

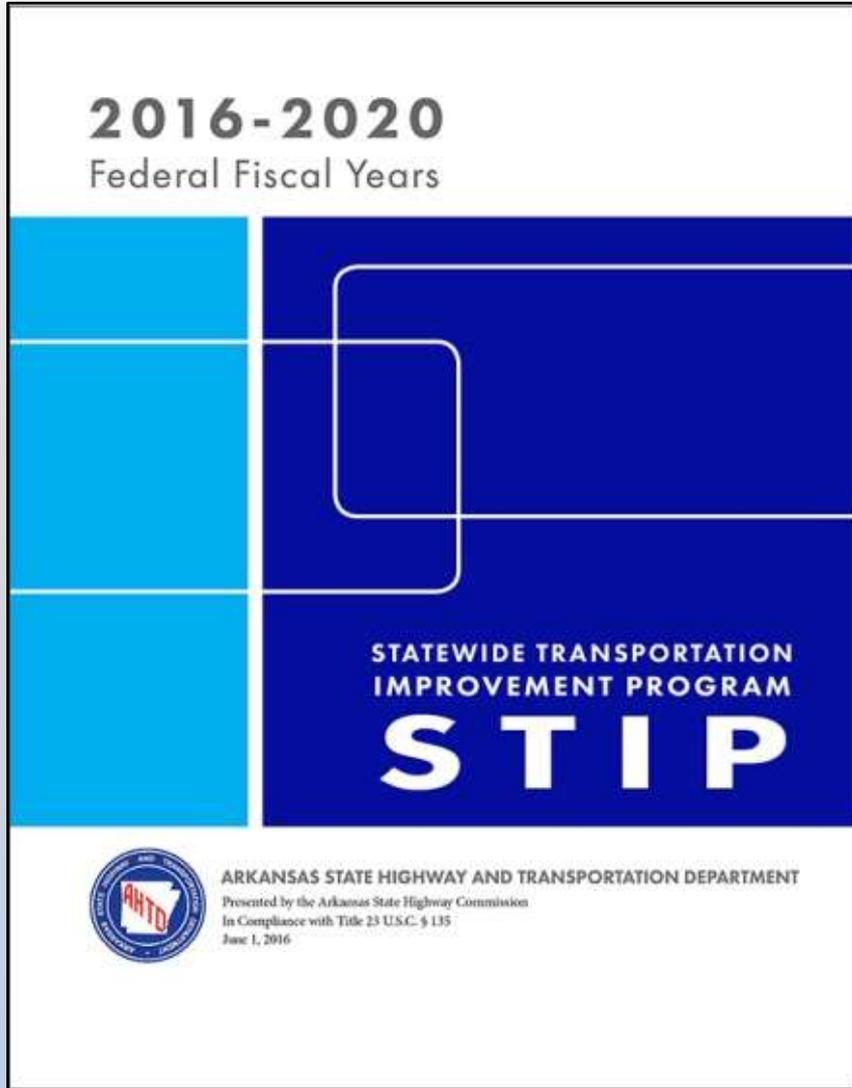
Scott E. Bennett, P.E.

Director



Tuesday, February 20, 2018

# Statewide Transportation Improvement Program



- Statewide Transportation Improvement Program (**STIP**)
- Federal Requirement
- Financial Constraint
- Development Supports:
  - ✓ Public Transparency
  - ✓ Consultation with Transportation Planning Partners
  - ✓ Sound Financial Planning
  - ✓ Efficiency of Oversight

# STIP Development Process

## Arkansas State Highway Needs

Verified by  
Arkansas  
Legislative  
Audit

Annual Needs Next 10 Years Versus Annual Revenue Available Through 2020			
<b>System Preservation</b>			
	Pavement	\$387,000,000	
	Bridges	\$117,000,000	
		Total System Preservation	\$504,000,000
<b>Capacity Improvements for Congestion Relief</b>		\$305,000,000	
<b>Safety Improvements</b>		\$ 86,000,000	
<b>Maintenance</b>			
	Equipment Upgrades	\$ 19,000,000	
	Facilities Upgrades	\$ 8,000,000	
	Intelligent Transportation Systems (ITS)	\$ 3,000,000	
		Total Maintenance	\$ 30,000,000
<b>Total Annual Funds Needed for Highway Construction Plan</b>		\$925,000,000	
<b>Annual Funds Available for Highway Construction through the FAST Act (does not include funds committed to Interstate rehabilitation = \$117,000,000 annually)</b>			\$447,000,000
<b>Shortfall for Needs</b>		\$478,000,000	

# STIP Development Process

## Arkansas State Highway Capital Improvement Goals

### Identified Capital Improvement Projects

Four Lane Grid System	\$ 12,697,000,000
New Location / New or Modified Interchanges	\$ 921,000,000
Other Major Widening	\$ 258,000,000
Grand Total	\$ 13,876,000,000

# Estimated Average Annual Construction Funds Fiscal Years 2016-2020

Net Federal Funds (Est. Average Annual Revenue from FAST Act)..... \$ 535 million

State Highway Funds (Est. Avg. Annual Revenue 2016-2020)..... \$ 455 million

---

**Total Federal and State Highway Funds..... \$ 990 million**

**Less Federal Funds for:**

Fixed Budgeted Expenditures (Maintenance, Administration and Operations) ..... \$30 million

**Non-Construction Programs**

Statewide Planning & Research ..... \$11 million

Metropolitan Planning ..... \$2 million

Surface Transportation Set Aside - Transportation Alternatives Program ..... \$10 million

Surface Transportation Set Aside - Recreational Trails Program ..... \$2 million

Right-of-Way, Utilities ..... \$25 million

Obligation Limitation ..... \$25 million

**Total Reduction - Federal Funds (\$ 105) million**

**Less State Funds for:**

Fixed Budgeted Expenditures (Maintenance, Administration and Operations) ..... \$318.0 million

State Match for Non-Construction Programs (State Planning & Research) ..... \$3.0 million

**Total Reduction - State Funds (\$ 321) million**

**Less Federal and State Funds for IRP Commitment:**

Federal Interstate Maintenance Funds ..... \$58.0 million

4¢ Diesel Fuel Tax ..... \$17.0 million

Federal and State Funds to Supplement IRP ..... \$42.0 million

**Total Reduction - Federal and State Funds for IRP Commitment (\$ 117) million**

---

**Total Federal and State Funds Available for Highway Construction..... \$ 447 million**



**\$ 447,000,000**

# Federal vs. State Funding

## 1993

Hwy. Funding Breakdown



## 2016

Hwy. Funding Breakdown



# Arkansas Legislative Audit

## Special Report Arkansas Legislative Audit

### Review of Sources and Uses of Funds

Arkansas Department of Transportation  
For the Period July 1, 2009 through June 30, 2016 and  
Projected for Fiscal Years 2017 through 2020



#### INTRODUCTION

This report is presented in response to a request for Arkansas Legislative Audit (ALA) to review information, estimates, and calculations provided by the Arkansas Department of Transportation (ARDOT), formerly known as the Arkansas State Highway and Transportation Department, related to highway funding. ARDOT has indicated that additional state funding is needed to fully maximize available federal funds and to expand non-federal construction and maintenance projects.

#### OBJECTIVES

The objectives of this report were to:

1. Provide information regarding state funding sources and uses for highways, with associated construction and maintenance costs, for prior years.
2. Determine the amount of matching funds needed annually in order for ARDOT to receive the maximum federal aid available.
3. Determine the amount of additional state revenues needed to fund ARDOT's proposed construction and maintenance program for roads and facilities.
4. Provide a history of bond issuances, including balances and associated costs.

#### SCOPE AND METHODOLOGY

This report was prepared by reviewing activities for state fiscal years ended June 30, 2010 through 2016, and projections and estimates for federal fiscal years ending September 30, 2017 through 2020. ALA staff reviewed audit reports from prior years, particularly revenues and expenditures related to construction, and determined future federal funding from reports obtained from the Federal Highway Administration. All information for additional construction and maintenance projects was provided by ARDOT and tested for accuracy and reasonableness by ALA staff.

The methodology used in preparing this report was developed uniquely to address the stated objectives; therefore, this report is more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

#### BACKGROUND

ARDOT recognizes revenues from both federal and state sources. State revenues include motor fuel taxes, registration fees, natural gas severance fees, and overload permits and penalties. Many highway construction projects are funded with both federal and state monies. The percentage of state participation in these projects varies depending on the federal program involved, but most programs require a 20% match.

#### ARKANSAS LEGISLATIVE AUDIT

500 Woodlane Street, Suite 172, Little Rock, AR 72201

Phone: 501-683-8600 • Fax: 501-683-8605

[www.arklegaudit.gov](http://www.arklegaudit.gov)

Report ID: SPSA02516

Report Date: August 31, 2017



- Report Released August 31, 2017
- Presented to Legislative Joint Audit Committee in September

# Arkansas Legislative Audit

## Exhibit III

### Arkansas Department of Transportation (ARDOT) Summary of Annual State Funds Needed to Meet Proposed Highway Construction Plan Over a 10-Year Period

Description	Annual Funds Needed for Highway Construction Plan	Annual Funds Available for Highway Construction	Additional Annual State Revenues Needed for Highway Construction Plan
System Preservation			
Pavement	\$ 387,000,000	\$ 137,000,000	\$ 250,000,000
Bridges	117,000,000	90,000,000	27,000,000
Total System Preservation	504,000,000	227,000,000	277,000,000
Capacity Relief	305,000,000	157,000,000	148,000,000
Safety Improvements	86,000,000	44,000,000	42,000,000
Maintenance			
Equipment upgrades	19,000,000	19,000,000	
Facilities upgrades	8,000,000		8,000,000
Intelligent Transportation System (ITS)	3,000,000		3,000,000
Total Maintenance	30,000,000	19,000,000	11,000,000
<b>Totals</b>	<b>\$ 925,000,000</b>	<b>\$ 447,000,000</b>	<b>\$ 478,000,000</b>

Note: Amounts shown are rounded.

