states, with the addition of Maryland, Virginia, and Massachusetts this year, have ditched the “fixed-rate” model gasoline tax and switched to a model that grows gradually over time.

### Summary of Gasoline Tax Modifications in 2013:<sup>3</sup>

**Wyoming:** The legislature voted to increase the gas tax ten cents per gallon to raise \$70 million annually.<sup>4</sup>

**Maryland:** The legislature indexed the gas tax to inflation starting immediately (with a ceiling of no more than 8% in any given year). The legislature added a 3% sales tax to gasoline purchases, phased in over a period of three years starting in the summer of 2013. The sales tax on gasoline will increase to 4% if the Congress passes the Marketplace Fairness Act, otherwise, the tax goes up 5% if Congress does not lift the ban on internet sales tax collections.<sup>5</sup>

**Massachusetts:** The legislature raised the gas tax three cents per gallon, for a total of 24 cents per gallon. It also indexes future increases in the tax to inflation.<sup>6</sup>

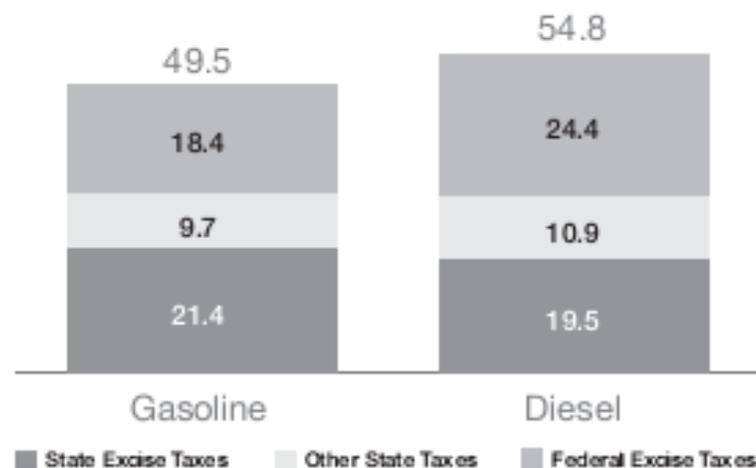
**Vermont:** The legislature added a new 2% sales tax assessment to gasoline and reduced the gas tax per gallon from 20 cents to 19.2 cents. The tax on diesel gas increases three cents per gallon over two years, starting with a two cent increase on July 1, 2013.<sup>7</sup>

