HANDOUT #3

FUNDING OF COUNTY ROADS & BRIDGES IN ARKANSAS

The surface transportation system in Arkansas consists of a total of 99,811 miles of publicly maintained roadways. This system consists of 16,428 miles of interstate, primary and secondary state maintained highways; 14,551 miles of city streets; with the remaining **68,832 miles** consisting of county maintained roads.

The county road system in our state's 75 counties consists of various levels of construction design and degrees of maintenance. It is very common for a county's road system to consist of everything from wide well-drained hard-surfaced asphalt roadways to narrow poorly-drained gravel and dirt roads. In Arkansas the number of miles in a county road system varies from county to county – since counties range in size from 537 square miles to 1,053 square miles – but the average number would be about **917** miles of county roadway per county. In addition to these county roads, there are over 4,500 county maintained bridges, which equates to about 38% of the total number of bridges in the state.

Counties, unlike the Arkansas Highway & Transportation Department, do not have a "planning division" that can create a plan for decades in advance for future needed roads. We do not have a state-wide assessment of road surfaces or maintenance needs; neither do the counties have a state-wide formal plan for the future location or construction needs for county roads and bridges. I'm sure individual counties have made an assessment of their needs. However, for many years counties have struggled to try to come up with sufficient funding simply to try to maintain their current infrastructure. There has been some hard surfacing and quite a bit of bridge replacement – but the largest part of a county's road budget is used to maintain status quo.

The building and maintaining of "roads and bridges" is not a mandated service of county government under state law. We realize politically that the people mandate a certain level of road and bridge work – and rightly so because a good road system promotes economic development and safety as well as the convenience of getting to and from work and other destinations.

However, ACA **14-14-802** prioritizes services delivered by county government. Under the law a county has to provide for the administration of justice through the court system; law enforcement protection and the custody of prisoners; property tax administration including assessment, collection and custody of the tax proceeds; court and public records management; and all the other services prescribed by law for performance by each of the elected county officers or departments of county government. That is the absolute "have to do list" – and then there is a litany of services that a county may provide – including "transportation services", which includes roads and bridges. Again – we realize that in essence "county roads" are a mandate of the people if not the law and they are necessary. Also certain sources of revenue are dedicated road revenues and can be used for nothing else.

Let me tell you how counties in Arkansas fund the construction and maintenance of our county road system. There are three major sources of revenue, along with several lesser sources, that counties are able to utilize. They are as follows:

1. Ad Valorem Property Taxes. Counties in Arkansas have constitutional authority, through **Amendment 61**, to levy up to 3.0 mills for county roads. Thirty-five of the 75 counties have levied the maximum 3.0 mills; seven other counties are near the max; while the remainder are at 2.1 mills or lower. Currently the road millage property tax generates $93.2 million statewide. However, of the property taxes collected within incorporated areas, the county shares the road tax on a 50-50 basis with the cities in accordance with **ACA 26-79-104**. However, in a few instances, through special legislation, a city may receive as much as 80% to 90% of this property tax levy. County government nets around $44 to $45 million of this "county road tax levy" for county roads and bridges.

2. Highway Revenue Turnback. Partial state funding for the county road system has been around for many years with the well thought out and established policy that the "at the pump user tax" should be used to maintain all roads – state, county and city. The funding mechanism for "county highway turnback" is different now than when it started. However, the current funding mechanism has been in place since 1953 with the enactment of Act 188. This Act established the 70-15-15 split of all tax revenues levied on motor fuels. The counties' 15% is then distributed to our 75 counties using a five point distribution formula as set out in **ACA 27-70-207**. These five factors include:

    - 31.0% distributed based on land area

- 13.5% distributed based on rural population
- 17.5% distributed based on license fees
- 20.5% distributed evenly between 75 counties
- 17.5% distributed based on total population

Historically, getting 15% of the highway revenues has allowed for some growth in county road funding as the state's economy has grown. In recent years this source of revenue became rather stagnant due to increased fuel economy and is now declining because of high prices and lower fuel consumption. This source of revenue peaked for county government in fiscal 2007 at $82,218,080 and declined to **$79,766,625** in the fiscal year ending June 30, 2009 – all at a time when road and bridge building and maintenance costs are on the increase.