**\$ 925,000,000**

**Does Not Include  
Capital Improvement  
Projects**

# Arkansas State Legislative Audit

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**\$ 447,000,000**

# Arkansas State Legislative Audit

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<b>Totals</b>	<b>\$ 925,000,000</b>	<b>\$ 447,000,000</b>	<b>\$ 478,000,000</b>

Note: Amounts shown are rounded.

**\$ 478,000,000**

# STIP Development Process

## Determination of Funding Distribution by Category

### Investment Plan for Current STIP

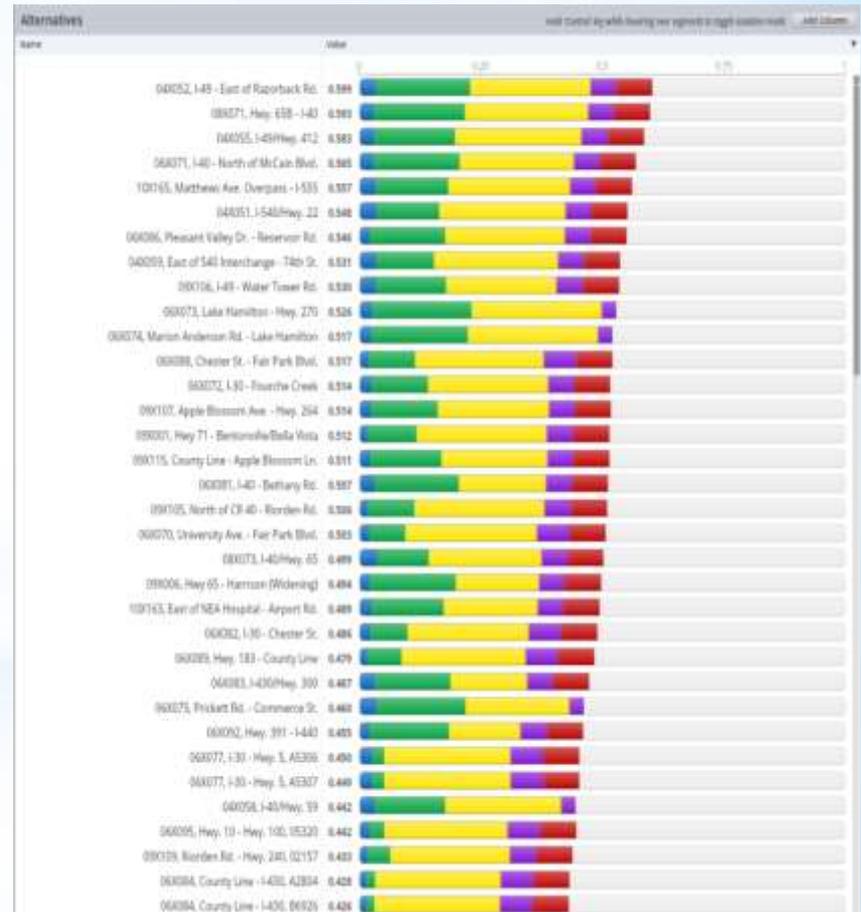
✓ System Preservation	80%
✓ Capital Improvements	20%
✓ Arkansas Primary Highway Network	90%

# STIP Development Process

## Decision Lens Software Ranking of Projects

### Decision Lens Criteria

- ✓ Safety
- ✓ Infrastructure Condition
- ✓ Mobility
- ✓ Economic Consideration
- ✓ Performance Measures



# STIP Development Process

## Project Selection Validation



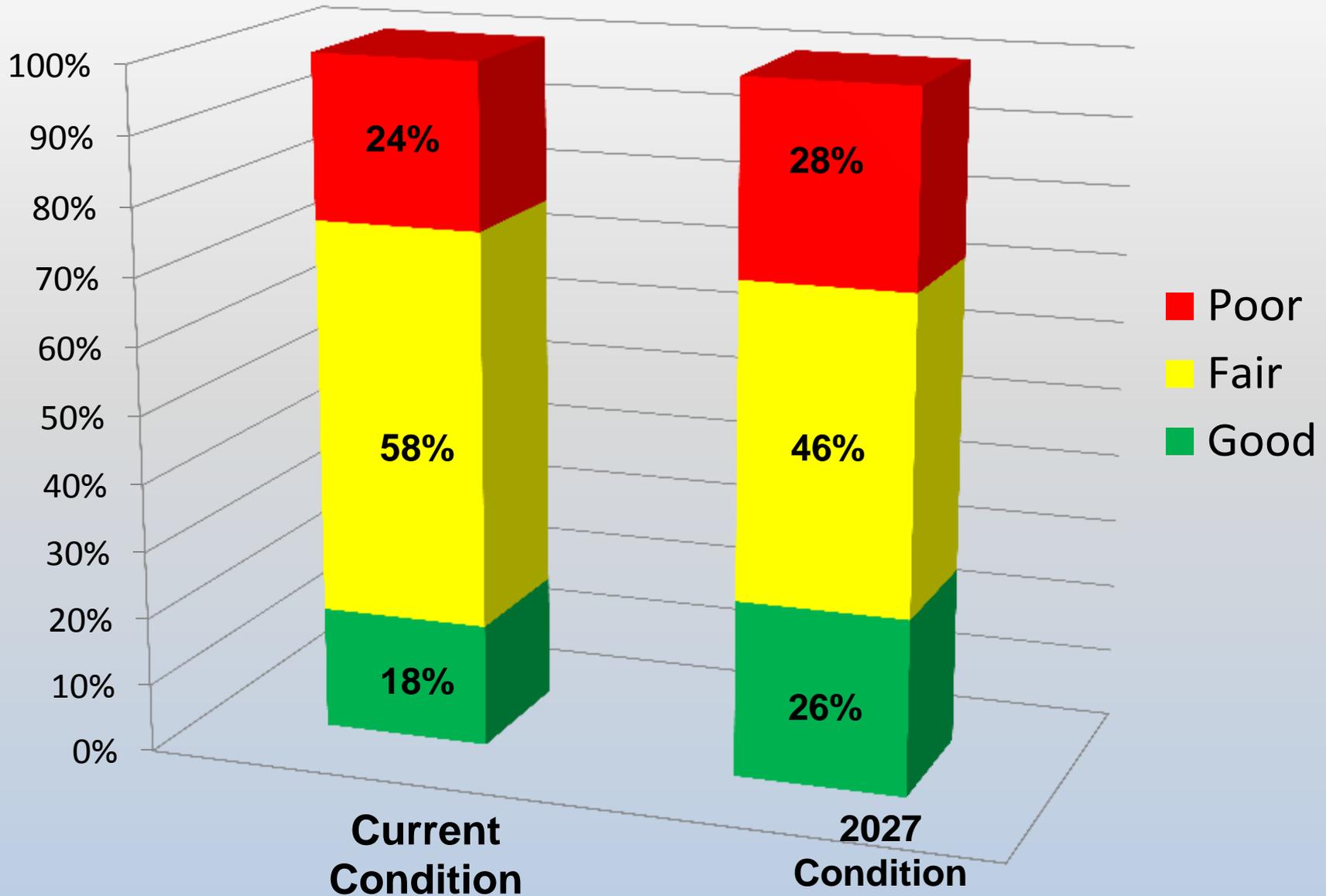
### ✓ Other Factors Considered

- District Engineers
  - Engineering Judgement
  - Technical Expertise
- Partnering

