

MINUTES

ARKANSAS BLUE RIBBON COMMITTEE ON HIGHWAY FINANCE

Wednesday, January 13, 2010

1:00 P.M.

Room 151, State Capitol
Little Rock, Arkansas

The Arkansas Blue Ribbon Committee on Highway Finance met Wednesday, January 13, 2010, in Room 151 of the State Capitol in Little Rock, Arkansas.

Legislative committee members in attendance: Senators John Paul Capps, Chairman; Paul Miller; Representatives John Lowery, Allen Maxwell, Vice Chairman; and Bill Sample

Non-Legislative committee members in attendance: Mark Lamberth, Bill Lynch, David Malone, Jim McKenzie, Madison Murphy, Tab Townsell and Mike Wilson

Stakeholder Task Force members in attendance: Paul Benham, Johnnie Bolin, and Steve Williams

Also attending: Representatives Jonathan Barnett, Monty Davenport, Donna Hutchinson, Keith Ingram, Mark Martin, Walls McCrary, George Overbey, Mike Patterson, and J. R. Rogers

Senator Capps called the meeting to order.

Consideration to approve Minutes of January 13, 2010 (Exhibit C)

Mr. McBryde was left off the November 18, 2009 minutes. The correction will be made and **without objection the minutes of November 18, 2009 were approved.**

Presentation on new trends in projecting transportation funding and interactive website (PowerPoint Presentation #1)

Dr. Dave Ellis, Research Scientist, Texas Transportation Institute (TTI), Texas A & M University System, was recognized and discussed "The Texas Experience" in quantifying transportation needs and assessing revenue options. He noted Texas went through a similar process as Arkansas over the course of the last two years. Some tools were developed to help with the analysis. He explained Texas had two efforts to look at transportation needs and assess revenue alternatives. One group was the 2030 committee composed of business leaders around the state. This group met for 8 months and 15 hearings were held around the state to hear from constituents. The second effort was a revenue model to assess revenue alternatives once the needs were determined. He explained by going through all the calculations relevant to transportation issues, it became very clear if Texas continued on the current funding trend over the course of the next 20 years, delay for peak period travelers, by the year 2030, would be in excess of 80 hours per year. After identifying the needs and the costs to meet these needs, they then had to come up with a model to figure out how to raise the needed revenue. They then built a "web-based" model which meant anyone in Texas could get on the web and go through the different scenarios. Dr. Ellis gave a demonstration of the Transportation Revenue Estimator and Needs Determination System (TRENDS) showing how different variables can be used to project revenue amounts using various scenarios. The last component to be added to this model is the economic component. This will be used to figure out what the economic benefit will be with these highway improvements.

In response to a question from Representative Maxwell regarding context of meetings held across Texas, Dr. Ellis stated the fifteen public hearings held across the state came from the 2030 Committee process in terms of identifying needs. This was an opportunity for people in local areas to talk about transportation needs in their area in any context they wanted, i.e. a broad context or a specific project oriented context. The 2030 Committee went out and listened to what people had to say. It was important for the Texas Department of Transportation (TEXDOT) to hear these issues/questions and for TEXDOT to address

them. At every meeting, there were at least two Highway Commissioners and at least three individuals from TTI to make sure everyone's views were aired and incorporated into the report. There was a general realization that the gas and diesel tax has not been increased since 1991.

Subcommittee Reports (PowerPoint Presentations #2 & Handouts #1 & 2)

Mr. McKenzie, Chairman, New Revenue Subcommittee was recognized and gave a PowerPoint Presentation on the recommendations from the New Revenue Subcommittee. He discussed the criteria used to determine the best ways of finding new revenue sources that could be elastic and grow with inflation. The Subcommittee strongly recommends indexing gas and diesel excise taxes and a new tax on wholesale price of gas and diesel. He noted Policy Briefs (Handout #2) supporting the Subcommittee's recommendations were passed out to committee members. He further discussed the adjustment factors noting the subcommittee took into account and built into their analysis tool the increase in vehicle miles traveled which with the increase in population, may rise by 1.7% a year. An availing trend is the increase in the average fleet fuel efficiency which actually caused a net slight decline in excise tax revenue over the decade. Fuel prices will make a big difference in the future if you have either a sales tax or excise tax on value. Information was obtained from the Energy Information Administration on projected annual average gasoline and diesel pump prices. Construction cost inflation is going to be a very big issue over the next decade, because there is a very high correlation with the price of number two diesel. At the conclusion of the presentation on the New Revenue Subcommittee recommendations, Mr. McKenzie gave a brief demonstration on the analysis tool developed by Andrew Stephens of Stephens Inc. He explained Level 1 index targets were set which built the VMT and fleet fuel efficiency impact. Also analysis tools were built in for gasoline and diesel excise taxes, the proposed excise tax on wholesale value, special sales tax on new and used autos, and the transfer of sales tax on auto related items. This analysis tool looks at several different scenarios for generating new revenue.