3. County Sales Tax. Seventy-three (73) of Arkansas's 75 counties currently levy a sales tax. Two counties do not. Saline County has previously levied various sales taxes that have expired because of sunset clauses. Monroe County has never been able to levy a sales tax – although they have tried on various occasions through the years to get a sales tax passed by a vote of the people. A county sales tax is levied for various and sundry purposes such as general operations, solid waste, jail operations, county hospitals, libraries and roads. A vast majority of the counties that levy a sales tax have dedicated varying percentages of this local tax revenue for county road construction and maintenance purposes. Total "county sales tax remittances" to county government in the fiscal year ending June 30, 2009 were **$235,803,359.06**. About **$80 to $85 million** of this total was allocated to county roads.

There are a few other "lesser sources" of county road revenues. They include:

- Severance Tax on Natural Gas. This is a new source of revenue for county roads, as well as state highways and city streets as enacted by Acts 4 and 5 of the First Extraordinary Session of 2008. Ninety-five percent (95%) of the "gas severance tax" is classified as special revenues and is distributed under the 70-15-15 rule per ACA 26-58-124(c)(2). The **gas severance tax** produced **$1,397,308.28** for county roads from its inception January 1, 2009 through June 30, 2009 – which represents only 3 or 4 months of collection and remittance. This source of revenue is expected to produce between **$5 million and $10**

million per year for county roads over the next few years depending on the volume of production and market price.

- Other Severance Taxes. Severance tax rates as established by ACA 26-58-111; 26-58-113; and 26-58-126 are levied on a number of natural resources such as bauxite, zinc ore, coal, lignite, iron ore, stone and crushed stone, oil and other natural resources. The allocation of these taxes, governed by ACA 26-58-113 and ACA 26-58-124 provide some funding for the county road system. These taxes flow back to the counties where the natural resource was severed. The total amount for the year fiscal year ending June 30, 2009 was **$3,375,110.17**.

- County General Funds. A few counties make appropriated transfers of county general revenues each year for road and bridge work. Fewer and fewer counties are using this option because of the tremendous pressure on the general fund – and when it is done the amount of general funds being transferred is becoming smaller.

Total county budgets in Arkansas exceed $1.1 billion. The Road Department budgets for the 75 counties in Arkansas in 2008 were **$202,854,412** – and that did not include some of the federal disaster aid received and appropriated during the course of the year. The 2009 county road budgets will exceed that amount due to (1) gas severance – a new source of revenue; (2) a couple of new sales taxes dedicated to roads; and (3) a large amount of disaster aid being received this year.

Other County Road Program funds available to counties that do not appear in the county budgets (other than for the county matching) are the Federal Aid and State Aid programs. These are long standing and important programs for the counties of Arkansas. The funds are administered at the state level with the "county matching" being remitted to the Arkansas DOT. Amounts available to Arkansas counties are:

- Federal-aid Surface Transportation Program $5.9 million
- Federal-aid Bridge Program $3.9 million
- State-aid County Road Program $20.2 million

This nation, this state, and our counties have tremendous needs to update and maintain existing infrastructure while also building new infrastructure to accommodate the populace and economic development. That takes money! Yet, an environment has evolved fostering the viewpoint that the citizens should not pay and, in fact, they are already paying too much in taxes – even though we are not keeping pace with the needs of our communities. I believe that our federal government missed a golden opportunity with the "federal stimulus" by not investing the bulk of that money in "bricks and mortar" – rebuilding and expanding this nation's infrastructure both creating jobs and providing something of lasting worth. That plan, at the point of recovery, would have allowed our nation to then allocate more of our resources to other sectors of our economy.

In Arkansas, any year there is "surplus" state revenues there is spirited discussion over whether or not to return the surplus to state taxpayers in the form of tax cuts. Why do we have those discussions when Arkansas's road and bridge infrastructure has untold dollars in documented unfunded needs – not to mention road and bridge needs at the county and city level. With these kinds of needs and liabilities, how is it that we consider the state's revenue excessive? It is NOT excessive. The tax burden in Arkansas is minimal compared to the tax burden in most states. Why do you think so many people relocate to Arkansas at retirement?

Revenue and expenditure decisions made by government today lay the groundwork for the future prosperity of our nation, state, counties and cities. Investment made today at the state and local level assures a future that remains bright and an economic potential that remains strong. Laying this foundation cannot be done through polls. When history is examined and courageous leaders identified, they often are not doing the most popular thing at the time. However, history has and will recognize the value of their statesmanship.

The best decisions are not always easy, nor are they always popular. We know, however, statesmanship does survive and good leaders will continue to come forward with the best decisions. Statesmanship – That's what it takes to solve crisis-level problems.....problems like infrastructure! This Blue Ribbon Committee on Highway Finance has a tremendous – but very important task. I join with others across this state hoping that you can develop a solution that is mindful of our current citizenry as well as the next generation.