STREET SMARTS
THE RIGHT WAY TO FUND ARKANSAS HIGHWAYS

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3 THINGS YOU SHOULD KNOW ABOUT HIGHWAY FUNDING IN ARKANSAS

1. Arkansas highways are in trouble, and major decisions about how to finance our failing highways are approaching. We need about $400 million more per year to have safe, updated roads and bridges.
2. Some “revenue neutral” funding options being proposed are treacherous, and will pay for highways by cheating us all out things like quality pre-K, social workers for abused and neglected kids, and textbooks for students.
3. Modernizing the gas tax is a responsible, common sense way to raise revenue that has been vetted in other states. Any increase to fuel tax should be paired with a measure to help working families keep more of what they earn. A state Earned Income Tax Credit (EITC) would provide tax relief to the only group left out of the most recent tax cuts.

ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

INTRODUCTION

There is a highway funding problem in Arkansas. The good news is we can solve it through a balanced and modernized tax system that doesn't overburden low-income families. The Governor's Working Group on Highway Funding is currently considering ways to fix our severely underfunded roads. The task is not small. According to the Arkansas State Highway and Transportation Department, Arkansas needs about $400 million more net dollars every year to keep our roads and bridges up to date. A number of proposals to address these needs are being discussed. Some are good, and some are very unfair to working families in Arkansas.

The Governor's group has until December 15th to make their recommendations. In this report we outline the most responsible and fair strategies for filling the gap in highway funding, and what we hope to see in the final decision. The best solutions include: taking advantage of surplus revenues, modernizing the gas tax, and balancing out unfair tax burdens for low-income families.

TAKE ADVANTAGE OF SURPLUSES

When the state comes in under budget, we end up with surpluses. Much of this money ends up in the General Improvement Fund, which is intended to be spent on "one-time" capital improvement projects that benefit the entire state. Highways and roads are a great example of an appropriate use of surplus money because they are infrastructure developments that extend to all corners of the state. Representative Joe Jett, D-Success, and chairman of the House Revenue and Tax Committee, proposed setting aside 25 percent of surplus money each year to bolster highway funds. This proposal would have raised $478.4 million over the last decade, or about $48 million per year. That $48 million a year (on average) puts a dent in highway funding needs, but the tricky part about surplus funding is that it is unpredictable by nature. It is not uncommon to have no surplus at all, especially in lean years. While the up-and-down nature of surpluses doesn't make them a reliable, permanent solution to highway funding, it could help make up some of the difference in the short term.

MODERNIZE ARKANSAS'S FUEL TAX

The big ticket item for permanently resolving the highway funding dilemma is a modernized fuel tax. We need to increase our fuel tax by 15 cents to meet funding needs today, and make sure the entire fuel tax is indexed appropriately so that highway needs are met in future years. Gas tax revenue, the biggest state revenue source for highways, has been eaten away by inflation and increasingly fuel efficient cars. The price of asphalt, labor, and all road maintenance costs have gone up, but our fuel tax hasn't increased since 2001. Also, because cars become more modern and fuel efficient every year, Arkansans are buying less gas and contributing less per mile to road maintenance. The fuel tax index should be tied to both inflation and fuel efficiency so that highway funding grows with the cost of keeping safe, up-to-date roads.

Georgia recently saved its highway funding by increasing their gas tax and indexing it simultaneously to price increases and rising fuel efficiency. This modernized system is designed to gradually increase over time and is a good model for Arkansas to follow. Arkansas's fuel tax is not indexed at all, meaning that after going since 2001 without an increase, our highway funding is severely depleted. Old fashioned gas taxes like this set themselves up for failure because they will always eventually need to be increased again. And, depending on the political climate, necessary increases can be all but impossible. If we bump up our gas tax and index it to prices and fuel efficiency, we won't have to worry about facing these same problems again years down the road.

There is more than one way to increase the gas tax. It can show up at the pump, or be applied to the wholesaler. We could even enact a vehicle miles traveled (VMT) tax, which would tax commuters directly in proportion to how far they drive. Earlier this year, Governor Hutchinson suggested we learn from other states like Oregon that have implemented this type of miles-traveled tax structure.