Representative Lowery, Chairman, Revenue Transfer Subcommittee was recognized and gave the report on the recommendations of the subcommittee noting the subcommittee is recommending to the full Blue Ribbon Committee on Highway Finance the creation of a Highway Finance Trust Fund. He noted after much discussion Mr. Murphy made a motion to recommend to the full committee, for consideration to transfer sales tax collected on new and used vehicles, vehicle batteries, auto repairs, parts and service, and retail tire sales over a four-year period with no trigger and be effective July 1, 2011. Senator Miller seconded the motion and the motion carried with no objection. He called the Committee's attention to a copy of draft legislation in their packets. If this proposed legislation is introduced and passed in the 2011 Session, this will set forth a Highway Trust fund because of the complications of these existing revenues. These revenues would flow just as the existing revenues coming into the State Treasury. The subcommittee also discussed at length the replacement for the proposed revenue transfer. Discussion items were incrementally implementing and transferring these figures, trigger mechanism, and stop-gap measures. The subcommittee felt more harm than good would come of trying to cloud their recommendations with how the revenue would be replaced. Also discussed was sensitivity to the Streamline Sales Tax Agreement, the logistics of collecting parts and service, etc. were also discussed and will be discussed further. One idea the subcommittee discussed was that before the economic downturn, general revenue was increasing at a rate of approximately 3% per year. The revenue growth of approximately \$130 million would make up the replacement value of the revenue transferred to AHTD. The subcommittee discussed transferring these funds over a ten year period, five year period and finally agreed on transferring these funds over a four year period. These transfers would at least keep up even with the highway needs. The economic impact of transferring these funds was also discussed noting these funds could act as a stimulus for the state.

Discussion on Subcommittees recommendations

Not discussed at this time

Other Business

Senator Capps discussed the date of the next meeting noting the Committee needs to develop a course of action for the remaining six months or life of this Committee. He advised the Legislature will go into its first annual fiscal session on February 8 and will hopefully last for thirty days which will extend into early March. The Committee's time in February and March could be used more effectively in other ways than by coming together here at the Capitol for formal meetings. He asked for suggestions on what they could do to be productive and keep the Committee in business during these two months. He noted there is still much to be done, there maybe a more effective way to accomplish this rather than coming together here at the Capitol for formal meetings. There has been discussion on going out into the state and asking for input from the general public. He asked for suggestions from Committee members.

Mr. Murphy suggested using February and March to develop some around the state meetings. Not to sell these recommendations necessarily, but to have dialog around the state as to the need. He pointed out AHTD does a Needs Study approximately every four years. Maybe it would be a good idea to use this time while the Legislature is in session to develop meetings around the state, solicit input from the general public and have the opportunity to digest these recommendations, debate them, maybe improve them, and then come back in April armed with this information. He noted he did not know how many of these meetings should be held or where they should be, but AHTD has done a number of these in the past in conjunction with needs studies.

Senator Miller asked if he was talking about the full committee meeting out in the state. Mr. Murphy stated he did not mean the full committee because he realized it would be impossible for the whole committee to meet out in the state during February and March. He feels that it would be possible for various segments of the committee to embark on information gathering. It would be impractical for the whole committee to do this.

Senator Capps noted legislative members would not be able to do this, but perhaps two or three members of the committee could host some of these meetings around the state. He noted that Bureau staff will be busy during session which would necessitate looking in other areas for assistance in staffing these meetings.

Mr. Murphy offered the services of AHTD because they have done these type of meetings a number of times.