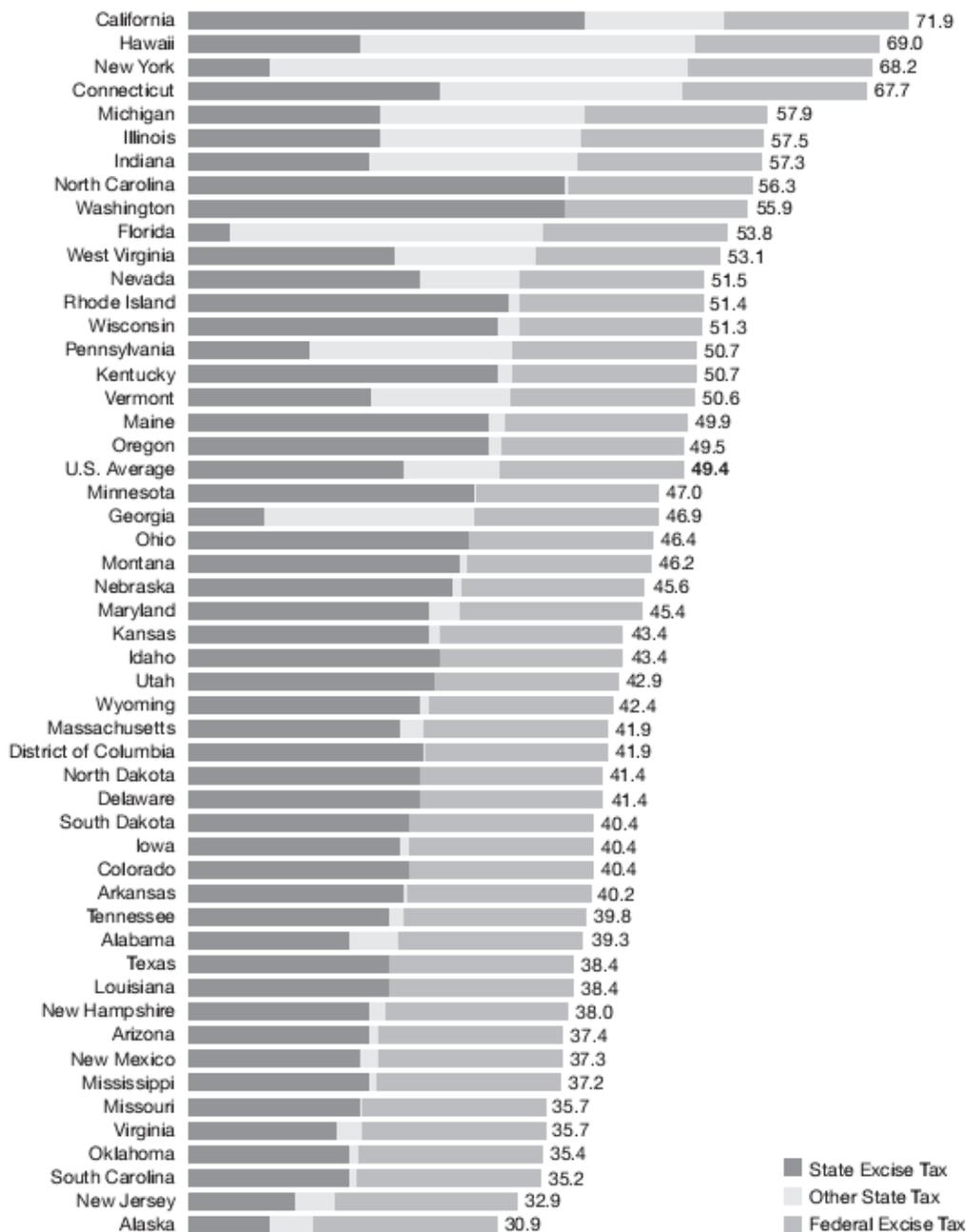
**Virginia:** The legislature eliminated the cents per gallon tax on gasoline and diesel and replaced it with a 3.5% wholesale tax on gasoline and 6% on diesel (wholesale tax increases by 1.6% in 2015 if Congress does not lift the ban on internet sales tax collections).<sup>8</sup>

*Below is information from the American Petroleum Institute on current gas taxes in each state and the national averages.*

### National Average

(cents per gallon)



**Gasoline Motor Fuel Taxes as of July 1, 2013**

To find out more,  
visit [www.api.org/tax](http://www.api.org/tax)

## Other Traditional Funding Methods: Sales Taxes, Tolls, & Bonds

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Policy makers prefer a direct sales tax on gasoline purchases over designating a portion of the general sales tax towards transportation needs because the “user-pay” model argues that users of transportation infrastructure should bear the burden of paying for its expansion and repair.<sup>9</sup> But to make up the shortfall in transportation funding, some legislatures have considered an increase in the state sales tax as a viable alternative to an unpopular gas tax increase. In November 2012, **Arkansas** voters approved a constitutional amendment that raised the state’s sale tax rate a half cent, from 6% to 6.5%, to pay for a major highway improvement program.<sup>10</sup> **Virginia** took a middle of the road approach this year when they both reformed their gas tax and raised the statewide sales and use tax from 5% to 5.3%. Additionally, the legislature targeted a portion of Northern Virginia for an additional 0.7% sales tax because a larger portion of the transportation improvements would take place in that area.<sup>11</sup>

Alternatively, states may choose to charge tolls on particular roads. This is a controversial but effective user pay model to raise funds for transportation needs. States can also choose to sell bonds in order to borrow money now to invest in the future of their transportation infrastructure. In **Texas** this year, the legislature took advantage of the state’s natural resources and ultimately agreed to ask the Texas voters to approve a constitutional amendment that would divert part of the tax revenue from oil and gas production to transportation maintenance instead of its original destination – the Rainy Day Fund.<sup>12</sup>

## Vehicle Fees

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Vehicle registration fees and other direct fees or taxes on vehicles are another common contribution to transportation funding. Similar to the gas tax issue, states have the option of indexing these fees to increase with inflation in order to keep up with rising transportation costs.