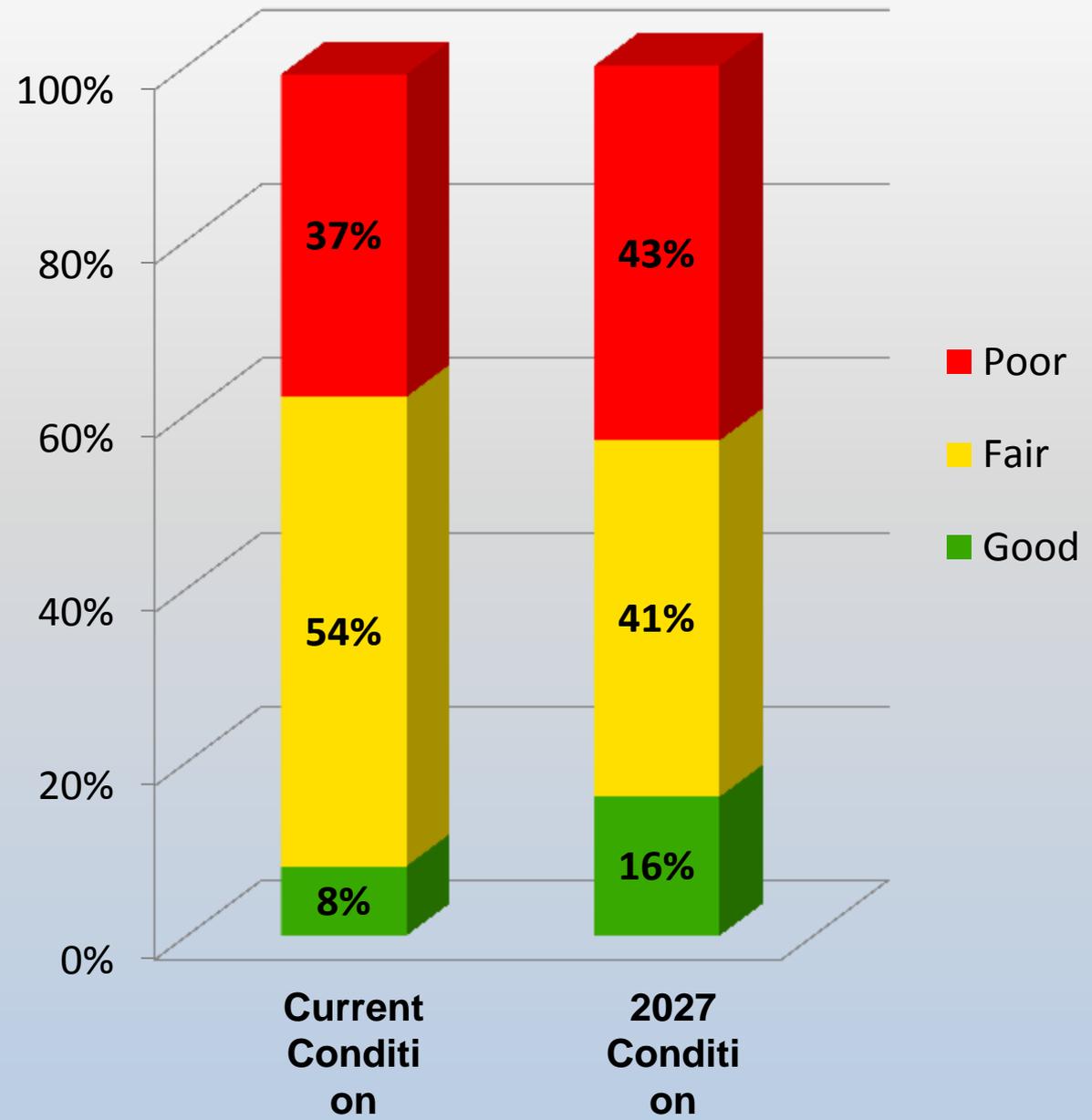
# STIP Development Process

## Final Project Selection

- ✓ Highway Commission Approves Draft List of Recommended Projects
- ✓ Publish for Public Comment (*notification is sent to all elected public officials*)
- ✓ Adjustments
- ✓ Final Approval
  - Federal Highway Administration
  - Federal Transit Administration



# Other State Highways – Excluding Interstates



## Pay a **Little** Now



Overlay  
**\$100,000**  
per lane mile

## Pay a **Whole Lot** Later



Reconstruction  
**\$1,500,000**  
per lane mile

# 2017 Lettings

Type Work	Amount (x \$1 M)
Widening / New Location	\$ 354
Pavement Preservation	\$ 327
Bridges	\$ 181
Safety	\$ 3
Other	\$ 5
<b>Total</b>	<b>\$ 870</b>



# 2018 Scheduled

Type Work	Amount (x \$1 M)
Widening / New Location	\$ 630
Pavement Preservation	\$ 169
Bridges	\$ 431
Safety	\$ 65
Other	\$ 32
<b>Total</b>	<b>\$1,327</b>



**January – \$19 Million**

**February – \$30 Million**

**April – \$64 Million**

**May – \$28 Million**

**June – \$28 Million**



# 2019 Scheduled

Type Work	Amount (x \$1 M)
Widening / New Location	\$ 297
Pavement Preservation	\$ 181
Bridges	\$ 191
Safety	\$ 37
Other	\$ 28
<b>Total</b>	<b>\$ 734</b>



# 2020 Scheduled

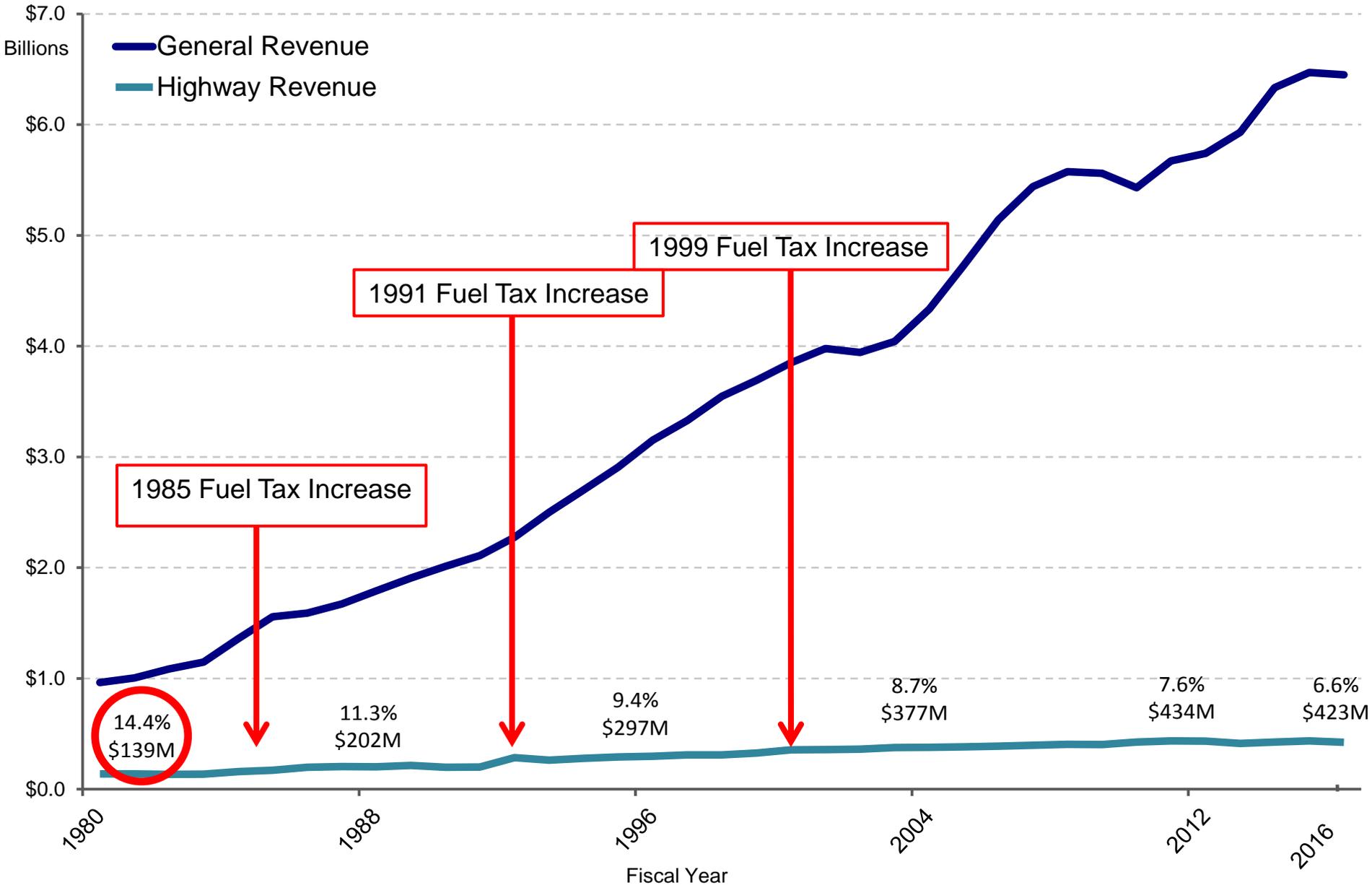
Type Work	Amount (x \$1 M)
Widening / New Location	\$ 387
Pavement Preservation	\$ 80
Bridges	\$ 135
Safety	\$ 12
Other	\$ 10
Total	\$ 624