Senator Capps noted this would give the Committee an opportunity to go out into the state and get input from people. These meetings could be held in February and March, then come back in April and discuss the recommendations heard today along with any other information and recommendations heard from the citizens of Arkansas. The Committee would then have a May meeting to put everything together and make the final recommendation.

Senator Miller stated he agreed with Mr. Murphy and suggested the non-legislative members to set these meetings up in their hometowns.

Mr. Lynch stated he agreed with Mr. Murphy and Senator Miller. He suggested the state be divided up into some type of sections, i.e. Congressional Districts, or corridors and the ones who maybe have more of a sphere of influence in a particular area, may want to set the meeting up and be a part of that particular meeting.

Mr. Wilson suggested the meetings be held in the Highway Commission Districts and anyone able, could attend.

Mr. Lynch noted Mr. Bolin, Executive Director, Arkansas Good Roads Transportation Council, has experience in setting up this type of meeting. He has traveled to all areas of the state knows influential people in all these areas who would be beneficial in working with AHTD staff.

Mr. Murphy made a motion that this committee authorize Senator Capps as Chairman to work with AHTD, and Arkansas Good Roads to look at a Request for Proposals (RFP) in obtaining the services of a third party group to be a supplement in helping coordinate, round up, and synthesize this message.

Mr. Williams commented he supports the notion of getting into the field and listening to the people, but he suggested the committee be very sensitive to the independent responses sought and that everything be done to not prejudice their response. In order for this committee to have a credible position to make recommendations going forward, he feels an independent third party would give the committee the independence and credibility needed to make our recommendations.

Mr. Wilson seconded Mr. Murphy's motion as clarified by Mr. Williams. Without objection, the motion carried.

Representative Maxwell noted it is very important when meeting out in the state, the general public understand the predicament in Arkansas as well as the United States. He suggests information be presented in a simple, brief, straightforward manner to the general public.

Mr. Lynch asked how these meetings would be set in motion and how they would be set up. Will they begin in February, who will coordinate them, etc.

Senator Capps suggested getting with staff and try and come up with some type of plan.

Mr. Lynch recommended the two subcommittee chairmen craft some sort of loose plan which can be discussed.

Representative Lowery stated he did not mind in continuing to assist in whatever way feasible. He feels the simplest task will be to find where in the state the committee will meet. The more complicated part will be the presentation and who will make the presentation and what will be said. He feels someone should present the need and in addition say this is what the committee recommends and then ask what do you, the general public like or dislike about these recommendations. There has to be continuity, If there are three meetings in North Arkansas and one in South Arkansas, someone needs to be at each of these meetings to record and report on the consensus of the general public. He feels the committee will need the assistance of a third party to make sure the same thing is said each and every time and recorded properly. That person or entity will then be required to report back to the full committee.

Mr. McKenzie suggested Representative Lowery and he meet with Senator Capps, Representative Maxwell, and Director Flowers to put together a plan for setting up these meetings. Then get this information out to the committee for their feedback.

Senator Capps feels this can be accomplished within the next week to ten days.

Mr. Lamberth ask if it would be feasible, instead of having separate meetings over a number of days, would it be advantageous to have four or five meetings on one date.

Senator Capps stated that sounded good in terms of publicity.

Representative Sample stated he liked that idea. Since the Legislature will be off on Mondays and Fridays, it maybe possible to make a Thursday meeting.

Senator Capps noted it would also give the committee more time to prepare.

Mr. Malone noted he and County Judge Fowler are the only two committee members from Northwest Arkansas.

Mr. Williams commented having a large meeting such as Mr. Lamberth suggested would be advantageous. He suggested that there be more than one meeting.

Mr. Bolin stated he agreed with Mr. Williams. He proposed that one meeting be held per Congressional District which would be four meetings and have these meetings on four different days because of the people from AHTD who would want to be at these meetings. He feels this would give you a very good idea what the people are thinking across the state. This could be planned in the first two weeks of February and start implementing this the first week in March.

Mr. McKenzie stated one of the things he would like to see some discussion on, and maybe AHTD can make a presentation on, is the roll that bonding could play in terms of getting new capacity projects on the ground early and take a longer while to pay for them and therefore saving the taxpayers a large amount of money over a decade or two.

With no further business, the meeting adjourned at 1:49 p.m.