Another option states are exploring is to charge an additional fee for hybrid and electric vehicles. Since these vehicles’ drivers may pay little or no gas taxes, proponents argue that hybrid and electric car drivers should pay a special vehicle fee to reflect their road use. Opponents argue that such a fee would discourage the purchase of “environmentally friendly” hybrid and electric vehicles and diminish the public policy goals of federal tax breaks directed towards the purchase of such vehicles. But if hybrid and electric cars become more popular, states will need to find a way to make the user-pay concept work for the drivers who use little or no gasoline. **Virginia**’s transportation law this year included a new \$64 fee for registering “hybrid electric motor vehicles, alternative fuel vehicles, and electric motor vehicles.” **North Carolina**, **Kansas**, and **Arizona** also considered various fees as a way to charge alternative fuel vehicles.<sup>13</sup>

## Public-Private Partnerships

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Public-Private Partnerships (P3s) are becoming more popular as the costs of infrastructure projects continue to rise and transportation funds shrink. The **Kentucky** Chamber of Commerce explains in a recent report: “A classic P3 usually involves a private entity working with a government agency to provide financing, construction and operation of an infrastructure project such as a highway or

building... The Chamber's research found that governments can achieve several important goals by partnering with the private sector: saving money, gaining expertise, improving quality and risk management and taking advantage of private-sector innovation. Possible arrangements for P3s range from the design and construction of a project to providing specific services to long-term leases and program operations."<sup>14</sup>

P3s are used beyond the transportation and infrastructure domain, but are particularly useful when developing a complicated and costly contraction project. And as P3 programs succeed, their understanding and popularity among state officials is growing. The two states with the largest transportation funding deals this year, **Maryland** and **Virginia**, are considering expanding P3 infrastructure projects in their states, and **Pennsylvania** is looking to bundle P3 projects for bridges.

## Vehicle Miles Traveled Tax

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An idea that is further away from implementation, but with much promise as a solution to state transportation funding dilemmas, is the vehicle miles traveled tax (VMT). The VMT tax works by taxing the number of miles a driver travels instead of the amount of gas consumed. The VMT tax would remain steady as fuel-efficiency standards are toughened and electric vehicle sales increase.

**Oregon** tested this concept through a pilot program in 2012.<sup>15</sup> The pilot program presented participants with three technology options: a basic option that records miles traveled through a car's diagnostic system, a GPS device that tracks miles driven and on which roads, or an option to pair the GPS-free onboard recorder with a smartphone app that can be switched on when driving outside the state.

Each option has its critics. Attaching a GPS device to your car raises privacy concerns and conjures images of "Big Brother," whereas a non-GPS onboard mileage recorder would charge drivers for trips outside the state. The smartphone app is an attempt to reconcile these criticisms. But in a world where not everyone owns a smartphone, it would be impossible to implement on a mass scale. Alternatively, the pilot program offers an option to pay a flat monthly fee, which required no in-car device.

This year the Oregon legislature decided to expand the VMT tax pilot program to 5,000 volunteer drivers beginning in 2015. Under the legislation, 5,000 volunteer drivers would pay a tax of 1.5 cents per mile in lieu of the current 30 cents per gallon fuel tax. At least 18 states have studied a version of VMT, but Oregon has taken the biggest steps towards implementation on a large scale. Both **Washington**<sup>16</sup> and **Vermont**<sup>17</sup> are following Oregon's lead and considering replacing their deteriorating gasoline tax with a VMT tax. Several cities, including San Francisco, Atlanta, and Seattle, have tested a VMT program as well.

Transportation experts warn that widespread implementation of a VMT tax could still be a decade away. It will take time to sort out the technology options and convince a skeptical public. But if gas tax revenues continue to drain state transportation funds, a VMT tax will begin to look better and better to desperate states.