# Status of State Funding

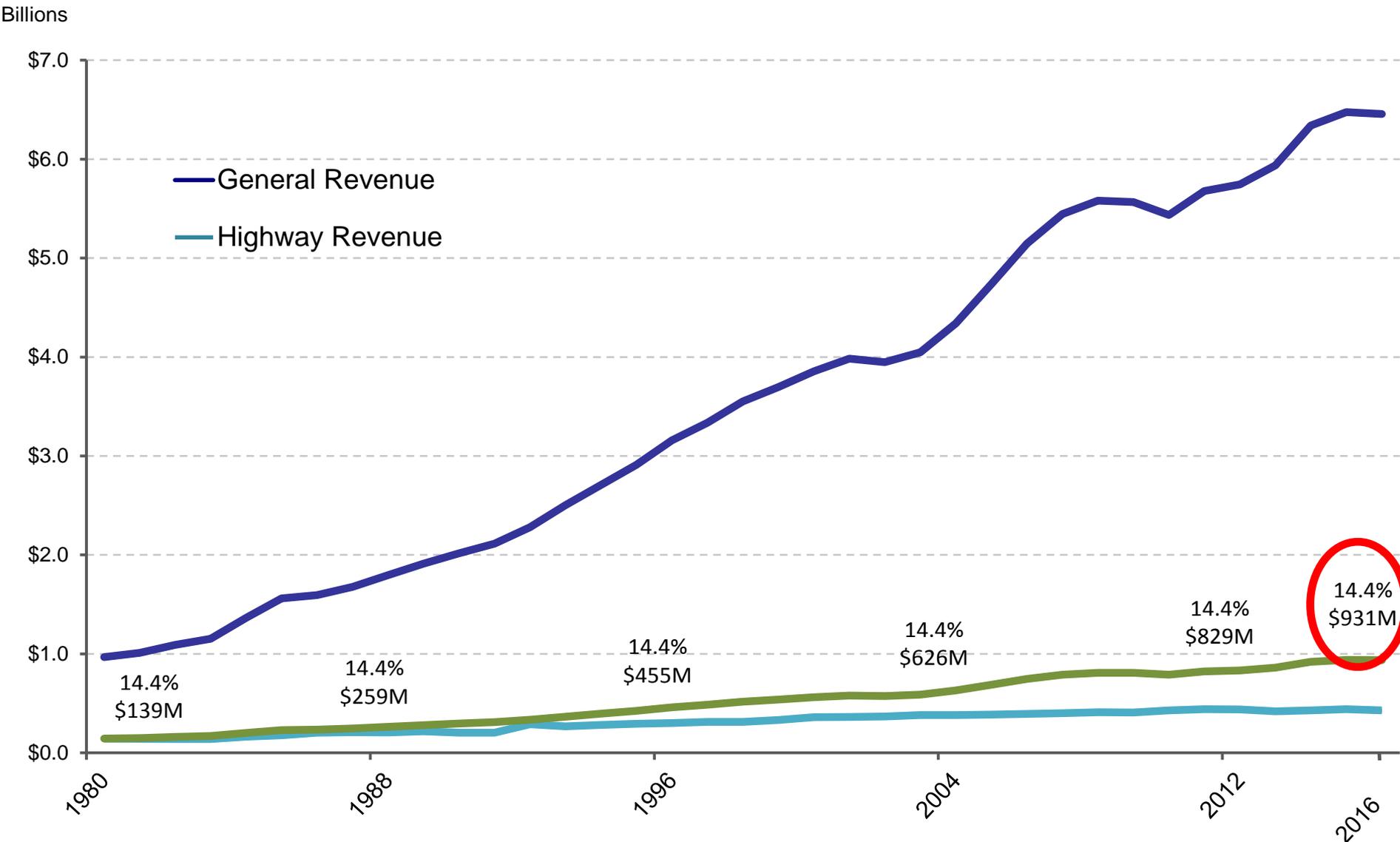


# Percent of Highway vs. General Revenue



Excludes County & City Aid funds | Excludes CAP funds

# Highway Revenue at 14.4% of General Revenue

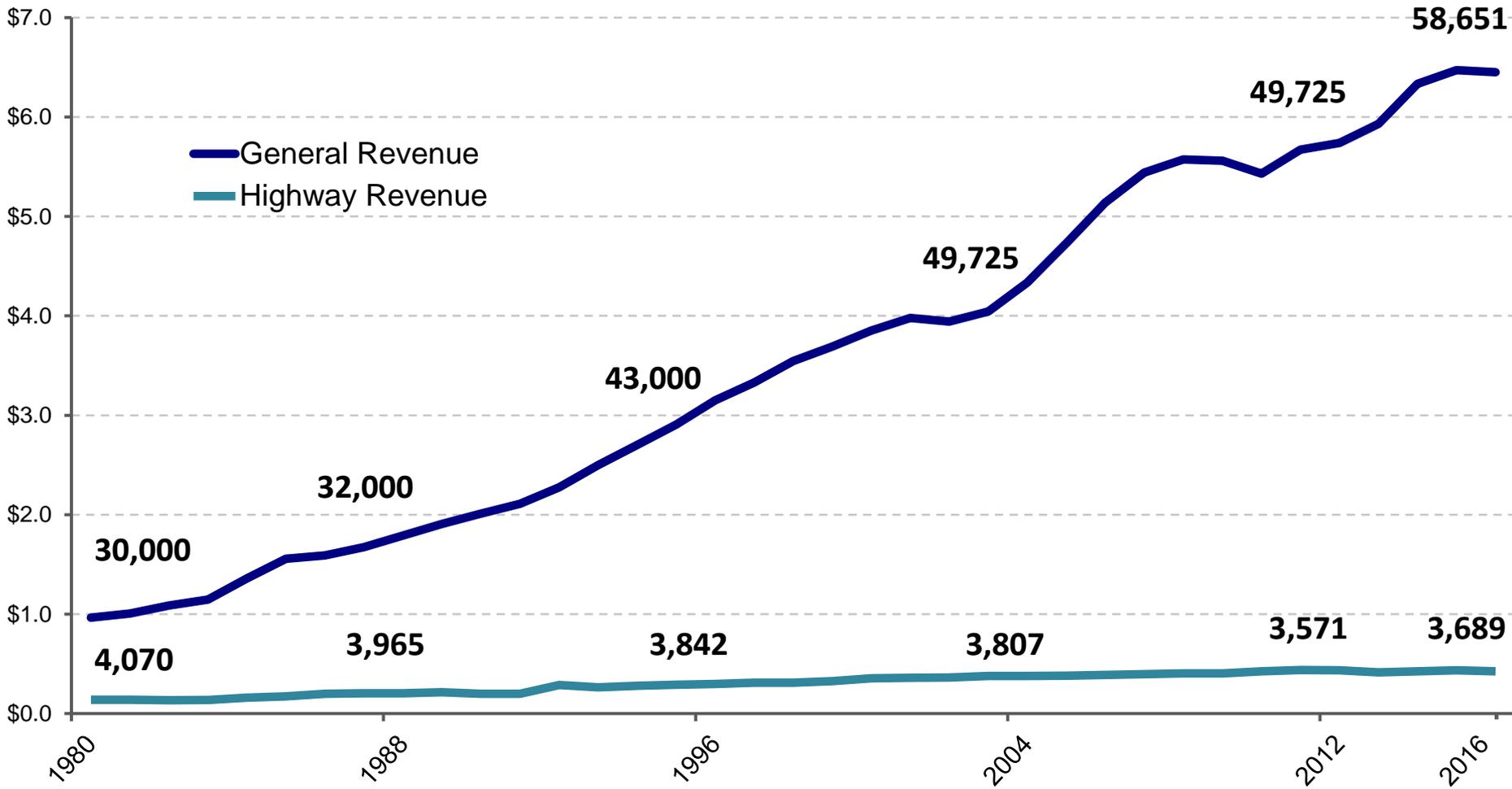


Excludes County & City Aid funds | Excludes CAP funds

Fiscal Year

# Highway vs. General Revenue Compared to Employment Levels

Billions



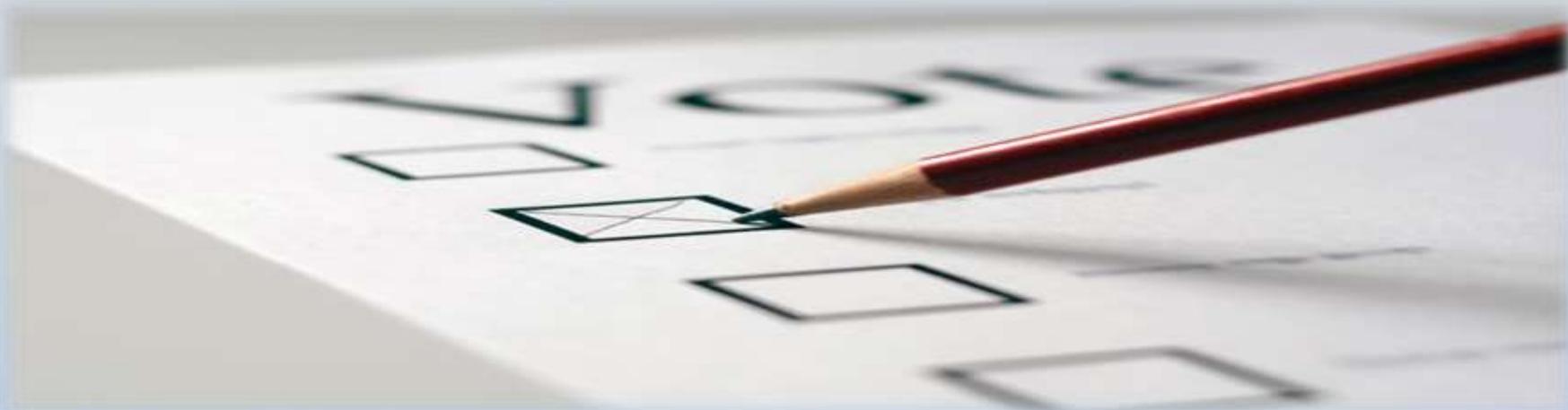
Excludes County & City Aid funds | Excludes CAP funds

Fiscal Year

## □ Funding Targets

- ✓ Immediate: \$ 50 Million
- ✓ Short-term (0-3 years): \$110 Million
- ✓ Mid-term (3-5 years) (2018-2020): \$250 Million
- ✓ Long-term (6-9 years) (2021-2024): \$400 Million

All figures are annual amounts for state highways.



