FUNDING ARKANSAS HIGHWAYS

THOSE WHO USE ROADS SHOULD PAY FOR THEM

THE ISSUE

Arkansas needs more highway funding; there's no doubt about it. But without some form of fuel tax increase, paying for Arkansas's roads and bridges would take funding away from other essential needs. Wouldn't it make more sense to pay for highways as we use them – through fuel taxes? Tourists and transportation companies would then pay their fair share, along with all Arkansans who use highways and value well-maintained roads and bridges.

THE FLAWED PROPOSAL

Gov. Hutchinson's proposal works in the short term but creates major budget issues over the long term. In the first year, he proposes taking $20 million from the state's rainy day fund, $20 million from surplus funds and other sources for a total of $46.9 million in additional highway funding. That helps us bring much more federal highway funding to Arkansas. But in later years, the proposal has big problems, because it endangers funding for everything from education to emergency services.

WHY WON'T IT WORK?

REALLOCATING GENERAL REVENUE HURTS OTHER PROGRAMS. The Governor proposes redistributing up to $25 million a year for five years from sales taxes on new and used cars, which normally goes to general revenue.* The problem with using general revenue funds is that it puts other programs at risk. The list of critical services that could be on the chopping block is long and alarming. Think of programs that protect abused and neglected children, kids in pre-K or after-school and summer programs, public defenders, and firefighters. Highways should not be paid for from the same pot of funds.

IT'S UNPRECEDENTED. We've never before paid for highways like this, with general revenue funds. How will we handle the withdrawal of those funds, which have already taken a beating from the most recent two rounds of tax cuts? Those cuts add up to $242 million when they take full effect in 2017.

IT DEPENDS ON A STEADY STREAM OF SURPLUS REVENUE. Over the long term, the Governor's plan depends heavily on budget surpluses to pay for highways. But we can't rely on those funds, because surpluses naturally go up and down. Sometimes they're in the hundreds of millions; sometimes they are zero. The only way Arkansas could depend on surpluses being available would be to play "games" with the budget, which would inevitably lead to underfunding already stretched programs for children and families.

"EFFICIENCIES" WOULD NEED TO COVER $33 MILLION IN LOST REVENUE BY YEAR 5. That's a lot of assumed savings when many programs are already underfunded or facing more budget cuts. What is more likely is that programs we all care about like child protective services, education, parks, police protection, and juvenile justice will lose much-needed funding. If we pay for highways with additional cuts to general revenue – in addition to recent tax cuts that reduced revenue – major unmet needs in these types of programs would be inevitable.

CARS WILL BE MORE FUEL-EFFICIENT, AND INFLATION WILL MORE THAN LIKELY RISE. Rising prices will erode the purchasing power of fuel tax revenue. And cars are getting more and more efficient. The farther you can go on a gallon of gas, the less you contribute to the gas tax that funds highways. That means it won't be long before we are back where we started, and highways will be underfunded again.

**Since the publication of this report, the Governor has amended his plan to replace the funds from the sale of new and used vehicles with money from the securities reserve fund (which is also a source of general revenue).*

THE RESPONSIBLE SOLUTION IS A MODERNIZED FUEL TAX.

THE FUEL TAX NEEDS TO CATCH UP WITH INFLATION. Starting today with just a 2.5 cent per-gallon increase would more than meet the Governor's first-year highway funding totals with no need to raid the rainy day fund or surpluses. That will add only about 37 cents every time you fill up your 15-gallon tank, and would cost the average middle-income Arkansan only $25 a year. If we index that tax to grow with construction costs and motor vehicle fuel efficiency, we won't have to worry about facing these same problems again years down the road. The bottom line is that we need to link funding for highways to the amount of wear and tear on our roads as well as rising prices. That way, tax revenue grows proportionally to maintenance and construction costs.

AN INDEXED FUEL TAX MAKES ECONOMIC SENSE. If you're afraid of higher taxes, keep in mind that the fuel tax would be 29 cents per-gallon today if it were indexed to inflation. Instead it has been stuck at 21.5 cents per-gallon since 2001. You can bet that the cost of construction has gone up since then. By not indexing the fuel tax earlier and doing more construction in earlier years, Arkansas is paying more for construction today because of higher construction costs.

THIS WOULD COVER OUR NEEDS. An indexed fuel tax alone would fund over $150 million in highway needs annually by year five (Hutchinson's plan only gets us to $81 million by then). That $150 million takes zero dollars out of general revenue or the rainy day fund. Most of us would be willing to pay a few extra cents per gallon to have decent roads and prevent cuts to public services like schools and police protection. We have to make a decision. We cannot have functioning public services and safe roads while refusing to increase any taxes.

"REVENUE-NEUTRAL" TAX CUTS SHOULD BE LIMITED TO TAX BREAKS FOR LOW-INCOME FAMILIES. A strict "revenue-neutral" approach means giving back most or all of the revenue generated by a fuel tax increase through cuts in other taxes, again causing problems for the rest of the budget. That's why any effort to give back part of the fuel tax increase should be limited – it should not be totally "revenue neutral" – and focus on relief for low-income families hit hardest by a fuel tax increase. A state Earned Income Tax Credit would help these families keep more of what they earn. It would go to the bottom 20 percent of earners in Arkansas, the only group left out of the recent tax cuts.

WANT TO LEARN MORE?

Contact:

- **Rich Huddleston**, executive director, rhuddleston@aradvocates.org
- **Tamika Edwards**, director of governmental affairs, tedwards@aradvocates.org
- **Eleanor Wheeler**, senior policy analyst, ewheeler@aradvocates.org

Find us at:
www.ArAdvocates.org
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