## Endnotes

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<sup>1</sup> “If every state updated its gas tax rate to match the level of purchasing power it had the last time it was raised, state gas tax revenues would be roughly \$10 billion higher per year. Put another way, states have seen their gas taxes plummet by a combined \$10 billion due to their failure to plan for inevitable increases in the cost of transportation construction.” Institute on Taxation and Economic Policy, *BUILDING A BETTER GAS TAX: HOW TO FIX ONE OF STATE GOVERNMENT’S LEAST SUSTAINABLE REVENUE SOURCES* (2011), available at <http://www.itep.org/bettergastax/bettergastax.pdf>.

<sup>2</sup> National Conference of State Legislatures, *Transportation Funding and Finance* (last accessed Aug. 19, 2013), <http://www.ncsl.org/issues-research.aspx?tabs=951,72,117>.

<sup>3</sup> See *Generally* Transportation for America, *Tracking State Transportation Funding Plans* (last accessed Aug. 20, 2013), <http://t4america.org/resources/state-plans-tracker/>.

<sup>4</sup> See Joan Barron, *Wyoming Legislature approves state fuel tax hike*, CASPER STAR-TRIBUNE, Feb. 14, 2013, available at [http://trib.com/news/state-and-regional/govt-and-politics/wyoming-legislature-approves-state-fuel-tax-hike/article\\_d23f0965-c668-54b2-8e62-5d14791c13bc.html](http://trib.com/news/state-and-regional/govt-and-politics/wyoming-legislature-approves-state-fuel-tax-hike/article_d23f0965-c668-54b2-8e62-5d14791c13bc.html).

<sup>5</sup> See John Wagner, *Maryland gas tax to rise Monday, but not quite as much as forecast*, WASH. POST, June 27, 2013, available at [http://articles.washingtonpost.com/2013-06-27/local/40229015\\_1\\_gas-tax-increase-gas-tax-design-work](http://articles.washingtonpost.com/2013-06-27/local/40229015_1_gas-tax-increase-gas-tax-design-work).

<sup>6</sup> See Steve LeBlanc, *Mass. lawmakers override transportation veto*, BOSTON GLOBE, July 24, 2013, available at <http://www.boston.com/news/local/massachusetts/2013/07/24/mass-lawmakers-consider-transportation-veto/Z2fxSY9MigOrVwHkNYFKmJ/story.html>.

<sup>7</sup> See Nat Rudarakanchana, *Shumlin-brokered compromise transportation package breezes by House and Senate in same day*, VERMONT JOURNALISM TRUST, April 24, 2013, available at <http://vtdigger.org/2013/04/24/shumlin-brokered-compromise-transportation-package-breezes-by-house-and-senate-in-same-day/>.

<sup>8</sup> Virginia Chamber of Commerce, *ISSUE SUMMARIES: TRANSPORTATION FUNDING PACKAGE* (2013), available at <http://www.vachamber.com/wp-content/uploads/2013/07/HB2313-Summary.pdf>.

<sup>9</sup> See *generally* Joshua L. Schank, *Virginia’s Transportation Funding Proposal and the User-Pay Concept*, (last accessed Aug. 8, 2013), <http://www.enotrans.org/eno-brief/virginias-transportation-funding-proposal-and-the-user-pay-concept>.

<sup>10</sup> AR Senate, *Half-cent Sales Tax Increase to Fund Highway Improvements*, July 11, 2013, [http://www.arkansas.gov/senate/newsroom/index.php?do:newsDetail=1&news\\_id=420](http://www.arkansas.gov/senate/newsroom/index.php?do:newsDetail=1&news_id=420).

<sup>11</sup> See Virginia Chamber, *supra* note 8.

<sup>12</sup> Aman Batheja & Alexa Ura, *Lawmakers Pass Roads Cash Plan, Adjourn Special Session*, TEX. TRIBUNE, Aug. 5, 2013, available at <http://www.texastribune.org/2013/08/05/lawmakers-pass-roads-cash-plan-adjourn-special-ses/>.

<sup>13</sup> Kendrick Vonderschmitt, Council of State Governments, *States Turn to Taxes on Green Vehicles for Roads*, July 3, 2013, <http://knowledgecenter.csg.org/drupal/content/states-turn-taxes-green-vehicles-roads>.