# Governor's Plan – As Originally Proposed

	FY16	FY17	FY18	FY19	FY20
	(x \$1 M)				
<b>2016 Special Session</b>					
Transfer Funds from the FY15 Unobligated Surplus	20.0				
Provide Governor's Rainy Day Funds	20.0				
Special Revenue from Sales Tax on New and Used Vehicles	1.5	8.0	15.0	20.0	25.0
Redirect the \$4 Million of the Diesel Tax that goes to General Revenue to Highways (70/30 split)		2.7	2.7	2.7	2.7
Eliminate the State Central Services Deduction from 1/2 Cent Sales Tax (70/30 split)	5.4	5.4	5.4	5.4	5.4
<b>Sub-Totals 2016 Special Session</b>	46.9	16.1	23.1	28.1	33.1
<b>Potential in Future Years</b>					
Allocate up to 25% of Future GIF to Highways (Estimate Based on 10 Year Average)		48.0	48.0	48.0	48.0
<b>Totals 2016 Special Session and Potential in Future Years</b>	46.9	64.1	71.1	76.1	81.1

# As Passed and Projected

## Act 1 - Arkansas Highway Improvement Plan of 2016

	FFY16	FFY17	FFY18	FFY19	FFY20
	(x \$1 M)				
<b>2016 Special Session</b>					
Long Term Reserve Fund (formerly named Arkansas Rainy Day Fund)	40.0				
Securities Reserve Fund	1.5	20.0	20.0	20.0	20.0
Redirect the \$4 Million of the Diesel Tax that goes to General Revenue to Highways (70/30 split)		2.7	2.7	2.7	2.7
Eliminate the State Central Services Deduction from 1/2 Cent Sales Tax (70/30 split)		5.4	5.4	5.4	5.4
<b>Sub-Totals 2016 Special Session</b>	41.5	28.1	28.1	28.1	28.1
<b>Potential in Future Years</b>					
Allocate up to 25% of Future GIF to Highways (Estimate Based on 10 Year Average)		48.0	48.0	48.0	48.0
<b>Total Projected</b>	<b>41.5</b>	<b>76.1</b>	<b>76.1</b>	<b>76.1</b>	<b>76.1</b>

# Actual Compared to Projected

## Act 1 - Arkansas Highway Improvement Plan of 2016

	FFY16	FFY17	FFY18	FFY19	FFY20
	(x \$1 M)				
<b>2016 Special Session</b>					
Long Term Reserve Fund (formerly named Arkansas Rainy Day Fund)	40.0	20.0			
Securities Reserve Fund	1.5	1.7	? 20.0	? 20.0	? 20.0
Redirect the \$4 Million of the Diesel Tax that goes to General Revenue to Highways (70/30 split)		0	2.7	2.7	2.7
Eliminate the State Central Services Deduction from 1/2 Cent Sales Tax (70/30 split)		5.4	5.4	5.4	5.4
Allocate up to 25% of Future GR Surplus to Highways		3.9	?	?	?
<b>Total Received</b>	<b>41.5</b>	<b>31.3</b>	<b>?</b>	<b>?</b>	<b>?</b>
<b>Total Projected</b>	<b>41.5</b>	<b>76.1</b>	<b>76.1</b>	<b>76.1</b>	<b>76.1</b>
<b>Difference</b>	<b>0</b>	<b>(44.8)</b>	<b>?</b>	<b>?</b>	<b>?</b>

# Potential New Program



# Citizens Opinion Survey

## CITIZENS OPINION SURVEY ON HIGHWAYS IN ARKANSAS

MAIL OR EMAIL RESPONSES TO:  
ArDOT  
Public Information  
P.O. Box 2261  
Little Rock, AR 72203  
info@ardot.ar.gov

Are you satisfied with the condition of the existing state highway system?

Yes  No

What highways in your area need improvements, and what type of improvements do they need?

Priority 1: \_\_\_\_\_  
Priority 2: \_\_\_\_\_  
Priority 3: \_\_\_\_\_  
Priority 4: \_\_\_\_\_

If you want better highway conditions, the Arkansas State Highway and Transportation Department will need additional funds. Would you support a new highway program that would generate additional revenue?

Yes  No

Which of the following sources do you recommend be utilized in obtaining additional funds (check all that apply):

- Increase in gas tax
- Increase in diesel tax
- Increase in sales tax (dedicated to highways)
- Increase in registration fees
- Add sales tax on wholesale price of motor fuels
- Transfer existing sales and use tax on motor vehicles and related parts and service (currently collected but not paid to highways)
- Other: \_\_\_\_\_

Would you be willing to sign a petition to put a highway revenue proposal on the 2018 general election ballot?

Yes  No

How did you hear about this survey?

- Presentation
- TV/Radio/Print
- Website/Search Engine
- Social Media
- Family or Friend
- Other: \_\_\_\_\_

Optional:

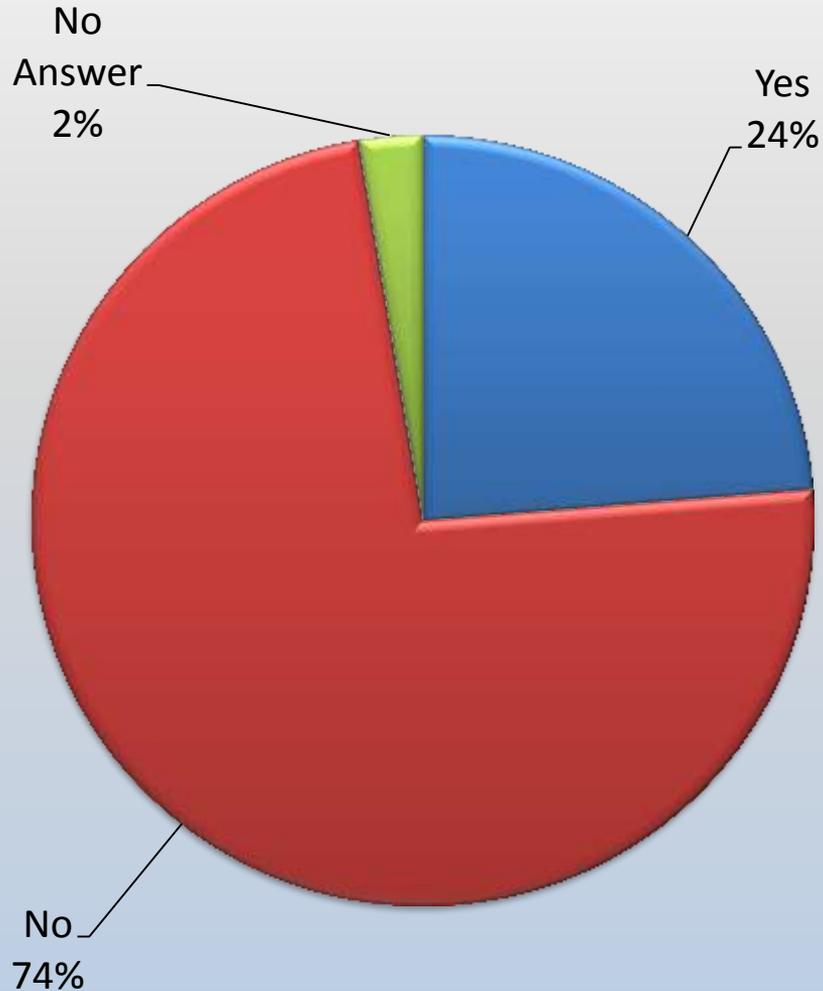
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
City, State, Zip: \_\_\_\_\_

Online Form Available Here:

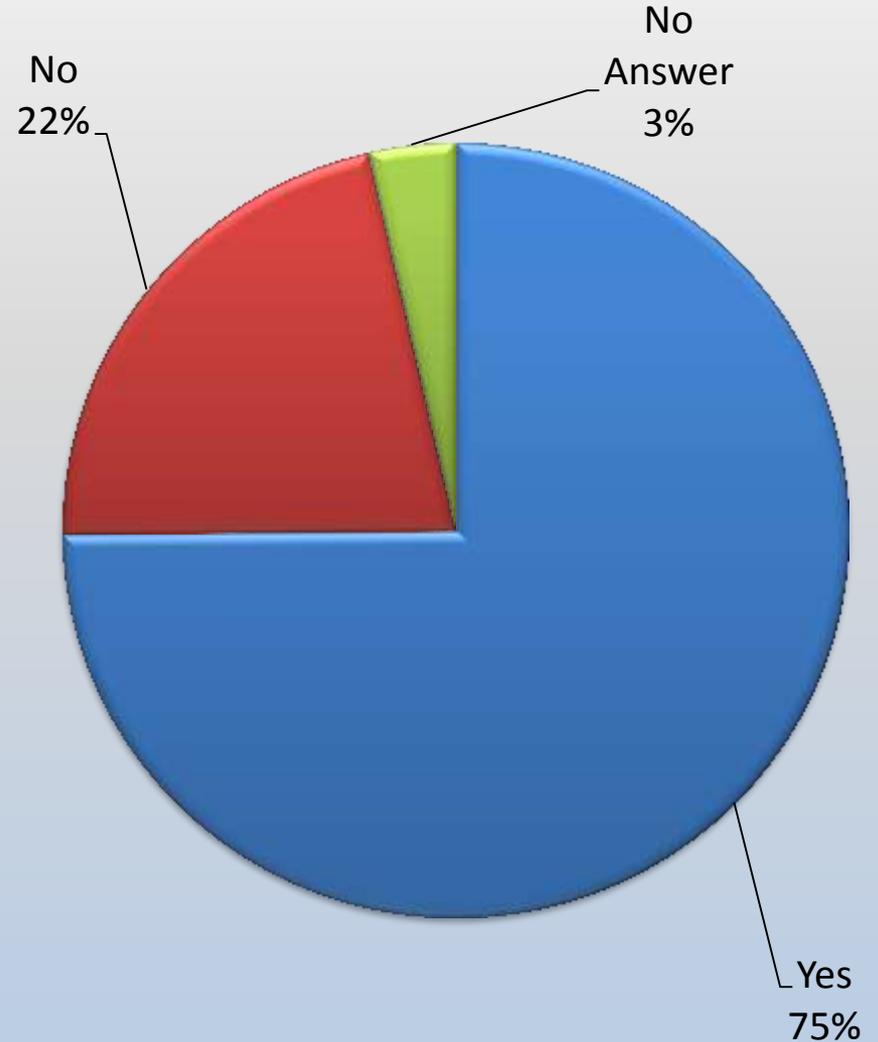


# Survey Results

Are you satisfied with the condition of the existing highway system?