The VMT strategy that Oregon introduced is great for making sure that revenues keep up with increasing fuel efficiency. But it is vulnerable to another enemy of highway funding: construction cost inflation. The increased cost of

Arkansas EITC Cost Estimate for 2016		
5% EITC	10% EITC	20% EITC
$38 Million	$76 Million	$152 Million

road construction has actually taken a bigger bite out of the purchasing power of highway funds than fuel efficiency improvements. Just like other gas taxes, VMT taxes need to be indexed to inflation or risk being "eroded" over time by rising costs. The cost to fill a pothole or repair a bridge is guaranteed to increase over the years. A VMT tax structure needs to be designed to gradually increase as those costs also increase.

Any gas tax must be indexed to fuel efficiency and inflation, and a VMT needs to be set up to increase with construction costs. 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 so that tax revenue grows proportionally to maintenance and construction costs. A 15 cent gas tax increase would bring in $300 million more in net revenue for state highways annually, and could be enough to meet highway needs ($400 million a year) if indexed with cost of living and fuel efficiency adjustments over time.

GIVE A BREAK TO LOW-INCOME TAXPAYERS

A gas tax or VMT that is tied to inflation and fuel efficiency will solve our funding issues, but it does place a much heavier burden on low-income Arkansans. Most vehicle related taxes are hardest on low-wage earners because they spend a larger share of their income on transportation. People making less than $16,000 a year in Arkansas already pay 12 cents on every dollar of income in state and local taxes. That is twice the rate as their wealthy neighbors (those making over $330,000 a year). We need to make sure any transportation tax is balanced with a break for low-income taxpayers.

A 15 cent increase in the gas tax would cost low-to-moderate income families roughly $80 a year.[1] Because Arkansas already relies heavily on taxes from our poorest workers, any increase to fuel tax should be paired with a state Earned Income Tax Credit (EITC). An EITC will allow low-income working families to keep more of what they earn and would provide tax relief to the only group left out of the most recent tax cuts (see table above).

PROTECT PUBLIC SERVICES

The most dangerous idea being kicked around is a funding transfer that would dry up the well (state general revenue) that provides for community programs like our foster care system, child abuse prevention services, and our state parks. These programs rely on general revenue and are already limping after the $242 million in tax cuts passed over the last two legislative sessions. Instead of coming up with new money, the transfer idea will just pick the pockets of other services that are already struggling. One troubling transfer proposal from the Good Roads Foundation plans to move nearly the total amount of the 2013 and 2015 tax cuts (about $225 million a year) out of general revenue and put it directly towards highways. That $225 million exceeds the combined annual budget of the Division of Children and Family Services ($71 million), all two year colleges ($111.9 million) and the Department of Parks and Tourism ($23 million). We simply can't afford to take that amount of money out of general revenue.

Some proponents recommend phasing in this transfer to minimize the negative effects on general revenue. Without any revenue to replace what is lost, a phase-in will only delay, not prevent, the death of resources like quality libraries and excellent early child education. We also risk underfunding our higher education system, which could make in-state college tuition unaffordable for many low-income students. Programs that help our most vulnerable kids, like the Independent Living Grant Program (which helps teens in foster care graduate high school) and Child Protective Services, also depend on steady general revenue growth. We don't need to choose between highways and services that benefit children and families in Arkansas. There are responsible ways to fund highways, like a modernized gas tax, that allow us to continue to invest in the community resources that are building a successful future for Arkansas.

BEST PROPOSAL FROM THE GOVERNOR'S WORKING GROUP

The most promising proposal introduced at the Governor's Working Group so far is a "three pronged approach". This approach meets the $400 million budget needs for Arkansas highways by modernizing the fuel tax and without needing to utilize surplus funds. Outlined below, this strategy encompasses several responsible ways of increasing revenue, and does not sacrifice funding from other important programs.

Governor's Working Group Three-Pronged Approach (Incorporating Phased-In Motor Fuel & Diesel Tax Increase)

- Step one: Index the existing fuel taxes to inflation ($160M in new funds)
- Step two: Increase fuel taxes by 15¢ over the course of three years ($300M in new funds)
- Step three: Consider transitioning to a Vehicle Miles Traveled funding method in 2017, where drivers pay taxes based on the amount of miles they drive.

This plan is missing a state EITC which would help to counter balance the tax burden shift towards low-income Arkansans that will result from a fuel tax increases, but it is a very good start. The most encouraging part of this plan is that it does not shift revenues away from the general revenue fund, which pays for critical social resources like pre-K teachers, after school and summer programs, and libraries.

NOTES

[1] Low-to-moderate-income households that owned cars drove about 10,000 miles and bought about 530 gallons of gas per year in 2010. If they drove the same amount, an extra 15 cents per gallon would add $80 a year to their transportation costs.