<sup>14</sup> Kentucky Chamber, *PRIVATE SOLUTIONS TO PUBLIC PROBLEMS: PARTNERSHIPS TO BUILD A BETTER GOVERNMENT* (2013), at 4, available at <http://kychamber.com/sites/default/files/P3%20Report%20LOW%20REZ.pdf>.

<sup>15</sup> See Oregon Dep’t of Trans., *Road Usage Charge Pilot Program* (last accessed Aug. 8, 2013), <http://www.oregon.gov/ODOT/HWY/RUFPP/Pages/rucpp.aspx>.

<sup>16</sup> Associated Press, *Washington considers by-the-mile road fee system to replace gas tax*, OREGONIAN, Jan. 9, 2013, available at [http://www.oregonlive.com/pacific-northwest-news/index.ssf/2013/01/washington\\_considers\\_by-the-mi.html#incart\\_river](http://www.oregonlive.com/pacific-northwest-news/index.ssf/2013/01/washington_considers_by-the-mi.html#incart_river).

<sup>17</sup> Dave Gram, *Vermont May Levy Driving Tax by the Mile*, VALLEY NEWS (VT), Jan. 19, 2013, available at <http://www.vnews.com/news/business/3919035-95/tax-vermont-transportation-cars>.

## Overview of Connecting Arkansas Program

Sources: Arkansas State Highway and Transportation Department; *ballotpedia.org*; *arkansasbusiness.com*; *Stateline – (pewstates.org)*; *ww.arkansashighways.com*

In November of 2012, Arkansas voters passed a ½ cent sales tax increase to fund a \$1.8 billion road program. Collection of tax began July 1, 2013. Arkansas now has 6.5% state sales tax. Any county or city sales tax is additional.

- The issue was placed on the ballot by the Arkansas General Assembly
- Approved with 58% of the vote
- 200 miles of widening and improvement projects
- 31 projects statewide
- State receives 70% of funding from the tax collections
- Counties receive 15% of the tax collections
- Cities receive 15% of the tax collections
- The ½ cent sales tax will expire after 10 years
- Tax collections to state will be used to repay bonds used to fund projects
- \$1.3 billion in new bonds - existing revenue will be used for the other \$500M
- The tax won't apply to groceries, gasoline or medicine

### Why did it pass?

Supporters note they presented voters with a specific list of projects the tax would fund and they emphasized that the tax was temporary. The measure received strong backing from the business community.

### List of Projects:

- Completion of widening I-40 to six lanes between Little Rock and Conway
- Completion of widening US Hwy 67 to six lanes from Jacksonville to Cabot
- Improvements to I-30 connecting Little Rock and North Little Rock, and widening Arkansas River Bridge
- Continuation of widening I-630 in Little Rock from Baptist Hospital to University Avenue
- Completion of widening US Hwy 64 to four lanes between Conway and Beebe
- Continuation of widening I-30 to six lanes between Benton and Highway 70
- Widening of US Hwy 70 to four lanes between I-30 and Hot Springs
- Continuation of widening US Hwy 270 to four lanes from Hot Springs westward
- Completion of widening US Hwy 412 to four lanes between Paragould and Walnut Ridge
- Completion of widening State Hwy 18 to four lanes between Jonesboro and Blytheville
- Continuation of widening US Hwy 64 to four lanes between Marion and Wynne
- Widening I-540 to six lanes between Fayetteville and Bentonville
- Completion of the initial two lanes of the future four-lane Bella Vista bypass
- Beginning four-lane construction of the US Hwy 412 Springdale bypass from I-540 to the Northwest Arkansas Regional Airport (XNA) connector
- Continuation of widening US Hwy 65 to four lanes between Harrison and Clinton
- Completion of widening US Hwy 167 to four lanes between I-530 and El Dorado
- Completion of widening US Hwy 425 to four lanes from Hamburg to the Louisiana line
- Beginning the widening of US Hwy 82 to four lanes from El Dorado to Magnolia to Texarkana

FROM: **Arkansas State Highway and Transportation Department**

<http://connectingarkansasprogram.com/overview>

The Connecting Arkansas Program (CAP) is one of the largest highway construction programs ever undertaken by the Arkansas State Highway and Transportation Department (AHTD). In 2012, through a voter-approved constitutional amendment, the people of Arkansas passed a 10-year, half-cent sales tax to improve the state's intermodal transportation system, including projects that widen and improve approximately 200 miles of highways and interstates. A map of the 31 projects that comprise the \$1.8 billion program is located on the site's [Corridors page](#).