Would you support a new highway program that would generate additional revenue?



# Revenue Sources

Source	Highway Revenue <sup>1</sup>
1 Cent Motor Fuel Tax Increase	\$ 14 M
Remove Sales Tax Exemption (Wholesale \$1.70 per Gallon) <sup>2</sup>	\$ 108 M
6.5% Sales Tax (Wholesale \$1.70 per Gallon)	\$ 156 M
\$10 Registration Fee Increase (Cars and Pickups)	\$ 19 M
Transfer Sales Tax on New and Used Vehicles <sup>2</sup>	\$ 228 M
Transfer Sales Tax on Auto Repair Parts, Services, etc. <sup>2</sup>	\$ 74 M
1% General Sales Tax	\$ 344 M

<sup>1</sup> Amount shown is annual net to highways – after deduction for CFA/CSF and 30% to cities and counties.

<sup>2</sup> Transfer of 4.5% (“general” portion of statewide sales tax)

# Options for Generating Additional Revenue for Highways

Source	\$400 Million for Highways <sup>(1)</sup>
Fuel Tax	28.4¢
Sales Tax on Fuel (wholesale)	16.67%
Registration Fee	\$208
General Sales Tax <sup>(2)</sup>	1.16%

<sup>1</sup> Amount shown is annual net to highways – after deduction for CFA/CSF and 30% to cities and counties.

<sup>2</sup> Transfer of 4.5% (“general” portion of statewide sales tax)

# Road User Related Tax Revenue (SFY 2016)

## Total Road User Revenue

**\$1,076.5 Million**

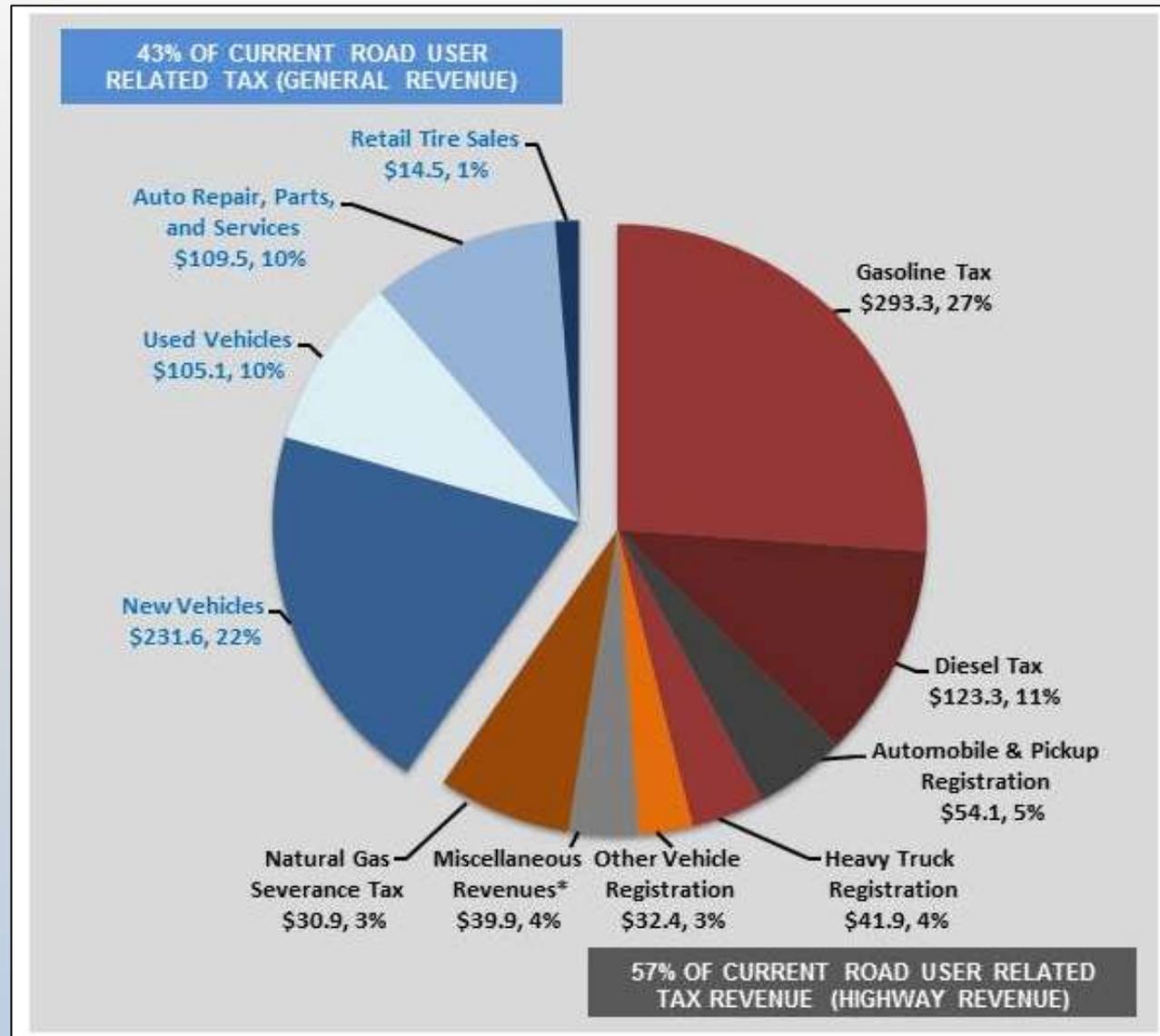
## Distribution:

### General Revenue

**\$460.7 Million (43%)**

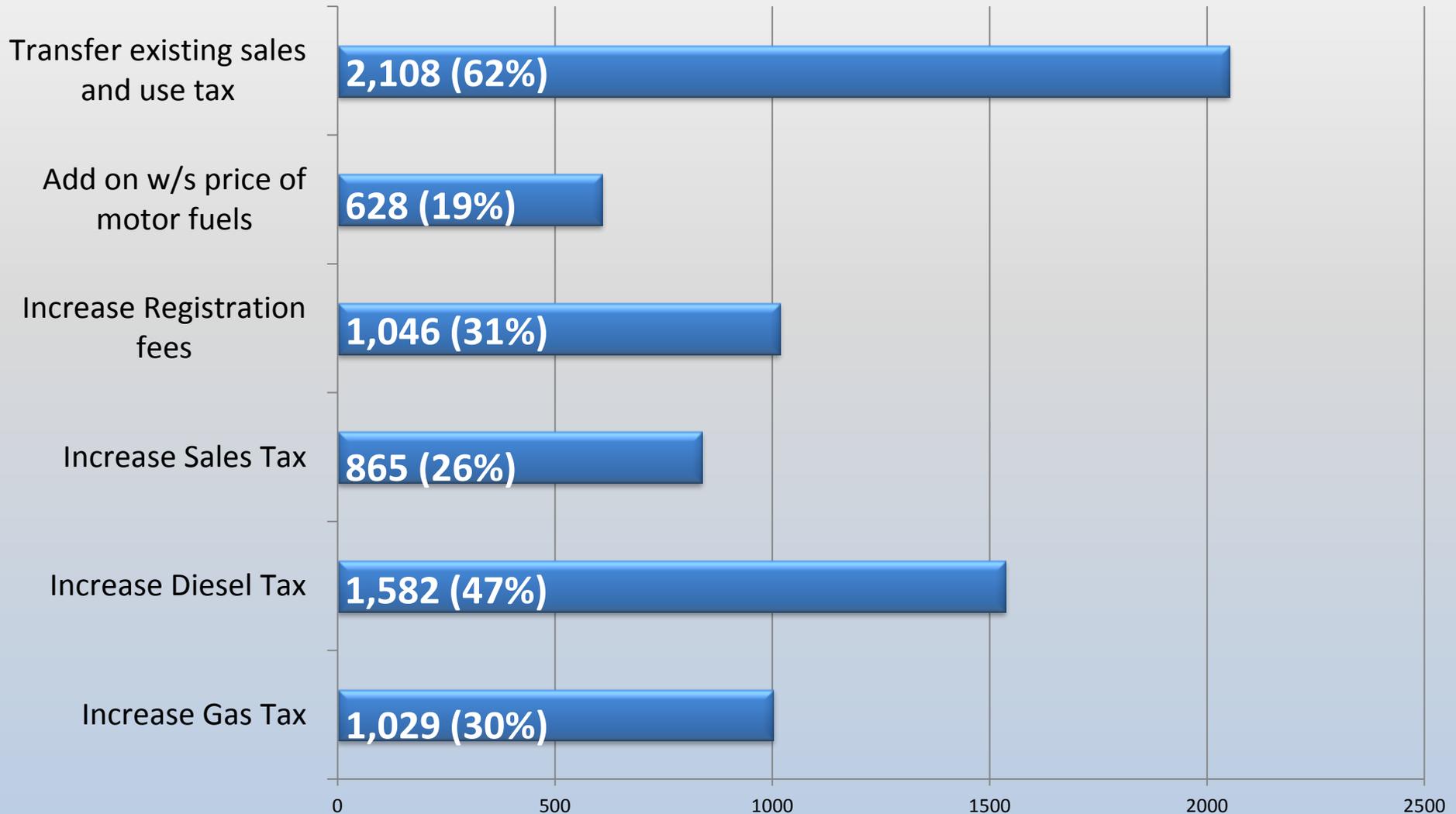
### Highway Revenue

**\$615.9 Million (57%)**



# Survey Results

Which of the following sources do you recommend be utilized in obtaining additional funds?