The Connecting Arkansas Program:

- Improves transportation connections between cities throughout the state
- Increases capacity by widening highways to move people and goods more efficiently
- Provides a revenue source for new highway projects
- Accelerates the completion of highway improvement projects
- Improves traveler safety
- Eases congestion
- Supports job growth and improves Arkansas' economy

### CAP History

In 2009, the 87th Arkansas General Assembly (AGA) passed [Act 374](#) to create the Blue Ribbon Committee on Highway Finance. The committee was tasked with determining an equitable and adequate system to properly finance transportation improvements in Arkansas and to propose and recommend highway finance legislation for the 2011 session.

The constitutional amendment to levy a temporary sales-and-use tax was included on the 2012 Arkansas statewide general election ballot after a bipartisan vote in the 88th AGA.

During the November 2012 elections, Arkansans voted to approve Ballot Issue No. 1, a constitutional amendment to provide additional funding for highways, county roads, city streets, bridges, and surface transportation. The sales tax was approved by 58 percent of voters. With passage of Issue No. 1, the state sales tax temporarily increases to 6.5 cents for 10 years, effective July 1, 2013.

The design and construction of highway and interstate widening projects will be funded with the estimated \$1.8 billion (comprised of cash and bond proceeds) anticipated to accrue from 70% of the tax revenue. The remaining 30% of the tax revenue will be turned back to local governments for road and street projects – 15% each for cities and counties.

## Timeline

- **February 2011** – The proposed sales tax increase measure is filed with the Arkansas House of Representatives. The measure is referred to the Committee on House Committee on State Agencies and Governmental Affairs.
- **March 2011** – The measure is returned by the committee “Do Pass.” The measure is read and [adopted by the House](#) and transmitted to the Arkansas Senate. The resolution is read and [concurring in the Senate](#).
- **April 2011** – Governor Mike Beebe approves [House Joint Resolution 1001](#).
- **November 2012** – The constitutional amendment is [approved by Arkansas voters](#).
- **July 2013** – Half-cent sales tax takes effect.

FROM: *ballotpedia.org*

The **Arkansas Sales Tax Increase Question**, also known as **Issue 1**, was a [legislatively-referred constitutional amendment](#) on the [November 6, 2012 statewide ballot](#) in the state of [Arkansas](#), where it was **approved**.

The measure implemented a half-percent sales tax in the state. The revenue generated from the tax was to be used to pay for a four-lane highway system statewide.<sup>[1]</sup>

## Election results

<b>Yes</b>	<b>592,980</b>	<b>58.21%</b>
<b>No</b>	<b>425,733</b>	<b>41.79%</b>

Results via: The [Arkansas Secretary of State](#) Counties Percent Reported: 90.67% (11/9/2012)

## Text of measure

## Popular name

“ An Amendment to Provide Additional Funding for State Highways, County Roads, City Streets, Bridges, and Other Surface Transportation.<sup>[2][3]</sup> ”

## Ballot title

“ For a proposed constitutional amendment to levy a temporary sales and use tax of one-half (0.5%) for state highways and bridges, county roads, bridges and other surface transportation, and city streets, bridges and other surface transportation, with the state's portion to secure state of Arkansas general obligation four-lane highway construction and improvement bonds in the total principal amount not to exceed one billion three hundred million dollars (\$1,300,000,000) for the purpose of constructing and improving four-lane highways in the state of Arkansas; prescribing the terms and conditions for the issuance of such bonds which will mature and be paid in full in approximately ten (10) years, which payment in full shall terminate the temporary sales and use tax; describing the sources of repayment of the bonds; permanently dedicating a portion of the proceeds derived from the existing motor fuel and distillate fuel taxes to the state aid street fund; and prescribing other matters pertaining thereto<sup>[2][3]</sup> ”

FROM: **Stateline (pewstates.org)**

## **After Tax Hike, Arkansas Plans Highway Building Boom**

<http://www.pewstates.org/projects/stateline/headlines/after-tax-hike-arkansas-plans-highway-building-boom-85899431905>

By Josh Goodman, Staff Writer

Starting about a year from now, Arkansas will begin widening highways in every corner of the state as part of \$1.8 billion commitment that will represent the largest infusion of new tax dollars into the state's transportation system in recent history. The money is the result of a 10-year half-cent statewide sales tax increase voters approved November 6, a rare victory for transportation funding advocates at a time when money for roads is flattening.

When the Arkansas legislature voted to place the sales tax amendment on the ballot, it was responding to the same challenge facing virtually every state. The federal gas tax and most state gas taxes — states' leading source of transportation dollars — are assessed on a cents-per-gallon basis, which means they don't keep up with [inflation](#). Plus, as vehicles are becoming more fuel efficient, drivers are buying less gas and paying less in gas taxes. Raising gas taxes is unpopular with the public.

As a mostly poor, mostly rural state, this problem is particularly acute in Arkansas. When the legislature's Blue Ribbon Committee on Highway Finance studied the issue two years ago, it [found](#) that Arkansas has the nation's 12<sup>th</sup> largest state highway system, but ranked 42<sup>nd</sup> in its ability to pay for them. Now, says Madison Murphy, chairman of the Arkansas State Highway Commission, the state is preparing to issue bonds using the prospective sales tax revenue so it can begin construction in late 2013 or early 2014. Many of the projects will expand roads with two lanes to four lanes and four lanes to six.

Transportation funding advocates succeeded in Arkansas in the same year they mostly failed in Georgia, Iowa, Maryland and Michigan, despite major pushes for new dollars. The success in Arkansas occurred even as voters were electing new Republican majorities in the legislature that favor lower taxes and even though the state already had one of the nation's [highest](#) combined state and local sales tax rates. The measure [passed](#) in 68 of the state's 75 counties, receiving 58 percent of the vote overall.

Why did it pass? Supporters note they presented voters with a specific list of projects the tax would fund and they emphasized that the tax was temporary. The measure received strong backing from the business community. Some conservative groups such as the state chapter of Americans for Prosperity opposed the tax, arguing it would hurt the state's business climate, as did some Republican lawmakers. Yet many prominent Republicans were onboard as well, [including](#) Lieutenant Governor Mark Darr and U.S. Senator John Boozman.

Yet all those dynamics — a temporary tax, a specific set of projects and support from business groups and Republicans — were also in play in Georgia this summer, where voters defeated sales tax increases for transportation in nine out of 12 regional votes, including in metro Atlanta. In Atlanta, the vote meant that a years-long strategy to get voters to pay more to help ease congestion ended in total failure.

Arkansas' approach, however, differed from Georgia's in subtle ways. Part of the problem in metro Atlanta was various organizations and local governments [struggled](#) to agree on what projects to include. In Arkansas, 30 percent of the money will go to localities — 15 percent for cities and 15 percent for counties — to use on whatever projects they deem most worthy. "One of the things we always said is that everyone will benefit," says Scott Bennett, director of the Arkansas State Highway and Transportation Department, "because there's a portion of this revenue that will be distributed to every city and county."

Another selling point was the sales tax increase didn't apply to gas, medicine or groceries. And, supporters said the work would be done by contractors and consultants, not state employees. "The pitch was this tax will not grow government," says Randy Zook, the president and CEO of the Arkansas Chamber of Commerce. "It will increase the quality, safety and capacity of our highways."

Even as supporters of the plan celebrate, they also argue it's not a permanent solution. The Blue Ribbon Committee found that Arkansas was \$19.5 billion short of being able to pay for its highway funding needs. After the sales tax expires in 10 years, the state will be back to depending on the stagnating gas tax, unless it finds an alternative.

The Blue Ribbon Committee recommended permanently dedicating sales taxes from things like vehicle sales, car repairs and tire purchases to highways, instead of the state's general fund. That would provide Arkansas' roads with a funding source more likely to keep up with needs than the gas tax.

But, if the recent experiences of other states such as [Nebraska](#) and [Utah](#) are a guide, trying to take revenue that currently goes to the general fund and redirect it to transportation will prompt a fight from supporters of services, such as education and health care that the general fund sustains. So far, the legislature hasn't acted on the proposal. "If you're going to give more money to one agency, you're obviously going to have to cut some money from another agency," Bennett says. "That's the discussion that the legislature is going to have to have."