# Potential New Program

Year	New and Used Vehicles Retail Tire Sales Revenue	\$15 Registration Fee Increase	Sales Tax 1/4 cent	Total Additional to Highway Revenue (70/15/15)	Additional to Department *
	5-Year Phase-In	2-Year Phase-In			
(x \$1 Million)					
2020	\$ 73.5	\$ 21.4		\$ 94.9	\$ 66.5
2021	\$ 150.0	\$ 43.3		\$ 193.3	\$ 135.3
2022	\$ 229.4	\$ 43.7		\$ 273.2	\$ 191.2
2023	\$ 312.0	\$ 44.2		\$ 356.2	\$ 249.4
2024	\$ 397.8	\$ 44.6	\$ 144.1	\$ 586.6	\$ 410.6
<b>TOTAL TO THE HIGHWAY FUND IN YEAR 2024</b>				<b>\$ 586.6</b>	<b>\$ 410.6</b>

# Potential New Program

Year	Add 6.5% Exise Tax to Motor Fuels  3-Year Phase-In	Sales Tax 1/2 cent	Total Additional to Highway Revenue (70/15/15)	Additional to Department *
	(x \$1 Million)			
2020	\$ 111.3		\$ 111.3	\$ 77.9
2021	\$ 189.3		\$ 189.3	\$ 132.5
2022	\$ 251.0		\$ 251.0	\$ 175.7
2023	\$ 256.0		\$ 256.0	\$ 179.2
2024	\$ 261.1	\$ 288.3	\$ 549.4	\$ 384.6
<b>TOTAL TO THE HIGHWAY FUND IN YEAR 2024</b>			<b>\$ 549.4</b>	<b>\$ 384.6</b>

# Potential New Program

## Alternative Fuels

### Definition

Methanol, Ethanol and other Alcohols

Blends of Alcohol with Gasoline

Compressed Natural Gas and Liquefied Natural Gas

Liquefied Petroleum Gas (Propane)

Hydrogen

Electricity

Pure Biodiesel

### Promotion Versus Parity Issue

Complex

Annual Flat Fee?

Energy-Based Consumption?

Vehicle Miles Traveled ?

Tolls?



# Potential New Program

## The Shrinking Highway Dollar

Category	1997-2016 Percent Increase
Construction Cost Index	146 %
Overlays – Cost Per Lane Mile	145 %
Bridges Replacement – Cost Per Square Foot of Deck Area	131 %
Widening from 2 to 5 Lanes – Cost Per Mile	139 %

### Indexing?

#### Blue Ribbon Committee Recommendation:

Indexing Current Per-Gallon Tax on Motor Fuels to Arkansas' Highway Construction Cost Index

#### Governor's Working Group on Highway Funding Recommendation:

Proposal #1 – Going forward, index the motor fuel tax. Limit any increase to 2 cents per gallon.

Proposal #3 – Adjust the existing motor fuel taxes to recoup the amount lost in recent years due to inflation and index to inflation in the future.

# SIGNIFICANT LOSS OF PURCHASING POWER

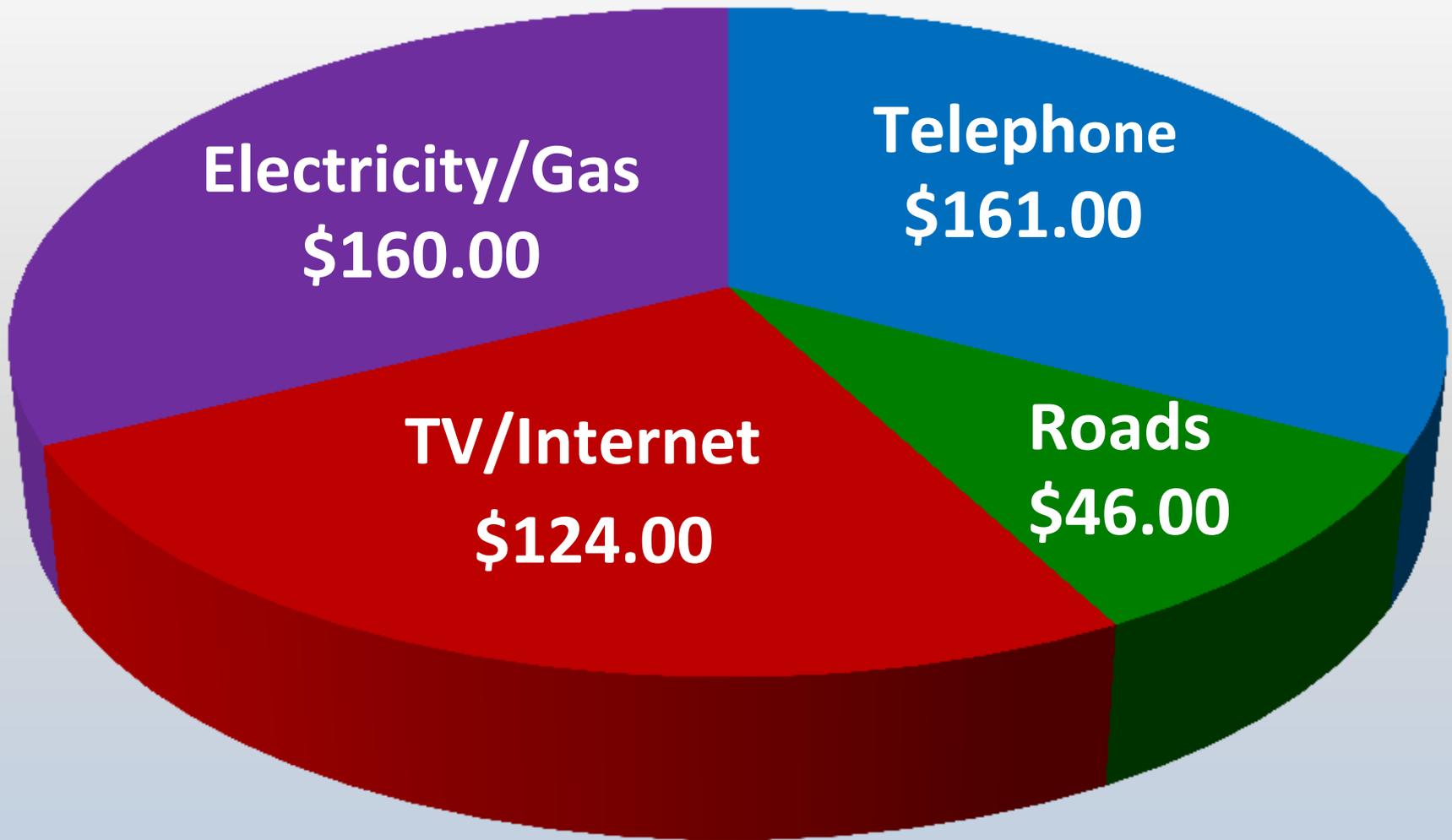
## Sample of Nominal Prices Relative to Federal Gas Tax, 1993 and 2010

ITEM	UNIT/DESCRIPTION	1993	2010	PERCENT CHANGE
<b>College Tuition</b>	Average Tuition and Required Fees	\$ 3,517	\$ 9,136	<b>160%</b>
<b>Gas</b>	Per Gallon	\$ 1.12	\$ 2.73	<b>144%</b>
<b>Movie Ticket</b>	Average Ticket Price	\$ 4.14	\$ 7.89	<b>91%</b>
<b>House</b>	Median Price	\$ 126,500	\$ 221,800	<b>75%</b>
<b>Bread</b>	Per Pound	\$ 1.08	\$ 1.76	<b>62%</b>
<b>Income</b>	Median Household	\$ 31,272	\$ 49,167	<b>57%</b>
<b>Stamp</b>	One First-class Stamp	\$ 0.29	\$ 0.44	<b>52%</b>
<b>Beef</b>	Per Pound of Ground Beef	\$ 1.57	\$ 2.28	<b>46%</b>
<b>Car</b>	Average New Car	\$ 19,200	\$ 26,850	<b>40%</b>
<b>Federal Gas Tax</b>	<b>Per Gallon</b>	<b>\$ 0.184</b>	<b>\$ 0.184</b>	<b>0%</b>

Sources: U.S. Census Bureau, U.S. Department of Transportation, U.S. Postal Service, U.S. Department of Commerce, U.S. Department of Education, National Association of Theater Owners