**FROM: Arkansas Business**

## **New Highway Tax to Take Effect in Arkansas**

<http://www.arkansasbusiness.com/article/93318/new-highway-tax-to-take-effect-in-arkansas?page=all>

by **Andrew DeMillo, The Associated Press**

LITTLE ROCK - Arkansas' sales tax on most items will increase by half a cent starting Monday under an effort to raise more cash for the state's highway system, but transportation officials and advocates say a longer term solution is needed for road funding.

The state's sales tax will increase to 6.5 percent under the temporary tax increase voters approved last year to raise \$1.8 billion for the state's roads and highways. The tax won't apply to groceries, gasoline or medicine and will expire by 2023.

Arkansas highway officials say they hope to soon issue bonds that will be repaid by the tax revenue so they can begin work on a list of projects around the state by the end of the year.

The goal, backers of the tax say, is to chip away at a gap between the state's road needs and the funding available. The Arkansas Highway and Transportation Department says it has \$23 billion in needs over the next decade, but only \$6 billion in revenue - including the money expected from the tax increase.

"I think the voters recognized there's a limited source of revenue for highways and this was one way to enhance it, so they supported it as I did," Gov. Mike Beebe said last week.

But Beebe acknowledged that the tax hike is just a stopgap measure.

"Absent some kind of infrastructure program federally, the odds are it's an uphill battle to find a long-term systemic solution to highway funding," Beebe said.

The tax increase was one of the top recommendations from the Blue Ribbon Committee on Highway Finance, which was formed to study ways to increase funding for the state's roads.

Highway supporters say they haven't given up on a more controversial recommendation from the panel to divert sales tax revenue from road-related items such as car sales and vehicle parts to the state's highway program. They argue that the per-gallon gas tax that primarily pays for Arkansas' roads is an inadequate funding source, with revenues declining as vehicles' gas mileage improves over time.

A proposal to phase in that transfer over a decade failed before a House panel in March, facing heavy opposition from Beebe and groups who said it would gut Arkansas' general revenue budget.

The proposal would have transferred sales tax dollars from new and used vehicle sales to the state highway department and local governments once the state's sales tax collections exceed \$2.25 billion. The proposal would have phased in the amount of money transferred. Finance officials estimated it would have taken away \$22 million from the general fund in 2015 and \$345 million by 2024.

Rep. Jonathan Barnett, a former member of the state highway commission and the sponsor of the bill, said shifting that revenue is the only long-term solution left for addressing the widening gap in funding for state roads.

"We know what we need to do," said Barnett, R-Siloam Springs. "We're going to have to get into future revenue growth and any sensible person who has studied highway financing knows we've got to get into future revenue growth."

Education and health advocates lobbied against Barnett's bill, which they have dubbed "highway robbery," and say a variety of services would be hurt by diverting revenue growth to highways. They argued the damage would be even more severe, considering a package of tax cuts lawmakers approved that will eventually cost the state more than \$140 million a year.

Beebe, who leaves office in 2015, said he remains philosophically opposed to transferring general revenue to highways.

"You've always got more needs than you've got resources for in general revenue, the chief of which is obviously education," Beebe said.

Barnett, who is term-limited and can't run for re-election next year, said he plans to continue pushing for the idea after he leaves office and said it may eventually take a group referring it to voters as a ballot measure.

He'll have allies among the state's top highway officials, who say they still see the transfer as the best option for addressing the funding deficit.

Highway Commissioner Robert Moore, the former House speaker who advocated referring the tax to voters, said he hopes whoever succeeds Beebe as governor and lawmakers will embrace the transfer idea or another long-term solution.

Moore said the approval of the highway sales tax by voters - at a time when Republicans won control of the Legislature partly on an anti-tax vow - should offer some guidance to the state's political leaders on how much of a priority they should place on road funding.

"It has to send a message out to people who are in leadership positions that people think good roads are important," Moore said. "Everybody, even those who don't get out and drive, is dependent on good access to transportation that determines how we enjoy the lives that we live."