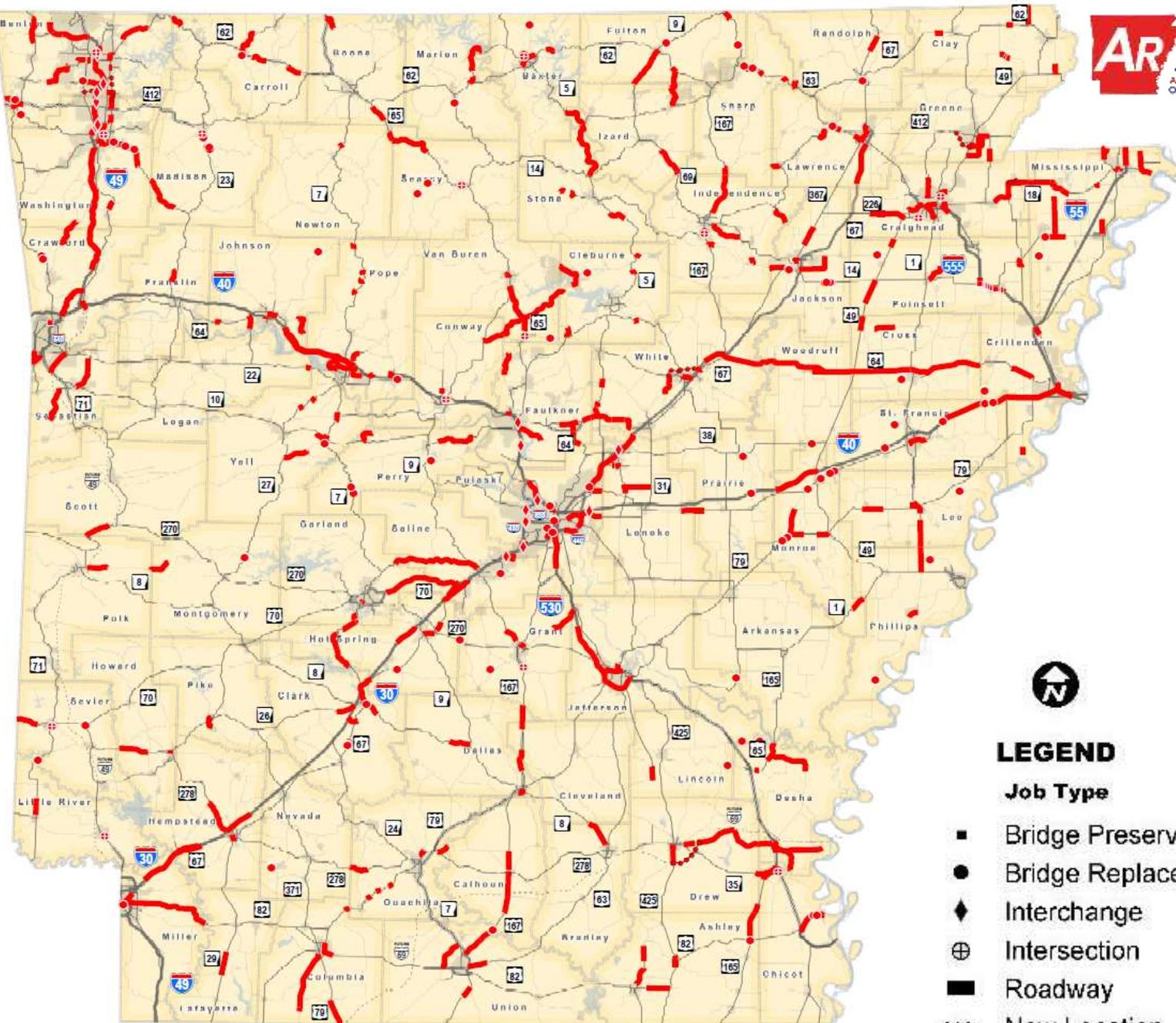
# Average Monthly Household Expenditures



# Potential New Program

- Projecting 10 Years of Projects
- Annual Existing Funding Available for Highway Construction is \$447 Million
- Combined With Projected New Funding Totals \$8.37 Billion Over 10 Years

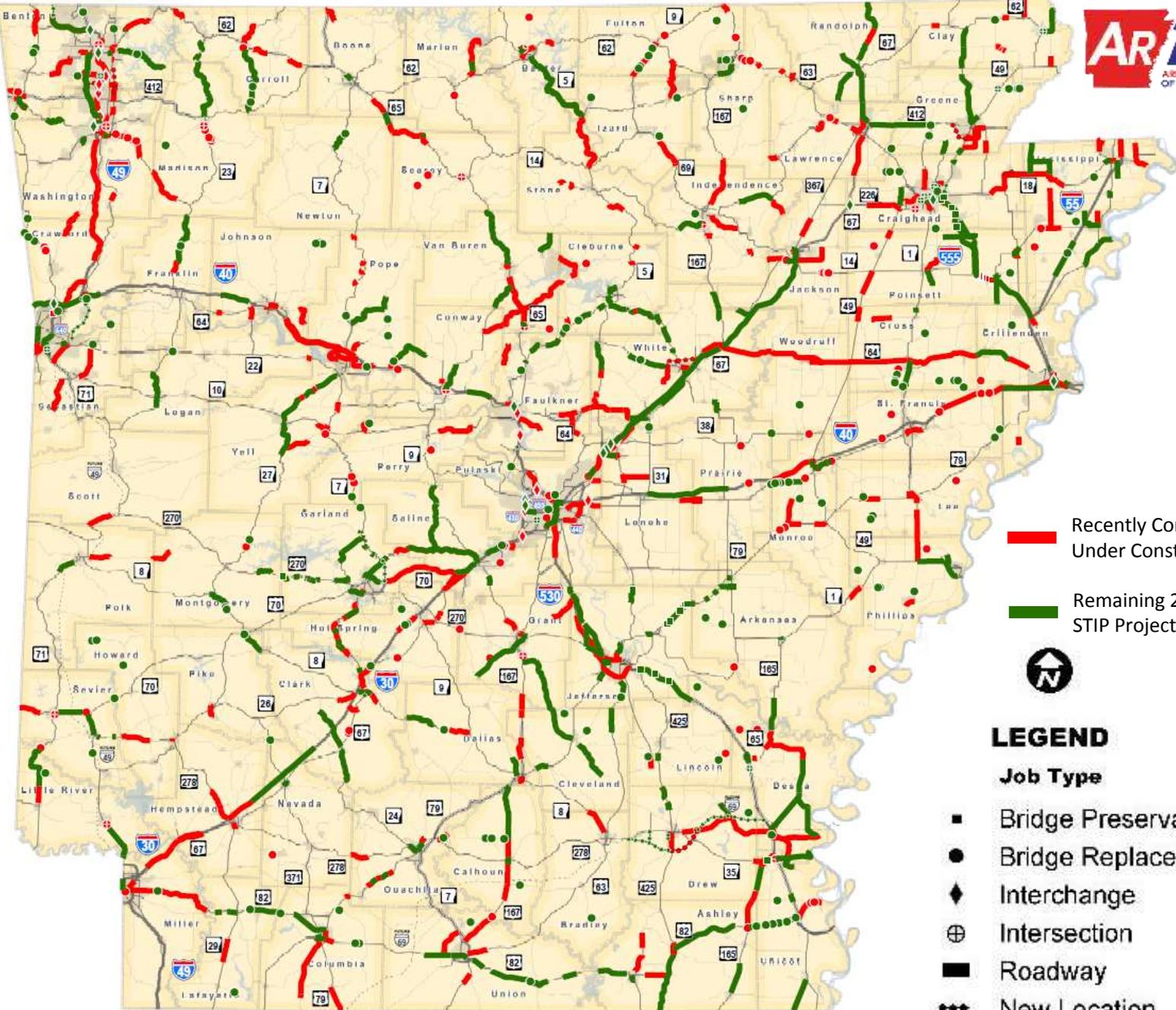




**LEGEND**

- Job Type**
- Bridge Preservation
  - Bridge Replacement
  - ◆ Interchange
  - ⊕ Intersection
  - █ Roadway
  - New Location

# Remaining 2016-2020 STIP Projects



-  Recently Completed & Under Construction
-  Remaining 2016-2020 STIP Projects



### LEGEND

#### Job Type

-  Bridge Preservation
-  Bridge Replacement
-  Interchange
-  Intersection
-  Roadway
-  New Location

# Possible New Program

## Summary

Interstate Improvements	\$1.00 Billion
Pavement Preservation	\$3.84 Billion
Bridge Replacement and Preservation	\$1.14 Billion
Capital Improvements	\$1.20 Billion
Capacity Improvements	\$0.72 Billion
Safety Improvements	\$0.47 Billion

**Totals \$8.37 Billion Over 10 Years**

# Bond Financing Costs

## Bond Financing Pros

- Funds immediately available

## Bond Financing Cons

- Interest costs erode your buying power

	<u>Total Spent</u>	<u>Principal</u>	<u>Interest</u>
<b>IRP</b>	\$ 762.5 million	\$ 575.0 million	\$ 187.5 million
	Interest as a percentage of total cost		<b>24.60%</b>
	<u>Total Spent</u>	<u>Principal</u>	<u>Interest</u>
<b>CAP</b>	\$ 620.2 million	\$ 468.9 million	\$ 151.3 million
	Interest as a percentage of total cost		<b>24.39%</b>

# Questions?

